INTERNATIONAL MONETARY FUND

IMF Country Report No. 12/17

THE GAMBIA

2011 ARTICLE IV CONSULTATION

January 2012

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2011 Article IV consultation with The Gambia, the following documents have been released and are included in this package:

- **Staff Report** for the 2011 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on November 1, 2011, with the officials of The Gambia on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on December 22, 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.
- **Informational Annex** prepared bt the IMF.
- **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- **Staff Statement** of January 18, 2012 updating information on recent developments
- **Public Information Notice** (PIN)summarizing the views of the Executive Board as expressed during its January 18, 2012 discussion of the staff report that concluded the Article IV consultation.
- **Statement by the Executive Director** for The Gambia.

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

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THE GAMBIA

STAFF REPORT FOR THE 2011 ARTICLE IV CONSULTATION

December 22, 2011

KEY ISSUES

Context: The Gambian economy has performed well in recent years, despite a difficult global environment. But large fiscal deficits have led to a sharp increase in domestic debt. Tax revenues (relative to GDP) have fallen steadily since 2007, and there have been episodes of severe overspending. In 2011, however, fiscal discipline has improved. Discussions focused on the following issues:

Risks to macroeconomic stability: The high cost and rollover needs of domestic debt is a risk to macroeconomic stability. Large fiscal deficits can also complicate monetary policy (fiscal dominance) and often crowd out credit to the private sector.

Fiscal adjustment: A gradual fiscal adjustment over the medium term would curb domestic borrowing and reduce interest costs. Tax reform could bolster government revenues, while improving the business environment and international competitiveness. New budget procedures would increase value-for-money of government spending.

Price stability and exchange rate flexibility: Eliminating fiscal dominance allows monetary policy to focus better on price stability. Maintaining a flexible exchange rate and a healthy stock of international reserves helps to guard against external shocks.

Financial sector stability: The banking system is well capitalized and liquid, but supervision must remain vigilant to address possible weaknesses in individual banks.

Poverty reduction: The authorities' forthcoming *Programme for Accelerated Growth and Employment (PAGE*) seeks to boost growth and reduce poverty. But financing the *PAGE* will be a challenge.

Debt sustainability: The Gambia continues to face a heavy debt burden. Based on external debt indicators, there is still a high risk of debt distress.

Approved By
Roger Nord (AFR) and Jan Kees Martijn (SPR)

Discussions took place in Banjul during October 19–November 1; Mission comprised of Messrs Dunn (chief), Egoumé, Oliveira, and Slavov (all AFR), Kim (SPR), Tjirongo (Resident Representative), and Cham (Resident Representative's office). The mission was assisted by Ms. Snyder, Ms. Touray, Ms. Njie, and Mr. Jabang.

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BACKGROUND: ACHIEVING ROBUST GROWTH IN A DIFFICULT GLOBAL ENVIRONMENT

1. **The Gambian economy achieved robust growth with low-to-moderate inflation in recent years, despite the global economic crisis (Figure 1).** Real GDP growth averaged around 6½ percent a year during 2008–10, driven mainly by agriculture. Tourism and remittances, however, were hit hard by the global crisis. Meanwhile, inflation ranged between 2½ and 7 percent (year-on-year), 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.

2. **The government's fiscal deficit widened substantially during this period, resulting in a sharp increase in domestic debt (Figure 2).** The deterioration of the fiscal balance was caused by a steady decline in government revenues and 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. Extra-budgetary expenditures, including realized contingent liabilities, were major factors behind the surge in government spending, particularly in 2009 and 2010. The ensuing large fiscal deficits, were mostly financed with domestic borrowing.[1]

3. **Despite having received extensive debt relief, The Gambia continued to face a heavy debt burden, especially because of rising domestic debt.** As of end-2010, domestic debt had risen to almost 30 percent of GDP. Correspondingly, interest on domestic debt has consumed an increasing share of government revenues (18 percent of government revenues in 2011). Moreover, most domestic debt consists of short-term Treasury bills, which poses substantial rollover risks. Despite a large reduction in its external debt under the Highly Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI) in December 2007, external debt indicators suggest that The Gambia is still at high risk of debt distress.[2]

4. **The banking sector expanded at a rapid pace in recent years.** Between 2007 and 2010, the number of banks doubled (to 14),[3] helping to fuel a deepening of financial intermediation. During this period, credit to the private sector and public enterprises relative to GDP grew by about 4½ percentage points, to nearly 17½ percent of GDP.

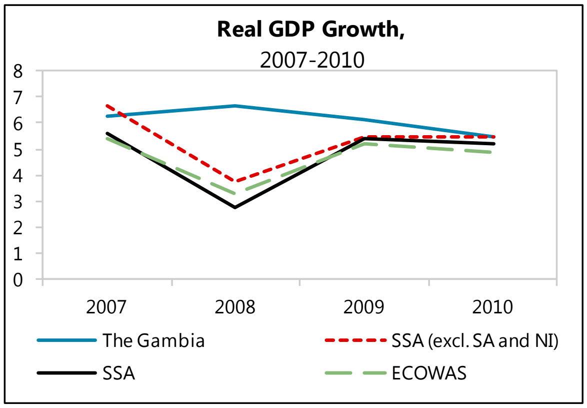
[1] Because of a large slippage on the fiscal performance criterion for end-December 2010, the recent arrangement under the Extended Credit Facility expired (on March 31, 2011) without completion of the final review

[2] See the debt sustainability analysis prepared jointly by World Bank and IMF staffs, as specified in this bundle.

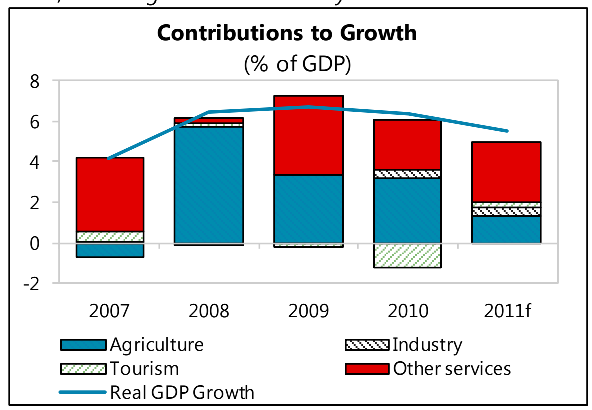
[3] One bank closed early in 2011.

Figure 1. Strong Performance Despite the Global Crisis

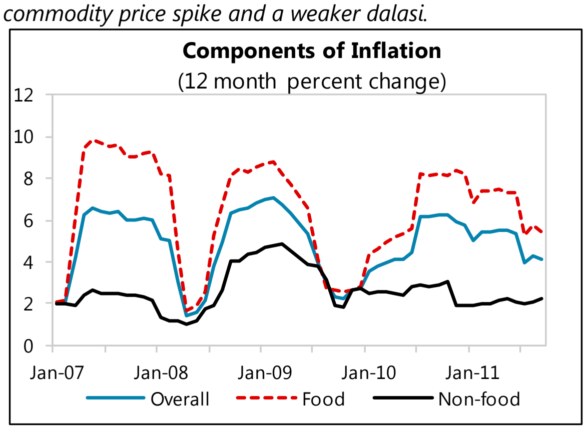
Growth has been resilient to the global crisis.



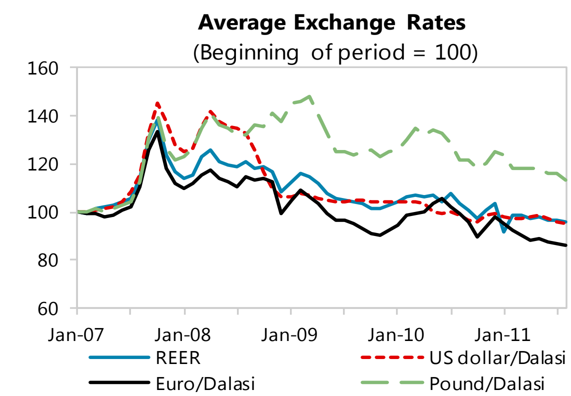
Robust growth is projected for 2011, driven by agriculture and services, including a nascent recovery in tourism.



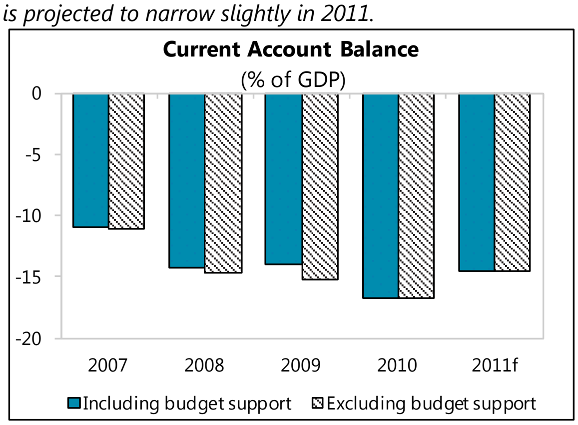
Inflation has recently subsided after being affected by a commodity price spike and a weaker dalasi.



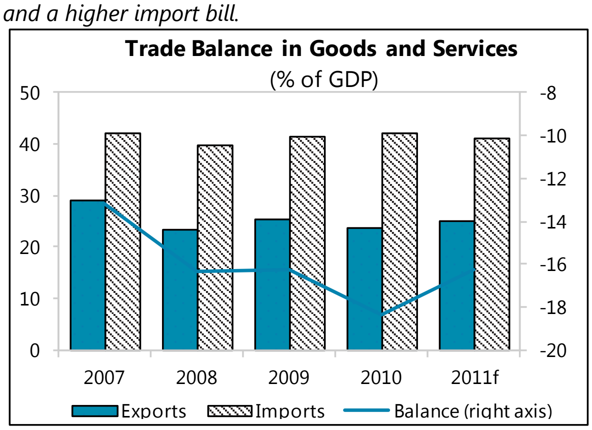
The Dalasi has weakened gradually over the past few years.



The current account deficit has widened over the years, but is projected to narrow slightly in 2011.



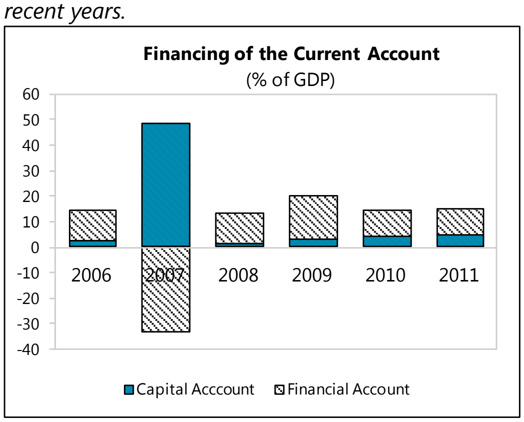
The trade deficit has increased, due to weaker tourism receipts and a higher import bill.



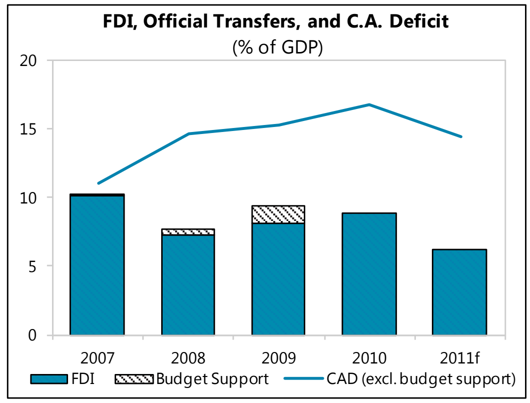
Source: The Gambian authorities and Fund staff estimates and projections.

Figure 1. Strong Performance Despite the Global Crisis (continued)

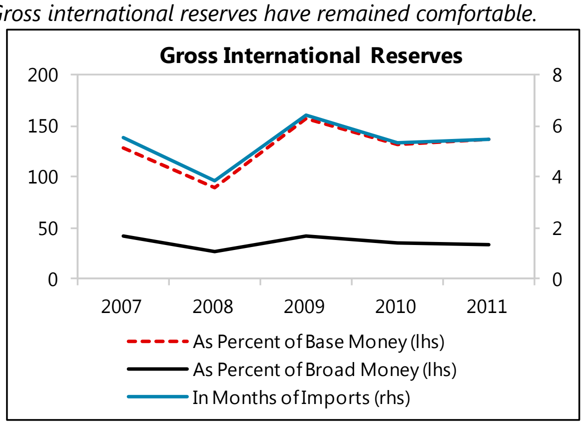
The capital and financial accounts have registered surpluses over recent years.



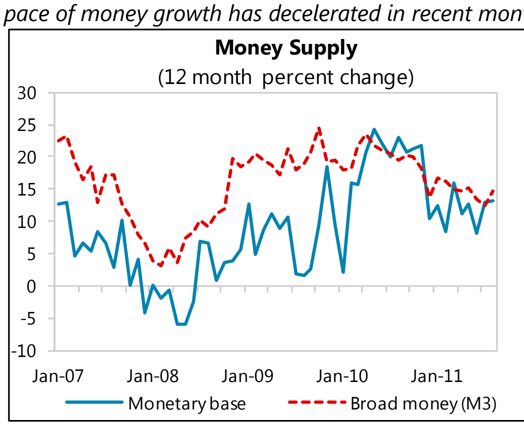
Budget support has not helped buffer the impact of the global crisis on FDI.



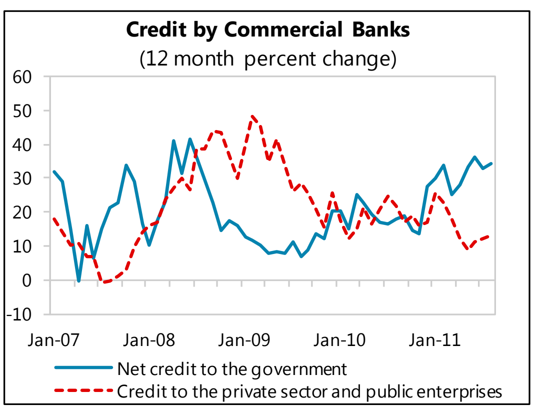
Gross international reserves have remained comfortable.



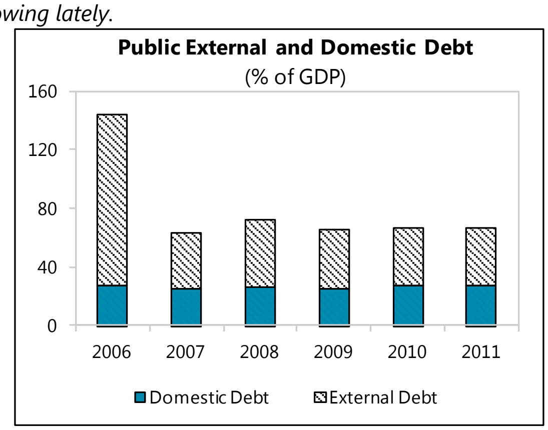
The pace of money growth has decelerated in recent months...



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



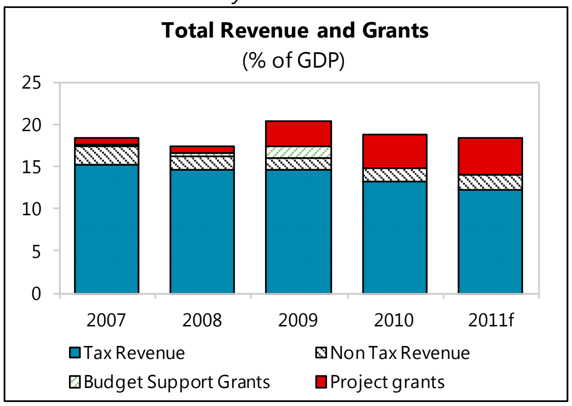
Despite the HIPC and MDRI debt relief in 2007, the public debt-to-GDP ratio remains high and domestic debt has been growing lately.



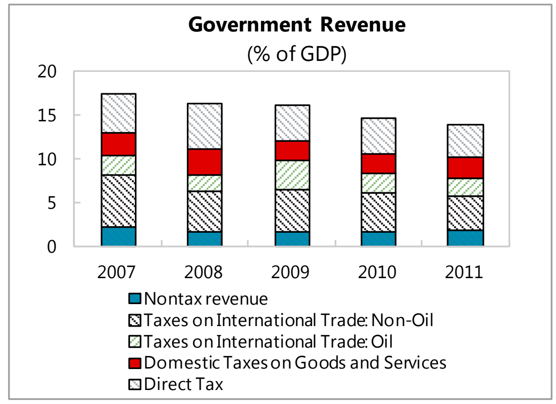
Source: The Gambian authorities and Fund staff estimates and projections.

Figure 2. Unsustainable Fiscal Policy

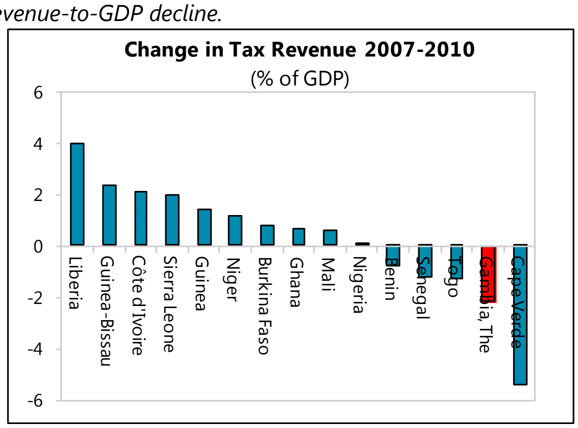
Although grants have increased, government revenues-to-GDP have declined steadily since 2007.



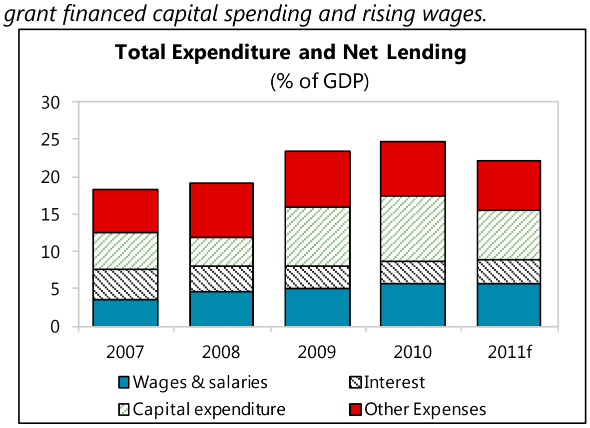
The decline has impacted all tax categories and created an unsustainable fiscal situation.



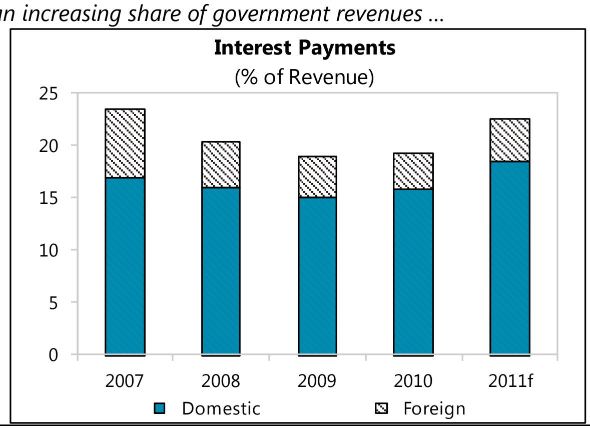
The Gambia is the second worst in the ECOWAS for tax revenue-to-GDP decline.



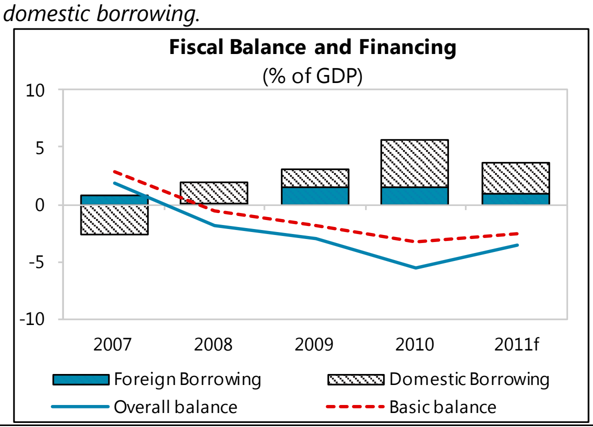
Expenditures have trended up, mainly reflecting increased grant financed capital spending and rising wages.



Interest payments, largely on domestic debt, are consuming an increasing share of government revenues …



… a result of financing bigger fiscal deficits mostly with domestic borrowing.



Source: The Gambian authorities and Fund staff estimates and projections.

The new banks are mostly foreign-owned, which generated substantial foreign direct investment, including from the increase in the minimum capital requirement effective at the capacity, while intense competition among a high number of banks in a relatively small market contributed to increased risks to the banking system.

5. Progress on reducing poverty has been mixed. Various social indicators have shown strong improvement (Table 9), notably in education (primary school enrolment and completion and youth literacy rates) and health (immunization and child and maternal mortality rates), but a large share of the population still lives in poverty (58 percent in 2008).[4] The government's recent initiative to provide greater support to agriculture is expected to have contributed to some progress in reducing the incidence of poverty, by boosting incomes for the rural poor. In addition, the authorities are finalizing a new poverty reduction strategy, the *Programme for Accelerated Growth and Employment (PAGE),* which places further emphasis on agriculture, as well as investment in infrastructure.

6. The Gambia has received relatively modest support from development partners (Figure 3). Although a pickup is expected in 2011, donor grants averaged only about 2½ percent of GDP a year during 2007-10. Some potential donors have expressed concern over human rights and freedom of the press. Most recently, President Jammeh was re-elected by a wide margin to a fourth 5-year term. Parliamentary elections are scheduled for March 31, 2012.

7. Progress on implementation of recommendations from the 2010 Article IV consultation has been mixed (Box 1).

[4] Results from the 2010 household survey are expected to be available soon. As a sign of progress, in the areas of education and health, The Gambia scores "green lights" in all 5 indicators for "Investing in People" monitored by the Millennium Challenge Corporation (update forthcoming).

Box 1. Implementing Recommendations from the 2010 Article IV Consultation

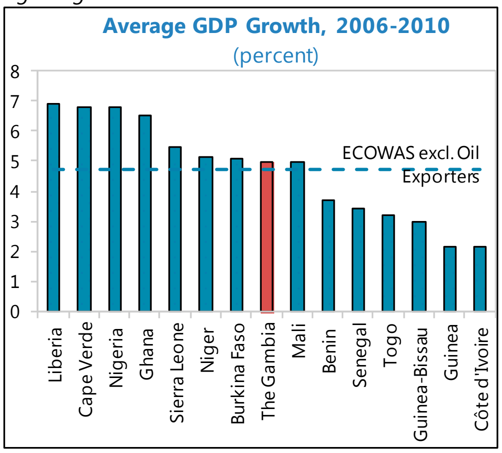
Implementation of the 2010 Article IV recommendations for fiscal consolidation, tax and public financial management (PFM) reforms was mixed. The authorities introduced a fuel pricing formula that would preserve excise taxes, but implementation has been irregular. Large extra-budgetary spending during the final quarter of 2010 resulted in a higher-than-targeted deficit. In 2011, however, fiscal discipline has improved. Good progress was achieved toward the introduction of the VAT, notably the VAT policy paper has been endorsed by cabinet. However, measures to improve tax compliance have not yet been effective. Also, most "nuisance" taxes have not been eliminated, contrary to staff's recommendations. On PFM reforms, good progress has been achieved to strengthen the system for monitoring and reporting on budget execution. Also, in an initial step to improve transparency in the budget process, a budget policy paper was prepared for 2012.

Progress was also mixed in implementing recommendations on monetary policy and the financial sector. Until recently, the liquidity forecasting committee met only sporadically, which handicapped liquidity management and the ability of the CBG to project and pre-announce upcoming offerings in T-bill auctions. The reconciliation of government accounts at the CBG and the first stage of the planned increase in the minimum capital requirement for commercial banks were completed as scheduled. Additional staff were hired to beef up the CBG's supervisory capacity, albeit not as many as recommended. Development of short-term monetary instruments is behind schedule.

