INTERNATIONAL MONETARY FUND

IMF Country Report No. 13/139

THE GAMBIA

FIRST REVIEW UNDER THE EXTENDED CREDIT FACILITY, REQUEST FOR WAIVER FOR NONOBSERVANCE OF PERFORMANCE CRITERION, AND REQUEST FOR REPHASING OF REVIEWS

In the context of the First Review under the Extended Credit Facility, Request for Waiver for Nonobservance of Performance Criterion, and Request for Rephasing of Reviews, the following documents have been released and are included in this package:

- **Staff Report** for the first review under the Extended Credit Facility, request for waiver for nonobservance of performance criterion, and request for rephasing of reviews, prepared by a staff team of the IMF, following discussions that ended on April 10, 2013, 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 May 7, 2013. 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 by the IMF.
- **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- **Press Release**
- **Statement by the Executive Director** for the Gambia.

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

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

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

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International Monetary Fund
Washington, D.C.

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May 7, 2013

FIRST REVIEW UNDER THE EXTENDED CREDIT FACILITY, REQUEST FOR WAIVER FOR NONOBSERVANCE OF PERFORMANCE CRITERION, AND REQUEST FOR REPHASING OF REVIEWS

EXECUTIVE SUMMARY

The Gambian economy is still recovering from the severe drought of 2011. Real GDP growth turned positive in 2012 and is expected to pick up further in the near term. Inflation, however, has increased, partly reflecting depreciation pressures arising from weaknesses in the balance of payments in the aftermath of the drought. Uncertainty about exchange rate policies may have added to these depreciation pressures. The Gambia's ample stock of international reserves has helped to maintain relative macroeconomic stability during this period.

The Gambia continues to face a heavy debt burden, particularly from domestic debt, which largely consists of short-term Treasury bills. Interest costs, especially on T-bills, consume a large share of government revenue, and rollover risks are high. Based on external debt indicators, however, The Gambia's risk of debt distress has improved to moderate.

Fiscal slippages in late 2012 led to higher-than-expected domestic borrowing during the year. This weakened the government's credibility that it will achieve its goal of a gradual fiscal adjustment to get domestic debt under control. For 2013, the authorities have taken steps to address such slippages, including the recent submission of a supplementary budget to the National Assembly that specifies revenue measures to finance extrabudgetary spending. The introduction of a value-added tax in 2013 was a major step forward for the tax reform agenda. Steps are also being taken to strengthen budget planning and execution.

The Central Bank of The Gambia will pursue a restrained monetary policy to help stem inflation and depreciation pressures. In light of weaknesses in the balance of payments, the authorities intend to temporarily delay their planned buildup of additional reserves.

Staff recommends completion of the first review of The Gambia's program, which is supported by an arrangement under the Extended Credit Facility. After some delay, the authorities have recommitted themselves to implementation of a policy agenda aimed at providing a strong macroeconomic foundation for growth and poverty reduction.

Approved By
Roger Nord and Masato Miyazaki

Discussions were held in Banjul during September 5–18, 2012 and April 4–10, 2013 with His Excellency President Jammeh (in April), Honorable Minister of Finance and Economic Affairs Kolley, Governor of the Central Bank of The Gambia Colley, and other high-level officials. In September, the staff team comprised Mr. Dunn (head), Mr. Egoumé-Bossogo, Mr. Slavov (all AFR), and Mr. Kim (SPR). In April, the staff team comprised Mr. Dunn (head), Mr. Konuki, Ms. Gwenhamo (all AFR), and Mr. Kim (SPR). On both occasions, the team was assisted by Mr. Tjirongo (resident representative) and Mr. Cham (local economist). In September, staff from the World Bank and African Development Bank participated in discussions. Other contributors include Mr. Shapiro and Ms. Snyder (both AFR).

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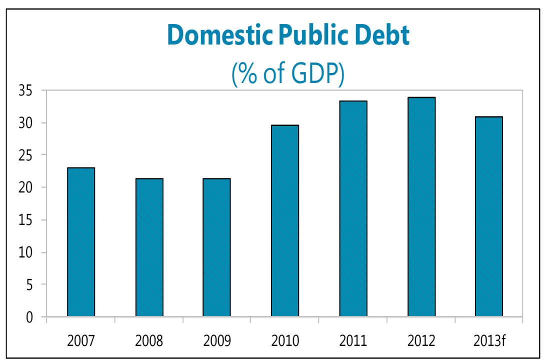
RECENT ECONOMIC DEVELOPMENTS

1. **The Gambian economy is still recovering from the severe drought of 2011 (Tables 1-7 and Figure 1).** After a sharp contraction in 2011—due to a 60 percent drop in crop production—real GDP growth is estimated to have grown by 4 percent in 2012,[1] driven by a strong performance in the tourism sector and a partial rebound in agriculture. Emergency assistance—which also helped to mitigate the impact of the drought on vulnerable families—played a pivotal role in this turnaround by delivering inputs to farmers in time for the planting season.[2] Inflation, however, has picked up since late 2012, reflecting a depreciation of the Gambian dalasi, as well as side-effects from the introduction of a value-added tax (VAT) on January 1, 2013, as many firms opportunistically increased prices. As of March, inflation stood at 5.4 percent (year-on-year). [MEFP ¶2-3]

2. **Partly reflecting government expenditures on drought relief, there was little-to-no fiscal adjustment in 2012.** The overall fiscal deficit remained at about 4½ percent of GDP, of which about 3½ percent of GDP was financed by domestic borrowing. Government revenues increased by ½ percentage point of GDP in 2012 (to just over 16½ percent of GDP), as a highly visible presidential commission against tax evasion led to greater compliance. On the spending side, in addition to drought relief expenditures, external debt service exceeded budget projections by over ½ percentage point of GDP and spending included in a supplementary budget approved by the National Assembly late in the year proved to be underfunded. Although the government had exercised a cash-budgeting approach to limit expenditures to available resources for much of the year, the higher-than-expected spending toward the end of the year was too great to be sufficiently offset. [MEFP ¶4]

3. **Higher domestic borrowing added to the government's heavy debt burden.** Domestic debt relative to GDP increased slightly to 34 percent of GDP as of end-2012, much of which was in the form of short-term Treasury bills. Interest on debt continued to consume a large share of government revenues (22½ percent) in 2012, of which nearly 18½ percentage points was paid on domestic debt, while rollover risks continued to grow. [MEFP ¶5]



[1] GDP data have been revised substantially since the staff report for The Gambia's arrangement under the Extended Credit Facility was issued last year (Country Report No. 12/129). Crop production is now recorded in the national accounts during the same year as the harvest. Previously, a large share was recorded with a lag that carried over to the following year. As a result, the crop failure now leads to a contraction in GDP in 2011, rather than in 2012, as was previously the case.

[2] About one-fourth of the Gambian population was at risk of food shortages from the drought. International aid agencies and bilateral donors contributed US$14.3 million (equivalent to about 1½ percent of GDP) to drought relief in 2012, while the Gambian government spent about ½ percent of GDP in the relief effort.

4. Growth in financial intermediation dampened during 2012. While crowding out by government borrowing appears to have been a factor, demand for credit also weakened early in the year as commerce and related economic activity suffered in the immediate aftermath of the crop failure.[3] To stimulate the economy, the Central Bank of The Gambia (CBG) loosened monetary policy around mid-year, which led to a moderate pickup in broad money and private sector credit growth, but may have added to depreciation and inflation pressures. At the end of 2012, the second and final stage of an increase in the minimum capital requirement (MCR) for banks took effect, as planned. All banks complied, except one which instead has wound down its operations. As of end-2012, the banking system as a whole was well capitalized, but nonperforming loans were still high at 11.6 percent of total loans (Table 8). [MEFP ¶6]

5. Depreciation pressure on the Gambian dalasi has largely been driven by weaknesses in the balance of payments; however, uncertainty about exchange rate policy may have added to this pressure. The crop failure led to a sharp increase in the trade deficit in 2012, as a collapse in groundnut exports combined with a surge in demand for imported food and seeds.[4] Although the increased trade gap was partly financed by donor-provided drought relief, the dalasi still began to depreciate against all major currencies. The CBG intervened to maintain order in the foreign exchange (FX) market, but in October, the Office of the President stepped in by issuing a directive that sought to contain the dalasi's fall and to discourage speculation and unlicensed FX trading. The directive targeted an over-valued exchange rate of 28 GMD/USD (compared with the prevailing market rate of about 34 GMD/USD), which led to a sharp contraction of FX trading volumes.[5] Although the directive was just temporary, ending less than 4 weeks later, and the exchange rate soon returned to market-determined rates, the action created some uncertainty among market participants on exchange rate policy and there has been some indication of capital flight.[6] [MEFP ¶3]

6. In light of the pressure on the dalasi, the CBG has refrained from purchasing FX to build up official international reserves. Nevertheless, international reserves have been ample, with import coverage ranging from 4½ months to just under 5 months throughout this period.

[3] To some extent, banks' writing off of bad loans contributed to falling credit to the private sector in early 2012.

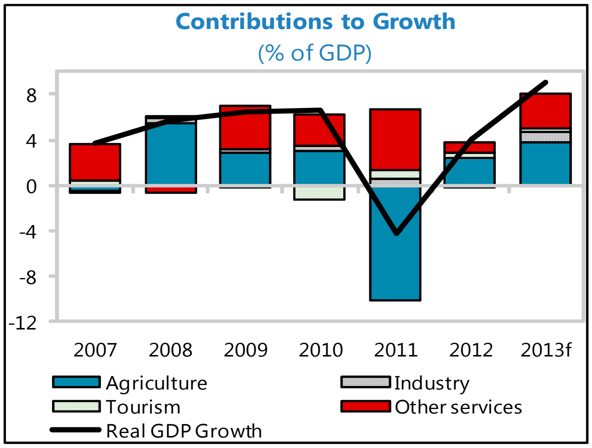
[4] The harvest season is in the fourth quarter of the year and directly impacts the trade balance of the following year.

[5] LEG in discussion with MCM concluded that the FX measures adopted under the directive did not give rise to an exchange restriction or multiple currency practice in breach of the obligations under Article VIII, Sections 2(a) and 3.

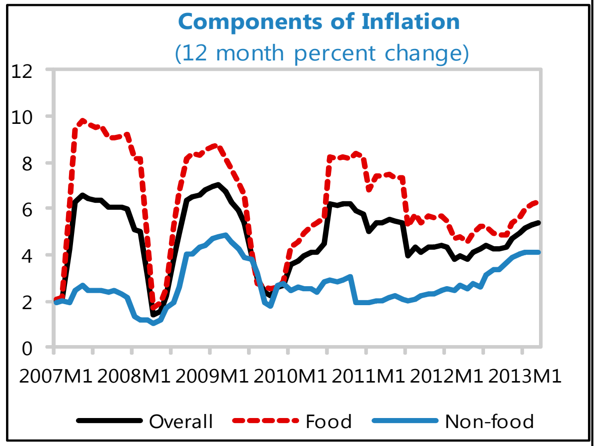
[6] Preliminary data indicate that there has been an unusual outflow of remittances in early 2013.

Figure 1. The Gambia: Recent Economic Developments, 2007–13

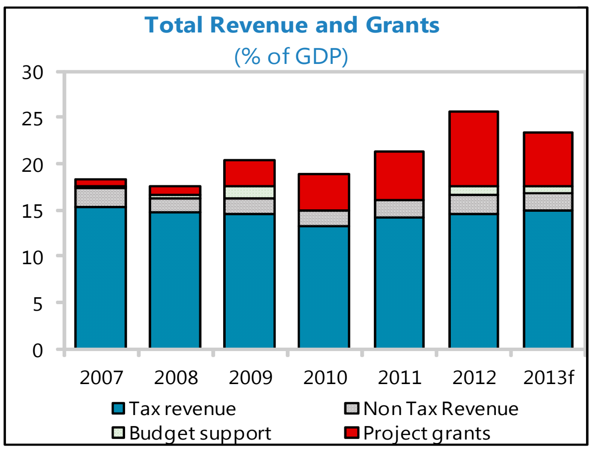
Following a sharp contraction in 2011 due to a severe crop failure, growth recovered in 2012 supported by a partial rebound in agriculture.



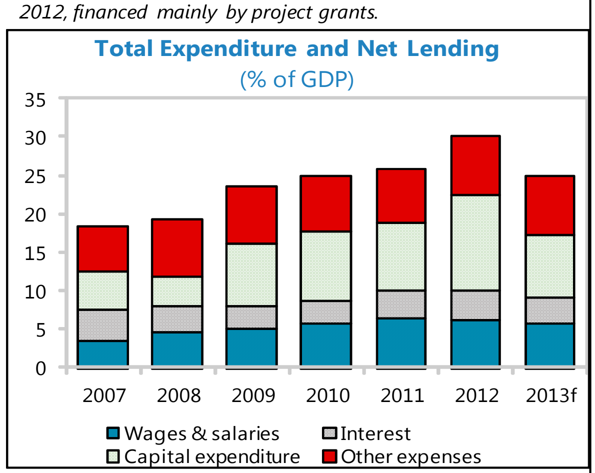
Inflation has been trending upwards in recent months partly due to a weaker dalasi.



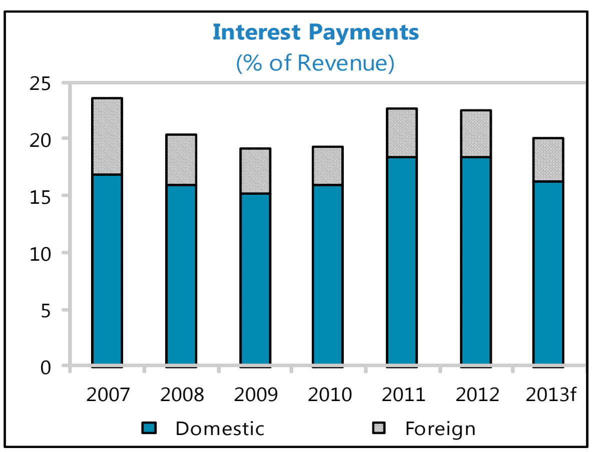
Domestic revenues continued to gradually strengthen in 2012, while project grants surged.



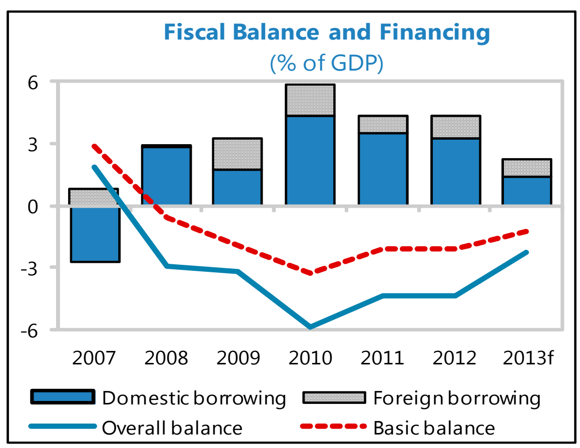
Spending has trended up, reflecting mainly a rising wage bill and interest payments. Capital spending increased in 2012, financed mainly by project grants.



Progress on reducing the government's interest bill has slipped since 2009...



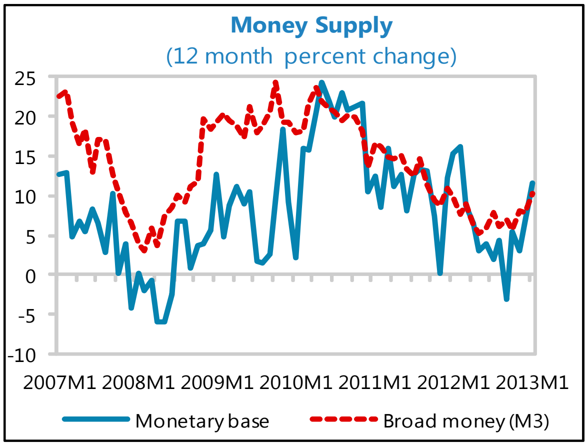
...as the government resorted to financing its deficits mostly with costly domestic borrowing.



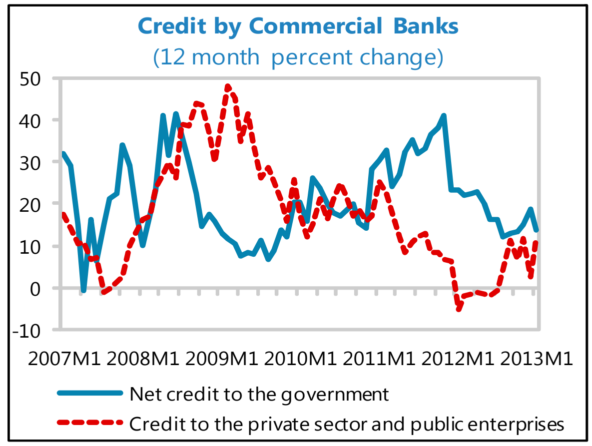
Sources: Gambian authorities; and Fund staff estimates and projections.

Figure 1. The Gambia: Recent Economic Developments, 2007–13 (continued)

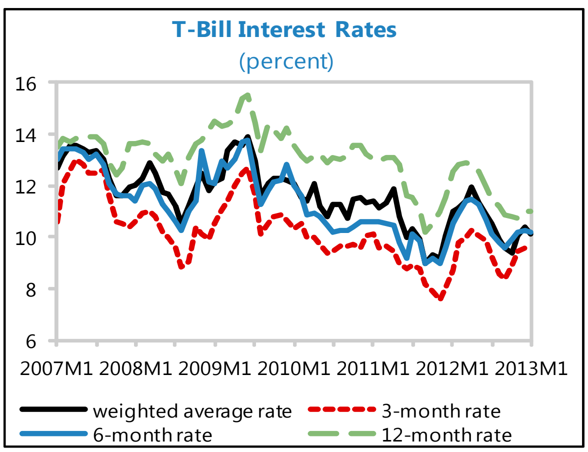
While the pace of money growth decelerated in 2012, there was an uptick in early 2013.



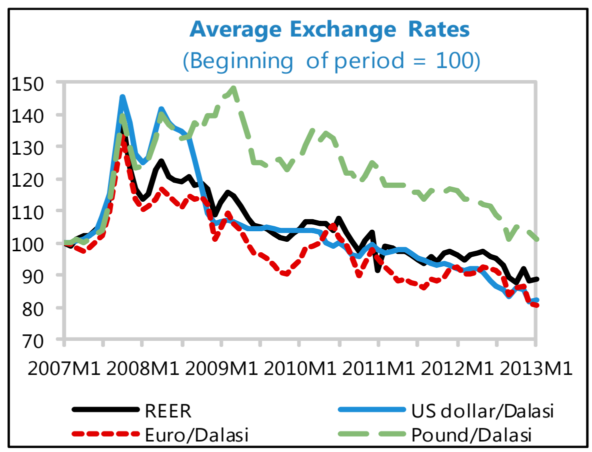
Private sector credit was negative during early 2012 partly reflecting crowding out by the government.



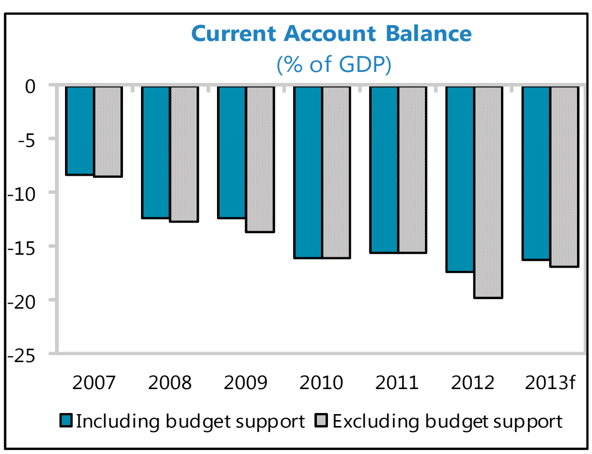
While interest rates on government T-bills have declined since 2009, volatility has increased over the past year.



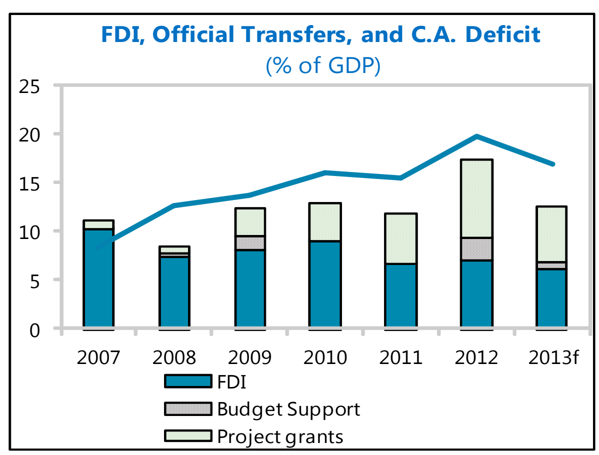
The dalasi has depreciated gradually in recent years.



The external current account deficit widened in 2012, due largely to imports for drought relief and new projects.



It was mostly financed by FDI, project grants, and budget support.



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

ECONOMIC OUTLOOK AND RISKS

7. **Both the near- and medium-term outlooks for The Gambia's economic growth are generally positive.** Elevated growth rates in agriculture are assumed to continue through 2015,[7] which when combined with a return to trend growth in other sectors would lead to particularly strong real GDP growth of 8½-9 percent a year in 2013 and 2014. After the agricultural sector has fully recovered, real GDP growth is expected to return to its underlying trend of about 5½ percent a year. Inflation is projected to increase to 6 percent in 2013, reflecting some price effects of the new value-added tax (VAT) that was implemented on January 1. Thereafter, inflation is expected to be kept in line with the CBG's objective of about 5 percent a year. While continued weakness in the balance of payments has delayed the CBG's planned buildup of international reserves, it is projected that the recovery in agriculture together with lower, but sustained, growth in tourism would lead to a strengthening in the balance of payments over the medium term. This would allow the CBG to gradually rebuild gross international reserves to 5 months of imports,[8] although it will likely take a couple of additional years to get there than was originally planned under the program.

8. **This outlook, which is contingent upon sound macroeconomic policies, has both upside potential and downside risks.** On the upside, good implementation of a series of major infrastructure investments and sector strategies, as outlined in The Gambia's poverty reduction strategy—the Programme for Accelerated Growth and Employment (*PAGE)*—could give growth a substantial boost. Downside risks reflect both exogenous and endogenous factors. As a small open economy that relies on imports of food and fuel, The Gambia is vulnerable to commodity price shocks. Also, weather-related shocks and other natural disasters pose major risks to the economy's agricultural base. Spillovers from world and regional economic and financial developments create risks, particularly for tourism and remittances.[9] While Gambian banks do not have much direct exposure to risky sovereign debt of other countries, the banking system, which consists largely of subsidiaries of foreign banks headquartered in the region, can be affected by other external factors. In addition, as noted above, the government's domestic debt situation poses a major risk to macroeconomic stability.

[7] The underlying assumption is that crop production fully recovers by 2015. That is, the partial rebound in 2012 raised crop production to about 55 percent of its pre-drought 2010 level. Crop production is projected to grow by 25-30 percent a year in 2013 and 2014 and by 10 percent in 2015, after which growth would return to trend.

[8] Research by Fund staff suggests that the optimal level of reserves for The Gambia is around 5 months of imports of goods and services. See the discussion on reserve adequacy in the 2010 Article IV consultation (Country Report No. 12/274) and Eugen Tereanu, "International Reserve Adequacy in The Gambia," IMF Working Paper No. 10/125. The topic of reserve adequacy will be revisited during the forthcoming Article IV consultation.

[9] Weakness in the global economy can also ease pressure on food and fuel prices, which generally benefits the Gambian economy.

