March 2010
IMF Country Report No.10/61

The Gambia—Sixth Review Under the Arrangement Under the Extended Credit Facility and Request for Extension and Augmentation of the Arrangement, and Waiver of Nonobservance of Performance Criterion—Staff Report; Staff Supplement; Press Release; Statement by the Alternate Executive Director for The Gambia

In the context of the Sixth Review Under the Arrangement Under the Extended Credit Facility and Request for Extension and Augmentation of the Arrangement, and Waiver of Nonobservance of Performance Criterion, the following documents have been released and are included in this package:

- The staff report for the Sixth Review Under the Arrangement Under the Extended Credit Facility and Request for Extension and Augmentation of the Arrangement, and Waiver of Nonobservance of Performance Criterion, prepared by a staff team of the IMF, following discussions that ended on December 16, 2009 with the Gambian officials on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on January 22, 2010. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- A Debt Sustainability Analysis
- A Press Release summarizing the views of the Executive Board as expressed during its February 19, 2010 discussion of the staff report that completed the review and request.
- A statement by the Executive Director for The Gambia.

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

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

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

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THE GAMBIA

Sixth Review Under the Arrangement Under the Extended Credit Facility and Request for Extension and Augmentation of the Arrangement , and Waiver of Nonobservance of Performance Criterion

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

Approved by Roger Nord and Dominique Desruelle

January 21, 2010

Discussions: The discussions were held in Banjul October 23 to November 5, 2009, and concluded with a series of video conferences November 25 to December 16. The staff team comprised Mr. Dunn (head), Mr. Dwight, Mr. Reinke (all AFR), Mr. Obiora (SPR), and Mr. Tereanu (FIN). Mr. Nord (AFR) and Mr. Tjirongo (resident representative designate) joined the mission on November 1, 2009. The team met Minister of Finance and Economic Affairs Abdou Kolley, Central Bank Governor Momodou Mamba Saho, other senior officials, and representatives of commercial banks, the business community, nongovernmental organizations, and The Gambia's development partners.

ECF arrangement: The current three-year Extended Credit Facility (ECF) arrangement was approved in February 2007 in the amount of SDR 14.0 million (45 percent of quota). Access was augmented by SDR 6.2 million (20 percent of quota) with two equal disbursements at the completion of the fourth and fifth reviews in February and August 2009, respectively. The fifth review was completed on a lapse-of-time basis. The authorities are requesting the seventh disbursement (SDR 2.0 million) and an extension of the arrangement for one year with augmentation (15 percent of quota) in two equal disbursements at the completion of the seventh and eighth reviews expected in July 2010 and January 2011, respectively.

EXECUTIVE SUMMARY

Performance during the last three years under the ECF arrangement has been broadly satisfactory. Sound macroeconomic policies have contributed to robust GDP growth and low inflation. From 2006 to 2008, real GDP growth averaged 6.3 percent a year while annual inflation remained below 7 percent. A satisfactory performance under the ECF enabled The Gambia to reach the Heavily Indebted Poor Country Initiative (HIPC) completion point in December 2007, at which time the country received extensive debt relief including from the Multilateral Debt Relief Initiative (MDRI).

Despite the global crisis, the Gambian economy held up relatively well in 2009. Real GDP growth is estimated to have fallen only modestly (to 4½ percent) and inflation remained low. Sharp drops in tourism and remittances were cushioned by strong agricultural output. With supportive macroeconomic policies, the economic outlook over the medium term is generally positive. Risks include a possible prolonged downturn in tourism and remittances, fiscal shocks and poor budget execution, shortfalls in donor assistance and other external financial flows, and large external current account deficits.

Fiscal discipline slipped in 2009, relative to initial budget objectives. Large overruns in expenditures, mostly during the second quarter, led to unanticipated domestic borrowing and additional pressure on T-bill yields. Corrective action focused on the 2010 budget, which aims for a near-zero basic balance and a slight reduction in domestic debt. Over time, less domestic borrowing and lower T-bill yields would create substantial fiscal space.

Monetary policy will continue to focus on maintaining low inflation. Still, there is scope to ease pressure on interest rates by relying more on central bank sales of foreign exchange—rather than T-bills—to mop up liquidity generated by donor-financed government spending.

The Debt Sustainability Analysis (DSA) Update shows that The Gambia remains at high risk of debt distress. Key external debt indicators are above or near the sustainability thresholds for a protracted period. Moreover, high yields on government securities have exacerbated the domestic debt burden. The authorities are making significant progress in building capacity to manage debt and to develop a meaningful medium-term debt strategy.

Recent performance under the ECF-supported program continued to be broadly satisfactory. All quantitative performance criteria for end-September 2009 were achieved, except for the fiscal target, and there was good progress on the structural agenda. Staff recommends approval of the authorities' request for a waiver for the nonobservance of the fiscal performance criterion based on corrective actions, notably the government budget for 2010 approved by the National Assembly with a near-zero basic balance. **Staff recommends the completion of the sixth review and the seventh disbursement (SDR 2.00 million) under the ECF arrangement.**

Staff recommends approval of the authorities' request for a one-year extension and augmentation (15 percent of quota; SDR 4.66 million) of the ECF arrangement. The extension will provide time to consolidate the achievements of the past three years while allowing the authorities to build a consensus for a new program. The augmentation would help guard against risks arising from a large external current account deficit and fluctuating financial flows.

I. Background—Progress Toward Sustained Macroeconomic Stability

1. **The Gambia maintained robust economic growth and low inflation in recent years (Figures 1 and 2 and Tables 1–7).** From 2006 to 2008, real GDP growth averaged 6.3 percent a year while annual inflation remained below 7 percent. Sound macroeconomic policies under the current three-year ECF arrangement and previous staff monitored program contributed to this strong performance—a marked turnaround from the economic volatility experienced earlier in the decade. Macroeconomic stability, however, remained vulnerable, partly because of large external current account deficits (16 percent of GDP in 2008, including official transfers). The Gambian dalasi weakened sharply against the U.S. dollar in late 2008, prompting the Central Bank of The Gambia (CBG) to intervene heavily. In real effective terms, however, the dalasi appreciated. At end-2008, gross international reserves stood at US$113 million (or 3.7 months of imports).

2. **In December 2007, The Gambia reached the completion point for the (HIPC) Initiative, which together with the (MDRI), provided extensive relief on external debt.** Although the external debt situation was much improved, The Gambia remained at high risk of debt distress; a result of additional borrowing since the HIPC decision point in 2001, which was not eligible for relief, weak capacity for debt management and policy implementation, and poor export performance.[1] In particular, The Gambia's competitive advantage in the re-export trade eroded significantly due to tariff harmonization across countries in the region Economic Community of West African States (ECOWAS) and improvements in port facilities in neighboring Senegal. Fiscal discipline reduced Government's domestic debt relative to GDP during 2006–08 (to about 25 percent of GDP at end-2008), generating significant savings on interest payments. Still, domestic interest payments were burdensome (just over 3 percent of GDP in 2008).

II. Recent Economic Developments—Withstanding the Global Economic Crisis

3. **Despite negative effects of the global crisis, the Gambian economy held up well in 2009.** Real GDP growth is estimated to have fallen to 4.6 percent, a significant decline from recent years but a better outturn than previously projected.[2] Sharp drops in tourism and remittances (down by about 10 percent and 20 percent, respectively), the latter of which is a key source of financing for residential construction, were counterbalanced by strong agricultural output, due to favorable weather and initial success in the government's program to expand rice production. The 12-month inflation rate peaked at 7.0 percent in February, before dropping to 2½ percent toward the end of the year. A good harvest season, combined

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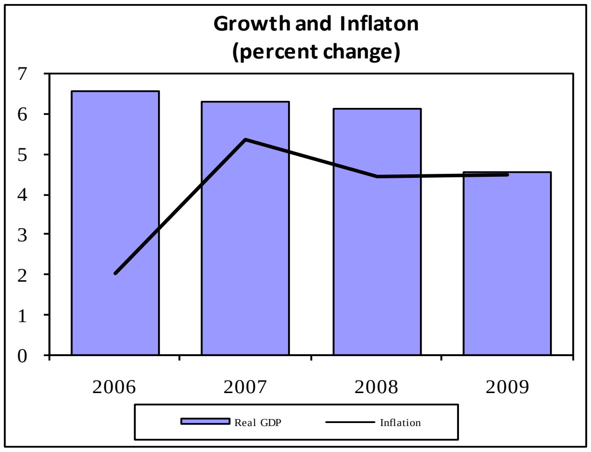
[1] See IMF Country Report No. 08/109.