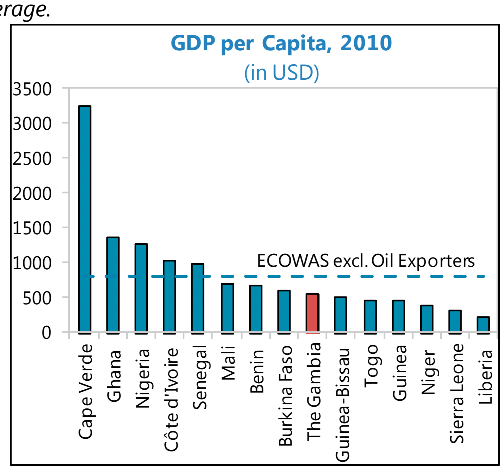
In line with staff's advice, the authorities plan to seek funding alternatives for the *PAGE* that would safeguard debt sustainability. These include concessional borrowing and private sector participation in infrastructure investment. The authorities are already employing the latter option in the telecom sector with help from the World Bank.

Figure 3. The Gambia: Cross Country Comparison

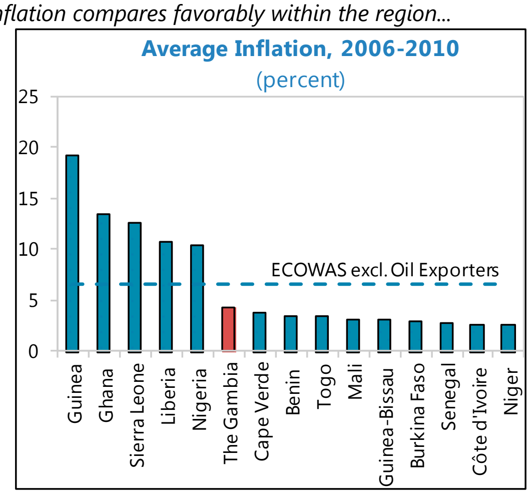
The Gambia maintained reasonably high growth rates during the global crisis...



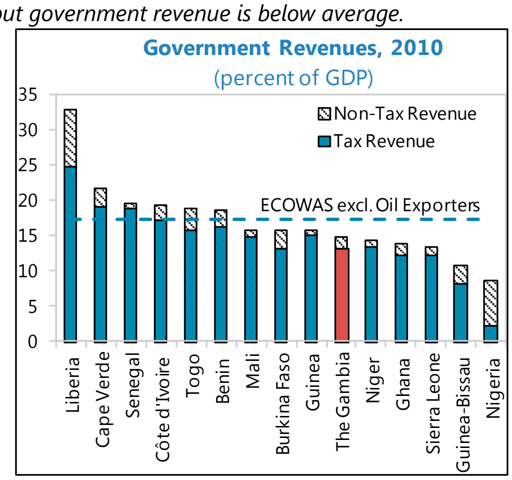
...but GDP per capita remains below the ECOWAS average.



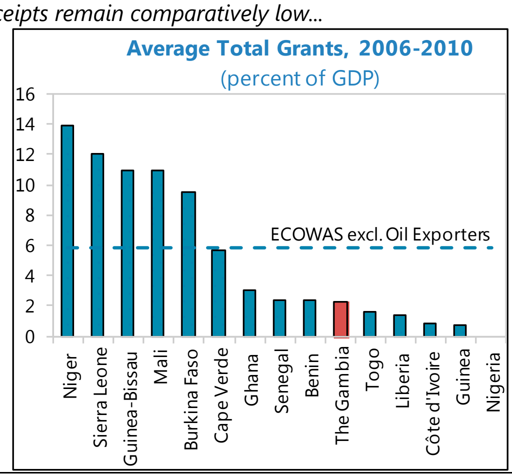
Inflation compares favorably within the region...



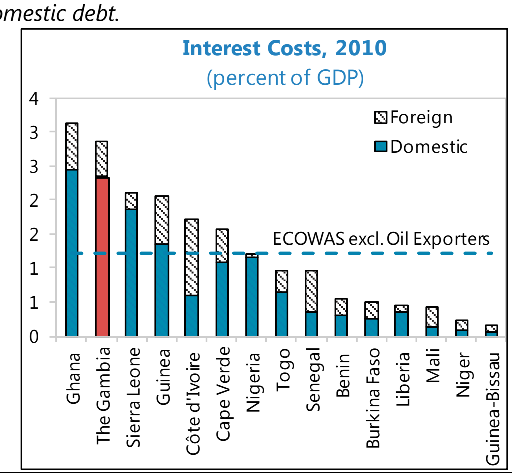
...but government revenue is below average.



Gambia received no budget support in 2010 and grant receipts remain comparatively low...



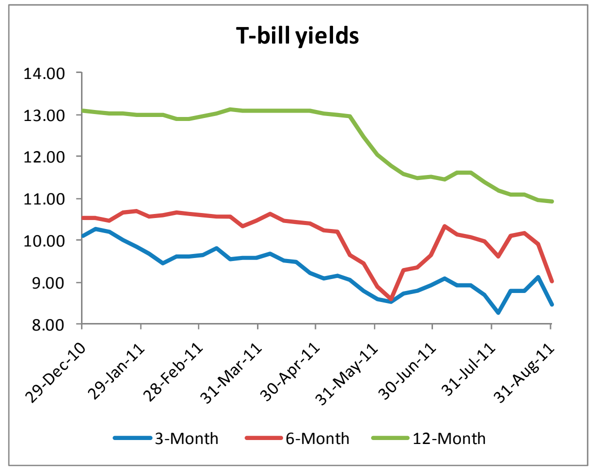
...and financing remains rather expensive, mostly due to domestic debt.



Sources: IMF country desk data.

ECONOMIC DEVELOPMENTS IN 2011: MAINTAINING GROWTH, WHILE RESTORING FISCAL DISCIPLINE

8. **The Gambian economy has continued to perform well in 2011, but vulnerabilities persist.** In particular, poor weather conditions have weakened the expected expansion in agriculture. Still, real GDP is expected to grow by about 5½ percent—only a slight slowdown from the previous year's performance—partly due to early indications of an upturn in tourism. Year-on-year inflation dipped to about 4 percent in recent months and is expected to end the year slightly below 5 percent.



Source: IMF country desk data.

9. **The Gambian authorities have made significant progress restoring fiscal discipline in 2011**. By employing a strict cash budgeting approach to limit spending to available resources, [5]government's net domestic borrowing (NDB) is on track to meet the authorities' target of just over 2½ percent of GDP in 2011. Moreover, the government cleared its overdraft balance with the CBG and has refrained from new central bank financing of the deficit. This progress toward eliminating fiscal dominance and strengthening the independence of the CBG has allowed monetary policy to focus on achieving its principal objective of maintaining low inflation. In addition, the improved fiscal discipline has contributed to a drop in T-bill yields in recent months.

10. **However, the authorities have yet to stop the steady erosion of government revenues (relative to GDP).** Government revenues are expected to fall by another full percentage point of GDP in 2011. Lost revenues from fuel taxes, mainly because of only partial implementation of the new fuel pricing formula, accounted for much (about three-fourths) of the revenue shortfall. By allowing greater pass-through of international fuel prices to the administered domestic retail prices, the formula would have maintained fuel excise taxes and eliminated unbudgeted subsidies. Poor tax compliance and falling duties on non-fuel imports also contributed to the poor revenue effort.

[5] The authorities have tried to maintain spending on poverty reducing priorities, especially those that are a precondition for donor grants.

ECONOMIC OUTLOOK: POSITIVE, BUT WITH RISKS

11. Prospects for the Gambian economy over the near and medium term are good. Under the baseline scenario (not reflecting the *PAGE*), real GDP is projected to continue to grow at a robust pace (5½ percent a year), led by healthy growth in agriculture, a gradual, but sustained recovery in tourism and construction, and returns to large ongoing investment in telecommunications. This outlook is predicated on a gradual fiscal adjustment that would reduce NDB to ½ percent of GDP a year in 2014 and beyond, as proposed by the Gambian authorities.[6] The fiscal adjustment would help ensure the CBG's independence to focus on maintaining annual inflation around its objective of 5 percent, while also easing pressure on interest rates and avoiding crowding out of the private sector. The external current account deficit is expected to narrow to about 13 percent of GDP by 2016, financed primarily by foreign direct investment (FDI), project grants, and concessional loans. However, the coverage of gross international reserves is projected to slip to around 4 months of imports by end-2016.

12. This scenario is subject to some risks. First and foremost, fiscal shocks—such as unanticipated revenue shortfalls and higher-than-budgeted spending—could threaten macroeconomic stability. These shocks could quickly lead to more domestic borrowing and higher interest costs, especially given the high roll-over requirements of outstanding debt. Large fiscal deficits could also lead to a return to fiscal dominance or crowding out effects although risks of crowding out over the near term are diminished by large capital injections in the banking system arising from the ongoing process to increase the minimum capital requirement. Contingent liabilities in particular are a leading potential source of spending overruns. The Gambian economy is also vulnerable to terms of trade and weather-related shocks.

13. A weaker global economy poses a near-term risk to growth, particularly for the tourism sector, but this risk would likely be mitigated by lower international prices for fuels and other imported commodities. As has been the case in recent years, policies that focus on expanding agriculture, would also help to cushion the impact on the Gambian economy, especially for the rural poor. Regarding the fiscal effects of a global economic slowdown, the envisaged contribution by a gradual recovery in the tourism sector to the rebuilding of tax revenues would likely be delayed. At the same time, lower fuel prices would facilitate the full restoration of fuel excise taxes, which is also an important source of government revenues.

[6] Projected government revenues in the macroeconomic framework include effects of measures proposed by the authorities for 2012. They do not include an adjustment in fuel prices to fully restore excise taxes, as proposed by Fund staff.

POLICY DISCUSSIONS: SUSTAINING ROBUST GROWTH AND ACCELERATING POVERTY REDUCTION

14. Discussions focused primarily on two key challenges: (i) fiscal adjustment to reduce the burden and risks of domestic debt; and (ii) financing options for the *PAGE*. Discussions also covered the following surveillance issues, which addressed other potential risks to macroeconomic stability:

- Monetary policy and operations;
- Financial sector stability and supervision;
- An assessment of the exchange rate and exchange rate policy;
- International competitiveness;
- Debt sustainability; and
- The quality of economic statistics.

15. Although there were some differences, the authorities and staff broadly agreed on the policy framework going forward. In particular, noting the high cost and roll-over risks of domestic debt, it was agreed that curbing government's domestic borrowing should be the anchor for macroeconomic policies over the medium term.

A. Fiscal Adjustment: Near-Term Discipline and Medium-Term Reforms

16. The authorities aim to reduce reliance on net domestic borrowing with a strong initial step in 2012, followed by a further gradual decline in subsequent years. The 2012 budget targets a reduction in NDB by about 1 percentage point of GDP in 2012, followed by further reductions to about ½ percent of GDP a year in 2014 and beyond. Although the gradual adjustment may not ease pressure on T-bill yields as quickly as the sharper adjustment that was envisaged under the recently expired Fund-supported program, it would allow the authorities to minimize potential negative effects on growth from large sudden cuts in government spending. The fiscal adjustment can be viewed as a two-stage process: first, exercising discipline to achieve near-term targets for NDB; and second, a broader medium-term reform agenda encompassing tax policy, revenue administration, and public financial management (PFM).

Near-Term Fiscal Discipline

Staff's Advice

17. To reap the benefits of a gradual fiscal adjustment—notably an easing of pressure on inflation and T-bill yields—as early as possible, it is necessary to build credibility in the authorities' commitment to the adjustment path. Thus, it is critical that the near-term targets for NDB are met. For 2011, the authorities had set a ceiling for NDB (GMD 815 million or just over 2½ percent of GDP) that would stabilize the stock of domestic debt at just over 29 percent of GDP. For 2012, staff recommended a reduction in NDB by about one percentage point of GDP, which would initiate a downward trend in the stock of domestic debt relative to GDP.

18. Staff urged the authorities to achieve the targets for NDB by continuing to implement a strict cash budgeting approach. In recent years, spending pressures during the final months of the year undermined the successful execution of the budget. Spending on contingent liabilities and extra-budgetary items—such as bills and debt service owed by the National Water and Electricity Company (NAWEC), investments by the Gambia Radio and Television Service (GRTS) and the state-owned telephone company (GAMTEL), and claims associated with the failed privatization of the state-owned cell phone company (GAMCEL)—were leading sources of expenditure overruns. To meet the NDB target in 2011, it is important to resist such pressures, which typically crop up at the end of the year. State-owned companies and agencies must strive to balance their own accounts, as was planned in the budget. The lack of donor assistance to cover election expenses, however, poses an additional strain on budget execution. But even this must be managed if the NDB target is to be met.

19. On the revenue side, staff recommended near-term measures to reverse the drop in revenues that occurred in 2011, including an immediate adjustment in fuel prices, so that the full value of the excise taxes could be collected. While this adjustment would provide a modest, but much needed revenue boost at the end of 2011, adhering to the fuel price formula going forward would have a strong impact and could recoup much of the 1 percent of GDP of revenues that were lost in 2011. Staff recommended additional measures for the 2012 budget to lift projected tax revenues to 13.2 percent of GDP—the same as was collected in 2010—including extending the coverage of the general sales tax to electricity.

Authorities' Views

20. The authorities have made a concerted effort to achieve their NDB target for 2011. The lack of donor support for elections added to the fiscal challenge, but they were prepared to reallocate resources as needed. Similarly, possible claims of contingent liabilities and extra-budgetary spending late in the year were expected to be contained. Although spending on many budgeted items has been trimmed, the authorities reiterated that they were striving to meet key targets for poverty reducing expenditures, such as the 20 percent share of total current expenditures going toward basic and primary education.

21. For 2012, the authorities proposed an NDB target of 1.8 percent of GDP—a reduction of almost one percentage point of GDP. The authorities proposed increases for a collection of miscellaneous taxes and fees that would add up to about ½ percentage point of GDP of additional revenues in 2012. However, they were not inclined to take stronger tax measures, mainly citing political considerations during an election year. Though prepared to improve the implementation of the fuel price formula, they stopped short of committing to an automatic application, particularly if it implied large increases in retail prices. Similarly, they were not prepared to extend the sales tax to electricity tariffs, arguing that this would negatively affect businesses and the poor.

22. To improve tax compliance, the government is setting up a Commission of Inquiry on Tax Evasion. At the same time, the Gambia Revenue Authority (GRA) is stepping up implementation of administrative measures in line with recommendations by Fund technical assistance. Measures taken to increase compliance among large taxpayers appeared to have helped to significantly increase income tax filings. However, revenue collections have not gone up. The GRA cited a lack of trained auditors as a primary reason for the weak revenue effects. The authorities anticipated that the new Commission of Inquiry will raise awareness about compliance and help boost revenues.

B. Medium-Term Fiscal Adjustment to Support Long-Term Growth

Staff's Advice

23. Staff advocated a slightly larger fiscal adjustment, whereby NDB would be reduced to near zero in 2014 and beyond, compared with the authorities' goal of ½ percent of GDP a year. Although the differences in the two paths are minor in terms of reducing interest costs and ensuring debt sustainability, staff noted that the zero NDB target could give a clearer signal that the focus of the adjustment is on debt reduction (relative to GDP). In either case, however, credibility of the adjustment is key to generating the fiscal savings from lower interest rates. Staff urged the authorities to rigorously implement the budget and consistently meet NDB targets year after year. The medium-term fiscal adjustment also provides an opportunity to step up reforms of tax policy, revenue administration, and public financial management that would enhance the effectiveness of government and The Gambia's international competitiveness.

24. Staff advocated a comprehensive tax reform to help rebuild government revenues, while boosting the efficiency of the tax system (Box 2 and Appendix 1). Building upon the planned introduction of a VAT in January 2013, staff recommended flat rate personal and company income taxes with minimal exemptions and deductions. The proposed reform emphasizes simplicity, broad coverage, and low tax rates. Similar reforms have succeeded to increase tax buoyancy and compliance and to enhance competitiveness in a number of countries, including in Africa. Staff envisages that sequencing of the reform would start with planned improvements in revenue administration and regular implementation of a fuel pricing formula that would help preserve excise taxes. In line with past advice, staff also recommended the elimination of "nuisance" taxes—low yielding taxes that do not warrant the resources absorbed by administration and compliance—in the run-up to introduction of the VAT. To allow the authorities' efforts to focus on the introduction of the VAT as scheduled, staff recommended that the reform of income taxes should come after the VAT, say in 2014. This would allow further study and debate on the parameters and objectives of the tax to ensure a smooth transition.

25. Staff engaged both high-level government officials, as well as representatives of the business community in the discussions on tax reform. While there was a strong interest in the reforms, it would be challenging to extend both VAT and income taxes to some sensitive sectors such as electricity and trade in basic foodstuffs. As a next step, staff recommended an assessment of tax expenditures in the country.

Box 2. Comprehensive Tax Reform in The Gambia

The Gambian authorities are facing significant challenges in the areas of revenue policy and administration. Tax revenues relative to GDP have lagged behind regional averages and have declined in recent years. This cannot be explained entirely by cyclical factors and the changing structure of the economy, notably the strong expansion in agriculture, which is largely outside the tax net. Rising tax expenditures and widespread tax evasion have eroded the tax base. Tax rates are high and the system is widely perceived as unfair. There is widespread rent-seeking, as Gambian entrepreneurs expend scarce time, energy, and talent on obtaining tax preferences. Moreover, compliance procedures are cumbersome for both the GRA and the private sector. Indeed, results from the 2012 World Bank Doing Business report suggest that difficulties with the tax system have weakened The Gambia's international competitiveness (Appendix 2).

These challenges could be addressed by further tax reforms aimed at broadening the tax base, eliminating "nuisance" taxes, and simplifying direct taxes, including by lowering both the number and levels of tax rates. If implemented well, such a reform would complement and reinforce the ongoing push to improve revenue administration and compliance. Simpler and lower taxes are easier to enforce and to comply with. Simpler and lower direct taxes would encourage the acceptance of the VAT.

There has been widespread experience with similar tax reforms around the world, including throughout Eastern and Central Europe. Evidence indicates (see Appendix 1) that such reform packages can enhance revenue. These reforms also tend to make tax systems more equitable, especially if the pre-existing system was applied unevenly.

A significant broadening of the tax base ought to be part and parcel of the reform. A first step would be for the authorities to complete a comprehensive survey and estimates of tax expenditures. Annual assessment of tax expenditures would help highlight the costs of various tax incentives and therefore make it more difficult to justify special tax privileges.

26. Staff urged the authorities to make further progress with the ongoing introduction of the VAT. The policy paper for the VAT has been endorsed by cabinet,[7] but a number of legislative and administrative steps need to be taken before it can be successfully implemented. Widespread taxpayer education is also necessary.

27. Strengthening revenue administration is essential for a successful tax reform. The mission urged the Gambia Revenue Authority (GRA) to make rapid progress on its reform agenda, particularly for the Large Taxpayer Unit, which has received extensive support from Fund technical assistance. Simplicity aspects of the proposed tax reform, together with lower tax rates should facilitate revenue administration.

28. Given the resource constraints under current policies, expenditures would need to be restrained over the medium term, growing roughly in line with GDP. Within

[7] The VAT Policy Paper identifies a uniform tax rate of 15 percent and an appropriately high threshold (GMD 1 million). Electricity is exempted.

this envelope, the government intends to increase the share of total spending directed toward agriculture. At the same time, spending is expected to shift from current to capital expenditures. Fiscal savings on interest payments and a modest reduction in subsidies, would allow a commensurate increase in physical investment, such as irrigation projects. The wage bill is projected to remain steady relative to GDP. If additional resources are generated through greater revenue mobilization or increased donor support, staff envisages that these could be directed toward *PAGE* priorities.

29. Further progress on PFM reforms is essential for getting greater value-for-money on government expenditures. Key areas of PFM reform include (i) strengthening the budget process, expenditure framework (MTEF) and program-notably preparation of a budget policy paper and a phased-in approach to a medium-term based budgeting; and (ii) enhancing internal and external audit functions. With support from the World Bank, the integrated financial management information system (IFMIS) has been rolled out to all government offices and the interface with the CBG has been established. The IFMIS is expected to significantly improve monitoring and reporting of government expenditures. The recent submission of the audited government accounts for 2007—the first year to use inputs from IFMIS—to the National Assembly was an important step forward for transparency and governance and should pave the way for accelerated preparation and submission of audited accounts for subsequent years.

Authorities' Views

30. The authorities welcomed proposals to modernize the tax system. They renewed their commitment to introduce the VAT and promised to step up preparations. In particular, they will immediately prepare a VAT bill (with Fund technical assistance) and expedite its submission to the National Assembly. Nevertheless, taking note of delays in the preparations for the VAT thus far, the authorities cautioned that the introduction of the VAT could be delayed by a year to January 2014. On revenue administration, the authorities considered the planned Committee of Enquiry on Tax Evasion as a key element of their strategy to boost tax compliance. To better assess the appropriateness and feasibility of a comprehensive tax reform, the authorities expressed that further study is needed, including an assessment of tax expenditures under the current system. They were particularly cautious that a major reform might overwhelm administrative capacity and jeopardize revenue collections.

C. Monetary Policy and Financial Sector Stability

31. Price stability remains the focus of monetary policy, with the CBG typically aiming to keep inflation close to 5 percent (y-o-y). To control inflation pressures, the CBG targets broad money, mainly by observing (end period) quarterly targets for reserve money. For 2012, the CBG has targeted reserve and broad money growth rates of 11.3 percent and 13.2 percent, respectively, which would allow ample growth of credit to the private sector. The CBG's discount rate serves as a policy rate to signal the monetary policy stance, but interest rates so far have weak transmission power. In light of the recent dip in inflation, the authorities lowered the discount rate by one percentage point, to

14 percent, at the October meeting of the Monetary Policy Committee.

Staff's Advice

32. Staff emphasized that the progress in recent months toward eliminating fiscal dominance and strengthening the independence of the CBG provides an opportunity to improve the conduct of monetary policy. Instead of reacting to mop up unanticipated liquidity injections by central bank financed government spending, the CBG is now better placed to implement a more consistent monetary policy with more predictable use of policy instruments, notably sales of T-bills. Staff recommends that the CBG, in coordination with the Ministry of Finance and Economic Affairs (MoFEA), continue to improve its projections of T-bill auctions for the month ahead, with a view toward publicly announcing details of planned offerings in early 2012. This would likely enhance competition in the T-bill auction, which could help to lower yields, while also enabling banks to better plan their investment portfolio decisions.

33. Staff encouraged the CBG to build its capacity to target average reserve money (on a monthly basis), which has a far more stable relationship with broader money aggregates than end-period reserve money. The challenge will be to manage liquidity on a daily basis in a manner consistent with longer-range targets for average reserve money, while maintaining sufficient flexibility to ensure orderly behavior in the interbank money market. This would require development of daily liquidity management tools (such as repos and reverse repos), as well as further study of liquidity demand and supply patterns for forecasting purposes. Further study is also needed to determine an effective policy interest rate. The current policy rate—the rediscount rate—tends to be punitive and has little direct influence on market interest rates.

34. CBG should continue to strengthen financial stability. Banks are generally well capitalized and liquid,[8] although system-wide averages can mask potential problems in individual banks. With 13 banks competing for a small customer base, competition is fierce resulting in narrow profit margins. Moreover, the Social Security and Housing Finance Corporation (SSHFC) continues to be the major depositor in the banking system and uses its dominant position to drive up interest rates on deposits. Fund technical assistance is helping the CBG expand its toolkit for banking supervision with stress-testing capability. Staff encouraged the CBG to conduct more frequent on- and off-site supervision based on financial indicators for Prompt Corrective Action (PCA). Also, given its role as a source of funding to the banking system, the SSHFC should be monitored more closely (Box 3 and Appendix 4).

35. Staff urged the CBG to ensure that the credit reference bureau fully serves its function as a reliable and timely source of credit information. High quality information would allow creditors to better guard against exposure to nonperforming loans. It would also allow borrowers with a good credit rating to obtain loans at lower interest rates. This would help address the high cost of financing, which is a major concern for businesses.

[8] The minimum capital requirement will increase by GMD 50 million, (to GMD 200 million) on December 31, 2012. This will likely increase capital adequacy and liquidity even further in early 2013.

Box 3. The Gambia: Financial Sector Assessment*

The Gambian banking system underwent significant changes in recent years. From 2005 to 2010, the number of banks increased from 5 to 14 (one dropped out in early 2011), credit to GDP expanded from 10 percent of GDP in 2005 to 17.4 percent of GDP in 2010, and credit growth averaged 23 percent a year over the same period.

