INTERNATIONAL MONETARY FUND

September 2013
IMF Country Report No. 13/289

THE GAMBIA

Staff Report for the 2013 Article IV Consultation; Informational Annex; Press Release on the Executive Board Discussion; and Statement by the Executive Director for The Gambia

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2013 Article IV Consultation with The Gambia , the following documents have been released and are included in this package:

- **Staff Report** for the 2013 Article IV Consultation prepared by a staff team of the IMF, following discussions that ended on July 9, 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 August 26, 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.
- **Press Release)** summarizing the views of the Executive Board as expressed during its September 11, 2013 discussion of the staff report that concluded the Article IV Consultation.
- **Statement by the Executive Director** for The Gambia.

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

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International Monetary Fund
Washington, D.C.

THE GAMBIA

August 26, 2013

STAFF REPORT FOR THE 2013 ARTICLE IV CONSULTATION

KEY ISSUES

Context: The Gambia is still recovering from the severe 2011 drought. Although growth has been picking up, weaknesses in the balance of payments have persisted, leading to depreciation pressures on the Gambian dalasi. Most recently, inconsistent policies have exacerbated these pressures. Large fiscal deficits and a heavy debt burden continue to pose major challenges. The Gambian *Programme for Accelerated Growth and Employment* (PAGE) emphasizes fiscal adjustment, together with infrastructure investment and structural reforms to support inclusive growth.

Outlook and risks: Despite near-term uncertainties, the medium-term outlook for growth is generally favorable. The main downside risk arises from possible fiscal slippages. There is also strong upside potential if critical reforms are achieved. In the near term, however, policy inconsistencies need to be reduced.

Near-term stabilization: Ongoing monetary tightening needs to be supported by the fiscal adjustment mapped out in the PAGE. Directives that interfere with the flexible exchange rate policy have been counterproductive and should be avoided.

Fiscal adjustment: Fiscal adjustment is needed to ease the heavy debt burden, arising mainly from domestic debt. Strengthening tax administration, the budget process, and expenditure control would provide space for growth-enhancing spending.

Promoting inclusive growth and competitiveness: Execution of the PAGE, supported by commitments from development partners, would help reduce poverty, especially in rural areas, given a strong focus on agriculture.

Fund Relations: The authorities' economic program—based upon the PAGE—is supported by a three-year arrangement under the Extended Credit Facility (ECF) approved by Executive Directors in May 2012. After some delays, the first review of the ECF-supported program was completed in May 2013. The mission for the second review is expected to take place in October 2013.

Approved By
Mr. Roger Nord (AFR) and Mr. Chris Lane (SPR)

A staff team consisting of Mr. Dunn (head), Mr. Konuki, Ms. Gwenhamo (all AFR), Mr. Kim (SPR), Mr. Tjirongo (Resident Representative), and Mr. Cham (Resident Representative's office) conducted discussions in Banjul during June 4–17, 2013. Discussions continued from Headquarters through video conferences until July 9,2013. The team met with Minister of Finance and Economic Affairs Kebba Touray, then-Minister of Finance and Economic Affairs Abdou Kolley, Central Bank Governor Amadou Colley, and other senior government officials, as well as representatives of the financial sector, business community, civil society, labor organizations, and development partners and the diplomatic community. Mr. Saho, Mr. Saidy, and Mr. Tucker (OED) participated in the discussions. The team was assisted by Ms. Snyder and Mr. Rengifo.

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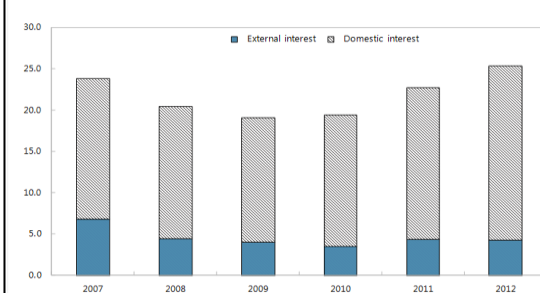
BACKGROUND: ROBUST GROWTH, BUT INCREASING RISK'S TO MACROECONOMIC STABILITY

1. **The Gambian economy has performed well over the past several years, although it is still recovering from a severe drought in 2011 (Tables 1–7, Figure 1).** Between 2007 and 2010, real GDP growth averaged just over 6 percent a year, driven largely by an extended expansion in agriculture and investment in telecommunications. The drought, however, led to a 45 percent drop in crop production and a contraction in real GDP of just over 4 percent in 2011. The economy picked up the following year, as the tourism sector gained momentum and agriculture began to rebound (crop production increased by 30 percent). Inflation has ranged between 2½ and 7 percent (year-on-year) since 2007, as the Central Bank of The Gambia (CBG) generally exercised monetary restraint. Nevertheless, there have been periods of monetary expansion driven by fiscal dominance. Since late 2012, inflation has been rising steadily (to 5.8 percent year-on-year in June 2013), as the authorities turned to central bank financing of the fiscal deficit.

2. **Large fiscal deficits have led to excessive domestic borrowing in recent years.** After achieving a surplus in 2007, the overall fiscal balance fell sharply into deficit, exceeding 6 percent of GDP by 2010. Government revenues (relative to GDP) fell by 2½ percentage points of GDP during this period, to less than 15 percent of GDP in 2010, with collections declining from all major tax categories. Episodes of large extrabudgetary expenditures also factored into the growing fiscal deficit, which was mostly financed by domestic borrowing (nearly 5 percent of GDP in 2010). Beginning in 2011, the authorities set out on a gradual fiscal adjustment to get government's domestic borrowing under control, but progress stalled the following year. In 2012, both the fiscal deficit and net domestic borrowing (NDB) were roughly unchanged, with the latter at 3½ percent of GDP or roughly twice the budgeted target.[1]

3. **Costly domestic debt has added to the government's heavy debt burden.** As of end-2012, total government debt stood at 77 percent of GDP, of which 34 percent of GDP was domestic debt. Interest on debt has consumed a rising share of government resources, reaching 22½ percent of government revenues in 2012, of which nearly 18½ percentage points was paid on domestic debt. Moreover, domestic debt consists mostly of short-term Treasury bills, which creates substantial rollover risk. On the external side, despite having received extensive debt relief under the Heavily Indebted Poor

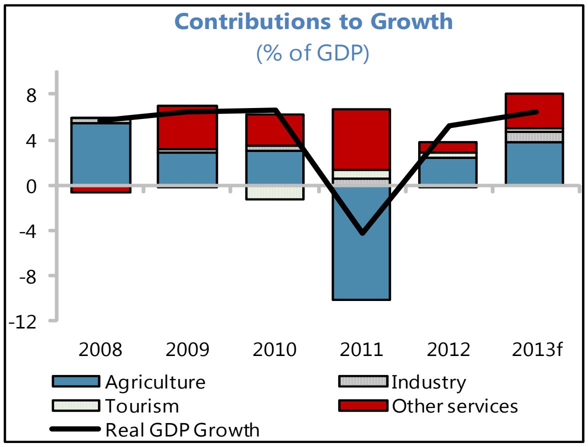
Interest cost in percent of government revenue



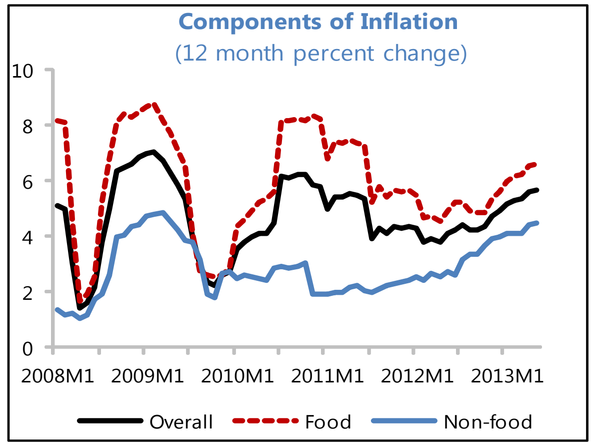
[1] Extrabudgetary spending on drought relief accounted for 0.7 percent of GDP of additional NDB in 2012.

Figure 1. The Gambia: Recent Economic Developments, 2008–13

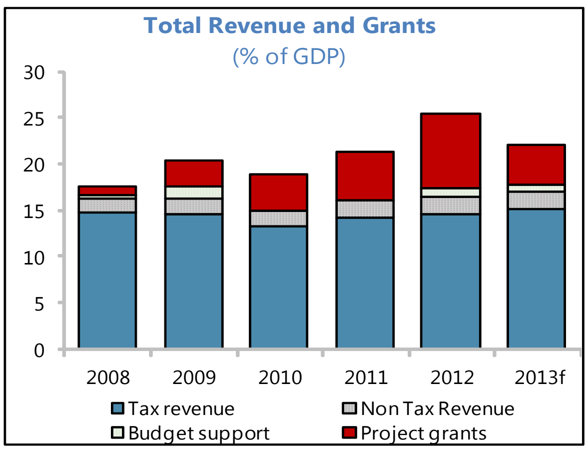
Following a sharp contraction in 2011 due to a severe crop failure, growth began to recover in 2012.



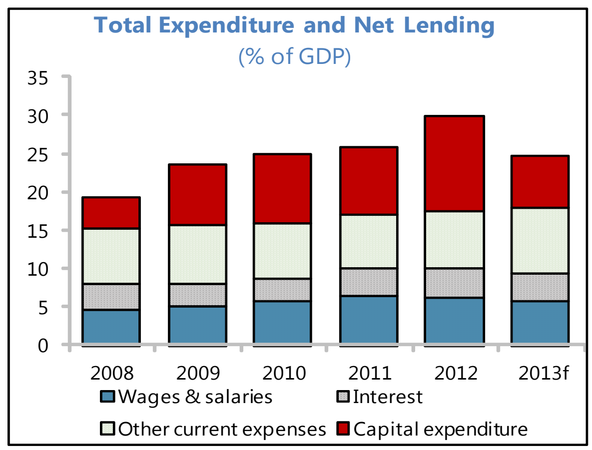
Inflation has been trending upwards in recent months due to a weaker dalasi.



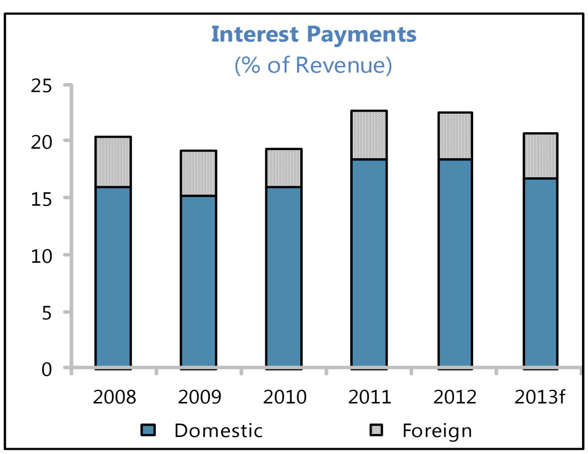
Project grants increased and domestic revenues turned a corner in 2011 after several years of decline.



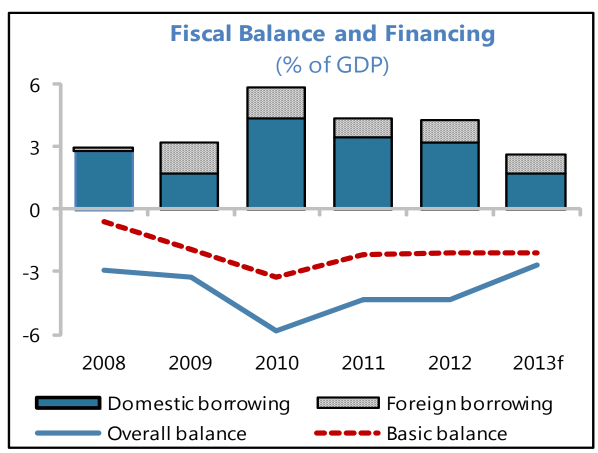
Spending has trended up, reflecting mainly rising wage bill and increased foreign-financed capital spending.



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



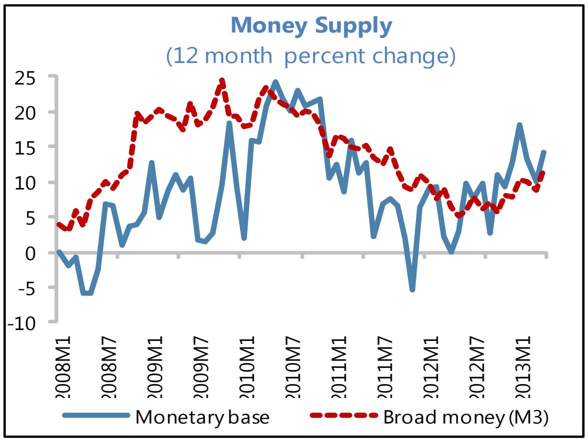
...as the government resorted to financing its deficits mostly with expensive domestic borrowing.



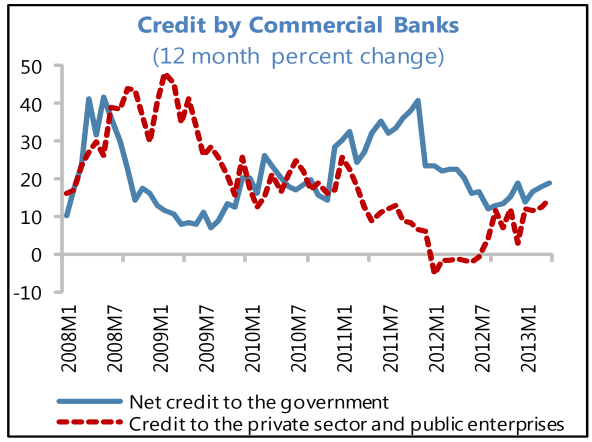
Sources: Gambian authorities; and Fund staff estimates and projections.

Figure 1. The Gambia: Recent Economic Developments, 2008–13 (continued)

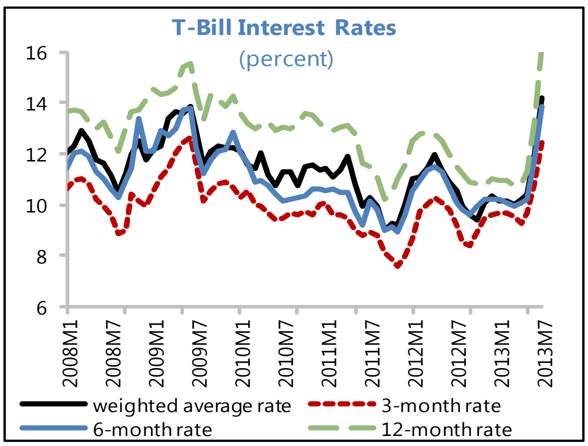
While the pace of money growth decelerated in 2012, there has been an uptick in early 2013.



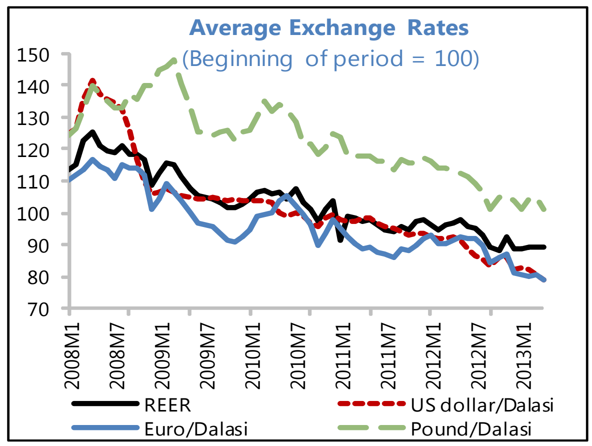
Private sector credit has lagged behind growth in credit to the government.



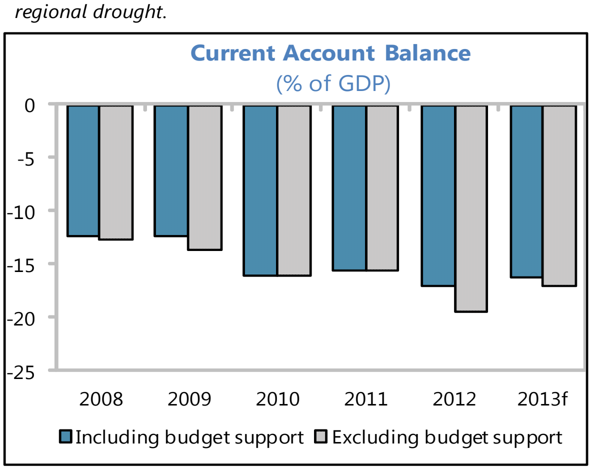
Interest rates on government T-bills have spiked up in recent months.



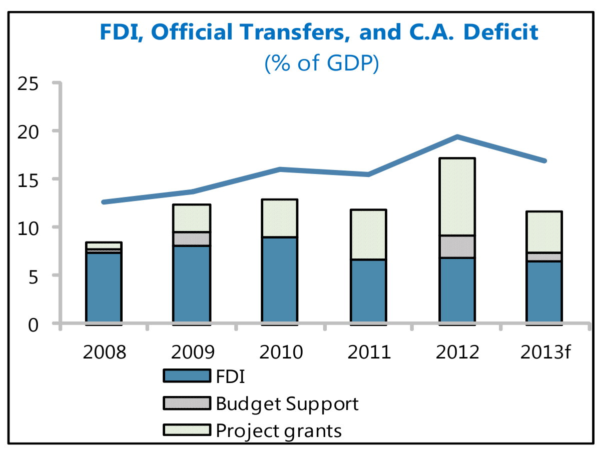
The dalasi has weakened gradually over the past several years.



The current account weakened in 2012, due to weaker agricultural exports and a higher import bill, driven by the regional drought.



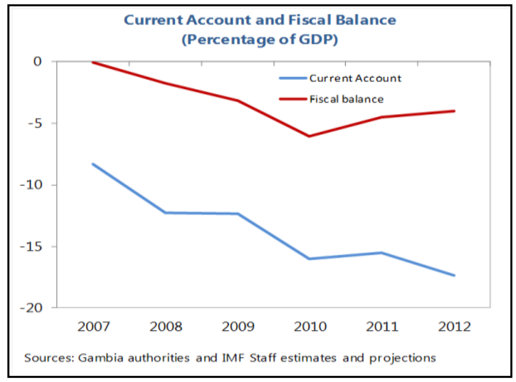
The current account deficit is mostly financed by FDI, project grants, and budget support.



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

Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI), The Gambia remained at high risk of debt distress, until quite recently when the classification improved to moderate.[2]

4. **The Gambia's external position has weakened over the years.** Once a leading trade center, The Gambia's role as an entrepôt diminished considerably with the harmonization of external tariffs in the region and efficiency improvements in competing port facilities, notably in Senegal. Large fiscal deficits have also contributed to a widening of the current account deficit, which has mostly been financed by non-debt creating capital inflows, notably, FDI and project grants, as well as budget support grants.[3] Bolstered by the Fund's one-time SDR allocation in 2009, The Gambia has maintained gross international reserves at about 4½-5 months of import cover in recent years. In 2012, in the aftermath of the drought,[4] the external current account deficit (excluding grants) is estimated to have jumped to nearly 20 percent of GDP, as import requirements for food and seeds surged and groundnut exports collapsed. Although international aid agencies and donors provided grants for drought relief, the dalasi started to face depreciation pressures around mid-2012.



5. **Depreciation pressures on the Gambian dalasi intensified in 2013**. Weaknesses in the balance of payments (BOP) have persisted, following another below-average harvest in 2012.[5] At the same time donor assistance to help alleviate food shortages was sharply curtailed. Perhaps more importantly, though, the emergence of policy inconsistencies appears to have shaken confidence in the Gambian economy. A series of exchange rate directives that temporarily imposed over-valued fixed exchange rates—issued in October 2012, June 2013, and again in July 2013—caused severe disruptions in the foreign exchange market (Box 1). In the first two cases when the directives were lifted, the dalasi depreciated sharply amid signs of capital flight and a dampening of remittances.[6] Moreover, the larger-than-budgeted fiscal deficit in 2012 has halted progress toward fiscal consolidation, while the CBG's financing of the deficit contributed to an acceleration of money growth, which likely added to the pick-up in inflation and exchange rate depreciation.[7]

[2] See the recent debt sustainability analysis by World Bank and Fund staff (Country Report No. 13/139, Supplementary 1).

[3] The quality of external sector data is poor. Fund staff estimates differ considerably from the authorities' figures.

[4] The harvest season takes place during Q4 and thus impacts exports and imports of the following calendar year.

[5] Although crop production grew by 30 percent in 2012, the harvest was little more than half of the 2010 harvest.

[6] The first two directives were both lifted after about 2-3 weeks. LEG, in consultation with MCM, is assessing if the second, third, and fourth directives give rise to exchange restrictions or multiple currency practice (MCP) in breach of The Gambia's obligations under Article VIII, Sections 2(a) and 3, and resulting in the non-observance of the continuous performance criterion under the current ECF arrangement for The Gambia. The fourth directive, which overrides the third directive, is still in effect.

[7] Money growth was concentrated in currency in circulation. Deposit growth was dampened by a rundown on time deposits by the Social Security and Housing Finance Corporation (SSHFC) to finance other investments in transportation and real estate development.

Box 1. Exchange Rate Directives, 2012–13

Between October 2012 and August 2013, the Office of the President issued a series of directives that imposed exchange rates appreciated relative to the market rate and other restrictions on the foreign exchange (FX) market, ostensibly to eliminate speculation and illegal FX trading by unlicensed dealers.

- **October 22–November 15, 2012.** Targeted an exchange rate of 28 GMD/USD compared with the prevailing market rate of about 34 GMD/USD. Initially shipments of foreign currencies were restricted, but this restriction was lifted after one day. Hoarding of FX was banned and FX bureaus and unlicensed dealers were monitored by enforcement agents.
- **June 26–July 15, 2013.** Targeted an exchange rate of 30-33 GMD/USD compared with the prevailing market rate of about 37-39 GMD/USD. Initially shipments of foreign currencies were restricted, but this restriction was lifted after one week. Hoarding of FX was banned and FX bureaus and unlicensed dealers were monitored by enforcement agents.
- **July 26–August 14, 2013.** Targeted an exchange rate of 37 GMD/USD, compared prevailing market rate of about 40 GMD/USD. There were no restrictions of shipments of foreign currencies by commercial banks. Once again, hoarding of FX was banned.
- **August 14, 2013–present.** Overriding the previous directive, targets an exchange rate of 35 GMD/USD. Licenses of FX bureaus were declared null and void. Bureaus can apply to the CBG for new licenses.

6. **Prior to the drought, The Gambia made significant progress in the fight against poverty; however, poverty is still widespread.** In particular, the expansion in agriculture was critical in reducing the incidence of poverty from 58 percent in 2003 to 48½ percent in 2010.[8] Various social indicators have shown strong improvement (Table 8), notably in education (primary school enrollment and completion and youth literacy rates) and health (immunization and child and maternal mortality rates). Good progress is also being made towards meeting selected millennium development goals (Table 8).Despite this progress, nearly half of the population remains in poverty, and the figure is still considerably higher in rural areas. Inequality and unemployment, especially among the youth, also pose major challenges. In late 2011, the Gambian authorities launched the *Programme to Accelerate Growth and Employment* (PAGE), a new poverty reduction strategy that emphasized agriculture and investment in infrastructure to help boost incomes, particularly for the rural poor. Undoubtedly, low crop production since the 2011 drought has been a major setback in the fight against rural poverty.

[8] The figures are based on the national poverty lines set at US$1.00 a day and US$1.25 a day (in current US dollars) for 2003 and 2010, respectively. These figures are not directly comparable with the poverty incidence figures calculated using the Purchasing Power Parity (PPP) approach.

Box 2: 2011 Article IV Consultation and New Arrangement under the Fund's Extended Credit Facility (ECF)

The Gambia's 2011 Article IV consultation was concluded on January 18, 2012. Policy recommendations were consistent with the Gambian authorities' new poverty reduction strategy, the *Programme for Accelerated Growth and Employment* (PAGE)—which was launched in December 2011. The corresponding macroeconomic policy framework and structural agenda were later supported by a new three-year ECF arrangement approved by Executive Directors on May 25, 2012. Recommendations focused on addressing risks arising from the government's heavy debt burden, particularly the high cost and rollover risk of domestic debt. These included:

- Gradually reduce the fiscal deficit, so that government's net domestic borrowing falls to ½ percent of GDP by 2014.
- Pursue a comprehensive tax reform over the medium term—including introduction of a value-added tax (VAT)—to rebuild revenues and improve competitiveness; Strengthen revenue administration.
- Strengthen budget procedures and expenditure control.
- Improve debt management.

Other recommendations included: eliminate fiscal dominance and develop tools for liquidity management; maintain intensive surveillance of the banking system; maintain a flexible exchange rate policy and ample international reserves; pursue structural reform and infrastructure investments for inclusive growth; improve economic statistics.

Advances in line with these recommendations include:

- VAT implemented in January 2013; comprehensive tax reform has been debated; compliance by large taxpayers improved.
- Strategic plans developed for selected ministries (pilot cases)—initial step toward a medium-term expenditure framework (MTEF); external debt data base and projections of debt service obligations improved.
- Fiscal dominance reduced.
- Annual intensive surveillance of the banking system carried out; although 2013 exercise still pending.
- Major infrastructure investment in telecommunications completed. Support approved by development partners for transportation infrastructure and agriculture.

However, policy implementation has weakened in some areas.

- Substantial fiscal slippage in 2012, largely from extrabudgetary spending and lapses in expenditure control.
- Flexible exchange rate policy compromised by exchange rate directives; slow growth in international reserves.
- Liquidity management tools still not operational.
- National energy strategy yet to be updated.
- Quality of economic statistics has not improved.

OUTLOOK AND RISKS FOR THE GAMBIAN ECONOMY

7. **Based on a prudent macroeconomic policy framework in line with the PAGE, growth prospects for the Gambian economy are favorable; albeit with significant risks.** Real GDP growth is projected to increase modestly to 6-6½ percent in 2013, driven by further recovery in agriculture.[9] Growth continues to be strong in the tourism sector, but other sectors are likely to be subdued. Over the medium term, real GDP growth is projected to be elevated through 2015, when crop production is assumed to fully recover to its pre-drought level. Thereafter, real GDP growth is projected to return to trend (about 5½ percent a year).[10] Inflation is projected to continue rising in the months ahead to about 7 percent (year-on-year) by end-2013, but is then expected to be limited to around 5 percent a year—the CBG's objective—over the medium term.