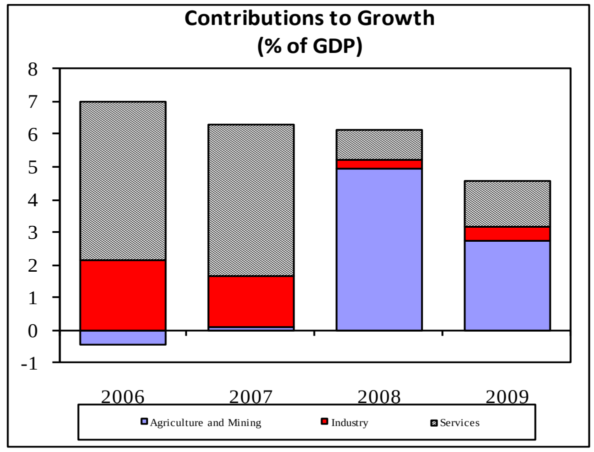
[2] At the time of the fifth ECF review, real GDP growth was projected to be 3.6 percent in 2009. See IMF Country Report No. 09/268.

Figure 1. The Gambia: Recent Economic Developments

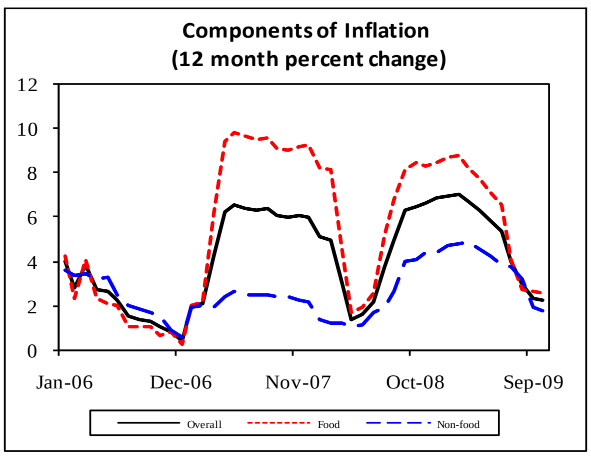
Economic growth held up well in 2009, despite the global crisis.



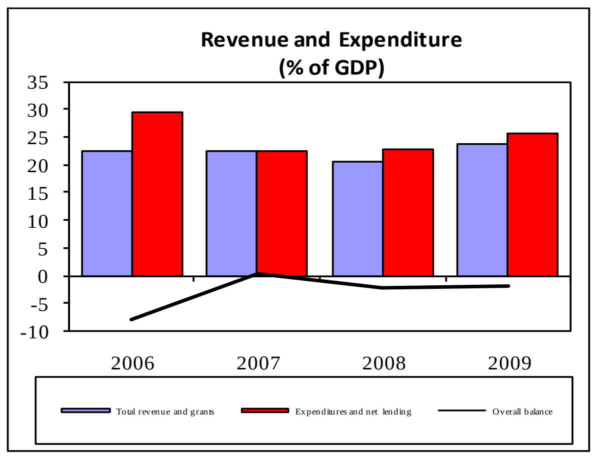
Agriculture was the main driver of growth during 2008 and 2009.



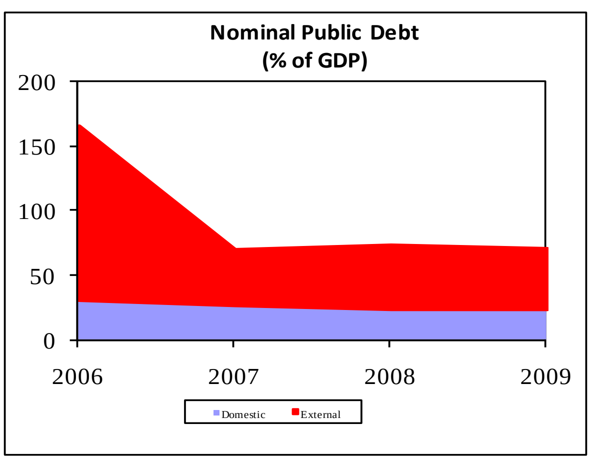
Inflation subsided in recent months, but has been volatile.



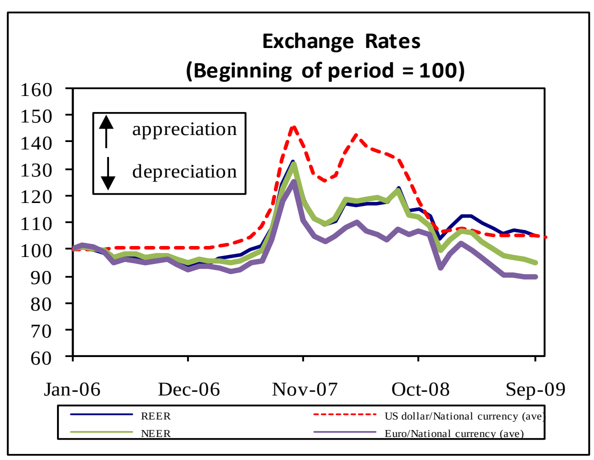
During 2009, budget overruns occured ...



... setting back effort to reduce domestic debt.



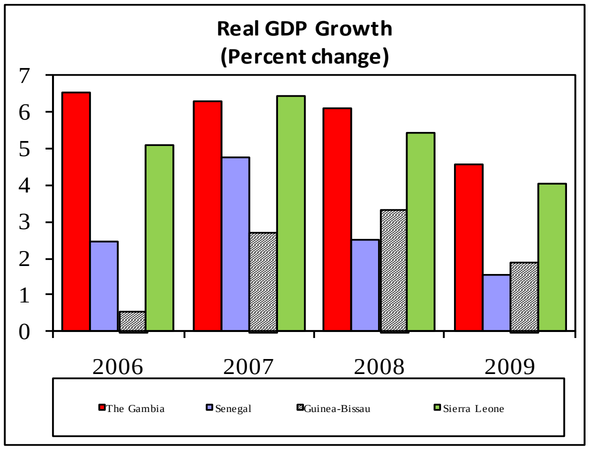
During 2008 and 2009, inflation differentials caused a real appreciation of the exchange rate.



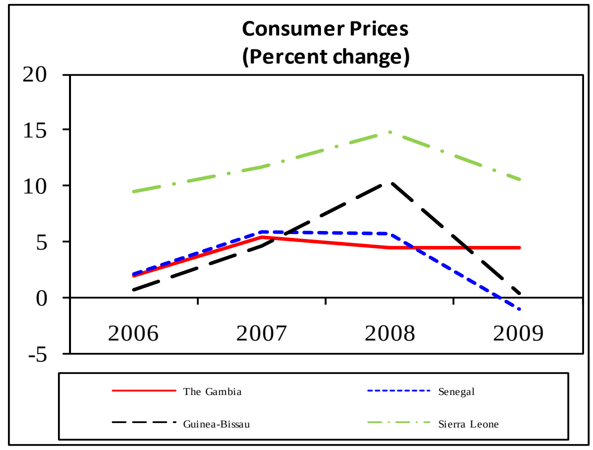
Sources: Gambian authorities; and Fund staff estimates and projections.

Figure 2. The Gambia: Cross Country Comparison

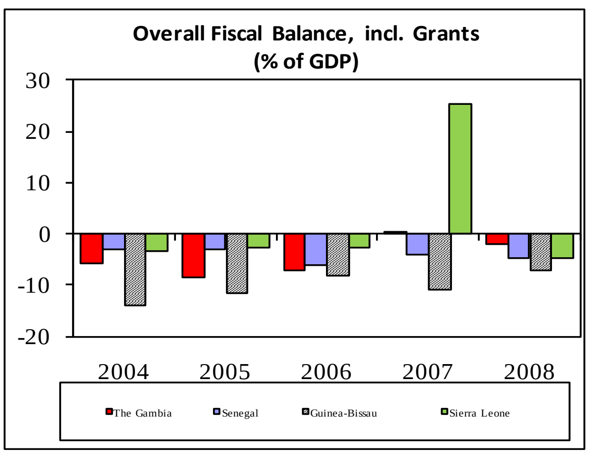
The Gambia maintained comparatively high growth rates during the global crisis ...