The Gambian banking system is well capitalized and liquid. The average risk adjusted capital ratio was 25.6 percent as of June 2011. However, across the 13 banks the capital adequacy ratio (CAR) ranges from 16.9 to 155.6 percent.** The ratio of liquid assets to short-term liabilities is 60 percent, with a large share of short-term government paper and a few large depositors.

Asset quality has deteriorated over the years, but provisioning has not kept up. Nonperforming loans (NPLs) have increased from 5 percent of total loans and advances in 2005 to 14.5 percent at end 2010. However, recently NPL fell by 2 percentage points as of June 2011. Full provisioning (100 percent) is required only for loans that are past due for more than 360 days and restructured loans attract only a 5 percent provision.

Profitability weakened, turning negative in 2009, but began to recover in 2010. From 2007 to 2009, return on assets (ROA) and return on equity (ROE) dropped from 4.5 percent to -1.6 percent and from 36.4 percent to -24.9 percent, respectively. Both rations turned around from 2010, reaching 1.2 and 5.8 respectively by June 2011, owing to banks efforts to improve their portfolios.

Stress testing suggests that the banking system can withstand large shocks. Stress testing conducted in March 2011 revealed that credit risk is the most important source of risk to the banking system. Banks can withstand severe liquidity shocks arising from deposit withdrawals. The exchange rate and interest rate risks are negligible.

The supervisory framework is robust, but can be further strengthened. It is based on the monitoring of Prompt Corrective Action (PCA) indicators that are collected quarterly. As the largest depositor in the banking system, the SSHFC's investment decisions have effects on monetary policy through interest rates and on the banking system and therefore should be monitored closely.

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* This assessment is based on a diagnostic of the banking system and stress testing exercises performed by Fund technical assistance. The Fund is also providing training to build the CBG's own capacity for stress testing.

** The particularly high (risk-weighted) CAR reflects a high share of investment in government T-bills.

Authorities' Views

36. The monetary authorities reiterated that their main objective is price stability. They agreed with the recommended steps and noted that further technical assistance may be needed to implement them. They are also keen to announce T-bill offerings in advance, but noted that better information sharing with MoFEA is necessary.

37. The authorities concurred with staff's analysis and recommendations on financial sector stability. However, they officials from banks' headquarters abroad and preparing a full report, was only feasible on an annual basis.

D. Exchange Rate Policy

38. Results from staff's assessment suggest that the exchange rate is broadly aligned with economic fundamentals; albeit with results pointing to a small overvaluation (of 6½-10 percent) (Appendix 3). Indeed, in 2011 the Gambian dalasi has depreciated modestly, partly reflecting the greater exchange rate flexibility in the current year, compared with 2010, when there was a brief period of interventions by the CBG.

Staff's Advice

39. The mission encouraged the authorities to continue to follow a highly flexible exchange rate policy, using foreign exchange market interventions only to maintain orderly market conditions. In addition, it may be necessary for the CBG to purchase foreign exchange to meet its target for international reserves of about five months of import cover. Given the U.S. dollar's recent appreciation against the euro, exchange rate flexibility would help preserve The Gambia's competitiveness in the region and as a tourist destination for Europeans. The staff noted that historical data suggest that there were periods where the authorities appeared to have employed a soft peg to the U.S. dollar.

Authorities' Views

40. The authorities concurred with staff on the need to maintain a flexible exchange rate. They vigorously denied any pegging to the U.S. dollar, pointing to the recent depreciation of the dalasi as proof. They explained that the interventions in 2010 addressed an acute demand for the U.S. dollar by importers.

E. Poverty Reduction and Other Structural Reforms

41. The *PAGE* seeks to reduce poverty by boosting economic growth and employment with a stepping up of investment in infrastructure and government support for agriculture, education, and health; but financing the *PAGE* is a big challenge. 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. The DSA indicates that if concessional terms are observed (minimum grant element of 35 percent), there is scope for up to US$30 million a year of additional borrowing over the next five years, while still maintaining debt sustainability.

Staff's Advice

42. Staff encouraged the authorities to build support for the PAGE among donors, but cautioned against overly optimistic projections for the resource envelope. Staff cautioned against greater recourse to domestic borrowing and noted that, by adhering to the fiscal adjustment, eventually fiscal savings (of approximately ½ percent of GDP a year by 2014) would be available for *PAGE* priorities from the reduced interest costs on domestic debt.

43. **Private sector participation in infrastructure investment could make a valuable contribution to *PAGE* objectives, but to ensure that such participation is productive, it is critical that an effective institutional framework and strong regulatory agencies are in place beforehand.** In particular, staff observed that NAWEC's poor financial condition is a deterrent to private sector investment in the electricity sector, as pointed out by World Bank staff in a recent diagnostic analysis of the sector. Staff encouraged that some initial steps be taken to help improve NAWEC's financial position, including an automatic cost-of-fuel adjustment in electricity tariffs, as well as steps to strengthen the regulatory agency (PURA). Staff further advised the authorities to work on medium-term structural reforms needed to establish NAWEC's financial viability. Exploring alternatives to the near-monopoly structure of fuel importation might also help to reduce energy costs. In addition, staff noted the dynamic private sector led growth in the telecom sector, where competition is fierce and technological change rapid, and urged the authorities to move forward with plans for a fully transparent privatization of GAMCEL. Such structural reforms would also help eliminate major sources of contingent liabilities that have impaired government finances in recent years.

Authorities' Views

44. **The authorities were keen to engage development partners to help finance the *PAGE,* but understood the need to be realistic about the resource envelope.** They intend to organize a donor conference to support the *PAGE* in the coming months, after which a realistic action plan could be budgeted for. They agreed with staff's views on boosting private sector participation, much of which is already referenced to in the *PAGE*. However, in the electricity sector, both NAWEC and PURA officials emphasized that government approval of a national energy strategy/policy is needed.[9]

F. Debt Sustainability

45. **Although a DSA conducted jointly with World Bank staff suggests that The Gambia's public debt is on a sustainable path, the debt situation remains a concern.** Based on external debt indicators, The Gambia continues to be at high risk of debt distress. And, as discussed above, domestic debt is costly and poses substantial rollover risks.

Staff's Advice

46. **While the DSA suggests that there is some scope for additional external borrowing, staff recommended that loans**

[9] The authorities intend to seek guidance on an energy strategy/policy from World Bank staff.

be restricted to concessional terms with a minimum grant element of at least 35 percent. The staff urged the authorities to articulate a medium-term debt strategy consistent with gradually reducing NDB. Now that T-bill yields have begun to fall, the authorities could once again test the market for longer-term bonds (beginning with 2- or 3-year bonds) in an effort to begin to lengthen the maturity structure and reduce rollover risks. As NDB declines, it is likely that interest rates would continue to fall, which would allow for larger offerings of longer-term instruments. (see DSA report).

Authorities' Views

47. The authorities concurred with staff on the debt sustainability analysis. Their debt management strategy will be fully consistent with the need to strengthen debt sustainability. They intend to issue government securities with maturities of 2-3 years, initially in modest amounts to test the market.

G. Other Surveillance Items

Data Quality

48. Quality of economic and financial data is generally sufficient for effective surveillance, but there is much room for further improvement. For the national accounts, next steps include developing quarterly GDP statistics and GDP statistics by expenditure category. The updating of the CPI statistics based on the 2010 household survey would be welcome, together with a review of appropriate weights. BOP statistics and the compiling and monitoring of project grants need to be improved. The authorities would continue to welcome Fund technical assistance in these areas.

Outreach

49. Staff met with a broad cross-section of Gambian society to discuss surveillance issues and the role of the Fund in The Gambia. Meetings were held with members of the National Assembly, opposition party leaders, representatives of the business community, labor union officials, NGOs, university students, and the donor community. A public presentation and discussion of the proposed tax reform was well received.

STAFF APPRAISAL

50. The Gambian economy has performed well in recent years, despite a difficult global environment. Real GDP growth has been robust and inflation has generally been low. Moreover, the authorities' efforts to support agriculture appear to have made growth more inclusive. To shed better light on the impact on the poor, staff encourages the authorities to complete the 2010 household survey soon. The outlook for the Gambian economy is positive, although there are a number of risks. In particular, the high cost and rollover risks of domestic debt could threaten macroeconomic stability.

51. Staff welcomes the authorities' 2012 budget, which aims at taking a strong initial step toward reducing domestic borrowing. To fully realize the benefits of lower government borrowing and a sustained decline in the interest burden, it will be critical that the authorities consistently meet the targeted reduction in government borrowing, which will build credibility in their efforts to gradually bring net domestic borrowing down further to ½ percent of GDP by 2014 and, if possible, to near zero. To achieve this, rebuilding revenues will be essential, especially in light of growing spending needs associated with the authorities' new poverty reduction strategy, the *Programme for Accelerated Growth and Employment (PAGE)*. In particular, staff encourages the authorities to take strong and immediate actions to reverse the worrisome erosion of tax revenues since 2007, including a further decline in the tax-to-GDP ratio of around 1 percent of GDP in 2011. Staff urges the authorities to immediately adjust fuel prices and reinstate regular adjustments in line with a fuel pricing formula that would allow greater pass-through of changes in world prices and help preserve revenues from fuel taxes.

52. Staff encourages the authorities to build upon the ongoing efforts to introduce a VAT by January 2013 and pursue a comprehensive tax reform. A reform that emphasizes simplicity, broad coverage, and low tax rates could bolster revenues and add buoyancy to the tax system, while also improving the business environment and enhancing international competitiveness. Despite recent delays in the steps needed to implement the VAT, staff urges the authorities to strive toward meeting the January 2013 target date. In addition, staff recommends that the VAT bill extend coverage of the tax to the electricity sector.

53. Improving tax compliance is necessary not only to boost revenues in the near-term, but also to provide a foundation for introducing the VAT and other tax reforms. The authorities' decision to establish a commission of inquiry on tax evasion could raise awareness among the public and hopefully lead to a buy-in on compliance enhancing measures. At the same time, the Gambia Revenue Authority urgently needs to strengthen the large taxpayers unit, particularly its auditing capabilities.

54. Government's expenditure restraint in 2011 has been a welcomed improvement from the spending overruns in recent years. Already, there has been some pay off, as T-bill yields are coming down. However, staff encourages the authorities to step up the pace of public financial management reforms, particularly on budget procedures, execution, and monitoring to ensure value-for-money from government spending. In the mean time, and especially during the run-up to parliamentarian elections, staff encourages the authorities to stay the course by maintaining strict cash budgeting.

55. With fiscal dominance abating, the Central Bank of The Gambia (CBG) has an opportunity to better focus monetary policy on its primary goal of maintaining low inflation. The CBG should endeavor to develop a near-term liquidity management strategy and tools that would assist it in achieving this objective.

56. The Gambia has appropriately maintained a floating exchange rate regime. An assessment by staff suggests that the exchange rate is broadly in line with fundamentals, although there may have been a small overvaluation. Instances of heavy interventions around mid-2010 have not been repeated in 2011 as the dalasi depreciated modestly in real effective terms. Going forward interventions should be limited to safeguarding orderly market conditions and to meeting the CBG's international reserves target.

57. The banking system is well capitalized and liquid, but supervision must remain vigilant to address possible weaknesses in individual banks. The CBG has a well-articulated banking supervision framework which, nevertheless, could be further improved. The financial indicators for prompt corrective action are extremely useful supervisory tools that provide detailed information on the health of the banking system and should be monitored frequently. Staff welcomes the authorities' intention to strengthen the supervisory apparatus through the introduction of risk-based supervision and stress-testing. Staff urges the authorities to ensure that the Credit Reference Bureau maintains a high-quality and up-to-date database, not only to help banks contain nonperforming loans, but also to enable borrowers with good credit ratings to access financing at lower interest rates. Given its prominent role, it will be important to monitor the impact of the Social Security and Housing Finance Corporation's investment policy and portfolio structure on the financial sector.

58. A well-specified debt management strategy is needed to ensure debt sustainability. Key elements of such a strategy include limiting external financing to concessional terms, while gradually reducing net domestic borrowing to lower interest costs. As yields drop, longer-term government securities could be issued to reduce rollover risks.

59. Financing the *PAGE* will be a major challenge. Although there is some scope for additional external borrowing on concessional terms, which would be consistent with debt sustainability, the authorities would need to seek private sector participation for some major infrastructure investments. For this participation to be productive, an effective institutional framework and strong regulatory agencies must be in place beforehand. In particular, to address energy needs, staff encourages the authorities to formulate a strategy that ensures a financially viable electric utility company under such a regulatory framework.

60. Staff recommends that the next Article IV consultation for The Gambia take place on the standard 12-month cycle.

Table 1. The Gambia: Selected Economic Indicators

	2010 Act.	2011 Proj.	2012 Proj.	2013 Proj.	2014 Proj.	2015 Proj.	2016 Proj.
National account and prices	(Percent change; unless otherwise indicated)						
Nominal GDP (millions of dalasi)	26,811	29,673	32,810	36,286	40,122	44,372	49,076
Nominal GDP	10.6	10.7	10.6	10.6	10.6	10.6	10.6
GDP at constant prices	6.3	5.5	5.5	5.5	5.5	5.5	5.5
GDP per capita (US$)	560	566	567	573	589	606	625
GDP deflator	4.0	4.9	4.8	4.8	4.8	4.8	4.8
Consumer prices (average)	5.0	5.4	5.0	5.0	5.0	5.0	5.0
Consumer prices (end of period)	5.8	5.0	5.0	5.0	5.0	5.0	5.0
External sector							
Exports, f.o.b.	3.6	12.6	5.3	5.9	6.0	6.7	7.4
Of which: domestic exports	25.5	34.3	-0.1	6.8	6.0	6.8	10.3
Imports, f.o.b.	5.3	4.3	7.1	4.2	7.1	7.5	7.2
Terms of trade (deterioration -)	-0.2	-0.7	1.2	1.0	2.0	2.0	2.0
NEER change (depreciation -)[1]	-1.6	-4.3	…	…	…	…	…
REER (depreciation -)[1]	0.3	-4.0	…	…	…	…	…
Money and credit	(Percent change; in beginning-of-year broad money)						
Broad money	13.7	13.3	13.2	13.2	13.3	13.4	13.5
Net foreign assets	1.3	2.4	3.9	1.0	2.3	3.1	3.2
Net domestic assets, of which:	12.3	10.9	9.3	12.2	11.0	10.2	10.3
Credit to the government (net)	16.4	7.4	4.3	2.3	1.0	0.8	0.9
Credit to the private sector (net)	4.7	4.3	9.3	9.1	9.2	8.4	8.3
Other items (net)	-9.6	-1.8	-6.5	-1.1	-1.1	-1.0	-0.9
Velocity (level)	2.0	2.0	1.9	1.9	1.8	1.8	1.7
Average treasury bill rate (in percent)[2]	11.3	9.3	…	…	…	…	…
Central government budget	(In percent of GDP; unless otherwise indicated)						
Domestic revenues	14.8	14.0	14.3	14.8	15.4	15.4	15.4
Grants	4.0	4.5	3.3	3.5	3.5	3.6	3.5
Total expenditure and net lending	24.8	22.1	20.5	20.8	20.9	20.9	20.9
Overall balance	-5.6	-3.6	-3.0	-2.4	-2.0	-1.9	-2.0
Basic balance	-3.3	-1.5	-0.4	-0.3	0.2	0.1	-0.1
Net foreign financing	1.4	0.9	1.3	1.4	1.5	1.4	1.5
Net domestic financing	4.2	2.7	1.6	1.0	0.5	0.5	0.5
Public debt	69.2	68.4	67.5	64.9	62.1	59.4	57.0
Domestic public debt[3]	29.3	29.2	28.0	26.4	24.3	22.5	20.9
External public debt	39.9	39.2	39.5	38.5	37.8	36.9	36.1
External public debt (millions of US$)	377.1	386.0	399.8	415.2	432.6	450.6	470.9
External sector							
Current account balance							
Excluding budget support	-16.8	-14.4	-15.3	-14.7	-14.5	-14.1	-13.4
Including budget support	-16.8	-14.4	-15.3	-14.2	-14.0	-13.7	-12.9
Current account balance	(Millions of U.S. dollars; unless otherwise indicated)						
Excluding budget support	-162.9	-146.3	-160.3	-161.5	-169.4	-175.8	-177.7
Including budget support	-162.9	-146.3	-160.3	-156.0	-163.6	-169.6	-171.2
Overall balance of payments	-25.7	7.6	-2.8	-1.7	5.7	11.0	11.8
Gross official reserves	163.3	174.7	171.6	168.3	170.7	176.6	184.2
in months of imports of goods and services	4.8	5.0	4.6	4.3	4.1	4.0	3.9
Use of Fund resources	(Millions of SDRs)						
Disbursements	2.0	2.3	0.0	0.0	0.0	0.0	0.0
Repayments	0.0	0.0	-0.2	-1.0	-2.1	-3.8	-4.0

Sources: Gambian authorities and Fund staff estimates and projections.

[1] Percentage change between December of the previous year and December of the current year (September for 2011).

[2] Average for the month of December (October for 2011).

[3] Defined as gross domestic interest bearing debt.

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

	2010 Act.	2011 Proj.	2012 Proj.	2013 Proj.	2014 Proj.	2015 Proj.	2016 Proj.
Revenue	5,026	5,496	5,772	6,668	7,604	8,424	9,276
Taxes	3,528	3,654	4,142	4,749	5,458	6,036	6,676
Taxes on income, profits, and capital gains	1,109	1,131	1,230	1,428	1,658	1,834	2,028
Domestic taxes on goods and services	1,500	1,629	1,798	2,087	2,436	2,694	2,980
Taxes on internatioal trade and transactions	867	849	1,057	1,169	1,292	1,429	1,581
Other taxes	53	45	58	64	71	78	87
Grants	1,065	1,334	1,078	1,287	1,422	1,587	1,714
Budget support	0	0	0	181	200	220	241
Project grants[1]	1,065	1,334	1,078	1,106	1,222	1,367	1,472
Other revenues	433	508	552	632	725	801	886
Expenditures	6,466	6,571	6,741	7,536	8,405	9,291	10,273
Expenses[2]	4,059	4,602	4,522	4,995	5,345	5,626	6,027
Compensation of employees	1,516	1,665	1,769	1,956	2,163	2,392	2,645
Use of goods and services	1,216	1,342	1,201	1,261	1,324	1,390	1,460
Interest	766	933	961	1,157	1,165	1,159	1,202
External	137	168	151	264	285	309	334
Domestic	629	765	810	893	880	850	869
Subsidies	561	662	592	622	693	685	720
Net acquisition of nonfinancial assets	2,407	1,969	2,219	2,541	3,060	3,665	4,247
Acquisitions of nonfinancial assets	2,407	1,969	2,219	2,541	3,060	3,665	4,247
Foreign financed[2]	1,808	1,714	1,879	2,050	2,286	2,492	2,651
Gambia local fund	599	255	340	492	775	1,173	1,596
Gross Operating Balance	967	893	1,250	1,673	2,260	2,799	3,249
Net lending (+)/borrowing (–)	-1,440	-1,075	-969	-868	-801	-866	-997
Net acquisition of financial assets[3]	175	0	0	0	0	0	0
Net incurrence of liabilities	1,510	1,076	972	869	799	865	997
Domestic, of which:	1,123	815	541	363	201	222	245
Loans	1,220	815	591	363	201	222	245
Net borrowing	1,220	815	591	363	201	222	245
Bank[4]	1,424	986	644	389	188	183	226
Nonbank	-204	-171	-53	-26	13	39	19
Foreign	387	261	431	506	599	643	752
Loans	387	261	431	506	599	643	752
Borrowing	742	627	834	944	1,063	1,124	1,179
Amortization	-355	-366	-403	-438	-465	-482	-426
Statistical discrepancy[5]	-105	0	2	1	-2	-2	0
Memorandum items:							
Basic balance[6]	-873	-695	-168	-106	63	38	-60
Basic primary balance[7]	-107	238	793	1,051	1,228	1,197	1,142
Domestic public debt[8]	7,847	8,662	9,203	9,566	9,766	9,988	10,233

Sources: Gambian authorities and Fund staff estimates and projections.

[1] Projection for 2011 includes grants under the World Bank's West Africa Regional Communications Integration Project (WARCIP).
[2] Beginning in 2011, includes spending on wages and other charges financed by project grants and external borrowing. Prior to that, project grants and external borrowing were assumed to finance capital expenditure only.
[3] Figure for 2010 consists of domestic loans only, and reflects onlending to GAMTEL financed by WARCIP.
[4] In 2010, includes bridge loan from CBG for part of the shortfall in disbursements of budget support.
[5] The difference between financing and the overall balance of revenue and expenditures.
[6] Overall balance, excluding statistical discrepancy, less expenditures financed by project grants and external borrowing.
[7] Basic balance, excluding interest payments.
[8] Defined as gross domestic interest bearing debt.

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

	2010 Act.	2011 Proj.	2012 Proj.	2013 Proj.	2014 Proj.	2015 Proj.	2016 Proj.
Revenue	18.7	18.5	17.6	18.4	19.0	19.0	18.9
Taxes	13.2	12.3	12.6	13.1	13.6	13.6	13.6
Taxes on income, profits, and capital gains	4.1	3.8	3.7	3.9	4.1	4.1	4.1
Domestic taxes on goods and services	5.6	5.5	5.5	5.8	6.1	6.1	6.1
Taxes on internatioal trade and transactions	3.2	2.9	3.2	3.2	3.2	3.2	3.2
Other taxes	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Grants	4.0	4.5	3.3	3.5	3.5	3.6	3.5
Budget support	0.0	0.0	0.0	0.5	0.5	0.5	0.5
Project grants[1]	4.0	4.5	3.3	3.0	3.0	3.1	3.0
Other revenues	1.6	1.7	1.7	1.7	1.8	1.8	1.8
Expenditures	24.1	22.1	20.5	20.8	20.9	20.9	20.9
Expenses[2]	15.1	15.5	13.8	13.8	13.3	12.7	12.3
Compensation of employees	5.7	5.6	5.4	5.4	5.4	5.4	5.4
Use of goods and services	4.5	4.5	3.7	3.5	3.3	3.1	3.0
Interest	2.9	3.1	2.9	3.2	2.9	2.6	2.5
External	0.5	0.6	0.5	0.7	0.7	0.7	0.7
Domestic	2.3	2.6	2.5	2.5	2.2	1.9	1.8
Subsidies	2.1	2.2	1.8	1.7	1.7	1.5	1.5
Net acquisition of nonfinancial assets	9.0	6.6	6.8	7.0	7.6	8.3	8.7
Acquisitions of nonfinancial assets	9.0	6.6	6.8	7.0	7.6	8.3	8.7
Foreign financed[2]	6.7	5.8	5.7	5.6	5.7	5.6	5.4
Gambia local fund	2.2	0.9	1.0	1.4	1.9	2.6	3.3
Gross Operating Balance	3.6	3.0	3.8	4.6	5.6	6.3	6.6
Net lending (+)/borrowing (–)	-5.4	-3.6	-3.0	-2.4	-2.0	-2.0	-2.0
Net acquisition of financial assets[3]	0.7	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	5.6	3.6	3.0	2.4	2.0	1.9	2.0
Domestic, of which:	4.2	2.7	1.6	1.0	0.5	0.5	0.5
Loans	4.6	2.7	1.8	1.0	0.5	0.5	0.5
Net borrowing	4.6	2.7	1.8	1.0	0.5	0.5	0.5
Bank[4]	5.3	3.3	2.0	1.1	0.5	0.4	0.5
Nonbank	-0.8	-0.6	-0.2	-0.1	0.0	0.1	0.0
Foreign	1.4	0.9	1.3	1.4	1.5	1.4	1.5
Loans	1.4	0.9	1.3	1.4	1.5	1.4	1.5
Borrowing	2.8	2.1	2.5	2.6	2.6	2.5	2.4
Amortization	-1.3	-1.2	-1.2	-1.2	-1.2	-1.1	-0.9
Statistical discrepancy[5]	-0.4	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:							
Basic balance[6]	-3.3	-2.3	-0.5	-0.3	0.2	0.1	-0.1
Basic primary balance[7]	-0.4	0.8	2.4	2.9	3.1	2.7	2.3
Domestic public debt[8]	29.3	29.2	28.0	26.4	24.3	22.5	20.9

Sources: Gambian authorities and Fund staff estimates and projections.