POLICY DISCUSSIONS

9. As presented in the staff report for the new ECF arrangement (Country Report No. 12/129), the authorities' policy agenda seeks to realize the economy's upside potential, while reducing exposure to downside risks. The policy framework continues to be anchored by a fiscal adjustment that would reduce government's net domestic borrowing (NDB) to ½ percent of GDP a year from 2014 onwards. By reducing its borrowing needs the government expects to generate fiscal savings from lower interest costs—which could eventually be redirected to spending on *PAGE* priorities—and to ease crowding out of the private sector. In addition, lower interest rates on domestic debt would make future efforts to lengthen the maturity structure of the debt more affordable. Following this path, the stock of domestic debt is projected to fall to about 25 percent of GDP by end-2015. As evidenced during the recent drought crisis, maintaining an ample stock of international reserves is key to preserving The Gambia's relative stability in the face of severe shocks. In policy discussions, the Gambian authorities, including president Jammeh himself, expressed their steadfast commitment to the ECF's policy agenda. [MEFP ¶16-17]

A. Fiscal Policies

10. Although the NDB to GDP ratio will be raised by ½ percentage point, compared with the original target set out under the ECF-supported program, to 1½ percent in 2013, the overall fiscal deficit will remain unchanged. To achieve this, growth of government revenues is projected to slightly exceed GDP growth in 2013, even though a substantial portion of GDP growth is expected to come from agriculture, which is essentially outside the tax net. Total government revenues, which are projected to reach 16.8 percent of GDP in 2013 as a whole, slightly exceeded budget projections through the first quarter. In particular, the new VAT is off to a good start. Also, as presented in the supplementary budget submitted to the National Assembly on April 26, the authorities have specified a path for almost eliminating fuel subsidies,[10] which on average were about 6¼ percent of the full pass-through price in April. Income taxes, however, may fall short of budget projections in 2013, after the authorities raised the threshold of the personal income tax 10-fold, after two decades with no changes. On the spending side, the budget allows for only modest growth in the wage bill. In addition, capital spending from the government's own resources is projected to grow by a healthy 37 percent, although this is well below the surge that was originally envisaged. The cutback was necessary to make room for the much higher-than-budgeted cost of external debt service. Despite tight constraints, the authorities intend to still direct just over 30 percent of non-interest government spending to poverty-reducing expenditures. [MEFP ¶25]

11. The success of the planned fiscal adjustment also hinges upon containing the impact of extrabudgetary expenditures. The authorities intend to insulate NDB from such unanticipated spending by ensuring that these items are fully financed, as was just done for some recent spending requests. Indeed, the recent supplementary budget contained a transparent list of the additional

[10] The authorities will adjust fuel prices on the 26th day of each month so that the percentage of subsidies, measured at the difference between the full-pass-through price and the pump price, of gasoline, diesel, and kerosene will decline by about 11 percent, 4 percent, and 2¼ percent, respectively, by end-2013.

expenditures necessary for 2013 as well as the specific revenue measures (monthly reduction of fuel subsidies noted above) to eliminate financing gaps.[11] [MEFP ¶20]]

12. Over the medium term, the authorities intend to pursue further tax reforms to sustain revenue growth and to create a more conducive tax system for economic growth.[12] In addition to expected improvements in VAT collections over time and revenue gains from the full-year effect of the ongoing reduction in fuel subsidies, the authorities received technical assistance (TA) from the Fund to set out options for simplifying the tax system, broadening tax bases, and lowering tax rates. The options would aim to be revenue-neutral or revenue-increasing.[13] The authorities are also receiving extensive TA from the Fund to strengthen revenue administration, including two resident advisors placed in the Gambia Revenue Authority (GRA).[14] [MEFP ¶21]

13. Reforms on the spending side focus on strengthening budget planning and execution, including the introduction of a medium-term expenditure framework (MTEF) in the coming years. Transferring of all cash management functions to the Directorate of the National Treasury [MEFP ¶23] and a quarterly updating of the monthly projections of external debt service [MEFP ¶24] would help prevent the spending overrun. While a stricter cash budgeting approach and accurate debt service projection are needed to adhere to near-term fiscal targets, improved budget procedures would enable government to achieve more efficient outcomes and greater value-for-money from its expenditures. As a pilot, two ministries are preparing multi-year strategic plans, which will feed into a more enhanced budget framework paper, including an indicative MTEF, for preparation of the 2014 budget. Two additional ministries will prepare strategic plans in the coming year, with the goal of having full coverage and an effective MTEF for the 2016 budget. [MEFP ¶26]

B. Monetary and Exchange Rate Policies and Financial Sector Stability

14. The CBG will implement a tighter monetary policy to contain current inflation and depreciation pressures. As the CBG temporarily steps back from its medium-term plan to build up international reserves, it will trim its targets for reserve and broad money growth in 2013 to no more than 11 percent and 12½ percent, respectively. This should allow for a healthy rebound in credit to the private sector, without adding to inflation. The CBG expects that by 2014, it can begin to target average reserve money, which has a stronger relationship with broad money, rather than end-period

[11] Extrabudgetary spending identified in the supplementary budget that was submitted to the National Assembly on April 26 amounted to GMD 189 million (0.6 percent of GDP), of which GMD 61 million was for maintenance of state aircraft and GMD 35 million was for commitments to ECOWAS for peacekeeping efforts in Mali.

[12] The Gambia ranked 178 out of 183 countries in the World Bank's 2012 Doing Business Report for ease of paying taxes.

[13] FAD TA mission identified the some revenue increasing measures could be implemented in the short term, such as: (i) enforcement of the 15 percent withholding tax on interest and dividends; (ii) alignment of the excise rates on domestic production to the rates applied to imports; and (iii) inclusion of import duties and other customs charges in the excise tax base.

[14] Financing for three Fund resident advisors has been provided by the European Union. The two advisors placed in the GRA are supporting the new management team and implementation of the VAT. The third advisor supports development of the MTEF and other budget procedures.

reserve money. This will require more consistent implementation of monetary policy on a day-to-day basis and improved liquidity forecasting and liquidity management, as well as short-term monetary instruments (REPOs).[15] Looking further ahead, the CBG will also seek to develop a more effective policy interest rate. [MEFP ¶31]

15. The CBG will maintain a flexible exchange rate policy that seeks to rebuild confidence in the foreign exchange market. The CBG will continue to intervene in the FX market only to maintain order, with all interventions done in a transparent manner at market exchange rates. The CBG may also occasionally purchase foreign exchange to meet its targets for net international reserves, although, for the time being, the CBG has suspended its planned buildup of international reserves, until depreciation pressures have subsided. Still, the CBG maintains a comfortable stock of international reserves at about 4½ months of import cover. In addition, it is expected that over the medium term it will resume a gradual buildup of reserves to about 5 months of import cover. [MEFP ¶30]

16. While the banking system is currently well capitalized, the CBG is taking several steps to strengthen supervision and reduce the costs of financial intermediation. In particular, new systems for electronic reporting by commercial banks, payments, and securities settlements are nearly fully operational. These will facilitate supervision and data collection, as well as reduce transactions costs. A review of the Manual of Guidelines and Instructions is one operational element that has been a challenge, but should be completed by the end of 2013.The CBG is also working to enhance the capacity of bank supervisors for macro-prudential analysis, including stress testing. During 2013, the CBG plans to submit proposals to the National Assembly for amendments to the Banking Act of 2009 and the CBG Act of 2005 that, for example, would raise the standards of governance, such as fit and proper tests for large shareholders of commercial banks and greater autonomy for the CBG. Technical difficulties with the Credit Reference Bureau have prevented this valuable tool from facilitating financial intermediation by reducing lending risks and helping to lower interest rates for creditworthy borrowers. The management team of the CBG anticipates that this problem will be resolved before the year’s end. [MEFP ¶32-34]

C. Debt Sustainability and Financing the *PAGE*

17. Good implementation of the *PAGE* could generate a substantial boost to economic growth and further poverty reduction in The Gambia, but institution building will be critical for success. The authorities have been actively seeking financial resources to implement projects and sector strategies in agriculture, education, health, and infrastructure that have been identified in the *PAGE*. Eventually, following good progress on the fiscal adjustment, fiscal savings from lower interest costs on domestic debt could provide substantial resources for *PAGE* priorities. In addition, efforts to attract concessional funding have been fruitful, including nearly US$95 million in grants from the African Development Bank to build a bridge across the Gambia River. The authorities also intend to pursue private sector participation in infrastructure investment, however, institution

[15] The CBG has received Fund TA for this purpose.

building, such as a high quality unit in the Ministry of Finance and Economic Affairs to vet proposals for public-private partnerships, will be critical for success. Of particular importance, a national energy strategy that addresses NAWEC's (the National Water and Electricity Company) financial shortcomings is urgently needed to attract sound private investment to the energy sector, without offering government guarantees and exposing the government to major contingent liabilities.[16] Similarly, progress on a strategic study for GAMTEL (the public telecom company) is needed to clarify its proper role in the modernization and expansion of telecom services in The Gambia. The authorities are taking steps to develop such strategies in consultation with development partners. Finally, as demonstrated by the Ministry of Basic and Secondary Education, a well-run ministry can make major strides towards achieving the Millennium Development Goals. Greater stability and expertise in the leadership and management of key ministries would enhance implementation of the *PAGE*. [MEFP ¶35-36]

18. The Gambia's external debt indicators suggest that there is some scope for the government to take on limited amounts of debt that do not qualify as concessional loans. The authorities seek to obtain funding (US$28 million) from the Islamic Development Bank (IsDB) for the rehabilitation of the facilities of the Gambia Groundnut Corporation (GGC).[17] The financing has a grant element of about 20 percent, which falls short of the 35 percent minimum required under the ECF arrangement, but the project itself meets sufficient conditions that would enable it to support The Gambia's development and poverty reduction efforts without significantly weakening its debt sustainability position (Box). Given these conditions, and the authorities' commitment not to take on other non-concessional external loans, staff endorses this IsDB-supported project.[18] [MEFP ¶28]

19. A debt sustainability analysis (DSA) conducted jointly by World Bank and Fund staffs indicates that The Gambia's classification for risk of external debt distress has improved from "high" to "moderate", but domestic debt still poses substantial risks.[19] The improvement in the risk classification is due to an upgrade of institutional capacity indicators and a modification to external debt indicators, which now include re-exports. Recognizing the elevated amount of domestic debt stock and rollover risks, the DSA endorses the focus of the ECF arrangement on fiscal adjustment to reduce annual net domestic borrowing.

[16] A national energy strategy should also review the current monopoly structure for fuel imports.

[17] The loan has not yet become effective; the contract is pending approval by the Fund's Board of a performance criterion on new non-concessional borrowing that accommodates the loan.

[18] Two other public enterprises, the Gambia Ports Authority and GAMTEL, have contracted or are at advanced stages of contracting nonconcessional loans, but these do not involve government guarantees.

[19] See the 2013 Debt Sustainability Analysis update prepared jointly by the staffs of the World Bank and International Monetary Fund.

Box. Non-Concessional Loan for the Gambia Groundnut Corporation (GGC)

The government has negotiated a loan from the Islamic Development Bank (IsDB) for the modernization and rehabilitation of the GGC. Although the terms of this US$28 million loan are soft (grant element of about 20 percent), they fail to meet the minimum grant element of 35 percent that is required under the ECF-supported program. Nevertheless, the IsDB loan and project satisfy the criteria under the Fund's policy on external debt limits that would allow a restricted amount of nonconcessional borrowing.

- ***The project is a critical element of The Gambia's poverty reduction and development strategy.*** The *PAGE* places a strong emphasis on developing the agricultural sector, and groundnuts in particular is a key cash crop and source of income for the rural poor. Groundnuts are also primarily destined for exports, which would help to strengthen the balance of payments. Development partners concur with this assessment.

- ***The project is assessed to be highly profitable.*** The IsDB project document and due diligence report that the investment is expected to yield a net profit of 15 percent and would double groundnut exports between 2016 and 2020.

- ***The Gambia's external debt would remain on a sustainable path.*** The 2013 DSA update has evaluated the impact of this loan and shows that it would not significantly alter the sustainability of external debt.

- ***The authorities report that other sources of concessional financing were not available for this project.***

D. Improving Economic Statistics

20. Poor-quality economic and financial data handicap policy making and program monitoring. Both the national accounts and balance of payments statistics suffer from limitations on the collection of raw data and a lack of scrutiny of estimated results. The weak balance of payments data inhibit the authorities' ability to anticipate pressure on the exchange rate and manage a desirable path for accumulating international reserves. Projecting a path for international reserves is further complicated by insufficient information on core elements of the CBG's foreign exchange cash flow, such as project disbursements and government imports and other expenditures requiring foreign exchange. [MEFP ¶37]

PROGRAM PERFORMANCE, MONITORING, AND PROPOSED PERFORMANCE CRITERIA

21. **Although performance under the first review of the ECF-supported program was broadly satisfactory (end-June 2012 test date), the review was delayed for several months,** initially because of the uncertainty following the directive on the exchange rate issued in October 2012. A deterioration in program performance, including extrabudgetary spending and substantial fiscal slippages in late 2012, subsequently added to the delay.

22. **At end June 2012, all of the performance criteria (PCs) were observed; however, a continuous PC was not observed.**[20] The ceiling on NDB and the CBG's net domestic assets (NDA) were met by a comfortable margin, while the floor on official net international reserves (NIR) was met by a narrow margin. In addition, the government refrained from accumulating overdrafts and other new credit from the CBG at below-market interest rates, which has helped to minimize fiscal dominance on monetary policy. The lone non-observance arose when a small amount of arrears were incurred on debt service obligations to a Paris Club creditor late in 2012. The arrears were on a loan that was guaranteed by government and were cleared before the year's end—an appropriate corrective action. The end-June indicative target for government revenues was narrowly missed, but the floor on *PAGE* expenditures was met. (Appendix I, Attachment 1, MEFP Table 2)

23. **At end-December 2012, there were substantial slippages, partly because of the delay in completing the first review.** The ceiling on NDB, the floor on NIR, and the ceiling on the CBG's net domestic assets were unmet by wide margins. On the latter two, the weakness in the balance of payments would have warranted a modification of the program targets, but the delay in completing the first review precluded the opportunity to do so. Both end-December indicative targets, on government revenues and *PAGE* expenditures, were met. Because the slippages at end-December were substantial and the authorities have set their sights on program targets for 2013 that are largely in line with the original objectives of the ECF-supported objectives—albeit with a delay in the medium-term buildup of international reserves—a re-phasing of the second and subsequent reviews (by six months) to monitor future progress under the program would be more appropriate than seeking waivers for the missed PCs.[21]

24. **Progress on the structural agenda has been poor.** Although the VAT—the centerpiece of the tax reform agenda—was implemented, as scheduled,[22] several benchmarks have been delayed, including measures to improve revenue administration, budget planning, liquidity management, and banking supervision. Some of these delays occurred because the necessary timelines were underestimated. Ongoing technical assistance provided by Fund staff and experts has led to some

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[20] See the authorities' letter to the Managing Director dated May 7, 2013 and the attached Memorandum of Economic and Financial Policies and the Technical Memorandum of Understanding (Appendix I).

[21] The proposed re-phasing does not imply an extension of the program and the amount of the originally proposed sixth review will be disbursed at the fifth and the final review.

[22] Including the introduction of the VAT, only two structural benchmarks were met on time.

progress on the structural agenda in recent months and the outlook for meeting revised timelines is positive. (Appendix I, Attachment 1, MEFP Tables 3 and 4)

25. Proposed performance criteria for the second and third reviews of the ECF-supported program, as well as indicative targets, are set out in Table 2 of the Memorandum of Economic and Financial Policies (MEFP) (Appendix, Attachment 1). The proposed test dates for these reviews are end-June and end-December 2013, respectively. The quantitative targets for 2013 are consistent with reducing government's NDB to a more sustainable level and maintaining a sufficient stock of international reserves, while exercising monetary restraint. The program will continue to guard against fiscal dominance. In line with the Fund's policy on debt limits, the proposed ceiling for contracting nonconcessional debt would support investment in a critical area for poverty reduction, while still ensuring debt sustainability. Aside from the identified project loan, the authorities will continue to limit external borrowing to loans that meet a minimum grant element of 35 percent. The authorities have also set several macro-critical structural benchmarks aimed at improving debt management; budget planning, execution, and monitoring; liquidity management; financial supervision; and economic statistics (see Appendix I, Attachment 1, MEFP Table 4).

26. The main risks to program implementation include the re-emergence of extrabudgetary expenditures and the possibility of shocks that further weaken the balance of payments. A commitment to the cash-budgeting approach, while protecting pro-poor expenditures, and fully-funded supplementary budgets to ensure transparency helps to mitigate the program risk of such unanticipated spending. Close monitoring of balance of payments and exchange rate pressures, together with exchange rate flexibility, would help to minimize associated program risks.

STAFF APPRAISAL

27. The Gambian economy is still recovering from the severe drought and crop failure in 2011. Emergency assistance provided by the government, international aid agencies, and bilateral donors in 2012 played a critical role in mitigating the immediate impact of the drought on vulnerable families and farmers and enabling the ongoing recovery. Staff notes that an ample stock of official international reserves helped to maintain relatively good macroeconomic stability during this difficult period.

28. Staff urges the authorities to curb government's domestic borrowing and to sustain the fiscal adjustment needed to reduce the high cost and risks of domestic debt. Consistently meeting fiscal targets is critical for building credibility and eventually achieving substantial fiscal savings from lower interest costs. These savings could then be directed to *PAGE* priorities. Staff welcomes the improved classification on the risk of debt distress, which reflects a sustained effort to improve public financial management. Still there is much room for improvement on debt management, starting with maintaining high quality debt data and projections of debt service obligations.

29. Staff welcomes the timely implementation of the value-added tax and encourages the authorities to pursue further tax reform and improvements in revenue administration to rebuild revenues. It is critical that the momentum to improve taxpayer compliance is sustained. Staff encourages the authorities to strictly implement monthly fuel price adjustments so as to eliminate fuel subsidies in the near future and to direct the resulting increase in government revenues to more pro-poor activities. Staff supports the strengthening of government's cash-budgeting approach to ensure that domestic borrowing limits are observed, while also protecting spending on *PAGE* priorities. However, to achieve a better and more effective allocation of government resources, further progress is needed to enhance budget procedures, execution, and monitoring, particularly on incorporating a medium-term expenditure framework.

30. Staff welcomes the progress achieved toward eliminating fiscal dominance and encourages the authorities to implement a restrained monetary policy, particularly while rebuilding confidence in the dalasi. Staff supports the CBG's efforts to strengthen banking supervision and reduce the cost of financial intermediation. In particular, a quick resolution of the technical difficulties of the credit reference bureau could have a profound impact on reducing lending risks and interest rates for creditworthy borrowers.

31. Staff encourages the authorities to maintain a flexible exchange rate policy to help the economy adjust to balance of payment shocks. While it is important for The Gambia to maintain its ample stock of international reserves, staff agrees that there is scope to temporarily suspend the building up of reserves during the current period of weaknesses in the balance of payments.

32. Staff urges the authorities to step up efforts to strengthen economic statistics. While technical assistance would be needed to support these efforts, it is necessary that budget allocations to the Gambia Bureau of Statistics are sufficient to ensure the timely and regular collection of data inputs.

33. Staff recommends completion of the first review under the ECF arrangement. Based on the minor nature of the non-observance and the corrective actions, staff also recommends a waiver for the nonobservance of the continuous performance criterion guarding against external payments arrears. Staff recommends approval of the authorities' request for the re-phasing of the second and subsequent reviews of the ECF-supported program and the modification of the continuous performance criterion to allow the contracting of a non-concessional loan from the Islamic Development Bank for the modernization and rehabilitation of the Gambia Groundnut Corporation.

Table 1. The Gambia: Selected Economic Indicators

	2010	2011	2012		2013		2014	2015
	Act.	Prel.	Prog.	Prel.	Prog.	Proj.	Proj.	Proj.
National account and prices	(Percent change; unless otherwise indicated)							
Nominal GDP (millions of dalasi)	26,662	26,465	29,435	28,792	34,014	33,102	37,771	42,119
Nominal GDP	11.1	-0.7	2.8	8.8	15.6	15.0	14.1	11.5
GDP at constant prices	6.5	-4.3	-1.7	4.0	9.7	9.0	8.5	6.5
GDP per capita (US$)	558	508	508	492	541	508	542	569
GDP deflator	4.3	3.7	4.6	4.6	5.3	5.5	5.1	4.7
Consumer prices (average)	5.0	4.8	4.7	4.6	5.5	5.5	5.5	5.0
Consumer prices (end of period)	5.8	4.4	5.0	4.9	6.0	6.0	5.0	5.0
External sector								
Exports, f.o.b.	0.9	16.3	-5.2	-9.1	9.0	8.0	8.8	8.6
Of which: domestic exports	1.2	34.7	-44.5	-57.7	29.0	63.5	28.6	13.2
Imports, f.o.b.	5.3	7.1	10.0	8.5	-0.7	-1.2	3.8	6.6
Terms of trade (deterioration -)	-1.4	1.8	2.7	3.8	2.7	3.2	3.7	2.5
NEER change (depreciation -)[1]	-1.2	-6.5	…	-7.1	…	…	…	…
REER (depreciation -)[1]	0.6	-5.7	…	-5.4	…	…	…	…
Money and credit	(Percent change; in beginning-of-year broad money)							
Broad money	13.7	11.0	9.0	7.8	14.9	12.5	14.1	11.5
Net foreign assets	1.3	5.6	2.5	2.3	5.3	2.4	4.0	5.4
Net domestic assets, of which:	12.3	5.4	6.5	5.5	9.6	10.1	10.1	6.1
Credit to the government (net)	16.8	8.2	6.6	6.1	1.9	3.0	0.9	0.9
Credit to the private sector (net)	4.7	2.8	5.6	1.3	8.0	6.3	9.0	5.0
Other items (net)	-10.1	-5.2	-6.7	-1.7	-1.5	0.5	-0.3	-0.2
Velocity (level)	2.0	1.8	1.8	1.8	1.8	1.9	1.9	1.9
Average treasury bill rate (in percent)[2]	11.3	10.0	…	10.4	…	…	…	…
Central government budget	(In percent of GDP; unless otherwise indicated)							
Domestic revenue (taxes and other revenues)	14.9	16.1	15.8	16.6	17.2	16.8	17.7	18.3
Grants	4.0	5.1	6.7	9.1	5.4	6.4	6.9	7.4
Total expenditures and net acquisition of financial assets	24.9	25.8	27.7	30.2	25.1	25.5	26.3	27.4
Net incurrence of liabilities	5.8	4.3	5.1	4.4	2.5	2.3	1.7	1.7
Foreign	1.5	0.8	1.6	1.1	1.5	0.9	1.2	1.2
Domestic	4.4	3.5	3.6	3.3	1.0	1.4	0.5	0.5
Basic balance	-3.3	-2.1	-3.4	-2.1	-0.1	-1.8	-1.4	-1.6
Public debt	69.6	77.3	77.3	78.0	71.1	72.0	66.0	62.0
Domestic public debt	29.4	33.2	33.1	33.8	29.7	30.7	27.4	25.1
External public debt	40.2	44.1	44.2	44.3	41.4	41.2	38.6	36.9
External public debt (millions of US$)	377.6	386.2	400.8	375.8	416.2	384.2	396.5	409.6
External sector								
Current account balance								
Excluding budget support	-16.0	-15.5	-18.8	-19.8	-15.5	-16.9	-15.1	-14.3
Including budget support	-16.0	-15.5	-17.8	-17.4	-15.0	-16.2	-14.4	-13.6
Current account balance	(Millions of U.S. dollars; unless otherwise indicated)							
Excluding budget support	-154.3	-140.2	-176.4	-177.4	-158.5	-160.8	-157.7	-161.1
Including budget support	-154.3	-140.2	-167.5	-155.9	-153.4	-154.2	-150.4	-153.4
Overall balance of payments	-23.8	8.4	-7.3	1.0	8.4	0.6	13.6	20.4
Gross official reserves	157.6	169.7	191.6	183.8	203.3	185.9	198.3	217.0
in months of next year's imports of goods and services	4.4	4.4	4.9	4.8	4.9	4.6	4.7	4.8
Use of Fund resources	(Millions of SDRs)							
Disbursements	2.0	2.3	0.0	9.3	0.0	3.1	3.1	3.1
Repayments	0.0	0.0	-0.2	-0.8	-1.0	-2.1	-3.8	-4.3
Financing gap (possible ECF financing)	0.0	0.0	10.9	0.0	3.1	0.0	0.0	0.0

Sources: Gambian authorities and Fund staff estimates and projections.

[1] Percentage change between December of the previous year and December of the current year.