8. **As specified in the PAGE, the macroeconomic policy framework underlying the baseline scenario is anchored upon a fiscal adjustment that reduces government's domestic borrowing needs.** The overall fiscal deficit is projected to fall to 1½-2 percent of GDP a year beginning in 2014, while the net domestic borrowing will be limited to ½ percent of GDP. Over the medium term, this would ease pressure on the government's heavy debt burden, essentially eliminate crowding out of credit to the private sector, and eventually create fiscal savings from lower interest costs that could be directed to spending on PAGE priorities. For 2013, the deficit is to be cut to about 2½ percent of GDP, while NDB is limited to the budget target of 1.9 percent of GDP in 2013 as envisaged under the authorities' program supported by the ECF.[11] Reducing the deficit would also help strengthen the balance of payments and allow the CBG to gradually rebuild its gross international reserves to 5 months of imports, which is consistent with staff's estimates of an adequate level of reserves (Appendix II)—by 2018.

9. **There are significant downside risks to this baseline outlook (Table 8), but there is also strong upside potential.** Staff's analysis of alternative scenarios indicates that the main downside risk arises from possible fiscal slippages (Figures 2-5). Failure to achieve the planned fiscal adjustment and reduction in government's NDB could put macroeconomic policies on an unsustainable path, especially given the high rollover needs of domestic debt. Spillover effects of a possible prolonged global economic slowdown, particularly in the Euro zone, however, would be mixed. The negative impact on tourism and remittances would largely be offset by lower commodity prices for imports of food and fuel. The Gambia is vulnerable to adverse commodity price shocks,

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[9] Crop production is expected to increase by 30-35 percent this year, which would yield a harvest of about ¾ of the 2010 pre-drought level. Under normal weather conditions, crop production is expected to grow by about 25 percent and 10 percent in 2014 and 2015, respectively, before returning to trend of about 5½ percent a year, thereafter.

[10] The baseline projection assumes that growth rates in non-agricultural sectors mostly return to trend beginning in 2014. Given the high volatility of past growth rates, trend is defined as the median growth rate in each sector from 2005 to 2012. The telecom sector is one exception, where projected growth runs above historical trend, because of the recent completion of a major infrastructure project in the sector.

[11] This target includes an increase of 0.3 percent of GDP from the original target to accommodate a shortfall of donor assistance for the 2013 census, in line with the adjuster incorporated in the program supported by the ECF. Based on preliminary data, NDB was slightly above target through end-June.

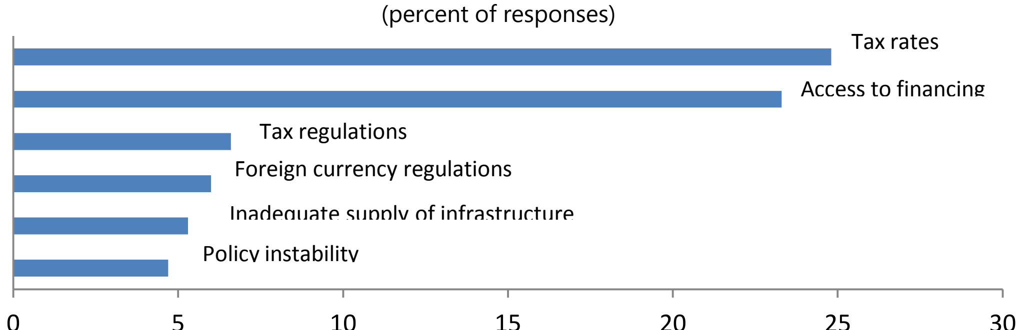
but the severity of the impact depends on whether the shock is passed through to domestic prices. If there is no pass-through, an increase in world oil prices would not only have a more severe impact on the balance of payments, but would also have negative fiscal effects from increased subsidies. As evident from the 2011 drought, natural disasters also pose major risks to the economy's agricultural base. On the upside, structural reforms and major infrastructure investments supported by development partners could lift medium-term growth significantly above the baseline.[12]

POLICY DISCUSSIONS

10. **The Article IV discussions took place during a highly fluid period for The Gambia's economic policy making.** Immediate attention was focused on steps to stabilize the dalasi through a tightening of macroeconomic policies. There was also active use of executive directives on the exchange rate and government expenditures during the course of the discussions. Discussions on the medium-term agenda focused on establishing a sound macroeconomic foundation to support high growth and poverty reduction. The issues centered on adhering to an appropriate path for fiscal adjustment, shoring up government revenues, strengthening public financial management, employing market-based monetary policy instruments, facilitating financial intermediation, maintaining a flexible exchange rate policy, enhancing international competitiveness through structural reforms, and improving economic statistics. Major impediments to international competitiveness, as well as to doing business more generally, include a costly and complicated tax system, limited access to financing, and poor infrastructure, particularly in the electricity and transportation sectors.

The Gambia: most problematic factors for doing business

(percent of responses)



Source: World Economic Forum, Global Competitivenss Report, 2012/13

[12] Although there are substantial reforms and investments in the pipeline, staff does not factor their potential productivity gains into baseline projections until the measures are at an advanced stage of implementation.

A. Near-Term Agenda: Stabilizing the Dalasi and Rebuilding Confidence

11. **Staff's view. A two-pronged approach for tightening macroeconomic policies is needed to immediately stabilize the dalasi and rebuild confidence in the economy**. First, tighten monetary policy through an aggressive campaign to shift financing of government deficits back to the market, rather than central bank financing. The weekly T-bill auctions should aim for issuances in excess of the government's net borrowing requirement, so that going forward the CBG reduces its current holdings. Rising yields would attract investor interest and stem—or possibly reverse—capital flight and dampen depreciation pressures. Second, achieve fiscal discipline. While monetary tightening is needed to stop the bleeding, adhering to the fiscal adjustment is needed to heal the wound. Curtailing government borrowing in line with existing targets is essential to restore confidence that fiscal policy is returning to a sustainable path. Additionally, the government could take some highly visible actions for revenue building or cost cutting. It is also important that the government establish an effective communications strategy to inform investors and the general public of policy implementation.[13]

12. **In addition to tightening macroeconomic policies, it is critical that recent exchange rate directives are rescinded and a flexible exchange rate policy is maintained.** By imposing an over-valued exchange rate, the directives create an expectation of an upcoming dalasi depreciation, which undermines the effectiveness of monetary tightening as a tool for containing/reversing capital flight. An over-valued exchange rate would also seriously threaten The Gambia's competitiveness for the upcoming tourism season.

13. **Authorities' view. The Gambian authorities agreed that a tightening of macroeconomic policies is needed to restore stability to the dalasi; however, steps taken thus far have differed from staff's advice.** The authorities' first step was to tighten monetary policy by increasing the policy rate twice (May and June 2013) and raising the reserve requirement on deposits (from 12 percent to 15 percent) in late June.[14] Yields on T-bills have subsequently been driven up (by about 400 basis points). On the fiscal side, the authorities agreed to the importance of disciplined budget execution, but noted that it was difficult to fully control spending, particularly expenditures ordered by directives. The authorities described the exchange rate directives as political decisions aimed at discouraging speculative elements in the market; they did not represent a switch to a fixed exchange rate regime.

[13] Based on preliminary data, NDB was slightly above target through end-June, but there has been no public statement to that effect. Performance after the mid-year target is questionable.

[14] The CBG raised the reserve requirement from 10 percent to 12 percent in late May. Preliminary data indicate that, to a large extent, commercial banks ran down their holdings of T-bills in order to meet the reserve requirement. At the same time, the CBG increased its holdings of T-bills, as well as its international reserves.

B. Medium-Term Policy Framework: Addressing Risks and Impediments to Growth

Fiscal policy

14. **There was broad agreement that fiscal adjustment is necessary to achieve sustainability and eventually reduce the high costs and heavy burden of government's domestic debt**. Major tax measures thus far in 2013—the implementation of a new value-added tax (VAT) and renewed fuel price adjustments to eliminate remaining subsidies[15]—reflect a strong effort to build up government revenues. There was also broad agreement on public financial management reforms to enhance the budget process by developing strategic plans for each ministry and eventually implementing a medium-term expenditure framework (MTEF). However, there were differing views on the way forward, particularly on the path for NDB and further tax reform.

15. **Staff's view. To restore the momentum of fiscal consolidation, the authorities should adhere to the fiscal targets as set out in the 2013 budget and the PAGE.** After the slippages in 2012, adhering to the targets set in the 2013 budget would be a strong statement that fiscal adjustment remains a top priority. And, given its prominence as the anchor to the macroeconomic policy framework, it would be important to stick to the original target of limiting NDB to ½ percent of GDP in 2014 and beyond, as stipulated in the PAGE. By following this path, domestic debt could be reduced to less than 20 percent of GDP by 2018, which would generate substantial fiscal savings from lower interest costs. To achieve these goals would require a further buildup in tax revenues and spending discipline. While it is envisaged that the overall fiscal deficit would need to be reduced to about 1½-2 percent of GDP a year, there is some scope for a higher deficit, if external financing is available on concessional terms in line with recommendations from the recent joint Bank-Fund staff debt sustainability analysis (Country Report No. 13/139, Supplement 1).

16. **In addition to building up revenues, a comprehensive tax reform is needed to enhance economic growth and international competitiveness.** Tax revenues in The Gambia are low compared with other countries, as well as The Gambia's own past (Appendix III), and are insufficient especially given the demands for government spending under the PAGE. Recent tax measures—the VAT and elimination of fuel subsidies[16]—are expected to yield an additional ½ percentage point of GDP in 2014, but beyond that additional tax reform would be needed. In line with recent Fund technical assistance,[17] staff recommended reforms aimed at broadening the tax base and simplification. Broadening would make the tax system more buoyant. Moreover, successfully

[15] Fuel subsidies averaged about 6 percent of the full pass-through prices in early 2013. In a supplementary budget to finance new expenditures approved in June 2013, the authorities re-instituted regular monthly price adjustments until the subsidies are completely eliminated (most likely in 2014, given recent increases in world prices and the dalasi's depreciation.

[16] Staff recommended directing additional revenues from the elimination of fuel subsidies to well-targeted pro-poor programs. The authorities wish to explore scope for a basic national health insurance scheme.

[17] The Fiscal Affairs Department provided technical assistance on tax policy in February 2013.

broadening the base of the personal and corporate income taxes would provide scope for reducing tax rates, without losing revenues. Staff also advocated eventually eliminating investment incentives and tax exemptions to simplify and broaden the base for corporate income taxes. A vast array of low-yielding taxes, "nuisance" taxes, could be eliminated sooner. Ultimately, a simplified tax system with broad tax bases and low rates would help to improve economic growth and The Gambia's international competitiveness. In the near term, the authorities could start to quantify the cost of tax expenditures, including investment incentives and exemptions, and move toward including these costs in the government's budget. Continued efforts to strengthen tax administration, particularly for large taxpayers and customs, are critical for increasing revenue collections and fairness of the tax system. These efforts would benefit from reducing corruption and combating tax evasion, including by mobilizing the anti-money laundering framework.

17. **On the spending side, greater progress is needed to control extrabudgetary expenditures and enhance the budget process to ensure "value-for-money".**[18] Although fiscal savings created by reduced interest payments would create room for growth-enhancing expenditures in the medium term within the envelope of the PAGE's fiscal consolidation targets, growth of discretionary current expenditures would need to be contained. Furthermore, directives for extrabudgetary spending have been the leading cause for breakdowns in fiscal discipline. To achieve planned fiscal adjustment and observe budget targets, it would be important to contain extrabudgetary spending within the contingency component of the budget. Minimally, the cash-budgeting approach for near-term expenditure control should be strengthened. In addition, implementation of an MTEF would greatly facilitate planning and allocation of scarce public resources.

18. **There is need for further improvement in public debt management to help ease the heavy debt burden.** In line with the government's medium-term debt strategy, issuing longer-term bonds would eventually help to reduce the extraordinarily high rollover risk of domestic debt. However, interest rates are prohibitively high at this time. Issuing longer-term bonds would need to wait until fiscal adjustment has helped to reduce yields. To ensure sustainability of external debt, with the exception of a recent loan from the Islamic Development Bank to support the groundnut sector, external financing should be limited to loans on concessional terms.[19] Of significant importance, the authorities have recently made substantial progress improving its external debt database, which now facilitates reliable projections of future debt service obligations. Establishing a database on debts and contingent liabilities, especially of state-owned enterprises, would also be prudent.

19. **Authorities' views. Differences focused mainly on the pace of fiscal adjustment and tax reforms.** The authorities cautioned that despite performance in the first half, observing the NDB

[18] The Fund has provided extensive technical assistance on public financial management, including a Fiscal Affairs Department mission in February 2013.

[19] See the recent DSA (Country Report No. 13/139, Supplement 1).

ceiling for 2013 as a whole will be a challenge. They also suggested a modest easing of the ceiling for 2014. On tax reform, the authorities emphasized that the VAT needs to be firmly entrenched as the foundation of the tax system before further changes to tax policy can be pursued. While tax reform is put on hold, they will rely on revenue administration efforts to raise the tax-to-GDP ratio.[20] The authorities are assessing the cost and benefits of investment incentives. At present, they believe that incentives are needed to overcome other impediments to international competitiveness.

Monetary and exchange rate policies

20. **There was broad agreement on monetary and exchange rate policies, once the current exchange rate situation stabilizes.** The CBG will continue to target reserve money as an intermediate instrument to contain broad money growth and inflation (at 5 percent a year). In light of trends toward financial deepening, broad money growth should exceed expected nominal GDP growth by a modest amount, with reserve money growth somewhat tighter to account for the effect of improving efficiencies on the money multiplier. As the government contains its domestic borrowing needs, the expansion in broad money should leave ample room for growth of commercial banks' credit to the private sector. The CBG also aims to maintain a flexible exchange rate policy, which has served The Gambia well over the years, particularly in helping to maintain its international competitiveness. The CBG will refrain from intervening in the foreign exchange market, except to maintain orderly market behavior. The CBG may also enter the market to purchase foreign exchange to meet its objectives for international reserves (5 months of import coverage over the medium term). Exchange rate directives are highly disruptive and should cease completely.

21. **Staff's views. Monetary policy is struggling to provide a stable environment for financial intermediation and the economic activity.** The CBG tends to focus on meeting its monetary (and international reserve) targets at the end of each quarter, rather than pursuing a consistent path throughout the period. In addition, the CBG still relies heavily on blunt non-market based instruments—notably, the reserve requirement on deposits—to conduct monetary policy. To improve the focus on managing reserve money on a daily basis, staff recommends targeting average reserve money over some period (the final month of each quarter). This will require the CBG to overcome the delays to making operational its liquidity management tools (REPO instruments). While government's financing needs can be unpredictable, making liquidity management difficult, the CBG could develop strategies for mopping up unanticipated liquidity injections, for example.

22. **The recent increases in the reserve requirement on deposits are a setback to financial intermediation.** They substantially increase banks' intermediation costs by depriving banks of income generating assets. Over the next couple of years, the CBG should reduce the reserve requirement ratio back to 10 percent. Reserve money targets will have to be tightened accordingly

[20] Staff agreed with this argument. Revenue projections in the baseline macroeconomic framework were scaled back accordingly.

to avoid effects on monetary policy from these steps. In the mean time, the CBG could consider paying some interest on the higher reserve requirement.

23. **On international reserves, large purchases at the end of a quarter can put sudden pressure on the exchange rate and should be avoided.** Moreover, sometimes such foreign exchange transactions lack transparency. Similar to the reserve money issue, the CBG needs to take steps to manage its reserve accumulation on a more consistent basis.

24. **Authorities' views. The CBG faces extraordinary challenges that are beyond its control, but it will continue to strive to improve coordination with the fiscal authorities.** The CBG continues to seek better communication on the public sector borrowing requirements and also foreign exchange flows associated with foreign financed government projects, which maintain accounts at the CBG. The CBG anticipates that REPO instruments will soon be operational. As experience is gained with the REPO market, the authorities plan to explore whether it may provide the basis for a more effective policy interest rate.

Financial sector policies

25. **After a period of rapid expansion, the banking system has undergone a modest consolidation (Appendix IV).** Between 2007 and 2010, the number of banks in The Gambia doubled (to 14 banks). This expansion led to intense competition and diminished profits for the system as a whole. Since 2010, two banks went into voluntary liquidation, choosing not to meet the two-step increase in the minimum capital requirement (MCR) implemented at end-2010 and end-2012. The increases in the MCR ensured that the banking system has been adequately capitalized, but still non-performing loans have remained high (Table 9). While most banks are foreign-owned, there is very little direct exposure to foreign assets on their balance sheets. The strong expansion of the banking sector helped to deepen financial intermediation, but credit to the private sector in The Gambia has lagged behind regional peers (Figure 6), partly due to structural bottlenecks in the credit market. The costs of financial intermediation remain high.

26. **There was broad agreement that banking supervision must remain vigilant.** The CBG has been building up its supervisory capacity through staff hires and new electronic data collection. Capacity building is needed, however, for effective off-site analysis and assessments, which is critical for moving to a more risk-based approach for supervision. The CBG remains active in the regional college of banking supervisors and has maintained close surveillance of cross-border issues.

27. **Staff's views. The CBG's vigilance on banking supervision overall is positive, but the authorities should maintain its procedures for intensive supervision.** The CBG should continue its annual assessment of individual banks' prompt corrective action financial indicators and, if necessary, engage banks in intensive supervision of banks that do not met the requisite thresholds. The delay of this assessment in 2013 should be remedied as soon as possible. Of concern, there is no effective supervision of the Social Security and Housing Finance Corporations (SSHFC). At this time, the best option is to enhance transparency, such as by making the finalized external audits

widely available, so there could at least be greater public scrutiny of the institution. Over the medium term, it would be important to build supervisory capacity by a proper regulatory agency. On helping to reduce intermediation costs, ensuring that the Credit Reference Bureau (CRB) can maintain timely data on borrowers and establishing a collateral registry to facilitate secured lending operations are two near-term reforms that could have a profound impact.

28. **Authorities' view. The authorities largely concurred with staff's analyses and recommendations on financial sector stability.** The CBG intends to conduct the bank-by-bank analysis for intensive supervision soon and will strive to maintain a regular annual schedule for this exercise. The authorities noted that there has been progress on resolving the technical glitches of the CRB. They are also exploring the establishment of a collateral registry. The CBG agreed that its capacity was too stretched to monitor the SSHFC and, for now, transparency is the best option.

External stability assessment, international competitiveness, and inclusive growth

29. **Staff's views. Recent directives to introduce a temporarily fixed and over-valued exchange rate have disrupted the foreign exchange market; however, when the authorities have maintained a flexible exchange rate policy, the dalasi has been broadly aligned with medium-term fundamentals (Box 3 and Appendix V).** In addition, the recent directives can have adverse effects on international competitiveness. For example, in the near term, they create a substantial risk for The Gambia's tourism sector. As highlighted in surveys, a burdensome tax system and the high cost of financial intermediation are also impediments to competitiveness and the business environment, as well as severe infrastructure problems.[21] While the introduction of the VAT is a major step forward in tax policy, it appears that further progress with a comprehensive tax reform will be gradual. Similarly, recent efforts to facilitate financial intermediation have been mixed. Staff cautioned against the use of investment incentives to compensate for impediments to competitiveness. Such incentives, particularly tax holidays, can be difficult to administer, costly in terms of forgone revenues, and tend to attract investors with short time horizons.

30. **Nevertheless, with substantial donor support, there is strong potential for inclusive growth.** Several donors have begun to support PAGE strategies for infrastructure investment. Major advances are underway in telecommunications and construction of the Trans-Gambia Bridge could generate opportunities to reinvigorate The Gambia's role as a regional trade center.[22] The authorities are also preparing to address major problems in the energy sector, including the insolvency of the National Water and Electricity Company (NAWEC) and the current monopoly of fuel importation, which would be a significant step forward. Perhaps most promising, the authorities

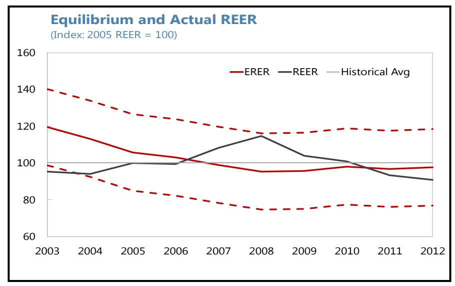
[21] The World Economic Forum's Global Competitiveness Report; and the World Bank's Doing Business Index. The Gambia also ranks very poorly in protecting investors (177 out of 185 countries) in the Doing Business Index.

[22] The African Development Bank has approved nearly US$100 million of grant financing for the bridge.

Box 3. External Stability Assessment: Exchange Rate and Reserve Adequacy

Results from three CGER-type methodologies suggest that the dalasi is broadly in line with The Gambia's medium-term fundamentals, as long as the authorities stick to the flexible exchange rate policy and pursue macroeconomic policies in line with the PAGE (Appendix V):

- The **macroeconomic balance** approach finds an overvaluation of 13 percent, implied by the current account gap calculated as the difference between the projected underlying medium-term current account deficit of 12½ percent of GDP and the estimated current account "norm" deficit of 4 percent. However, given the need for infrastructure investments of the country and its development stage, the current account norm deficit of 4 percent estimated from the model could be viewed as a conservative estimate.
- The **external stability** approach indicates the dalasi is overvalued by about 7½–10 percent. Using the end-2012 NFA position of -87 percent of GDP as a benchmark, the current account deficit needed to maintain this position is estimated at about 6 percent of GDP, indicating an overvaluation of 10 percent. When the benchmark is set to the average NFA position of -105 percent over 2004–2012, the overvaluation is slightly lower at about 7½ percent.
- The **equilibrium real exchange rate** approach, on the other hand, suggests an undervaluation of about 18½ percent. This approach is sensitive to the recent exchange rate trend—depreciation since 2008. In addition, the equilibrium REER appreciated slightly largely reflecting the strengthening of the terms of trade.



Text Table 1. Estimated Exchange Rate Misalignment (Percent)

MB	ES	ERER
4.5 - 13	7.6 - 10	-18.7

Source: IMF staff estimates

Meanwhile, results from a cost-benefit analysis suggest an optimal level of GIR between 3½ 5 months of import cover, assuming unit costs of 4 and 3 percent, respectively (Appendix II). Under this analytical framework, the optimal level of GIR is determined so that a country's benefit from holding reserves (prevention and mitigation of large external shock events) is balanced against the associated financial cost (interest rate differential between domestic and US treasury bills), while taking into account the country's fiscal position, institutional strength, and the flexibility of the exchange rate. Under a stress scenario where all external shocks are set to their worst historical values, the optimal level of reserves would rise to 4½–6 months of imports. These results indicate that the current level of reserves is broadly adequate given the macroeconomic and external risks facing The Gambia.

are working closely with a coordinated group of development partners in agriculture and water management, which could reduce vulnerability to drought and boost rural incomes.[23]

31. **Although resource mobilization for the PAGE has improved, private sector participation would be needed to step up implementation.** However, for this to be productive, the government needs to strengthen the capacity of the PPP (public-private partnerships) unit in the Ministry of Finance and Economic Affairs to vet potential projects.

[23] Over US$130 million (nearly 15 percent of current GDP) of grant financing has been approved for disbursement over the next four years.

32. **Authorities' views. The authorities agreed with the conclusion that the exchange rate was not misaligned.** They argued that until the impediments to the business environment and international competitiveness can be resolved, The Gambia would have to continue to offer investment incentives. They noted that qualifying investments are closely monitored.

Improving the quality of economic data

33. **Data have serious shortcomings that significantly hamper surveillance**. National accounts and balance of payments data are particularly problematic (see the Statistical Issues Appendix). Staffing and capacity constraints at the Gambia Bureau of Statistics (GBoS), as well as insufficient source data, have been major obstacles to deriving quality statistics. For the BOP, an outdated methodology for estimating the re-export trade may be seriously distorting official trade data. As a result, staff estimates of GDP and the BOP have often differed significantly from the authorities' figures. In addition, the base for the consumer price index (CPI) is outdated and there are concerns that inflation has been understated. GBoS is in the process of updating and rebasing its CPI data using the 2010 Integrated Household Survey. The authorities plan to work closely with development partners to improve data, including necessary hiring of staff for the GBoS and funding the collection of source data.

STAFF APPRAISAL

34. **The Gambian economy is still recovering from the severe 2011 drought.** While the pace of recovery has been promising, lingering weaknesses in the balance of payments have led to depreciation pressures on the Gambian dalasi. These pressures have intensified recently, because of policy inconsistencies. In particular, a series of directives that have recently imposed over-valued exchange rates has disrupted the foreign exchange market and shaken confidence in the economy, encouraging capital flight and dampening remittances. To stabilize the dalasi and restore confidence, staff recommends an immediate return to a flexible exchange rate policy and a tightening of macroeconomic policies—both monetary and fiscal.

35. **Prior to this recent turmoil, The Gambia had achieved a period of robust growth and significant poverty reduction.** Returning to the economic policy agenda mapped out in the authorities' *Programme for Accelerated Growth and Employment* (PAGE), would enable such inclusive growth to continue. Moreover, implementing major structural reforms and infrastructure investments supported by development partners in the agriculture, transportation, energy, and telecom sectors, could significantly boost growth over the medium term.

36. **Steady fiscal adjustment aimed at reducing the escalating cost and risks of the government's heavy debt burden, particularly from domestic debt, lies at the heart of the PAGE's macroeconomic policy agenda.** Fiscal slippages in 2012 halted progress toward fiscal consolidation. Restoring momentum toward fiscal balance, critically by curtailing the government's net domestic borrowing would help to lower interest rates, ease crowding out of the private sector, and eventually generate substantial fiscal savings that could be redirected to spending on PAGE priorities.

37. **Staff agreed that further tax reform should await further entrenchment of the new value-added tax as the foundation of the Gambian tax system.** However, given that the current tax system remains a major impediment to doing business and The Gambia's international competitiveness, it will be important to prepare a medium-term tax reform agenda aimed at simplifying taxes and broadening the tax base, which would allow a lowering of tax rates without losing revenues. In the mean time, revenue administration efforts, particularly for customs and large taxpayers, need to be stepped up to bolster revenues. Monitoring tax expenditures—notably, from investment incentives and fuel subsidies—would also provide important guidance for tax simplification and base broadening.