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

[2] Beginning in 2011, includes spending on wages and other charges financed by project grants and external borrowing. Prior to that, project grants and external borrowing were assumed to finance capital expenditure only.

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

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

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

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

[7] Basic balance, excluding interest payments.

[8] 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 Proj.	2012 Proj.	2013 Proj.	2014 Proj.	2015 Proj.	2016 Proj.
			I. Monetary Survey				
Net foreign assets	3,808	4,133	4,716	4,887	5,325	6,010	6,799
in millions of U.S. dollars	134	137	146	145	152	165	181
Net domestic assets	9,485	10,929	12,328	14,414	16,540	18,779	21,325
Domestic credit	10,073	11,759	14,133	16,409	18,743	21,199	23,976
Claims on central government (net)	4,953	5,940	6,583	6,972	7,160	7,343	7,569
Claims on other financial corporations	10	11	11	11	11	11	11
Claims on other public sector[2]	870	992	1,320	1,650	2,029	2,475	2,970
Claims on private sector	4,240	4,817	6,219	7,776	9,543	11,370	13,426
Other items (net)[3]	-589	-830	-1,805	-1,995	-2,202	-2,420	-2,651
Broad money	13,292	15,062	17,044	19,301	21,865	24,789	28,124
Currency outside banks	2,065	2,264	2,486	2,717	2,971	3,252	3,562
Deposits, of which:	11,228	12,798	14,558	16,584	18,894	21,537	24,562
Time and savings deposits	7,270	8,466	9,727	11,080	12,624	14,390	16,411
			II. Central Bank Survey				
Net foreign assets	2,452	2,747	2,869	2,934	3,259	3,825	4,490
Foreign assets	4,637	5,266	5,555	5,669	5,982	6,425	6,935
Foreign liabilities, of which:	-2,185	-2,518	-2,686	-2,735	-2,723	-2,599	-2,445
SDR allocations	-1,301	-1,355	-1,400	-1,449	-1,496	-1,542	-1,570
Net domestic assets	1,052	925	1,219	1,608	1,791	1,796	1,774
Domestic credit	581	326	823	1,328	1,630	1,757	1,871
Claims on central government (net)	525	272	769	1,274	1,576	1,703	1,816
Claims on other financial corporations	10	11	11	11	11	11	11
Claims on private sector	46	44	44	44	44	44	44
Claims on public enterprises	0	0	0	0	0	0	0
Other items (net)[3]	471	599	396	280	161	38	-96
Reserve money	3,503	3,672	4,087	4,541	5,050	5,621	6,264
Currency outside banks	2,065	2,264	2,486	2,717	2,971	3,252	3,562
Commercial bank deposits	1,439	1,408	1,601	1,824	2,078	2,369	2,702

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]

	2010 Act.	2011 Proj.	2012 Proj.	2013 Proj.	2014 Proj.	2015 Proj.	2016 Proj.
	I. Monetary Survey (Percent change; in beginning of period broad money)						
Broad money	13.7	13.3	13.2	13.2	13.3	13.4	13.5
Net foreign assets	1.3	2.4	3.9	1.0	2.3	3.1	3.2
Net domestic assets	12.3	10.9	9.3	12.2	11.0	10.2	10.3
	II. Central Bank Survey (Percent change; in beginning of period monetary base)						
Reserve money	10.5	4.8	11.3	11.1	11.2	11.3	11.4
Net foreign assets	-16.7	8.4	3.3	1.6	7.2	11.2	11.8
Net domestic assets	27.2	-3.6	8.0	9.5	4.0	0.1	-0.4
Memorandum Items:							
Growth of credit to the private sector	14.8	13.6	29.1	25.0	22.7	19.1	18.1
Growth of currency in circulation	3.0	9.7	9.8	9.3	9.4	9.4	9.5
Growth of demand deposits	10.1	9.5	11.5	13.9	13.9	14.0	14.0
Growth of time and savings deposits	19.3	16.4	14.9	13.9	13.9	14.0	14.0
Net usable international reserves (in millions of U.S. dollars)	126.5	131.8	129.3	127.8	133.6	145.9	159.9
Money velocity	2.02	1.97	1.93	1.88	1.84	1.79	1.75
Money multiplier	3.79	4.10	4.17	4.25	4.33	4.41	4.49
Daily reserve money[2]	3,782	...	...	...	...	...	...
Growth rate of daily reserve money	17.0	...	...	...	...	...	...
Broad money (percent of GDP)	49.6	50.8	51.9	53.2	54.5	55.9	57.3
Credit to the private sector (percent of GDP)	15.8	16.2	19.0	21.4	23.8	25.6	27.4
Central bank financing of central government (in millions of local currency)	413	-253	497	505	302	127	113
Commercial bank financing of central government (in millions of local currency)	961	1240	147	-116	-114	56	113

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.	2016 Proj.
1. Current account							
A. Goods and services	**-177.9**	**-164.7**	**-181.3**	**-184.9**	**-196.1**	**-208.5**	**-215.4**
Trade balance	-215.0	-215.9	-233.3	-241.3	-259.8	-280.4	-300.5
Exports, f.o.b.	98.2	110.6	116.4	123.3	130.7	139.5	149.8
Of which: domestic goods [1]	13.6	18.3	18.3	19.5	20.7	22.1	24.4
Imports, f.o.b	-313.1	-326.5	-349.7	-364.6	-390.5	-419.9	-450.3
Of which: oil	-40.8	-54.9	-56.3	-59.2	-61.3	-64.1	-67.0
Services (net)	37.0	51.1	52.0	56.4	63.7	71.9	85.1
Of which: travel income	70.9	77.2	81.4	88.8	98.3	109.0	121.1
B. Income (net)	**-40.0**	**-39.6**	**-39.7**	**-40.6**	**-40.8**	**-38.9**	**-39.7**
Income credits	22.6	26.4	29.5	31.9	33.3	38.1	40.2
Income debits	-62.6	-66.0	-69.2	-72.5	-74.1	-77.0	-79.8
C. Current transfers	**55.0**	**57.9**	**60.7**	**69.4**	**73.3**	**77.8**	**83.9**
Official transfers	0.0	0.0	0.0	5.5	5.8	6.1	6.5
Remittances	45.2	47.9	50.4	53.4	56.6	60.5	66.0
Other transfers	9.8	10.1	10.3	10.6	10.9	11.1	11.4
Current account (excl. budget support)	**-162.9**	**-146.3**	**-160.3**	**-161.5**	**-169.4**	**-175.8**	**-177.7**
Current account (incl. budget support)	**-162.9**	**-146.3**	**-160.3**	**-156.0**	**-163.6**	**-169.6**	**-171.2**
2. Capital and financial account							
A. Capital account [2]	**38.5**	**45.6**	**34.5**	**33.5**	**35.6**	**38.3**	**39.8**
B. Financial account	**98.7**	**108.4**	**123.0**	**120.9**	**133.8**	**142.3**	**143.2**
Foreign direct investment	85.6	62.6	76.2	66.8	69.7	73.1	76.8
Portfolio investment	-1.5	-1.1	-1.1	-0.2	-0.3	0.6	1.5
Other investment	14.6	46.9	47.8	54.3	64.4	68.6	65.0
Of which: Official other investment (net)	10.8	8.9	13.8	15.3	17.4	18.0	20.3
Loans	23.6	21.4	26.7	28.6	30.9	31.5	31.8
SDR Allocations	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	-12.8	-12.5	-12.9	-13.3	-13.5	-13.5	-11.5
Capital and financial account	**137.2**	**153.9**	**157.5**	**154.3**	**169.3**	**180.6**	**183.0**
Errors and omissions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	**-25.7**	**7.6**	**-2.8**	**-1.7**	**5.7**	**11.0**	**11.8**
Financing							
Net international reserves (increase -)	25.7	-7.6	2.8	1.7	-5.7	-11.0	-11.8
Change in gross international reserves	22.6	-11.3	3.1	3.3	-2.4	-6.0	-7.5
Use of IMF resources (net)	3.1	3.7	-0.3	-1.6	-3.3	-6.0	-6.3
Disbursements	3.1	3.7	0.0	0.0	0.0	0.0	0.0
Repayments	0.0	0.0	-0.3	-1.6	-3.3	-6.0	-6.3
Memorandum items:							
Exports of goods and services	228.8	251.8	265.1	282.6	303.1	326.9	354.0
Imports of goods and services	-406.8	-416.5	-446.4	-467.4	-499.2	-535.4	-569.4
Gross International Reserves							
US$ millions	163.3	174.7	171.6	168.3	170.7	176.6	184.2
Months of imports of goods and services	4.8	5.0	4.6	4.3	4.1	4.0	3.9

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).

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

	2010 Act.	2011 Proj.	2012 Proj.	2013 Proj.	2014 Proj.	2015 Proj.	2016 Proj.
1. Current account							
A. Goods and services	**-18.4**	**-16.2**	**-17.3**	**-16.8**	**-16.8**	**-16.8**	**-16.2**
Trade balance	**-22.2**	**-21.3**	**-22.2**	**-22.0**	**-22.3**	**-22.6**	**-22.7**
Exports, f.o.b.	10.1	10.9	11.1	11.2	11.2	11.2	11.3
Of which: domestic goods [1]	1.4	1.8	1.7	1.8	1.8	1.8	1.8
Imports, f.o.b	-32.3	-32.2	-33.3	-33.2	-33.5	-33.8	-34.0
Of which: oil	-4.2	-5.4	-5.4	-5.4	-5.3	-5.2	-5.1
Services (net)	3.8	5.0	5.0	5.1	5.5	5.8	6.4
Of which: travel	7.3	7.6	7.8	8.1	8.4	8.8	9.1
B. Income (net)	**-4.1**	**-3.9**	**-3.8**	**-3.7**	**-3.5**	**-3.1**	**-3.0**
Income credits	2.3	2.6	2.8	2.9	2.8	3.1	3.0
Income debits	-6.5	-6.5	-6.6	-6.6	-6.3	-6.2	-6.0
C. Current transfers	**5.7**	**5.7**	**5.8**	**6.3**	**6.3**	**6.3**	**6.3**
Official transfers	0.0	0.0	0.0	0.5	0.5	0.5	0.5
Remittances	4.7	4.7	4.8	4.9	4.9	4.9	5.0
Other transfers	1.0	1.0	1.0	1.0	0.9	0.9	0.9
Current account (excl. budget support)	**-16.8**	**-14.4**	**-15.3**	**-14.7**	**-14.5**	**-14.1**	**-13.4**
Current account (incl. budget support)	**-16.8**	**-14.4**	**-15.3**	**-14.2**	**-14.0**	**-13.7**	**-12.9**
2. Capital and financial account							
A. Capital account [2]	**4.0**	**4.5**	**3.3**	**3.0**	**3.0**	**3.1**	**3.0**
B. Financial account	**10.2**	**10.7**	**11.7**	**11.0**	**11.5**	**11.5**	**10.8**
Foreign direct investment	8.8	6.2	7.3	6.1	6.0	5.9	5.8
Portfolio investment	-0.2	-0.1	-0.1	0.0	0.0	0.0	0.1
Other investment	1.5	4.6	4.6	4.9	5.5	5.5	4.9
Of which: Official other investment (net)	1.1	0.9	1.3	1.4	1.5	1.4	1.5
Loans	2.4	2.1	2.5	2.6	2.6	2.5	2.4
SDR Allocations	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	-1.3	-1.2	-1.2	-1.2	-1.2	-1.1	-0.9
Capital and financial account	**14.2**	**15.2**	**15.0**	**14.1**	**14.5**	**14.5**	**13.8**
Errors and omissions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	**-2.7**	**0.7**	**-0.3**	**-0.2**	**0.5**	**0.9**	**0.9**

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).

Table 8. The Gambia: Financial Soundness Indicators

(In percent, unless otherwise indicated)

	2007	2008	2009	2010	2011 (June)
Capital Adequacy					
Regulatory capital to risk-weighted assets	22.5	19.6	18.8	24.5	24.8
Tier-1 capital to risk-weighted assets[1]	20.0	21.0	19.0	27.0	25.6
Asset quality					
Nonperforming loans to total gross loans	10.4	13.7	12.3	14.5	12.7
Nonperforming loans net of provisions to capital	2.8	5.8	4.3	7.5	6.4
Earnings and profitability					
Return on assets (average)	4.5	0.1	-1.6	0.4	1.2
Return on equity (average)	36.4	0.8	-24.9	1.8	5.8
Net Interest income to gross income	34.7	35.3	37.0	41.3	37.4
Operating expenses to gross income	47.0	65.8	62.0	58.2	57.8
Liquidity					
Liquid assets to total assets	45.0	43.6	35.7	47.9	38.6
Liquid assets to short-term liabilities	74.9	70.9	62.1	68.4	59.4
Exposure to FX risk:					
Net open FX position to capital	36.9	19.1	6.4	-0.4	-2.9

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: Progress toward the Millennium Development Goals, 1990-2009[1]

	1990	1995	2000	2005	2009
Goal 1: Eradicate extreme poverty and hunger					
Employment to population ratio, 15+, total (%)	*73*	73	73	73	73
Employment to population ratio, ages 15-24, total (%)	*59*	59	59	58	58
GDP per person employed (constant 1990 PPP $)	..	..	..	..	..
Income share held by lowest 20%	..	..	*4*	*5*	..
Malnutrition prevalence, weight for age (% of children under 5)	..	*23*	15	*16*	..
Poverty gap at $1.25 a day (PPP) (%)	..	..	*35*	*12*	..
Poverty headcount ratio at $1.25 a day (PPP) (% of population)	..	..	*67*	*34*	..
Vulnerable employment, total (% of total employment)	..	..	..	..	..
Goal 2: Achieve universal primary education					
Literacy rate, youth female (% of females ages 15-24)	..	..	41	..	60
Literacy rate, youth male (% of males ages 15-24)	..	..	64	..	71
Persistence to last grade of primary, total (% of cohort)	..	..	73	62	61
Primary completion rate, total (% of relevant age group)	*46*	45	74	69	78
Total enrollment, primary (% net)	51	*64*	73	71	76
Goal 3: Promote gender equality and empower women					
Proportion of seats held by women in national parliaments (%)	8	..	2	13	9
Ratio of female to male primary enrollment (%)	*63*	74	87	102	104
Ratio of female to male secondary enrollment (%)	47	55	..	..	96
Ratio of female to male tertiary enrollment (%)	..	55	29	*23*	..
Share of women employed in the nonagricultural sector (% of total nonagricultural employment)	20.9	..	..	..	..
Goal 4: Reduce child mortality					
Immunization, measles (% of children ages 12-23 months)	86	91	92	81	96
Mortality rate, infant (per 1,000 live births)	78	72	66	61	58
Mortality rate, under-5 (per 1,000)	165	145	128	112	101
Goal 5: Improve maternal health					
Adolescent fertility rate (births per 1,000 women ages 15-19)	..	*131*	114	87	73
Births attended by skilled health staff (% of total)	44	..	55	*57*	..
Contraceptive prevalence (% of women ages 15-49)	12	..	10	..	..
Maternal mortality ratio (modeled estimate, per 100,000 live births)	750	690	560	460	*400*
Pregnant women receiving prenatal care (%)	..	..	91	*98*	..
Unmet need for contraception (% of married women ages 15-49)	..	..	..	..	..
Goal 6: Combat HIV/AIDS, malaria, and other diseases					
Children with fever receiving antimalarial drugs (% of children under age 5 with fever)	..	..	55	*63*	..
Condom use, population ages 15-24, female (% of females ages 15-24)	..	..	..	..	..
Condom use, population ages 15-24, male (% of males ages 15-24)	..	..	..	..	..
Incidence of tuberculosis (per 100,000 people)	185	204	225	248	269
Prevalence of HIV, female (% ages 15-24)	..	..	..	..	2.4
Prevalence of HIV, male (% ages 15-24)	..	..	..	..	0.9
Prevalence of HIV, total (% of population ages 15-49)	0.1	0.2	0.5	1.1	2.0
Tuberculosis case detection rate (%, all forms)	..	46	*55*	54	47
Goal 7: Ensure environmental sustainability					
CO2 emissions (kg per PPP $ of GDP)	0	0	0	0	*0*
CO2 emissions (metric tons per capita)	0	0	0	0	*0*
Forest area (% of land area)	44.2	..	46.1	47.1	*48.0*
Improved sanitation facilities (% of population with access)	..	60	63	65	*67*
Improved water source (% of population with access)	74	79	84	89	*92*
Marine protected areas (% of territorial waters)	0	0	0	0	0
Net ODA received per capita (current US$)	101	40	38	40	76
Goal 8: Develop a global partnership for development					
Debt service (PPG and IMF only, % of exports, excluding workers' remittances)	21	15	11	18	9
Internet users (per 100 people)	0.0	0.0	0.9	3.9	7.7
Mobile cellular subscriptions (per 100 people)	0	0	0	16	85
Telephone lines (per 100 people)	1	2	3	3	3
Fertility rate, total (births per woman)	6	6	6	5	5
Other					
GNI per capita, Atlas method (current US$)	300	340	330	270	440
GNI, Atlas method (current US$) (billions)	0.3	0.4	0.4	0.4	0.7
Gross capital formation (% of GDP)	22.3	20.2	17.4	26.8	25.9
Life expectancy at birth, total (years)	53	54	55	57	58
Literacy rate, adult total (% of people ages 15 and above)	..	..	37	..	46
Population, total (billions)	0.0	0.0	0.0	0.0	0.0
Trade (% of GDP)	131.5	122.0	104.8	102.9	80.6

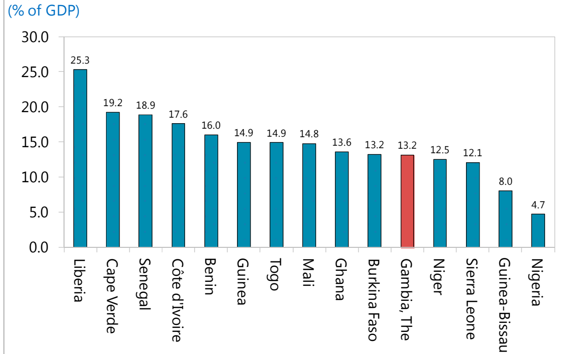
Source: World Development Indicators.

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

Appendix 1. Comprehensive Tax Reform in The Gambia[1]

The Gambian authorities are facing significant challenges in the areas of revenue policy and administration. Tax revenues relative to GDP have lagged behind regional averages and have declined in recent years (see Figures 1 and 2). Compliance is poor. Cumbersome procedures are straining the GRA and providing a disincentive to private sector employment and investment. The current system invites rent-seeking, as Gambian entrepreneurs expend scarce time, energy, and talent on obtaining tax preferences. The current system is widely perceived as unfair, due to tax evasion as well as tax preferences for some and high rates for everybody else. The country ranks 178 out of 183 countries in the world for ease of paying taxes in the 2012 World Bank Doing Business report (last among ECOWAS countries and third from the bottom in AFR). Part of these problems is due to weak institutional capacity.

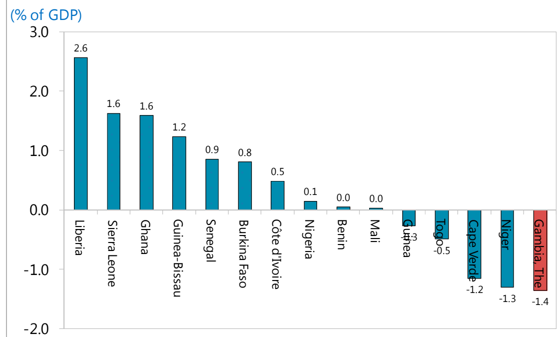
Figure 1: Tax Revenue In 2010 For 15 ECOWAS Countries



Sources: WEO and IMF country desk data.

Another part is due to a complex tax system which has created a vicious circle, with a multiplicity of taxes (some with relatively high rates) "chasing" a shrinking tax base.

Figure 2: Change In Tax Revenue Over 2009-10 For 15 ECOWAS Countries



Sources: WEO and IMF country desk data.

These challenges could be addressed by further tax reforms aimed at broadening the tax base, eliminating "nuisance" taxes, and simplifying direct taxes, including by lowering both the number and levels of tax rates. If implemented well, such a reform would re-energize employment, investment, and growth by improving economic incentives and reducing the financial and administrative burden on the private sector. The reform would speed up progress toward meeting the Millennium Development Goals (MDGs) and the objectives of the Programme for Accelerated Growth and Employment (PAGE), the country's new poverty reduction strategy. Second, a major tax reform would complement and reinforce the ongoing push to improve revenue administration and compliance. Simpler and lower taxes are easier to enforce and comply with. Third, such reforms could boost tax revenues by accelerating growth, by improving compliance, and by re-focusing the revenue side of the budget on its core mission: raising revenue. Table 1 presents some cross-country evidence which indicates that similar reform packages can enhance revenue. Out of 18 countries listed in that table, nine experienced an increase in revenues from personal and corporate income tax (PIT and CIT), 11 countries collected more revenues

[1] The author of this note is Slavi Slavov.

from indirect taxes (VAT and excise tax), and in 12 countries the sum total of revenues from PIT, CIT, and indirect taxes went up. Fourth, the proposed reform would make The Gambia's system more equitable. Broadening the tax base would promote both horizontal and vertical equity. Raising the personal exemption for PIT and improving compliance would enhance vertical equity, especially if these are combined with subjecting electricity consumption to sales tax (and later the VAT) and with raising more revenue from excise taxes on fuel. Fifth, simpler and lower direct taxes would encourage the acceptance of the VAT. Table 1 suggests that similar reform packages around the world are associated with higher revenues from indirect taxes.

Mauritius is a recent example of an AFR country which implemented a major tax reform, several aspects of which are worth emulating. There are significant differences between the two countries: for example, Mauritius is a middle-income country and also an off-shore financial center. However, there are certain similarities as well: both countries are small, highly dependent on tourism, and with newly established revenue authorities. Furthermore, the Mauritius reform was implemented in the context of a major fiscal adjustment. In mid-2007, Mauritius replaced the four rates in its personal income tax (ranging from 10 to 30 percent) with a single rate of 15 percent, combined with a significantly higher personal exemption, which removed a large fraction of small taxpayers from the tax net. At the same time, Mauritius also simplified its corporate income tax, which now features a single 15 percent rate. The VAT rate is also 15 percent. Furthermore, the reform broadened the tax base significantly, including by consolidating various reliefs, allowances, deductions, and exemptions. As a result, tax expenditures are estimated to have fallen from 3 percent of GDP to 1.5 percent. The country ranks 11 out of 183 countries in the world for ease of paying taxes in the 2012 World Bank Doing Business report (which makes Mauritius the highest-ranked AFR country).

Table 1: Tax Revenues In 18 Countries In The Year Before And After The Introduction Of A Flat Personal Income Tax
(% of GDP)

	PIT		CIT		Domestic indirect taxes		Sum	
Country	year before	year after	year before	year after	year before	year after	year before	year after
Albania (2008)	1.5	2.2	2.4	1.9	13.5	14.2	17.4	18.3
Belarus (2009)	4.2	4.3	10.6	9.0	11.8	11.4	26.6	24.7
Bosnia and Herzegovina (2009)	0.2	0.9	0.6	0.9	17.3	17.0	18.2	18.8
Bulgaria (2008)	3.0	2.8	3.0	3.2	16.5	16.6	22.5	22.6
Czech Republic (2008)	4.3	3.7	5.0	4.2	11.2	11.0	20.5	18.9
Estonia (1994)	8.5	8.1	4.5	3.3	10.8	13.1	23.8	24.5
Georgia (2005)	2.7	2.5	1.6	1.8	7.7	11.0	12.0	15.3
Kazakhstan (2007)	1.6	1.7	10.7	11.5	9.5	9.3	21.8	22.5
Latvia (1997)	5.4	5.6	2.0	2.4	12.6	12.5	20.0	20.5
Lithuania (1994)	5.0	5.4	5.3	2.5	6.2[1]	6.3[1]	16.5	14.2
Macedonia (2007)	2.7	2.6	1.5	1.7	8.8[1]	9.6[1]	13.0	13.9
Mauritius (2007)[2]	1.2	1.4	2.3	3.0	9.7	10.5	13.2	14.8
Mongolia (2007)	2.1	1.6	6.0	4.8	6.5[1]	5.8[1]	14.6	12.2
Montenegro (2007)[2]	4.3	4.6	0.6	2.0	12.7[1]	14.3[1]	17.6	20.9
Romania (2005)	2.9	2.4	3.0	2.7	9.9	10.9	15.8	16.0
Russia (2001)	2.4	2.9	5.5	5.7	9.6	11.3	17.5	19.9
Slovakia (2004)	3.2	2.1	2.7	2.4	11.3	11.7	17.2	16.2
Ukraine (2004)	5.1	3.8	5.0	4.7	9.3	9.1	19.4	17.6
Unweighted average	**3.4**	**3.3**	**4.0**	**3.8**	**10.8**	**11.4**	**18.2**	**18.4**

Sources: Keen, Kim, and Varsano (2006), GFS, WEO, and IMF country desk data.