[2] Average for the month of December.

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

	2010	2011	2012		2013		2014	2015
	Act.	Act.	Prog.	Prel.	Prog.	Proposed.	Proj.	Proj.
Revenue	5,026	5,619	6,633	7,397	7,680	7,704	9,303	10,823
Taxes	3,528	3,780	4,111	4,221	5,211	4,951	5,989	6,907
Taxes on income, profits, and capital gains	1,109	1,225	1,284	1,520	1,547	1,588	1,816	2,035
Domestic taxes on goods and services	1,500	1,683	1,827	1,833	2,509	2,362	2,938	3,411
Taxes on international trade and transactions	867	830	952	856	1,100	988	1,220	1,445
Other taxes	53	42	47	12	55	13	15	17
Grants	1,065	1,355	1,982	2,611	1,822	2,132	2,605	3,111
Budget support	0	0	279	296	170	229	266	287
Project grants	1,065	1,355	1,703	2,315	1,652	1,903	2,339	2,824
Other revenues	433	484	540	565	647	621	709	805
Expenditures	6,466	6,871	8,175	8,675	8,528	8,454	9,987	11,589
Expenses	4,059	4,579	5,342	5,068	5,101	5,761	6,872	7,637
Compensation of employees	1,516	1,693	1,725	1,804	1,960	1,875	2,139	2,386
Use of goods and services [1]	1,216	1,273	1,896	1,540	1,273	2,244	3,009	3,430
Interest	766	967	1,098	1,079	1,211	1,116	1,185	1,171
External	137	183	151	202	266	208	219	238
Domestic	629	785	947	877	945	907	966	933
Subsidies	561	646	623	645	657	527	539	650
Net acquisition of nonfinancial assets	2,407	2,292	2,834	3,607	3,427	2,693	3,115	3,952
Acquisitions of nonfinancial assets	2,407	2,292	2,834	3,607	3,427	2,693	3,115	3,952
Foreign financed[2]	1,808	1,985	2,505	3,308	2,633	2,283	2,707	3,153
Gambia local fund	599	307	329	299	794	409	408	799
Gross Operating Balance	967	893	1,292	2,328	2,578	1,942	2,430	3,186
Net lending (+)/borrowing (–)	-1,440	-1,252	-1,542	-1,278	-848	-750	-684	-766
Net acquisition of financial assets	175	-56	-30	24	0	-4	-49	-65
Net incurrence of liabilities	1,560	1,150	1,512	1,261	848	747	635	701
Domestic	1,173	926	1,049	945	340	455	189	211
Net borrowing[3]	1,269	904	1,094	1,042	340	500	189	211
Bank	1,473	1,094	972	906	304	430	159	181
o/w from project accounts	0	0	0	141	0	0	0	0
Nonbank	-204	-190	121	136	37	70	30	30
Change in arrears	-97	16	-45	-98	0	-45	0	0
Privatization proceeds	0	6	0	0	0	0	0	0
Foreign	387	224	464	317	508	292	446	490
Loans	387	224	464	317	508	292	446	490
Borrowing	742	630	867	852	981	1,042	1,154	1,244
Amortization	-355	-406	-404	-535	-472	-750	-708	-753
Statistical discrepancy[4]	56	46	0	40	0	0	0	0
Memorandum items:								
Government revenue (excluding grants)	3,961	4,264	4,651	4,786	5,857	5,572	6,698	7,712
Overall balance	-1,615	-1,196	-1,512	-1,302	-848	-747	-635	-701
Basic balance[5]	-873	-566	-990	-605	-38	-595	-533	-659
Basic primary balance[6]	-107	402	108	474	1,173	520	652	512
Domestic public debt	7,847	8,773	9,746	9,718	10,086	10,173	10,362	10,572
Interest payments as a percent of government rev	19.3	22.7	23.6	22.5	20.7	20.0	17.7	15.2

Sources: Gambian authorities and Fund staff estimates and projections.

[1] After 2013, about 22.5 percent of the sum of project grants and external project loans is allocated to this item.

[2] Equals the sum of project grants, external project loans, and changes in project accounts up to 2012. After 2013, about 22.5 percent of the sum of those is allocated to use of goods and services.

[3] In 2012, target under the ECF was adjusted downwrad to GMD 667 million reflecting donor-provided drought relief.

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

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

[6] Basic balance, excluding interest payments.

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

	2010	2011	2012		2013		2014	2015
	Act.	Act.	Prog.	Prel.	Prog.	Proposed.	Proj.	Proj.
Revenue	18.9	21.2	22.5	25.7	22.6	23.3	24.6	25.7
Taxes	13.2	14.3	14.0	14.7	15.3	15.0	15.9	16.4
Taxes on income, profits, and capital gains	4.2	4.6	4.4	5.3	4.5	4.8	4.8	4.8
Domestic taxes on goods and services	5.6	6.4	6.2	6.4	7.4	7.1	7.8	8.1
Taxes on international trade and transactions	3.3	3.1	3.2	3.0	3.2	3.0	3.2	3.4
Other taxes	0.2	0.2	0.2	0.0	0.2	0.0	0.0	0.0
Grants	4.0	5.1	6.7	9.1	5.4	6.4	6.9	7.4
Budget support	0.0	0.0	0.9	1.0	0.5	0.7	0.7	0.7
Project grants	4.0	5.1	5.8	8.0	4.9	5.7	6.2	6.7
Other revenues	1.6	1.8	1.8	2.0	1.9	1.9	1.9	1.9
Expenditures	24.3	26.0	27.8	30.1	25.1	25.5	26.4	27.5
Expenses	15.2	17.3	18.1	17.6	15.0	17.4	18.2	18.1
Compensation of employees	5.7	6.4	5.9	6.3	5.8	5.7	5.7	5.7
Use of goods and services [1]	4.6	4.8	6.4	5.3	3.7	6.8	8.0	8.1
Interest	2.9	3.7	3.7	3.7	3.6	3.4	3.1	2.8
External	0.5	0.7	0.5	0.7	0.8	0.6	0.6	0.6
Domestic	2.4	3.0	3.2	3.0	2.8	2.7	2.6	2.2
Subsidies	2.1	2.4	2.1	2.2	1.9	1.6	1.4	1.5
Net acquisition of nonfinancial assets	9.0	8.7	9.6	12.5	10.1	8.1	8.2	9.4
Acquisitions of nonfinancial assets	9.0	8.7	9.6	12.5	10.1	8.1	8.2	9.4
Foreign financed[2]	6.8	7.5	8.5	11.5	7.7	6.9	7.2	7.5
Gambia local fund	2.2	1.2	1.1	1.0	2.3	1.2	1.1	1.9
Gross Operating Balance	3.6	3.4	4.4	8.1	7.6	5.9	6.4	7.6
Net lending (+)/borrowing (–)	-5.4	-4.7	-5.2	-4.4	-2.5	-2.3	-1.8	-1.8
Net acquisition of financial assets	0.7	-0.2	-0.1	0.1	0.0	0.0	-0.1	-0.2
Net incurrence of liabilities	5.8	4.3	5.1	4.4	2.5	2.3	1.7	1.7
Domestic	4.4	3.5	3.6	3.3	1.0	1.4	0.5	0.5
Of which								
Net borrowing[3]	4.8	3.4	3.7	3.6	1.0	1.5	0.5	0.5
Bank	5.5	4.1	3.3	3.1	0.9	1.3	0.4	0.4
o/w from project accounts	0.0	0.0	0.0	0.5	…	0.0	0.0	0.0
Nonbank	-0.8	-0.7	0.4	0.5	0.1	0.2	0.1	0.1
Change in arrears	-0.4	0.1	-0.2	-0.3	0.0	-0.1	0.0	0.0
Privatization proceeds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign	1.5	0.8	1.6	1.1	1.5	0.9	1.2	1.2
Loans	1.5	0.8	1.6	1.1	1.5	0.9	1.2	1.2
Borrowing	2.8	2.4	2.9	3.0	2.9	3.1	3.1	3.0
Amortization	-1.3	-1.5	-1.4	-1.9	-1.4	-2.3	-1.9	-1.8
Statistical discrepancy[4]	0.2	0.2	0.0	0.1	0.0	0.0	0.0	0.0
Memorandum items:								
Taxes (in percent of non-agricultural GDP)	18.6	17.6	19.8	18.5	…	19.3	20.9	21.6
Government revenue (excluding grants)	14.9	16.1	15.8	16.6	17.2	16.8	17.7	18.3
Overall balance	-6.1	-4.5	-5.1	-4.5	-2.5	-2.3	-1.7	-1.7
Basic balance[5]	-3.3	-2.1	-3.4	-2.1	-0.1	-1.8	-1.4	-1.6
Basic primary balance[6]	-0.4	1.5	0.4	1.6	3.4	1.6	1.7	1.2
Domestic public debt	29.4	33.2	33.1	33.8	29.7	30.7	27.4	25.1

Sources: Gambian authorities and Fund staff estimates and projections.

[1] After 2013, about 22.5 percent of the sum of project grants and external project loans is allocated to this item.

[2] Equals the sum of project grants, external project loans, and changes in project accounts up to 2012. After 2013, about 22.5 percent of the sum of those is allocated to use of goods and services.

[3] In 2012, target under the ECF was adjusted downwrad to GMD 667 million reflecting donor-provided drought relief.

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

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

[6] Basic balance, excluding interest payments.

Table 4. The Gambia: Monetary Accounts[1]

(In millions of local currency, unless otherwise indicated)

	2010	2011	2012		2013		2014	2015
	Act.	Act.	Prog.	Prel.	Prog.	Proposed.	Proj.	Proj.
I. Monetary Survey								
Net foreign assets	3,808	4,548	4,913	4,883	5,770	5,260	5,972	7,079
in millions of U.S. dollars	134	150	151	144	170	148	162	187
Net domestic assets	9,485	10,205	11,171	11,019	12,716	12,632	14,445	15,688
Domestic credit	10,161	11,570	13,452	12,628	15,238	14,162	16,024	17,317
Claims on central government (net)	5,041	6,135	7,039	7,042	7,342	7,512	7,670	7,851
Claims on other financial corporations	10	12	12	12	12	12	12	12
Claims on other public sector[2]	870	811	965	765	1,168	826	917	1,000
Claims on private sector	4,240	4,612	5,436	4,809	6,715	5,812	7,425	8,454
Other items (net)[3]	-677	-1,365	-2,280	-1,609	-2,522	-1,529	-1,579	-1,629
Broad money	13,292	14,753	16,085	15,902	18,486	17,893	20,417	22,767
Currency outside banks	2,065	2,376	2,527	2,819	2,879	3,189	3,593	3,973
Deposits, of which:	11,228	12,377	13,558	13,083	15,606	14,704	16,824	18,794
Time and savings deposits	7,270	8,087	8,902	8,506	10,247	9,560	10,938	12,219
II. Central Bank Survey								
Net foreign assets	2,452	3,088	3,063	3,415	3,483	3,522	4,043	5,009
Foreign assets	4,637	5,517	6,218	6,618	6,886	6,987	7,678	8,618
Foreign liabilities	-2,185	-2,429	-3,155	-3,203	-3,403	-3,465	-3,635	-3,609
Net domestic assets	1,052	846	1,159	788	1,270	1,138	1,233	844
Domestic credit	644	703	1,172	593	1,417	863	1,008	669
Claims on central government (net)	588	649	1,118	529	1,363	800	945	606
Claims on other financial corporations	10	12	12	12	12	12	12	12
Claims on private sector	46	42	42	51	42	51	51	51
Claims on public enterprises	0	0	0	0	0	0	0	0
Other items (net)[3]	408	143	-13	196	-147	275	225	175
Reserve money	3,503	3,934	4,222	4,203	4,752	4,660	5,276	5,853
Currency outside banks	2,065	2,376	2,527	2,819	2,879	3,189	3,593	3,973
Commercial bank deposits	1,439	1,558	1,695	1,384	1,873	1,470	1,682	1,879

Sources: Gambian authorities and Fund staff estimates and projections.

[1] End of period.

[2] Includes public enterprises and the local government.

[3] Including valuation.

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

	2010	2011	2012		2013		2014	2015
	Act.	Act.	Prog.	Prel.	Prog.	Proposed.	Proj.	Proj.
				I. Monetary Survey (Percent change; in beginning of period broad money)				
Broad money	13.7	11.0	9.0	7.8	14.9	12.5	14.1	11.5
Net foreign assets	1.3	5.6	2.5	2.3	5.3	2.4	4.0	5.4
Net domestic assets	12.3	5.4	6.5	5.5	9.6	10.1	10.1	6.1
				II. Central Bank Survey (Percent change; in beginning of period monetary base)				
Reserve money	10.5	12.3	7.3	6.8	12.6	10.9	13.2	10.9
Net foreign assets	-16.7	18.2	-0.7	8.3	9.9	2.5	11.2	18.3
Net domestic assets	27.2	-5.9	8.0	-1.5	2.6	8.3	2.0	-7.4
Memorandum Items:								
Growth of credit to the private sector	14.8	8.8	17.9	4.3	23.5	20.8	27.8	13.9
Growth of currency in circulation	3.0	15.1	6.3	18.6	13.9	13.1	12.7	10.6
Growth of demand deposits	10.1	8.4	8.5	6.7	15.1	12.4	14.4	11.7
Growth of time and savings deposits	19.3	11.2	10.1	5.2	15.1	12.4	14.4	11.7
Net usable international reserves (in millions of U.S. dollars)[2]	126.5	135.1	128.5	135.1	137.4	134.0	145.1	167.3
Money velocity (levels)	2.01	1.79	1.83	1.81	1.84	1.85	1.85	1.85
Money multiplier (levels)	3.79	3.75	3.81	3.78	3.89	3.84	3.87	3.89
Daily reserve money (in millions of local currency)[3]	3,782	3,911	...	...	...	...	...	...
Growth rate of daily reserve money	17.0	3.4	...	...	...	...	...	...
Broad money (percent of GDP)	49.9	55.7	54.6	55.2	54.3	54.1	54.1	54.1
Credit to the private sector (percent of GDP)	15.9	17.4	18.5	16.7	19.7	17.6	19.7	20.1
Central bank financing of central government (in millions of local currency)	488	61	538	-119	244	270	145	-339
Commercial bank financing of central government (in millions of local currency)	986	1034	434	1025	59	200	14	519

Sources: Gambian authorities and Fund staff estimates and projections.

[1] End of period.

[2] In 2012, target under the ECF was adjusted upward by US$ 14.1 million reflecting donor-provided drought relief. After this adjustment, NUIR targets under the original ECF, measured at the market exchange rate, would be US$ 142.6 million at end-2012 and US$ 151.5 million at end-2013.

[3] Average for the month of December.

Table 6. The Gambia: Balance of Payments

(In millions of U.S. dollars, unless otherwise indicated)

	2010	2011	2012		2013		2014	2015
	Act.	Proj.	Prog.	Prel.	Prog.	Proposed.	Proj.	Proj.
1. Current account								
A. Goods and services	**-179.4**	**-165.1**	**-205.5**	**-202.9**	**-190.2**	**-188.6**	**-188.6**	**-193.9**
Trade balance	-216.6	-223.3	-260.6	-262.0	-248.4	-249.6	-253.6	-267.8
Exports, f.o.b.	95.7	111.2	108.2	101.1	118.0	109.1	118.8	129.0
Of which: domestic goods [1]	11.0	14.8	9.9	6.2	12.8	10.2	13.1	14.8
Imports, f.o.b.	-312.2	-334.5	-368.8	-363.1	-366.4	-358.8	-372.3	-396.8
Of which: oil	-40.9	-50.3	-57.7	-52.8	-61.0	-56.3	-58.9	-60.6
Services (net)	37.1	58.2	55.1	59.1	58.1	61.0	64.9	74.0
Of which: travel income	70.9	84.1	85.9	91.4	92.3	98.0	105.1	113.0
B. Income (net)	**-29.9**	**-33.1**	**-34.7**	**-34.9**	**-37.3**	**-35.0**	**-34.4**	**-35.2**
Income credits	2.3	2.5	2.5	2.5	2.6	2.6	3.1	3.2
Income debits	-32.2	-35.6	-37.3	-37.4	-39.9	-37.6	-37.5	-38.4
Of which: interest on government debt	-7.3	-7.5	-4.8	-7.6	-8.0	-6.0	-6.1	-6.4
C. Current transfers	**55.0**	**57.9**	**72.8**	**81.9**	**74.1**	**69.4**	**72.7**	**75.6**
Official transfers [2]	0.0	0.0	8.9	21.5	5.1	6.6	7.4	7.7
Remittances	45.2	47.8	53.5	50.1	58.4	52.2	54.4	56.8
Other transfers	9.8	10.1	10.3	10.3	10.6	10.6	10.9	11.1
Current account (excl. budget support)	**-154.3**	**-140.2**	**-176.4**	**-177.4**	**-158.5**	**-160.8**	**-157.7**	**-161.1**
Current account (incl. budget support)	**-154.3**	**-140.2**	**-167.5**	**-155.9**	**-153.4**	**-154.2**	**-150.4**	**-153.4**
2. Capital and financial account								
A. Capital account [3]	**38.5**	**46.2**	**54.3**	**73.9**	**49.8**	**54.8**	**64.7**	**75.6**
B. Financial account	**139.0**	**114.7**	**105.9**	**111.0**	**112.0**	**99.9**	**99.2**	**98.3**
Foreign direct investment	85.6	60.1	73.1	61.6	66.5	58.3	66.0	71.9
Portfolio investment	-1.5	-1.1	-1.1	-1.1	-0.2	-1.1	-1.0	-1.0
Other investment	54.8	55.8	33.8	50.5	45.7	42.7	34.2	27.3
Of which: Change in the NFA of commercial banks (increase -)	-22.9	-0.5	-8.8	5.0	...	-5.7	-3.5	-2.1
Official other investment (net)	11.1	11.4	14.8	11.2	15.3	8.4	12.3	13.1
Loans	23.6	25.3	27.7	27.7	29.6	30.0	31.9	33.3
SDR Allocations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	-12.6	-13.9	-12.9	-16.5	-14.3	-21.6	-19.6	-20.2
Capital and financial account	**177.5**	**160.9**	**160.2**	**184.9**	**161.8**	**154.7**	**163.9**	**173.9**
Errors and omissions	-47.0	-12.3	0.0	-28.0	0.0	0.0	0.0	0.0
Overall balance	**-23.8**	**8.4**	**-7.3**	**1.0**	**8.4**	**0.6**	**13.6**	**20.4**
Financing								
Net international reserves (increase -)	23.8	-8.4	-22.2	-1.0	-13.2	-0.6	-13.6	-20.4
Change in gross international reserves	20.7	-12.1	-21.9	-14.1	-11.7	-2.1	-12.4	-18.6
Use of IMF resources (net)	3.1	3.7	-0.3	13.1	-1.5	1.5	-1.1	-1.8
Disbursements	3.1	3.7	0.0	14.3	0.0	4.8	4.8	4.8
Repayments	0.0	0.0	-0.3	-1.2	-1.5	-3.2	-5.9	-6.5
Financing gap (possible ECF financing)	0.0	0.0	16.8	0.0	4.8	0.0	0.0	0.0
Memorandum items:								
Exports of goods and services	226.4	260.7	260.5	257.1	280.4	274.0	294.3	316.8
Imports of goods and services	-405.8	-425.7	-466.1	-460.0	-470.6	-462.6	-483.0	-510.7
Gross International Reserves [2]								
US$ millions	157.6	169.7	191.6	183.8	203.3	185.9	198.3	217.0
Months of current year's imports of goods and services	4.7	4.8	4.9	4.8	5.2	4.8	4.9	5.1
Months of next year's imports of goods and services	4.4	4.4	4.9	4.8	4.9	4.6	4.7	4.8

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] The figure for 2012 includes US$ 14.3 million in donor assistance for drought relief, which was not included in the 2012 prog. column.

[3] Project grants explain the entire amount of capital account.

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

	2010	2011	2012		2013		2014	2015
	Act.	Proj.	Prog.	Prel.	Prog.	Proposed.	Proj.	Proj.
1. Current account								
A. Goods and services	**-18.6**	**-18.3**	**-21.9**	**-22.6**	**-18.5**	**-19.8**	**-18.1**	**-17.2**
Trade balance	**-22.5**	**-24.7**	**-27.7**	**-29.2**	**-24.2**	**-26.2**	**-24.3**	**-23.8**
Exports, f.o.b.	9.9	12.3	11.5	11.3	11.5	11.4	11.4	11.4
Of which: domestic goods [1]	1.1	1.6	1.1	0.7	1.2	1.1	1.3	1.3
Imports, f.o.b.	-32.4	-37.1	-39.3	-40.4	-35.7	-37.6	-35.6	-35.2
Of which: oil	-4.2	-5.6	-6.1	-5.9	-5.9	-5.9	-5.6	-5.4
Services (net)	3.9	6.4	5.9	6.6	5.7	6.4	6.2	6.6
Of which: travel	7.4	9.3	9.1	10.2	9.0	10.3	10.1	10.0
B. Income (net)	**-3.1**	**-3.7**	**-3.7**	**-3.9**	**-3.6**	**-3.7**	**-3.3**	**-3.1**
Income credits	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Income debits	-3.3	-3.9	-4.0	-4.2	-3.9	-3.9	-3.6	-3.4
Of which: interest on government debt	0.8	0.8	-0.5	0.9	-0.8	0.6	0.6	0.6
C. Current transfers	**5.7**	**6.4**	**7.7**	**9.1**	**7.2**	**7.3**	**7.0**	**6.7**
Official transfers [2]	0.0	0.0	0.9	2.4	0.5	0.7	0.7	0.7
Remittances	4.7	5.3	5.7	5.6	5.7	5.5	5.2	5.0
Other transfers	1.0	1.1	1.1	1.2	1.0	1.1	1.0	1.0
Current account (excl. budget support)	**-16.0**	**-15.5**	**-18.8**	**-19.8**	**-15.5**	**-16.9**	**-15.1**	**-14.3**
Current account (incl. budget support)	**-16.0**	**-15.5**	**-17.8**	**-17.4**	**-15.0**	**-16.2**	**-14.4**	**-13.6**
2. Capital and financial account								
A. Capital account [3]	**4.0**	**5.1**	**5.8**	**8.2**	**4.9**	**5.7**	**6.2**	**6.7**
B. Financial account	**14.4**	**12.7**	**11.3**	**12.4**	**10.9**	**10.5**	**9.5**	**8.7**
Foreign direct investment	8.9	6.7	7.8	6.9	6.5	6.1	6.3	6.4
Portfolio investment	-0.2	-0.1	-0.1	-0.1	0.0	-0.1	-0.1	-0.1
Other investment	5.7	6.2	3.6	5.6	4.5	4.5	3.3	2.4
Of which: Change in the NFA of commercial banks (increase -)	-2.4	-0.1	-0.9	0.6	…	-0.6	-0.3	-0.2
Official other investment (net)	1.1	1.3	1.6	1.2	1.5	0.9	1.2	1.2
Loans	2.5	2.8	2.9	3.1	2.9	3.1	3.1	3.0
SDR Allocations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	-1.3	-1.5	-1.4	-1.8	-1.4	-2.3	-1.9	-1.8
Capital and financial account	**18.4**	**17.8**	**17.1**	**20.6**	**15.8**	**16.2**	**15.7**	**15.4**
Errors and omissions	-4.9	-1.4	0.0	-3.1	0.0	0.0	0.0	0.0
Overall balance	**-2.5**	**0.9**	**-0.8**	**0.1**	**0.8**	**0.1**	**1.3**	**1.8**
Financing gap (possible ECF financing)	0.0	0.0	1.8	0.0	0.5	0.0	0.0	0.0

Sources: Gambian authorities and Fund staff estimates and projections.

[1] Domestic goods consist of (in decreasing order of importance): groundnuts, fruits and vegetables, zircon, fish, and cotton.
[2] The figure for 2012 includes US$ 14.3 million in donor assistance for drought relief, which was not included in the 2012 prog. column.
[3] Project grants explain the entire amount of capital account.