38. **Enhancing the budget process and expenditure control is critical to ensure maximum value from government spending, in addition to improving fiscal discipline.** It is important that spending by directive is minimized and kept within the allocation for contingencies.

39. **To provide a firm foundation for the financial system and the economy more broadly, it is important that monetary policy is implemented on a consistent basis.** Market-based liquidity management tools need to be made operational as soon as possible. To reduce the high cost of financial intermediation—another major impediment to doing business—the Central Bank of The Gambia should refrain from using the reserve requirement on deposits as a monetary policy tool and should aim to lower the requirement back to 10 percent over the next couple of years. Other pending structural measures to facilitate intermediation should not be delayed.

40. **The banking system is well-capitalized and liquid, however, non-performing loans have remained persistently high.** Banking supervision has made good progress in recent years, particularly in the areas of intensive supervision based on individual bank indicators, capacity building, data collection, and cross-border communications/monitoring. It is important that the CBG remains vigilant and continues its progress in these areas. For the Social Security and Housing Finance Corporations, public scrutiny would encourage sound management. It will be important to ensure maximum transparency of its accounts.

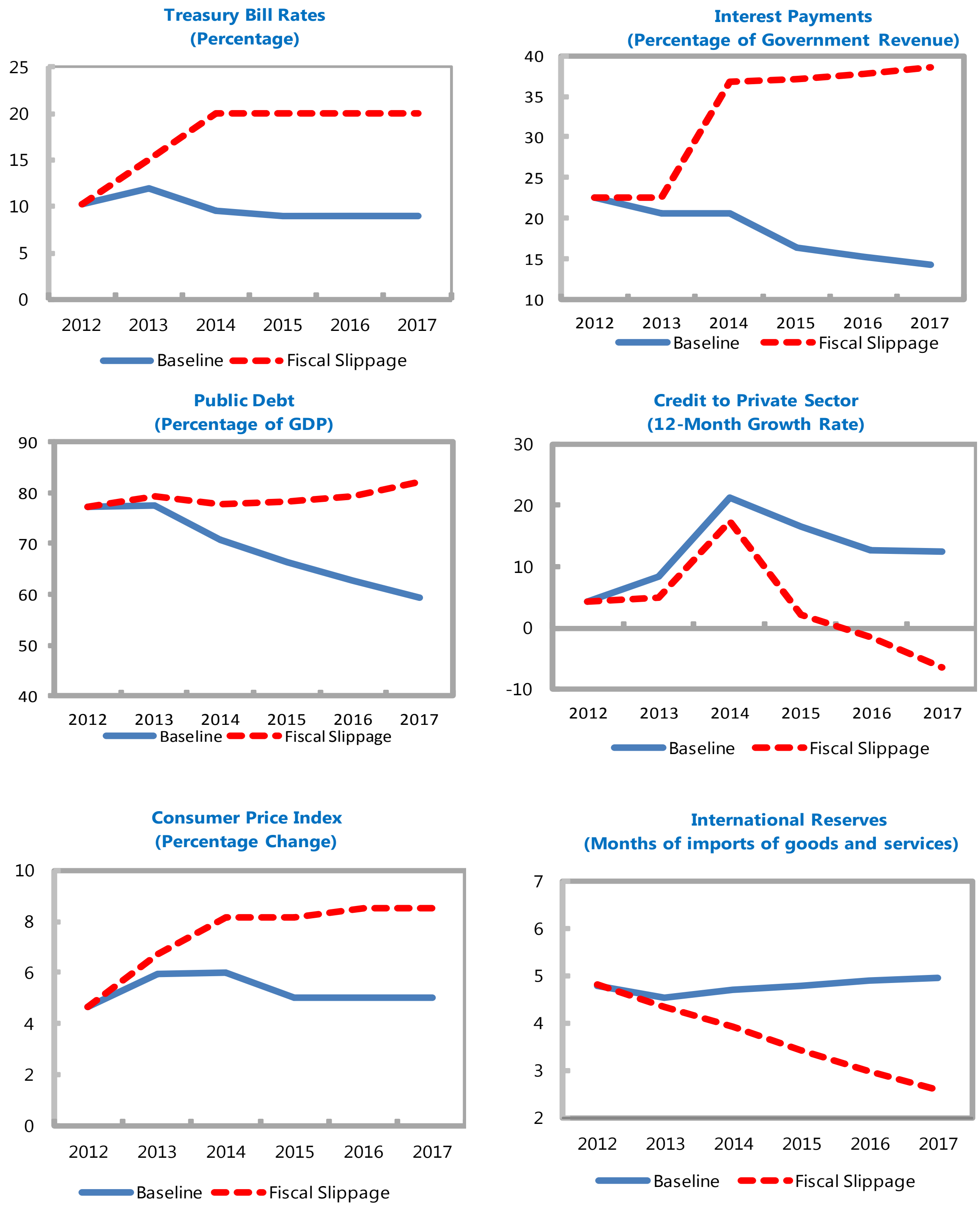
41. **A flexible exchange rate policy has served The Gambia well, particularly in helping to preserve international competitiveness; however, recent directives to fix the exchange rate temporarily at over-valued rates have been counterproductive.** The directives have made international transactions difficult, discouraged the inflow of much needed remittances, and encouraged capital flight. As a small open economy, relying on imports for essential commodities, it is important that The Gambia maintain an ample stock of international reserves. A return to a predictable exchange rate policy would be essential to preserve both competitiveness and macroeconomic stability.

42. **While there has been progress managing the government's external debt burden, there are still significant risks, especially if investments are unproductive.** To minimize exposure to external debt risks, staff urges the authorities to continue to seek grant or highly concessional financing for its investment agenda.

43. **Weak economic data continue to be a major impediment to policy making.** The authorities face an opportunity to engage development partners in a coordinated effort to support capacity building at the Gambia Bureau of Statistics (GBoS). To ensure success of this initiative, it is critical that the government meet its commitments on GBoS staffing and funding for collection of source data. Also, the CBG needs to address long-standing weaknesses in the collection and compilation of balance of payments data.

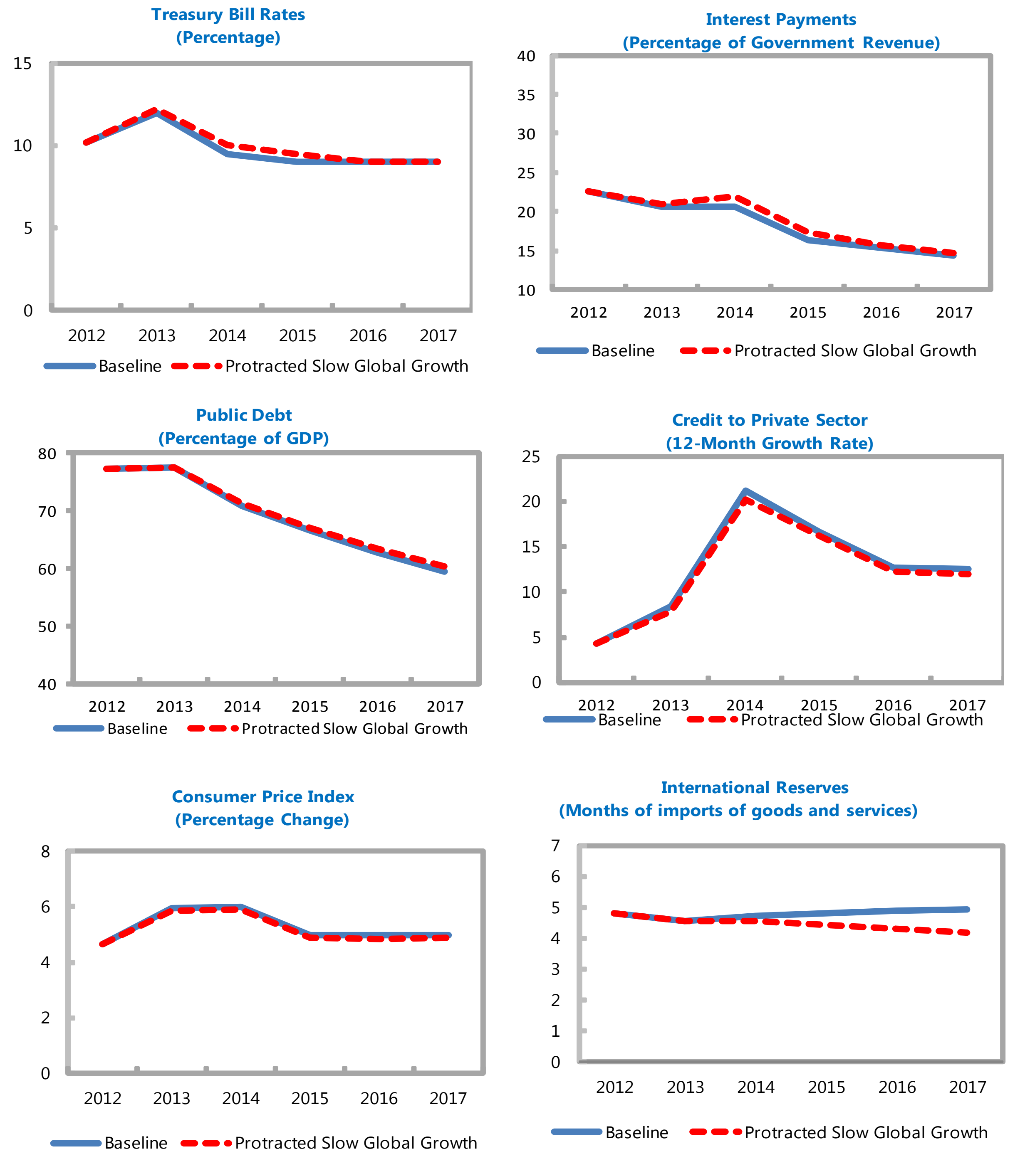
44. **Staff recommends that the next Article IV consultation with the Gambia be held in accordance with the Board Decision No. 14747-(10/96), adopted September 28, 2010 (as amended), on Article IV consultation cycles.**

Figure 2. The Gambia: Fiscal Slippage Scenario, 2012—2017[1]



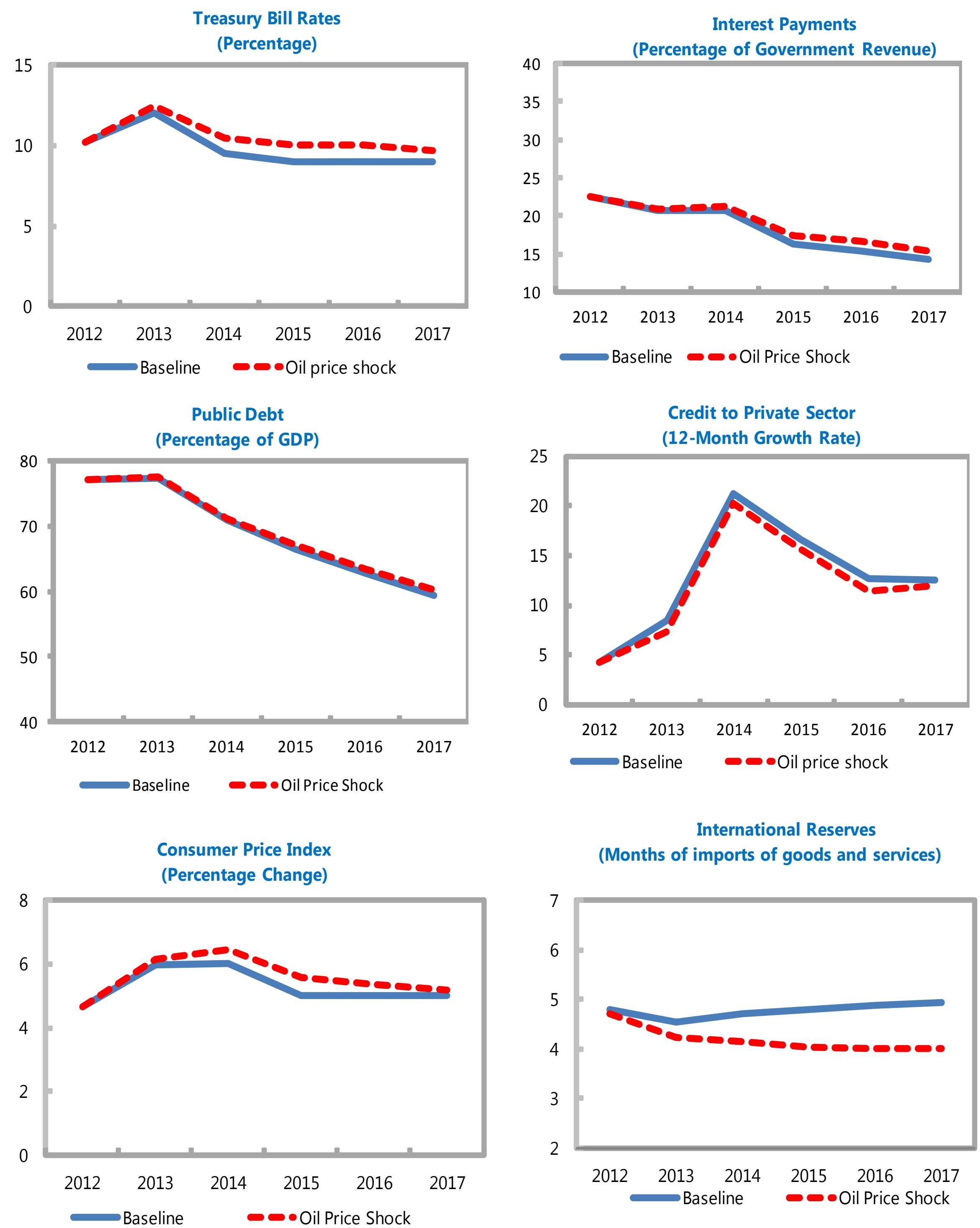
[1] This scenario assumes no fiscal adjustment during 2013—17: NDB is kept at 3½ percent of GDP, the level observed in 2012, throughout 2017. Loss of confidence among investors would lead to a creeping up of T-bill rates and some capital flight. Fiscal sustainability and growth prospects would be severely undermined.

Figure 3. The Gambia: Protracted Global Slow Down Scenario, 2012—2017[1]



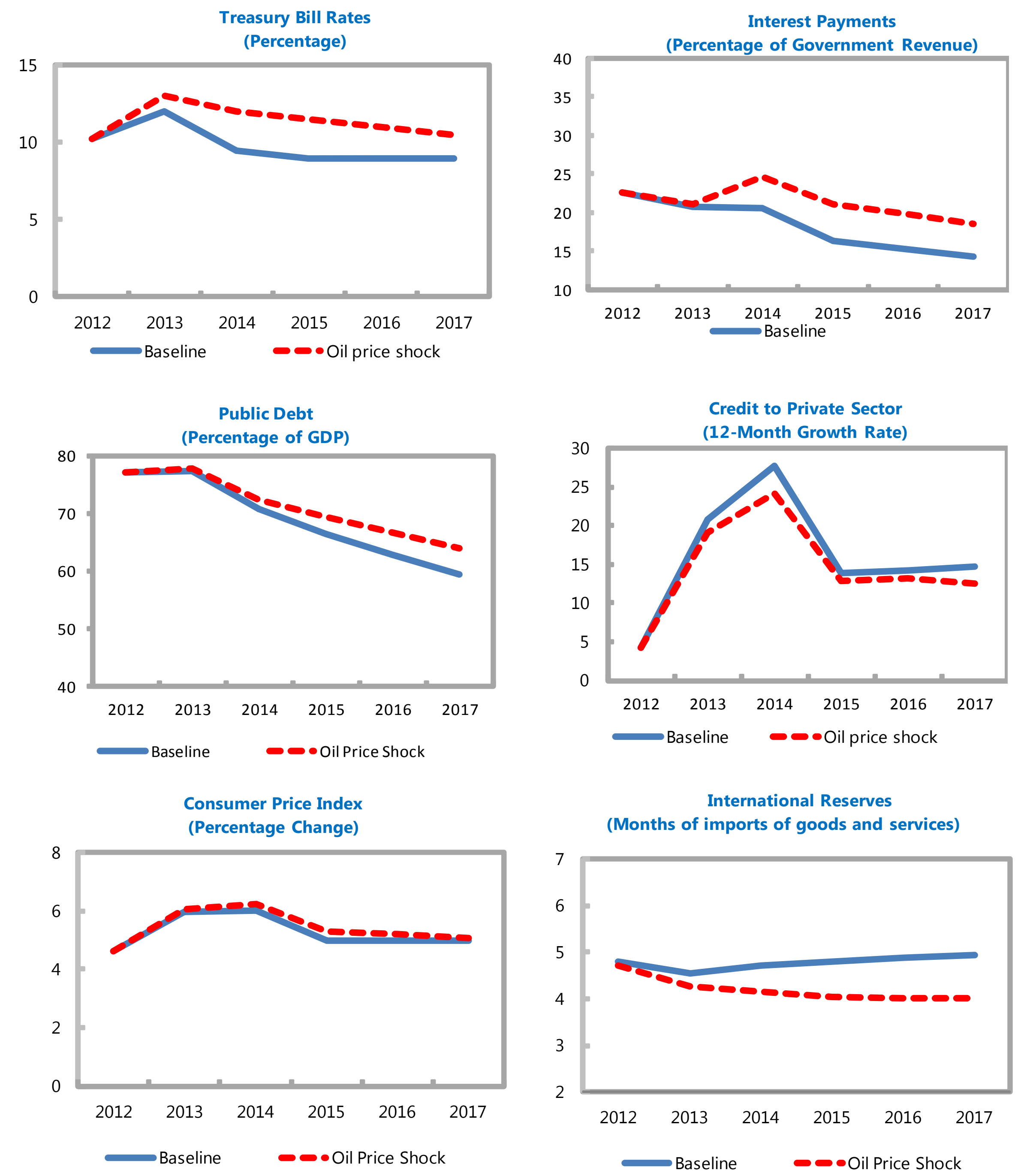
[1] This scenario assumes a protracted growth slowdown in advanced economies in line with the latest WEO adverse scenario. The main channel through which this scenario affects The Gambia is a reduction in tourism receipts and remittances but this impact is partially offset by downward pressure on commodity prices.

Figure 4. The Gambia: Global Oil Price Shock Scenario with Full Pass Through to Domestic Prices, 2012—2017[1]



[1] This scenario assumes higher international oil prices (by 20 percent than the baseline during 2013—15) with full pass-through to domestic fuel prices. This leads to a worsened external current account balance and higher inflation.

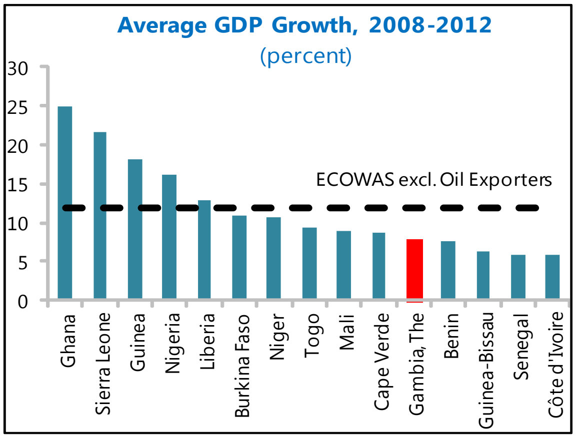
Figure 5. The Gambia: Oil Price Shock Scenario with Partial Pass Through to Domestic Fuel Prices, 2012—2017[1]



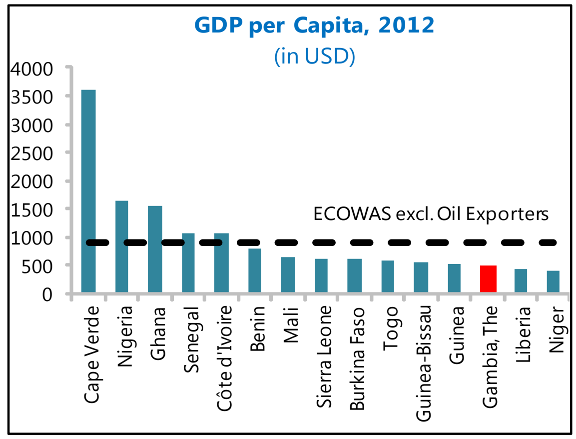
[1] This scenario also assumes higher international oil prices (by 20 percent than the baseline during 2013—15) but with a partial pass-through to domestic prices. The negative impact on the fiscal position, international reserves and credit to private sector would be larger than under a full pass-through scenario reflecting the significance of the authorities' commitment to eliminate fuel subsidies.

Figure 6. The Gambia: Cross Country Comparison

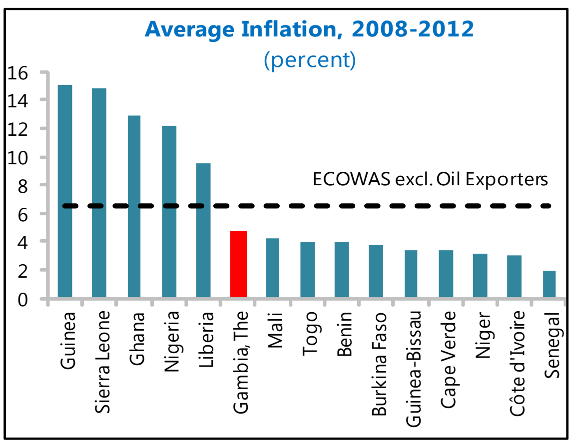
The Gambia maintained reasonably high growth rates during the global crisis...



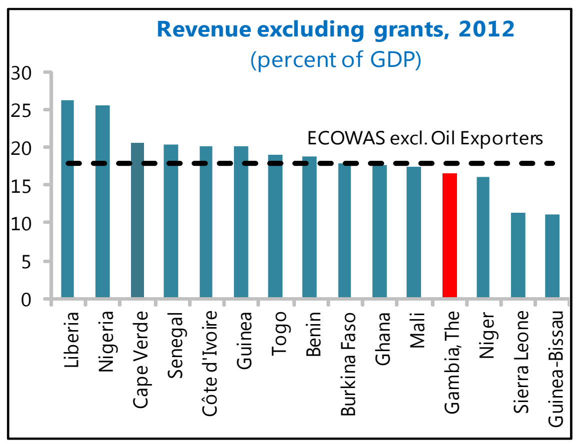
...but GDP per capita remains below the ECOWAS average.



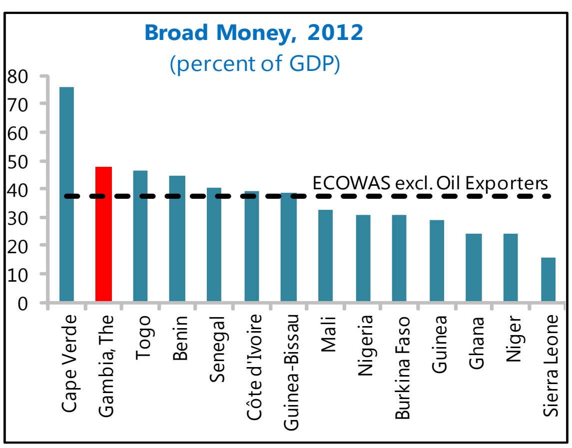
Inflation compares favorably within the region...



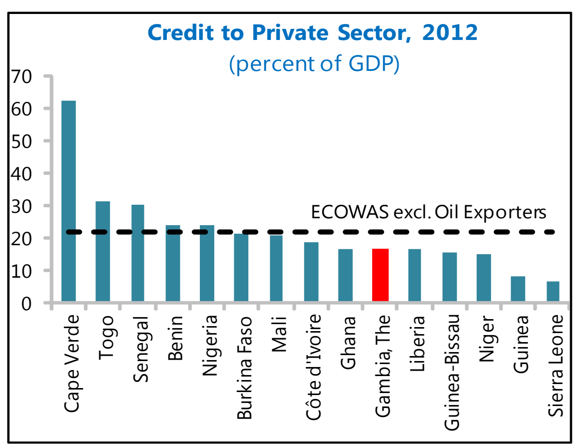
...but government revenue is below average.



The Gambia's financial deepening measured by broad money compares relatively well with regional counterparts...



...but credit to private sector is lagging behind.



Sources: WEO and IMF Staff Estimates.