[1] VAT only.
[2] In both Mauritius and Montenegro the reforms were enacted in mid-2007, so 2006 is the "year before" and 2008 is the "year after."

While correlation is not causation, the evidence presented in Table 2 is suggestive: revenues from PIT, CIT, VAT as well as overall tax revenues were significantly higher in 2008–2010 than during 2004–2006. Of course, an identical tax reform package might yield different results in different countries: it all depends on the structure of the economy, on institutional capacities and constraints, and on the behavioral response to tax reform.

Table 2: Tax Revenues In Mauritius
(% of GDP, 2004-2010)

	2004	2005	2006	2007	2008	2009	2010	Average 2004-06	Average 2008-10
Tax revenue	17.2	17.9	17.3	17.6	18.2	19.1	18.4	**17.5**	**18.6**
PIT	1.3	1.4	1.2	1.2	1.4	1.5	1.5	**1.3**	**1.5**
CIT	1.6	2.1	2.3	2.4	3.0	3.7	2.8	**2.0**	**3.2**
Domestic indirect taxes	8.6	8.8	9.7	10.7	10.5	10.6	10.9	**9.0**	**10.7**

Source: IMF country desk data.

A significant broadening of the tax base ought to be part and parcel of the reform package. A first step would be for the authorities to complete a comprehensive survey and estimates of tax expenditures. Annual assessment of tax expenditures would help highlight the costs of various tax incentives and therefore make it more difficult to justify special tax privileges. Several opportunities to broaden the tax base are easy to spot. Various waivers of excise tax, sales tax, and import duty could be eliminated. Electricity consumption could become subject to sales tax (and eventually to VAT). The fuel pricing formula could be implemented regularly in order to ensure stable and positive revenues from excise taxes on fuel. The Fringe Benefit Tax rate could be re-aligned with the reformed personal income tax rate and applied consistently to all allowances. Various tax preferences extended through The Gambia Investment and Export Promotion Act 2010 (GIEPA) and its predecessors could be allowed to expire without renewal and the authorities could abstain from extending new ones.

An ambitious tax reform must be preceded by significant improvements in revenue administration and compliance. The authorities should follow through with their compliance improvement strategy. It should be a public priority and involve a lot of political support, including at the highest levels of government.

The timing and pace of tax reform will be driven by institutional capacity constraints, among other factors. Similar reform packages have been successfully implemented in many countries around the world (see Table 1). Some have opted for a piecemeal approach, while a big-bang strategy has worked very well for others (including Mauritius). If the Gambian authorities select the big-bang approach, a natural launching date for the reforms would be January 2013, concurrently with the VAT launch. A downside here would be the strain this would add to the country's institutional capacity. If the authorities choose a more gradual reform path, the reforms could be staggered over a period and come on the heels of improvements in compliance, revenue administration, and revenue collections.

Appendix 2: Competitiveness of The Gambia[1]

According to survey-based indicators, The Gambia ranks poorly in the entire sample of countries, albeit somewhat better than in most other countries in the region. The 2011 World Bank's Doing Business Survey ranks The Gambia 146th globally and 5th among ECOWAS countries in terms of overall ease of doing business, and 3rd in cross-border trading and enforcing contracts. The Gambia also has relatively high overall ranking in the 2011 Global Competitiveness Index (99th) compared to its neighbors, largely owing to its relatively good infrastructure, flexible labor market and well educated workforce.

Lack of progress in addressing key institutional bottlenecks could begin to undermine The Gambia's relative competitiveness in the region. The cumulative change in Doing Business score from 2006 to 2011 indicates that The Gambia has lagged behind most of its ECOWAS peers in improving its overall business environment, underperformed only by Cape Verde and Guinea. In order to stay competitive, The Gambia needs to augment its effort to address its key institutional bottlenecks, including ensuring better investor protection and removing impediments for paying taxes. For example, moderate improvements in paying taxes can potentially yield a significant gain in The Gambia's overall competitiveness. Simulation result shows that by reducing the time to prepare and pay taxes, as well as lowering total tax rate measured as percentage of profit, to ECOWAS averages, The Gambia's global ranking improves from 146 to 134 and to 3rd among ECOWAS countries.

2011 Doing Business Survey: Global (ECOWAS) Rankings

	Ease of Doing Business	Starting a Business	Protecting Investors	Paying Taxes	Trading Across Borders	Enforcing Contracts
Ghana	67 (1)	99 (3)	44 (2)	78 (1)	89 (4)	45 (2)
Cape Verde	132 (2)	120 (9)	132 (4)	100 (3)	55 (1)	38 (1)
Nigeria	137 (3)	110 (5)	59 (3)	134 (5)	146 (11)	97 (4)
Sierra Leone	143 (4)	61 (1)	28 (1)	159 (10)	136 (10)	144 (11)
Gambia, The	**146 (5)**	**115 (6)**	**173 (14)**	**176 (15)**	**87 (3)**	**67 (3)**
Burkina Faso	151 (6)	119 (8)	147 (6)	148 (7)	175 (15)	108 (5)
Senegal	152 (7)	101 (4)	167 (13)	170 (13)	67 (2)	148 (12)
Mali	153 (8)	117 (7)	147 (6)	159 (10)	154 (12)	133 (8)
Liberia	155 (9)	64 (2)	147 (6)	84 (2)	116 (6)	166 (14)
Togo	160 (10)	169 (12)	147 (6)	157 (9)	93 (5)	151 (13)
Côte d'Ivoire	169 (11)	172 (13)	154 (10)	153 (8)	160 (13)	126 (6)
Benin	170 (12)	157 (10)	154 (10)	167 (12)	127 (8)	177 (15)
Niger	173 (13)	159 (11)	154 (10)	144 (6)	174 (14)	138 (9)
Guinea-Bissau	176 (14)	183 (15)	132 (4)	133 (4)	117 (7)	139 (10)
Guinea	179 (15)	181 (14)	173 (14)	173 (14)	129 (9)	130 (7)

Source: World Bank Doing Business Survey 2011

	Ease of Doing Business Rank	Paying Taxes						
		Rank	Payments (number per year)	Time (hours per year)	Profit tax (%)	Labor tax and contributions (%)	Other taxes (%)	Total tax rate (% profit)
Ghana	67	78	33	224	18	14	1	33
Cape Verde	132	100	43	186	18	19	1	37
Nigeria	137	134	35	938	22	10	1	32
Sierra Leone	143	159	29	357	0	11	224	236
Gambia, the	**146**	**176**	**50**	**376**	**41**	**13**	**238**	**292**
Burkina Faso	151	148	46	270	16	23	6	45
Senegal	152	170	59	666	15	24	7	46
Mali	153	159	59	270	13	33	7	52
Liberia	155	84	32	158	0	5	38	44
Togo	160	157	53	270	9	28	14	51
Côte d'Ivoire	169	153	64	270	9	20	16	44
Benin	170	167	55	270	15	27	24	66
Niger	173	144	41	270	20	20	7	47
Guinea-Bissau	176	133	46	208	15	25	6	46
Guinea	179	173	56	416	19	25	11	55
ECOWAS average		140	47	341	13	20	26	59

Source: World Bank Doing Business Survey 2011

[1] Prepared by Minsuk Kim (SPR)

Appendix 3. Is the Dalasi Aligned with the Economy's Fundamentals?[1]

A number of complementary approaches were adopted to assess whether The Gambia's exchange rate is aligned with fundamentals. These alternative approaches, proposed by the IMF's Consultative Group on Exchange Rate Issues (CGER), include the macroeconomic balance approach, the external sustainability approach, and the equilibrium real exchange rate approach. The purchasing power parity approach was also included in the assessment. These alternative approaches produce somewhat different results.

The macroeconomic balance approach suggests that the dalasi may be overvalued by 17 percent. The country's underlying current account deficit is 12 percent of GDP. The underlying fundamental driving this result is the large fiscal deficits in recent years. Temporary factors, such as government-financed external payments for a large telecommunications project, also played a role. With an estimated current account norm of about 2 percent, roughly in line with estimates in past assessments, a depreciation of 17 percent would be needed to restore sustainability.

The external sustainability approach indicates an overvaluation of $8^1/_2$ percent. With an underlying current account balance of $12^1/_4$ percent, the Gambia's long-run net foreign assets (NFA) would be unsustainable at about -138 percent of GDP. In order to bring the NFA to a sustainable level of -70 percent of GDP, the exchange rate would require a depreciation of $8^1/_2$ percent with a corresponding current account deficit of $6^1/_2$ percent of GDP.

Results from the equilibrium real exchange rate approach suggest an overvaluation of between 3 and 6 percent. Given The Gambia's unique status as a very small and very open West African country with a flexible exchange rate, staff adopted a single-country approach. Staff further adopted a vector error correction model (VECM) to estimate the real effective exchange rate (REER) because of the presence of a cointegrating relationship between the REER and its fundamentals. Given the relatively small sample size (1980–2010) and the presence of a unit root, staff also used Ordinary Least Squares (OLS) with one lag. While the VECM estimates indicate that the exchange rate may be overvalued by 6 percent, the OLS estimates suggest a slightly smaller overvaluation of about 3 percent. In both cases, the terms of trade, the nominal exchange rate, and government consumption are the most significant explanatory variables.

The Gambia: Results from Exchange Rate Assessments

Methodology	Valuation (in percent): Over (+) or Under (-)
Macroeconomic Balance (MB)	17.0
External Sustainability	8.5
Equilibrium RER (average)	4.5
Average (incl. MB approach)	**10.0**
Average (excl. MB approach)	**6.5**

Source: IMF staff estimates.

The purchasing power parity approach suggests that the dalasi may be overvalued by 3 percent. Staff used the sample mean of the logarithm of the REER as an estimate of its long-run equilibrium value. The degree of

[1] The author of this note is Tamsir Cham.

percentage difference between the most recent observed value and the estimated long-run equilibrium.

Overall, staff analysis suggests that the exchange rate was broadly aligned with fundamentals, although it may have been slightly overvalued. The average of the three CGER-based approaches suggests an overvaluation of 10.0 percent. Excluding the macroeconomic balance approach—which appears to be an outlier, partly driven by data weaknesses—the estimated overvaluation would be 6.5 percent. Note that the purchasing power parity approach indicates a much smaller overvaluation of around 3 percent. As in most low-income countries, one should be mindful of data shortcomings and methodological uncertainties in interpreting these results.

Appendix 4. Financial Sector Surveillance[1]

I. STRUCTURE OF THE BANKING SYSTEM AND HISTORICAL BACKGROUND

The Gambia's financial system is dominated by banks and has undergone big changes over the last decade. The number of banks increased from 4 in 2001 to 14 in 2009, with several Nigerian banks entering the market during 2007–2009 (one voluntarily wound down in 2011). All but the largest bank have majority foreign ownership. Based on their total assets, Gambian banks can be classified into three peer groups: (i) three large banks, which represent around 57 percent of total assets and loans at end-2010, (ii) three median banks that account for around one fourth of total assets and loans, and (iii) seven small banks that account for 20 percent of assets and 23 percent of loans to the industry.

Total assets grew rapidly, reaching 54 percent of GDP at end 2010. Loans to the private sector represent only a little more than 25 percent of assets, while government securities represent 29 percent of assets. Credit to the private sector increased from 10 percent of GDP in 2005 to 17.4 percent of GDP in 2010 and credit growth averaged 23 percent a year over the same period. Total bank deposits more than doubled during 2005-2010 to D11.2 billion. Around 98 percent of deposits are from local depositors and the largest depositor in the banking system is a state-owned institution.

II. BANKING SYSTEM STRENGTHS AND VULNERABILITIES

A. System Condition

The banking system is well capitalized; however the aggregate number masks a wide dispersion across banks. With a CAR of 25.6 percent, the banking sector remains well above the minimum requirement, which was raised from 8 percent to 10 percent, as of May 2011. In response to the deteriorating environment, the CBG raised the minimum capital requirement from D 60 million to D 150 million with effect from end-2010, and to D 200 million with effect from end-2012. All 13 banks complied with the new requirements as of December 2010. While the new banks tend to be highly capitalized, some of the oldest and largest banks have significantly lower CARs.

[1] The appendix was prepared by Kay Chung (MCM) and Philippe Egoumé (AFR).

Gambia: Financial Soundness Indicators

(Banking Industry)

	2007	2008	2009	2010	2011 June
	(in percent, otherwise indicated)				
Capital Adequacy:					
Regulatory capital to risk-weighted assets	22.5	19.6	18.8	24.5	24.8
Tier-1 capital to risk-weighted assets 1/	20.0	21.0	19.0	27.0	25.6
Asset quality:					
Nonperforming loans to total gross loans	10.4	13.7	12.3	14.5	12.7
Nonperforming loans net of provisions to capital	2.8	5.8	4.3	7.5	6.4
Earnings and profitability:					
Return on assets (average)	4.5	0.1	-1.6	0.4	1.2
Return on equity (average)	36.4	0.8	-24.9	1.8	5.8
Net Interest income to gross income	34.7	35.3	37.0	41.3	37.4
Operating expenses to gross income	47.0	65.8	62.0	58.2	57.8
Liquidity:					
Liquid assets to total assets	45.0	43.6	35.7	47.9	38.6
Liquid assets to short-term liabilities	74.9	70.9	62.1	68.4	59.4
Exposure to FX risk:					
Net open FX position to capital	36.9	19.1	6.4	-0.4	-2.9

Sources: Gambian authorities, and Fund staff estimates.

Banks have ample liquidity; however, concentration of the largest deposits deserves vigilance. Almost one third of banks' assets are invested in government securities and 17.6 percent of total assets are in the form of highly liquid instruments: cash balances at the CBG and with commercial banks. The short-term liquidity ratio remains well above the common international level of 30 percent. Although liquidity buffers remain high, banks are vulnerable to funding liquidity shocks from large depositors, pointing to a heavy reliance on wholesale funding.

Although the loan portfolio of the banking sector is small (29.8 percent of assets), its concentration potentially poses major risks to the banking system. The top four borrowers account for 33 percent of the loan portfolio, based on June 2011 data. Moreover, in one of the banks, the largest loan to one borrower exceeds the maximum limit of 25 percent relative to the bank's capital, although a government guarantee is provided. The largest borrowers are concentrated in electricity, fuel, agriculture, and the telecommunications sectors.

The loan portfolio quality has deteriorated over time. Against the backdrop of the rapid credit expansion and weakening of lending standards, banks experienced a rapid deterioration of their credit portfolio quality. NPLs increased from 5 percent of total loans and advances in 2005 to 14.5 percent at end 2010. Further losses may have been incurred but have not as yet been accounted for, due to a substantial lag between credit events and loan loss accounting.

Provisioning requirements remain low. At present, the regulatory prescribed loan loss provisioning system in The Gambia is based on days past due. For all loans up to 90 days past due, only a 1 percent provisioning is required. Full provisioning (100 percent) is required only for loans that are past due for more than 360 days. Further, the current loan classification rule allows banks to restructure loans and charge only a 5 percent provision. Although, following recommendations of the July 2010 Article IV mission, NPLs now include restructured loans, provisioning requirements remain unchanged, and the loan classification scheme does not include a watch or special-mention category that typically captures loans that are delinquent up to 90 days. These rules will result in banks' losses being understated and capital overstated.

Profitability has eroded and is likely to erode further. ROA and ROE dropped from 2007 with the recent multiple entries of new banks, as margins shrunk**.** Overhead and staffing costs increased as a result of competition. The power of wholesale depositors to negotiate higher deposit interest rates contributed to eroding profits. And recently T-bills yields have dropped and are likely to continue to slide, if the government continues its fiscal adjustment efforts. If provisioning requirements were to be tightened, with 30-90 days past due attracting 5% provisioning, it would lead to a further drop in profitability.

Although government T-bills are typically held to maturity, market and related government credit risk are high due to the substantial concentration of banks' assets. Holdings of government bills vary from bank to bank and ranges from almost 50 percent to 5 percent of total assets (from 564 percent to 1 percent of capital). This makes the banking system poorly diversified against sovereign risk: were the government to default or restructure its debt, some banks would be hard hit. Other market risks, such as related to trading book or holdings of other securities, are negligible.

Direct exposure to interest and exchange rate risks remain limited. Banks tend to match the re-pricing terms of their assets and liabilities. The average maturity of loans in the banking system is short (around 1 year), and only very rarely exceeds five years. The majority of term deposits are for three months. Although loans are short-term, it is a common practice among banks to adjust lending rates when official interest rates change. The ability to maintain a positive interest rate margin between government t-bills and deposit interest rates is a substantial source of income for banks, especially for those banks that have a very small loan portfolio relative to their total assets. A further decline in interest rates on government t-bills and an increase in deposit interest rates might push some banks to leave the market. Dollarization is limited as foreign exchange (FX) loans and deposits constitute a relatively small (about 5 percent) share of assets and liabilities, respectively. Banks' net open position is small at around 0.3 percent of capital.

The entry of the new banks reduced systemic, "too-big-to-fail" related risks, but new potential risks have emerged. The share of the largest player in the market shrank from 52 to 19 percent. Although this has decreased problems related to potential costs from a failure of a credit institution, the high number of small, not very well diversified banks has created new challenges. First, small banks do not have sophisticated risk management systems in place and consequently tend to have weaker lending standards. Second, the increased number of banks ratcheted up supervisors' work load. Third, the high share of foreign ownership exposes the Gambian banking system to potential cross-border contagion effects. Against this background there is anecdotal evidence that recently banks' lending standards have become more stringent—for example, the maximum Loan-to-Value (LTV) for new loans decreased from 100 percent to 75 percent. Also, to date, banks' dependency on foreign capital inflows has remained low. Gambian authorities are a party to Memoranda of Understanding (MOUs) on cross-border cooperation in the area of supervision of banking groups, with relevant authorities of neighbor countries. Several supervisory colleges were also established.

B. *Stress Testing*[2]

Stress testing results based on June 2011 data reveal that credit risk is the major source of risk to the banking system. To assess the current vulnerabilities of the banking system, the effect of a multiple factor shock scenario on credit risk was evaluated. The shock assumes a decline in Gambian exports (groundnut and cotton), as well as lower receipts from the tourism sector. A decline in export revenues might be brought about by a number of factors, such as a drought and/or a fall in groundnut and cotton prices or, alternatively, an increase in energy prices. A combination of all these factors would result in a higher current account deficit (CAD), lower government revenues, and lower GDP growth. A technical assumption was made that the government neither would be able to cover the budget deficit with additional borrowings from international institutions nor inflate its debt. Moreover, the currency is assumed to depreciate by 40 percent. Demand for imports would decrease, whilst agriculture, construction, and the trade sector would suffer losses. NPLs and, subsequently, provisions would increase. Credit growth would slow down to half of its long term (2001–10) annual average growth rate. Additional assumptions were made regarding banks' income, and the capital position was adjusted for under-provisioning.[3]

[2] Data deficiencies hamper the analysis of risks in the financial sector and data quality and timeliness should be improved. Based on February 2011 mission's recommendations, the authorities are making a concerted effort to improve the data reporting system.

[3] It was assumed that all NPLs require to be 100 percent provisioned, in line with international practice and the mission's recommendations. Consequently, the initial capital base and risk weighted assets (RWAs) were adjusted accordingly.

The results from the multi-factor scenario revealed that by the second quarter of 2012, two banks out of 13 will not meet the minimum CAR (Table 3). Overall banking sector's CAR will decrease to 20.1 percent by 5.5 percent. One large bank and one medium size bank will need recapitalization in Q2:2012, however the cost for recapitalization will be relatively small, approximately 0.45 percent of GDP.

A credit risk stress-test's results indicate that once banks fully provision their NPLs, two banks would need recapitalization, though the amounts involved would be negligible. The scenario assumes that a shock to credit risk leads to a gradual increase in provisioning levels for the current NPLs, to 100 percent eventually— in other words, due to the weak loan classification system and low provisioning requirements, ultimately all NPLs will become losses.

Another credit risk stress-test's results indicate that once NPLs increase by 80 percent from their current level (largest observed historical shock in 2001–10 period), and thereupon are 100 percent provisioned, two banks (one large and one medium) would be in need of a modest amount of capital. The post-shock CAR is 21.4 percent for all banks, 13.9 percent for large banks, 13.0 percent for medium banks, and 50 percent for small banks—hence, the shock impact was not significant.

Credit risk stress-test results show that the high concentration of large exposures poses the most significant risk to the banking sector. The test results show that if all three largest borrowers default simultaneously, the CAR of six banks will fall below minimum CAR, indicating two large banks will become insolvent with negative CAR. A small number of large companies with well-connected business in the agriculture, domestic trade, and import, energy, and telecom industries dominate the borrower's market. The combined total of the largest three exposures of each bank in the banking system would add up, on average, to 42 percent of total industry loans. Should some of these loans default simultaneously from a shock or sharp drop in commodity prices or an increase of energy prices, the impact on the sector could be substantial.

Shock related to the restructuring of government debt[4] reveals that, with a 5 percent haircut, all the banks will meet the minimum CAR, higher haircut will lead to a substantial deterioration of their capital positions. In the extreme case of a 50 percent of haircut, four banks will be technically insolvent, having negative CAR.

Overall, credit risk stress tests broadly confirmed the concerns raised in 2010 Article IV report and by the TA mission on diagnostic assessment of the banking system in 2011. Meanwhile, the results highlighted several characteristics:

1) provisioning could be a more important indicator than NPL ratios of credit risk.

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[4] This single factor test did not take into account second-round effects on credit risk, interest rate, and exchange rate movements.

The Gambia: Summary Results of the Stress Tests

(Based on data as of June 2011)

			Undercapitalized Banks (CAR<10%)		Recapitalization Need (In millions of Dalasi)	Recapitalization Needs (% of GDP)	*Min* CAR	*Max* CAR
	Aggregate CAR	Change in CAR	Number 1/	% of total bank assets				
A. Single Factor Shocks								
Pre-shock Baseline (13 banks)	25.6						13.1	155.6
Credit Risk								
80% Increase of NPLs	21.4	-2.6	2(Bank2,5)	28	109	0.4	6.0	155.0
3 Largest exposures default	8.7	-17.0	6(Bank 1,2,3,4,5,6)	79	619	2.2	-7.5	109.2
Under-provisioning	22.9	-3.7	2(Bank2,5)	28	61	0.2	7.3	151.8
Exchange Rate Risk								
Depreciation of dalasi by 40%	25.3	-0.3		-	-		12.9	156.4
Appreciation of dalasi by 40%	25.9	0.3		-	-		13.4	154.8
Interest Rate Risk								
Increase in interest rate by 500 bps	25.2	-0.4		-	-		14.8	115.0
Government debt restructuring	-1.4	-27.0	4(Banks: 1,2,3,6)	65	1585	5.6	-35.7	89.0
B. Multi-Factor Scenario								
Shock in export revenue:								
2012 Q2	20.1	-5.5	2(Bank2,5)	28	128	0.45	2.9	142.3

Sources: Central Bank of The Gambia and staff estimates.

Especially during a period of credit expansion, the NPL ratio could be shielded by the increase in the credit base; 2) a high concentration of exposures is an important source of credit risk; 3) Concerns with a number of large banks suggest that the supervision of systemically important banks needs to remain intense and focused.

Stress tests indicate that the direct impact from exchange rate risk is negligible, due to the small size of banks' net open positions. While the long foreign exchange position of most banks shields them from the direct impact of the Gambian dalasi depreciation, it exposes them to the risk of an appreciation of the exchange rate. The stress test on exchange rate risk was conducted to evaluate the direct impact on the banking system. A 40 percent depreciation of the Gambian dalasi would reduce the average CAR by 0.3 percent. Medium size banks are more exposed to foreign exchange depreciation risks, and the CAR would decline by 1 percentage points—given their high capital buffers, their CAR will remain well above the regulatory CAR minimum level.