Table 8. The Gambia: Financial Soundness Indicators

(In percent, unless otherwise indicated)

	2008	2009	2010	2011	2012	2013 (March)
Capital Adequacy						
Regulatory capital to risk-weighted assets	19.6	18.8	26.0	27.1	30.2	27.7
Tier-1 capital to risk-weighted assets[1]	21.0	19.3	26.9	28.2	31.2	20.2
Asset quality						
Nonperforming loans to total gross loans	13.7	12.3	15.0	12.9	11.6	11.0
Nonperforming loans net of provisions to capital	5.8	4.3	7.2	7.9	11.7	9.5
Earnings and profitability						
Return on assets (average)	0.1	-1.6	-0.5	0.0	2.0	1.2
Return on equity (average)	0.8	-24.9	-2.7	0.2	8.0	8.0
Net Interest income to gross income	35.3	37.0	29.6	37.1	35.3	35.3
Operating expenses to gross income	65.8	62.0	65.2	59.5	58.0	57.7
Liquidity						
Liquid assets to total assets	43.6	35.7	37.3	41.6	52.1	48.9
Liquid assets to short-term liabilities	70.9	62.1	59.7	64.2	80.9	75.6
Exposure to FX risk:						
Net open FX position to capital	19.1	6.0	1.3	-1.0	4.5	17.2

Sources: Gambian authorities, and Fund staff estimates.

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

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

Date of availability	Amount (SDR)	Amount (percent of quota[1])	Conditions
May 25, 2012	9,330,000	30.00	Executive Board approval of new ECF arrangement.
November 1, 2012	1,555,000	5.00	Completion of first review, based on observance of the performance criteria and structural benchmarks for end-June 2012.
November 1, 2013	1,555,000	5.00	Completion of second review, based on observance of the performance crite and structural benchmarks for end-June 2013.
May 1, 2014	1,555,000	5.00	Completion of third review, based on observance of the performance criteria and structural benchmarks for end-December 2013.
November 1, 2014	1,555,000	5.00	Completion of fourth review, based on observance of the performance criteri and structural benchmarks for end-June 2014.
March 15, 2015	3,110,000	10.00	Completion of fifth review, based on observance of the performance criteria and structural benchmarks for end-December 2014.
	18,660,000	60.00	

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

Table 10. The Gambia: Indicators of Capacity to Repay the Fund, 2013–21

	2013	2014	2015	2016	2017	2018	2019	2020	2021
	Projections								
Fund obligations based on existing credit									
Principal	1.0	2.1	3.8	4.3	5.2	5.4	4.3	2.5	2.1
Charges and interest	0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Fund obligations based on existing and prospective credit 1/									
Principal	1.0	2.1	3.8	4.3	5.2	5.4	4.7	3.8	3.7
Charges and interest	0.0	0.0	0.1	0.1	0.1	0.1	0.0	0.0	0.0
Total obligations based on existing and prospective credit 1/									
In millions of SDRs	1.0	2.1	3.9	4.4	5.3	5.4	4.8	3.8	3.7
In millions of US$	1.5	3.2	6.0	6.7	8.1	8.3	7.3	5.8	5.6
In percent of Gross International Reserves	0.8	1.6	2.8	2.8	3.2	3.0	2.5	1.8	1.6
In percent of exports of goods and services	0.9	1.7	3.0	3.1	3.5	3.4	2.8	2.1	1.9
In percent of debt service 2/	6.2	12.7	22.4	23.0	26.9	28.5	26.5	21.6	26.8
In percent of GDP	0.2	0.3	0.5	0.5	0.6	0.6	0.5	0.4	0.3
In percent of quota	3.2	6.8	12.6	14.0	17.0	17.5	15.3	12.3	11.8
Outstanding Fund credit 1/									
In millions of SDRs	33.8	34.8	34.1	29.8	24.5	19.0	14.0	9.9	5.9
In millions of US$	51.7	53.5	52.2	45.5	37.4	28.9	21.2	15.1	9.0
In percent of Gross International Reserves	27.8	27.0	24.1	19.3	14.8	10.6	7.3	4.7	2.6
In percent of exports of goods and services	29.6	28.3	25.8	20.9	16.0	11.7	8.1	5.4	3.0
In percent of debt service 2/	208.3	208.8	194.6	157.5	124.6	99.8	77.7	56.1	43.2
In percent of GDP	5.4	5.1	4.6	3.8	2.9	2.1	1.4	0.9	0.5
In percent of quota	108.6	111.9	109.5	95.8	78.9	61.1	44.9	31.7	19.0
Net use of Fund credit (millions of SDRs)	0.6	1.0	-0.7	-4.3	-5.2	-5.4	-4.7	-3.8	-3.7
Disbursements	1.6	3.1	3.1	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and Repurchases	1.0	2.1	3.8	4.3	5.2	5.4	4.7	3.8	3.7
Memorandum items:									
Nominal GDP (in millions of US$)	953.4	1,045.0	1,127.4	1,212.9	1,306.2	1,406.7	1,515.0	1,631.5	1,757.1
Exports of goods and services (in millions of US$)	175.1	188.7	202.7	217.7	234.2	246.3	263.3	279.7	298.0
Gross International Reserves (in millions of US$)	185.9	198.3	217.0	235.7	253.5	273.2	292.3	318.3	342.2
Debt service (in millions of US$) 2/	24.8	25.6	26.8	28.9	30.0	29.0	27.3	26.9	20.9
Quota (millions of SDRs)	31.1	31.1	31.1	31.1	31.1	31.1	31.1	31.1	31.1

Sources: IMF staff estimates and projections.

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

2/ Total debt service includes IMF repurchases and repayments.

Appendix I. Letter of Intent

Banjul, The Gambia
May 7, 2013

Madame Christine Lagarde
Managing Director
International Monetary Fund
Washington, DC 20431

Dear Madame Lagarde:

1. The year 2012 marked the beginning of implementation of the Programme for Accelerated Growth and Employment (PAGE), which is The Gambia's development strategy and investment programme for 2012-2015. The PAGE aims to accelerate and sustain economic growth and development while creating employment opportunities for Gambians in order to improve their socio-economic conditions. The Government of The Gambia aims to achieve this objective through strategic investments in infrastructure, education, agriculture, tourism, health, and energy. The PAGE also calls for a sound macroeconomic policy framework that reduces the risks to economic stability and provides a strong foundation for growth and employment. More specifically, this policy framework, which is supported by an arrangement under the Extended Credit Facility (ECF) approved by the IMF Executive Board in May 2012, seeks to reduce Government's domestic borrowing needs, gradually build up international reserves, and ensure a sound financial system.

2. The Gambian economy has begun to recover from the severe drought and crop failure of 2011. By providing food, seeds, and fertilizer, relief efforts by the Government, aid agencies, and donors helped to mitigate the impact of the drought on the most vulnerable farmers and families. In 2012 real GDP is estimated to have grown by about 4 percent, driven by a partial rebound in agriculture and strength in the tourism sector. In 2013, non-agricultural GDP is projected to grow by 5-5½ percent, while overall GDP growth could climb to about 8-9 percent, depending on the expected continuation of the recovery in agriculture. Despite the ongoing agricultural recovery and good performance in the tourism sector, the balance of payments has weakened, contributing to depreciation pressures on the Gambian dalasi.

3. Almost all performance criteria (PCs) for the 1st review of the ECF arrangement were met (end-June 2012 test date). During the first half of 2012, progress was achieved on containing government's borrowing and building up international reserves. However, one continuous PC was not observed in late 2012, when external payments arrears were incurred on external debt service obligations due on a Government-guaranteed loan to the National Water and Electricity Company. The Government cleared the past-due balances in December 2012. Good progress has also been achieved on our structural agenda, including the successful introduction of a value-added tax on January 1, 2013, as planned.

4. In light of this performance, we request a waiver for the nonobservance of the continuous PC that sets a zero limit on external arrears. We also request the completion of the 1st review under the ECF arrangement and a disbursement in the amount of SDR 1,555,000 (5 percent of quota).

5. Although the 1st review of the programme has been delayed and three of the original PCs for the 2nd review (end-December 2012 test date) were missed, we have set our sights on targets for 2013 that

are largely in line with the original objectives of the ECF-supported programme. Given these, we request a re-phasing of the second and subsequent semi-annual reviews by six months. That is, we request that the test dates for the second and third reviews of the programme be pushed back to end-June 2013 and end-December 2013, respectively. As discussed in the attached Memorandum of Economic and Financial Policies (MEFP), the Government of The Gambia will limit its net domestic borrowing (NDB) to about 1½ percent in 2013, moderately higher than originally planned (1 percent of GDP). In addition, the Central Bank of The Gambia (CBG) will rebuild its international reserves over the course of the year, after experiencing an unseasonal loss in early 2013. The Gambian authorities remain committed to the medium-term objectives of the ECF-supported programme, including reducing the Government's net domestic borrowing (NDB) to ½ percent of GDP a year by 2014 and gradually building up international reserves to 5 months of import coverage.

6. Finally, we also request a modification of the PC restricting the Government's contracting of non-concessional loans to allow financing from the Islamic Development Bank to rehabilitate the groundnut sector—a key sector for poverty reduction. Although the loan will only have a grant element of about 20 percent, we have consulted with World Bank and IMF staffs to verify that debt sustainability would be maintained.

7. The Government believes that the policies set forth in the attached MEFP and Technical Memorandum of Understanding will achieve the objectives of the programme, but stands ready to take further measures that might become necessary for this purpose. The Government will continue to provide the information required to accurately monitor the programme. Furthermore, the Government will consult with the IMF in advance of any revisions to the policies contained in the MEFP, in accordance with the IMF's policies on such consultations, at the initiative of the Government or the IMF.

8. The Government intends to make available to the public this letter and its attachments, the IMF staff's report, and all other documents related to the programme. We authorize the IMF to arrange for these documents to be posted on its website following the Executive Board's conclusion of the review.

Sincerely yours,

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

Attachments:

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

Attachment I. Memorandum of Economic and Financial Policies

Introduction and Background

1. This memorandum reports on performance under The Gambia's programme supported by an arrangement with the International Monetary Fund (IMF) under the Extended Credit Facility (ECF). The ECF arrangement, which was approved by the Executive Board of the IMF on May 25, 2012, aims at consolidating macroeconomic stability in order to support The Gambia's poverty reduction strategy, the Programme for Accelerated Growth and Employment (*PAGE*) 2012-2015. This memorandum also reports on the macroeconomic policy agenda going forward.

Background and Recent Economic Developments

2. Real GDP grew by an estimated at 4 percent in 2012, a sharp turnaround from a contraction of 4.3 percent in 2011. Growth was mainly driven by a rebound in agriculture late in the year and continued strength in the tourism sector. That is, after a severe crop failure in 2011, when crop production fell by 60 percent due to drought, crops increased by about 30 percent during the 2012 harvest. Tourism, which staged a strong rebound in 2011, continued to grow in 2012 by about 8½ percent, partly reflecting access to new markets in northern and eastern Europe. Manufacturing weakened in early 2012, especially groundnut processing, while construction remained soft throughout the year. Despite pressure on food prices and a weakening of the Gambian dalasi, inflation remained under control (4.9 percent year-on-year in December 2012).

3. Relief efforts initiated in March 2012 by Government, aid agencies, and donors mitigated the impact of the drought on vulnerable farmers and families and helped to maintain macroeconomic stability. The drought relief was estimated to require about USD 23 million of spending on emergency imports of food, seeds, and fertilizer. Aid agencies and donors provided USD 14.3 million in drought relief to meet immediate food shortages, seeds, fertilizer, and animal feed, as well as to support a recovery in rice production. The Government's drought relief efforts focused largely on supplying fertilizer and groundnut seeds to distressed farmers. The stepped-up donor assistance, together with a front-loaded initial disbursement from the ECF helped to maintain exchange rate stability during the first half of 2012, but beginning in the third quarter, the dalasi came under depreciation pressures. In addition to sales of official international reserves by the Central Bank of The Gambia (CBG), the Office of the President issued a directive on October 22 that introduced temporary measures to stem a potentially excessive depreciation.[1] For the year as a whole, the dalasi depreciated by 12.2 percent against the U.S.

[1] The directive, which was lifted on November 16, targeted an exchange rate of 28 GMD/USD. It also targeted hoarding and shipments of foreign currencies by foreign exchange bureaus, unlicensed dealers, and individuals.

(continued)

dollar, 9.2 percent against the euro, and 20.6 percent against the British pound. Meanwhile, as of end-2012, official international reserves stood at about 4½ months of projected imports of goods and services for the following year.

4. The Government's 2012 budget aimed at reducing net domestic borrowing (NDB) to 1.8 percent of GDP in 2012 (from 3.4 percent of GDP in 2011), however, NDB increased to 3.6 percent of GDP, partly because of Government's contribution to drought relief (just over ½ percent of GDP). The budget also underestimated external debt service payments (by just over ½ percent of GDP), including payments to clear arrears on debt service on a government guaranteed loan to the National Water and Electricity Company (NAWEC). Other unanticipated expenditures late in the year included payments on domestic arrears for electricity and vehicles, purchases of equipment for implementation of the VAT, and emergency pharmaceuticals to counter outbreaks of meningitis and a highly contagious cattle disease. Because these mandatory payments were incurred so late in the year it was impossible to cut back on other spending to observe targets for NDB. The supplemental budget approved by the National Assembly in September 2012 also proved to be underfunded. Government revenues exceeded budget projections, mainly because of an intensified effort to improve tax compliance arising from the Presidential Commission of Inquiry into Tax Evasion. As a result, government revenues (excluding grants) increased to 16.9 percent of GDP in 2012, up from 16.6 percent of GDP in 2011.

5. The Gambia continues to face a heavy debt burden. Domestic debt, in particular, is costly and poses significant risks. Although there was some progress on restraining Government's net domestic borrowing (NDB) during the first three quarters of 2012, which helped to ease pressure on T-bill yields, NDB increased sharply in the fourth quarter, leading to a uptick in yields and an increase in the stock of domestic debt. As of end-2012, Government's domestic debt stood at nearly 34 percent of GDP, an increase of about ½ percentage point of GDP from the previous year. Overall there was some lowering of interest costs relative to Government revenues. Interest on domestic debt consumed nearly 18½ percent of government revenues in 2012, remained the same as in 2011. Including external debt, interest consumed 22½ percent of government revenues in 2012, about the same as in 2011. There has also been some progress with external debt. Preliminary results from an updated analysis prepared by IMF and World Bank staffs indicate that external debt sustainability has improved.

6. Growth in the monetary aggregates dipped in 2012, as broad money grew by a restrained 7.8 percent. Reserve money grew more slowly (by 6.8 percent), partly reflecting an increase in the money multiplier arising from the reduction in the reserve requirement on deposits from 12 percent to 10 percent in May. Banking system credit to the private sector also fell, to just 4.3 percent in 2012 from 8.8 percent in 2011 largely due to the fact that banks were

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Although restrictions on shipments of foreign currencies by commercial banks were quickly lifted, some banks were still impacted during the initial week of the directive.

cleaning up their portfolios. In addition, increased government borrowing and structural bottlenecks in the banking sector kept interest rates high which dampened demand for credit from the private sector. Non-performing loans (NPLs) ratio to total loans declined to 11.6 percent at end-2012 from 12.7 percent at end-2011. As planned, on December 31, 2012, the minimum capital requirement (MCR) for commercial banks was raised to GMD 200 million. Twelve of the 13 banks have met the new MCR, and one has voluntarily chosen to cease operations. With sufficient assets to cover its liabilities, the winding down of the closed bank is nearly completed.

7. The Government of The Gambia and the CBG have continued to make progress on the structural agenda.

8. On Government revenues:

- The Commission of Inquiry into Tax Evasion and other Corrupt Practices, which was established in October 2011, published its report in early June 2012. On the basis of its findings, the GRA's executive management team was replaced. In addition, the report spurred the collection of tax arrears.

- The Government adjusted fuel prices nearly every month in 2012. In December, pump prices were 7.4 percent below the full pass-through level, on average. However, adjustments to pump prices often failed to keep pace with import prices and forgone revenues arising from the subsidies amounted to about GMD 468 million in 2012 (1.6 percent of GDP).

- All domestic producers are complying with excise taxes and all outstanding arrears have been eliminated.

- The GRA has implemented a detailed compliance improvement plan for large taxpayers. Around 86 percent of large taxpayers filed their income tax returns in 2012. This is up from 79 percent in 2011.

- As planned, the Government started bringing holders of expired Special Investment Certificates (SICs) into the tax net, removed tax waivers on sugar and cement, and discontinued the fuel concession given to the Gambia Port Authority (GPA). The Government introduced a quota system for duty exemptions on fuel for diplomatic missions in July 2012.

- The Government has continued to strengthen the GRA's Domestic Taxes department with more staff to respond adequately to the VAT compliance requirements in audit and enforcement. In 2012, the remaining 25 additional staff needed were hired.

- In the area of customs administration, ASYCUDA++ has been rolled out to all border stations.

- In line with its commitments to ECOWAS, the Government introduced the new value added tax (VAT) on January 1, 2013, as planned. The GRA continues to work closely with registered companies to facilitate compliance with the new tax.

- The Government has almost completed the upgrading of the GAMTAXNET and been designing the core processes that are essential for successful VAT implementation, such as taxpayer registration, return filing, payment processing, refund, enforcement, and audit. The remaining two modules (objections and appeals and MIS modules) will be completed by end-April 2013.

- With help from IMF technical assistance, the Government has prepared the regulations for implementing the VAT Act.

- The Government has, with effect from 2013, simplified small business taxation by imposing a final tax rate of 3 percent on all taxpayers with a turnover below GMD 500,000.

- In the area of customs administration, a risk management program is in place. Also the GRA's management approved a training and technical assistance plan for the Customs and Excise Department.

9. On public financial management (PFM) reforms in 2012, including improving budget preparation and execution:

- To meet NDB objectives, the authorities used a cash budgeting approach to keep spending under control. However, toward the end of the year it became necessary to meet necessary debt service and other statutory and essential expenditures and it was too late in the year to cut down on other discretionary expenditures.

- The audited Government's accounts for 2008 were submitted to the National Assembly in November 2012. In addition, the backlog of Government's accounts for 2009-2011 have been submitted to the National Audit Office (NAO).

- The Government prepared a budget framework paper for 2013 with indicative budget projections for 2013-2015, which was submitted to the National Assembly as part of the annual budget documentation in November 2012. The budget framework included an indicative Medium-Term Expenditure Framework (MTEF).

- The Government conducted a comprehensive survey of domestic arrears. As of February 2012, claims totaled GMD 479 million (about 1.7 percent of GDP). Payments will be made only after a thorough verification.

- Indicative floors on poverty-reducing expenditures were met during 2012.

10. On bolstering its operational independence and improving liquidity forecasting and management:

- The Government has continued to refrain from accessing credit from the CBG at below-market interest rates. Overdraft balances have been cleared by the end of each month. Interest arrears of around GMD 133 million on government securities held by the CBG and incurred in previous years were cleared in early 2012.

- Following the resumption of regular meetings of the interagency committee on liquidity management, in January 2012 the CBG has posted each month a rolling 3-month projection of T-bill auctions by maturities.

11. On strengthening financial sector stability and expanding access to credit for the private sector:

- Financial soundness indicators show that commercial banks are generally well capitalized and liquid. However, non-performing loans (NPLs) remain high at 11.6 percent of total loans at end-2012. In order to facilitate financial intermediation, the CBG reduced the reserve requirement by 2 percentage points (to 10 percent) in late May 2012. Gambian banks do not have significant direct exposure to problem banks in Europe.

- In consultation with commercial banks, the private sector, and other stakeholders, the CBG reviewed the relevant legislation (such as the Sheriffs and Mortgages Acts) and regulations in 2012 and found the laws to be adequate.

- In June 2012, the CBG launched V-RegCoSS, an electronic reporting system for commercial banks which will facilitate the accurate and timely submission of statutory returns. V-RegCoSS will enable the CBG to access information from banks electronically which will improve offsite and onsite supervision.

- In early 2013, the CBG started the collection of new data, including on the term structure of commercial banks' assets and liabilities.

- The installation of CBG's new national payment system is almost complete. Work has progressed on the National Switch and the Securities Settlement System, which will become operational in June 2013. The new system will help reduce the overhead expenses of commercial banks. The CBG anticipates that commercial banks will pass these significant cost savings to consumers of financial products.

Performance under the ECF-supported Program

12. All of the end-June quantitative performance criteria (PCs) for the 1st review of the ECF were met (see Table 2); however, one continuous PC was not observed late in the year. That is, a small amount of external payments arrears were incurred, when an official creditor called in the

Government's guarantee of a loan to NAWEC with payments past due. All of the end-December quantitative PCs for the 2nd review were unmet, except the zero ceiling for CBG credit to the Government at non-market rates. The indicative floor on poverty-reducing expenditures was met for end-June and end-December, while the indicative target on total government revenues was missed narrowly at end-June, but was met at end-December.

13. Corrective actions were taken to address the nonobservance of the continuous PC on external payments arrears. After contacting the creditor, the Government cleared the debt service payments that were in arrears in December 2012. These payments totaled € 0.3 million. To prevent incurrence of external debt arrears, the government will step up efforts to improve debt management (see ¶24).

14. On the structural reform front, progress was mixed (see Table 3). The VAT bill was submitted to the National Assembly on June 14 and passed two weeks later. The VAT was also implemented as planned on January 1, 2013. Also GBoS started posting various data on its external website, but with a delay. The Government has made efforts to prepare quarterly budget execution reports, but these reports have not been published on MOFEA's website. A strategic study of GAMTEL and GAMCEL had been delayed, but has recently been initiated—that is, the consultants were contracted and have begun their work. As noted earlier, the budget framework paper for 2013 was submitted to the National Assembly in November, together with the draft budget. On revenue administration, amendments to relevant laws in order to shift the setting of certain law enforcement parameters from laws to regulations have been postponed until 2013, as these have turned out to be more time-consuming than anticipated. The commitment to review the Central Bank's Manual of Guidelines and Instructions has also been delayed, for similar reasons.

15. To improve the quality of BOP statistics, in 2012 the CBG conducted surveys of FDI and of trade credits and advances. When a strategy for backing-up and protecting its data is finalized and approved by the Board of the GBoS, it will be funded in the 2014 budget.

Economic and Financial Policies for 2013–2015

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

17. In addition to a sound macroeconomic framework, the *PAGE* has mapped out strategies for enhancing growth across all sectors of the Gambian economy. However, substantial financial resources will be needed to implement the medium-term investment plans in the *PAGE*. The Government will seek to generate such resources through a multi-pronged approach, including a rebuilding of government revenues, savings from reduced interest costs on domestic debt,

accessing external financing while maintaining debt sustainability, and harnessing private sector participation in viable sectors. The Government will work closely with its development partners to ensure that efforts to engage the private sector in infrastructure development are transparent and productive. Given the constrained resource envelope for 2013–2015 and the continued significant risk of debt distress, the Government has launched a sustained effort to engage development partners and attract support.

A. Economic Outlook for 2013 and the Medium Term

18. Based on an assumed recovery of crop production to the pre-drought levels of 2010 by 2015, real GDP growth is expected to receive a strong boost, reaching 8-9 percent in 2013 and 2014, before gradually returning to a long-term trend of about 5½ percent a year in 2016 and beyond. With good implementation and sound financing of the *PAGE*, there could be some upside potential for longer-term growth rates, especially if structural reforms in key areas of infrastructure—such as competitive open international telecommunications and a comprehensive national energy strategy—are adopted. Sound fiscal and monetary policies will aim to keep inflation under control and, once the current depreciation pressures have subsided, the CBG will resume a steady buildup of gross international reserves that would aim at achieving and maintaining 5 months of import coverage within the next few years.

19. Despite the strong performance in tourism and remittances, the balance of payments in 2012 was weaker than earlier projected. The much anticipated full recovery in agriculture did not materialize leading to higher food imports and a wider trade deficit. In addition to demand pressures from the food imports bill, the demand for foreign exchange from the oil sector was larger in 2012 than 2011. Going forward, although the impact of the 2011 drought is still visible, there is no further donor commitment to ease food shortages in 2013 implying that the pressure on the dalasi is likely to continue.