Table 1. The Gambia: Selected Economic Indicators

	2010 Act.	2011 Act.	2012 Prel	2013 Proj.	2014 Proj.	2015 Proj.	2016 Proj.	2017 Proj.	2018 Proj.
National account and prices	(Percent change; unless otherwise indicated)								
Nominal GDP (millions of dalasi)	26,662	26,465	29,108	32,886	37,659	42,015	46,459	51,379	56,842
Nominal GDP	11.1	-0.7	10.0	13.0	14.5	11.6	10.6	10.6	10.6
GDP at constant prices	6.5	-4.3	5.3	6.4	8.5	6.5	5.5	5.5	5.5
GDP per capita (US$)	558	508	497	478	486	511	534	558	584
GDP deflator	4.3	3.7	4.5	6.2	5.6	4.7	4.8	4.8	4.8
Consumer prices (average)	5.0	4.8	4.6	6.0	6.0	5.0	5.0	5.0	5.0
Consumer prices (end of period)	5.8	4.4	4.9	7.0	5.0	5.0	5.0	5.0	5.0
External sector									
Exports, f.o.b.	0.9	16.3	-8.8	9.5	8.9	7.6	7.5	8.1	8.3
Of which: domestic exports	1.2	34.7	-57.6	74.9	29.2	13.2	11.0	11.0	11.0
Imports, f.o.b.	5.3	7.1	8.7	-2.1	4.1	6.4	6.2	6.5	6.6
Terms of trade (deterioration -)	-1.4	1.8	3.7	3.9	3.5	2.7	2.0	1.8	2.7
NEER change (depreciation -)[1]	-1.2	-6.5	-7.1	…	…	…	…	…	…
REER (depreciation -)[1]	0.6	-5.7	-5.4	…	…	…	…	…	…
Money and credit	(Percent change; in beginning-of-year broad money)								
Broad money	13.7	11.0	7.8	7.0	13.1	12.6	11.6	11.6	11.6
Net foreign assets	1.3	5.6	2.3	3.6	5.8	6.4	7.0	7.0	5.8
Net domestic assets, of which:	12.3	5.4	5.5	3.4	7.3	6.2	4.6	4.6	5.8
Credit to the government (net)	16.8	8.2	6.1	3.8	0.8	0.8	0.8	0.8	0.8
Credit to the private sector (net)	4.7	2.8	1.3	2.6	6.5	5.5	4.3	4.3	4.3
Other items (net)	-10.1	-5.2	-1.7	-1.9	-0.1	-0.1	-0.1	-0.1	-0.1
Velocity (level)	2.0	1.8	1.8	1.9	2.0	1.9	1.9	1.9	1.9
Average treasury bill rate (in percent)[2]	11.3	10.0	10.4	…	…	…	…	…	…
Central government budget	(In percent of GDP; unless otherwise indicated)								
Domestic revenue (taxes and other revenues)	14.9	16.1	16.4	17.1	17.6	17.6	17.5	17.5	17.5
Grants	4.0	5.1	9.0	5.0	5.1	5.0	4.9	4.7	4.6
Total expenditures and net acquisition of financial assets	24.9	25.8	29.9	24.8	24.5	24.4	24.0	23.8	23.6
Net incurrence of liabilities	5.8	4.3	4.3	2.7	1.8	1.8	1.5	1.5	1.4
Foreign	1.5	0.8	1.1	0.9	1.3	1.3	1.0	1.0	1.0
Domestic	4.4	3.5	3.2	1.7	0.5	0.5	0.5	0.5	0.5
Basic balance	-3.3	-2.1	-2.1	-2.1	-1.3	-1.4	-1.4	-1.3	-1.9
Public debt	69.6	77.3	77.2	77.4	70.8	66.5	62.8	59.4	56.1
Domestic public debt	29.4	33.2	33.4	31.3	27.8	25.4	23.5	21.7	20.1
External public debt	40.2	44.1	43.8	46.1	43.0	41.1	39.3	37.6	36.0
External public debt (millions of US$)	377.6	386.2	375.8	384.2	396.5	409.6	421.0	433.2	445.1
External sector									
Current account balance									
Excluding budget support	-16.0	-15.5	-19.4	-16.9	-16.4	-16.0	-16.0	-15.9	-15.8
Including budget support	-16.0	-15.5	-17.0	-16.2	-15.6	-15.2	-15.3	-15.4	-15.3
Current account balance	(Millions of U.S. dollars; unless otherwise indicated)								
Excluding budget support	-154.3	-140.3	-175.9	-151.7	-153.5	-162.0	-173.8	-185.9	-198.6
Including budget support	-154.3	-140.3	-154.4	-145.1	-146.1	-154.4	-166.8	-179.5	-191.8
Overall balance of payments	-23.8	8.4	0.1	-5.6	15.8	17.8	24.5	26.2	29.4
Gross official reserves	157.6	169.7	183.8	181.9	199.3	216.0	233.9	252.0	272.8
in months of next year's imports of goods and services	4.4	4.4	4.8	4.5	4.7	4.8	4.9	4.9	5.0
Use of Fund resources	(Millions of SDRs)								
Disbursements	2.0	2.3	9.3	3.1	3.1	3.1	0.0	0.0	0.0
Repayments	0.0	0.0	-0.2	-0.6	-2.1	-3.8	-4.3	-5.2	-5.5
Financing gap (possible ECF financing)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Sources: Gambian authorities and Fund staff estimates and projections.

[1] 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 Act.	2011 Act.	2012 Prel.	2013 Proj.	2014 Proj.	2015 Proj.	2016 Proj.	2017 Proj.	2018 Proj.
Revenue	5,026	5,619	7,397	7,271	8,551	9,500	10,413	11,434	12,613
Taxes	3,528	3,780	4,221	5,001	5,919	6,592	7,276	8,044	8,897
Taxes on income, profits, and capital gains	1,109	1,225	1,520	1,629	1,876	2,107	2,331	2,578	2,852
Domestic taxes on goods and services	1,500	1,683	1,833	2,049	2,424	2,712	3,010	3,327	3,682
Taxes on international trade and transactions	867	830	856	1,310	1,603	1,756	1,917	2,118	2,340
Other taxes	53	42	12	13	15	17	19	21	23
Grants	1,065	1,355	2,611	1,659	1,934	2,114	2,260	2,420	2,643
Budget support	0	0	296	242	296	318	300	282	310
Project grants	1,065	1,355	2,315	1,417	1,638	1,796	1,960	2,138	2,333
Other revenues	433	484	565	610	699	793	877	970	1,073
Expenditures	6,466	6,871	8,675	8,149	9,292	10,330	11,210	12,301	13,370
Expenses	4,059	4,579	5,068	5,882	6,726	7,279	7,949	8,713	9,567
Compensation of employees	1,516	1,693	1,804	1,875	2,147	2,395	2,649	2,929	3,240
Use of goods and services [1]	1,216	1,273	1,540	2,320	2,639	2,993	3,290	3,650	4,058
Interest	766	967	1,079	1,160	1,366	1,207	1,250	1,292	1,337
External	137	183	202	220	243	265	288	310	333
Domestic	629	785	877	940	1,123	942	961	982	1,005
Subsidies	561	646	645	527	575	684	761	842	931
Net acquisition of nonfinancial assets	2,407	2,292	3,607	2,267	2,566	3,051	3,260	3,588	3,803
Acquisitions of nonfinancial assets	2,407	2,292	3,607	2,267	2,566	3,051	3,260	3,588	3,803
Foreign financed[2]	1,808	1,985	3,308	1,857	2,135	2,262	2,319	2,527	2,359
Gambia local fund	599	307	299	409	431	789	941	1,061	1,444
Gross Operating Balance	967	893	2,328	1,389	1,825	2,221	2,464	2,721	3,046
Net lending (+)/borrowing (–)	-1,440	-1,252	-1,278	-878	-741	-830	-797	-868	-757
Net acquisition of financial assets	175	-56	24	-4	-57	-76	-79	-82	50
Net incurrence of liabilities	1,560	1,150	1,261	874	684	754	718	785	807
Domestic	1,173	926	945	566	188	210	232	250	266
Net borrowing[3]	1,269	904	1,042	611	188	210	232	250	266
Bank	1,473	1,094	906	611	138	160	182	200	216
o/w from project accounts	0	0	141	0	0	0	0	0	0
Nonbank	-204	-190	136	0	50	50	50	50	50
Change in arrears	-97	16	-98	-45	0	0	0	0	0
Privatization proceeds	0	6	0	0	0	0	0	0	0
Foreign	387	224	317	308	496	544	485	536	541
Loans	387	224	317	308	496	544	485	536	541
Borrowing	742	630	852	1,101	1,283	1,381	1,375	1,493	1,526
Amortization	-355	-406	-535	-793	-787	-837	-890	-957	-985
Statistical discrepancy[4]	56	46	40	0	0	0	0	0	0
Memorandum items:									
Government revenue (excluding grants)	3,961	4,264	4,786	5,611	6,617	7,385	8,154	9,014	9,971
Overall balance	-1,615	-1,196	-1,302	-874	-684	-754	-718	-785	-807
Basic balance[5]	-873	-566	-605	-676	-483	-607	-658	-678	-1,091
Basic primary balance[6]	-107	402	474	484	883	600	592	614	247
Domestic public debt	7,847	8,773	9,718	10,284	10,472	10,682	10,914	11,164	11,430
Interest payments as a percent of government rev	19.3	22.7	22.5	20.7	20.6	16.3	15.3	14.3	13.4

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 Act.	2011 Act.	2012 Prel.	2013 Proj.	2014 Proj.	2015 Proj.	2016 Proj.	2017 Proj.	2018 Proj.
Revenue	18.9	21.2	25.4	22.1	22.7	22.6	22.4	22.3	22.2
Taxes	13.2	14.3	14.5	15.2	15.7	15.7	15.7	15.7	15.7
Taxes on income, profits, and capital gains	4.2	4.6	5.2	5.0	5.0	5.0	5.0	5.0	5.0
Domestic taxes on goods and services	5.6	6.4	6.3	6.2	6.4	6.5	6.5	6.5	6.5
Taxes on international trade and transactions	3.3	3.1	2.9	4.0	4.3	4.2	4.1	4.1	4.1
Other taxes	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	4.0	5.1	9.0	5.0	5.1	5.0	4.9	4.7	4.6
Budget support	0.0	0.0	1.0	0.7	0.8	0.8	0.6	0.5	0.5
Project grants	4.0	5.1	8.0	4.3	4.3	4.3	4.2	4.2	4.1
Other revenues	1.6	1.8	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Expenditures	24.3	26.0	29.8	24.8	24.7	24.6	24.1	23.9	23.5
Expenses	15.2	17.3	17.4	17.9	17.9	17.3	17.1	17.0	16.8
Compensation of employees	5.7	6.4	6.2	5.7	5.7	5.7	5.7	5.7	5.7
Use of goods and services [1]	4.6	4.8	5.3	7.1	7.0	7.1	7.1	7.1	7.1
Interest	2.9	3.7	3.7	3.5	3.6	2.9	2.7	2.5	2.4
External	0.5	0.7	0.7	0.7	0.6	0.6	0.6	0.6	0.6
Domestic	2.4	3.0	3.0	2.9	3.0	2.2	2.1	1.9	1.8
Subsidies	2.1	2.4	2.2	1.6	1.5	1.6	1.6	1.6	1.6
Net acquisition of nonfinancial assets	9.0	8.7	12.4	6.9	6.8	7.3	7.0	7.0	6.7
Acquisitions of nonfinancial assets	9.0	8.7	12.4	6.9	6.8	7.3	7.0	7.0	6.7
Foreign financed[2]	6.8	7.5	11.4	5.6	5.7	5.4	5.0	4.9	4.1
Gambia local fund	2.2	1.2	1.0	1.2	1.1	1.9	2.0	2.1	2.5
Gross Operating Balance	3.6	3.4	8.0	4.2	4.8	5.3	5.3	5.3	5.4
Net lending (+)/borrowing (–)	-5.4	-4.7	-4.4	-2.7	-2.0	-2.0	-1.7	-1.7	-1.3
Net acquisition of financial assets	0.7	-0.2	0.1	0.0	-0.2	-0.2	-0.2	-0.2	0.1
Net incurrence of liabilities	5.8	4.3	4.3	2.7	1.8	1.8	1.5	1.5	1.4
Domestic	4.4	3.5	3.2	1.7	0.5	0.5	0.5	0.5	0.5
Of which									
Net borrowing[3]	4.8	3.4	3.6	1.9	0.5	0.5	0.5	0.5	0.5
Bank	5.5	4.1	3.1	1.9	0.4	0.4	0.4	0.4	0.4
o/w from project accounts	0.0	0.0	0.5	0.0	0.0	0.0	0.0	0.0	0.0
Nonbank	-0.8	-0.7	0.5	0.0	0.1	0.1	0.1	0.1	0.1
Change in arrears	-0.4	0.1	-0.3	-0.1	0.0	0.0	0.0	0.0	0.0
Privatization proceeds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign	1.5	0.8	1.1	0.9	1.3	1.3	1.0	1.0	1.0
Loans	1.5	0.8	1.1	0.9	1.3	1.3	1.0	1.0	1.0
Borrowing	2.8	2.4	2.9	3.3	3.4	3.3	3.0	2.9	2.7
Amortization	-1.3	-1.5	-1.8	-2.4	-2.1	-2.0	-1.9	-1.9	-1.7
Statistical discrepancy[4]	0.2	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:									
Taxes (in percent of non-agricultural GDP)	13.2	14.3	14.5	15.2	15.7	15.7	15.7	15.7	15.7
Government revenue (excluding grants)	14.9	16.1	16.4	17.1	17.6	17.6	17.5	17.5	17.5
Overall balance	-6.1	-4.5	-4.5	-2.7	-1.8	-1.8	-1.5	-1.5	-1.4
Basic balance[5]	-3.3	-2.1	-2.1	-2.1	-1.3	-1.4	-1.4	-1.3	-1.9
Basic primary balance[6]	-0.4	1.5	1.6	1.5	2.3	1.4	1.3	1.2	0.4
Domestic public debt	29.4	33.2	33.4	31.3	27.8	25.4	23.5	21.7	20.1

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 Act.	2011 Act.	2012 Prel	2013 Proj.	2014 Proj.	2015 Proj.	2016 Proj.	2017 Proj.	2018 Proj.
I. Monetary Survey									
Net foreign assets	3,808	4,548	4,883	5,457	6,437	7,668	9,175	10868	12437
in millions of U.S. dollars	134	150	144	138	158	182	212	244	271
Net domestic assets	9,485	10,205	11,019	11,559	12,809	13,996	14,998	16,107	17,675
Domestic credit	10,161	11,570	12,628	13,463	14,738	15,951	16,977	18,111	19,706
Claims on central government (net)	5,041	6,135	7,042	7,653	7,791	7,951	8,133	8,333	8,549
Claims on other financial corporations	10	12	12	12	12	12	12	12	12
Claims on other public sector[2]	870	811	765	581	610	610	519	415	623
Claims on private sector	4,240	4,612	4,809	5,217	6,325	7,377	8,313	9,351	10,521
Other items (net)[3]	-677	-1,365	-1,609	-1,904	-1,929	-1,954	-1,979	-2,004	-2,030
Broad money	13,292	14,753	15,902	17,015	19,246	21,665	24,173	26,975	30,113
Currency outside banks	2,065	2,376	2,819	2,964	3,352	3,773	4,157	4,578	5,044
Deposits, of which:	11,228	12,377	13,083	14,052	15,894	17,891	20,017	22,396	25,069
Time and savings deposits	7,270	8,087	8,506	9,136	10,334	11,632	13,033	14,603	16,369
II. Central Bank Survey									
Net foreign assets	2,452	3,088	3,415	3,776	4,514	5,469	6,661	7,994	9,154
Foreign assets	4,637	5,517	6,618	7,571	8,526	9,480	10,526	11,632	12,918
Foreign liabilities	-2,185	-2,429	-3,203	-3,795	-4,012	-4,011	-3,865	-3,638	-3,764
Net domestic assets	1,052	846	788	1,295	845	194	-403	-1,076	-1,503
Domestic credit	644	703	593	1,395	970	344	-228	-876	-1,277
Claims on central government (net)	588	649	529	1,332	907	281	-291	-939	-1,341
Claims on other financial corporations	10	12	12	12	12	12	12	12	12
Claims on private sector	46	42	51	51	51	51	51	51	51
Claims on public enterprises	0	0	0	0	0	0	0	0	0
Other items (net)[3]	408	143	196	-100	-125	-150	-175	-200	-226
Reserve money	3,503	3,934	4,203	5,071	5,359	5,663	6,258	6,918	7,651
Currency outside banks	2,065	2,376	2,819	2,964	3,352	3,773	4,157	4,578	5,044
Commercial bank deposits	1,439	1,558	1,384	2,108	2,007	1,889	2,102	2,340	2,607

Sources: Gambian authorities and Fund staff estimates and projections.

[1] End of period.
[2] Includes public enterprises and the local government.
[3] Including valuation.

Table 5. The Gambia: Monetary Accounts[1]

(Percent change, unless otherwise indicated)

	2010 Act.	2011 Act.	2012 Prel.	2013 Proj.	2014 Proj.	2015 Proj.	2016 Proj.	2017 Proj.	2018 Proj.
				I. Monetary Survey (Percent change; in beginning of period broad money)					
Broad money	13.7	11.0	7.8	7.0	13.1	12.6	11.6	11.6	11.6
Net foreign assets	1.3	5.6	2.3	3.6	5.8	6.4	7.0	7.0	5.8
Net domestic assets	12.3	5.4	5.5	3.4	7.3	6.2	4.6	4.6	5.8
				II. Central Bank Survey (Percent change; in beginning of period monetary base)					
Reserve money	10.5	12.3	6.8	20.7	5.7	5.7	10.5	10.5	10.6
Net foreign assets	-16.7	18.2	8.3	8.6	14.6	17.8	21.0	21.3	16.8
Net domestic assets	27.2	-5.9	-1.5	12.1	-8.9	-12.2	-10.5	-10.8	-6.2
Memorandum Items:									
Growth of credit to the private sector	14.8	8.8	4.3	8.5	21.2	16.6	12.7	12.5	12.5
Growth of currency in circulation	3.0	15.1	18.6	5.1	13.1	12.6	10.2	10.1	10.2
Growth of demand deposits	10.1	8.4	6.7	7.4	13.1	12.6	11.6	11.6	11.6
Growth of time and savings deposits	19.3	11.2	5.2	7.4	13.1	12.6	12.0	12.1	12.1
Net usable international reserves (in millions of U.S. dollars)[2]	126.5	135.1	135.1	130.9	146.4	166.3	190.5	216.5	237.1
Money velocity (levels)	2.01	1.79	1.83	1.93	1.96	1.94	1.92	1.90	1.89
Money multiplier (levels)	3.79	3.75	3.78	3.36	3.59	3.83	3.86	3.90	3.94
Broad money (percent of GDP)	49.9	55.7	54.6	51.7	51.1	51.6	52.0	52.5	53.0
Credit to the private sector (percent of GDP)	15.9	17.4	16.5	15.9	16.8	17.6	17.9	18.2	18.5
Central bank financing of central government (in millions of local currency)	488	61	-119	803	-425	-627	-571	-649	-402
Commercial bank financing of central government (in millions of local currency)	986	1034	1025	-192	563	787	753	848	618

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.

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

	2010 Act.	2011 Act.	2012 Prel	2013 Proj.	2014 Proj.	2015 Proj.	2016 Proj.	2017 Proj.	2018 Proj.
1. Current account									
A. Goods and services	**-179.4**	**-165.1**	**-201.2**	**-178.3**	**-182.5**	**-192.6**	**-206.1**	**-220.3**	**-235.0**
Trade balance	-216.6	-223.3	-262.0	-244.6	-249.4	-263.9	-278.7	-294.4	-311.1
Exports, f.o.b.	95.7	111.3	101.5	111.2	121.0	130.3	140.0	151.3	163.9
Of which: domestic goods [1]	11.0	14.8	6.3	10.9	14.1	16.0	17.8	19.7	21.9
Imports, f.o.b.	-312.2	-334.6	-363.5	-355.7	-370.4	-394.1	-418.7	-445.7	-475.0
Of which: oil	-40.9	-50.3	-53.4	-55.6	-57.9	-59.0	-60.0	-61.6	-63.7
Services (net)	37.1	58.2	60.8	66.2	66.9	71.3	72.5	74.1	76.1
Of which: travel income	70.9	84.0	92.9	102.4	106.4	110.2	114.2	118.5	123.3
B. Income (net)	**-29.9**	**-33.1**	**-34.9**	**-35.0**	**-34.4**	**-35.2**	**-36.0**	**-36.7**	**-37.4**
Income credits	2.3	2.5	2.5	2.6	3.1	3.2	4.4	5.4	6.0
Income debits	-32.2	-35.6	-37.4	-37.6	-37.5	-38.4	-40.4	-42.0	-43.3
Of which: interest on government debt	-7.3	-7.5	-7.6	-6.0	-6.1	-6.4	6.7	7.0	
C. Current transfers	**55.0**	**57.9**	**81.8**	**68.3**	**70.8**	**73.4**	**75.3**	**77.5**	**80.6**
Official transfers [2]	0.0	0.0	21.5	6.6	7.4	7.7	7.0	6.4	6.8
Remittances	45.2	47.8	49.9	51.1	52.6	54.6	56.9	59.4	61.8
Other transfers	9.8	10.1	10.3	10.6	10.9	11.1	11.4	11.7	12.0
Current account (excl. budget support)	**-154.3**	**-140.3**	**-175.9**	**-151.7**	**-153.5**	**-162.0**	**-173.8**	**-185.9**	**-198.6**
Current account (incl. budget support)	**-154.3**	**-140.3**	**-154.4**	**-145.1**	**-146.1**	**-154.4**	**-166.8**	**-179.5**	**-191.8**
2. Capital and financial account									
A. Capital account [3]	**38.5**	**46.2**	**73.9**	**38.6**	**40.8**	**43.3**	**45.9**	**48.6**	**51.5**
B. Financial account	**139.0**	**114.7**	**111.0**	**100.9**	**121.2**	**128.9**	**145.5**	**157.1**	**169.6**
Foreign direct investment	85.6	60.1	61.6	58.3	66.0	71.9	77.5	81.4	85.3
Portfolio investment	-1.5	-1.1	-1.1	-1.1	-1.0	-1.0	-0.9	-0.9	-0.9
Other investment	54.8	55.8	50.5	43.7	56.1	57.9	68.9	76.6	85.2
Of which: Change in the NFA of commercial banks (increase -)	-22.9	-0.5	5.0	0.7	-4.5	-5.2	-5.8	-6.4	-7.1
Official other investment (net)	11.1	11.4	11.2	8.4	12.3	13.1	11.4	12.2	11.9
Loans	23.6	25.3	27.7	30.0	31.9	33.3	32.2	33.9	33.7
SDR Allocations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	-12.6	-13.9	-16.5	-21.6	-19.6	-20.2	-20.8	-21.8	-21.8
Capital and financial account	**177.5**	**160.9**	**184.9**	**139.5**	**161.9**	**172.2**	**191.3**	**205.7**	**221.1**
Errors and omissions	-47.0	-12.2	-30.5	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	**-23.8**	**8.4**	**0.1**	**-5.6**	**15.8**	**17.8**	**24.5**	**26.2**	**29.4**
Financing									
Net international reserves (increase -)	23.8	-8.4	-0.1	5.6	-15.8	-17.8	-24.5	-26.2	-29.4
Change in gross international reserves	20.7	-12.1	-14.1	1.8	-17.3	-16.7	-18.0	-18.1	-20.8
Use of IMF resources (net)	3.1	3.7	14.0	3.8	1.5	-1.1	-6.6	-8.1	-8.6
Disbursements	3.1	3.7	14.3	4.7	4.7	4.7	0.0	0.0	0.0
Repayments	0.0	0.0	-0.3	-0.9	-3.2	-5.9	-6.6	-8.1	-8.6
Financing gap (possible ECF financing)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:									
Exports of goods and services	226.4	260.7	259.3	281.1	298.4	315.3	333.2	353.7	376.4
Imports of goods and services	-405.8	-425.8	-460.5	-459.4	-481.0	-507.9	-539.4	-574.0	-611.4
Gross International Reserves [2]									
US$ millions	157.6	169.7	183.8	181.9	199.3	216.0	233.9	252.0	272.8
Months of current year's imports of goods and services	4.7	4.8	4.8	4.8	5.0	5.1	5.2	5.3	5.4
Months of next year's imports of goods and services	4.4	4.4	4.8	4.5	4.7	4.8	4.9	4.9	5.0

Sources: Gambian authorities and Fund staff estimates and projections.

[1] Domestic goods consist of (in decreasing order of importance): groundnuts, fruits and vegetables, zircon, fish, and cotton.
[2] 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 Act.	2011 Act.	2012 Prel.	2013 Proj.	2014 Proj.	2015 Proj.	2016 Proj.	2017 Proj.	2018 Proj.
1. Current account									
A. Goods and services	**-18.6**	**-18.3**	**-22.2**	**-19.9**	**-19.5**	**-19.0**	**-19.0**	**-18.9**	**-18.7**
Trade balance	**-22.5**	**-24.7**	**-28.9**	**-27.3**	**-26.6**	**-26.1**	**-25.6**	**-25.2**	**-24.8**
Exports, f.o.b.	9.9	12.3	11.2	12.4	12.9	12.9	12.9	13.0	13.1
Of which: domestic goods [1]	1.1	1.6	0.7	1.2	1.5	1.6	1.6	1.7	1.7
Imports, f.o.b.	-32.4	-37.1	-40.1	-39.7	-39.5	-38.9	-38.5	-38.2	-37.8
Of which: oil	-4.2	-5.6	-5.9	-6.2	-6.2	-5.8	-5.5	-5.3	-5.1
Services (net)	3.9	6.4	6.7	7.4	7.1	7.0	6.7	6.3	6.1
Of which: travel	7.4	9.3	10.2	11.4	11.4	10.9	10.5	10.1	9.8
B. Income (net)	**-3.1**	**-3.7**	**-3.8**	**-3.9**	**-3.7**	**-3.5**	**-3.3**	**-3.1**	**-3.0**
Income credits	0.2	0.3	0.3	0.3	0.3	0.3	0.4	0.5	0.5
Income debits	-3.3	-3.9	-4.1	-4.2	-4.0	-3.8	-3.7	-3.6	-3.5
Of which: interest on government debt	0.8	0.8	0.8	0.7	0.6	0.6	0.6	0.6	0.6
C. Current transfers	**5.7**	**6.4**	**9.0**	**7.6**	**7.6**	**7.2**	**6.9**	**6.6**	**6.4**
Official transfers[2]	0.0	0.0	2.4	0.7	0.8	0.8	0.6	0.5	0.5
Remittances	4.7	5.3	5.5	5.7	5.6	5.4	5.2	5.1	4.9
Other transfers	1.0	1.1	1.1	1.2	1.2	1.1	1.0	1.0	1.0
Current account (excl. budget support)	**-16.0**	**-15.5**	**-19.4**	**-16.9**	**-16.4**	**-16.0**	**-16.0**	**-15.9**	**-15.8**
Current account (incl. budget support)	**-16.0**	**-15.5**	**-17.0**	**-16.2**	**-15.6**	**-15.2**	**-15.3**	**-15.4**	**-15.3**
2. Capital and financial account									
A. Capital account[3]	**4.0**	**5.1**	**8.1**	**4.3**	**4.3**	**4.3**	**4.2**	**4.2**	**4.1**
B. Financial account	**14.4**	**12.7**	**12.2**	**11.3**	**12.9**	**12.7**	**13.4**	**13.4**	**13.5**
Foreign direct investment	8.9	6.7	6.8	6.5	7.0	7.1	7.1	7.0	6.8
Portfolio investment	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Other investment	5.7	6.2	5.6	4.9	6.0	5.7	6.3	6.6	6.8
Of which: Change in the NFA of commercial banks (increase -)	-2.4	-0.1	0.6	0.1	-0.5	-0.5	-0.5	-0.5	-0.6
Official other investment (net)	1.1	1.3	1.2	0.9	1.3	1.3	1.0	1.0	1.0
Loans	2.5	2.8	3.0	3.3	3.4	3.3	3.0	2.9	2.7
SDR Allocations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	-1.3	-1.5	-1.8	-2.4	-2.1	-2.0	-1.9	-1.9	-1.7
Capital and financial account	**18.4**	**17.8**	**20.4**	**15.6**	**17.3**	**17.0**	**17.6**	**17.6**	**17.6**
Errors and omissions	-4.9	-1.4	-3.4	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	**-2.5**	**0.9**	**0.0**	**-0.6**	**1.7**	**1.8**	**2.3**	**2.2**	**2.3**
Financing gap (possible ECF financing)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Sources: Gambian authorities and Fund staff estimates and projections.