The effects of a change in interest rates on the value of bank portfolios were simulated. The interest rate risk was evaluated using the newly collected June 2011 data on the term structure of banks' assets and liabilities, as well as on weighted average interest rates on loans and deposits. As the cumulative maturity mismatch is relatively small, the impact of an increase in interest rates on portfolio valuation was not significant; 500 basis point increases in interest rate will lower the CAR to 25.3 percent and lower the average profitability of the banks (return on assets) by 0.1 percent. However, it is difficult to gauge which rates would ultimately have the greatest impact on bank balance sheets as the monetary policy transmission mechanism appear to be weak.

Liquidity risk stress test results show that the banking system is highly liquid and could withstand severe shocks arising from deposit withdrawals. However, its shock absorption capacity is highly dependent on the market liquidity of government securities and on the behavior of wholesale depositors. The stress testing on liquidity risk assessed whether the banking sector could meet a sudden need for a large amount of cash due to a loss of public confidence in the banking sector that generates a bank run. In particular, given the high concentration of depositors, the test shows for each bank how many days it would withstand liquidity drain before having to resort to accessing liquidity from outside sources. The available liquid assets mainly consist of cash, balances from other banks and government securities, while deposits account for the bulk of liquid liabilities (75 percent on average). The stress tests on liquidity risk indicate that all banks are capable of withstanding a sizable liquidity shock (a 15 percent withdrawal per day of demand and savings deposits; and a 9 percent withdrawal per day of time deposits) for two days without recourse to LOLR (CBG). On the third and fourth day of a similar deposit run, two medium size banks would become illiquid.

Liquidity risk stress testing results typically assume a sufficiently liquid market for government securities. In the case of a systemic event, only the CBG would be in a position to provide the necessary liquidity to the market.

The Gambia: Results of the Liquidity Stress Tests

(Based on data as of June 2011)

	All Banks	Large Banks	Medium Banks	Small Banks
Pre-shock Liquidity Ratio 1/	71.2	77.8	47.8	72.3
Min	31.2	59.4	31.2	72.8
Max	189.5	103.5	85.0	189.5
Shock : Run on Banks, fire sale of assets				
Illiquid banks				
After day 1	0	0	0	0
After day 2	0	0	0	0
After day 3	2	0	2	0
After day 4	2	0	2	0
After day 5	2	0	2	0

Sources: Central Bank of The Gambia and staff estimates.

1/ Liquid ratio is defined as the ratio of liquid assets to liquid liabilities. Liquid assets include cash, due from other banks and government bills.

INTERNATIONAL MONETARY FUND

THE GAMBIA

STAFF REPORT FOR THE 2011 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

December 22, 2011

Prepared By

The African Department
(in consultation with other departments)

CONTENTS

RELATIONS WITH THE FUND

(As of October 31, 2011)

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

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

SDR Department	SDR Million	% Allocation
Net cumulative allocation	29.77	100.00
Holdings	24.58	82.57

Outstanding Purchases and Loans	SDR Million	% Quota
ECF arrangement	22.55	72.50

Latest Financial Arrangements

Type	Approval Date	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

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

	Forthcoming				
	2011	2012	2013	2014	2015
Principal		0.20	1.00	2.11	3.84
Charges/interest	0.00	0.07	0.07	0.07	0.06
Total	0.00	0.27	1.07	2.18	3.90

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

Implementation of HIPC Initiative

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

Implementation of Multilateral Debt Relief Initiative (MDRI)

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

Debt Relief by Facility (SDR million)

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

[2] The Fund approved the decision on 12/15/2000 as Decision 12365-(00/126). The World Bank Board decision was taken on 12/14/2000.
[3] Assistance committed under the enhanced HIPC Initiative is expressed in net present value (NPV) terms at the decision point.
[4] Under the enhanced HIPC Initiative, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim period.
[5] The MDRI provides 100 percent debt relief to eligible member countries that qualified for the assistance. Grant assistance from the MDRI Trust and HIPC resources provide debt relief to cover the full stock of debt owed to the Fund as of end–2004 that remains outstanding at the time the member qualifies for such debt relief.

Safeguards assessments

Safeguards assessments of the Central Bank of The Gambia (CBG) were completed in February 2004, February 2007, and November 2009. The 2007 assessment concluded that the CBG had initiated steps to improve its safeguards framework and recommended additional measures to strengthen the CBG's internal controls and financial reporting practices. The 2009 update report concluded that the CBG had made good progress in implementing safeguards recommendations. The central bank continued to be audited by a reputable audit firm and implemented International Financial Reporting Standards. The assessment stressed that key safeguards should remain in place 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.

Exchange rate arrangement

Until January 20, 1986, the Gambian currency, the dalasi, was pegged to the pound sterling at a rate of D5 = £1. On January 20, 1986, an interbank market for foreign exchange was introduced, and since then the exchange rate has been determined by market forces. Effective February 2, 2009, the classification of the de facto exchange rate arrangement has been changed from managed floating with no predetermined path for the exchange rate to floating, retroactively to April 30, 2008, due to the revision of the classification methodology. As of end–September 2011, the midpoint exchange rate in the interbank market was D30.06 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)."

Last Article IV consultation

The Executive Board concluded the 2010 Article IV consultation (SM/10/188) on August 25, 2010.

Technical assistance

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

Fiscal Affairs Department

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

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

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

March/April 2007	A Poverty and Social Impact Analysis (PSIA) mission analyzed the planned reform of the groundnut sector and discussed with the authorities the implications of the reform.

Resident Representative

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

JOINT BANK-FUND WORK PROGRAM

(December 2011 – December 2012)

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 Service Delivery**		
	1. Public Financial Management and Growth Grant	June 2011	March/April 2012
	2. IFMIS: Additional Financing	March 2012	October/November 2012
	Growth and Competitiveness		
	3. Commercial Agriculture and Value Chain Project	June 2011	July 2012
Fund work program in next 12 months	**Policy Advice**		
	1. Article IV consultation	October/November 2011	January 2012
	2. Negotiations for a new ECF	February/March 2012	April 2012
	3. First review under new ECF	August/September 2012	October/November 2012
	Technical Assistance		
	1. VAT preparations	December 2011; resident advisor beginning in January 2012	
	2. Public financial management	January 2012; resident advisor beginning in April 2012	
	3. Strengthening bank supervision and stress-testing capacity	January 2012; February/March 2012	
	4. Price statistics and national income and product accounts	March 2012; March 2012	
	5. Balance of payments statistics	March 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	Debt Sustainability Analysis (DSA)	October/November 2011	January 2012
	JSAN on new PRSP	February/March 2012	April 2012
	DSA Update	February/March 2012	April 2012

THE GAMBIA: STATISTICAL ISSUES

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

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

Real sector

The main constraints to improving the national accounts include inadequate source data due to inadequate survey coverage, poor quality of external sector data, and inattention to other important sources (such as the livestock census and the census of industrial production). The GBoS continues to face human and financial constraints to undertaking such surveys and to processing the data.

STA missions on national accounts in 2007, 2008 and 2009 assisted the GBoS in implementing the *1993 System of National Accounts* methodology and in rebasing the national accounts to properly reflect the country's economic structure, output levels, and relative prices. More specifically, STA missions have helped the authorities to: (1) process the data collected for the 2004 Economic Census; (2) rebase the GDP series using the results of the 2004 Economic Census; and (3) improve the GDP estimates by the production approach. The authorities now publish improved real and nominal GDP series compiled by the production approach for the period 2004–10 (with a base year of 2004). GDP series by the expenditure approach are still in the process of being developed. The data continue to suffer from shortcomings and a number of recommendations provided by TA missions have not been implemented. The GDP numbers have undergone a couple of large revisions in the past 18 months.

In May 2007, the country began participating in the second phase of the GDDG Project for Anglophone Africa on national accounts, which is funded by the U.K. Department for International Development (DfID). The authorities have also been recently invited to participate in a follow-up DfID supported program with a similar focus on macroeconomic statistics, the Enhanced Data Dissemination Initiative (EDDI), starting in July 2010.

The World Bank has been providing technical assistance to the GBoS to update the consumer price index (CPI) using the 2003 household expenditure survey to better reflect current consumption patterns. In early 2007, the GBoS began to publish a new national CPI based on an August 2004 representative expenditure basket. Currently, the GBoS is working on rebasing the CPI using the results of the 2010 integrated household survey. The GBoS has also done some preliminary work on constructing a PPI.

Government finance

The authorities release data on central government transactions with a lag of about four weeks for both revenues and expenditures. With the introduction of the IFMIS in 2010, the compilation of expenditure data by functional category and by administration is now possible. However, the authorities have not yet started to systematically report these data or make them available to the public at regular intervals, contrary to best practices. The compilation of project grant disbursements and project grant use has been a challenge, leading to financing discrepancies. Monthly data on domestic government financing are available with a delay of about four weeks.

At a meeting with STA in October 2007, the authorities expressed interest in technical assistance to facilitate the migration to *GFSM2001*. No data are being reported for publication in the *Government Finance Statistics Yearbook* or in the *International Financial Statistics (IFS)*.

Monetary data

The Central Bank of The Gambia (CBG) has improved data reporting to the Fund, but sometimes the reports are delayed. Following earlier STA TA missions in April–May 2006 and April-May 2008, another follow-up mission in February 2010 flagged CBG's poor progress in implementing earlier recommendations for the compilation of monetary and financial statistics. This is mainly due to a delay in reforming the source data for the central bank and for other depository corporations (ODCs). The 2008 mission designed a bridge table for compiling the standardized report forms (SRF) for the central bank and a new report form for ODCs. However, neither has been implemented. Therefore, the 2010 mission redesigned the bridge tables so that they could automatically generate the SRFs for the central bank and the ODCs from the data that the CBG has used for its operational work. As a result, the CBG should now be in a position to compile the SRFs and submit the SRF-based monetary data to the Fund for publication in the *IFS*. Finally, the mission recommended that the CBG starts collecting a wider range of interest rates, including lending and deposit rates, by type of currency. The CBG has started collecting such data, but has not yet started reporting them to the Fund.

External sector statistics

Despite some improvements, balance of payments statistics continue to be affected by serious shortcomings. These include delays in the collection of trade, customs, and tourist arrival data; outdated methods for estimating the re-export trade; poor data on capital flows; lack of a register of firms and establishments engaged in external transactions; poor classification of balance of payments data; and lack of a consistent methodology. Institutional weaknesses have also been a major impediment to improving statistics. Official grant and loan disbursements and repayments are generally well recorded, but there are some gaps in project disbursements. Due to the various data shortcomings, there is a large discrepancy between the BOP data reported by the authorities to STA and the adjusted data used by AFR. For example, data reported by the authorities to STA point to a small current account surplus, while adjusted AFR data indicate that the country is running a large current account deficit.

The CBG produces balance of payments statistics according to the *Balance of Payments Manual*, 5th edition *(BPM5)*. These statistics are published in the *IFS* and in the 2007 IMF *Balance of Payments Statistics Yearbook (BOPSY 2007*). The CBG has been compiling quarterly balance of payments statistics through a Fund-administered technical assistance project funded by DfID. The most recent data available are for the second quarter of 2011.

With DfID assistance the CBG conducted an enterprise survey in March 2006 to collect data for the international investment position. In April 2006, the CBG also initiated a series of surveys funded by the World Bank to collect data on selected components of the current account. The authorities have been conducting surveys on tourist expenditures, remittances, re-exports, and FDI, but these exercises are time-consuming and infrequent (once a year, at most).

The Gambia: Table of Common Indicators Required for Surveillance

(As of November 15, 2011)

	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of Publication[6]	Memo Items:	
						Data Quality Methodological Soundness[7]	Data Quality Accuracy and Reliability[8]
Exchange rates	11/3/11	11/9/11	D	W	M		
International reserve assets and reserve liabilities of the monetary authorities[1]	9/30/11	10/28/11	M	M	M		
Reserve/base money	11/4/11	11/9/11	D	W	M	LO, LO, LO, LO	LNO, LO, O, LO, LNO
Broad money	9/30/11	10/28/11	M	M	M		
Central Bank balance sheet	9/30/11	10/28/11	M	M	M		
Consolidated balance sheet of the banking system	9/30/11	10/28/11	M	M	M		
Interest rates[2]	11/2/11	11/9/11	W	W	M		
Consumer Price Index	9/30/11	10/17/11	M	M	M		
Revenue, expenditure, balance, and composition of financing[3] – general government[4]						LO, LO, O, O	LNO, LO, LO, LNO, NO
Revenue, expenditure, balance, and composition of financing[3]– central government	9/30/11	10/15/11	M	M	M		
Central government and central government–guaranteed debt[5]	11/4/11	11/9/11	W	W	M		
External current account balance	6/30/11	9/30/11	Q	Q	A	LNO, LNO, LNO, LO	LNO, LNO, LNO, LO, NO
Exports and imports of goods and services	6/30/11	10/11/11	M	I	A		
GDP/GNP	2010	8/18/11	A	A	A	LNO, LNO, O, LO	LNO, O, LNO, LO, NO
Gross external debt	9/30/11	10/19/11	A	I	A		

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

INTERNATIONAL MONETARY FUND

THE GAMBIA

STAFF REPORT FOR THE 2011 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

December 22, 2011

Approved By
Roger Nord and Jan Kees Martijn (IMF); Marcelo Giugale and Jeffrey Lewis (IDA).

Prepared by the Staffs of the International Monetary Fund and the International Development Association

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 35 percent *and reduce new domestic borrowing.*

BACKGROUND

1. **The staffs of the International Monetary Fund (IMF) and the International Development Association (IDA) jointly prepare a debt sustainability analysis (DSA) or a DSA update annually, in collaboration with the Gambian authorities.** 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 for the 2011 Article IV consultation (October 19—November 1, 2011).[1] Similar to the previous joint DSA prepared by staffs of the IMF and IDA,[2] which was completed in February 2010 at the time of the sixth review of The Gambia's arrangement with the IMF under the Extended Credit Facility (ECF), 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.[3] 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-2010, the nominal stock amounted to US$377.0 million, with the Islamic Development Bank being the largest single creditor with claims of US$82.2 million (Table 5).[4] In PV terms, The Gambia's external debt amounted to US$267 million (or 190 percent of exports) as of end-2010. 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 29 percent of GDP as of end-2010. Interest payments on domestic debt is consuming an estimated 18 percent of government revenues in 2011, far outweighing the interest obligations on external debt.

[1] The World Bank Country Economist also participated in this Article IV mission.

[2] IMF Country Report No 10/61.

[3] IMF Country Report No 08/109.

[4] 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.

MACROFRAMEWORK ASSUMPTIONS

5. The macroeconomic framework incorporates a slight slowdown in economic growth, compared with the performance in recent years, and is based on the authorities policy framework discussed with the IMF. In particular, although tourism and remittances have been hard hit between 2008 and 2010, real GDP growth has been robust (about 6½ percent a year), driven by strong performance in agriculture and telecommunications. Going forward, economic activity is projected to remain relatively strong (real GDP growth of 5½ percent a year) over the medium and long term, as growth in agriculture returns to a more normal trend and tourism and remittances gradually recover. This outlook depends on prudent policies, including major tax reforms based on introduction of a VAT in January 2013 and planned investments in agriculture and infrastructure (Box 1).

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 176 percent in 2011, well above its threshold of 100, and is only projected to fall below this mark in 2028. In contrast, all the other external debt indicators remain below their respective thresholds throughout the projection period. For example, the PV of external debt to GDP ratio is well below its threshold in 2011 and declines gradually 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 18 percent at the end of the projection period from just over 28 percent in 2011. The external debt service ratios are below their respective thresholds and both continue to decline gradually over the medium and long term.

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).[5] As a result, the associated policy-dependent debt burden thresholds are at their lowest levels and are more likely to be breached.[6]

[5] 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.

[6] 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.

Box 1: Baseline Macroeconomic Assumptions Underlying the DSA

Driven by a strong expansion in agriculture and telecommunications, **real GDP growth** was about 6½ percent a year during 2008-10. However, key sectors of the economy have been adversely impacted by the global economic and financial crisis—notably tourism and residential construction, the latter of which is partly dependent on financing by remittances from abroad. For 2011, real GDP growth is projected to slowdown to about 5½ percent, as growth in agriculture is expected to slowdown due to variable weather conditions across the country. Remittance inflows have been stagnant in 2011, reflecting slowing growth in advanced economies, but tourism has been picking up late in the year and growth in domestic exports has been strong. For 2012 and beyond, the economy is projected to continue to grow by about 5½ percent per year, underpinned by solid growth in agriculture (about 5 percent a year on average) and a sustained, but moderate growth in tourism and construction, consistent with a gradual recovery over the medium term. Over the long term, investment in infrastructure and education is expected to lead to greater diversification and continued growth. Key risks to this outlook include: (i) fiscal shocks arising from unanticipated revenue shortfalls and spending overruns, as well as rollover risk of T-bills; (ii) terms of trade shocks, notably as a result of higher food and fuel prices; (iii) further setbacks in tourism and remittances due to more severe weaknesses in the global economy; and (iv) weather-related risks to agriculture output.

Inflation is projected to be about 5 percent a year, in line with the authorities' objectives. Year-on-year inflation exceeded 6 percent from mid-2010 to mid-2011, driven by sharp increases in food and fuel prices, but has since dropped to about 4 percent in recent months. Going forward, minimizing the risk of fiscal dominance will be critical to maintaining low inflation. The Gambian dalasi is projected to remain stable against the U.S. dollar in real terms, with a gradual depreciation in nominal terms reflecting the difference in projected Gambian and U.S. inflation rates.

The **external current account** deficit is expected to narrow in 2011, reflecting low import growth due to the weakening construction sector and dampened consumer demand, as well as a sharp increase in domestic groundnut exports. Going forward, export receipts, including tourism, are projected to grow by about 7 percent a year in nominal U.S. dollar terms (roughly in line with GDP growth), while import growth is expected to be at around 8 percent. Remittances are projected to increase by 3 percent a year.[1] After a strong inflow in 2012, corresponding to the scheduled increase in the minimum capital requirement for commercial banks, **FDI** is projected to settle down to about 5 percent of GDP a year. Compared with the experience in 2010, however, the inflow of capital from parent banks in 2012 is expected to be lower. **International reserves** came under pressure around mid-2010, mainly because of interventions in the foreign exchange market by the CBG, but stabilized by the year's end. At end-2010, gross reserves stood at US$163 million (4.8 months of imports of goods and services).

The authorities intend to achieve a gradual fiscal adjustment aimed at reducing net domestic borrowing from 2½-3 percent of GDP in 2011 to about ½ percent of GDP by 2014, and maintain this ratio going forward. During that time, the **overall fiscal deficit** is projected to narrow from about 3½ percent of GDP to 2 percent of GDP, while tax revenues are projected to increase from 12 percent of GDP to about 13½ percent of GDP. The revenue growth would be supported by implementation of tax reforms, including the introduction of a VAT in January 2013. Donor support, including project grants and net lending, is expected to surge to 5½ percent of GDP in 2011, mainly reflecting an IDA grant for a major telecommunications project. The DSA framework assumes that donor support declines to about 4½ percent of GDP a year over the foreseeable future.[2]

[1] In the debt sustainability framework, re-exports are excluded from both exports and imports.

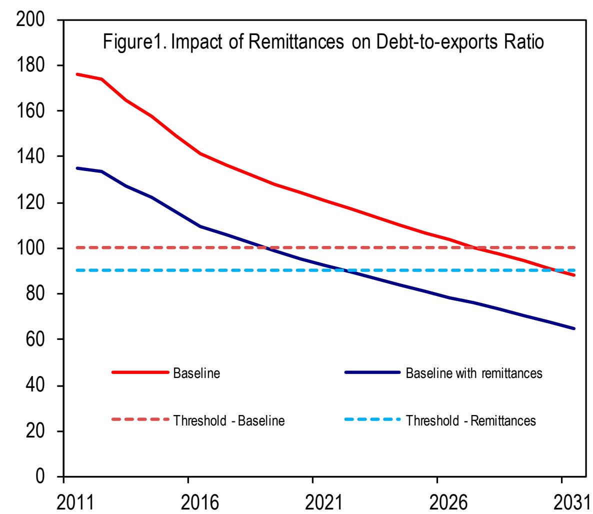
[2] Planned AfDB and IDA budget support operations expected in 2012 would temporarily elevate grants, but these have yet to be incorporated into the macroframework.

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

	Threshold [1]	2011	Medium-term (2011-16)	Long-term (2017-31)
PV of external Debt				
In percent of GDP	30	28	26	18
In percent of exports	100	176	160	111
In percent of revenues	200	199	177	120
Debt Service				
In percent of exports	15	12	11	6
In percent of revenues	25	14	12	7

[1] Based on The Gambia's ranking as a "w eak performer" w ith average (2008-10) CPIA rating of 3.28.

8. **For illustrative purposes, when remittances are taken into account, the debt-to-exports (including remittances) ratio still exceeds its threshold; however, the breach is considerably smaller and lasts for a shorter period.**[7] 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 2011. 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).[8] Nevertheless, this ratio still breaches the threshold until about 2018 with a peak of about 135 percent in 2011.



[7] A recent policy paper (SM/10/16) 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.

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

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,[9] 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 ½ of a percentage point in 2021, while the debt to exports and debt to revenue ratios are below the baseline by approximately 1 percentage point each. Under this scenario, debt service indicators worsen relative to the baseline but only marginally (Table 2b).

- In the scenario where new borrowing occurs on less favorable terms,[10] 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 131 percent in 2031. The debt to revenue ratio also increases, for instance, by almost 33 percentage points in 2021, 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.[13]

- 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 stepped up. This leads to a substantial worsening of all debt ratios with some impact on debt service indicators. The stepping up scenario assumes an increase of US$150 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

[9] Over the past 10 years, The Gambia has had slightly lower real GDP growth (4 percent a year), persistent current account deficits, and low foreign direct investment. The country also receives less grant support (as a percentage of GDP) than other HIPC countries.

[10] Such less favorable terms may include higher interest rates, a reduction in grant elements, 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.

[11] To be considered concessional in IMF arrangements, 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).

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 (roughly equivalent to a 20 percent return on investment with a one-year lag) which phases out gradually over time. Results show the debt to exports ratio breaching the threshold until 2030, before declining to 97 percent in 2031. 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 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 projection period;[12] 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).

PUBLIC DEBT SUSTAINABILITY

A. Baseline

10. Over the medium to long term, domestic debt is projected to fall from just over 29 percent of GDP at the end of 2011 to just over 24 percent of GDP in 2014, 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.[13]

11. Under the baseline scenario, the PV of total public debt is projected to decline from

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

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

about 57 percent of GDP in 2011 to just over 45 percent in 2016 and to about 22 percent in 2031 (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 309 percent in 2011 to 115 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 and Figure 4). Of the three alternative scenarios, public debt ratios 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 57 percent in 2011 to only 33 percent in 2031, as compared to a decline under the baseline to 22 percent in 2031. Similarly, the PV of debt to revenue will only decrease from 309 percent in 2011 to 177 percent in 2031 as against a decline under the baseline to 115 percent in 2031.

- 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[14] 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 39 percent in 2031 as compared to 22 percent under the baseline scenario while the PV of debt to revenue ratio would worsen to 202 percent as against 115 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 33 percent in 2031 while under the latter it would rise to 27 percent when compared with the baseline figure of 22 percent.

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

THE AUTHORITIES VIEW

13. The authorities broadly agreed with the overall assessment and indicated that they were in the process of updating their debt management strategy. 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 optimistic assumptions on the growth impact of investment on long-term real GDP and exports.

DEBT DISTRESS CLASSIFICATION[15] AND CONCLUSIONS

14. In the view of the IMF and IDA staffs, The Gambia remains at high risk of debt distress based on external debt indicators and the results of the stress tests.16 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.