B. Fiscal Policy and Related Structural Reforms for 2013

20. Getting back on track with its gradual approach to fiscal adjustment the Government will limit its net domestic borrowing needs to GMD 500 million (1.5 percent of GDP) in 2013. To this end, the Government will aim to achieve revenue collection of GMD 5572 million (16.8 percent of GDP) in 2013. Although additional expenditures of GMD 189 million turned out to be necessary during 2013, the Government will observe the NDB ceiling by reducing fuel subsidies each month. These additional expenditures and fuel subsidies reduction were included in a fully funded supplementary budget submitted to the National Assembly on April 26, 2013.

The Government will pursue tax policy and revenue administration reforms to increase revenues, make the tax system simpler and more efficient, and improve the business environment. Beyond the VAT, which was introduced at the beginning of 2013, the Government intends to pursue a comprehensive agenda for tax reform aimed at broadening the tax base, eliminating certain taxes which do not meet a cost-benefit test[2] and simplifying direct taxes, including by reducing both the number of tax brackets and the levels of tax rates. Next steps include:

- The MOFEA will examine the TA report of the recently held FAD TA mission assessing its capacity to undertake tax expenditure budgeting.

- The Government will also assess the need to realign excise taxes on alcohol, tobacco, and other products.

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

- To rebuild revenues from fuel taxes, the Government will steadfastly adjust fuel prices on the 26th day of each month, to gradually eliminate the fuel subsidy, as indicated in the supplementary budget.

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

22. The Government will continue to tighten expenditure controls while maintaining the focus on poverty reduction. Wage bill increases will be tied to effective civil service reform aimed at retaining qualified staff, and the Government will seek technical assistance to conduct such reform. Unforeseen spending pressures will be limited to the contingency reserve in the budget. If necessary, the annual budget will be adjusted through supplementary bills, while maintaining the target for NDB. To further strengthen the cash-budgeting approach to control spending, all cash management functions will be transferred to the Directorate of the National Treasury by December 2013 (structural benchmark) while the Budget Directorate would be responsible for cash allocations.

23. To ensure that external debt service projections are accurately reflected in future budgets and payments are executed in a timely manner, the Ministry of Finance and Economic Affairs will regularly update, within 30 days from the end of each quarter, the monthly projections of debt service falling due through the next calendar year. (structural benchmark)

24. The Government will track poverty-reducing expenditures in the context of the *PAGE* through improved data collection, better definition, and better targeting of spending. Almost 50 percent of total GLF-financed expenditure in 2013 will be dedicated to poverty-reducing spending identified in the *PAGE*. Government also plans to eventually raise spending on agriculture and natural resources from seven to ten percent of total government expenditures, in line with the 2003 Maputo Declaration.

25. A primary objective of the Government is to strengthen further public financial management (PFM) in order to enhance fiscal transparency and expenditure control. Next steps include:

- To strengthen budget execution and monitoring, the Government will publish quarterly budget execution reports within 45 days of the end of each quarter (structural benchmark).

- By end-May 2013, the Government will update and prioritize the strategic plan of the Ministry of Basic and Secondary Education. It will also review, update, and cost MOFEA's strategic plan and that of two other line ministries (agriculture and health) in 2013, and expand the number of ministries that are preparing MTEF-compliant strategic plans in 2014, with a view to covering all ministries within four years.
- By May 2013, the MTEF concept note will be submitted to Cabinet for information.
- Ministry of Basic and Secondary Education and MoFEA will be pilots for an MTEF in 2013 while the Ministries of Agriculture and Health will be pilots in 2014.
- The 2014 budget framework paper will be submitted to Cabinet for approval by end-June 2013.

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

27. To support the much needed rehabilitation of infrastructure in the groundnut sector, the Government of The Gambia seeks to contract a nonconcessional loan (grant element of about 20 percent) from the Islamic Development Bank (IsDB). Before signing this loan, the Government has made sure that the external debt indicators would continue to remain below their respective thresholds to ensure debt sustainability. In addition, as cited in the *Programme for Accelerated Growth and Employment (PAGE)*, which was launched in December 2011, a large share of The Gambia's rural poor rely on higher returns to their groundnut crops to raise themselves above the poverty line. Improving the sector's infrastructure is key to their success. Finally, as indicated by the project assessment by the IsDB, the project is expected to have a high rate of return. The Government also consulted with World Bank and Fund staff, who agreed that the project was in line with *PAGE* objectives.[3]

C. Monetary and Exchange Rate Policies

28. The CBG will continue to use a money targeting framework to pursue its price stability objective (inflation at or below 6 percent in 2013 and 5 percent thereafter). The CBG will continue

[3] The Government intends to request a modification to the PC on non-concessional borrowing before signing the IsDB loan.

to use its rediscount rate to signal changes in policy stance. The CBG will continue to monitor average daily reserve money, with a view toward shifting to an average daily reserve money target in 2013, once an effective market tool for managing daily liquidity is available and fully tested.[4] Monetary policy in 2013 will aim to limit growth in average reserve money and broad money to 10.9 percent and 12½ percent, respectively. The central bank will continue to actively monitor energy and food prices. The Gambia's low inflation provides scope for monetary policy to accommodate first-round inflationary effects of higher energy and food prices. However, the CBG will be prepared to tighten monetary policy if shocks to energy and food prices start sifting into the general price level.

29. The CBG will maintain a flexible exchange rate, intervening in the market only to ensure orderly market conditions. If necessary, the CBG may also enter the market to obtain foreign exchange to meet its targets for international reserves.

30. Recent progress in strengthening central bank independence and improvements in liquidity forecasting and management should empower the CBG to proactively set and implement a consistent and predictable path for monetary policy and liquidity management. Next steps include:

- The Government will continue to adhere to a zero limit, on a monthly basis, on new credit from the central bank at below-market interest rates. The Government will adhere strictly to the schedule for payments of principal and interest on CBG-held government securities (see Table 1), which have been incorporated in the 2013 budget.

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

- With the expected completion of the installation of the Securities Settlement System by June 2013, the CBG plans to launch the market for daily repos by December 2013. The CBG will bear the interest costs of repo operations.

- The existence of a working tool for daily liquidity management will allow the CBG to start targeting average daily reserve money in 2014, and to also switch to a fortnightly schedule for T-bill auctions in 2014, which will make auctions more competitive and help lower interest rates.

D. Financial Intermediation

31. Improving the framework for financial supervision and prudential regulation will be important to support economic growth and stability. The CBG continues to regard the

[4] The CBG will also conduct a study of alternative policy interest rates.

continuous capacity building of its supervisory staff as absolutely critical for keeping pace with a rapidly changing banking system. It also recognizes the fact that supervision is labor intensive. Therefore, the CBG will continue to maintain adequate staffing levels and provide training for the staff of the Financial Supervision Department (FSD), with a particular focus on IT-related needs.

32. To boost financial sector stability, the Government intends to pursue a series of structural reforms:

- The technical problems at the Credit Reference Bureau will be corrected by end-2013. As a result, information on the current status of borrowers will be updated continuously and in a timely manner.
- The CBG is reviewing the Manual of Guidelines and Instructions (the review should be completed by end-December 2013).
- Additionally, the CBG introduced hard limits on aggregate large exposures, with equal treatment for secured and unsecured loans. Loan classification and provisioning rules will be tightened by introducing a new category of "special mention loans" capturing loans which are 30–90 days past due, with a provisioning rate of 5 percent. With this measure, the CBG believes that its provisioning rules are adequate.
- By September 2013, the CBG will submit to the National Assembly amendments to the Banking Act 2009, which will extend the hard limits on individual credit exposures to secured loans. Additional amendments will require the disclosure of banks' ultimate beneficial shareholders. The amended Banking Act will require shareholders holding more than 5 percent interest to be subjected to a fit and proper test and it will empower the FSD to suspend the shareholder rights of unfit and improper shareholders.
- By end-2013, the CBG will submit to the National Assembly amendments to the CBG Act 2005, which will strengthen the de jure autonomy of the central bank, bolster its governance and accountability, clarify the terms under which the CBG may extend credit to the Government, and make the Act compliant with IFRS regarding the treatment of unrealized foreign exchange valuation gains and losses.
- The capacity for macro-prudential analysis, including stress testing, will continue to be enhanced.
- Finally, the CBG is gradually migrating from a hybrid (compliance and risk-based) to a fully risk-based supervisory framework.

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

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

- The CBG is working with other stakeholders, such as the Ministry of Trade, Regional Integration and Employment and the Ministry of Justice, on developing a Collateral Registry, which should be operational in 2013.

E. Other Structural Reforms

34. To ensure greater private sector participation, promote competition, and reduce quasi-fiscal risks, the Government has initiated, in consultation with the World Bank, a strategic study of the state-owned telephone company (GAMTEL) and mobile phone operator (GAMCEL). The study will generate policy options for the Government's consideration, including the option to re-privatize GAMCEL, in line with *PAGE* objectives. Also, in line with commitments with the World Bank, the Government will ensure open and competitive access to international telecommunications. Given the limited budget resources for the *PAGE*, the Government will explore productive opportunities for public-private partnerships (PPPs) for other public enterprises (such as the GPA, GGC, NAWEC, ferries, roads, and bridges). To ensure that PPPs are critically evaluated, the MOFEA will staff its new PPP unit by end-2013. The Public-Private Infrastructure Advisory Facility (PPIAF) will support the Gambia with a pipeline screening exercise to identify potential infrastructure projects which could be structured as PPPs.

35. Also, in consultation with the World Bank, EU, and other development partners, the Government will elaborate a national energy strategy by end-2013. In this context, the Government is committed to strengthening regulatory bodies such as the public utility regulator (PURA), as well as improving the performance and financial health of the state electricity company (NAWEC). To protect consumers from unnecessarily high energy prices, the Government will explore a restructuring of the fuel import market with a view toward introducing stricter regulation or greater competition.

F. Statistics

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

- The Government has increased the budget allocations for GBoS for 2013 and a recent meeting with the MOFEA and Permanent Secretary II indicates that Government is willing to allocate more for GBoS to enable the Bureau to recruit more staff and train them as well. We intend to do the recruitment by May/June 2013. The proposed vacancies will be advertised immediately after completion of the data collection exercise of the 2013 Population and Housing Census. The conduct of an establishment survey has been budgeted under the WB Trust Fund for Statistical Capacity Building (TFSCB) project proposal.

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

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

- In November 2012, with help from donors, the Government held a forum for dialogue among users and producers of the National Statistical System.

- By June 2013, GBoS will rebase the CPI using the 2010 Integrated Household Survey.

- GBoS, CBG, the GRA's Customs and Excise Department, and the National Transport Union will resume holding regular quarterly meetings on re-exports, in order to standardize procedures and reports for border stations by end-June 2013, with a particular focus on recording re-exports correctly and consistently.

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

- The Government will maintain a consolidated database of government debt.

Program Monitoring for 2013

37. Performance under the program would be monitored through a set of quantitative performance criteria, indicative targets, and structural benchmarks (see Tables 2 and 4). Quantitative performance criteria include ceilings on net domestic borrowing of the Central Government and on net domestic assets of the Central Bank; floors on the net usable international reserves of the Central Bank; continuous ceilings on new external payments arrears of the Central Government, on new non-concessional external debt contracted or guaranteed by the Central Government, and on the outstanding stock of external public debt with original maturity of one year or less; and a monthly ceiling on central bank credit to the Central Government at non-market terms. Indicative targets include floors on total government revenues and poverty-reducing expenditures, and a ceiling on average daily reserve money.

38. Although the slippages at end-December 2012 were substantial, we have set our sights on targets for 2013 that are largely consistent with the original objectives of the ECF-supported programme. In light of this and the delay to completing the 1st review, the Gambian authorities seek a re-phasing of the semi-annual reviews under the ECF-supported programme, beginning with the 2nd review (end-June 2013 test date). The targets for the 2nd and 3rd reviews presented in Table 2 are consistent with the original programme objectives of gradually reducing Government's NDB to ½ percent of GDP in 2014 and beyond. The goal of building up official

gross international reserves to 5 months of imports, however, has been pushed back a year or two, because current weaknesses in the balance of payments are not conducive to reserve accumulation at this time.

39. The Government requests a modification to the continuous zero ceiling on new non-concessional external debt contracted or guaranteed by the Central Government, in order to accommodate a USD 28 million loan from the Islamic Development Bank to The Gambia Groundnut Corporation (GGC). Although this loan has a grant element that falls short of the minimum of 35 percent under the ECF-supported program, it is needed to help modernize the GGC's operations and boost productivity and growth in agriculture, in line with PAGE objectives.

40. Performance criteria and indicative targets for the ECF arrangement have been set for June and December 2013 and indicative targets have been set for March and September 2013. The program's structural agenda would target improvements in tax policy and revenue administration, public financial management, monetary policy, financial sector stability, and economic statistics. The second program review would be completed before end-December 2013, based on the end-June 2013 test date, and the third review would be completed before end-June 2014, based on the end-December 2013 test date. Definitions of all targeted variables and reporting requirements are contained in the attached technical memorandum of understanding (TMU).

Table 1. The Gambia: Schedule of Payments on Government Securities Held by the CBG Due by End-2013
(GMD millions)

	30-year bond		10-year bond		perpetual bond
Due date	principal	interest	principal	interest	interest
March 1, 2013	30.42	55.36			
June 30, 2013			10.42	5.00	6.25
September 1, 2013	30.42	54.37			
December 31, 2013			10.42	4.69	6.25

Table 2. The Gambia: Quantitative Performance Criteria and Indicative Targets

(Stocks; unless otherwise indicated)

	Jun. 2012			Sep. 2012			Dec. 2012			Jun. 2013	Sep. 2013	Dec. 2013
	Prog.	Adj.	Act.	Prog.	Adj.	Act.	Prog.	Adj.	Act.	Proposed	Proposed	Proposed
Quantitative performance criteria and indicative targets[1]												
1. Ceiling on net domestic borrowing of the central government (cumulative flows from the beginning of the calendar year, GMD millions)[2 3]	799	430	275	464	37	417	1,094	667	901	398	435	500
2. Ceiling on the stock of net domestic assets of the central bank (GMD millions, TMU exchange rates)[2 3]	1,608	1,238	1,081	1,257	831	919	1,429	1,003	1,145	1,116	1,228	1,283
3. Floor on the stock of net usable international reserves of the central bank (USD millions, TMU exchange rates)[4 5 6]	112.7	125.0	126.3	124.9	139.0	122.1	125.5	139.6	134.3	129.4	126.8	134.1
4. Continuous ceiling on new external payments arrears of the central government (USD millions)	0	0	0	0	0	0	0	0	2	0	0	0
5. Continuous ceiling on new nonconcessional external debt contracted or guaranteed by the central government (USD millions)[7]	0	0	0	0	0	0	0	0	0	28	28	28
6. Continuous ceiling on the outstanding stock of external public debt with original maturity of one year or less (USD millions)	0	0	0	0	0	0	0	0	0	0	0	0
7. Monthly ceiling on central bank credit to the central government at non-market terms (GMD millions)[8]	0	0	-193	0	0	0	0	0	0	0	0	0
Quantitative indicative targets												
8. Floor on total government revenues (cumulative flows from the beginning of the calendar year, GMD millions)	2,473	2,473	2,465	3,644	3,644	3,735	4,651	4,651	4,786	2,756	4,163	5,572
9. Floor on poverty-reducing expenditures (cumulative flows from the beginning of the calendar year, GMD millions)	905	905	1,104	1,358	1,358	1,624	1,811	1,811	2,154	1,357	1,822	2,334
10. Ceiling on average daily reserve money (GMD millions)										4,433	4,365	4,725

[1] Numbers for June and December of each year are performance criteria. All other numbers are indicative targets. Upon the Board's approval of the re-phasing request, the end-December 2012 numbers will no longer be performance criteria.

[2] The program targets for June, September, and December 2012 to be adjusted downward by the dalasi equivalent of donor-provided drought relief beyond the budget support grants from the World Bank and the African Development Bank, up to a maximum of USD 14.1 million.

[3] The program targets for June and December 2013 to be adjusted upward by the dalasi equivalent of the shortfall of the donor-provided support for the 2013 population Census, by up to GMD 111 million.

[4] The program targets for June, September, and December 2012 to be adjusted upward by the U.S. dollar equivalent of donor-provided drought relief beyond the budget support grants from the World Bank and the African Development Bank, up to a maximum of USD 14.1 million.

[5] The program targets for June and December 2013 to be adjusted downward by the US dollar equivalent of the shortfall of the donor-provided support for the 2013 population Census, by up to US$ 3.3 million.

[6] Measured at the TMU exchange rates, which was revised at the beginning of 2013 (see TMU of the MEFP for the 1st ECF review .).

[7] The non-zero limit starting in December 2012 is tied to a specific loan financing a specific project, as defined in the TMU.

[8] Zero ceiling applies to outstanding credits (for example, overdrafts) at non market terms as of the end of each month during the quarter.

Table 3. The Gambia: Status of Structural Benchmarks, June 2012 – April 2013

Measures	Implementation Date	Status
Submit VAT bill to the National Assembly.	End-May 2012	Met with a delay. Bill submitted on June 14 and passed on June 27.
Submit to Parliament amendments to the relevant law that would shift the setting of law enforcement parameters (such as the size of penalties for late lodgment or non-lodgment of tax returns) to regulations.	End-June 2012	Not met. Has been postponed until 2013.
GRA Board approval of a risk management program, a training and technical assistance plan.	End-December 2012	Met.
Introduce VAT[1]	January 1, 2013	Met.
Publish quarterly budget execution reports on MOFEA's website.	Continuous, beginning with Q2:2012	Not met. Quarterly reports will be posted on regular basis beginning in 2013Q2.
Submit to the National Assembly a budget framework paper for 2013 with indicative budget projections for 2013-2015.	End-October 2012	Met with a delay. The paper was submitted in November 2012.
Submit the updated strategic plan of the Ministry of Basic and Secondary Education to the Cabinet.	End-December 2012	Not met. Delayed until 2013.
Review the Manual of Guidelines and Instructions.[1]	June 2012	Not met. Delayed until 2013.
Start posting on the GBoS external website national account and CPI data, as well as detailed methodological information, and a calendar of upcoming data releases.	June 2012	Met with a delay. Posting started in December 2012.
Standardize procedures and reports for border stations.	September 2012	Not met. Delayed until 2013.
Launch the markets for daily repos and reverse repos.	January 2013.	Not met. Delayed until 2013.
Initiate a strategic study of GAMTEL and GAMCEL.[2]	September 2012	Met with a delay. Initiated in February 2013.

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

Table 4. The Gambia: Proposed Prior Action and Structural Agenda, 2013

Measures	Implementation Date	Macroeconomic Rationale
• Submit a Supplementary Budget to the National Assembly (prior action).	Done on April 26, 2013	**Shore up the NDB targets in 2013.**
Improving Projections of External Debt Service		
Quarterly update of monthly external debt service projections.		**Strengthen debt management**
• Within 30 days of the end of each quarter, update projections of monthly scheduled external debt service through the end of the next calendar year.	End-June, 2013	
Strengthening Budget Preparation, Execution and PFM		
Strengthen budget preparation, execution, and monitoring using the Integrated Financial Management and Information System (IFMIS).		**Improve efficiency and transparency in the use of government resources**
• Submit the 2014 budget framework paper to Cabinet for approval.	End-June 2013	
• Publish quarterly budget execution reports on MOFEA's website	Continuous, within 45 days after the end of each quarter	
• Transfer all cash management functions to the Directorate of the National Treasury.	End-December 2013	
Introduce a medium-term and performance focus to the budget.		**Improve allocation of government resources in line with the *PAGE***
• Submit the updated strategic plan of one line ministry to the MOFEA.	End-June 2013	**Initial step of multi-year plan to implement the MTEF.**
Improving the Conduct of Monetary Policy		
• Launch the market for daily repos and reverse repos.	End-December 2013	**Improve liquidity management.**
• Submit to the National Assembly amendments to the CBG Act 2005.	December 2013	**Strengthen the de jure autonomy of the CBG.**
Strengthening Financial Stability		
• Review the Manual of Guidelines and Instructions.[1]	End-December 2013	**Boost financial stability.**
• Submit to the National Assembly amendments to the Banking Act 2009.[2]	September 2013	**Boost financial stability.**
Improving Macroeconomic Statistics		
• Standardize procedures and reports for border stations, with a particular focus on recording re-exports correctly and consistently at all border stations.	June 2013	**Strengthen BOP statistics.**

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

[2] Postponed by three months as this measure has turned out to be more time consuming. See the Technical Memorandum of Understanding for specifics.

Attachment II. Technical Memorandum of Understanding

Introduction

1. This memorandum sets out the understandings between the Gambian authorities and the staff of the International Monetary Fund (IMF) regarding the definitions of quantitative performance criteria, indicative targets, and structural benchmarks that will be used to monitor the Extended Credit Facility (ECF)-supported program covering the period of 2012–2015. It also sets out the related reporting requirements and describes the adjusters that will be applied to certain quantitative performance criteria and indicative targets of the program.

Quantitative Performance Criteria

A. Net Domestic Borrowing of the Central Government

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

3. **Adjuster:** The quarterly targets for net domestic borrowing of the Central Government for 2013 will be adjusted upward by the dalasi equivalent of the shortfall of the donor-provided support for the 2013 Population Census up to a maximum of GMD 111 million.

4. **Supporting material:** Reporting on net domestic borrowing will form part of the consolidated budget report described in paragraph 36 below.

B. Net Domestic Assets of the Central Bank

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

6. For program monitoring purposes, in the calculation of the net domestic assets of the CBG, foreign assets and liabilities will be converted at the prevailing end-of-period market exchange rates for end-December 2012: 33.92 GMD/USD, 1.32 USD/EUR, 1.58 USD/GBP, 1.09 USD/CHF, 1.54 USD/SDR. Foreign assets and liabilities denominated in other currencies will be converted into U.S. dollars at the prevailing end-of-period market exchange rates for December 2011, and then into dalasi at the rate listed above. These are accounting exchange rates only and should not be construed as projections.

7. **Adjuster:** The quarterly targets for net domestic assets of the CBG for 2013 will be adjusted downward by the dalasi equivalent of the total budget support grants received from the World Bank and African Development Bank, up to a maximum of USD 4 million.

8. **Supporting material:** Net domestic assets of the central bank will be transmitted as part of the balance sheet of the CBG (compiled based on the TMU rates) on a monthly basis within four weeks of the end of each month. For analytical purposes, the balance sheet of the CBG compiled on a current-rate basis will also be submitted.

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

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

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

11. **Adjuster:** The quarterly targets for net usable international reserves of the CBG for 2013 will be adjusted downward by the U.S. dollar equivalent of the shortfall of the donor-provided support for the 2013 Population Census up to a maximum of GMD 111 million. The amounts of the shortfall of the support for the 2013 Population Census will be converted at the exchange rates listed in paragraph 6 above.

12. Adjuster: The quarterly targets for net usable international reserves of the CBG for 2013 will be adjusted upward by the U.S. dollar equivalent of the total budget support grants received from the World Bank and African Development Bank, up to a maximum of USD 4 million.

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

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

D. New External Payments Arrears of the Central Government

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

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

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

17. Definition: This target refers to new non-concessional external debt contracted or guaranteed by the Central Government. It applies not only to debt as defined in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt, adopted by the Executive Board of the IMF on August 3, 1979 (Decision No. 6230–(79/140), as amended by Decision No. 14415–(09/91), but also to commitments contracted or guaranteed for which value has not been received. Loans or purchases from the IMF and debts with a grant element of at least 35 percent[1] are excluded from this target. This performance criterion will be assessed on a continuous basis.

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

18. Supporting material: A comprehensive record, including a loan-by-loan accounting of all new concessional and non-concessional debt contracted or guaranteed by the Central Government with detailed explanations, will be transmitted on a quarterly basis within four weeks of the end of each quarter. Non-concessional external debt includes financial leases and other instruments giving rise to external liabilities, contingent or otherwise, on non-concessional terms.

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

19. Definition: This target refers to the stock of outstanding external public sector debt with original maturity of one year or less, owed or guaranteed by the public sector.[27] Public sector consists of the Central Government and regional governments and other public agencies, including the central bank. Normal import-related credits are excluded from this target.