[1] 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 Millennium Development Goals 1990–2011

	1990	1995	2000	2005	2011
Goal 1: Eradicate extreme poverty and hunger					
Employment to population ratio, 15+, total (%)	72	72	72	72	73
Employment to population ratio, ages 15-24, total (%)	60	59	59	59	58
GDP per person employed (constant 1990 PPP $)	..	..	..	..	..
Income share held by lowest 20%	..	..	4	5	..
Malnutrition prevalence, weight for age (% of children under 5)	..	23	15	16	..
Poverty gap at $1.25 a day (PPP) (%)	..	..	34	12	..
Poverty headcount ratio at $1.25 a day (PPP) (% of population)	..	..	66	34	..
Vulnerable employment, total (% of total employment)	..	..	..	..	..
Goal 2: Achieve universal primary education					
Literacy rate, youth female (% of females ages 15-24)	..	..	41	..	62
Literacy rate, youth male (% of males ages 15-24)	..	..	64	..	72
Persistence to last grade of primary, total (% of cohort)	70	45	73	62	*63*
Primary completion rate, total (% of relevant age group)	42	38	67	67	66
Adjusted net enrollment rate, primary (% of primary school age children)	45	55	68	69	70
Goal 3: Promote gender equality and empower women					
Proportion of seats held by women in national parliaments (%)	8	2	2	13	8
Ratio of female to male primary enrollment (%)	63	75	87	103	103
Ratio of female to male secondary enrollment (%)	47	54	..	..	95
Ratio of female to male tertiary enrollment (%)	..	54	27	22	..
Share of women employed in the nonagricultural sector (% of total nonagricultural employment)	..	..	32	..	..
Goal 4: Reduce child mortality					
Immunization, measles (% of children ages 12-23 months)	86	91	89	91	91
Mortality rate, infant (per 1,000 live births)	78	72	67	63	58
Mortality rate, under-5 (per 1,000 live births)	165	147	130	116	101
Goal 5: Improve maternal health					
Adolescent fertility rate (births per 1,000 women ages 15-19)	..	131	114	87	69
Births attended by skilled health staff (% of total)	44	..	55	57	*57*
Contraceptive prevalence (% of women ages 15-49)	12	..	10	..	13
Maternal mortality ratio (modeled estimate, per 100,000 live births)	700	650	520	430	*360*
Pregnant women receiving prenatal care (%)	..	..	91	98	*98*
Unmet need for contraception (% of married women ages 15-49)	..	..	..	..	..
Goal 6: Combat HIV/AIDS, malaria, and other diseases					
Children with fever receiving antimalarial drugs (% of children under age 5 with fever)	..	..	55	63	30
Condom use, female (% of females ages 15-24)	..	..	..	..	..
Condom use, male (% of males ages 15-24)	..	..	..	..	..
Incidence of tuberculosis (per 100,000 people)	185	204	225	248	279
Prevalence of HIV, total (% of population ages 15-49)	0	0	1	1	2
Tuberculosis case detection rate (%, all forms)	..	44	54	54	45
Goal 7: Ensure environmental sustainability					
CO2 emissions (kg per PPP $ of GDP)	0	0	0	0	*0*
CO2 emissions (metric tons per capita)	0	0	0	0	*0*
Forest area (% of land area)	44	..	46	47	48
Improved sanitation facilities (% of population with access)	60	61	63	66	68
Improved water source (% of population with access)	75	79	83	87	89
Net ODA received per capita (current US$)	106	43	40	42	78
Goal 8: Develop a global partnership for development					
Debt service (PPG and IMF only, % of exports of goods, services and primary income)	22	15	11	12	7
Internet users (per 100 people)	0	0	1	4	11
Mobile cellular subscriptions (per 100 people)	0	0	0	16	79
Telephone lines (per 100 people)	1	2	3	3	3
Fertility rate, total (births per woman)	6	6	6	5	5
Other					
GNI per capita, Atlas method (current US$)	320	740	670	410	510
GNI, Atlas method (current US$) (billions)	0	1	1	1	1
Gross capital formation (% of GDP)	22	7	5	22	19
Life expectancy at birth, total (years)	53	54	55	57	58
Literacy rate, adult total (% of people ages 15 and above)	..	..	37	..	50
Population, total (billions)	..	..	..	..	..
Trade (% of GDP)	132	59	56	82	76

Source: World Bank, World Development Indicators (http://ddp-ext.worldbank.org/ext/ddpreports).

Table 9. The Gambia: Risk Assessment Matrix[1]

Nature/source of main risks	Likelihood of realization in the next three years	Expected impact on economy if risk is realized	Possible Remedial Policy
Prolonged growth slowdown in European economies	*HIGH* • Prolonged economic downturn will translate into a weakening of European growth, which in turn could lower export demand for The Gambia.	*RELATIVELY LOW* • Staff analysis based on the latest WEO adverse scenarios shows that negative impact through reduced tourism receipts and remittances will be partially offset by downward pressures on commodity prices.	• Temporarily loosen monetary policy compared with the baseline scenario.
Global oil shock triggered by supply side shocks	*LOW* • Geopolitical risks in the Middle East could precipitate a sharp rise in international fuel prices.	*MEDIUM to HIGH* • Staff analysis, assuming international oil prices higher than 20 percent than the latest WEO baseline shows that The Gambia will suffer from a significantly weaker external position and higher inflation. • If fuel subsidies remain unchanged from 2012, negative impacts on fiscal position and private credit, and international reserves would be severe.	• Stick to the fuel subsidy removal envisaged under the ECF.
Natural disasters, including severe weather conditions	*LOW* • As the 2011 drought illustrates, the country is vulnerable to natural disasters.	*MEDIUM to HIGH* • Growth would be severely impaired as the agriculture sector's share to GDP has been around 30 percent. • Extent of the negative impacts would depend on donors' assistance.	• Delay the GIR accumulation and fiscal adjustment temporarily
Fiscal policy slippages	*MEDIUM* • A looser fiscal policy without adjustment from the 2012 level could lead to a significant increase in T-Bill yields, intensify currency depreciation pressures, and could precipitate capital flight.	*HIGH* • It will undermine fiscal sustainability as the interest costs will consume prohibitively large share of revenues. • Growth will be much lower as the government borrowing will leave no room for private credit. • Gross international reserves will also decline considerably.	• Stick to the fiscal consolidation path under the ECF

[1]The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability of 30 percent or more). The RAM reflects staff views as of the end of the discussions with the authorities.

Table 10. 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

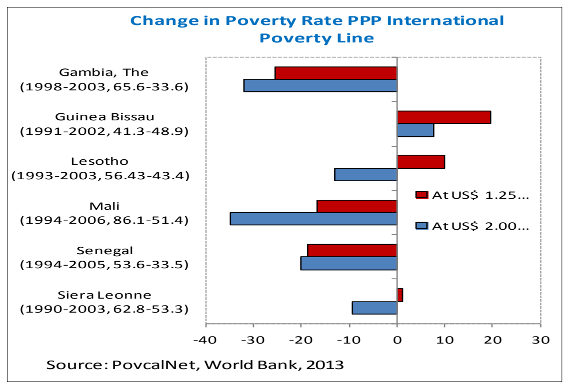
Sources: Gambian authorities and Fund staff estimates.

Appendix I: Growth Inclusiveness in The Gambia[1]

This appendix examines The Gambia's performance in reducing poverty and the extent of inclusiveness of growth using the 2003 and 2010 household surveys and other literature. Over the years, The Gambia has made significant progress in reducing the overall incidence of poverty but poverty remains widespread especially in the rural areas. Furthermore, inequality and high unemployment, especially among the youth, remain a challenge. In light of this, more could be done to make growth more inclusive.

Poverty in Time and Regional Perspective

1. **Although The Gambia has made significant progress in reducing the overall incidence of poverty over the past years, poverty remains widespread.** According to national household surveys, the incidence of poverty at the national poverty line[2] declined significantly by about 10 percentage points from 58.0 percent in 2003 to 48.4 percent in 2010**.** Between 1998 and 2003 the incidence of poverty in The Gambia fell by about 25 percentage points at PPP international poverty lines.[3] Various social indicators have shown strong improvement (Table 8), notably in education (primary school enrolment and completion and youth literacy rates) and health (immunization and child and maternal mortality rates). Good progress is also being made towards meeting selected millennium development goals (Table 8).



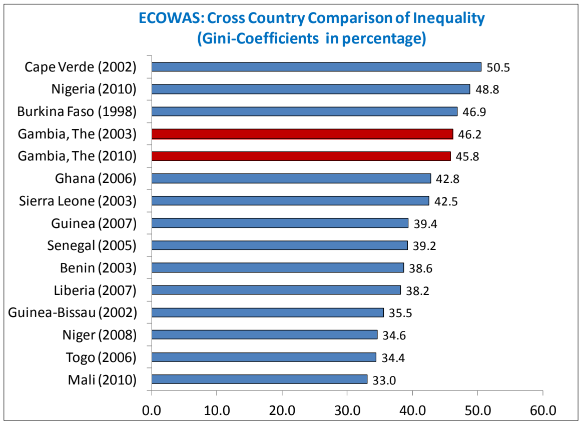
2. **Despite The Gambia's progress in reducing poverty, inequality remains a challenge.** Inequality in The Gambia, measured by the Gini coefficient, is among the highest in the ECOWAS region (figure 1). In addition, unemployment is high among the youth. According to the UNDP Human Development Index (HDI), a composite measure of health, education and income, while there have been significant improvements in the quality of life over the years; The Gambia is trailing behind the SSA average, ranking 165th out of 187 among the countries covered by the HDI index in 2012. The Gambia's performance is also below the UNDP low human development level which represents the threshold for the lowest socioeconomic development.

[1] This note was prepared by Farayi Gwenhamo.

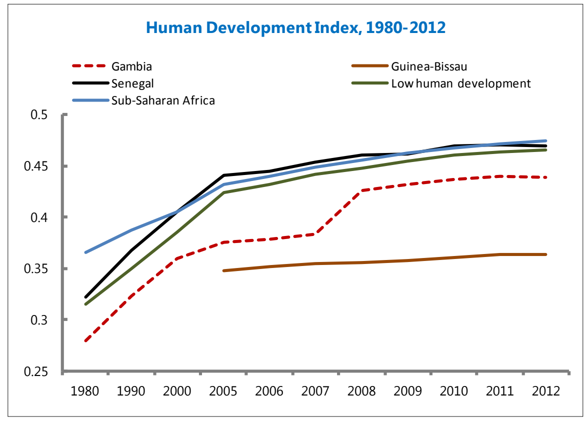
[2] The national poverty lines used are US$1.00 a day and US$1.25 a day (in current US dollars) for 2003 and 2010 respectively.

[3] According to the World Bank Povlnet database at US$1.25 PPP international poverty line.

Figure 1. The Gambia, GINI Coefficient and UNDP Human Development Index



Source: The Gambian authorities, WDI



Source: UNDP Human Development Index database

3. **Output volatility caused by droughts impacts negatively on poverty, particularly in the rural areas (Figure 2).** Estimates from the post-harvest assessment of the 2011 drought by the Food and Agriculture Organization (FAO) show that slightly over 700 000 people (73 percent in the rural areas) were severely affected by the drought.

Figure 2. The Gambia, Economic Growth and Poverty Reduction

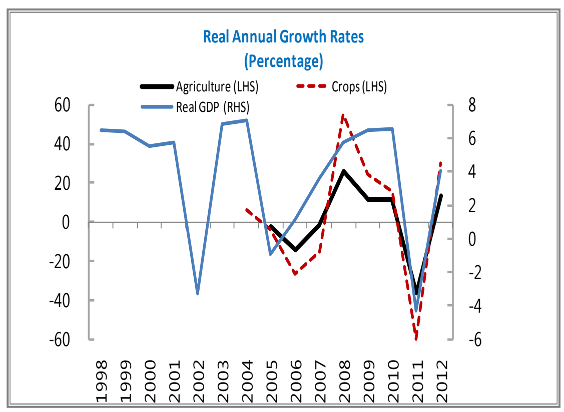
Robust economic growth has helped to reduce poverty…

	1998	2003	2010
National Accounts[1]			
	(period average growth rate)		
Real GDP		4.63	4.56
Real GDP excluding drought years		6.21	5.34
Agriculture		...	5.05
Industry		...	2.3
Services		...	3.9

Source: IMF, The Gambian authorities, WDI

[1] The national accounts number reflects average between 1998-03 and 2003-2010

…but volatility (especially in the agriculture sector) reduces progress.



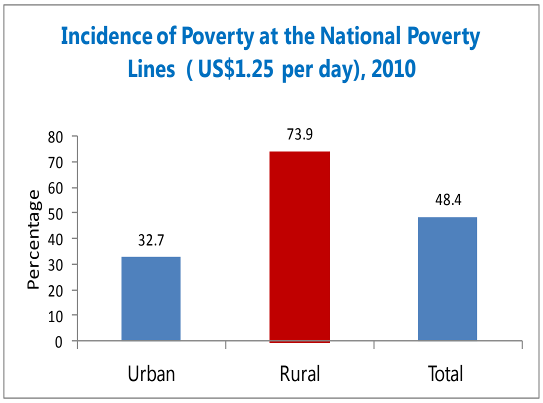
Who are the Poor in The Gambia?

4. **Poverty in The Gambia is multi-dimensional, and therefore requires well targeted policy measures (Figure 3).** Similar to most Sub Saharan African (SSA) countries, poverty in the Gambia is concentrated in the rural areas, among people employed in the agriculture sector and

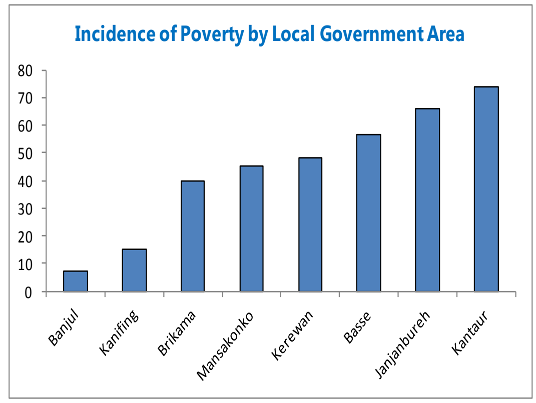
those with low educational attainment. Large family sizes also impact negatively on poverty while remittances have helped to alleviate poverty.

Figure 3: Distribution and Causes of Poverty in the Gambia, 2010

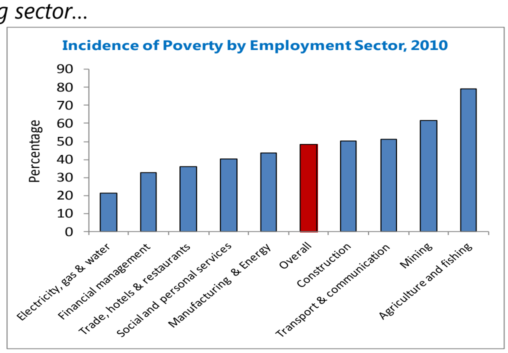
Poverty is a rural phenomenon….



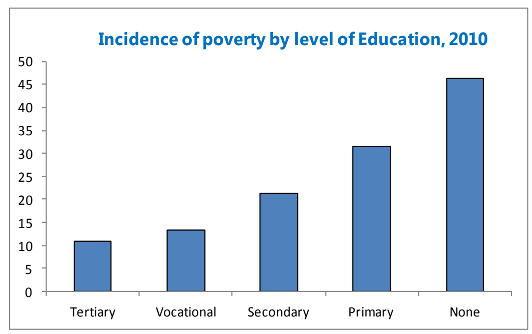
…concentrated in rural local government areas.



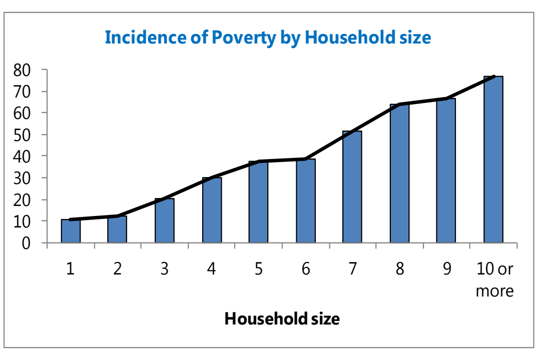
The incidence of poverty is highest in the agricultural and fishing sector…



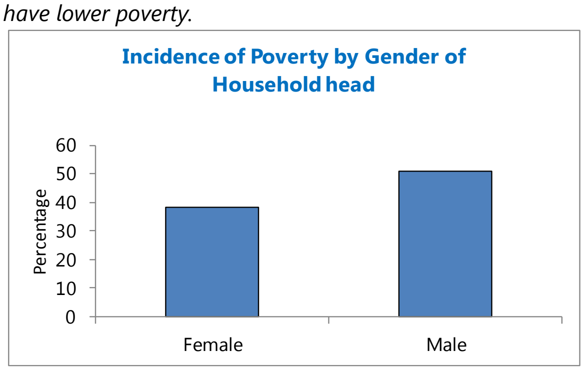
…and among people with low educational attainment.



Poverty increases with household size.



Female-headed households which are smaller in size have lower poverty.

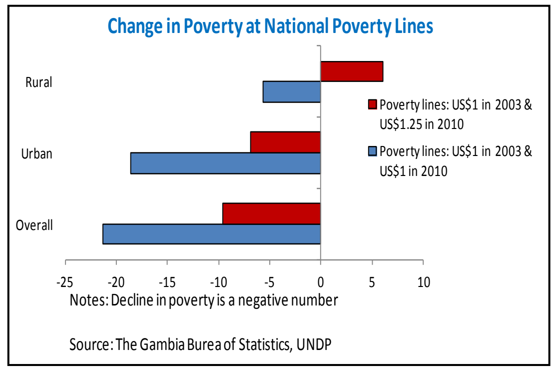


Source: The Gambia Burea of Statictics (GBoS) and UNDP

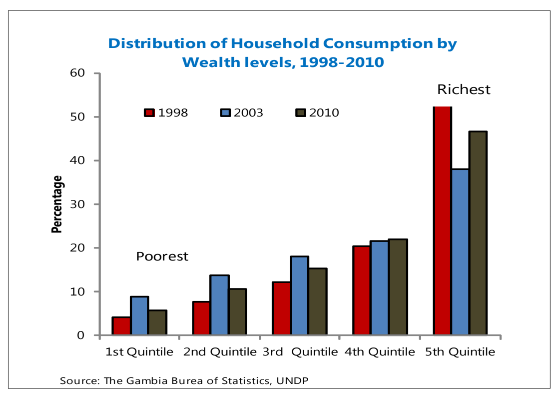
Inclusiveness of Growth in The Gambia

5. **Growth is considered to be inclusive if it is high and sustained (a crucial condition for poverty reduction); broad-based across sectors and inclusive of a large part of the country's labor force; and characterized by equality of opportunity in terms of access to markets and resources (IMF 2013)**. Inclusive growth should therefore focus on sectors with the highest potential for creating stable wage-paying jobs, McKinsey Global Institute (2012). How inclusive has growth been in the Gambia?

6. **While the elasticity of poverty with respect to growth is high in the Gambia, there are large regional variations in poverty.** The decline in overall poverty rate to 48.4 percent in 2010, down from 58.0 percent in 2003 suggests a fairly high elasticity of poverty with respect to growth and therefore a relatively inclusive pattern of growth in broad terms. Nevertheless, there are large regional variations. For instance, the incidence of poverty in the rural areas is more than double that of the urban areas and is also above the national average (Figure 3). In addition, between 2003 and 2010, the urban areas experienced a much higher decline in poverty than the rural areas. High levels of inequality and concentration of poverty in the rural areas do not bode well for the inclusivity of growth.



7. **The composition of consumption by wealth quintiles suggests that, on average, growth was pro-poor during 1998—2003 but there was a reversal during 2003—2010.** The share of the first quintile (poorest) in total household consumption increased from 4 percent in 1998 to 8.8 percent in 2003 and then decreased to 5.6 in 2010. The share of the richest quintile dropped from 56 percent in 1998 to 38 percent in 2003 and increased again in 2010 to 46.5 percent. Thus, the data suggest there was a significant reduction in disparities in total household consumption during 1998—2003 but there was a reversal during 2003—2010. Given the existing disparities and pattern of growth during 2003—2010, more could be done to make growth more inclusive.



Policy Measures to make Growth more Inclusive

8. **The Gambian authorities should take steps to improve sustainability of growth and to make growth more inclusive.** As the authorities' *Programme for Accelerated Growth and Employment* (PAGE) places a strong emphasis on developing the agriculture sector, its execution

would play a key role in reducing poverty in the rural areas. There is therefore a need to shore up execution of the PAGE. In that regard, large commitments of support by development partners for development in the agriculture and transport sectors offer promise of higher and more inclusive growth going forward. Authorities, however, need to ensure that donor-funded agricultural projects are well coordinated and sustainable beyond the duration of donor financing in order to make a noticeable impact on poverty. Strengthening of land tenure security and provision of farmer education through a wide coverage of the agricultural extension services would also enhance poverty reduction through agricultural activities.

9. **Sustained reforms are required to enhance the business environment, in order to underpin sustainable economic growth and private sector employment**. In the 2013 Doing Business Report, The Gambia is ranked 147th out of 185 countries and has dropped in all indicators except enforcing contracts. In addition, reforms in the energy and telecom sectors are needed to unlock the potential of infrastructure in supporting high growth and employment, especially for the youth.

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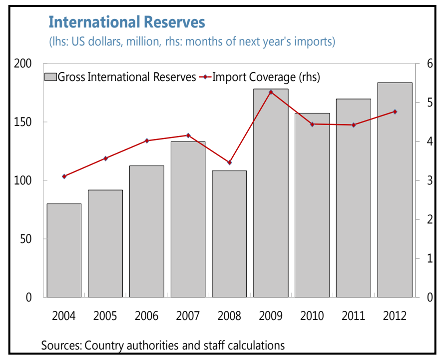
Appendix II: Reserve Adequacy in The Gambia[1]

Staff estimates from a cost-benefit analysis for low-income countries indicate an optimal level of gross international reserves between 3½–5 months of the following year's imports for The Gambia. This suggests The Gambia's 4.8 months of reserves at the end of 2012 is broadly adequate given the economy's macroeconomic and external risks.

1. **The Gambia's gross international reserves (GIR) stood at about US$ 184 million at the end 2012, covering 4.8 months of the projected imports in 2013.** While this is high by historical standards (average 4.1 months of import cover), The Gambia's reserve adequacy needs to be assessed in light of the country's characteristics as a small open low-income country, including lack of access to international capital markets, reliance on FDI and donors' support, and vulnerability to adverse weather conditions that lead to high import needs.

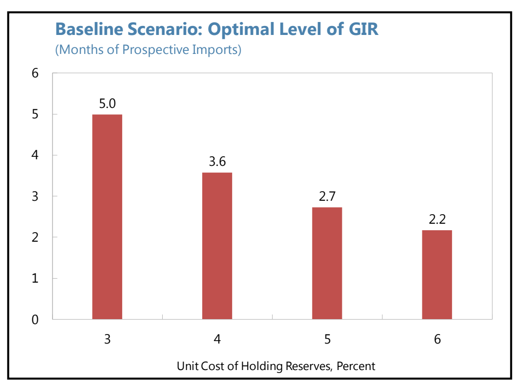


2. **Results from a cost-benefit analysis[2] suggest an optimal level of GIR between 3½–5.0 months of import cover, assuming opportunity costs of 4 and 3 percent, respectively**. Under this analytical framework, the optimal level of GIR is determined so that a country's benefit from holding reserves (prevention and mitigation of large external shock events) is balanced against the associated financial cost (interest rate differential between domestic and US treasury bills), while taking into account the country's fiscal position, institutional strength, and the flexibility of the exchange rate. The assumptions for the baseline assessment are presented in Table 1.

Table 1. Baseline Assumptions

Fundamental Variables	Values
Government balance, percent of GDP 1/	-4.0
CPIA 2/	3.4
Exchange rate regime	flexible
External Shocks 3/	
External demand growth	-2.8
Terms of trade growth	-16.3
Change in FDI to GDP ratio	-2.4
Change in aid to GDP ratio	-1.5

1/ Average over 2005-2012
2/ Average over 2009-2011
3/ Bottem 10th percentile of the distribution over 2005-2012



[1] Prepared by Minsuk Kim (SPR).

[2] Dabla-Norris, Era, Jun Il Kim, and Kazuko Shorono, 2911, "Optimal Precautionary Reserves for Low-Income Countries: A Cost-Benefit Analysis", IMF Working Paper 11/249.

3. **These results should be taken with caution, however.** First, the estimated optimal level is highly sensitive to the opportunity cost of holding reserves. In the case of The Gambia, the real interest rate differential between domestic and US treasury bills averaged about 9½ percent during 2005–2012, pointing to an optimal import coverage of one month. However, the economy's inherent structural instability, risk of high inflation caused by global price shocks and bad weather, as well as its high reliance on food imports for subsistence, provide strong support for higher reserve buffer. Furthermore, despite The Gambia's heavy reliance on remittances for external financing, the panel regression model does not consider a sharp fall in remittances among its external shock variables, which again leads to a potential underestimation of the optimal level.