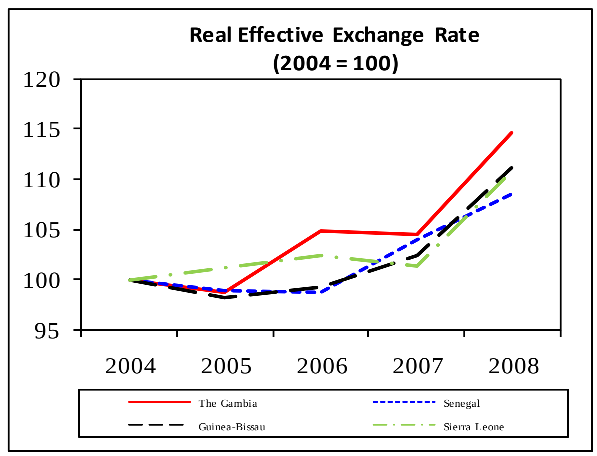
... as well as relatively low inflation .



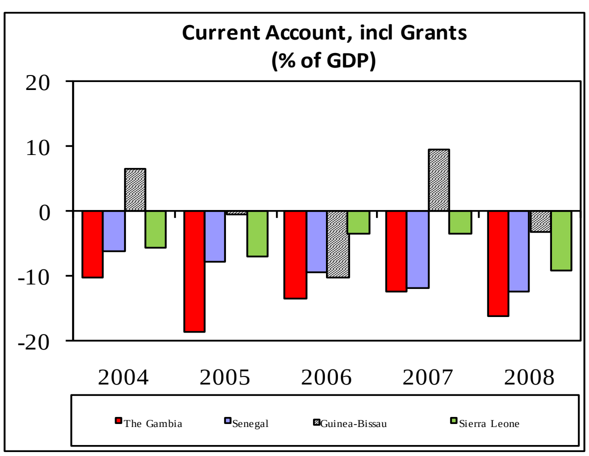
The fiscal deficit has recently been lower, partly reflecting a low level of grants received ...



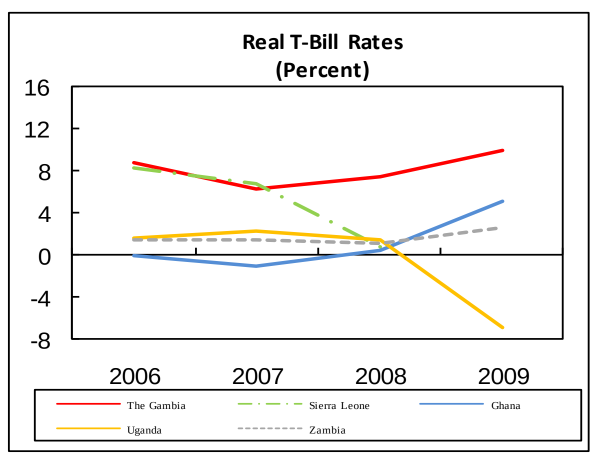
... and Gambia led the trend towards real appreciation.



In regional comparison, The Gambia has the largest current account deficit.



Comparable countries have lower domestic debt costs.

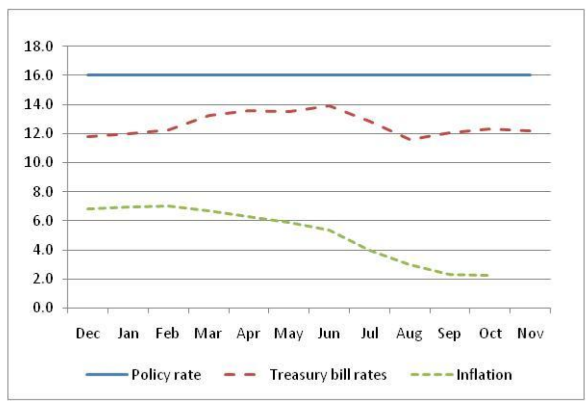


Sources: Gambian authorities; and Fund staff estimates and projections.

with lower global food prices and a small decline in regulated fuel prices, helped to drive down inflation. In addition, the CBG implemented a relatively tight monetary policy.

4. **Fiscal discipline slipped in 2009, relative to initial budget objectives.** Large overruns in government spending, mostly during the second quarter,[3] led to unanticipated domestic borrowing and additional pressure on T-bill yields. Budget execution improved somewhat later in the year. However, mainly due to the obligatory re-purchase of equity in the previously privatized telecommunications company (GAMTEL) (0.6 percent of GDP),[4] and to a lesser extent to the infrastructure spending in the Gambia Radio and Television Service (GRTS) (0.2 percent of GDP), additional overruns emerged in Q4. For the year as a whole, although revenue increased to 20.4 percent of GDP from 19.2 percent of GDP in 2008, the deficit in the basic balance (overall fiscal balance excluding grants and foreign-financed capital spending) widened from 0.8 percent of GDP in 2008 to 1.6 percent of GDP in 2009. A recovery in petroleum taxes—determined by the margin between regulated pump prices and world oil prices—drove the positive outturn for revenues. Expenditures reached 25.7 percent of GDP, up 3 percentage points from 2008, arising from sharply higher capital spending (domestically financed) and overruns on wages and allowances, which exceeded the original budget by about 2 percent and ½ percent of GDP, respectively. Foreign-financed capital spending, however, fell well short of budget projections.[5]

5. **Monetary policy focused on reversing the rise in inflation in early 2009.** The CBG held the rediscount rate at 16 percent throughout the year to signal a tight policy stance, while limiting reserve money growth to 8.5 percent in the first eleven months of 2009. Broad money and credit to the private sector expanded by 11 percent and 12 percent, respectively, during the first ten months of the year. The opening of several new banks has allowed for additional financing of both the public and private sectors



[3] A supplementary budget covering these expenditures (1.6 percent of GDP) was passed ex-post in September. Allocations were made across several ministries, most prominently: Works, Construction and Infrastructure, Interior, and Defense. Among the largest expenditure items identified are investment in schools and roads, maintenance of buildings and vehicles, and relocation of embassy staff.

[4] Following a dispute over contractual obligations of the investor, government reversed the privatization of GAMTEL and was obliged to re-purchase the equity. Government plans to re-privatize GAMTEL in 2010 to a strategic investor with a valid long-term plan.

[5] The government did not provide resources to implement these projects.

from an increased capital base.[6] The entry of new banks has boosted competition, but raised concerns about the sustainability of a crowded banking sector.

6. **The current account deficit excluding official transfers widened slightly relative to GDP, mainly reflecting the sharp fall in remittances.** Increased budget support grants (US$13 million) and financial flows into the banking sector contributed to financing the current account deficit and building up international reserves in 2009.[7] In addition, the SDR allocation (US$39 million) and ECF disbursements (US$16 million) bolstered international reserves substantially. By end-2009, gross international reserves stood at a comfortable 6½ months of imports. Meanwhile, the dalasi was quite stable against the U.S. dollar throughout the year, trading within a tight range of GMD 26-27 per U.S. dollar with only minimal interventions by the CBG. In real effective terms, the dalasi appreciated by 2½ percent during the first ten months of 2009.

III. Recent Performance Under the ECF Program—Broadly Satisfactory

7. **The authorities met all quantitative performance criteria for end-September 2009, except the fiscal measure (MEFP ¶3 and Table 1).** The net domestic assets of the central bank were well below the ceiling and net useable international reserves exceeded the floor by a comfortable margin (US$11.5 million). The floor for the basic balance, however, was missed by a wide margin of GMD 353.4 million (equivalent to 1.6 percent of GDP). As a corrective action, the 2010 budget approved by the National Assembly in December 2009 has a near-zero floor on the basic balance (-0.1 percent of GDP), which would allow for a reduction in domestic debt to just under 23 percent of GDP by end-2010.

8. **All structural benchmarks through December 2009 have also been implemented, except for a delay in submitting audited government accounts (MEFP ¶9 and Table 2).** An initial medium-term debt management strategy paper was completed in September and submitted to Cabinet in November. Balance of payments statistics for the second quarter were published, with a slight delay, in October. The audited government accounts for 2005 and 2006 were submitted to the National Assembly in March 2009. Because of an ongoing effort to remove qualifications for past accounting discrepancies dating back to 1991, the audit of the 2007 accounts has been delayed. It is expected that they will be submitted to the National Assembly by June 2010.

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[6] Four banks opened in 2008, two in 2009, and there are two more pending, bringing the total number of banks to fifteen.

[7] Beginning in 2009, the African Development Bank, World Bank, and European Union have coordinated to provide budget support. The AfDB and WB disbursed all their available resources up front in 2009, while the EU is expected to continue the support with disbursements totaling €25 million over the next three years.