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

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

21. Definition: This target refers to the consolidated balance on the Treasury Expenditure Account, the Consolidated Revenue Fund, and other revenue accounts. It also covers all gross claims on the Central Government on the balance sheet of the central bank, with terms (including maturity and yield) materially different from the ones prevailing in the market for Treasury bills and bonds around the time of acquisition of these claims. The target also covers any overdue payments of principal and interest on Central Government securities held by the central bank. This performance criterion will be assessed at the end of each month.

22. Supporting material: Reporting on new central bank credit to the government at non-market terms will form part of the monetary sector data described in paragraphs 37 and 38 below.

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

Quantitative Indicative Targets

A. Total Government Revenues

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

24. Supporting material: Reporting on total government revenues will form part of the consolidated budget report described in paragraph 35 below.

B. Poverty-Reducing Expenditures

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

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

C. Average Daily Reserve Money

27. Definition: Reserve money is defined as the sum of currency issued by the CBG (i.e., currency in circulation) and the deposits of commercial banks at the CBG. This indicative target applies to the monthly average of the daily stocks of reserve money.

Supporting material: See paragraph 39 below.

Structural Benchmarks

A. VAT

29. Introduction of the VAT" refers to the law's taking effect.

B. Review of Manual of Guidelines and Instructions

30. This structural benchmark will be deemed to have been met when the CBG Manual of Guidelines and Instructions is amended so that:

- the CBG starts the collection of data on the term structure of commercial banks' assets and liabilities, on weighted interest rates on loans and deposits, and on the largest credit exposures;

- the revisions introduce hard limits on aggregate large exposures (with equal treatment for secured and unsecured loans), as well as a new category of "special mention loans" capturing loans which are 30-90 days past due, with a provisioning rate of 5 percent.

C. Amendments to the Banking Act 2009

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

- extend the hard limits on individual credit exposures to secured loans;
- require the disclosure of banks' ultimate beneficial shareholders;
- require shareholders holding more than 5 percent interest to be subjected to a fit and proper test;
- empower the CBG's Financial Supervision Department to suspend the shareholder rights of unfit and improper shareholders.

D. Strategic Study of GAMTEL and GAMCEL

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

Other Data Requirements and Reporting Standards

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

A. Prices

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

B. Government Accounts Data

35. A monthly consolidated Central Government budget report (i.e., the analytical table) on budget execution for the month and cumulatively from the beginning of the year, will be transmitted to the IMF within four weeks of the end of each month. The report will cover: (i) revenue data by major items (such as taxes on income, profits, and capital gains; domestic taxes on goods and services; taxes on international trade and transactions; other taxes; non-tax revenue); (ii) external grants by type (e.g., budget support grants, project grants); (iii) details of recurrent expenditure (including goods and services, interest payments, and subsidies and other current transfers); (iv) details of capital expenditure and net lending (including data on externally financed capital expenditure, expenditure from the Gambia Local Fund, and net lending); (v) the overall balance and the basic balance; and (vi) details of budget financing (including net domestic and net external borrowing and their components).

36. End-week data on net domestic borrowing (including data on the project accounts listed in Table 1) will be transmitted weekly within five business days of the end of each week.

C. Monetary Sector Data

37. The balance sheet of the CBG, prepared on the basis of current and program exchange rates, will be transmitted on a monthly basis to the IMF within four weeks of the end of each month. The balance sheet will explicitly identify all claims on, and liabilities to, the government. Claims include overdrafts, holdings of treasury bills, government bonds, advances to the government in foreign currency, and other claims on the government. Liabilities include balances in the treasury main account, the treasury expenditure account, the consolidated revenue fund and other revenue accounts, the treasury bill special deposit account, the privatization proceeds account, and other deposit accounts. The transmission will include the individual balances on the government accounts listed in Table 1.

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

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

D. Treasury Bill Market and Interbank Money Market

40. Weekly data on the amounts offered and issued, net issuance, over/under subscription, and yields (interest rates) of the various instruments will be transmitted on a weekly basis within five business days of the end of each week. Data on treasury bills outstanding (both at face value and at discounted value, and including information on the distribution by bank and non-bank holders) will be transmitted on a monthly basis within six weeks of the end of each month. The weekly Short-Term Liquidity Forecast will be transmitted following each meeting of the Treasury Bills Committee. The monthly Liquidity Management Report, reflecting the data as of the last working day of the month, will be transmitted within seven days after the end of each month. Three-month ahead forecasts of T-bill auctions, broken down by date and maturity, will be transmitted on a monthly basis.

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

E. External Sector Data

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

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

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

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

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

Other Issues

Monthly Fuel Subsidies Reduction

47. Percentage of fuel subsidies, which stands at 11.57 percent for PMS, 4.89 percent for AGO, and 4.25 percent for Kerosene as of March 26, 2013, will be adjusted on 26th day of each month until they reach 0.53 percent for PMS, 0.81 percent for AGO, and 2.01 percent for Kerosene on December 26, 2013.

INTERNATIONAL MONETARY FUND

THE GAMBIA

FIRST REVIEW UNDER THE EXTENDED CREDIT FACILITY, REQUEST FOR WAIVER FOR NONOBSERVANCE OF PERFORMANCE CRITERION, AND REQUEST FOR REPHASING OF REVIEWS——DEBT SUSTAINABILITY ANALYSIS

May 7, 2013

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

Based on external debt indicators, The Gambia's classification for risk of debt distress has improved from "high" to "moderate," but domestic debt still poses significant risks. The improvement to moderate risk of debt distress is due to an upgrade in policy performance from "weak" to "medium", as well as the inclusion of re-exports in the external debt indicators. The debt sustainability analysis (DSA) also suggests that there is some scope for the government to contract a recently negotiated loan that is not fully concessional and is intended to support a critical project. However, external debt dynamics are still vulnerable to adverse shocks. Domestic debt, which has grown substantially in recent years, is costly and poses high rollover risks. Debt management has improved, but it is important to keep the medium-term strategy current and to maintain accurate up-to-date data on debt and debt service obligations.

BACKGROUND

1. **This debt sustainability analysis (DSA) was prepared by the staffs of the International Monetary Fund (IMF) and the International Development Association (IDA), in collaboration with the Gambian authorities.** It is based on debt and debt service data obtained from the authorities and the macroeconomic framework discussed during the IMF's recent mission for the first review of the current arrangement under the Extended Credit Facility, which was approved in May 2012.[1]

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$677 million (133.1 percent of GDP) as of end-2006 to US$324 million (49.9 percent of GDP) at end-2007.[2] In present value (PV) terms, as of the end of 2007 the stock of debt 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. In January 2008, Paris Club creditors agreed to cancel outstanding claims totaling US$13 million in (end-2006) PV terms. As of end-2012, the nominal stock of debt amounted to about US$376 million.[3] In PV terms, The Gambia's external debt amounted to US$324 million (or about 111½ percent of exports plus remittances) as of end-2012.

3. **The previous joint DSA prepared by the staffs of the IMF and IDA was completed in December 2011. It concluded that The Gambia was at high risk of debt distress, despite having received HIPC and MDRI debt relief.**[4] That is, external debt indicators remained elevated because of factors including new borrowing and poor export performance in recent years—particularly due to a substantial drop in tourist receipts during the early part of the global economic crisis and the onset of drought and a severe crop failure in 2011. In addition, external debt indicators in the December 2011 DSA did not incorporate re-exports.

[1] The mission took place during April 3–10, 2013.

[2] IMF Country Report Number 08/109.

[3] With technical assistance from the African Development Bank, the outstanding nominal external debt stock figures for 2010, 2011, and 2012 have recently been revised down by about US$ 20 million each. As of end-2012, the nominal debt stock of US$ 376 million includes US$ 14 million of publicly guaranteed loan by a private Dutch creditor to The Gambia's state-owned water and electricity company, as well as the government arrears to Libya (US$ 3.95 million) and People's Republic of China (US$ 5.6 million). As to the arrears to People's Republic of China, the Gambian authorities estimate that the amount due is US$5.6 million, but the Chinese authorities estimate that the amount due is US$14–15 million.

[4] IMF Country Report Number 10/61.

4. Heavy reliance on costly domestic borrowing has added to The Gambia's debt burden. Although the risk of debt distress classification only considers external debt, the government's large domestic debt (33¾ percent of GDP as of end-2012) consists mostly of short-term treasury bills, which pose a high rollover risk. Moreover, interest payments on domestic debt consume a large share of government resources (18¼ percent of government revenues in 2012). The government recently published a medium-term debt strategy (MTDS), which aims to reduce net domestic borrowing (NDB) to ½ percent of GDP a year from 2014 onwards—in line with the new ECF-supported program.[5]

5. The Gambia's program supported by the IMF includes limits on the amount and terms of new borrowing to prevent a buildup of debt to unsustainable levels over the medium- and long-term. Under the ECF-supported program, the authorities have committed to a minimum grant element of 35 percent on new external loans contracted or guaranteed by the government. However, there could be exceptions to this rule to finance specific high-return projects that are critical to the country's strategy for economic development and poverty reduction, the Programme for Accelerated Growth and Employment (PAGE), which do not jeopardize debt sustainability. The program also has limits on NDB.

MACROFRAMEWORK ASSUMPTIONS

6. The macroeconomic framework underlying the DSA incorporates ongoing trends in economic growth together with a projected recovery in crop production over the next two years (Box 1). The framework also reflects the authorities' program for prudential fiscal and monetary policies, including a gradual fiscal adjustment to reduce government's annual borrowing needs and minimize crowding out of the private sector. Monetary policies are expected to be consistent with moderate inflation, while the authorities maintain a flexible exchange rate policy. At the same time, the Central Bank of The Gambia (CBG) will need to accumulate international reserves to reach and maintain gross reserves at about 5 months of import cover. Finally, depending on the implementation of the PAGE and available financing, there could be some upside potential for economic growth over the medium term.

Text Table 1: Selected Macroeconomic Indicators

	2013	2014	2015	2016	2017	2018 - 2033
Real GDP growth (percent)						
Current DSA	9.0	8.5	6.5	5.9	5.9	5.8
Previous DSA 1/	5.5	5.5	5.5	5.5	5.5	5.5
CA deficit (percent of GDP) 2/						
Current DSA	16.2	14.4	13.6	13.3	13.0	13.6
Previous DSA	14.2	14.0	13.7	12.9	12.9	11.8
Exports of G&S growth (percent) 3/						
Current DSA	6.6	7.4	7.6	7.6	7.8	7.0
Previous DSA	6.6	7.3	7.9	8.3	6.5	6.6
Imports of G&S growth (percent) 3/						
Current DSA	0.6	4.4	5.7	6.6	6.7	7.5
Previous DSA	4.7	6.8	7.3	6.3	7.0	6.9
Overall fiscal deficit (percent of GDP) 4/						
Current DSA	1.7	1.7	1.7	1.3	1.3	0.9
Previous DSA	2.4	2.0	2.0	2.0	2.0	1.7

1/ From December, 2011
2/ Includes workers' remittances.
3/ In current dollar terms, and include re-exports.
4/ Includes re-exports and grants.

[5] The authorities need to build capacity to update their MTDS in line with updates of the macroeconomic framework. Under the current MTDS, The Gambia aims to borrow over the period of 2011-2014 about US$55 million a year on average from external concessional sources, which is substantially higher than projected in the baseline over 2012-2014 (about US$ 32½ million a year).

Box 1: Baseline Macroeconomic Assumptions Underlying the DSA

Real GDP is projected to grow by about 9 percent in 2013 and 8½ percent in 2014, before eventually settling down to its trend growth of about 5½ percent a year by 2016 and over the long term. The above trend growth projected for 2013 and 2014 is driven by the recovery from a 60 percent drop in crop production in 2011, which was caused by a severe drought in the region. Crop production increased by 30 percent a year in 2012 and is projected to increase by 40 percent in 2013, 25 percent in 2014, and 10 percent in 2015, which would result in the 2015 harvest being roughly equivalent to the pre-drought crop production of 2010. During this recovery period, other sectors are expected to grow in line with recent trends. Of note, despite the economic slowdown in Europe in the 2012/2013 season, tourism continued to enjoy robust growth from the 2011/2012 season and is expected to sustain growth of about 5 percent a year over the medium term. Trend GDP growth is based on sector-by-sector median growth rates over the past several years, scaled slightly downward for a conservative bias. The trend growth is consistent with outturns in recent years, aside from the drought effects.

Inflation, measured as the growth rate of GDP deflator in US dollar terms, is expected to rise to about 4 percent in 2013 from 2¾ percent in 2012, largely reflecting continued currency depreciation despite prudent monetary policy. Inflation is projected to decline to 3½ percent in 2014 (period average) as recovery in agriculture gains traction. Over the long term, inflation is forecasted to remain stable at around 3 percent.

The overall fiscal deficit for 2013 is expected to decline to 2.3 percent of GDP and about 1½ percent of GDP over the medium term. In line with the authorities' commitment under the ECF arrangement, NDB is expected to gradually decline to ½ percent of GDP in 2014 and stay at this ratio thereon, while external financing—mostly on concessional terms—would finance the remainder of the deficit. Revenue buoyancy is expected to be boosted by an increase in tax collection efforts, the implementation of measures to curb tax evasion and improve tax administration, and the introduction of a VAT in 2013. The VAT is projected to provide a permanent boost in revenues (about ½ percent of GDP) in 2014. In addition, the authorities have initiated monthly fuel price adjustments with the aim of essentially eliminating costly subsidies by the end of 2013, and are considering other tax reforms recommended by recent technical assistance from the IMF.

Donor support, including budget support and project grants, is expected to increase to 6 percent of GDP in 2013. Over the medium term, project grants relative to GDP is projected to peak at 7 percent in 2016 largely due to the Trans-Gambia Bridge project (total grant disbursements of about US$ 100 million), and then gradually decline to 5 percent.

The **external current account deficit** (including budget support) is projected to widen in 2013 to 16 percent of GDP. **Domestic exports** are forecast to grow by 8 percent in 2013 as export volume of key cash crops such as groundnuts rises by about 47 percent from the drought. **Imports** are expected to remain close to the 2012 level on account of slower-than-expected recovery from the drought and a high oil import bill. Over the medium term, the current deficit in percent of GDP is projected to gradually decline to 13-14 percent by 2015 as crop production returns to its pre-drought level. Over the long term, investment in agriculture is expected to raise the domestic exports growth by 2 percentage points from the historical average of 5 percent (2005 – 2010), leading to a long-term current account deficit ratio of 13 percent of GDP.

Partly offsetting the trade deficit in goods, **tourism receipts** in 2013 are expected to rise about 7 percent from 2012, reflecting the robust growth during the 2012/2013 season. This is partly owing to The Gambia's competitive advantage as a low-cost tourist destination, as well as social unrest in the Middle-East region. Continued marketing efforts and investment in relevant infrastructure are expected to maintain the long-term growth rate of tourism receipts to about 5 percent a year, the 2006 – 2012 historical average.

Gross international reserves are expected to stay at 4.6 months of the following year's imports of goods and services in 2013 and steadily rise to 5 months at the end of 2020.

EXTERNAL DEBT SUSTAINABILITY

A. Baseline

7. Under the baseline scenario, all external debt indicators stay below their respective thresholds throughout the entire projection period (Text Table 1). In particular, the PV of external debt to exports ratio no longer exceeds its threshold, contrary to the results in the previous joint DSA. Two main factors explain this improvement. First, The Gambia was upgraded from "weak" to "medium" performer according to the three-year (2009–11) average rating of the World Bank's Country Policy and Institutional Assessment (CPIA),[6] qualifying The Gambia for higher thresholds.[7] Second, re-exports are now included for the calculation of the PV of external debt-to-exports ratio, in line with the Fund's policy on a treatment of re-exports for DSA purposes. The Gambia's improvement in debt risk standing comes despite a recent downward revision of the discount factor: while the last DSA used the discount rate of 4 percent to derive the net present value of external debt stocks, this DSA uses 3 percent.[8] This revision is to reflect recent evolution of U.S. dollar long-term commercial interest reference rates (CIRR) and results in higher external debt indicators.

8. With robust GDP growth projected over the long-term, the PV of external debt-to-GDP ratio is expected to decline to about 30 percent at the end of the projection period from 37 percent in 2013 (Text Table 2 and Figure 1). The external debt service ratios are below their respective thresholds and both continue to decline gradually over the medium and long-term reflecting the decline in the PV of external debt relative to growth.

9. The baseline scenario includes a non-concessional borrowing of US$28 million from the Islamic Development Bank (IsDB).[9] The loan is to finance the modernization project of the Gambia Groundnut Corporation (GGC), a state-owned enterprise that processes and exports the majority of domestically produced groundnut products. The project aims to boost the GGC's profitability and could double groundnut export revenues, which would contribute to a significant reduction in poverty among the groundnut farmers.[10]

[6] In 2012, The Gambia's 3-year average (2009-2011) CPIA score improved to 3.37, up from 3.28 for 2010.

[7] 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.

[8] With discount factor of 4 percent, the PV of external debt as of end 2013 would have been about US$ 315 million, as compared to US$ 341 million with discount factor of 3 percent.

[9] The total size of loan package amounts to US$ 28.00 million, and would be lent through a combination of Istisna'a financing (US$ 27.37 million, with maturity of 19 years including 4 years of grace period) and Ordinary Loan financing (US$0.63 million, with maturity of 25 years including a grace period of 7 years) to the Government of The Gambia.

[10] In line with the project's appraisal by the IsDB, the net profit margin could be up to 15 percent. The appraisal assumes that the project would ultimately double groundnut exports from US$14½ million in 2016 to US$29 million

(continued)

10. Including remittances, the debt sustainability situation remains broadly unchanged. All external debt indicators still stay below their respective thresholds throughout the projection period, albeit with slightly less room for additional borrowing. Under the most extreme shock scenario, both the PVs of debt-to-GDP and debt-to-revenue are projected to breach their respective thresholds until end-2025 and end-2021, respectively, while the debt-to-exports ratio breaches the threshold starting in 2015 and for the remaining projection period.

Text Table 2: Baseline External Debt Indicators and Debt Burden Thresholds

Current DSA (April, 2013)

	Threshold 1/	2013	Medium-term (2014-18)	Long-term (2019-33)
PV of external Debt 2/				
In percent of GDP	40	37	37	30
In percent of exports	150	128	130	113
In percent of revenues	250	218	203	161
Debt Service				
In percent of exports	20	9	9	6
In percent of revenues	20	16	13	9

1/ Based on The Gambia's ranking as a "medium performer" with average (2009-11) CPIA rating of 3.37. The thresholds for the PV of external debt-to-GDP and debt-to-exports are 10 and 20 percent lower, respectively, compared to the no-remittance case. The baseline also includes the nonconcessionational loan from IsDB for the rehabilitation of the facilities of the Gambia Groundnut Corporation (GGC).

2/ Based on discount factor of 3 percent.

Last DSA (December, 2011)

	Threshold 1/	2011	Medium-term (2011-16)	Long-term (2017-31)
PV of external Debt 2/				
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 "weak performer" with average (2008-10) CPIA rating of 3.28 and debt indicators without remittances.

2/ Based on discount factor of 4 percent.

in 2020, or about 0.9 percentage point increase in GDP. The current macroeconomic framework, however, does not assume higher figures for groundnut exports associated with this project, implying that the sustainability assessment errs on the conservative side.

B. Alternative Scenarios and Stress Tests

11. The Gambia's debt sustainability outlook is susceptible to changes in the policy framework assumed in the baseline scenario and adverse climate shocks that affect the agriculture production (Table 2a). Most alternative scenarios show that external debt indicators would deteriorate significantly under a range of shocks.

Alternative Scenarios:

- Under the historical scenario, which is associated with key variables (GDP growth, current account balance, and non-debt creating flows) being at their historical levels,[11] all three debt burden indicators still remain below their respective thresholds. Under this scenario, debt service indicators would be slightly higher over the medium term, but fall below the baseline over the long term, as shown in Table 2a.
- In the scenario where new borrowing occurs on less favorable terms, all the debt indicators worsen substantially. In particular, both the debt-to-revenue and the debt-to-exports ratios breach their thresholds starting 2015 and 2016, respectively, and for the remaining projection period. These results underscore the need for the authorities to seek external borrowing under concessional terms, and suggest that the IsDB's non-concessional loan to the GGC should be should be strictly treated as an exceptional case.[12]

Bound Tests:

- Most bound tests show a significant deterioration in debt indicators. Of the six bound tests, four involve "shocks" to some key variables in the second and third years of the projection period;[13] 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 2a and 2b) are interpreted such that the most extreme shock is the one yielding the highest ratio in 2023. Depending on the indicator in question, the worst shock varies between a one-time 30 percent depreciation in the nominal exchange rate (debt-to-GDP and debt-to-revenue ratios) and a 2 percentage points higher interest rate for new borrowing (debt-to-exports ratio), all of which lead to protracted breaches of their respective thresholds. Furthermore, low real GDP growth shock, defined as a one-standard deviation below historical average growth rate, also results in prolonged breach of the thresholds for all debt indicators. These results highlight the need for the authorities to adhere to a prudent borrowing plan associated with an approved medium-term debt management strategy.

[11] Over the past 9 years, The Gambia has had slightly lower real GDP growth (3 percent a year), persistent current account deficits. Foreign direct investment inflows, however, have been much higher due to housing investment boom led by The Gambians overseas during the 2000's, which largely explains the relatively more favorable debt dynamics under the historical scenario.

[12] To be considered concessional in IMF arrangement, loans must have a grant element of at least 35 percent. IDA also has a minimum grant element under the Non-Concessional Borrowing Policy (NCBP) of 35 percent or higher.

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

- In the most probable stress scenario in which export value growth falls by one-standard deviation from the historical trend, the PV of debt-to-exports ratio would breach the threshold until the end of 2026, indicating The Gambia's vulnerability to crop production volatility and global economic downturns.

PUBLIC DEBT SUSTAINABILITY

A. Baseline

12. Over the medium to long term, domestic debt is projected to fall from 31 percent of GDP at the end of 2013 to 23 percent of GDP in 2016, and to continue to fall thereafter. This projection, however, critically hinges on the authorities' sustained fiscal discipline. The authorities have expressed their intention to achieve a gradual fiscal adjustment over the medium term in order to curb net domestic borrowing. The goal is to reduce NDB to half of one percentage point of GDP in 2014 and beyond. In addition to spending restraint, supported by measures to strengthen budget planning and execution, the authorities are also pursuing a comprehensive tax reform anchored around the successful introduction of a VAT in January 2013. Moreover, the authorities have implemented a schedule of fuel price adjustments to essentially eliminate subsidies by the end of the year.[14] The tax reform is projected to be moderately revenue enhancing which would further improve the debt-to-revenue ratio. In addition, as anticipated for the medium term, fiscal discipline and improved governance should help lower domestic interest rates and provide fiscal space to increase basic primary expenditures, particularly on PAGE priorities.[15]

13. Under the baseline scenario, the PV of total public debt is projected to decline from about 74 percent of GDP in 2013 to 66½ percent in 2017 and to 38½ percent in 2033 (Table 3 and Figure 2). The largest factor contributing to this decline in the PV of public debt over the medium term is the projected fall in the domestic debt. As a ratio of domestic revenues and grants, the PV of public debt is projected to fall from about 289**½** percent in 2013 to 131¾ percent at the end of 2033.

14. As noted above (see paragraph 4), the government's domestic debt is comprised mostly of short-term Treasury bills. In addition to the high cost of interest on the T-bills, the large rollover requirement poses significant risks.

B. Alternative Scenarios and Stress Tests

15. Under alternative scenarios and stress tests, the public debt ratios would deteriorate significantly. In particular, public debt ratios are mostly sensitive to real GDP growth and primary balance staying at historical averages and a large real GDP growth shock (historical average minus

[14] Fuel subsidies resulted in lost tax revenues of about GMD 450 million (1½ percent of GDP) in 2012. Revenue from fuel taxes is projected to increase by GMD 190 million in 2013, and by the full-year impact thereafter.