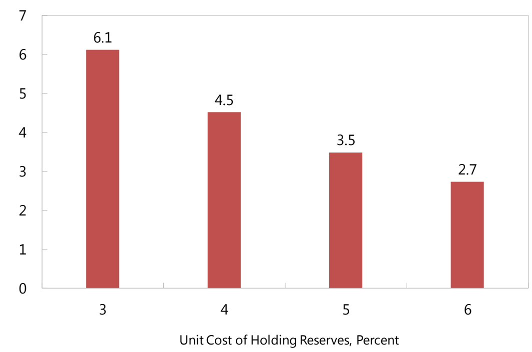
4. **Under a stress scenario where all external shocks are set to their worst historical values, the optimal level of reserves would rise to 4½ – 6 months of imports.** While somewhat higher than in the baseline, these levels still remain mostly below the current 4.8 months cover. These results indicate that the current level of reserves is broadly adequate given the macroeconomic and external risks facing The Gambia.

Table 2. Stress Scenario Assumptions

Fundamental Variables	Values
Government balance, percent of GDP 1/	-6.4
CPIA 2/	3.4
Exchange rate regime	flexible
External Shocks 3/	
External demand growth	-4.5
Terms of trade growth	-16.5
Change in FDI to GDP ratio	-2.8
Change in aid to GDP ratio	-1.9

1/ Average over 2005-2012
2/ Average over 2009-2011
3/ Bottem 10th percentile of the distribution over 2005-2012

Stress Scenario: Optimal Level of GIR
(Months of Prospective Imports)

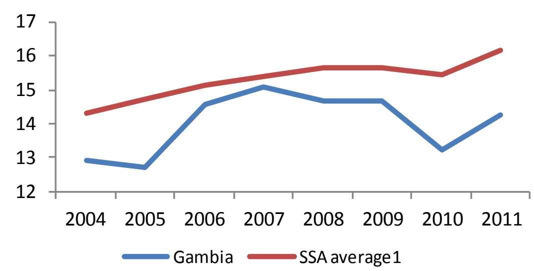


Appendix III. The Gambia—Tax Reform Options[1]

Background

1. **The tax burden in The Gambia remains relatively low compared with other SSA countries.** After rising to a peak in 2007, the tax revenue-to-GDP ratio declined in 2008–10. This ratio has been lower in The Gambia than in regional peers in recent years (Figure 1). Tax revenue seems to have been less sensitive to GDP growth in The Gambia compared with many other SSA countries. Tax buoyancy, defined as the elasticity of tax revenue with respect to nominal GDP, was 0.67 in The Gambia in 2000–11, compared with the SSA average of 0.84. The tax revenue-to-GDP ratio in The Gambia has rebounded since 2010, mainly because of tax and customs administration enhancements, and improved to 14.5 percent by 2012; but it was still lower than the peers' average (as of 2011) of around 16 percent.

Figure 1. Tax Revenue in percent of GDP



1. Simple average of each country's tax-GDP ratio

2. **In early 2013, The Gambia embarked on a gradual process of tax reforms.** The authorities introduced a value-added tax (VAT), to replace an outdated general sales tax, and a simplified tax regime for small businesses. In the supplementary budget, which was submitted to the National Assembly in late April 2013, the government specified a path for almost eliminating the costly fuel subsidies by the end of 2013. Meanwhile, the exemption threshold for the personal income tax (PIT) was raised by 140 percent, and rate brackets were reduced by five percentage points without expanding the tax base.[2]

Estimates of The Gambia's Tax Revenue Potential

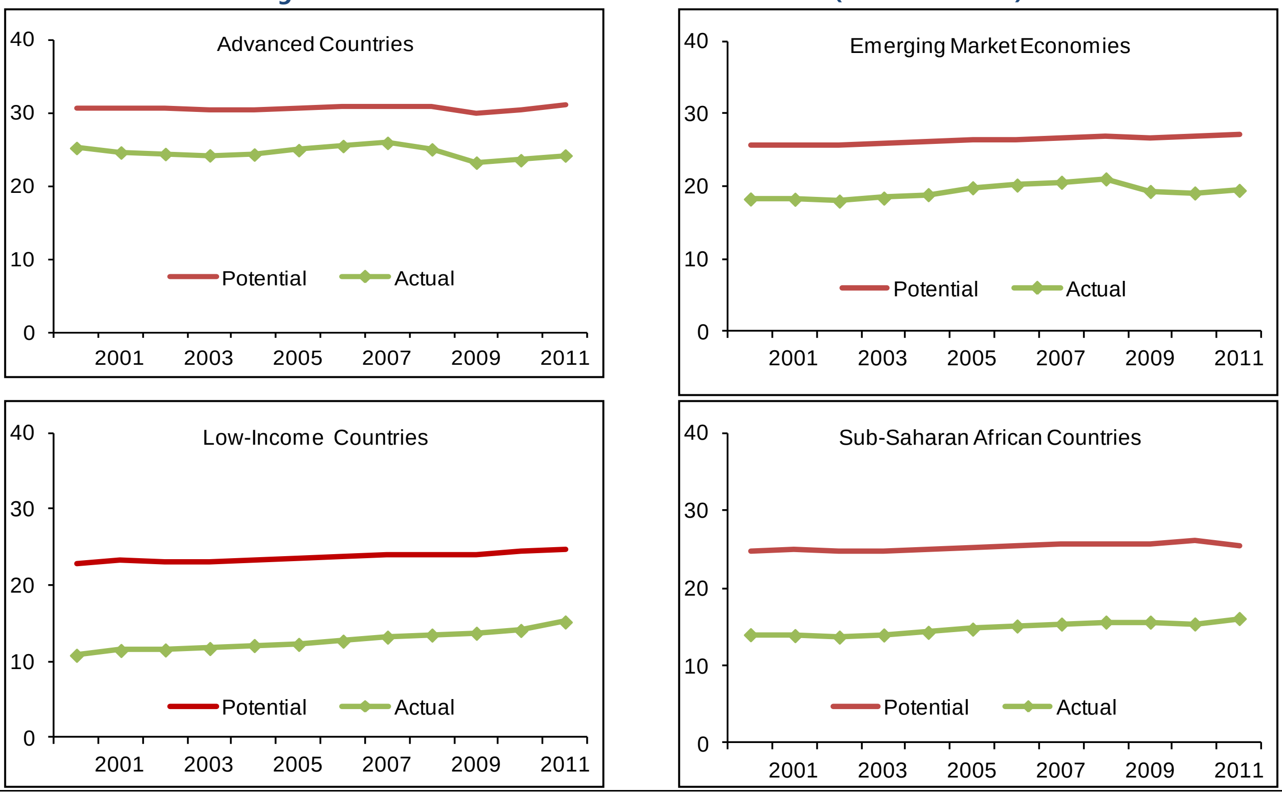
3. **Panel estimates provide each country's potential for tax revenue collection.** In recent years, various empirical studies attempted to measure taxable capacity of various countries by regressing the tax revenue-to-GDP ratio for sample countries on explanatory variables that serve as proxies for possible tax bases and other factors that might affect a country's ability to raise tax revenue. The estimated tax-to-GDP ratio from this regression is interpreted as a measure of taxable capacity, i.e., tax revenue potential. Following Coondo, and others (2003) and Davoodi and Grigorian (2007), this study calculates a wide range of countries' potential tax revenue from a panel dataset that covers 173 countries from 1995 through 2011—39 SSA countries are included. Explanatory variables for tax revenue potential are (i) size of

[1] Prepared by Tetsuya Konuki.

[2] This was the first adjustment of the PIT threshold since 1991.

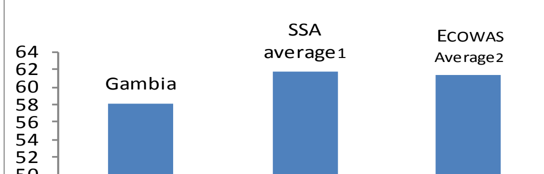
population; (ii) labor participation rate;[3] (iii) per capita income (proxy for overall level of development); (iv) inflation; (v) trade openness; (vi) oil exporter dummy; (viii) agriculture value added; (ix) M2-to-GDP ratio (proxy for financial deepening); and (x) quality of institutions.[4]

Figure 2. Actual Vis-à-Vis Potential Tax Collections (Percent of GDP)



4. **Results of panel estimates indicate there is ample room for The Gambia to boost tax revenue collections.** We use the coefficients estimated by IMF (2013) for 173 countries to calculate the potential tax-to-revenue ratio for each country and compare it to the actual tax-to-GDP ratio. In general, the higher the GDP per capita, the narrower the gap between the potential and actual tax collection: advanced economies' average actual to potential tax is more than 75 percent, while SSA countries' average is

Figure 3. Actual Tax Collection in percent of Tax Potential, in 2011



1. Simple average
2. Simple average of ECOWAS members excluding The Gambia and Cote d'Voire

[3] A share of population ages 15–64 among total population is used as a proxy.

[4] Indicators for political stability and corruption from *World Governance Indicators* are used.

only 61¾ percent (Figure 2). The Gambia's actual to potential tax ratio is estimated at 58 percent as of 2011, lagging behind the SSA average and the Economic Community of West African States (ECOWAS)—excluding The Gambia—members' average (61¼ percent, Figure 3).[5]

Tax Reform Options for The Gambia

5. **The business taxation structure and tax incentives remain in need of comprehensive reform, and the legal framework lacks transparency.** The IMF Fiscal Affairs Department (FAD) technical assistance (TA) mission that took place in early 2013 pointed out that a complex system of business taxation penalizes investment with high effective tax rates and significant compliance costs. More importantly, a complex system of amendments and decisions, not always accessible by tax payers, and tax practices misaligned with the legal framework, undermine the transparency and stability of the tax system. These concerns are echoed by the business community, according to recent business surveys.[6]

6. **The FAD TA mission suggested a wide range of tax reform options for The Gambia**. Its recommendations are based on three principles: simplifying the tax system; broadening the tax base to create room for lower rates; and enhancing transparency about the legal framework. Rationalizing taxation of business income would address the first principle. Streamlining tax incentives, expanding the PIT base, and exploiting underutilized taxes (excises and property tax) would tackle the second principle. Finally, tax expenditure budgeting would take up the third principle.

7. **Some of the TA recommendations could be done in the short term and provide a significant revenue boost.** First, a 15 percent withholding tax on interest and dividends is already part of the PIT legislation but has not been applied. This could be enforced in the 2014 budget. It is estimated to increase PIT tax revenue by 0.3 percent of GDP.[7] Second, as provided in the law, customs duties and charges could be included in the base of excise in the 2014 budget. This is estimated to increase revenue by 0.4 percent of GDP.

8. **In the medium term, business taxation needs to be rationalized, and tax incentives should be streamlined.** Although the authorities introduced a simplified income tax regime for small- and medium-sized enterprises with turnover below the VAT threshold for voluntary registration in early 2013, business taxation remains complex. Several tax incentives, often granted with discretion, narrow the tax base, distort the allocation of resources, and lead to incoherent tax treatments across firms and sectors. Cross-country empirical evidence suggests that tax incentives rarely have any significant effect on investments.[8] By eliminating minimum

[5] Owing to lack of data, Cote d'Ivoire is excluded in calculating the average of ECOWAS, excluding The Gambia.

[6] See the background note on external stability and competitiveness.

[7] Part of this revenue increase is likely to be offset by an increase in domestic interest costs because the withholding tax on interest from T-Bills would lead to an increase in T-Bill yields.

[8] For example, Klemm and Van Parys (2009) examine a panel of 40 countries from 1985–2004 and find no effect of tax incentives on economic growth and aggregate investment.

taxes on specific types of income and reducing the minimum business income tax, together with streamlining of the various existing exemptions and improvements to the allowance and depreciation schedule over time would reduce effective taxation on businesses without leading to revenue losses. In particular, by allowing the initial capital allowance and first annual depreciation to run concurrently, The Gambia could enhance investment for various types of equipment. These changes in depreciation rules would provide incentives for growth-and employment- enhancing investments more effectively than tax holidays, which tend to attract short-term, footloose, and highly profitable firms that likely disappear once the incentives expire. The current tax holidays should be phased out over time as the series of changes in business taxes mentioned above takes effect. These measures would improve the business environment in the medium term.

9. **The PIT base should be expanded and property taxation by the local governments should be strengthened in the medium term.** The 2013 PIT reform is estimated to lead to a revenue loss of about ½ percent of GDP, while it did not fully address the equity concerns of the PIT system. The revenue loss and equity concerns would be addressed by broadening its base over time. Specifically, PIT should be applied to public and pension benefits, and allowances paid to civil servants should be included in the PIT in the medium term. Local governments do not fully exploit the potential of their assigned immovable property taxes and rely excessively on business taxation. This is due largely to the lack of capacity to maintain a comprehensive fiscal cadastre and revalue properties. The government could improve the revenue capacity of local governments over time by investing in infrastructure to levy property taxes. This would enable the local governments to finance the gradual reduction and/or elimination of numerous local business license fees and improve the business environment in the medium term.

10. **Tax expenditure budgeting should be integrated in the annual budget process over time.** Reporting on tax expenditure (i.e., tax incentives, exemptions) and on their costs for the budget is very limited and not transparent in The Gambia. Identifying, quantifying, and reporting tax expenditure are critical steps for understanding the overall impact of the tax system and its hidden costs and for designing adequate policy actions. It would go a long way toward improving fiscal transparency. Because this is a labor-intensive process, the authorities could follow a step-by-step approach: (i) prepare a tax expenditure budget listing the main tax expenditures and their intended purposes in the short run; (ii) then expand the tax expenditure budget to include full costing of all main tax expenditures; (iii) finally, integrate tax expenditure budgeting into the annual budget process in the medium term.

11. **Successful tax reforms in other SSA countries highlight the importance of simplifying the system, broadening the base, and enhancing transparency.** In Mozambique, along with administrative changes, tax policy reforms like simplification and base-broadening measures, and gradually doing away with tax expenditure to rationalize incentives have led to the upward trend in tax revenue.[9] Mauritius overhauled PIT and business taxes by introducing a

[9] See Drummond and others (2012).

15 percent flat-rate tax while broadening the tax base by halving the size of tax expenditure in 2007. It ranks 11th in terms of ease of paying taxes in the 2012 World Bank Doing Business indicators—the highest ranking among SSA countries. While causation is not clear, tax revenue has been significantly higher than that before 2007. Finally, in Senegal, a comprehensive study on tax expenditure served as a key input for the tax system overhaul introduced in 2013.

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2. Davoodi, H., and D. Grigorian, 2007, "Tax Potential vs. Tax Effort: A Cross-Country Analysis of Armenia's Stubbornly Low Tax Collection," IMF Working Paper, WP/07/184 (Washington: International Monetary Fund).

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Appendix IV: Banking Sector Stability in The Gambia[1]

Background

1. **The Gambia's financial system is dominated by commercial banks. Between 2007 and 2010, the number of banks doubled (to 14 banks) leading to intense competition and diminished profits for the system as a whole.** The banking system has since undergone a modest consolidation, as two banks went into voluntary liquidation, rather than meeting the two-step increase in the minimum capital requirement (MCR) implemented at end-2010 and end-2012.

2. **Financial deepening, measured by the credit-to-GDP ratio, is still relatively low in The Gambia, compared with its regional peers.[2]** High lending rates and constrained credit to firms and households can largely be attributed to structural factors, notably banks' high funding and operating costs. Increased competition appears to have narrowed banks' interest margins, because of higher rates paid on deposits, especially as newer banks competed aggressively for time deposits in a market that is characteristically concentrated.[3] For example, those banks that lack a core local deposit base, must bid aggressively for large deposits. Other notable characteristics of the banking system include a relatively low rate of interbank lending; a high concentration of government treasury bills as a share of banks' total assets;[4] and a largely domestic source (deposit liabilities) of the banks' funding, despite the dominance of foreign-based banks.

Major Risks in the Gambian Banking System

3. **The Gambia's banking system as a whole is well capitalized and has ample liquidity, but the share of loans that are non-performing has remained high. Particularly after the increase in the MCR, the ratio of capital adequacy has been well above the prudential norm (Table 1).** The high ratio of liquid assets to total assets mainly reflects the large share of T-bills in banks' portfolios. Non-performing loans (NPL), although having declined fairly steadily over the past few years, still comprise a large share of total loans. NPL is one of the core areas that need intensive supervision. Fierce competition for deposits, loans and qualified staff have led to a high cost of funds, provisions, and staff remuneration, respectively, eroding banks' earnings.

4. **The Prompt Corrective Action (PCA) framework that the CBG implemented in 2010 stipulates that supervision should be incrementally stepped up for higher PCA ratings, with**

[1] This Background Note was prepared by Tamsir Cham.

[2] See Figure 6 in the main body of the staff report.

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

[4] At times large government borrowing needs have been a source of crowding out of credit to the private sector.

banks that report a rating above three for any of the PCA components being subject to intensive supervision.[5] The aggregate PCA ratings have slightly worsened in early 2013 for, NPL, earnings, and liquidity. It is important that the CBG continues to conduct its annual PCA assessment on a bank-by-bank basis.

5. **The aggregate numbers mask vulnerabilities at the individual bank level. While the newer banks tend to be highly capitalized, some of the oldest and largest banks have significantly lower capital adequacy ratios (CARs) (Table 2).** For instance, the CAR of the largest 6 banks that account for 81 percent of banking system assets averages 11.9 percent (ranging from 6.1 to 21.1 percent) against 31.9 percent for the smallest 6 banks (ranging from 20.8 to 35.4 percent). Hence, the shock absorption capacity of some of the largest banks is significantly lower than that the aggregate CAR indicates. These banks, however, remained profitable as they invest heavily in T-bills with a relatively safe rate of return. Similarly, the dispersion in NPL ratios shows that the older and larger banks struggle more with loan quality issues than the newer banks. NPL ratios for the six largest banks averaged 11.8 percent compared to 9.5 percent for six smallest banks. With respect to banks' earnings, four of the 12 banks are loss-making—one medium and three small banks. As for liquidity, the share of assets held by banks with PCA rating at 5 for liquid assets to total assets rose to 20 percent in 2013Q1 from zero in 2012Q1 (Figure 2).[6]

6. **The major risk faced by the Gambian banking system is credit risk. High NPL ratio highlights the significance of credit risk.** Although the banking system is highly liquid, banks still could potentially be vulnerable to aggressive deposit withdrawals by large depositors given the concentration of deposits among a small number of large corporations.

Credit Risks

7. **The extent of vulnerability to credit risk may very well be underestimated due to weaknesses in the regulatory framework.** The Gambia's asset classification and provisioning rule (text table) shows weaknesses in three key areas. First, it relies primarily on the delinquency parameter, with forward-looking judgment on loan performance only marginally embedded in regulation.[7] Loans are classified as current up to 90 days of delinquency, with a corresponding provisioning rate of only one percent. Second, the classification regime does not include a watch or special-mention category that typically captures loans that are delinquent up to 90 days, and requires a provisioning rate of 5 percent. Third, the regulation governing restructured loans is

[5] PCA is a framework used in many countries in levying penalties against banks that exhibit progressively deteriorating capital ratios with a view to providing incentives for banks to address issues. PCA rating ranges from 1 to 5, score 1 being the best and score 5 requiring intensive supervision.

[6] While the upper chart of figure 2 represents number of banks with corresponding PCA rating rate, the lower chart is the percentage of total bank(s) system assets to banks total asset with a corresponding PCA rating rate.

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

requires a provisioning rate of 5 percent. Third, the regulation governing restructured loans is too lenient: it allows banks to provision for restructured loans at a rate of only 5 percent.

8. **Concentration of the banks' loan portfolio could potentially pose major credit risks. The top four borrowers account for 54 percent of the loan portfolio, based on end-December 2012 data.** Single-borrower limit is set at 25 percent of capital, but only applies to unsecured credit. This loophole in CBG regulation, flagged in the MCM TA Report in 2010, allows banks to build up concentrated exposures beyond a level that is deemed sound. Moreover, given the weaknesses in collateral registration and enforcement that reduce recovery rates on secured credit, this distinction is somewhat arbitrary.

Regulatory Loan Classification and Provisioning Rule 1/

	Delinquency Threshold (days)	Regulatory Provisioning Rate	Provisioning Classification
Current	< 30	1%	General
Special mention	> 30	5- 10 %	
Sub-Standard	> 90	20%	Specific
Doubtful	> 181	50%	Specific
Loss	> 364	100%	Specific
Restructure 2/		5%	General

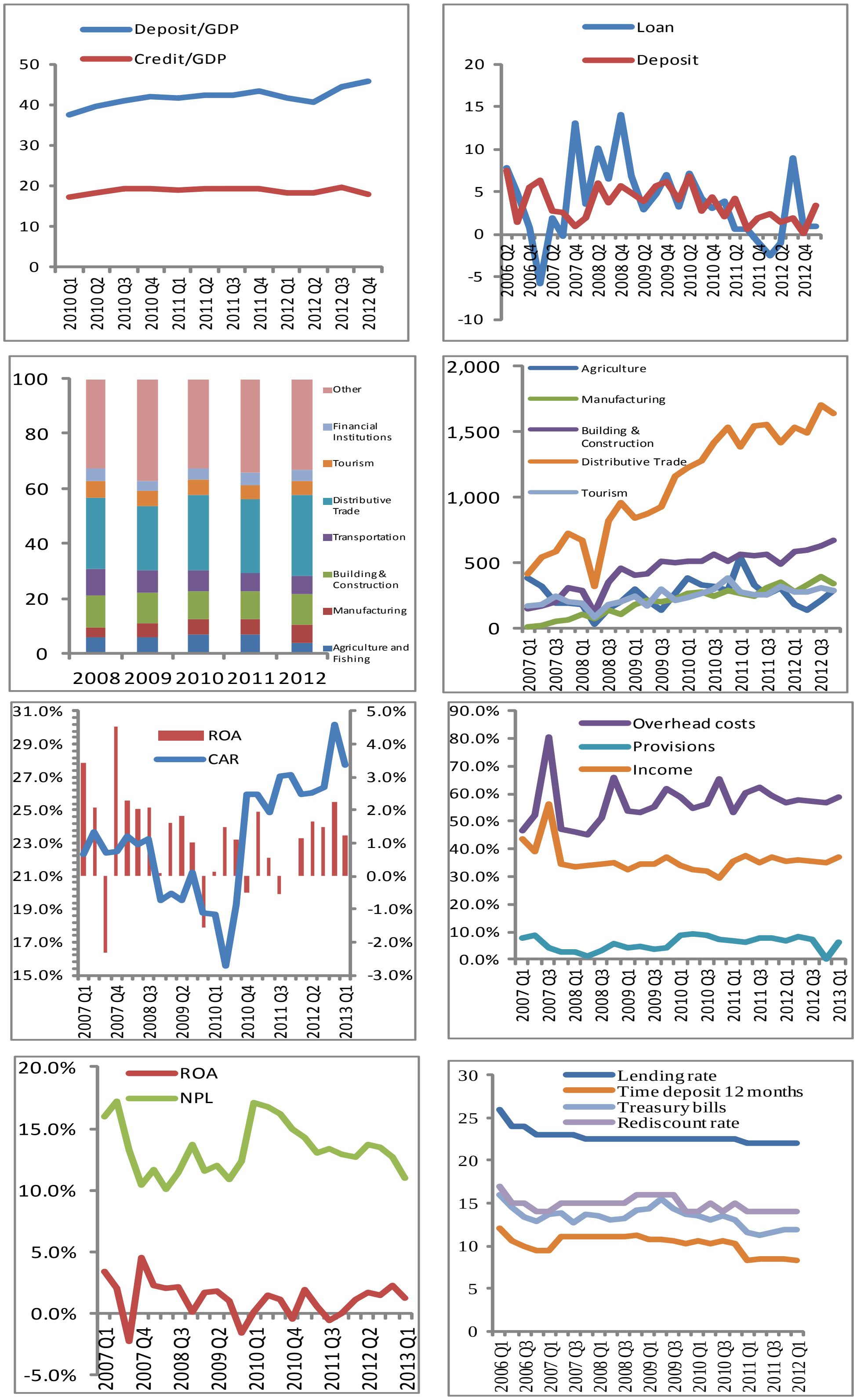
1/ Exemption from asset classification regulation for small consumer loan (up to GMD 25,000)
2 / Restructured loans are not classified as non-performing, or as performing. Early restructuring is not allowed (CBG Guideline 5, Para 18 stipulates that they "…will have been classified as non-accrual credits".

Source: CBG

9. **Against this background, stretched supervisory resources are cause for concern.** Based on an informal analysis of the PCA indicators, 11 out of the 12 banks may need to be subjected to intensive supervision for at least one of the PCA components. Although the CBG has recently recruited additional staff in the supervision department, bringing the number of full-time staff in CBG's Financial Supervision Department to 26, there is little room to step up the intensity of supervision or the frequency of on-site visits consistent with the PCA framework.[8] CBG intends to hire six additional staff trained in International Financial Reporting Standards (IFRS).