IV. POLICY DISCUSSIONS

9. **Discussions focused on the government budget for 2010, monetary and exchange rate policy, the influx of new banks, medium- and long-term public debt issues, and needed improvements to economic statistics.** In addition to designing a macroeconomic policy framework that would preserve stability and support strong growth and poverty reduction, discussions sought to identify steps to ease pressure on T-bill yields with a view toward creating fiscal space for non-interest priority spending.

A. Medium-Term Macroeconomic Framework

10. **The Gambian economy is projected to return shortly to a medium-term path with robust growth, while maintaining single-digit inflation—roughly in line with previous projections and recent pre-crisis trends (Text Table and Figure 3).** The authorities agreed that a gradual trend toward modest fiscal surpluses would be the key to reducing the debt burden and generating savings on domestic interest payments in particular. The projections are based on a steady recovery from the global crisis and normal weather conditions for agriculture. The supporting policy framework refrains from a further buildup of international reserves over the next few years.

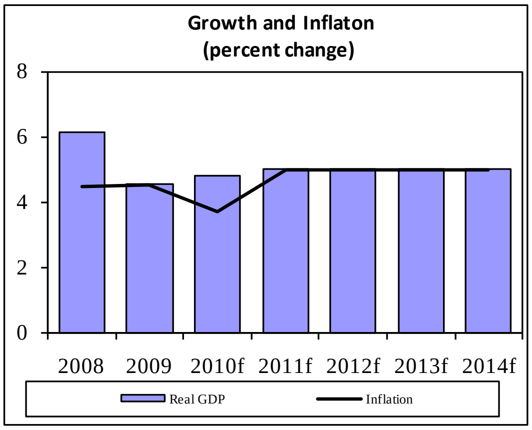
The Gambia: Framework Assumptions

	2009 Est.	2010 Proj.	2011 Proj.	2012 Proj.	2013 Proj.	2014 Proj.
			(percent change)			
Real GDP growth	4.6	4.8	5.0	5.0	5.0	5.0
Consumer prices (average)	4.5	3.7	5.0	5.0	5.0	5.0
Consumer prices (end of period)	2.4	5.0	5.0	5.0	5.0	5.0
			(percent of GDP)			
Fiscal basic balance	-1.6	-0.1	1.0	1.7	2.4	2.6
Overall fiscal balance	-1.9	-1.4	-0.8	-0.2	0.4	0.8
Government domestic revenue	20.4	20.5	21.0	21.4	21.9	22.0
Government expenditure	25.7	26.9	26.5	26.1	25.7	25.3
Gross interest bearing domestic debt	25.0	22.7	19.4	15.9	12.4	8.9
Current account balance	-14.6	-14.3	-13.5	-12.6	-11.6	-11.2
Grants (program and project)	3.4	4.9	4.8	4.4	4.2	4.2
External debt	45.0	42.6	41.1	40.5	39.6	38.6
Gross international reserves (USD)	178.2	178.2	178.2	178.2	178.2	183.7
Gross international reserves (months of imports)	6.4	6.0	5.6	5.3	5.0	5.0

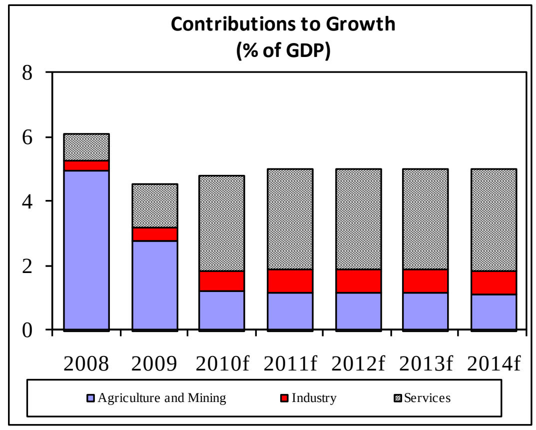
Source: Fund staff estimates and projections.

Figure 3. The Gambia: Medium Term Outlook

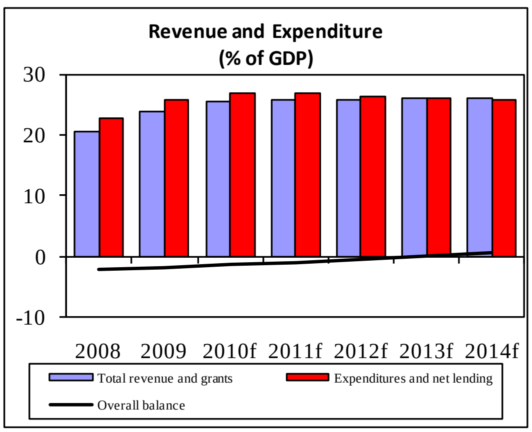
Growth and inflation will return to the long-term trend ...



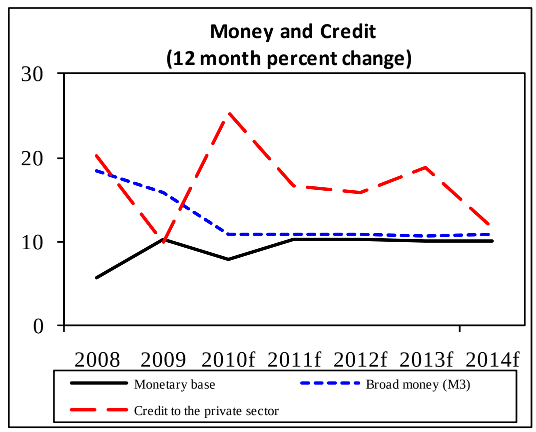
... and after recovery, services will again contribute most to growth.



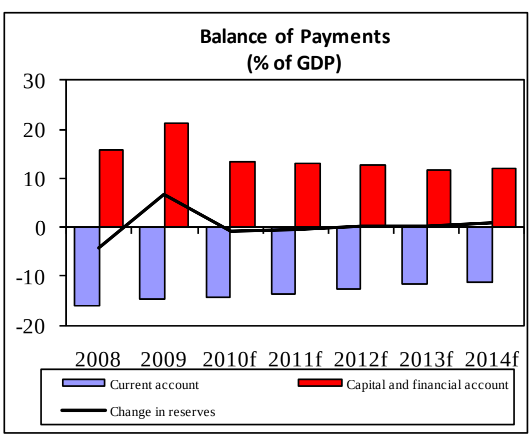
The fiscal balance will improve as expenditure on domestic debt interest declines.



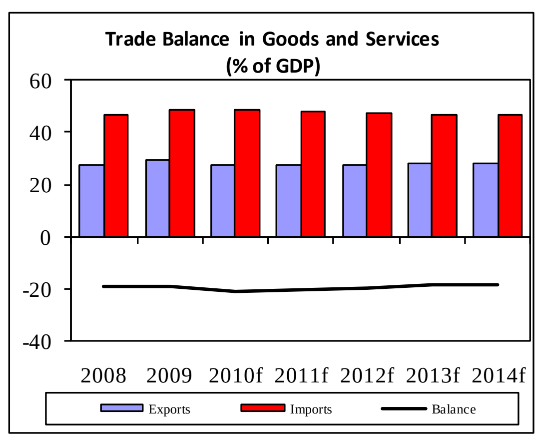
Credit to the private sector is the main beneficiary of monetary stability.



Capital inflows decline because investment in the banking sector slows down.



The current account deficit reflects the import dependence of The Gambia.



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

B. Fiscal Policy

11. **The government budget for 2010 aims to deliver a small reduction in outstanding domestic debt as a first step toward realizing significant savings from lower interest payments on domestic debt** (Figure 4 and MEFP, ¶ 12 and 13). Discussions focused on targeting a near-zero basic balance. As a result, new revenue measures, which are expected to yield GMD 110 million (0.5 percent of GDP), were introduced to counteract the revenue loss from petroleum taxes and from lowering the corporate tax rate. Furthermore, government trimmed proposals for non-core spending, including the investment project for GRTS.

Government Expenditure on Wages and Salaries

	2008 Act.	2009 Est.	2010 Proj.	2011 Proj.
	(percent of GDP)			
Gambia, The	5.4	5.7	7.0	7.5
Botswana	8.0	10.9	10.4	9.9
Lesotho	14.1	15.6	15.2	14.7
Mauritius	5.1	6.4	6.4	5.9
Ghana	11.3	11.8	11.7	9.8
Mali	4.8	5.2	5.1	5.1
Senegal	5.8	6.4	6.0	6.0
Zambia	8.1	8.3	8.2	7.8
Sub-Saharan Africa	7.8	8.8	8.8	8.3

Source: IMF databases and Fund staff estimates and projections.