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

one standard deviation) in 2014-2015 (Table 4 and Figure 2). Of the four bound tests, public debt ratios are mostly affected by a one-standard deviation shock from the historical average growth over 2014-2015, suggesting that large exogenous shocks such as the drought in 2012 could result in a damaging debt path.[16]

Alternative Scenarios:

- Under a scenario where real GDP growth and primary balance are at historical averages for the projection period, the PV of debt to GDP ratio would only decrease from 67 percent in 2013 to 56 percent in 2033, as compared to a decline under the baseline to 30 percent in 2033. Similarly, the PV of debt to revenue will only decrease from 290 percent in 2013 to 212 percent in 2033 as against a decline under the baseline to 132 percent in 2033. In particular, the debt service-to-revenue ratio is projected to remain above its threshold of 20 percent until 2017, suggesting The Gambia's significant exposure to rollover risks associated with its short-term domestic Treasury bills.
- The present values of all public debt indicators decline slightly faster than the baseline over time under the scenario where primary balance is kept constant from 2013, while the permanently lower GDP growth scenario shows a similar downward trend as in the real GDP and primary balance at historical averages scenario.[17]

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 68 percent in 2033 as compared to 30 percent under the baseline scenario while the PV of debt to revenue ratio would worsen to 287 percent as against 132 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 59 percent in 2033 while under the latter it would rise to 36 percent when compared to the baseline figure of 30 percent.

THE AUTHORITIES' VIEW

16. The authorities broadly agreed with the overall assessment and welcomed the inclusion of re-exports for the calculation of the PV of debt-to-exports ratio, which contributed to the re-classification of The Gambia's debt risk standing. The authorities would welcome technical assistance (TA) and training to build capacity for improving debt data and

[16] Historically, The Gambian economy has been susceptible to climate risks that resulted in major collapse in agriculture production.

[17] At historical averages, real GDP growth is 3½ percent while the primary deficit is 0.3 percent of GDP.

projections of debt service obligations. TA to help with preparing debt legislation is also a priority. The authorities stressed that despite capacity limitations they have remained current on their debt service payments. The authorities noted that implementation of a lower discount rate in the analysis was unfavorable for them, particularly that the DSA missed the cut-off date for using the higher discount rate back in September 30, 2012. They also noted, however, that the lower discount rate did not change the conclusions of the DSA.[18]

DEBT DISTRESS CLASSIFICATION AND CONCLUSIONS

17. In the staffs' view, The Gambia is at moderate risk of debt distress based on external debt burden indicators and the results of the stress tests, but domestic debt still poses significant risks.[19] [20] This assessment reflects the significant and protracted breach of the policy-dependent indicative thresholds by all three debt indicators under various stress scenarios. While an assessment of domestic debt does not affect a country's classification of debt distress, The Gambia's large domestic debt stock (34 percent of GDP as of end-2012)—most of which consists of short-term treasury bills—and high interest payments on domestic debt (18¼ percent of government revenues in 2012) provide further evidence that the country's overall debt situation poses risks. In this regard, the government's focus on reducing domestic borrowing under its IMF-supported program is appropriate**.**

18. A number of policy recommendations emanate from this assessment and attendant risks. The staffs urge the authorities to implement the medium-term debt management strategy for 2011 – 2014, which is anchored on a combination of grants and concessional borrowing for external financing and a borrowing policy consistent with debt sustainability. The authorities may also consider efforts to raise the country's export potential through policies aimed at diversifying the economy and increasing competitiveness. The government's program supported by the IMF's Extended Credit Facility also requires that new external loans and guarantees should meet the minimum grant element of 35 percent, although some non-concessional loans could be considered, in consultation with the staffs, provided these loans finance projects that are highly profitable, critical for long-term development, and contribute to reducing poverty, as identified in the PAGE.

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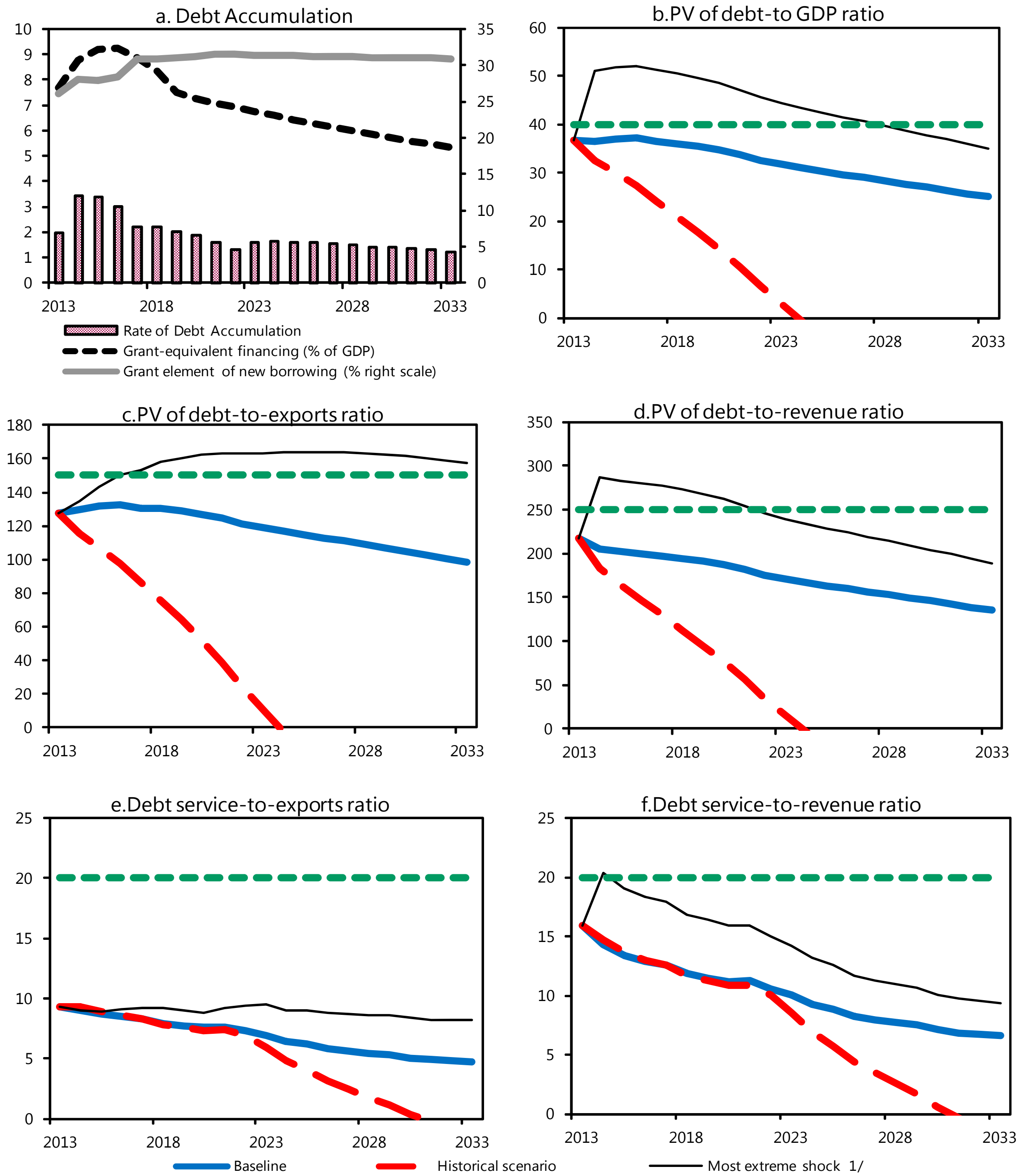
[18] The Gambia does have outstanding technical arrears to Libya and China. The debt service payment for the loan from Libya was suspended due to the absence of an UN-recognized government in Libya in 2011, but is expected to resume in 2014. The loan from China was extended about 20 years ago. The Chinese and Gambian authorities have recently expressed their intention to resolve these arrears in the near future.

[19] 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 receive 100 percent credit financing on standard IDA terms.

[20] Based on IMF and World Bank policy, a country is considered to be at moderate risk of debt distress when debt burden indicators are below the thresholds in the baseline scenario, but stress tests indicate that the thresholds could be breached if there are external shocks or abrupt changes in macroeconomic policies.

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.

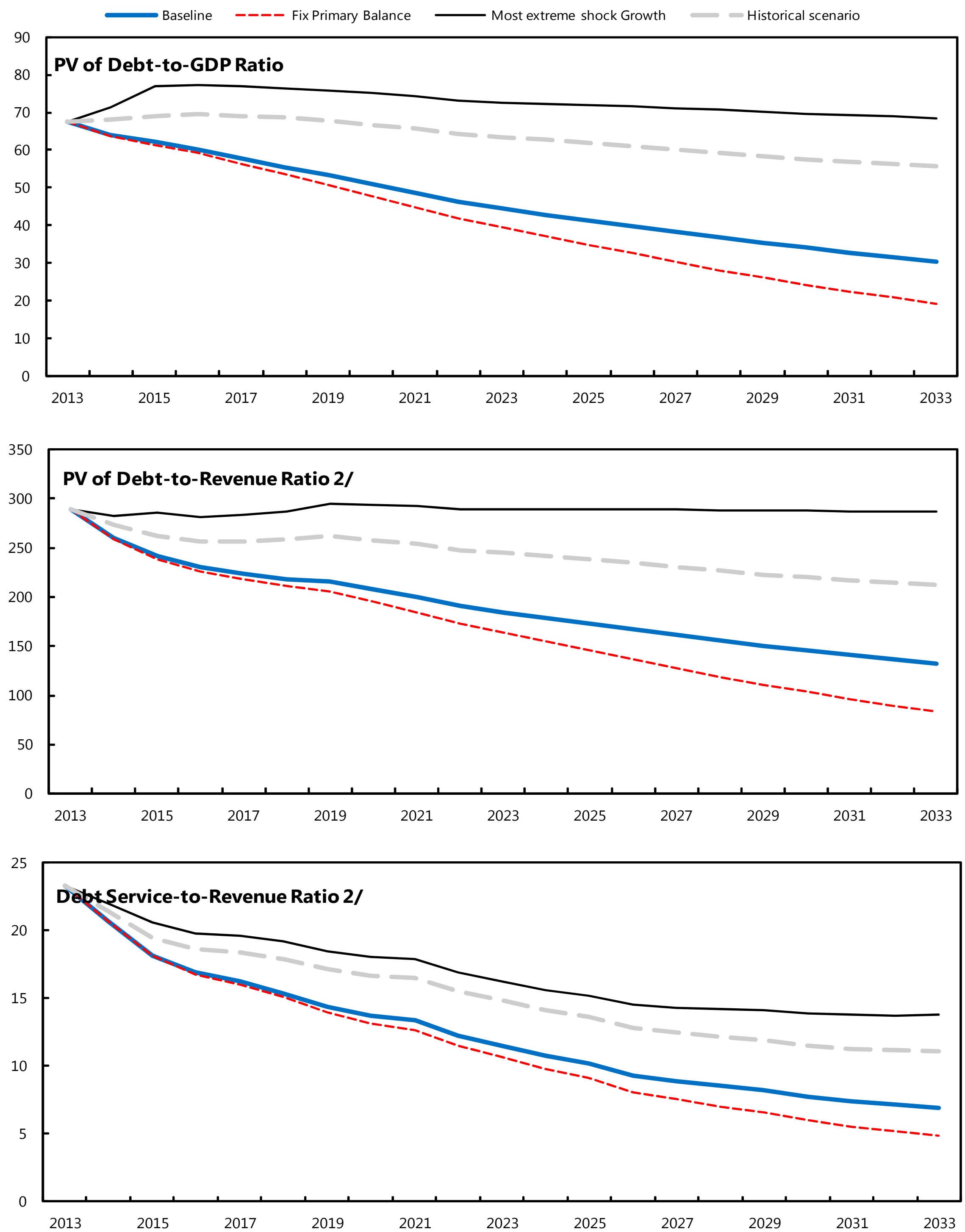
Figure 1. The Gambia: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, without Remittances 2013-2033 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2023. In figure b. it corresponds to a One-time depreciation shock; in c. to a Terms shock; in d. to a One-time depreciation shock; in e. to a Terms shock and in figure f. to a One-time depreciation shock

Figure 2.The Gambia: Indicators of Public Debt Under Alternative Scenarios, 2013-2033 1/



Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in 2023.
2/ Revenues are defined inclusive of grants.

Table 1.: External Debt Sustainability Framework, Baseline Scenario, 2010-2033 1/

(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average 6/	Standard Deviation 6/	Projections									
	2010	2011	2012			2013	2014	2015	2016	2017	2018	2013-2018 Average	2023	2033	2019-2033 Average
External debt (nominal) 1/	**43.2**	**46.0**	**48.7**			**46.9**	**47.4**	**48.6**	**49.4**	**49.2**	**49.0**		**45.6**	**37.5**	
of which: public and publicly guaranteed (PPG)	40.2	44.1	44.3			42.7	43.2	44.5	45.3	45.1	44.9		41.4	33.3	
Change in external debt	-0.5	2.8	2.7			-1.8	0.5	1.2	0.8	-0.2	-0.2		-0.7	-0.9	
Identified net debt-creating flows	4.3	11.8	10.8			6.0	4.4	4.4	4.3	4.1	4.4		5.5	8.6	
Non-interest current account deficit	**15.2**	**14.7**	**16.5**	**11.4**	**3.9**	**15.7**	**14.0**	**13.2**	**12.9**	**12.6**	**12.6**		**12.7**	**14.1**	13.2
Deficit in balance of goods and services	18.6	18.3	22.6			19.8	18.1	17.2	16.8	16.4	16.4		16.5	17.8	
Exports	23.5	28.9	28.6			28.7	28.2	28.1	28.1	28.1	27.6		26.7	25.5	
Imports	42.1	47.2	51.2			48.5	46.2	45.3	44.9	44.5	44.0		43.2	43.3	
Net current transfers (negative = inflow)	-5.7	-6.4	-9.1	-8.0	1.7	-7.3	-7.0	-6.7	-6.4	-6.1	-5.9		-5.1	-3.7	-4.7
of which: official	0.0	0.0	-2.4			-0.7	-0.7	-0.7	-0.6	-0.5	-0.5		-0.5	-0.4	
Other current account flows (negative = net inflow)	2.3	2.8	3.0			3.2	2.9	2.7	2.5	2.4	2.2		1.3	0.1	
Net FDI (negative = inflow)	**-8.9**	**-6.7**	**-6.9**	**-8.6**	**1.7**	**-6.1**	**-6.3**	**-6.4**	**-6.4**	**-6.2**	**-6.1**		**-5.2**	**-3.8**	-4.8
Endogenous debt dynamics 2/	**-2.1**	**3.8**	**1.1**			**-3.7**	**-3.3**	**-2.4**	**-2.2**	**-2.3**	**-2.2**		**-2.0**	**-1.7**	
Contribution from nominal interest rate	0.8	0.9	0.9			0.4	0.4	0.4	0.4	0.4	0.4		0.5	0.3	
Contribution from real GDP growth	-2.7	2.0	-1.9			-4.1	-3.6	-2.8	-2.7	-2.7	-2.6		-2.5	-2.1	
Contribution from price and exchange rate changes	-0.2	0.9	2.1			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**-4.7**	**-9.0**	**-8.1**			**-7.7**	**-4.0**	**-3.2**	**-3.5**	**-4.3**	**-4.6**		**-6.2**	**-9.5**	
of which: exceptional financing	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	42.5			40.7	40.4	40.9	41.1	40.5	40.0		35.9	29.2	
In percent of exports	...	...	148.5			141.6	143.4	145.5	146.2	144.1	144.7		134.3	114.6	
PV of PPG external debt	**...**	**...**	**38.1**			**36.5**	**36.3**	**36.8**	**37.0**	**36.4**	**35.9**		**31.7**	**25.0**	
In percent of exports	**...**	**...**	**133.2**			**126.8**	**128.8**	**130.8**	**131.6**	**129.4**	**129.8**		**118.8**	**98.1**	
In percent of government revenues	**...**	**...**	**229.5**			**216.5**	**204.5**	**200.8**	**198.9**	**196.6**	**193.8**		**171.2**	**135.4**	
Debt service-to-exports ratio (in percent)	**8.8**	**8.3**	**9.4**			**9.4**	**9.0**	**8.7**	**8.5**	**8.3**	**7.9**		**6.8**	**4.8**	
PPG debt service-to-exports ratio (in percent)	**8.8**	**8.2**	**9.4**			**9.3**	**9.0**	**8.7**	**8.5**	**8.3**	**7.9**		**6.8**	**4.8**	
PPG debt service-to-revenue ratio (in percent)	**13.9**	**14.8**	**16.2**			**15.9**	**14.3**	**13.4**	**12.9**	**12.6**	**11.8**		**9.9**	**6.6**	
Total gross financing need (Millions of U.S. dollars)	101.5	122.9	127.5			157.0	147.5	147.8	154.6	163.6	177.1		268.9	660.0	
Non-interest current account deficit that stabilizes debt ratio	15.7	11.9	13.8			17.5	13.6	12.0	12.1	12.8	12.8		13.4	15.0	
Key macroeconomic assumptions															
Real GDP growth (in percent)	6.5	-4.3	4.0	2.8	3.9	9.0	8.5	6.5	5.9	5.9	5.8	6.9	5.8	5.8	5.8
GDP deflator in US dollar terms (change in percent)	0.4	-2.1	-4.4	3.3	10.0	-2.6	1.0	1.3	1.6	1.7	1.8	0.8	1.8	1.8	1.8
Effective interest rate (percent) 5/	1.9	1.9	1.9	1.7	0.4	1.0	0.9	0.9	1.0	1.0	1.0	0.9	1.2	1.0	1.1
Growth of exports of G&S (US dollar terms, in percent)	-0.9	15.1	-1.4	3.5	5.8	6.6	7.4	7.6	7.6	7.8	5.8	7.1	7.0	7.3	7.1
Growth of imports of G&S (US dollar terms, in percent)	8.0	4.9	8.1	6.4	5.4	0.6	4.4	5.7	6.6	6.7	6.5	5.1	7.6	7.7	7.6
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	26.6	28.2	28.0	28.5	30.8	30.8	28.8	31.4	30.9	31.2
Government revenues (excluding grants, in percent of GDP)	14.9	16.1	16.6			16.8	17.7	18.3	18.6	18.5	18.5		18.5	18.5	18.5
Aid flows (in Millions of US dollars) 7/	62.2	71.5	109.1			76.4	103.0	115.1	124.8	129.8	131.4		154.9	250.5	
of which: Grants	38.5	46.2	81.4			61.4	72.1	83.3	92.0	96.0	96.6		114.6	196.3	
of which: Concessional loans	23.6	25.3	27.7			15.0	30.9	31.8	32.8	33.8	34.8		40.3	54.2	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			7.7	8.8	9.2	9.3	8.9	8.3		6.8	5.3	6.3
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			69.6	64.5	66.3	68.7	72.2	71.7		73.3	76.3	74.1
Memorandum items:															
Nominal GDP (Millions of US dollars)	963.7	902.8	897.8			953.4	1045.0	1127.4	1212.9	1306.2	1406.7		2037.9	4277.1	
Nominal dollar GDP growth	7.0	-6.3	-0.6			6.2	9.6	7.9	7.6	7.7	7.7	7.8	7.7	7.7	7.7
PV of PPG external debt (in Millions of US dollars)			323.8			339.7	372.5	408.0	441.8	468.6	497.5		636.9	1055.5	
(PVt-PVt-1)/GDPt-1 (in percent)						1.8	3.4	3.4	3.0	2.2	2.2	2.7	1.6	1.2	1.6
Gross workers' remittances (Millions of US dollars)	45.2	47.8	50.1			52.2	54.4	56.8	59.3	62.0	64.7		80.4	124.2	
PV of PPG external debt (in percent of GDP + remittances)	...	...	36.1			34.6	34.5	35.0	35.3	34.8	34.3		30.5	24.3	
PV of PPG external debt (in percent of exports + remittances)	...	...	111.5			106.5	108.7	110.9	112.1	110.7	111.3		103.5	88.1	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	7.8			7.8	7.6	7.4	7.2	7.1	6.8		6.0	4.3	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt. The stock figures from 2013 and onward include US$ 76 million of new external borrowing from IDA and AfDB as projected in the latest Joint Assistance Strategy Paper.

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

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes. The relatively large size of residuals is due to the fact that donors' project grants, amounting to about 3.5 percent of GDP a year on average over 2004-2012, are registered in the capital account in The Gambia's BOP. The residual also contains other private investment flows, which in the past (2007-11) averages about 2 percent of GDP a year. Taking these items into account, the residual attributed to various minor items is fairly small.

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

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

6/ Historical averages and standard deviations are based on data since 2004, due to structural breaks in national account data and workers' remittances series.

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

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

Table 2a.The Gambia: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2013-2033

(In percent)

	Projections							
	2013	2014	2015	2016	2017	2018	**2023**	2033
PV of debt-to GDP ratio								
Baseline	37	36	37	37	37	36	**32**	25
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	37	33	30	27	24	21	**3**	-33
A2. New public sector loans on less favorable terms in 2013-2033 2/	37	38	40	42	43	44	**44**	40
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	37	39	43	43	42	42	**37**	29
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	37	38	42	42	41	40	**35**	26
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	37	39	42	43	42	41	**36**	29
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	37	36	36	37	36	35	**31**	25
B5. Combination of B1-B4 using one-half standard deviation shocks	37	40	47	47	46	45	**40**	30
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	37	51	52	52	51	51	**44**	35
PV of debt-to-exports ratio								
Baseline	128	130	132	132	130	130	**119**	98
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	128	116	107	97	86	76	**11**	-129
A2. New public sector loans on less favorable terms in 2013-2033 2/	128	135	143	150	153	158	**163**	158
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	128	127	130	130	128	129	**117**	97
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	128	147	180	179	176	176	**158**	123
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	128	127	130	130	128	129	**117**	97
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	128	127	129	130	128	128	**117**	96
B5. Combination of B1-B4 using one-half standard deviation shocks	128	137	158	158	155	155	**140**	112
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	128	127	130	130	128	129	**117**	97
PV of debt-to-revenue ratio								
Baseline	218	206	202	200	198	195	**171**	135
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	218	184	164	147	130	113	**16**	-178
A2. New public sector loans on less favorable terms in 2013-2033 2/	218	214	220	227	232	236	**236**	218
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	218	221	233	230	228	225	**197**	156
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	218	212	228	224	220	216	**188**	140
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	218	218	232	229	227	223	**196**	155
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	218	202	198	196	194	191	**168**	133
B5. Combination of B1-B4 using one-half standard deviation shocks	218	226	256	253	249	245	**214**	163
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	218	288	283	280	277	273	**240**	189

Table 2b.The Gambia: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2013-2033 (continued)

(In percent)

				Debt service-to-exports ratio				
Baseline	9	9	9	9	8	8	**7**	5
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	9	9	9	9	8	8	**6**	-1
A2. New public sector loans on less favorable terms in 2013-2033 2/	9	9	9	9	9	9	**10**	8
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	9	9	9	9	8	8	**7**	5
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	9	10	11	11	10	10	**9**	6
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	9	9	9	9	8	8	**7**	5
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	9	9	9	9	8	8	**7**	5
B5. Combination of B1-B4 using one-half standard deviation shocks	9	10	10	10	9	9	**8**	6
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	9	9	9	9	8	8	**7**	5
				Debt service-to-revenue ratio				
Baseline	16	14	13	13	13	12	**10**	7
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	16	15	14	13	13	12	**9**	-2
A2. New public sector loans on less favorable terms in 2013-2033 2/	16	14	14	14	14	14	**14**	11
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	16	16	16	15	15	14	**12**	8
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	16	14	14	13	13	12	**11**	7
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	16	15	16	15	15	14	**12**	8
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	16	14	13	13	13	12	**10**	7
B5. Combination of B1-B4 using one-half standard deviation shocks	16	16	16	16	15	14	**12**	8
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	16	20	19	18	18	17	**14**	9
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	28	28	28	28	28	28	**28**	28

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 assu

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, 2010-2033

(In percent of GDP, unless otherwise indicated)