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

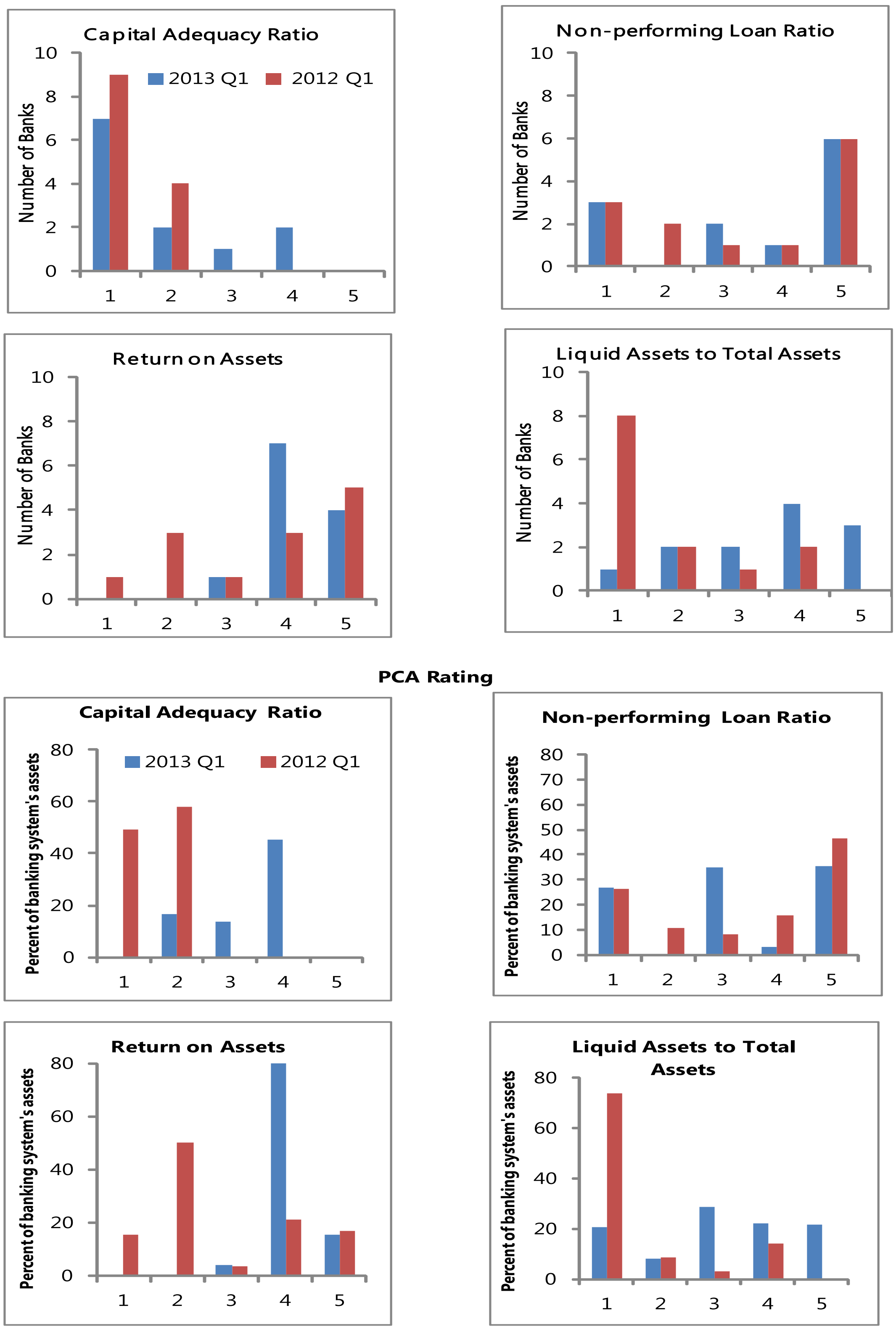
Figure 1. The Gambia: Recent developments in the Banking Sector, 2006–2013



Source: CBG Data and IMF Staff estimates.

10.

Figure 2. The Gambia: Development in Banks' PCA Ratings, 2012Q1–2013Q1



Source: CBG data and IMF Staff calculation.

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

	2010	2011	2012	2013 1/
Capital Adequacy				
Regulatory Capital to risk - weighted assets	26.0	27.1	30.2	27.7
PCA Rating	1	1	1	1
Tier - 1 Capital to risk - weighted assets	26.9	28.2	31.2	20.2
Asset quality				
Non-performing loan ratio to gross loans	15.0	12.9	11.6	11.0
PCA Rating	5	5	4	4
Earnings and profitability				
Return on assetes (average)	-0.5	0.0	2.0	1.2
PCA Rating	5	...	2	3
Return on equity (average)	-2.7	0.2	8.0	8.0
Net interest income to gross income	29.6	37.1	35.3	35.3
Operating expenses to gross income	65.2	59.5	58.0	57.7
Liquidity				
Liquid assets to total assets	37.3	41.6	52.1	48.9
PCA Rating	3	2	1	2
Liquid assets to short - term liabilities	59.7	64.2	80.9	75.6
Sensitivity				
Net open FX position to capital	1.3	-1.0	4.5	17.2
PCA Rating	1	1	1	...

1/ Data for 2013 cover only the first quarter
Source: Central Bank of The Gambia

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

	Aggregate	min	median	mean	max
Capital Adequacy					
CAR 2013 Q1	27.7	6.1	21.0	21.4	43.0
CAR 2012 Q1	26.0	15.5	27.3	47.5	219.0
Asset Quality					
NPL 2013 Q1	11.0	0.0	11.6	10.6	24.8
NPL 2012 Q1	12.7	0.0	12.2	11.4	34.1
Earnings and Profitability					
ROA 2013 Q1	1.2	-1.1	0.2	0.2	1.1
ROA 2012 Q1	1.1	-14.7	0.6	-0.7	3.5
Liquidity					
LAR 2013 Q1	48.9	3.8	26.2	27.8	55.2
LAR 2012 Q1	56.1	26.0	52.0	51.5	78.0

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

Liquidity Risks

11. **Liquidity risk stress test results show that the banking system could withstand severe shocks arising from deposit withdrawals.** The stress testing on liquidity risk assessed whether the banking sector could meet a sudden need for a large amount of cash due to a loss of public confidence in the banking sector that generates a bank run. Given the high concentration of depositors, the test shows for each bank how many days it would withstand liquidity drain before having to resort to accessing liquidity from outside sources (other banks or the CBG). The stress test results indicate that all banks, except the three medium banks, can withstand up to three days of deposit runs without recourse to the CBG.[9] By the fourth day of deposit runs, all medium banks, two small banks, and one large bank would become illiquid (Figure 3 and Table 3).

12. **However, its shock absorption capacity is highly dependent on the market liquidity of government securities.** The available liquid assets mainly consist of cash and Treasury bills, while deposits account for the bulk of liquid liabilities (67 percent on average). As demonstrated by the recent episodes, once the authorities' commitments to the fiscal consolidation and flexible exchange rate policy are called into questions, T-bill rates would spike and the government could face difficulties in rolling over government's securities. In case such strains persist, the Gambian

[9] This liquidity stress test assumes withdrawal of 15 percent of deposits on day one, another 15 percent on day two, 10 percent on day three, 10 percent on day four, and 10 percent on day five.

banks' capacity to absorb liquidity shocks would be severely undermined. This highlights the importance of prudent macroeconomic policy conduct by the authorities to keep the banking system sound.

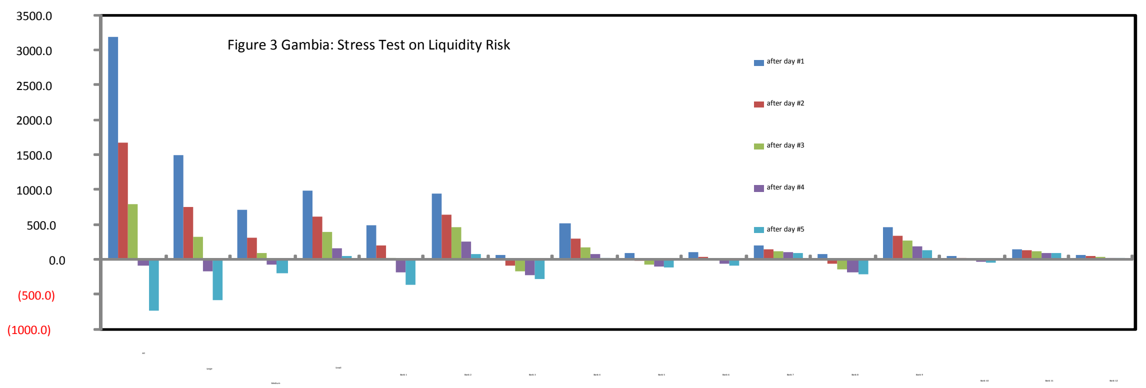


Table 3. Gambia: Results of the Liquidity Stress Tests
(Based on data as of 2013 Q1)

	All Banks	Large Banks	Medium Banks	Small Banks
Pre-shock Liquidity Ratio 1/	67.3	75.5	16.3	99.2
Shock : Run on Banks, fire sale of assets				
Illiquid banks				
After day 1	2	0	2	0
After day 2	3	0	3	0
After day 3	3	0	3	0
After day 4	6	1	3	2
After day 5	7	2	3	2

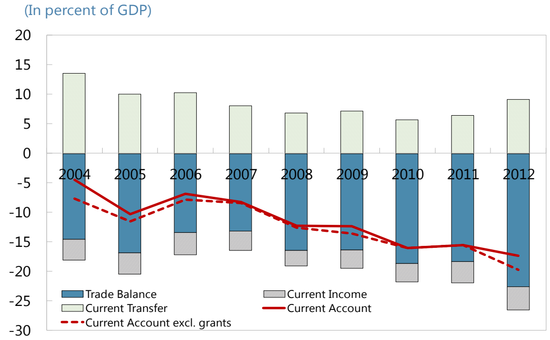
Appendix V: External Stability Assessment[1]

The Gambia's external balance is projected to remain broadly stable over the medium term given the envisaged fiscal adjustment and ample international reserves but is still vulnerable to large external shocks such as spikes in commodity prices and bad weather. Staff estimates from CGER-type analyses indicate that The Gambia's exchange rate is broadly in line with medium-term fundamentals, although poor quality of the balance of payments (BOP) statistics, as well as a wide range of estimates, calls for caution against a definitive assessment. Meanwhile, survey-based indicators show that recent depreciation has helped The Gambia maintain its relative external competitiveness in the region, but the lack of progress in reforms aimed at addressing key institutional bottlenecks could start eroding competitiveness.

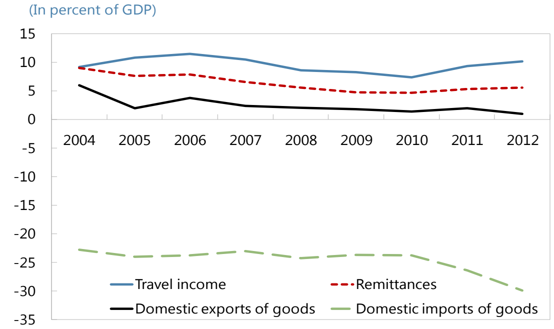
Evolution of the Balance of Payments

1. **The Gambia's current account deficit has steadily widened over the past years.** The current account deficit rose from 4.5 percent of GDP in 2004 to 17.5 percent in 2012, mainly driven by the increasing merchandise trade deficit excluding re-exports. From 2004 to 2012, merchandise exports fell from 6 percent of GDP to 1 percent, while imports for domestic consumption climbed from 23 percent to 30 percent, resulting in an increase of net deficit from 17 percent to 29 percent. This widening of the trade deficit reflected a series of major external shocks during this period, including two severe crop failures caused by drought (2005, 2011), oil and food price hikes (2008, 2011), and the global financial crisis (2009). The two crop failures were particularly damaging and had lingering negative effects on domestic exports, mainly groundnuts.

The Gambia's Current Account
(In percent of GDP)



Main Components of Current Account
(In percent of GDP)

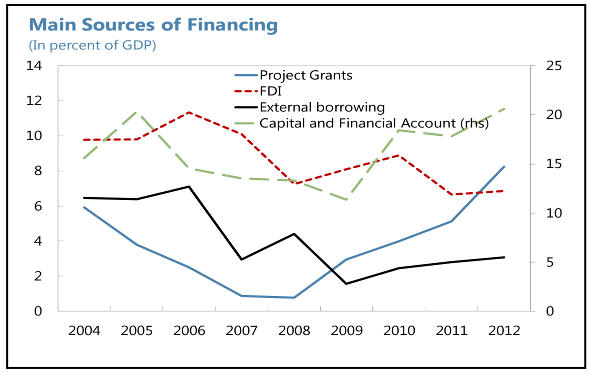


2. **The rising current account deficits were financed mostly by non-debt creating capital inflows.** On the back of a boom in the telecommunication and the tourism sectors, foreign direct investment (FDI) was the dominant source of foreign capital prior to the global financial crisis. After the crisis, however, FDI declined to an average of 8 percent, with external

[1]Prepared by Minsuk Kim (SPR).

borrowing following a broadly similar downward trend. On the other hand, project grants steadily increased, partly offsetting the decline in FDI and external borrowing.

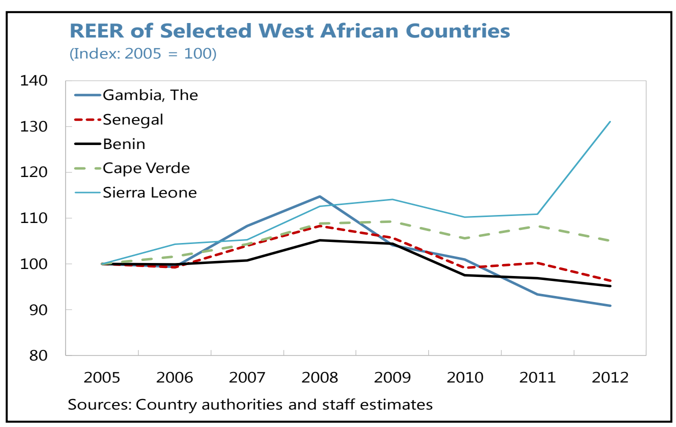
3. **While The Gambia's BOP position is projected to be broadly stable over the medium term, it remains vulnerable to a number of risks.** Under staff's baseline scenario, the current account deficit is projected to decline to 15 percent of GDP in 2018, driven by a return of crop production to its pre-drought level over 2013–2015 and a robust 7 percent annual growth of tourism receipts owing to continued marketing effort and investment in relevant infrastructure. On the capital account, project grants relative to GDP is projected to be maintained at about 6½ percent on average over the medium term, partly reflecting the Trans-Gambia Bridge project with a projected total disbursement of US$ 100 million. The main risks to this baseline projection include bad weather, terms of trade shocks from a spike in global commodity prices, and fiscal slippages leading to higher imports and a potentially unsustainable public debt path. The Gambia's level of gross international reserves, however, provides an adequate buffer to large external shocks.[2]



4. **A recent debt sustainability analysis (DSA) indicates that The Gambia is at moderate risk of external debt distress, although vulnerable to various adverse shocks.** Depending on the DSA indicator in question, the worst shock varies between a one-time depreciation shock (30 percent) and a higher interest rate for new borrowing, all of which lead to protracted breaches of debt thresholds. These results highlight the need for the authorities to adhere to a prudent borrowing plan associated with an approved medium-term debt management strategy.

Exchange Rate Assessment

5. **The real exchange rate has depreciated by about 21 percent from 2008 to 2012, reaching the lowest level since 2003.** Both the nominal and CPI-based real effective exchange rate appreciated by about 15 percent from 2005 to 2008, driven by a foreign direct investment boom in the tourism and the telecommunication sectors. Following this brief period of

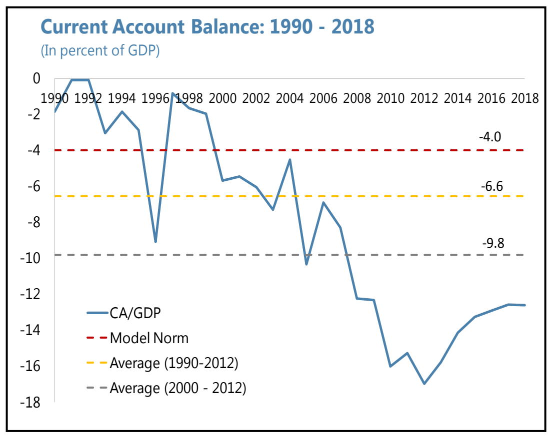


[2] See Annex 2 for a detailed discussion of The Gambia's reserve adequacy.

appreciation, however, the NEER and REER returned to their long-term depreciation paths, declining by an average of 6 percent a year during 2009–2012 in line with the widening current account deficit. The depreciation pressure has intensified since the second half of 2012, partly owing to high import needs associated with slow crop production recovery and the weak market sentiment following the issuance of Presidential Directive in October 2012.

6. **Results from three CGER-type methodologies suggest that the dalasi is broadly in line with The Gambia's medium-term fundamentals (Text Table 1).** These methodologies include the macroeconomic balance (MB) approach, the external sustainability (ES) approach, and the equilibrium real exchange rate (ERER) approach, which provide complementary assessments of the real exchange rate misalignment relative fundamentals. The Gambia's underlying medium-term CA norm is estimated using a dynamic panel regression model developed by Vitek (2013), which includes remittances and aid inflows in addition to the standard CGER explanatory variables.

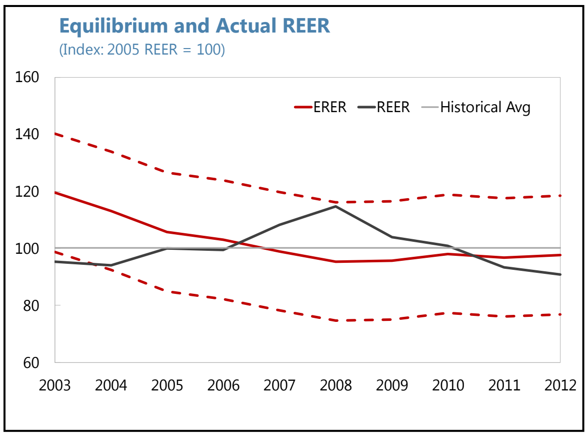
7. **The macroeconomic balance approach finds an overvaluation of 13 percent, although historical averages suggest a substantially lower misalignment.** The current account gap is calculated as the difference between the projected underlying medium-term current account deficit of 12.5 percent of GDP and the estimated current account "norm" deficit of 4 percent. Assuming a trade elasticity of -0.72[3], the macroeconomic balance approach indicates that a depreciation of 13 percent is needed to close this gap. In light of recent historical averages, however, the model norm of 4 percent is unrealistic. When the average CA deficit over 2000–2012 (9.8 percent of GDP) is taken as the norm, the misalignment is much lower at 4.5 percent.

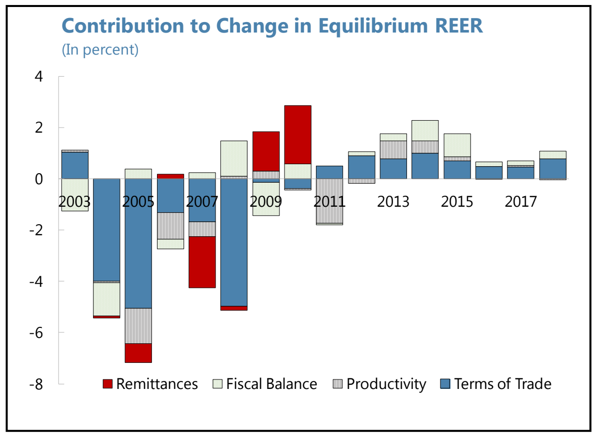


8. **The external stability approach indicates the dalasi is overvalued by about 7.5–10 percent.** The key to this approach is choosing an appropriate benchmark NFA-to-GDP ratio. Using the end-2012 NFA position of -87 percent of GDP as a benchmark, the current account deficit needed to maintain this position is estimated at about 6 percent of GDP, indicating an overvaluation of 10 percent. When the benchmark is set to the average NFA position of -105 percent over 2004–2012, the overvaluation is slightly lower at about 7.5 percent.

[3] See the external assessment in The Gambia 2008 Article IV staff report, Selected Issues, for derivation and justification of the estimate.

9. **The equilibrium real exchange rate approach, on the other hand, suggests an undervaluation of about 18.5 percent.** The estimate is obtained from a data augmented version of Vitek (2013) model using a proxy measure of the missing employment series.[4] Unlike the MB and ES approaches, the ERER approach attempts to directly estimate an equilibrium exchange rate based on a country's fundamentals and tends to be more sensitive to the recent exchange rate trend. In the case of The Gambia, much of the 18.5 percent misalignment reflects the currency's ongoing large depreciation since 2008 that is projected to stay about 14 percent below its historical average over the medium term, as well as the slight appreciation of the projected equilibrium REER (about 4 percent above its historical average). The latter is largely attributable to the projected strengthening of the terms of trade and to a lesser extent, an improvement in the fiscal balance and a gradual increase in productivity.





10. **Among the three standard CGER-type methodologies, staff views the MB approach as the most appropriate and reliable methodology for The Gambia.** This is largely in light of the poor quality and limited availability of data for the other approaches. For example, the potential under-reporting of inflation as mentioned in the staff report (Paragraph 33) would bias the real exchange rate upward, leading to an assessment showing excessive undervaluation under the ERER approach. In addition, staff takes the view that using the historical average of 9.8 percent of GDP as the "norm" for the current account deficit makes the most sense, given The Gambia's level of development and the outlook for non-debt generating financing. This yields an overvaluation of about 4.5 percent.

Text Table 1. Estimated Exchange Rate Misalignment
(Percent)

MB	ES	ERER
4.5 - 13	7.6 - 10	-18.7

Source: IMF staff estimates

[4]For many low-income countries with missing employment series, including The Gambia, the estimates of ERER misalignment are unavailable in Vitek (2013), as the regression requires a measure of relative productivity calculated from the employment data. To overcome this data gap, this note develops a proxy measure of employment series from other available data for countries, such as the share of working-age population and unemployment rate. The use of this proxy measure allows a substantial expansion of the cross-section sample size from 89 to 153 countries, including many of the Sub-Saharan countries, and produces generally more significant and intuitively convincing coefficients.

Competitiveness Assessment

11. **In terms of the overall business environment, The Gambia ranks poorly in the entire sample of countries, albeit somewhat better than most other countries in the region.** The 2013 World Bank's Doing Business Survey ranks The Gambia 147th globally and 5th among ECOWAS countries in terms of overall ease of doing business and 3rd in cross-border trading and enforcing contracts. The Gambia also has a relatively high overall ranking in the 2012–2013 Global Competitiveness Index (98th) compared to its neighbors, largely owing to its relatively good overall infrastructure, flexible labor market, and well-educated workforce.

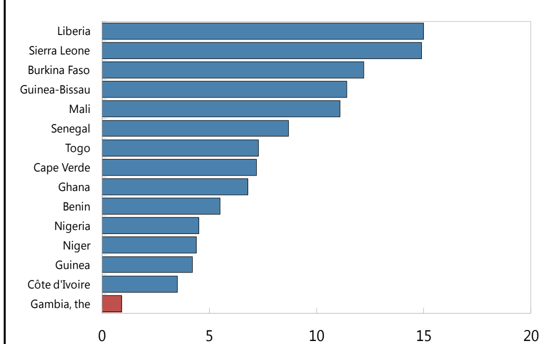
Table 3. 2013 World Bank Ease of Doing Business Global (ECOWAS) Rankings

	Ease of Doing Business	Starting a Business	Dealing with Construction Permits	Getting Electricity	Registering Property	Getting Credit	Protecting Investors	Paying Taxes	Trading Across Borders	Enforcing Contracts	Resolving Insolvency
Ghana	64 (1)	112 (4)	162 (13)	63 (1)	45 (1)	23 (1)	49 (2)	89 (2)	99 (4)	48 (2)	114 (7)
Cape Verde	122 (2)	129 (9)	122 ()	106 ()	69 ()	104 (4)	139 (4)	102 (3)	63 (1)	38 (1)	185 (14)
Nigeria	131 (3)	119 (6)	88 (2)	178 (13)	182 (15)	23 (1)	70 (3)	155 (7)	154 (12)	98 (4)	105 (4)
Sierra Leone	140 (4)	76 (2)	173 (15)	176 (12)	167 (11)	83 (3)	32 (1)	117 (4)	131 (8)	147 (11)	154 (12)
Gambia, the	**147 (5)**	**123 (8)**	**90 (3)**	**119 (7)**	**120 (6)**	**159 (15)**	177 (14)	**179 (14)**	**87 (3)**	**65 (3)**	**108 (5)**
Burkina Faso	153 (8)	120 (7)	64 (1)	139 (8)	113 (5)	129 (6)	150 (6)	157 (8)	173 (14)	109 (5)	113 (6)
Senegal	166 (10)	102 (3)	133 (9)	180 (14)	173 (12)	129 (6)	169 (13)	178 (13)	67 (2)	148 (12)	90 (2)
Mali	151 (7)	118 (5)	99 (4)	115 (5)	91 (4)	129 (6)	150 (6)	166 (10)	152 (11)	133 (8)	120 (8)
Liberia	149 (6)	38 (1)	126 (8)	145 (10)	178 (13)	104 (4)	150 (6)	45 (1)	137 (10)	163 (14)	159 (13)
Togo	156 (9)	164 (13)	137 (10)	89 (3)	160 (10)	129 (6)	150 (6)	167 (11)	101 (5)	157 (13)	96 (3)
Côte d'Ivoire	177 (13)	176 (15)	169 (14)	153 (11)	159 (9)	129 (6)	158 (10)	159 (9)	163 (13)	127 (6)	76 (1)
Benin	175 (11)	153 (11)	111 (5)	141 (9)	133 (7)	129 (6)	158 (10)	173 (12)	130 (7)	178 (15)	132 (10)
Niger	176 (12)	167 (14)	160 (12)	118 (6)	87 (3)	129 (6)	158 (10)	151 (6)	176 (15)	140 (9)	130 (9)
Guinea-Bissau	179 (15)	148 (10)	117 (6)	182 (15)	180 (14)	129 (6)	139 (4)	146 (5)	116 (6)	142 (10)	185 (14)
Guinea	178 (14)	158 (12)	152 (11)	88 (2)	151 (8)	154 (14)	177 (14)	183 (15)	133 (9)	131 (7)	141 (11)

Source: 2013 World Bank Easing of Doing Business Survey

12. **The lack of progress in addressing these key institutional bottlenecks could begin to undermine The Gambia's relative competitiveness in the region.** The cumulative change in Doing Business score from 2008 to 2013 indicates that The Gambia has made little progress in improving its overall business environment and is lagging behind all other ECOWAS countries by a substantial margin. This finding further highlights the importance of The Gambia's recent depreciation in maintaining the economy's external competitiveness.

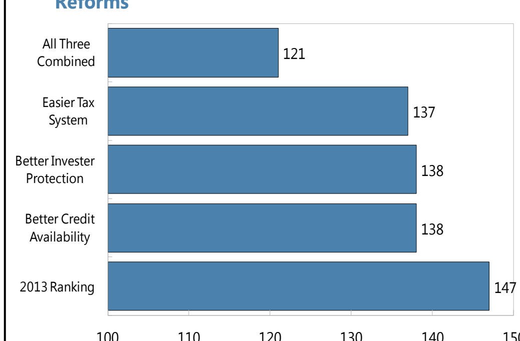
Cumulative Improvement in Ease of Doing Business: 2008 - 2013
(Index 2008 = 0)



Sources: 2013 World Bank Ease of Doing Survey and staff calculations

13. **To stay competitive, The Gambia needs to augment its structural reform efforts.** Simulation results show that even moderate improvements in ensuring better access to credit, better investor protection, and removing impediments for paying taxes could yield large competitiveness gains for The Gambia. For example, by reducing the time to prepare and pay taxes, as well as lowering total tax rate measured as percentage of profit to

Improvement in the Global Ranking from Successful Reforms



Sources: 2013 World Bank Ease of Doing Business Survey and staff calculations

ECOWAS averages, The Gambia's global ranking improves from 147 to 137 and to 4th among ECOWAS countries, surpassing Sierra Leone. Successful reforms in all three areas to the ECOWAS average would place The Gambia in the 2nd place within the group, only next to Ghana.