12. **In line with the ongoing civil service reform, which is designed to attract and retain skilled staff, the government's wage bill is budgeted to increase by 35 percent in 2010.** The increase – originally planned for 2009, but delayed by a year due to budgetary constraints – is part of a comprehensive civil service reform strategy prepared with World Bank support.[8] The wage bill is expected to increase further by 19 percent in 2011, the final year of the reform. The Gambia started the reform process with a comparatively low government wage bill and, even after the reform process, the wage bill and employment levels remain below the regional average (Text Table).

[8] Background on the civil service reform project was presented in the Staff Report and MEFP prepared for the second review of the current ECF arrangement. The World Bank report on "The Gambia: Improving Civil Service Performance" (report No. 51655-GM, November 2009) notes that "[a]n increase in salaries is a top priority, both to provide a living wage for those at the bottom of the salary scale and to make it easier to retain and motivate professional staff" (p. 55).

13. **Tax reform is key for creating a more business enabling environment in The Gambia, while consolidating the revenue base.** Revenue measures for 2010 take a modest step in this direction, notably reducing the corporate income tax rate from 35 percent to 33 percent, while increasing selected indirect taxes and fees (MEFP ¶14).[9] However, given the severity of the situation, a more comprehensive tax reform is needed.[10] In line with recommendations from the Fund's mission on tax policy (March 2009), the government is considering moving toward a simpler tax system with relatively low tax rates, limited exemptions, and greater reliance on consumption taxes over the medium term. The mission also encouraged the authorities to convert the petroleum tax to an excise tax in order to reduce the volatility of collections from this import source of revenue, but they continued to oppose such a measure at this time. The authorities are keen to address issues on tax administration, including strengthening taxpayer services and enforcement of taxpayers' rights (MEFP, ¶15).

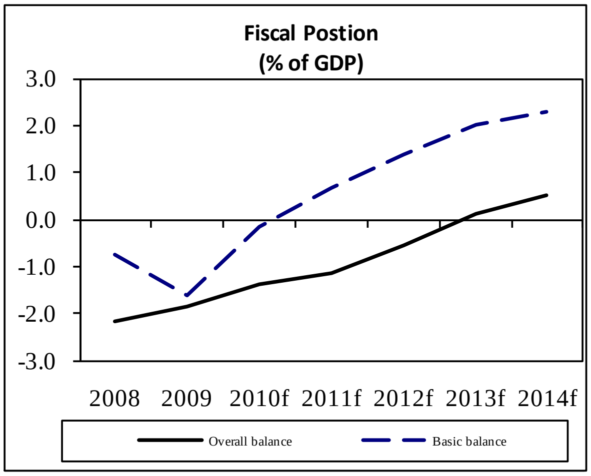
14. **Disciplined execution of the budget will be key to the success of the program and lower interest rates in 2010.** In the near term, budget discipline relies on political will. Over the medium term, building greater institutional capacity in public financial management (PFM) would increase the effectiveness of the budget process and budget execution. With support from the EU and other development partners, the authorities intend to make rapid progress with the implementation of the PFM reform action plan, which was submitted to cabinet in December 2009. In addition, the Office of the Auditor General is working closely with the Ministry for Finance and Economic Affairs (MOFEA) to submit the annual audited government accounts to the National Assembly in a more timely manner. The MoFEA will also establish an internal audit office by June 2010 (structural benchmark).

[9] The alternative tax assessed on turnover may undermine the effect of the lower corporate income tax.

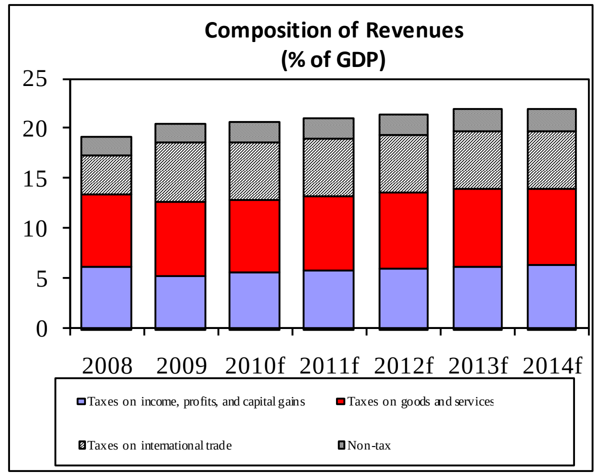
[10] The tax environment in The Gambia ranks among the worst worldwide (177 out of 183 countries in the World Bank's *Doing Business Index*).

Figure 4. The Gambia: Fiscal Outlook

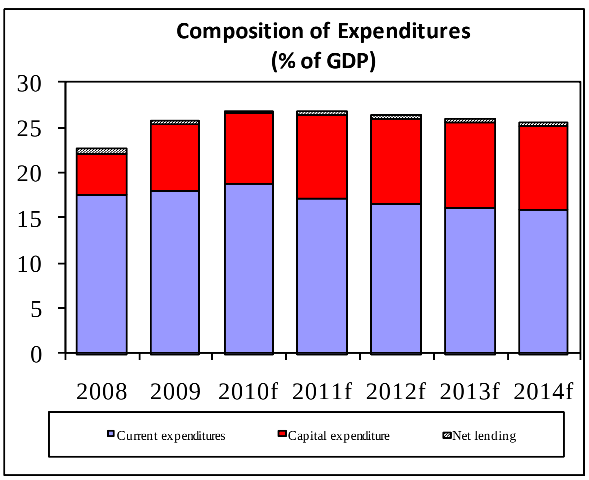
Reducing net borrowing in 2010 should start a medium-term fiscal improvement ...



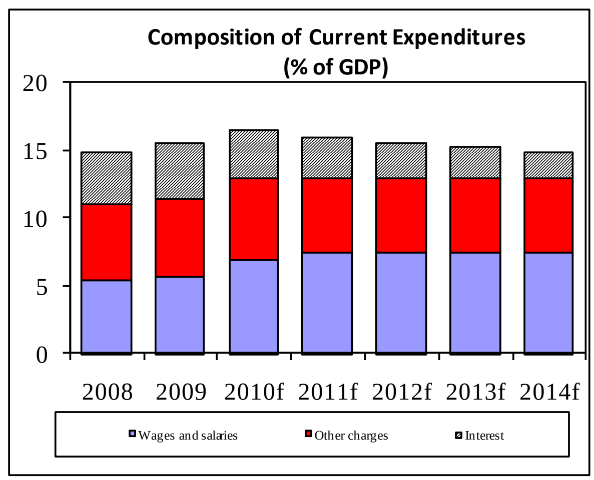
... while tax refom should broaden the tax base from 2011 onwards.



Greater capital spending from 2011 is the result of larger fiscal space ...



... generated from declining expenditure on interest.



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

C. Monetary and Exchange Rate Policies

15. **The CBG will maintain a sufficiently tight monetary policy to keep inflation at around 5 percent, but nonetheless may be able to ease pressure on T-bill yields and interest rates more broadly.** The comfortable level of international reserves, achieved largely by the SDR allocation, strengthens the CBG's position to rely more on foreign exchange sales to sterilize the liquidity injections from donor-financed government spending—a policy more in line with a "spend and absorb" approach to donor assistance (MEFP ¶16 and 20).

16. **The CBG will continue to focus on reserve money as its operational target to help contain broad money growth and inflation.** Improving liquidity forecasting, including the establishment of an interagency committee to share timely information on fiscal operations (structural benchmark), would facilitate achieving monetary targets and bring greater stability and predictability to the local money market. This too could help ease pressure on interest rates.

17. **Over the medium term, the CBG will explore measures to increase competition in the T-bill market, which would also lower yields.** For example, reducing the frequency of T-bill auctions would raise the opportunity cost of unsuccessful bids. Before undertaking such measures, the CBG would need to develop additional liquidity management instruments, such as very short-term REPOs.

18. **The CBG will continue to implement a floating exchange rate policy, limiting interventions to smooth market volatility** (MEFP ¶22). Given an ample stock of international reserves, the CBG does not intend to further build up reserves. In this context, sales of foreign exchange for sterilization purposes would need to be highly systematic and predictable to minimize their influence on the exchange rate. For this, and other operational issues regarding liquidity management, the CBG requested technical assistance from the Fund.

19. **Central bank independence is key to sound monetary policy.** Staff urged the authorities to strengthen the CBG's independence by observing the statutory limit on government overdrafts (MEFP, ¶23). In November 2009, government overdrafts stood at 25 percent of the previous year's tax revenues, well above the statutory limit of 10 percent.[11] Some technical measures could reduce the stock of overdrafts, as the government has substantial deposits in other accounts. However, to be effective, a one-time transfer of deposits to achieve compliance must be backed up by fiscal discipline that reduces government borrowing requirements.