	Actual					Estimate	Projections								
	2010	2011	2012	Average 5/	Standard Deviation 5/	2013	2014	2015	2016	2017	2018	2013-18 Average	2023	2033	2019-33 Average
Public sector debt 1/	69.6	77.3	78.0			73.7	70.9	69.8	68.5	66.4	64.5		54.2	38.6	
of which: foreign-currency denominated	40.2	44.1	44.3			42.9	43.5	44.7	45.5	45.3	45.1		41.4	33.3	
Change in public sector debt	7.1	7.6	0.7			-4.4	-2.7	-1.1	-1.3	-2.1	-2.0		-1.7	-1.4	
Identified debt-creating flows	1.8	7.7	3.3			-6.6	-6.1	-4.4	-4.3	-4.2	-4.1		-3.3	-2.6	
Primary deficit	2.9	0.7	0.6	-0.1	2.0	-1.5	-1.2	-0.9	-1.1	-1.0	-1.0	-1.1	-0.4	-0.3	-0.3
Revenue and grants	18.9	21.2	25.7			23.3	24.6	25.7	26.2	25.9	25.4		24.1	23.1	
of which: grants	4.0	5.1	9.1			6.4	6.9	7.4	7.6	7.4	6.9		5.6	4.6	
Primary (noninterest) expenditure	21.8	22.0	26.3			21.8	23.4	24.7	25.1	24.9	24.4		23.7	22.7	
Automatic debt dynamics	-1.1	7.0	2.6			-5.2	-4.9	-3.5	-3.2	-3.2	-3.2		-2.9	-2.3	
Contribution from interest rate/growth differential	-2.0	4.9	-1.2			-5.4	-4.9	-3.6	-3.3	-3.3	-3.3		-3.1	-2.4	
of which: contribution from average real interest rate	1.8	1.8	1.7			1.0	0.9	0.7	0.6	0.5	0.3		0.0	-0.2	
of which: contribution from real GDP growth	-3.8	3.1	-3.0			-6.4	-5.8	-4.3	-3.9	-3.8	-3.6		-3.1	-2.2	
Contribution from real exchange rate depreciation	0.9	2.1	3.9			0.3	0.0	0.1	0.1	0.1	0.2		...	...	
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 2/	5.2	0.0	-2.5			2.3	3.4	3.3	3.0	2.1	2.2		1.6	1.2	
Other Sustainability Indicators															
PV of public sector debt	...	...	71.9			67.4	63.9	62.1	60.2	57.7	55.5		44.5	30.4	
of which: foreign-currency denominated	...	...	38.1			36.7	36.5	37.0	37.2	36.6	36.1		31.7	25.0	
of which: external	...	...	38.1			36.7	36.5	37.0	37.2	36.6	36.1		31.7	25.0	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 3/	7.4	6.1	6.4			4.0	3.9	3.7	3.3	3.2	2.9		2.3	1.3	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	279.9			289.6	259.5	241.6	230.0	223.2	218.5		184.2	131.7	
PV of public sector debt-to-revenue ratio (in percent)	...	...	432.5			400.4	360.4	339.1	323.8	311.8	299.5		240.2	164.4	
of which: external 4/	...	...	229.5			217.8	205.7	202.0	200.0	197.6	194.8		171.3	135.4	
Debt service-to-revenue and grants ratio (in percent) 5/	23.5	25.2	22.3			23.3	20.7	18.2	16.9	16.2	15.4		11.5	6.9	
Debt service-to-revenue ratio (in percent) 5/	29.8	33.2	34.5			32.2	28.7	25.5	23.8	22.7	21.1		15.0	8.6	
Primary deficit that stabilizes the debt-to-GDP ratio	-4.1	-6.9	-0.1			2.9	1.5	0.1	0.2	1.1	1.0		1.3	1.1	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	6.5	-4.3	4.0	2.8	3.9	9.0	8.5	6.5	5.9	5.9	5.8	6.9	5.8	5.8	5.8
Average nominal interest rate on forex debt (in percent)	2.0	2.0	2.0	1.7	0.4	1.1	1.0	1.0	1.0	1.0	1.1	1.0	1.3	1.1	1.2
Average real interest rate on domestic debt (in percent)	7.7	6.0	5.2	6.3	1.3	3.6	4.1	4.0	4.0	4.0	4.0	4.0	2.6	2.2	2.4
Real exchange rate depreciation (in percent, + indicates depreciation)	2.4	4.9	9.1	0.8	11.3	0.7	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	4.3	3.7	4.6	3.7	1.2	5.5	5.1	4.7	4.8	4.8	4.8	5.0	4.8	4.8	4.8
Growth of real primary spending (deflated by GDP deflator, in percent)	0.1	0.0	0.2	0.1	0.2	-0.1	0.2	0.1	0.1	0.1	0.0	0.1	0.1	0.1	0.1
Grant element of new external borrowing (in percent)	...	...	...	...	...	26.1	28.1	27.9	28.5	30.8	30.8	28.7	31.4	30.9	...

Sources: Country authorities; and staff estimates and projections.

1/ The public sector refers to the central government. The concept of gross debt is used.

2/ 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.

3/ 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.

4/ Revenues excluding grants.

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

6/ Historical averages and standard deviations are based on data since 2004, due to structural breaks in national account data and workers' remittances series.

Table 4.The Gambia: Sensitivity Analysis for Key Indicators of Public Debt 2013-2033

	Projections							
	2013	2014	2015	2016	2017	2018	2023	2033
PV of Debt-to-GDP Ratio								
Baseline	67	64	62	60	58	55	44	30
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	67	68	69	69	69	69	63	56
A2. Primary balance is unchanged from 2013	67	64	61	59	56	54	39	19
A3. Permanently lower GDP growth 1/	67	65	63	62	61	60	55	57
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2014-2015	67	71	77	77	77	76	73	68
B2. Primary balance is at historical average minus one standard deviations in 2014-2015	67	67	67	65	62	59	47	32
B3. Combination of B1-B2 using one half standard deviation shocks	67	70	73	73	72	71	65	59
B4. One-time 30 percent real depreciation in 2014	67	79	75	72	69	66	52	36
B5. 10 percent of GDP increase in other debt-creating flows in 2014	67	73	70	68	65	62	49	33
PV of Debt-to-Revenue Ratio 2/								
Baseline	290	259	242	230	223	219	184	132
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	290	273	262	257	257	259	245	212
A2. Primary balance is unchanged from 2013	290	259	239	226	218	212	163	83
A3. Permanently lower GDP growth 1/	290	261	246	237	233	232	222	240
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2014-2015	290	282	286	282	283	288	289	287
B2. Primary balance is at historical average minus one standard deviations in 2014-2015	290	271	261	247	239	234	196	139
B3. Combination of B1-B2 using one half standard deviation shocks	290	280	276	270	269	271	263	247
B4. One-time 30 percent real depreciation in 2014	290	319	293	276	265	258	215	158
B5. 10 percent of GDP increase in other debt-creating flows in 2014	290	297	274	259	251	245	205	144
Debt Service-to-Revenue Ratio 2/								
Baseline	23	21	18	17	16	15	12	7
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	23	21	19	19	18	18	15	11
A2. Primary balance is unchanged from 2013	23	21	18	17	16	15	11	5
A3. Permanently lower GDP growth 1/	23	21	18	17	17	16	13	12
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2014-2015	23	22	21	20	20	19	16	14
B2. Primary balance is at historical average minus one standard deviations in 2014-2015	23	21	19	18	17	16	12	7
B3. Combination of B1-B2 using one half standard deviation shocks	23	22	20	19	19	18	15	12
B4. One-time 30 percent real depreciation in 2014	23	23	23	21	21	20	16	11
B5. 10 percent of GDP increase in other debt-creating flows in 2014	23	21	20	19	18	17	12	8

Sources: Country authorities; and staff estimates and projections.
1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.
2/ Revenues are defined inclusive of grants.

INTERNATIONAL MONETARY FUND

THE GAMBIA

May 7, 2013

FIRST REVIEW UNDER THE EXTENDED CREDIT FACILITY, REQUEST FOR WAIVER FOR NONOBSERVANCE OF PERFORMANCE CRITERION, AND REQUEST FOR REPHASING OF REVIEWS—INFORMATIONAL ANNEX

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

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RELATIONS WITH THE FUND

(As of March 31, 2013)

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

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

SDR Department	SDR Million	% Allocation
Net cumulative allocation	29.77	100.00
Holdings	23.97	80.51

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

Latest Financial Arrangements

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF	May 25, 2012	May 24, 2015	18.66	9.33
ECF	Feb. 21, 2007	Mar. 31, 2011	24.88	22.55
ECF	Jul. 18, 2002	Jul. 17, 2005	20.22	2.89

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

	Forthcoming				
	2013	2014	2015	2016	2017
Principal	0.60	2.11	3.84	4.28	5.24
Charges/interest	0.00	0.00	0.07	0.06	0.05
Total	0.60	2.12	3.91	4.34	5.29

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

Implementation of HIPC Initiative

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

Implementation of Multilateral Debt Relief Initiative (MDRI)

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

Debt Relief by Facility (SDR million)

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

Exchange rate arrangement

Until January 20, 1986, the Gambian currency, the dalasi, was pegged to the pound sterling at a rate of D5 = £1. On January 20, 1986, an interbank market for foreign exchange was introduced, and since then the exchange rate has been determined by market forces. Effective February 2, 2009, the classification of the de facto exchange rate arrangement has been changed from managed floating with no predetermined path for the exchange rate to floating, retroactively to April 30, 2008, due to the revision of the classification methodology. As of end–March 2013, the midpoint exchange rate in the interbank market was D35.21 per U.S. dollar. The Gambia has accepted the obligations of Article VIII, Sections 2(a), 3 and 4 and maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions, except for restrictions maintained solely for the preservation of national or international security, which have been notified to the Fund in accordance with the procedures set forth in Executive Board decision 144-(52/51). In October 2012, a presidential directive was issued that attempted to impose a fixed, overly appreciated exchange rate on The Gambia's FX market. The directive was lifted a few weeks later. LEG in discussion with MCM later concluded that the FX measures adopted under the directive did not give rise to an exchange restriction or multiple currency practice in breach of the obligations under Article VIII, Sections 2(a) and 3.

Last Article IV consultation

The Executive Board concluded the 2011 Article IV consultation (SM/11/338) on January 18, 2012.

Technical assistance

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

Fiscal Affairs Department

February 2013	TA mission advised on tax policy reform options
January/February 2013	TA mission advised on reorganization of MOFEA to strengthen budget and MTEF reforms and fiscal reporting
June 2012 -	A resident advisor advised on PFM.
June 2012 -	A resident advisor advised on revenue administration.
April 2012 -	A resident advisor advised on VAT preparations and implementations.
February/March 2012	A couple of experts advised on PFM.
January/February 2012	An IMF regional advisor visited twice to provide TA on revenue administration and VAT preparations.
September 2011	A couple of experts advised on PFM (preparing a Budget Framework Paper) and on VAT preparations.
August 2011	Peripatetic expert advised on improving compliance and tax administration.
April/May 2011	TA mission advised on VAT preparations.
April 2011	TA mission reviewed the pricing formula for petroleum products.
February/March 2011	TA mission reviewed status of revenue administration reforms, including VAT implementation plans.
November/December 2010	Peripatetic expert advised on VAT preparations.
August 2010	Peripatetic expert advised on VAT preparations.
June 2010	TA mission on public financial management (PFM).
April/May 2010	TA mission advised on improvements in revenue administration and provided input into the design of tax reforms.
April 2009	TA mission advised on measures to reform the tax system.
July 2008	Peripatetic regional advisor followed up on the work of the August/September 2007 FAD mission.

Monetary and Capital Markets Department

April/May 2013	TA mission on banking supervision.
September/October 2012	Technical expert advised on monetary operations and liquidity forecasting.
January 2012	Technical expert advised the CBG on amending its Manual of Guidelines and Instructions to strengthen bank supervision.
September 2011	TA mission conducted stress testing and helped built capacity in this area.
February/March 2011	TA mission conducted a diagnostic assessment of the banking system.
March/April 2010	Technical expert advised the CBG on banking supervision.
January 2010	Technical expert advised on monetary operations and liquidity forecasting.
January 2009	Technical expert advised the CBG on banking supervision.

Statistics Department

February/March 2013	DfID-funded TA mission advised the authorities on improving BOP statistics.
November 2012	Technical expert advised on improving the compilation of price statistics.
July/August 2012	DfID-funded short-term expert advised the authorities on improving national accounts statistics.
January/February 2012	Technical expert advised on improving the compilation of price statistics.
September 2011	DfID-funded TA mission advised the authorities on improving BOP statistics.
July 2011	DfID-funded short-term expert advised the authorities on improving national accounts statistics.
March/April 2011	DfID-funded TA mission advised the authorities on improving BOP statistics.
September 2010	DfID-funded short-term expert advised the authorities on improving national accounts statistics.

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

Others

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

Resident Representative

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

JOINT BANK-FUND WORK PROGRAM, APRIL 2013–APRIL 2014

Title	Products	Timing of Missions	Target Board Date
A. Mutual Information on Relevant Work Program			
Bank work program in next 12 months	**Economic Management and Public Financial Management**		
	1. Economic Governance Reform Grant	September/October 2013	November/December 2013
	2. IFMIS: Additional Financing	April/May 2013	September 2013
	Growth and Competitiveness		
	3. Commercial Agriculture and Value Chain Project	June/September 2013	March 2014
	Human Development		
	4. Quality of Education	March/June 2013	February 2014
	5. Nutrition and Health Project	March/June 2013	February 2014
Fund work program in next 12 months	**Policy Advice**		
	1. First review under new ECF	September 2012/April 2013	May 2013
	2. Article IV consultation	June 2013	August 2013
	3. Second review under new ECF	September/October 2013	November 2013
	4. Third review under new ECF	March 2014	May 2014
	Technical Assistance		
	1. VAT implementations	Resident advisor currently in place	
	2. Stress testing	July 2013	

	3. Repo operations	September 2013	
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	Joint DSA	March 2014	May 2014

INTERNATIONAL MONETARY FUND EXTERNAL RELATIONS DEPARTMENT

Press Release No. 13/189
FOR IMMEDIATE RELEASE
May 22, 2013

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes First Review Under the Extended Credit Facility Arrangement for The Gambia and Approves US$2.3 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the first review of The Gambia's economic performance under a program supported by the Extended Credit Facility (ECF) arrangement. The completion of the review enables the disbursement of an amount equivalent to SDR 1.555 million (about US$2.3 million), bringing total disbursements under the arrangement to SDR 10.885 million (about US$16.2 million). In completing the review, the Board approved the authorities' request for a waiver for nonobservance of the continuous performance criterion on external arrears and a re-phasing of the reviews.

The Executive Board approved a three-year ECF arrangement with an amount equivalent to SDR 18.66 million (then about US$28.3 million) for The Gambia on May 25, 2012 to support the government's economic program (see Press Release No. 12/191).

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

"The Gambian economy is still recovering from the severe drought of 2011. The authorities' policies and the support of the international donor community played an important role in enabling the recovery in agriculture to take hold. However, downside risks related to the domestic debt burden, weaknesses in the balance of payments, and inflationary pressures, weigh on the outlook. A steadfast commitment to the objectives of the Fund-supported program and structural reforms will be necessary to address the challenges ahead, boost growth, and reduce poverty.

"High public indebtedness continues to pose risks to macroeconomic stability and significant costs to the budget. To address this problem, the authorities plan to sustain the fiscal adjustment and reduce domestic borrowing. Eventually, as interest costs come down, the fiscal savings could help finance priority social programs under the Programme for Accelerated Growth and Employment. Improving debt management is also important.

"The recent introduction of the value-added tax and the planned phasing out of fuel subsidies are welcome steps toward a stronger fiscal position, while also generating resources for better targeted pro-poor spending. Looking ahead, there is further scope to pursue additional tax reforms and enhance the quality of government spending, including by developing a medium-term expenditure framework.

"The Central Bank of The Gambia has tightened its monetary stance to curb inflation risks. This policy adjustment, together with an ample stock of official international reserves, would help bolster the dalasi. A flexible exchange rate regime will continue to facilitate adjustment to balance of payments shocks.

"Domestic economic activity will benefit from additional steps to improve the business climate. Measures should also be taken to improve the quality of economic data in order to enhance policy making and program monitoring."

Statement by Mr. Saho, Executive Director for The Gambia

May 22, 2013

Introduction

The Gambian authorities thank the Executive Board and Management for their continued engagement and support. They are grateful for the constructive policy dialogue with staff in addressing the policy challenges to sustaining economic growth and poverty reduction. My authorities have started the implementation of the Program for Accelerated Growth and Employment (PAGE) with the aim to transform the Gambian economy through strategic investments in infrastructure, education, agriculture, tourism and energy. In this regard, efforts at enhancing revenue collection continue to be strengthened in the face of increased development expenditure. However, implementation of the authorities' development agenda is seriously challenged by declining donor financing, which was anticipated to help enlarge the required fiscal space. My authorities broadly agree with the thrust of the staff report as it presents a balanced assessment of recent developments and policy challenges and opportunities going forward.

Program performance

In spite of the daunting challenges, my authorities continue to demonstrate a steadfast commitment to pursuing prudent macroeconomic and structural policies within the context of the ECF program. This is reflected in their performance in respect to the end-June 2012 Performance Criteria (PC), as all but one continuous PC were met. The breach of the continuous PC that set a zero limit on external payment arrears occurred when an official creditor called in the government's guarantee of a loan to the National Water and Electricity Company (NAWEC) with payment past due. It is worth noting that this loan was contracted to improve the electricity infrastructure that will ultimately lead to significant improvement in economic activity. My authorities have since paid all external payment arrears. Furthermore, they have reaffirmed their commitment to no external payment arrears by collaborating with the African Development Bank to improve debt recording.

It is against this backdrop that they solicit the Executive Board's support in completing the first review under the ECF arrangement. They also request for a waiver for the nonobservance of the continuous performance criterion on external payments arrears. Moreover, they seek approval of their request for re-phasing of the second and subsequent reviews of the ECF-supported program and modification of the continuous performance criterion to allow the contracting of a non-concessional loan from the Islamic Development Bank. This loan will be used for the rehabilitation and modernization of The Gambia Groundnut Corporation (GGC). The upgrading of GGC's groundnut processing plants will enhance the decortication of shell groundnuts for export and the production of groundnut oil, soap and animal feed.

Recent economic development and outlook

The economy continues to show signs of early recovery from the severe drought and crop failure of 2011 on the back of the strong performance in the tourism industry and the partial rebound in agricultural productivity. Real GDP is estimated to grow by 4.0 percent in 2012 compared to a contraction of 4.3 percent in 2011. Consumer price developments show an acceleration in inflationary pressures as inflation rose to 5.4 percent in March 2013 from 3.9 percent a year earlier, due largely to the depreciated exchange rate. The increase in government spending offset the relatively strong revenue performance in 2012. As a result the budget deficit in 2012 remained unchanged at its 2011 level of 4.5 percent of GDP. The external current account deficit widened in 2012, due mainly to imports for 2011 drought relief and new projects. The country's gross international reserves as at end-March 2013 stood at US $175 million, which is equivalent to 4.5 months of imports of goods and services.

As the 2011 drought and crop failure is gradually overcome and economic recovery strengthens, my authorities' policy focus has shifted to returning the economy to a higher and sustainable growth trajectory, within a stable macroeconomic environment. Over the medium term, my authorities will pursue a continued scaling up of investment in infrastructure and enhanced delivery of basic social services, in line with the PAGE. Against this background, my authorities are in agreement with staff on the real GDP growth forecast of 9.0 percent and 8.5 percent in 2013 and 2014 respectively, before gradually returning to a long-term trend of about 5.5 percent from 2016. Inflation is expected to be contained below the 5 percent target. As the balance of payments improves and the exchange rate stabilizes, the Central Bank will resume a steady accumulation of international reserves aimed at maintaining 5 months of import cover.

Fiscal policy

My authorities remain committed to pursuing sound fiscal management with a view to maintaining medium to long-term fiscal sustainability. Mindful of the challenges in 3 increasing fiscal space to effectively implement the PAGE, my authorities are determined to institute appropriate fiscal policy measures to strengthen domestic revenue collection while ensuring that spending is done within budget limits. To achieve this objective, they will make the tax system simpler and more efficient and strengthen tax administration. Beyond VAT, which was introduced in January 2013, my authorities plan to implement a comprehensive tax reform agenda with the aim to broaden the tax base, simplify direct taxes and eliminate those taxes that do not meet the cost-benefit test.

On the expenditure front, my authorities are committed to pursuing tight expenditure controls while switching spending towards their strategic priority infrastructural and social sector projects. Furthermore, the government is determined to eliminate fuel subsidies by the end of the year through monthly increases in pump prices. For example from March to April 2013, kerosene, petrol and diesel were increased by 5.1 percent, 4.3 percent and 1.9 percent respectively. To address the previous expenditure overruns, a supplementary budget was sent to the National Assembly on April 26, 2013 with revenue measures that fully finance the extra budgetary spending. Also, public financial management will continue to be strengthened, including through the gradual introduction of a medium term expenditure framework, as well elaborated in the staff report.

Monetary and exchange rate policy

My Gambian authorities remain committed to preserving price stability to safeguard the recent gains of macroeconomic stability. To this end, monetary policy framework will be strengthened, including through the introduction of a more effective benchmark policy rate to signal the stance of monetary policy to the market. Furthermore, monetary operations will be deepened by enhancing the potency of monetary instruments in sterilizing domestic liquidity. The Monetary Policy Committee increased the policy rate by two percentage points to 14.0 percent on May 6, 2013 and stands ready to implement additional policy measures should the need arise.

My authorities consider that the current flexible exchange rate regime has served the country well. As a result, central bank intervention in the foreign exchange market will be limited to smoothening out market volatility and building international reserves. The Gambia subscribes fully to Article VIII and currently has no restrictions on capital flows. Capital can be repatriated by both residents and nonresidents in any currency.

Financial sector policy

The banking sector showed strong asset growth, increased competition in deposit mobilization and was generally resilient. The financial soundness indicators measured in terms of earnings, portfolio quality, liquidity, and capital adequacy are strong for the industry. In addition, solvency remains strong and all the banks were within the capital adequacy ratio prudential limit. Non-performing loans as a ratio of gross loans declined to 11.0 percent in March 2013 from 12.7 percent in the preceding year.

At the conclusion of the 2012 capital augmentation exercise, 12 out of 13 banks met the minimum capital requirement of D200 million. Only one bank failed to meet the requirement, whose parent company decided to divest its investment in the Gambia. As a result, Prime Bank Gambia applied for voluntary liquidation, which was approved by the Central Bank of The Gambia.

Asset portfolio continues to expand with the recent increase in private sector lending. Subsequently, the Central Bank considers the development of risk management capacity of banks as crucial for the health of banks' balance sheets. The Central Bank will continue to conduct top-down stress testing using simple sensitivity-based models to assess the resilience of the banking system to various shocks. In addition, plans are underway to develop more sophisticated macro stress testing models based on data availability, development of a deposit insurance scheme, assessment of compliance with Basle Core Principles for effective banking supervision and full implementation of Basle II. Finally, capacity for macroprudential analysis will continue to be enhanced.

Debt Management policy

My authorities welcome the recent update of staff's debt sustainability analysis, in particular, the decline in external debt risk, which is broadly consistent with their own assessment. They are, nonetheless cognizant of the threats to debt sustainability in the event of external shocks.

As a result, external financing of infrastructural and other social sector projects will be at concessional terms, while new innovative ways of mobilizing external resources are crafted, including non-debt creating flows and private sector participation in viable sectors. Nonconcessional loans will be limited to critical investments in infrastructure projects that will have a knock-on effect of aiding economic growth. On the domestic front, action will be taken to effectively manage the domestic debt portfolio by developing a strategy to restructure the existing portfolio from short to medium and long-term instruments. In this regard, my authorities, with the technical support of the IMF and World Bank, have developed a comprehensive Medium Term Debt Strategy (MTDS). Furthermore, the government is committed to fully and vigorously implement its MTDS as well as build the institutional and professional capacity of the Debt Management Unit in the Ministry of Finance.

Conclusion

The swift response of my authorities in instituting appropriate corrective policy measures to address the fiscal slippages underscores their commitment to implementing the ECF program. They remain committed to pursuing sound macroeconomic policies and undertaking structural reforms with a view to sustaining growth at a high level over the medium to long-term. My authorities consider the Fund’s and other development partners’ policy advice and financial assistance critical to successfully implementing their development agenda and poverty reduction strategy.