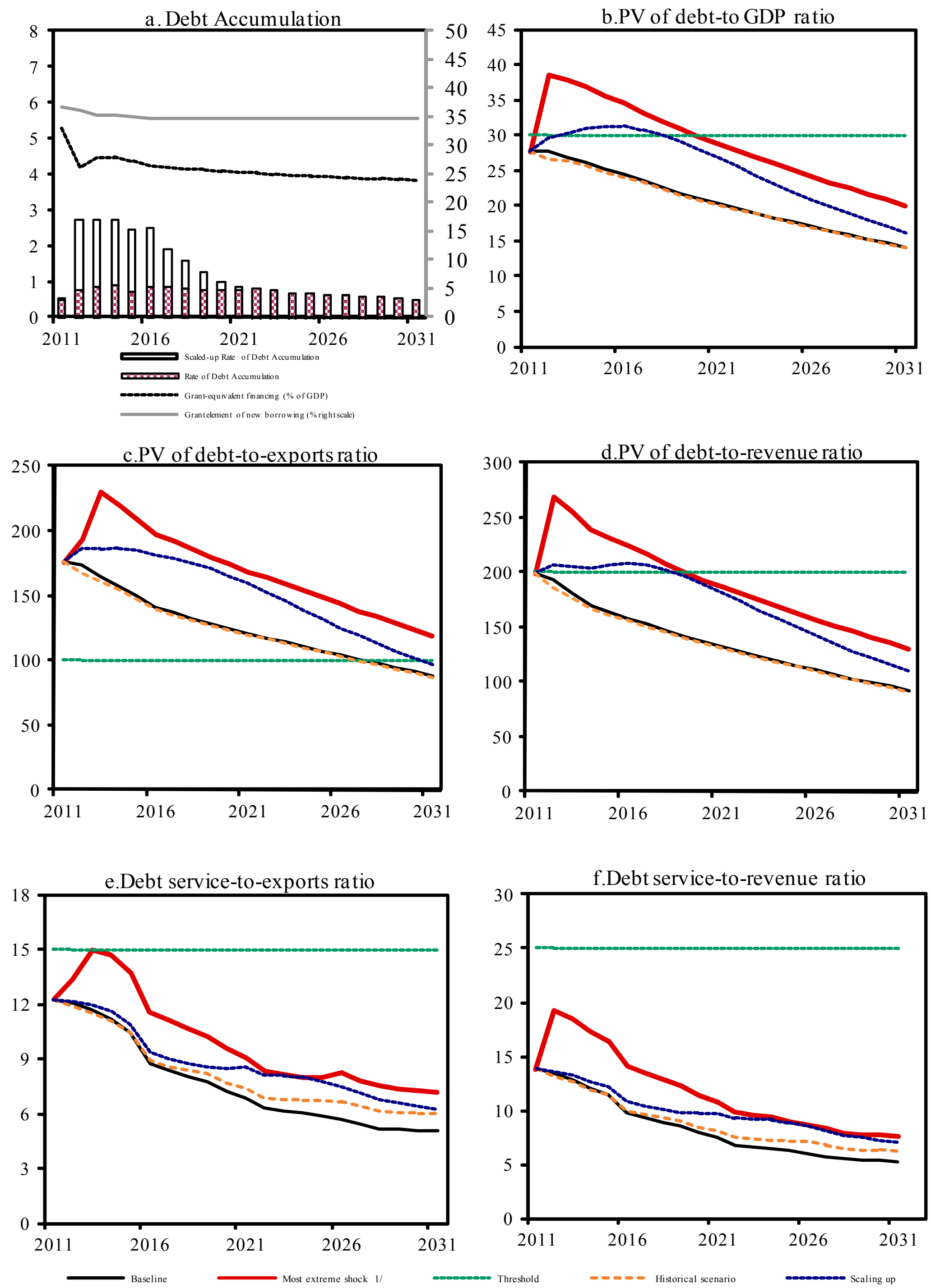
15. A number of policy recommendations emanate from this assessment and attendant risks. The staffs urge the authorities to develop a medium-term debt management strategy that aims for a combination of grants and concessional borrowing for external financing and a borrowing policy consistent with debt 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.[17] 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.

[15] This classification plays an important role in determining the mix of grants and loans under IDA assistance and in IMF program design. Countries assessed to be at high risk of debt distress or in debt distress receive 100 percent grant financing from IDA, while countries at moderate risk receive an equal mix of grants and credits on standard IDA terms, and countries at low risk continue to receive 100 percent credit financing on standard IDA terms. All grants are subject to a 20 percent volume discount.

[16] Based on IMF and World Bank policy, 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.

[17] 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.

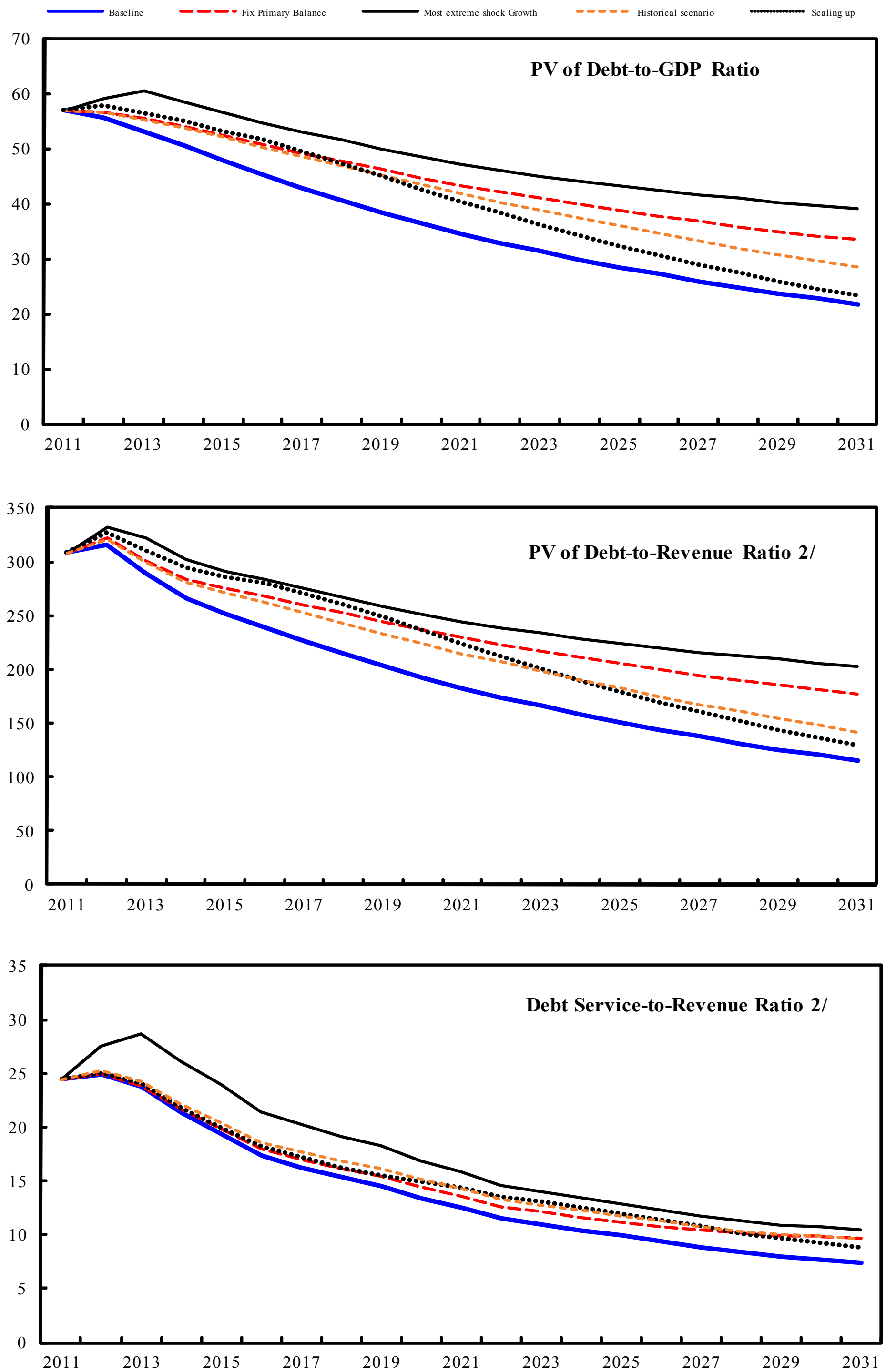
Figure 2. The Gambia: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2011-2031 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2021. In figure b. it corresponds to a One-time depreciation shock; in c. to a Exports shock; in d. to a One-time depreciation 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, 2011-2031 1/



Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in 2021.
2/ Revenues are defined inclusive of grants.

Table 1: External Debt Sustainability Framework, Baseline Scenario, 2011-2031 1/
(In percent of GDP, unless otherwise indicated)

	Actual			Historical 0 Average	0 Standard Deviation	Projections									
	2008	2009	2010			2011	2012	2013	2014	2015	2016	2011-2016 Average	2021	2031	2017-2031 Average
External debt (nominal) 1/	**45.3**	**40.7**	**39.9**			**38.9**	**38.9**	**37.7**	**36.8**	**35.4**	**34.2**		**28.0**	**19.1**	
o/w public and publicly guaranteed (PPG)	45.3	40.7	39.9			38.9	38.9	37.7	36.8	35.4	34.2		28.0	19.1	
Change in external debt	7.3	-4.6	-0.8			-1.0	0.0	-1.2	-1.0	-1.3	-1.2		-1.1	-0.8	
Identified net debt-creating flows	-0.4	6.1	1.5			1.7	2.7	3.0	3.1	2.8	2.3		2.5	3.3	
Non-interest current account deficit	**12.8**	**10.2**	**12.1**	**6.2**	**5.1**	**9.5**	**11.6**	**10.7**	**10.5**	**10.1**	**9.5**		**8.8**	**8.2**	8.5
Deficit in balance of goods and services	16.4	16.3	18.4			16.2	17.3	16.8	16.8	16.8	-50.7		16.3	16.2	
Exports	15.6	15.9	14.9			15.7	15.9	16.3	16.5	16.9	17.2		16.8	16.1	
Imports	32.0	32.2	33.2			32.0	33.2	33.1	33.3	33.6	-33.5		33.2	32.3	
Net current transfers (negative = inflow) 2/	-7.6	-10.0	-9.7	-11.0	3.3	-10.2	-9.1	-9.4	-9.3	-9.3	-9.3		-9.4	-10.2	-9.6
o/w official	-0.4	-1.3	0.0			0.0	0.0	-0.5	-0.5	-0.5	-0.5		-0.5	-0.5	
Other current account flows (negative = net inflow)	4.0	3.9	3.4			3.5	3.4	3.3	3.1	2.7	69.5		1.9	2.2	
Net FDI (negative = inflow)	**-7.2**	**-8.0**	**-8.8**	**-7.2**	**3.6**	**-6.2**	**-7.3**	**-6.1**	**-6.0**	**-5.9**	**-5.8**		**-5.2**	**-4.1**	-4.9
Endogenous debt dynamics 3/	**-6.0**	**3.9**	**-1.7**			**-1.7**	**-1.6**	**-1.6**	**-1.5**	**-1.5**	**-1.4**		**-1.1**	**-0.7**	
Contribution from nominal interest rate	0.6	1.0	0.8			0.4	0.4	0.4	0.4	0.4	0.4		0.4	0.3	
Contribution from real GDP growth	-2.0	-3.2	-2.4			-2.1	-2.1	-2.1	-2.0	-1.9	-1.8		-1.5	-1.0	
Contribution from price and exchange rate changes	-4.6	6.2	-0.1			...	...	...	...	...	...		...	...	
Residual (3-4) 4/	**7.7**	**-10.7**	**-2.3**			**-2.7**	**-2.7**	**-4.2**	**-4.0**	**-4.1**	**-3.5**		**-3.6**	**-4.1**	
o/w exceptional financing	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 5/	...	...	28.3			27.7	27.6	26.8	26.1	25.2	24.4		20.3	14.1	
In percent of exports	...	...	190.2			175.8	173.7	164.7	157.7	149.3	141.4		120.5	88.0	
PV of PPG external debt	**...**	**0.0**	**28.3**			**27.7**	**27.6**	**26.8**	**26.1**	**25.2**	**24.4**		**20.3**	**14.1**	
In percent of exports	**...**	**0.0**	**190.2**			**175.8**	**173.7**	**164.7**	**157.7**	**149.3**	**141.4**		**120.5**	**88.0**	
In percent of government revenues	**...**	**...**	**191.7**			**198.6**	**193.2**	**180.8**	**169.4**	**163.4**	**158.2**		**131.5**	**91.8**	
Debt service-to-exports ratio (in percent)	**13.8**	**13.3**	**13.8**			**12.3**	**12.0**	**11.7**	**11.2**	**10.4**	**8.8**		**6.9**	**5.1**	
PPG debt service-to-exports ratio (in percent)	**13.8**	**13.3**	**13.8**			**12.3**	**12.0**	**11.7**	**11.2**	**10.4**	**8.8**		**6.9**	**5.1**	
PPG debt service-to-revenue ratio (in percent)	**13.2**	**13.2**	**13.9**			**13.9**	**13.4**	**12.8**	**12.0**	**11.4**	**9.8**		**7.5**	**5.3**	
Total gross financing need (Millions of U.S. dollars)	82.4	66.2	89.8			99.1	99.7	105.5	110.6	113.0	108.8		149.2	320.4	
Non-interest current account deficit that stabilizes debt ratio	5.6	14.8	12.8			10.5	11.6	11.9	11.5	11.5	10.7		9.9	9.0	
Key macroeconomic assumptions															
Real GDP growth (in percent)	6.5	6.7	6.3	4.0	3.8	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5
GDP deflator in US dollar terms (change in percent)	13.8	-12.0	0.2	1.2	10.0	-0.8	-1.9	-0.8	0.7	0.9	1.1	-0.1	1.8	1.8	1.7
Effective interest rate (percent) 6/	2.1	2.0	2.0	1.4	0.5	1.1	1.1	1.2	1.2	1.3	1.3	1.2	1.4	1.6	1.5
Growth of exports of G&S (US dollar terms, in percent)	-0.5	-4.5	-0.1	2.4	8.3	10.6	4.7	7.1	8.0	8.5	9.1	8.0	6.8	6.9	6.9
Growth of imports of G&S (US dollar terms, in percent)	20.4	-5.5	10.1	7.6	8.7	0.6	7.4	4.4	7.0	7.4	-206.2	-29.9	7.1	7.1	-7.2
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	36.7	36.3	35.4	35.3	34.9	34.7	35.5	34.7	34.7	34.7
Government revenues (excluding grants, in percent of GDP)	16.3	16.0	14.8			13.9	14.3	14.8	15.4	15.4	15.4		15.4	15.4	15.4
Aid flows (in Millions of US dollars) 7/	53.6	52.4	62.2			59.7	49.6	54.1	57.2	57.1	58.7		79.5	151.2	
o/w Grants	11.0	38.3	38.5			45.6	34.5	39.0	41.4	44.4	46.3		65.7	132.9	
o/w Concessional loans	42.6	14.1	23.6			14.2	15.1	15.1	15.8	12.6	12.4		13.8	18.3	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			5.3	4.2	4.5	4.5	4.4	4.2		4.1	3.8	4.0
Grant-equivalent financing (in percent of external financing) 9/	...	...	...			79.8	72.2	72.7	72.3	74.8	75.4		79.0	84.5	80.6
Memorandum items:															
Nominal GDP (Millions of US dollars)	968.4	909.8	969.1			1013.8	1049.5	1098.5	1167.4	1242.5	1326.0		1888.4	3849.0	
Nominal dollar GDP growth	21.2	-6.1	6.5			4.6	3.5	4.7	6.3	6.4	6.7	5.4	7.4	7.4	7.4
PV of PPG external debt (in Millions of US dollars)			267.4			272.2	280.0	288.8	298.8	307.1	317.7		377.1	536.5	
(PVt-PVt-1)/GDPt-1 (in percent)						0.5	0.8	0.8	0.9	0.7	0.9	0.8	0.7	0.5	0.7
Gross workers' remittances (Millions of US dollars)	53.8	43.0	45.2			47.9	50.4	53.4	56.6	60.5	66.0		96.9	221.2	
PV of PPG external debt (in percent of GDP + remittances)	...	...	27.1			26.4	26.4	25.6	24.9	24.0	23.2		19.3	13.4	
PV of PPG external debt (in percent of exports + remittances)	...	...	144.8			135.2	133.4	126.8	122.0	115.8	109.7		92.3	64.8	
Debt service of PPG external debt (in percent of exports + remittances)	...	0.0	10.5			9.4	9.2	9.0	8.6	8.1	6.8		5.3	3.7	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.
2/ Includes project grants.
3/ 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.
4/ 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. This residual also includes net changes in private assets which historically (2007-2010) amounts to nearly 2% of GDP.
5/ Assumes that PV of private sector debt is equivalent to its face value.
6/ Current-year interest payments divided by previous period debt stock.
7/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.
8/ Defined as grants, concessional loans, and debt relief.
9/ 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, 2011-2031 including HIPC and MDRI
(In percent)

	Projections							
	2011	2012	2013	2014	2015	2016	**2021**	2031
PV of debt-to GDP ratio								
Baseline	28	28	27	26	25	24	**20**	14
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2011-2031 1/	28	27	26	26	25	24	**20**	14
A2. New public sector loans on less favorable terms in 2011-2031 2/	28	27	28	28	28	27	**25**	21
A3. Scaling up of external borrowing in 2012-2016	28	30	30	31	31	31	**27**	16
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2012-2013	28	28	29	28	27	27	**22**	15
B2. Export value growth at historical average minus one standard deviation in 2012-2013 3/	28	28	30	29	28	27	**22**	15
B3. US dollar GDP deflator at historical average minus one standard deviation in 2012-2013	28	29	31	30	29	28	**23**	16
B4. Net non-debt creating flows at historical average minus one standard deviation in 2012-2013 4/	28	30	32	32	30	29	**24**	16
B5. Combination of B1-B4 using one-half standard deviation shocks	28	30	35	34	33	32	**27**	18
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	28	38	38	37	36	34	**29**	20
PV of debt-to-exports ratio								
Baseline	176	174	165	158	149	141	**120**	88
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2011-2031 1/	176	168	161	155	147	139	**119**	87
A2. New public sector loans on less favorable terms in 2011-2031 2/	176	172	171	168	164	159	**151**	131
A3. Scaling up of external borrowing in 2012-2016	176	186	186	187	185	181	**159**	97
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2012-2013	176	168	161	155	146	139	**118**	86
B2. Export value growth at historical average minus one standard deviation in 2012-2013 3/	176	194	230	220	208	198	**168**	119
B3. US dollar GDP deflator at historical average minus one standard deviation in 2012-2013	176	168	161	155	146	139	**118**	86
B4. Net non-debt creating flows at historical average minus one standard deviation in 2012-2013 4/	176	188	199	190	181	171	**146**	100
B5. Combination of B1-B4 using one-half standard deviation shocks	176	193	223	214	203	192	**164**	113
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	176	168	161	155	146	139	**118**	86
PV of debt-to-revenue ratio								
Baseline	199	193	181	169	163	158	**132**	92
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2011-2031 1/	199	186	177	166	161	156	**130**	91
A2. New public sector loans on less favorable terms in 2011-2031 2/	199	192	187	181	179	178	**165**	137
A3. Scaling up of external borrowing in 2012-2016	199	207	206	204	206	209	**182**	109
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2012-2013	199	196	196	184	178	172	**143**	100
B2. Export value growth at historical average minus one standard deviation in 2012-2013 3/	199	194	199	187	180	175	**145**	98
B3. US dollar GDP deflator at historical average minus one standard deviation in 2012-2013	199	200	207	194	187	181	**151**	105
B4. Net non-debt creating flows at historical average minus one standard deviation in 2012-2013 4/	199	209	218	204	198	191	**159**	104
B5. Combination of B1-B4 using one-half standard deviation shocks	199	212	237	222	215	208	**173**	114
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	199	269	255	239	231	224	**186**	130

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

	2011	2012	2013	2014	2015	2016	**2021**	2031
Debt service-to-exports ratio								
Baseline	12	12	12	11	10	9	**7**	5
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2011-2031 1/	12	12	11	11	10	9	**7**	6
A2. New public sector loans on less favorable terms in 2011-2031 2/	12	12	12	11	11	10	**8**	8
A3. Scaling up of external borrowing in 2012-2016	12	12	12	12	11	9	**9**	6
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2012-2013	12	12	12	11	10	9	**7**	5
B2. Export value growth at historical average minus one standard deviation in 2012-2013 3/	12	13	15	15	14	12	**9**	7
B3. US dollar GDP deflator at historical average minus one standard deviation in 2012-2013	12	12	12	11	10	9	**7**	5
B4. Net non-debt creating flows at historical average minus one standard deviation in 2012-2013 4/	12	12	12	12	11	10	**7**	6
B5. Combination of B1-B4 using one-half standard deviation shocks	12	13	14	14	13	11	**9**	7
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	12	12	12	11	10	9	**7**	5
Debt service-to-revenue ratio								
Baseline	14	13	13	12	11	10	**7**	5
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2011-2031 1/	14	13	13	12	11	10	**8**	6
A2. New public sector loans on less favorable terms in 2011-2031 2/	14	13	13	12	12	11	**9**	8
A3. Scaling up of external borrowing in 2012-2016	14	14	13	13	12	11	**10**	7
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2012-2013	14	14	14	13	13	11	**8**	6
B2. Export value growth at historical average minus one standard deviation in 2012-2013 3/	14	13	13	12	12	10	**8**	6
B3. US dollar GDP deflator at historical average minus one standard deviation in 2012-2013	14	14	15	14	13	11	**9**	6
B4. Net non-debt creating flows at historical average minus one standard deviation in 2012-2013 4/	14	13	13	13	12	11	**8**	6
B5. Combination of B1-B4 using one-half standard deviation shocks	14	14	15	14	14	12	**9**	7
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	14	19	18	17	16	14	**11**	8
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	34	34	34	34	34	34	**34**	34

Sources: Country authorities; and staff estimates and projections.

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

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

Table 3. The Gambia: Public Sector Debt Sustainability Framework, Baseline Scenario, 2011-2031
(In percent of GDP, unless otherwise indicated)

	Actual			Average	Standard Deviation	Estimate	Projections								
	2008	2009	2010			2011	2012	2013	2014	2015	2016	2011-16 Average	2021	2031	2017-31 Average
Public sector debt 1/	66.5	61.7	69.2			68.1	66.9	64.1	61.1	57.9	55.0		42.3	26.6	
o/w foreign-currency denominated	45.3	40.7	39.9			38.9	38.9	37.7	36.8	35.4	34.2		28.0	19.1	
Change in public sector debt	5.6	-4.9	7.5			-1.1	-1.2	-2.8	-3.0	-3.2	-2.9		-2.2	-1.2	
Identified debt-creating flows	3.9	-4.0	2.1			-0.6	-0.9	-2.6	-2.7	-2.6	-2.4		-1.7	-0.9	
Primary deficit	-1.5	0.0	2.9	0.2	2.8	0.8	0.1	-0.5	-0.6	-0.4	-0.2	-0.1	0.2	0.3	0.3
Revenue and grants	17.4	20.3	18.7			18.4	17.6	18.4	19.0	19.0	18.9		18.9	18.9	
of which: grants	1.1	4.2	4.0			4.5	3.3	3.5	3.5	3.6	3.5		3.5	3.5	
Primary (noninterest) expenditure	15.9	20.2	21.7			19.3	17.7	17.9	18.3	18.6	18.7		19.1	19.2	
Automatic debt dynamics	5.4	-4.0	-0.8			-1.4	-1.0	-2.1	-2.1	-2.3	-2.2		-1.9	-1.2	
Contribution from interest rate/growth differential	-1.4	-4.2	-2.8			-3.7	-3.6	-3.5	-3.5	-3.5	-3.4		-2.7	-1.8	
of which: contribution from average real interest rate	2.3	0.0	0.8			-0.1	-0.1	0.0	-0.2	-0.3	-0.3		-0.3	-0.3	
of which: contribution from real GDP growth	-3.7	-4.2	-3.7			-3.6	-3.6	-3.5	-3.3	-3.2	-3.0		-2.3	-1.5	
Contribution from real exchange rate depreciation	6.8	0.2	2.0			2.3	2.6	1.4	1.4	1.3	1.1		...	...	
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	1.7	-0.8	5.4			-0.5	-0.2	-0.3	-0.3	-0.5	-0.5		-0.5	-0.4	
Other Sustainability Indicators															
PV of public sector debt	...	...	57.6			56.8	55.7	53.2	50.4	47.7	45.2		34.5	21.7	
o/w foreign-currency denominated	...	...	28.3			27.7	27.6	26.8	26.1	25.2	24.4		20.3	14.1	
o/w external	...	...	28.3			27.7	27.6	26.8	26.1	25.2	24.4		20.3	14.1	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	3.3	4.5	7.3			5.3	4.4	3.9	3.4	3.3	3.1		2.5	1.7	
PV of public sector debt-to-revenue and grants ratio (in percent)	…	…	307.2			308.6	316.5	289.3	266.1	251.2	239.3		182.8	114.8	
PV of public sector debt-to-revenue ratio (in percent)	…	…	389.8			408.2	389.2	358.6	327.4	309.5	293.5		224.1	140.5	
o/w external 3/	…	…	191.7			198.6	193.2	180.8	169.4	163.4	158.2		131.5	91.8	
Debt service-to-revenue and grants ratio (in percent) 4/	27.3	22.4	23.5			24.5	24.9	23.7	21.3	19.3	17.4		12.5	7.4	
Debt service-to-revenue ratio (in percent) 4/	29.2	28.3	29.8			32.4	30.6	29.4	26.2	23.8	21.3		15.4	9.1	
Primary deficit that stabilizes the debt-to-GDP ratio	-7.1	4.8	-4.6			1.9	1.2	2.4	2.4	2.8	2.7		2.4	1.6	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	6.5	6.7	6.3	4.0	3.8	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5
Average nominal interest rate on forex debt (in percent)	2.1	2.0	2.0	1.4	0.5	1.1	1.1	1.2	1.2	1.3	1.3	1.2	1.4	1.6	1.5
Average real interest rate on domestic debt (in percent)	10.4	7.0	8.0	5.9	8.2	4.6	4.3	4.7	4.2	3.7	3.7	4.2	3.7	3.2	3.6
Real exchange rate depreciation (in percent, + indicates depreciation)	18.9	0.6	5.4	8.0	17.9	6.2	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	1.8	5.5	4.0	9.2	8.4	4.9	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8
Growth of real primary spending (deflated by GDP deflator, in percent)	0.2	0.4	0.1	0.1	0.3	-0.1	0.0	0.1	0.1	0.1	0.1	0.0	0.1	0.1	0.1
Grant element of new external borrowing (in percent)	...	...	...	…	…	36.7	36.3	35.4	35.3	34.9	34.7	35.5	34.7	34.7	...