THE GAMBIA

STAFF REPORT FOR THE 2013 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

August 26, 2013

Prepared By

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

CONTENTS

RELATIONS WITH THE FUND

(As of July 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	23.96	79.83

Outstanding Purchases and Loans	SDR Million	% Quota
ECF arrangements	32.63	104.93

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	0.40	2.11	3.84	4.28	5.24
Charges/interest	0.00	0.00	0.07	0.06	0.05
Total	0.40	2.12	3.92	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 August 15, 2013, the midpoint exchange rate in the interbank market was D35 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). A series of presidential exchange rate directives, that imposed over-valued exchange rates, were issued in October 2012, June 2013, July 2013, and August 2013. The first two directives were both lifted after 2-3 weeks. The fourth directive, which overrides the third directive, is still in effect. LEG, in consultation with MCM, is assessing if the second, third, and fourth directives give rise to any exchange restriction or multiple currency practice (MCP) in breach of The Gambia’s obligations under Article VIII, Sections 2(a) and 3, and resulting in the non-observance of the continuous performance criterion under the current ECF arrangement for The Gambia.

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

March/May 2013	Peripatetic expert advised on the preparation of 2 two VAT implementation technical reference guides.
March 2013	An expert advised on VAT Audit Procedures and Risks Analysis.
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

July/August 2013	Technical expert advised on improving the compilation of price statistics.
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, SEPTEMBER 2013–SEPTEMBER 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	April/May 2014
	2. IFMIS: Additional Financing	July/August 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. Article IV consultation	June/July 2013	September 2013
	2. Second review under new ECF	October 2013	December 2013
	3. Third review under new ECF	March 2014	May 2014
	Technical Assistance		
	1. VAT implementations	Resident advisor currently in place	
	2. Stress testing	September2013	
	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

STATISTICAL ISSUES

The Gambia—STATISTICAL ISSUES APPENDIX As of August 15, 2013
I. Assessment of Data Adequacy for Surveillance
General: Data have serious shortcomings that significantly hamper surveillance. The most affected areas are balance of payments, national accounts, and external debt statistics.
National Accounts: The main constraints to improving the national accounts include inadequate source data due to inadequate survey coverage, poor quality of external sector data, and lack of attention to other important sources (such as the livestock census and the census of industrial production). The Gambia Bureau of Statistics (GBoS) continues to face human and financial constraints to undertaking such surveys and to processing the data. The Gambia participates in the Enhanced Data Dissemination Initiative (EDDI) which is funded by the U.K. Department for International Development (DfID). In 2012-2013, STA missions and technical experts financed by DfID advised the GBoS on improving national accounts, including price statistics. In November 2012, with the help of donors, the government held a forum for dialogue among users and producers of the National Statistical System. The government has increased the budget allocations for GBoS for 2013 with a view to enabling GBoS to recruit more staff and train them as well. Line ministries will contribute to the development of sectoral statistics, particularly in agriculture, health, education, transport, and construction.
Price Statistics: The World Bank has been providing technical assistance to the GBoS to update the consumer price index (CPI) using the 2003 household expenditure survey to better reflect current consumption patterns. In early 2007, the GBoS began to publish a new national CPI based on an August 2004 representative expenditure basket. Currently, the GBoS is working on rebasing the CPI using the results of the 2010 integrated household survey.
Government Finance Statistics: The authorities release data on central government transactions with a lag of about four weeks for both revenues and expenditures. With the introduction of the IFMIS in 2010, the compilation of expenditure data by functional category and by administration is now possible. However, the authorities have not yet started to make them available to the public at regular intervals, contrary to best practices. The compilation of project grant disbursements and project grant use has been a challenge, leading to financing discrepancies. Monthly data on domestic government financing are available with a delay of about four weeks. At a meeting with STA in October 2007, the authorities expressed interest in technical assistance to facilitate the migration to *GFSM2001*.
Monetary and Financial Statistics: The Central Bank of The Gambia (CBG) has improved data reporting to the Fund. In June 2012, the CBG completed migration to the Standardized Report Forms (SRFs) for the submission of its monetary and financial statistics (MFS) to the Fund.

Additionally, in June 2012, the CBG launched an electronic reporting system for commercial banks which will facilitate the accurate and timely submission of relevant information for supervision. In early 2013, the CBG started the collection of new data, including those on term structure of commercial banks' assets and liabilities. These will help improve the quality of the CBG's onsite and offsite supervision.

Despite this progress, MFS data are still in need of improvements in terms of financial institution coverage. The depository corporation survey does not include data from non-bank deposit taking institutions, a growing sector in the country.

Financial sector surveillance: Only basic market based indicators are available, and their coverage, valuation and timeliness vary across such indicators. Data are not sufficiently available to conduct stress tests of the banking system or Balance Sheet Approach analysis. Cross border exposure data for financial corporations are not available.

External sector statistics: Despite some improvements, balance of payments statistics continue to be affected by serious shortcomings. These include delays in the collection of trade, customs, and tourist arrival data; outdated methods for estimating the re-export trade; poor data on capital flows; lack of a register of firms and establishments engaged in external transactions; poor classification of balance of payments data; and lack of a consistent methodology. Institutional weaknesses have also been a major impediment to improving statistics. Official grant and loan disbursements and repayments are generally well recorded, but there are some gaps in project disbursements. Due to the various data shortcomings, there is a large discrepancy between the BOP data reported by the authorities to STA and the adjusted data used by AFR. For example, data reported by the authorities to STA point to a small current account surplus (except in 2012), while adjusted AFR data indicate that the country is running a large current account deficit.

The CBG produces balance of payments statistics according to the *Balance of Payments Manual*, 5th edition *(BPM5)*. The CBG has been compiling quarterly balance of payments statistics through a Fund-administered technical assistance project funded by DfID. The most recent data available are for the first quarter of 2013.

To improve the quality of BOP statistics, the CBG conducted surveys of tourism expenditures and re-exports in 2011, and surveys of FDI and trade credits and advances in 2012. GBoS, CBG, and the Gambian Revenue Authorities (GRA) have been holding regular quarterly meetings on re-exports, in order to standardize procedures and reports for border stations. CBG also plans to rebuild staffing levels and continuously build up capacity in the BOP unit at the Economic Research Department, in line with recommendations from the DfID-funded STA TA mission held in early 2013.

II. Data Standards and Quality	
Participant in the Fund's General Data Dissemination System (GDDS) since 2003. Metadata and GDDS improvement plans have not been updated since 2007, except for the balance of payments and gross official reserves which were updated in 2011.	Data ROSC was published on December 1, 2005.

III. Reporting to STA
The authorities provide some financial soundness indicators (FSIs) to the IMF database; however, not all core FSIs are reported and the reported indicators are not timely. No data are being reported for publication in the *Government Finance Statistics Yearbook* or in the *International Financial Statistics (IFS)*. Since June 2012, monthly SRF-based monetary statistics have been reported to STA for publication in *IFS*. Balance of payments statistics are submitted for publication in the *IFS* and in the IMF *Balance of Payments Statistics Yearbook* since 2005.

TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE

	Date of latest observation	Date received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]	Memo Items:[8] Data Quality – Methodological soundness[9]	Memo Items:[8] Data Quality – Accuracy and reliability[10]
Exchange Rates	8/5/13	8/5/13	D	D	M		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	7/26/13	8/2/13	W	W	M		
Reserve/Base Money	6/30/13	7/30/13	D	W	M	LO, LO, LO, LO	LNO, LO, O, LO, LNO
Broad Money	6/30/13	7/30/13	M	M	M		
Central Bank Balance Sheet	6/30/13	7/30/13	M	M	M		
Consolidated Balance Sheet of the Banking System	6/30/13	7/30/13	M	M	M		
Interest Rates[2]	7/24/13	7/31/13	W	W	M		
Consumer Price Index	6/30/13	7/17/13	M	M	M		
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	N/A	N/A				LO, LO, O, O	LNO, LO, LO, LNO, NO
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	6/30/13	7/26/13	M	M	M		
Stocks of Central Government and Central Government-Guaranteed Debt[5]	6/30/13	7/26/13	M	M	M		
External Current Account Balance	3/30/13	7/8/13	Q	Q	A	LNO, LNO, LNO, LO	LNO, LNO, LNO, LO, NO
Exports and Imports of Goods and Services	3/30/13	7/8/13	M	I	A		
GDP/GNP	2011	8/18/12	A	A	A	LNO, LNO, O, LO	LNO, O, LNO, LO, NO
Gross External Debt	3/30/13	6/15/13	A	I	A		
International Investment Position[6]	8/5/13	8/5/13	D	D	M		

[1] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.
[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Includes external gross financial asset and liability positions vis-à-vis nonresidents.
[7] Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).
[8] These columns should only be included for countries for which Data ROSC (or a Substantive Update) has been published.
[9] This reflects the assessment provided in the data ROSC or the Substantive Update (published on ..., and based on the findings of the mission that took place during...) for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O); largely observed (LO); largely not observed (LNO); not observed (NO); and not available (NA).
[10] Same as footnote 7, except referring to international standards concerning (respectively) source data, assessment of source data, statistical techniques, assessment and validation of intermediate data and statistical outputs, and revision studies.

Press Release No. 13/343
FOR IMMEDIATE RELEASE
September 13, 2013

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Concludes 2013 Article IV Consultation with The Gambia

On September 11, 2013, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with The Gambia.[1]

The Gambian economy has generally performed well over the past several years, although it is still recovering from the 2011 drought. The drought led to a large drop in crop production and a sharp contraction in real Gross Domestic Production (GDP) in 2011. Although growth has been picking up, weaknesses in the balance of payments have persisted, leading to depreciation pressures on the Gambian dalasi. Most recently, inconsistent economic policies have intensified these pressures.

Large fiscal deficits—financed mostly by domestic borrowing—have added to the government's heavy debt burden. Interest on debt has consumed a rising share of government resources in recent years, reaching 22½ percent of government revenues in 2012, most of which was paid on domestic debt. As outlined in the authorities' *Programme for Accelerated Growth and Employment* (PAGE) launched in December 2011, the government aims to gradually reduce the fiscal deficit and ease its heavy debt burden.

Prior to the drought, The Gambia made significant progress in the fight against poverty; however, poverty is still widespread. Execution of the PAGE, supported by commitments from development partners, would help to further reduce poverty, especially in rural areas, given a strong focus on agriculture.

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

The banking sector remains adequately capitalized, following a two-step increase in the minimum capital requirement implemented at end-2010 and end-2012; however, non-performing loans have remained high.

Despite near-term uncertainties, the medium-term outlook for growth is generally favorable. Real GDP growth is projected to increase slightly to 6-6½ percent in 2013, driven by a further recovery in agriculture. Inflation has been rising, but is expected to fall back to around 5 percent a year over the medium term, as the Central Bank of The Gambia exercises monetary restraint. The main downside risk arises from possible fiscal slippages. There is also strong upside potential if critical reforms are achieved.

Executive Board Assessment

The Executive Directors welcomed The Gambia's ongoing economic recovery from the 2011 drought and commended the authorities for achieving robust growth and significant poverty reduction in recent years. However, Directors expressed concern that recent fiscal slippages and inconsistent policies have increased risks and vulnerabilities. A return to the path envisaged by the authorities' Programme for Accelerated Growth and Employment (PAGE) is needed to regain stability and foster inclusive growth.

Directors noted that recent exchange rate directives have disrupted the foreign exchange market, encouraged capital flight, and dampened remittances from abroad. They cautioned that a prolonged overvalued exchange rate would risk damaging The Gambia's international competitiveness. Directors therefore urged the authorities to maintain a flexible exchange rate policy, which has served The Gambia well, and to tighten monetary and fiscal policies to ensure stability and preserve adequate reserve levels.

Directors considered that undertaking the strong fiscal adjustment outlined in the PAGE would reduce domestic borrowing needs and the cost and risks of the heavy public debt burden. They commended the successful implementation of the VAT and the progress made in phasing out fuel subsidies. However, further tax reforms will be needed over the medium term to strengthen revenues and address costly tax expenditures, while improving international competitiveness. Directors encouraged the authorities to enhance the budget process, strengthen expenditure control, and rein in extra-budgetary expenditure. They welcomed recent progress in managing the government's external debt burden, and agreed that the authorities should continue to rely on grants or highly concessional financing to minimize exposure to external debt risks.

Directors called for a consistent implementation of monetary policy. They encouraged using market-based monetary policy tools rather than reserve requirements on deposits, noting that a gradual return to lower reserve requirements would help lower the high cost of financial intermediation. Directors considered that the banking system is well capitalized and liquid, and welcomed progress in areas of supervision, capacity building, and cross-border monitoring. However, still-high non-performing loans require vigilance, including through intensive supervision for individual banks as needed.

Directors noted that poor economic data remains an impediment to economic policymaking. They welcomed ongoing initiatives, together with development partners, to strengthen economic statistics, notably for the balance of payments, which will require adequate funding and staffing.

The Gambia: Selected Economic Indicators

	2010 Act.	2011 Act.	2012 Prel.	2013 Proj.	2014 Proj.	2015 Proj.	2016 Proj.	2017 Proj.	2018 Proj.
National account and prices	(Percent change; unless otherwise indicated)								
Nominal GDP (millions of dalasi)	26,662	26,465	29,108	32,886	37,659	42,015	46,459	51,379	56,842
Nominal GDP	11.1	-0.7	10.0	13.0	14.5	11.6	10.6	10.6	10.6
GDP at constant prices	6.5	-4.3	5.3	6.4	8.5	6.5	5.5	5.5	5.5
GDP per capita (US$)	558	508	497	478	486	511	534	558	584
GDP deflator	4.3	3.7	4.5	6.2	5.6	4.7	4.8	4.8	4.8
Consumer prices (average)	5.0	4.8	4.6	6.0	6.0	5.0	5.0	5.0	5.0
Consumer prices (end of period)	5.8	4.4	4.9	7.0	5.0	5.0	5.0	5.0	5.0
External sector									
Exports, f.o.b.	0.9	16.3	-8.8	9.5	8.9	7.6	7.5	8.1	8.3
Of which: domestic exports	1.2	34.7	-57.6	74.9	29.2	13.2	11.0	11.0	11.0
Imports, f.o.b.	5.3	7.1	8.7	-2.1	4.1	6.4	6.2	6.5	6.6
Terms of trade (deterioration -)	-1.4	1.8	3.7	3.9	3.5	2.7	2.0	1.8	2.7
NEER change (depreciation -)[1]	-1.2	-6.5	-7.1	...	...	...	...	...	...
REER (depreciation -)[1]	0.6	-5.7	-5.4	...	...	...	...	...	...
Money and credit	(Percent change; in beginning-of-year broad money)								
Broad money	13.7	11.0	7.8	7.0	13.1	12.6	11.6	11.6	11.6
Net foreign assets	1.3	5.6	2.3	3.6	5.8	6.4	7.0	7.0	5.8
Net domestic assets, of which:	12.3	5.4	5.5	3.4	7.3	6.2	4.6	4.6	5.8
Credit to the government (net)	16.8	8.2	6.1	3.8	0.8	0.8	0.8	0.8	0.8
Credit to the private sector (net)	4.7	2.8	1.3	2.6	6.5	5.5	4.3	4.3	4.3
Other items (net)	-10.1	-5.2	-1.7	-1.9	-0.1	-0.1	-0.1	-0.1	-0.1
Velocity (level)	2.0	1.8	1.8	1.9	2.0	1.9	1.9	1.9	1.9
Average treasury bill rate (in percent)[2]	11.3	10.0	10.4	...	...	...	...	...	...
Central government budget	(In percent of GDP; unless otherwise indicated)								
Domestic revenue (taxes and other revenues)	14.9	16.1	16.4	17.1	17.6	17.6	17.5	17.5	17.5
Grants	4.0	5.1	9.0	5.0	5.1	5.0	4.9	4.7	4.6
Total expenditures and net acquisition of financial assets	24.9	25.8	29.9	24.8	24.5	24.4	24.0	23.8	23.6
Net incurrence of liabilities	5.8	4.3	4.3	2.7	1.8	1.8	1.5	1.5	1.4
Foreign	1.5	0.8	1.1	0.9	1.3	1.3	1.0	1.0	1.0
Domestic	4.4	3.5	3.2	1.7	0.5	0.5	0.5	0.5	0.5
Basic balance	-3.3	-2.1	-2.1	-2.1	-1.3	-1.4	-1.4	-1.3	-1.9
Public debt	69.6	77.3	77.2	77.4	70.8	66.5	62.8	59.4	56.1
Domestic public debt	29.4	33.2	33.4	31.3	27.8	25.4	23.5	21.7	20.1
External public debt	40.2	44.1	43.8	46.1	43.0	41.1	39.3	37.6	36.0
External public debt (millions of US$)	377.6	386.2	375.8	384.2	396.5	409.6	421.0	433.2	445.1
External sector									
Current account balance									
Excluding budget support	-16.0	-15.5	-19.4	-16.9	-16.4	-16.0	-16.0	-15.9	-15.8
Including budget support	-16.0	-15.5	-17.0	-16.2	-15.6	-15.2	-15.3	-15.4	-15.3
Current account balance	(Millions of U.S. dollars; unless otherwise indicated)								
Excluding budget support	-154.3	-140.3	-175.9	-151.7	-153.5	-162.0	-173.8	-185.9	-198.6
Including budget support	-154.3	-140.3	-154.4	-145.1	-146.1	-154.4	-166.8	-179.5	-191.8
Overall balance of payments	-23.8	8.4	0.1	-5.6	15.8	17.8	24.5	26.2	29.4
Gross official reserves	157.6	169.7	183.8	181.9	199.3	216.0	233.9	252.0	272.8
in months of next year's imports of goods and services	4.4	4.4	4.8	4.5	4.7	4.8	4.9	4.9	5.0
Use of Fund resources	(Millions of SDRs)								
Disbursements	2.0	2.3	9.3	3.1	3.1	3.1	0.0	0.0	0.0
Repayments	0.0	0.0	-0.2	-0.6	-2.1	-3.8	-4.3	-5.2	-5.5
Financing gap (possible ECF financing)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Sources:: Gambian authorities and IMF 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.

Statement by Mr. Saho, Executive Director for The Gambia

September 11, 2013

Introduction

The impressive growth which characterized the economy of The Gambia in the past decade slowed down following the severe drought in 2011 and efforts are being made by the authorities to sustain macroeconomic stability and growth. In this regard, the country's economic policies and structural reforms are anchored on the Program for Accelerated Growth and Employment (PAGE). As we pointed out in our Buff statement of May 22, 2013, the PAGE focuses on improving infrastructure and human development, agriculture, energy and tourism. This is aimed at achieving the country's strategic objective of accelerating diversified economic growth, strengthening the resilience of the economy and reducing poverty. The attendant macroeconomic policy stance and structural reforms remain valid. Key challenges include enhancing revenue performance in the medium term, containing spending, reducing unemployment and addressing high rural poverty. In view of this, the authorities remain committed to ensuring sustainable and high growth in order to create employment and reduce poverty while maintaining macroeconomic stability and creating fiscal space for growth enhancing expenditures. The structural reform agenda is aimed at deepening the financial sector and improving the efficiency of public financial management. My authorities are in general agreement with the thrust of the staff report as it provides a candid assessment of recent economic developments and highlights the policy and structural challenges facing The Gambia.

Recent economic developments

The Gambian economy has performed well in recent years. Real GDP grew on average by a little over 6 percent per annum due to strong growth in the agriculture and services sectors. Despite the adverse effect of the drought in 2011, real GDP growth remained fairly robust at 5.3 percent in 2012 led by the rebound in agriculture and recovery in the tourism sector. However, headline inflation increased to 4.9 percent at end-2012 from 4.4 percent at the end of the preceding year. The up-tick in consumer price inflation is partly explained by the accommodating monetary policy of the central bank in the face of increasing government spending. Fiscal performance weakened in the last quarter of 2009 and in 2010 following increased spending to cushion the impact of rising global oil and food prices and the substantial shortfall in budget support from donors. As a result, the authorities implemented a mix of expenditure and revenue measures to correct the fiscal imbalance and public finances improved in 2011. However, as drought related spending increased in 2012 the budget deficit remained unchanged at the 2011 level of 4.5 percent of GDP.

On the external sector, the current account deficit narrowed from 16.0 percent of GDP in 2010 to 15.5 percent in 2011, reflecting improvements in the goods and services account. In 2012, the current account deficit widened to 17.0 percent of GDP due to imports for the 2011 drought relief and new projects. Gross international reserves in months of import cover rose to 4.8 months of imports of goods and services from 4.4 months in 2010 and 2011 respectively.

Medium-term outlook and polices

The primary policy objective of the Gambian authorities over the near and medium term is to maintain a stable macroeconomic environment to support strong and sustainable broad-based growth, increase employment and hasten poverty reduction. To this end, the maintenance of prudent fiscal and debt policies and consolidation of the recent gains in macroeconomic stability will remain at the top of the authorities' economic agenda. In view of this, real GDP is projected to grow by 6.4 percent and 8.5 percent in 2013 and 2014 respectively, before returning to trend growth in the outer years. Consumer price inflation stood at 5.9 percent in July 2013 and is projected to reach 7.0 percent at the end of the year. In the medium term, inflation is expected to be contained to not more than 5.0 percent as the central bank continues to implement tight monetary policy. The external current account deficit is forecast to narrow in 2013-14, reflecting improvement in the trade balance due to growth in exports. Gross international reserves in months of import cover are projected at 4.5 and 4.7 months of import cover in 2013 and 2014 respectively.

Fiscal policy

The overriding objective of the authorities' fiscal policy is to keep expenditure under control to reduce government's borrowing requirements and ease pressures on monetary policy. This will create the fiscal space needed to invest in infrastructure, agriculture and social services in order to stimulate economic growth and development. The authorities will also intensify reforms in public finance management to ensure improved fiscal discipline and strengthen budget procedures as well as enhance the quality of expenditure outcomes.

Furthermore, the Gambian authorities will build on recent gains in tax administration, especially for the large taxpayer unit and customs, and pursue further tax reforms. They intend to continue with broadening the tax base and simplifying the tax system. Efforts will also be made to rationalize tax exemptions and eventually conduct a cost-benefit analysis of the investment incentive's framework.

In response to the daunting challenges of the high demand for spending, the authorities will continue to strengthen the implementation of the cash budget system to eliminate nonstatutory. spending. At the same time, they are making progress towards implementing the medium-term expenditure framework. Other expenditure measures include the phasing out of fuel subsidies by end-2013 by applying monthly fuel price increases and restricting extrabudgetary expenditures. It is hoped that the fiscal adjustment embarked upon will improve public finances, keep the overall fiscal spending within budget limits and reduce dependence on borrowing and grants.

Monetary and exchange rate policies

The focus of the authorities' monetary policy will continue to be on containing inflation at not more than 5 percent and maintaining exchange rate stability. To this end, the Central Bank of The Gambia (CBG) will tighten monetary policy and rely on open market operations to manage domestic liquidity. The monetary policy stance will be supported by fiscal consolidation and reduced access by government to direct credit from the CBG. These policy adjustments, together with sufficient stock of foreign reserves, should help counter recent depreciation pressures and contain inflation. To enhance the potency of monetary policy instruments in sterilizing domestic liquidity and deepening of the inter-bank market, the CBG plans to introduce the repurchase facility (repos) before the end of 2013. In this regard, the CBG is currently working on the modalities of conducting repos following the "go-live" ofthe electronic security management system in April 2013. Also, the CBG may use the repo rate as the policy rate to replace the rediscount rate once the repo is tested and liquidity well anchored. The CBG will rely less on the reserve requirement as a primary instrument of liquidity management, consistent with staff recommendations.

The CBG will continue to maintain a floating exchange rate policy, intervening only to safeguard orderly market conditions. Whenever necessary, the CBG may purchase foreign exchange from the domestic interbank market to meet its gross international reserves requirement. Despite recent administrative orders relating to the exchange rate of the local currency which aims to bring orderliness in the market, the CBG continues to manage and implement foreign exchange and monetary policy in line with its mandate.

Financial sector policy

My authorities have increased the minimum capital requirement of banks twice in December 2010 and December 2012 to ensure that the banking system remains sound, solvent and stable. As a result, the banking industry remains sound and satisfactorily capitalized to absorb shocks. The risk-weighted capital adequacy ratio remains well above the statutory requirements.

The authorities' financial sector policy continues to focus on enhancing the regulatory and supervisory framework of the banking system, with the aim of reducing the cost of financial intermediation. In this regard, the CBG will continue to strengthen the capacity of its financial Supervision Department both through maintaining adequate staffing levels and training. In addition, to address the problem of delinquent credit facilities and improve the credit environment, a more robust credit reference application system has been installed and the system became operational in July 2013. Moreover, a Bill for an Act to make provision for the creation of security interests over moveable assets, the establishment of a Security Interests on Moveable Assets (Collateral) Registry is expected to be considered by the National Assembly at its September 2013 sitting. Finally, the new electronic data submission and off-site supervision system (V-RegCoSS) was completed.

Debt management policy

The Gambian authorities are dedicated to strengthening both external and domestic debt management in order to avoid a dept trap. To this end, they are fully committed to creating an enabling environment to attract the flow of non-debt creating foreign direct investment and exploring productive opportunities for public private partnerships while limiting foreign financing to concessional loans and grants. The authorities will continue to strengthen debt management capacity at the national level, particularly at the Ministry of Finance, in order to enhance the recording and management of public debt statistics, reviewing loan documents, and assessing the concessionality levels of new loans.

Conclusion

The Gambian authorities are firmly committed to the continued pursuance of prudent fiscal and monetary policies, sustained debt management practices and the deepening of structural reforms to attain stable growth, expand job opportunities and hasten poverty reduction. They appreciate the support they continue to receive from the IMF and the international community and hope they can count on the continuation of such support to alleviate the capacity and financial constraints that they face in pursuit of their macroeconomic policy objectives.