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[11] A temporary 20 percent limit was established in an MOU between the government and CBG, but this too was exceeded.

D. Banking Sector Issues

20. **The CBG is taking steps to boost supervisory capacity following the entry of several new commercial banks**. Over the past two years, the number of banks has nearly doubled. Most of the new banks are subsidiaries of Nigerian institutions that are seeking to expand their regional networks. Bank executives indicated that competition for staff, deposits, and loans has increased significantly and the return on equity has dropped (from 4.8 percent in 2008 to 3.4 percent for the first nine months of 2009). Nonetheless, the banks are well capitalized. The ratio of tier I capital to risk weighted assets stood at 21.5 percent in the third quarter of 2009. While non-performing loans stood at 11.5 percent, this is similar to last year's level, and they are fully covered by loan-loss provisions. Staff welcomed the CBG efforts to ensure a sound banking system, particularly the hiring of new banking supervision staff and the increase in capital requirements from D60 million in 2009 to D150 million at end-2010 and D200 million at end-2012 (MEFP, ¶21).

E. Debt Management and Sustainability

21. **As described in the joint Debt Sustainability Analysis (DSA) Update by Bank and Fund staffs, The Gambia's external debt position has deteriorated slightly since the HIPC completion point, and the country remains at high risk of debt distress.**[12] Substantial new external borrowing in 2008 and a stagnant export base have increased the already high external debt-to-exports ratio (Figure 5). Given current borrowing plans, the present value (PV) of external debt-to-export ratio is projected to breach the relevant vulnerability threshold of 100 percent—for a "weak performer" under the World Bank/IMF Low-Income Country Debt Sustainability Framework (LIC-DSF)—for a protracted period. Moreover, standard stress tests show that The Gambia is vulnerable to adverse developments with the PV of debt to exports and debt to GDP breaching their thresholds under some stress tests. Progress in reducing The Gambia's domestic debt burden stalled in 2009, due to the large financing needs created by the expenditure overruns. Interest on domestic debt consumed nearly 16 percent of government revenues in 2009.

22. **The authorities are addressing The Gambia's debt problem from various angles.** In addition to making a strong effort to reduce domestic debt and to lower the interest on that debt, they agreed to restrict new external borrowing to sources that provide a generous grant element (45 percent or more). At the same time, the authorities are building their capacity to manage debt, including through the hiring of expert advisers. The external debt data base has been greatly improved, enabling more accurate analysis of debt sustainability, and an initial medium-term debt strategy has been developed (Box 1). Moreover, significant advances in the areas of PFM reform and the auditing of government accounts also contribute to the

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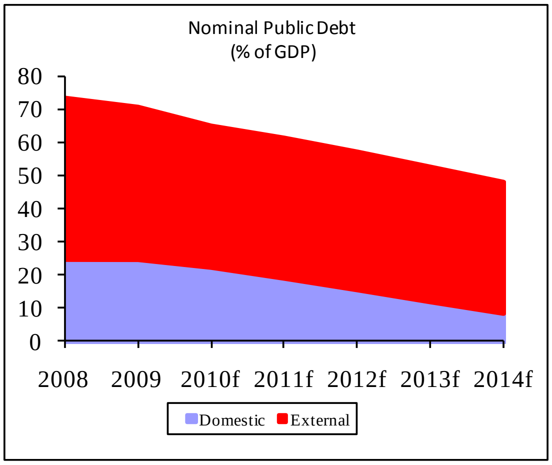
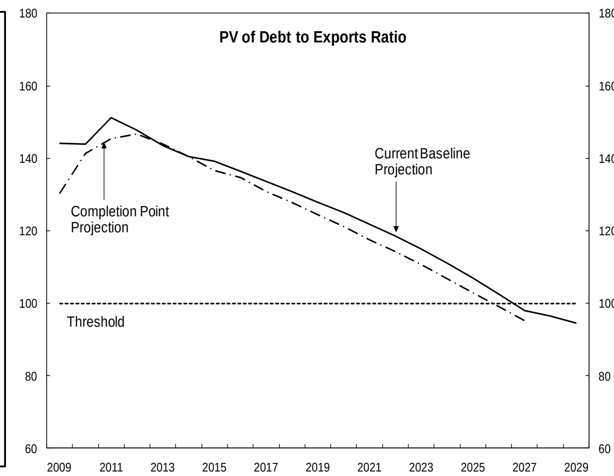
[12] New borrowing was contracted on less concessional terms than anticipated at decision point. Since completion point, however, all external borrowing has been contracted in line with the 45 percent grant element agreed under the ECF arrangement (see DSA Update).

Figure 5. The Gambia: Debt Management and Sustainability





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

Box 1. Progress Toward a Medium-Term Debt Strategy

To better manage the government's heavy debt burden, the Gambian authorities completed the preparation of a medium-term debt strategy (MTDS) in September 2009 (structural benchmark). The MTDS covers the period 2010–12 and marks an initial effort to explicitly weigh the costs and risks of five alternative debt financing scenarios under four stress tests.

Despite much higher real interest rates on domestic debt, the MTDS concludes that the lower risk of domestic debt versus external debt is worth the higher cost. The authorities agreed with the mission, however, that these conclusions were largely the result of biased assumptions. First, a hypothetical yield curve for dalasi denominated government securities is derived from the yield curve for U.S. government securities, such that the difference between the yield on a 3-month security and a 10-year security would be the same, even though the longest maturity in The Gambia is presently only one year. Second, the main shock under consideration was a major devaluation of the dalasi, but it is assumed that this has no impact on domestic inflation and yields on domestic debt. In contrast to the recommendations of their initial MTDS, the authorities have opted for a strategy to curb domestic debt to achieve savings from the high interest costs. The authorities agreed that the MTDS should be based on highly realistic assumptions and have requested technical assistance from the Fund to strengthen the strategy.

Because of the substantial rollover risks of the current stock of domestic debt, the mission agreed that the authorities should explore options for introducing longer-term domestic securities. But the mission cautioned that at this time yields are likely to be quite high and could add significantly to domestic interest costs.

authorities' capacity to implement policies and hence better plan for the government's financing needs (MEFP ¶19).

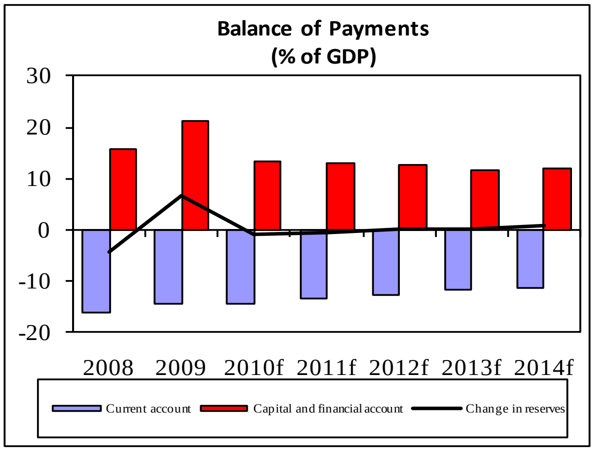
F. Risks

23. **The main economic risks to the program are**:

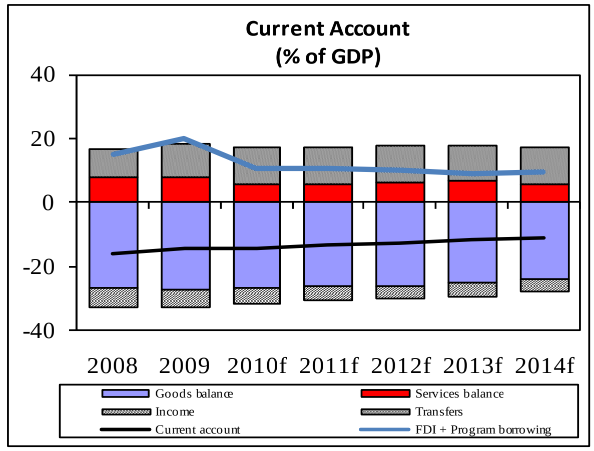
- *Greater than expected impact of the global economic crisis.* If tourism or remittances do not recover at least partially during 2010, the recovery in GDP growth would be delayed.
- *Fiscal shock*. Tax revenues are vulnerable to shocks, especially the petroleum tax if world oil prices increase. Failure to maintain a disciplined budget execution would undermine the core objectives of reducing domestic debt and generating savings from lower domestic interest payments.
- *Shortfall in external assistance.* Reduction or delays in disbursements could undermine growth and spending on poverty-reducing programs. Failure to improve the government's capacity in PFM and auditing could have a negative impact on eligibility for donor funding.
- *Large external current account deficits.* The Gambia remains vulnerable to possible terms of trade shocks and financing shortfalls (Figure 6).