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 2011-2031

	Projections							
	2011	2012	2013	2014	2015	2016	2021	2031
PV of Debt-to-GDP Ratio								
Baseline	57	56	53	50	48	45	35	22
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	57	57	55	54	52	50	42	28
A2. Primary balance is unchanged from 2011	57	57	55	54	52	51	43	33
A3. Permanently lower GDP growth 1/	57	56	54	52	50	48	41	40
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2012-2013	57	59	61	59	56	55	47	39
B2. Primary balance is at historical average minus one standard deviations in 2012-2013	57	58	57	54	52	49	38	24
B3. Combination of B1-B2 using one half standard deviation shocks	57	59	59	57	54	52	43	33
B4. One-time 30 percent real depreciation in 2012	57	68	65	61	58	55	42	27
B5. 10 percent of GDP increase in other debt-creating flows in 2012	57	62	59	56	54	51	39	25
PV of Debt-to-Revenue Ratio 2/								
Baseline	309	317	289	266	251	239	183	115
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	309	321	299	281	271	262	215	142
A2. Primary balance is unchanged from 2011	309	322	301	285	275	268	229	177
A3. Permanently lower GDP growth 1/	309	319	294	274	262	253	216	204
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2012-2013	309	333	322	303	291	284	244	202
B2. Primary balance is at historical average minus one standard deviations in 2012-2013	309	327	312	287	272	259	199	125
B3. Combination of B1-B2 using one half standard deviation shocks	309	331	318	296	283	274	227	173
B4. One-time 30 percent real depreciation in 2012	309	389	353	324	305	290	221	143
B5. 10 percent of GDP increase in other debt-creating flows in 2012	309	353	323	298	282	269	208	130
Debt Service-to-Revenue Ratio 2/								
Baseline	24	25	24	21	19	17	13	7
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	24	25	24	22	20	19	14	10
A2. Primary balance is unchanged from 2011	24	25	24	22	20	18	14	10
A3. Permanently lower GDP growth 1/	24	25	24	22	20	18	14	10
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2012-2013	24	26	26	23	21	19	15	11
B2. Primary balance is at historical average minus one standard deviations in 2012-2013	24	25	24	22	20	18	13	8
B3. Combination of B1-B2 using one half standard deviation shocks	24	26	25	23	21	19	14	10
B4. One-time 30 percent real depreciation in 2012	24	28	29	26	24	21	16	10
B5. 10 percent of GDP increase in other debt-creating flows in 2012	24	25	25	23	20	18	13	9

Sources: Country authorities; and staff estimates and projections.

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

2/ Revenues are defined inclusive of grants.

Table 5. The Gambia: External Debt Stock by Creditor, end-2010

	Level in million of US dollars	Percentage Share of External Debt
Total External Debt Stock	**377.0**	**100.0**
Islamic Development Bank	82.2	21.8
International Development Association	65.0	17.2
African Development Fund	50.6	13.4
Republic of China (Taiwan)	41.4	11.0
Arab Bank for Economic Development in Africa	39.4	10.4
Kuwait Fund for Arab Economic Development	26.8	7.1
OPEC Fund for International Development	25.7	6.8
Export - Import Bank of India	15.1	4.0
ADB/Nigerian Trust Fund	11.1	2.9
Saudi Fund For Development	10.4	2.7
Libyan Arab Jamahiriy	4.0	1.0
International Fund for Agricultural Development	3.7	1.0
Erste Bank (GiroCredit)	1.0	0.3
European Investment Bank	0.4	0.1
ECOWAS Fund for International Development	0.2	0.1
Government of Belgium	0.1	0.0
Peoples Republic of China	0.0	0.0
Abu Dabi Fund for Arab Economic Development	0.0	0.0
Republic of France	n.a.	n.a.

Source: World Bank

Statement by the IMF Staff Representative on The Gambia

January 18, 2012

1. This statement provides information that has become available since the issuance of EBS/11/338 on December 23, 2011. The new information does not alter the thrust of the staff appraisal.

2. On December 22, 2011, the Gambian authorities officially launched the *Programme for Accelerated Growth and Employment* (*PAGE*), 2012–2015. The *PAGE* was subsequently transmitted to Bank and Fund staff and will serve as the poverty reduction strategy that will provide a basis for Bank and Fund support to The Gambia during this period. Bank and Fund staffs will prepare a Joint Staff Advisory Note for the *PAGE*, which will be submitted to their respective Boards before the end of April 2012.

3. The Gambian authorities made public the results of the 2010 Integrated Household Survey. Based on a poverty line of US$1.25 per day, the poverty index showed that 48 percent of the population was living below the poverty line in 2010. The comparable figure for headcount poverty based on the previous survey conducted in 2003 was 61 percent.

4. On December 23, 2011, prices on gasoline, diesel, and kerosene were increased by GMD 1 per liter. This marked the first price adjustment since a decrease of GMD 1 per liter for gasoline in September. The increase in prices, however, fell short of the formula's full pass-through prices by 5–9 percent (or GMD 2.4–3.9 per liter).

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IMF Executive Board Concludes 2011 Article IV Consultation with The Gambia

On January 18, 2012, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with The Gambia.[1]

Background

The Gambian economy has performed well in recent years, despite challenging global conditions. Real GDP growth averaged around 6½ percent a year during 2008-2010, driven mainly by a strong expansion in agriculture. Tourism and remittances, however, were hit hard by the global economic crisis. In 2011, although there were signs that tourism was recovering, real GDP growth is estimated to have fallen slightly to 5½ percent, because of poor weather conditions adversely affecting agriculture in some areas of the country. Inflation ranged between 2½ and 7 percent (year-on-year) in recent years, 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 recent months, inflation has fallen below 5 percent, aided by an improved fiscal performance.

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

The government's fiscal deficit widened substantially during 2007–2010, resulting in a sharp increase in domestic debt. The deterioration of the fiscal balance was caused by a steady decline in government revenues and episodes of large spending overruns. Extra-budgetary expenditures, including realized contingent liabilities, were major factors behind the surge in government spending, particularly in 2009 and 2010.

The Gambia continues to face a heavy debt burden. As of the end of 2010, domestic debt had risen to almost 30 percent of GDP. Correspondingly, interest on domestic debt has consumed an increasing share of government revenues (18 percent in 2011). Moreover, most domestic debt consists of short-term Treasury bills, which poses substantial rollover risks. Despite a large reduction in external debt under the Highly Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI) in December 2007, external debt indicators suggest that The Gambia is still at high risk of debt distress.

Domestic debt stabilized in 2011, as the fiscal deficit narrowed substantially. Although government revenues continued to fall (to about 14 percent of GDP)—mainly due to lost revenues from fuel taxes—the government applied a strict cash-budgeting framework to control spending. This has contributed to a reduction in T-bill yields in recent months, which could generate fiscal savings going forward.

The banking system in The Gambia has expanded at a rapid pace since 2007, with the number of banks nearly doubling (to 13). This contributed to a rapid expansion of much needed financial services. It also strained the CBG's resources for banking supervision. While banks are generally well capitalized and liquid, competition in a relatively small market has increased risks. Credit quality and profitability weakened in 2009-2010, and high loan concentration is a concern. Similarly, several banks are vulnerable to liquidity risks from exposure to large depositors. In 2011, financial indicators have strengthened under the CBG's intensive supervision.

The Gambia's external current account deficit has widened in recent years, due to weak tourism receipts and remittances and high global commodity prices. In 2011, strong exports of groundnuts early in the year combined with an upswing in tourism in the fourth quarter to narrow the deficit, despite a surge in the cost of fuel imports. Official international reserves have remained at a comfortable level at over 5 months of imports.

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

Executive Board Assessment

Executive Directors commended the authorities for making progress in poverty reduction and achieving strong growth and low inflation despite a difficult global environment. Looking ahead, Directors observed that although the outlook for the economy is generally positive, there are a number of risks, particularly the high cost and rollover risks of domestic debt.

Directors welcomed the improved fiscal performance and supported the government's plans for additional fiscal consolidation in the period ahead. They agreed that further fiscal adjustment aimed at curbing domestic borrowing is appropriate. Directors considered that comprehensive tax reforms, including an early introduction of the VAT and additional steps to increase tax compliance, are essential to rebuild government revenues. In particular, strengthening revenue administration and phasing out fuel subsidies would bolster the credibility of the authorities' fiscal plans for the medium term. Simplicity, broad coverage, and low tax rates would also help to improve the business environment.

Directors agreed that monetary policymaking should remain focused on safeguarding price stability. To this end, they encouraged the central bank to develop liquidity management instruments that would enhance the efficiency of the money market and reduce intermediation costs. Directors also encouraged the authorities to maintain exchange rate flexibility, as well as the import coverage of international reserves.

Directors observed that the banking system is well capitalized and liquid. Noting however a still elevated non-performing loans ratio and other vulnerabilities in the banking sector, they welcomed the authorities' intention to reinforce their oversight of the financial sector.

Directors welcomed the authorities' new poverty reduction strategy, the *Programme for Accelerated Growth and Employment (PAGE)*. They emphasized, however, that the financing strategy should safeguard debt sustainability. Directors agreed that greater private sector participation in infrastructure projects could help achieve *PAGE* objectives, but success hinges on effective policy frameworks and institutions.

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

The Gambia: Selected Economic Indicators

	2007 Act.	2008 Act.	2009 Act.	2010 Act.	2011 Proj.
National income and prices (percentage change)					
GDP at constant prices	4.1	6.5	6.7	6.3	5.5
Inflation (period average)	5.4	4.5	4.6	5.0	5.4
External sector					
Current account balance including budget support (percent of GDP)	-10.9	-14.3	-14.0	-16.8	-14.4
Exports, f.o.b. (percent change in US$ value)	8.8	-4.4	8.5	3.6	12.6
Imports, f.o.b. (percent change in US$ value)	18.4	17.4	-3.7	5.3	4.3
Real effective exchange rate (percent change)[1]	18.8	-7.0	-5.5	0.3	-4.0
Gross official reserves (US$ millions)	141.6	115.6	186.0	163.3	174.7
Months of imports of goods and services	5.1	3.6	5.9	4.8	5.0
Money and credit (in percent change of beginning of the year broad money)					
Broad money	6.7	18.4	19.4	13.7	13.3
Credit to the private sector	4.8	6.8	5.4	4.7	4.3
Average treasury bill rate (in percent)[2]	11.9	11.8	12.2	11.3	9.3
Central government budget (percent of GDP)					
Domestic revenues	17.4	16.3	16.0	14.8	14.0
Grants	1.0	1.1	4.2	4.0	4.5
Total expenditure and net lending	18.3	19.2	23.4	24.8	22.1
Overall balance	0.1	-1.8	-3.2	-6.0	-3.6
Net foreign financing	0.8	0.1	1.5	1.4	0.9
Net domestic financing	-2.7	1.7	1.6	4.2	2.7
Nominal stock of public debt (% of GDP)					
Domestic	22.9	21.2	21.0	29.3	29.2
External	38.0	45.3	40.7	39.9	39.2

Source: Gambian authorities and Fund staff estimates and projections.

[1] Percentage change between December of the previous year and December of the current year (September for 2011).

[2] Average for the month of December (October for 2011).

Statement by Momodou Bamba Saho,
Alternate Executive Director for The Gambia
January 18, 2012

Introduction

The Gambian authorities extend their appreciation to staff for the constructive policy dialogue with the country and for the candor in identifying the policy challenges and presenting options for restoring fiscal prudency and maintaining macroeconomic stability while promoting broad-based inclusive growth. They are especially thankful to the Executive Board and Fund Management for their continued support and policy guidance against the backdrop of a challenging global economic environment. My authorities have embarked on improving macroeconomic management through increased fiscal consolidation and public inancial management reforms. Accordingly, measures to enhance domestic revenue mobilization have been introduced while prudent expenditure management is pursued under a cash budget system. Implementation of The Gambia's development agenda is, however, severely challenged by inadequate external financing, which remains crucial in creating the required fiscal space. Since the discussion of the last staff report on The Gambia's 7th review of the ECF arrangement, the country has held a very successful presidential election, thereby consolidating the country's democratic process. My authorities share the thrust of the staff report as it provides a candid assessment of recent economic developments.

Recent economic developments

The Gambian economy has performed well in recent years. During 2008 to 2010, the economy grew on average by 6.5 percent per annum on account of the robust growth in agriculture and the services sector. In spite of the adverse effects of the difficult global economic environment and poor weather conditions, real GDP growth remained fairly strong at 5.5 percent in 2011 led by a rebound in tourism. Consumer price inflation declined to 4.3 percent in November 2011 from 6.1 percent and 5.8 percent in September and December 2010 respectively. The deceleration in headline inflation was due largely to the tight monetary policy stance of the central bank and the fall in domestic food prices.

Fiscal performance improved in 2011, reflecting the strict implementation of a cash budget system which limits spending to available resources. This helped to contain government's net domestic borrowing, cleared its overdraft with the central bank and marked an end to the central bank financing of the deficit. Moreover, the improvement in public finances strengthened the independence of the central bank and enabled the monetary authorities to focus on their key mandate of price and exchange rate stability.

The balance of payments is projected to record a surplus in 2011, in contrast to a deficit in 2010 on account of the expected increase in private capital and official transfers. Similarly, the current account deficit, before official transfers narrowed, reflecting improvement in the goods and services account. Due largely to central bank purchases of foreign exchange, gross international reserves reached the equivalent of 5.0 months of import cover at end-2011. In the year to end-September 2011, the dalasi depreciated against the major trading currencies in the domestic foreign exchange market owing to increased demand for foreign currency in the face of rising international commodity prices.

Outlook and policies

My authorities' principal policy objective over the near and medium term is to maintain a stable macroeconomic environment to support robust and sustainable inclusive growth. It is expected that such growth would result in job creation, poverty reduction and the achievement of the Millennium Development Goals (MDGs). GDP growth is expected to return to trend in the medium term as government pursues prudent fiscal and monetary policies, increase investment in infrastructure and agriculture. The external current account deficit is expected to narrow in the medium term, on account of the expected recovery of exports and increase in services. Gross international reserves are projected to fall to around 4 months of imports of goods and services by the end of 2016. The exchange rate is expected to maintain its relative stability over the medium term, while inflation is targeted at 5 percent.

On the fiscal front, my authorities will strengthen efforts to enhance public financial management to reduce new borrowing to ease pressure on interest rates. The fiscal outlook for 2012 marks the commencement of the *Program for Accelerated Growth and Employment* (PAGE) implementation, the successor program to the PRSP II. PAGE is the government's development strategy and investment program for 2012 to 2015. The PAGE is based on Vision 2020 and various sector strategies, and is the execution template for the government's long-term vision. PAGE is fully aligned with the MDGs and its main objective is to accelerate growth and job creation in order to consolidate and sustain recent economic achievements and reinforce gains in welfare over the past years.

Fiscal policy

My Gambian authorities remain committed to pursuing prudent fiscal management with a view to maintaining medium-to long-term fiscal sustainability. This was demonstrated by the strong expenditure restraint exercised by government to strengthen fiscal consolidation despite 2011 being an election year. Mindful of the challenges in scaling-up resources to effectively implement PAGE, my authorities are determined to institute far-reaching policy measures to ensure mobilization of substantial domestic resources to complement external donor financing of government programs and projects. To this end, the authorities will pursue tax policy and revenue administration reforms to increase revenue and make the tax system simpler and more efficient. The foundation of these reforms will be the continuous implementation of the fuel pricing formula and launch of a Value Added Tax (VAT) system in 2013. Further reforms in the area of tax policy and revenue administration include the implementation of a quota system on duty exemptions on fuel for diplomatic missions, expansion of tax coverage through the collection of taxes on domestically produced goods, bringing into the tax net holders of expired special investment certificates and removal of the fuel concession to the Gambia Ports Authority. Additionally, in a bid to facilitate both tax compliance and ease payments, the Gambia Revenue Authority (GRA) in 2011 launched an initiative where commercial banks will accept payments from tax payers on behalf of government. Besides the mandate given to GRA to collect motor vehicle taxes and fees, GRA will be responsible from January 2012 for issuing the licenses and road tax discs to vehicle owners. Moreover, the authorities plan to simplify small business taxation and eliminate the existing alternative turnover-base method of determining minimum income and capital gains tax. The envisaged upgrading of the ASYCUDA will also greatly improve tax assessments and boost revenue collection. Finally, the authorities have adjusted fuel prices four times in 2011, with the most recent one in December 2011.

On the expenditure front, my authorities will seek to switch expenditures towards their strategic priorities of increasing investments in infrastructure and other key sectors such as education, health and agriculture, consistent with the goals of the PAGE. Accordingly, nonstatutory expenditures will be appropriately contained to create the needed fiscal space. Also, the monthly cash budgeting framework will be refined further to ensure that borrowing is contained within projected targets in order to avoid unnecessary buildup in domestic debt. Unanticipated expenditures will be accommodated through the contingency reserves in the budget. If necessary, the annual budget will be adjusted through a supplementary bill, while maintaining the target for net domestic borrowing.

Monetary and exchange rate policies

My authorities' monetary policy in 2011 focused on sustaining the disinflationary process, maintaining exchange rate stability, and a viable external position. The policy was conducted in a highly challenging global environment including larger-than-expected rise in commodity prices in the first half of the year. Nevertheless, the monetary authorities were able to maintain a subdued inflationary environment as well as a stable exchange rate with a comfortable level of international reserves. This created room for the Monetary Policy Committee (MPC) to relax monetary policy to permit a further reduction in interest rates in the later part of the year. Accordingly, the central bank policy rate, the rediscount rate, was reduced by 1 percentage point to 14 percent.

Going forward, the monetary authorities will continue to use a monetary targeting framework to pursue their price stability objective. In this regard, the central bank will remain vigilant and will stand ready to raise the policy interest rate if necessary. Furthermore, to improve monetary management, the authorities will, in the coming week, start making public announcements of the size of treasury bill auctions one month in advance of the auction dates. The horizon of these announcements will be gradually extended to correspond with the 4 quarterly meetings of the MPC. Moreover, the fiscal authorities will collaborate with the central bank to strengthen liquidity forecasting both by participating in the regular meetings of the inter-agency committee and by improving its weekly forecast of the public sector borrowing requirements.

The monetary authorities will continue to maintain a floating exchange rate policy, intervening only to maintain orderly market conditions. Whenever required, the central bank may purchase foreign exchange from the domestic interbank market to meet its target for international reserves (around 5 months of import of goods and services).

Financial sector policy

My authorities raised the minimum capital requirement of banks in December 2010 to meet the challenges of the growing number of banks and to ensure solvency in the banking industry. Consequently, the banking sector remains sound and adequately capitalized to absorb shocks, with a risk-weighted capital adequacy ratio of 27.1 percent, significantly higher than the minimum requirement of 10 percent. The banking sector is characterized by increased competition and expansion in the form of branches and agencies across the country. This has increased access to banking services and products nationwide. Accordingly, in response to the need for a well functioning financial system, installation of a new payment system infrastructure is complete. The Real Time Settlement System (RTGS) and the Automated Cheque Processing and Clearing Systems were launched on December 5 and December 16, 2011 respectively, while the Security Settlement System is targeted to go live during the first quarter of 2012. Additionally, the central bank has initiated an electronic reporting system for commercial banks for the timely reporting of data as well as facilitation of onsite and offsite supervision. This system will become operational by June 2012. The central bank also plans a gradual migration from a hybrid (compliance and risk-based) to a fully risk-based supervisory framework. To keep pace with the fast growing banking system, the central bank will continue to strengthen capacity at its Financial Supervision Department both through maintaining adequate staffing levels and training.

Debt Management Policy

My authorities are concerned that the recent debt sustainability analysis conducted by the Fund and World Bank indicates that the country remains at a high risk of debt distress, in spite of the substantial debt relief granted under the HIPC and MDRI initiatives. To mitigate these risks, my authorities have developed a medium term debt management strategy. In addition, my authorities intend to rely more on grants and concessional external loans with minimum grant element of 35 percent to finance the PAGE. Furthermore, the authorities will explore productive opportunities for public-private partnerships. Moreover, as market conditions allow, my authorities will endeavor to extend the maturity of domestic public debt by introducing longer-term instruments such as bonds aimed at reducing rollover risks. Finally, to strengthen debt management and monitoring, the authorities will continue to conduct annual debt sustainability analysis in consultation with the Fund and World Bank to ensure that all debt indicators fall and remain below their corresponding thresholds.

Structural reforms

My authorities consider the implementation of appropriate structural reforms as critical to achieving the medium-term objective of high and sustainable inclusive growth. To this end, the authorities have embarked on major reforms in public financial management aimed at supporting its goal of reducing poverty through the attainment of a stable macroeconomic environment and good governance. Accordingly, Integrated Financial Management Information System (IFMIS), which was originally piloted to 6 sites, is now fully rolled out to all Ministries, effective January 2011. In addition, the authorities interfaced the IFMIS with the national payment system at the central bank. Also, to enhance accountability, the

Internal Audit of the Ministry of Finance has been revitalized with a view to providing an independent and objective evaluation of government's financial position.

Furthermore, the authorities have embarked on budgetary reforms aimed at introducing a medium-term horizon in planning and budgeting system. The Medium Term Expenditure Framework (MTEF) will constitute a budget planning framework that provides incentives for policy makers and budget planners to formulate medium-term budget plans by linking planning and policy formulation with budget allocation, aligning the annual budget decision with the medium term macro-fiscal strategy, restricting expenditures within realistic resource envelope, and improving monitoring and tracking of budget performance. Finally, the authorities are committed to strengthening the Public Utility Regulatory Agency (PURA) and to improving the financial health of the National Water and Electricity Company (NAWEC), in line with the recommendations of the World Bank.

Conclusion

I would like to reiterate my authorities' commitment to sound macroeconomic management and growth promotion underpinned by prudent public finance management. This is an important step towards job creation and poverty reduction. In this regard, my authorities intend to direct policy efforts towards narrowing the budget deficit as the key to reducing the debt burden and related interest payments. They appreciate the support from the IMF and the international community and count on the continuation of such support to realize their development goals.