Figure 6. The Gambia: External Outlook

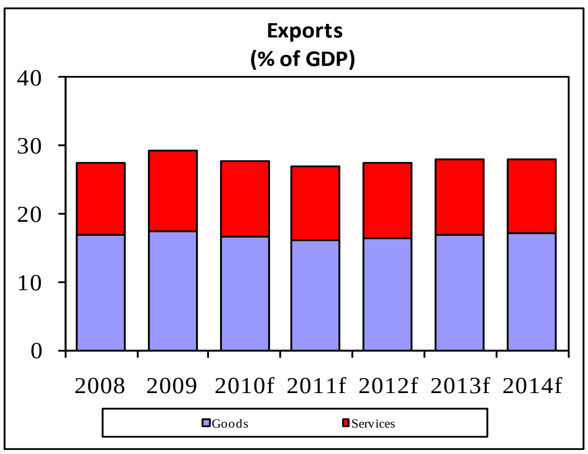
Following a spike in financial sector investment during 2009, inflows return to the trend.



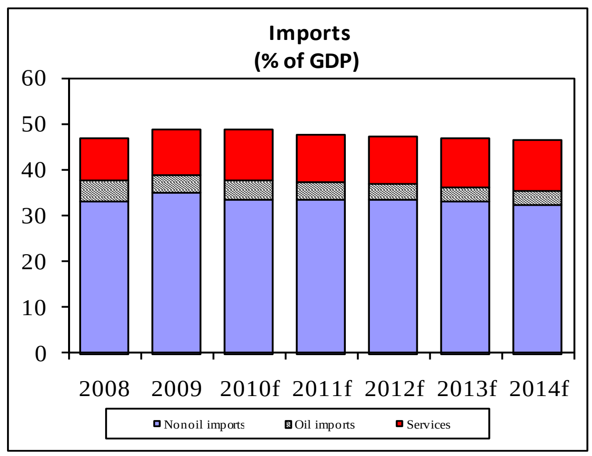
The current account deficit remains large, reflecting in part FDI and project borrowing.



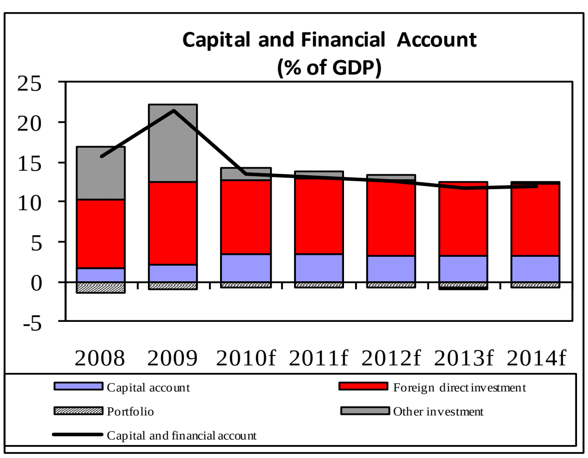
Tourism and re-exports remain the most important export industries.



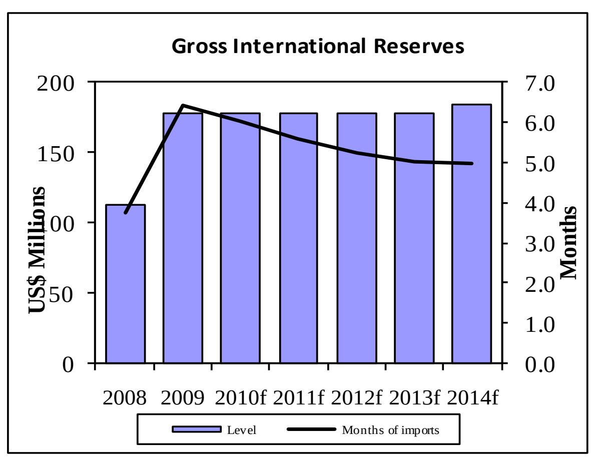
Imports of non-oil goods are most important, but changes in the oil price can vary the outlook.



Investment in the banking sector peaked in 2009, then returning to trend.



Following the SDR allocation in 2009, the central bank aims for five months of import cover.



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

G. ECF Extension

24. **Performance during the last three years under the ECF arrangement has been broadly satisfactory.** Sound macroeconomic policies have contributed to robust GDP growth and low inflation in recent years, despite the adverse effects first of the commodity price boom, then of the global crisis. All previous reviews of the ECF have been completed and, following the second review in December 2007, The Gambia received debt relief under the HIPC Initiative and MDRI.

25. **The authorities are requesting an extension of the current ECF arrangement for one year, to February 20, 2011.** This will allow the authorities to consolidate the achievements of the current program while building domestic support for a new medium-term program that would emphasize tax reform, fiscal consolidation, capacity building in PFM and debt management, and improvements to the business environment. Augmentation of the current arrangement by 15 percent of quota (SDR 4.66 million) would contribute to reducing the risks arising from a large current account deficit and fluctuating financial account flows. The augmentation would be disbursed in two equal tranches, one each following the seventh and eighth review, respectively. The requested augmentation of the program has only a minor effect on the country's debt service burden (Table 9).

H. Program Monitoring

26. **In response to the request for an extension of the current ECF arrangement to February 20, 2011, quantitative performance criteria (see MEFP Table 1) and macro-critical structural benchmarks were agreed with the authorities.** Structural benchmarks focus on public financial management, monetary policy, and statistics. These include: (i) taking steps to improve the annual budget process by building capacity at ministries' planning units, (ii) adopting a MOU that ensures the regular flow of information on government revenue and expenditure to the T-bill committee, (iii) improving GDP estimates, and (iv) publishing balance of payments statistics (see below).

Structural Benchmarks, January-December 2010

Measure	Target date	Macro rationale
Public financial management and accountability		
1. Establish an internal audit unit at the Ministry of Finance and Economic Affairs and hire core staff.	End-June 2010	To improve the quality of government expenditure.
Monetary policy		
2. Adopt a MOU that ensures the regular flow of government revenue and expenditure data to the T-bill committee.	End-Mar 2010	To improve monetary policy and public expenditure controls.
Statistics		
3. Improve GDP estimates by developing better indicators of subcomponents (e.g. wholesale and retail trade).	End-Mar 2010	To improve the credibility of core macroeconomic data.
4. Publish quarterly balance of payments statistics, with a one quarter lag	(i) End-March 2010 (2009 Q4 data) (ii) End-June 2010 (2010 Q1 data) (iii) End-Sept. 2010 (2010 Q2 data) (iv) End-Dec. 2010 (2010 Q3 data)	To facilitate policy formulation through timely provision of economic statistics.

V. Staff Appraisal

27. **During the past few years, covering the period of the ECF arrangement, the Gambian authorities pursued broadly sound macroeconomic policies which contributed to robust positive economic growth and low inflation.** With the successful performance under the ECF-supported program, The Gambia reached the HIPC completion point in December 2007 and received extensive debt relief, including debt cancellations under MDRI. Despite some slippages in 2009, policy implementation remained broadly on track, which helped to minimize the negative impact of the global financial crisis**.** However, government's additional financing requirements arising from expenditure overruns increased pressure on T-bill yields. Government domestic interest payments (relative to GDP) are among the highest in the region and consume valuable resources that could have been directed to other priorities.

28. **The macroeconomic policy framework for 2010 aims to support growth and maintain stability, while reducing the cost of domestic debt in order to generate savings for other spending needs.** The government budget recently approved by the National Assembly is a necessary first step. If executed well, net domestic borrowing would be

negative, easing pressure on T-bill yields. But as was just demonstrated this past year, slippages in budget execution could erase potential savings.

29. **The CBG is well placed to take appropriate steps to help reduce T-bill yields. International reserves stand at comfortable level, which allows for sterilization operations using sales of foreign exchange receipts from donors' budget support, rather than sales of T-bills.** The CBG will also strengthen its liquidity forecasting capabilities to ensure consistent liquidity management. For this to be successful, however, an effective interagency government committee will need to be established to provide timely information on fiscal operations. Also, with support from a disciplined execution of the 2010 budget, there could be scope for reducing the monetary policy interest rate.

30. **As indicated by the joint DSA Update by Bank-Fund staff, The Gambia remains at high-risk of debt distress.** Key external debt indicators are above or near the sustainability thresholds for a protracted period. Moreover, high yields on government securities have exacerbated the domestic debt burden. The authorities are making substantial progress, however, in building capacity to manage debt and to develop a meaningful medium-term debt strategy, which could lead to broader financing options in the future. At present, focusing on reducing domestic debt and limiting external financing to grants or highly concessional lending would be most productive.

31. **Recent performance under the ECF-supported program has continued to be broadly satisfactory.** All quantitative performance criteria for end-September 2009 were achieved, except for the fiscal target and there was good progress on the structural agenda. Staff recommends approval of the authorities' request for a waiver for the nonobservance of the performance criterion on the fiscal basic balance based on corrective actions, notably the government budget for 2010 approved by the National Assembly with a near-zero basic balance.

32. **Staff recommends completion of the sixth review of the ECF and approval of the authorities' request for an extension and augmentation of the current arrangement.**

Table 1. The Gambia: Selected Economic Indicators

	2006 Act.	2007 Act.	2008 Act.	2009 5th Rev.	2009 Proj.	2010 Proj.	2011 Proj.	2012 Proj.	2013 Proj.	2014 Proj.
National account and prices	(Percent change; unless otherwise indicated)									
Nominal GDP (millions of dalasi)	14,266	16,192	18,240	19,944	19,529	21,477	23,659	26,063	28,693	31,599
Nominal GDP	8.2	13.5	12.6	10.8	7.1	10.0	10.2	10.2	10.1	10.1
GDP at constant prices	6.5	6.3	6.1	3.6	4.6	4.8	5.0	5.0	5.0	5.0
GDP deflator	1.6	6.8	6.2	7.0	2.4	4.9	4.9	4.9	4.9	4.9
Consumer prices (average)	2.1	5.4	4.5	6.4	4.5	3.7	5.0	5.0	5.0	5.0
Consumer prices (end of period)	0.4	6.0	6.8	6.0	2.4	5.0	5.0	5.0	5.0	5.0
External sector										
Exports, f.o.b.	3.9	8.8	-4.4	-1.0	-1.5	3.6	8.8	6.4	5.9	6.9
Of which: domestic exports	143.9	-27.9	-0.2	2.7	7.9	11.3	6.0	5.9	1.7	6.9
Imports, f.o.b.	-0.6	18.4	17.4	-8.6	-7.6	6.5	7.9	6.0	4.4	3.9
Terms of trade (deterioration -)	-4.4	-6.1	-16.2	-0.8	-0.8	1.7	1.2	1.1	1.0	2.0
Nominal exchange rate change (depreciation -)[1]	0.5	7.6	15.4	…	-4.5	…	…	…	…	…
Real effective exchange rate (depreciation -)[1]	-0.5	9.7	14.9	…	2.5	…	…	…	…	…
Money and credit	(Percent change; in beginning-of-year broad money)									
Broad money	26.2	6.7	18.4	10.9	15.9	10.9	10.8	10.8	10.7	10.8
Net foreign assets	17.8	-3.5	-6.3	3.4	5.8	-0.1	0.3	1.7	1.9	3.1
Net domestic assets	8.5	10.1	24.7	7.5	10.1	11.1	10.5	9.1	8.9	7.7
Credit to the government (net)	11.9	-4.1	17.8	-1.0	-0.8	-0.1	-1.1	-1.6	-2.0	0.0
Credit to the private sector (net)	8.3	4.8	6.8	4.1	3.4	8.2	6.4	6.4	7.9	5.0
Other items (net)	-11.8	9.9	-2.4	4.3	2.9	2.5	4.8	3.9	2.6	2.3
Velocity	2.1	2.2	2.1	2.1	2.0	2.0	2.0	1.9	1.9	1.9
Average treasury bill rate (in percent)[1]	10.7	11.5	11.8	…	12.0	…	…	…	…	…
Central government budget	(In percent of GDP)									
Domestic revenues	21.2	21.4	19.2	19.4	20.4	20.5	21.0	21.4	21.9	22.0
Grants	1.3	1.2	1.3	5.2	3.4	4.9	4.8	4.4	4.2	4.2
Total expenditure and net lending	29.5	22.4	22.7	26.1	25.7	26.9	26.5	26.1	25.7	25.3
Overall balance	-7.8	0.5	-2.2	-1.6	-1.9	-1.4	-0.8	-0.2	0.4	0.8
Basic balance	2.1	3.8	-0.7	0.1	-1.6	-0.1	1.0	1.7	2.4	2.6
Net foreign financing	6.1	1.0	0.2	2.2	0.6	1.7	2.1	1.9	1.7	1.5
Net domestic financing	1.7	-1.4	2.1	-0.6	1.2	-0.3	-1.3	-1.7	-2.1	-2.3
Stock of domestic public debt	32.1	28.1	25.1	22.8	25.0	22.7	19.4	15.9	12.4	8.9
External sector										
Current account balance										
Excluding official transfers	-14.7	-13.5	-17.3	-19.3	-18.0	-19.3	-18.3	-17.0	-15.9	-15.4
Including official transfers	-13.4	-12.3	-16.0	-17.1	-14.6	-14.3	-13.5	-12.6	-11.6	-11.2
Current account balance	(Millions of U.S. dollars, unless otherwise indicated)									
Excluding official transfers	-74.6	-88.1	-142.0	-140.0	-131.9	-155.1	-161.0	-159.8	-159.2	-164.5
Including official transfers	-68.2	-80.3	-131.0	-124.1	-106.7	-115.3	-119.1	-118.4	-116.7	-120.0
Overall balance of payments	26.0	34.0	-35.3	0.2	49.9	-6.8	-3.7	0.3	1.5	8.7
Gross official reserves	118.6	141.6	112.6	128.3	178.2	178.2	178.2	178.2	178.2	183.7
in months of imports, c.i.f.	5.5	5.5	3.7	4.7	6.4	6.0	5.6	5.3	5.0	5.0
External public debt										
Stock	676.7	299.4	328.0	316.4	330.1	343.5	362.3	380.2	397.0	412.9
Stock (percent of GDP)	133.1	46.0	40.0	43.6	45.0	42.6	41.1	40.5	39.6	38.6
Use of Fund resources	(Millions of SDRs)									
Purchases	0.0	4.0	4.0	10.2	10.2	4.4	2.4	0.0	0.0	0.0
Repurchases	-2.7	-11.2	0.0	0.0	0.0	0.0	0.0	-0.2	-1.0	-2.1

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

[1] Data for 2009 are the actuals as of September.

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

	2006 Act.	2007 Act.	2008 Act.	2009 5th Rev.	2009 Est.	2010 Prog.	2011 Proj.	2012 Proj.	2013 Proj.	2014 Proj.
Total revenue and grants	3,203	3,663	3,745	4,897	4,665	5,474	6,089	6,732	7,497	8,267
Revenue	3,024	3,468	3,500	3,865	3,992	4,413	4,962	5,583	6,280	6,954
Tax revenue	2,678	3,037	3,146	3,520	3,623	3,991	4,480	5,030	5,646	6,249
Taxes on income, profits, and capital gains	803	884	1,125	1,212	1,027	1,185	1,357	1,555	1,781	1,980
Domestic taxes on goods and services	1,124	1,345	1,313	1,439	1,427	1,572	1,763	1,977	2,217	2,453
Taxes on international trade and transaction	751	808	708	869	1,170	1,234	1,359	1,498	1,649	1,816
Non-tax	346	431	354	345	369	421	483	553	634	706
Grants	180	194	244	1,033	673	1,061	1,126	1,149	1,217	1,312
Budget support	17	20	79	436	390	425	427	379	370	381
Project grants	163	174	166	597	283	636	700	770	847	931
Expenditures and net lending	4,211	3,635	4,139	5,211	5,027	5,770	6,281	6,792	7,368	8,000
Current expenditures	2,584	2,586	3,186	3,449	3,504	4,014	4,035	4,318	4,634	4,968
Wages and salaries	653	680	983	1,034	1,110	1,499	1,784	1,965	2,163	2,382
Other charges	1,010	1,091	1,489	1,586	1,594	1,752	1,530	1,657	1,816	1,988
Interest	921	815	713	828	799	762	720	695	654	598
External	232	231	154	165	175	176	185	201	218	234
Domestic	689	584	560	663	625	586	536	494	436	363
Capital expenditure	1,564	973	857	1,706	1,431	1,692	2,197	2,425	2,684	2,982
Foreign financed	1,487	780	505	1,358	724	1,327	1,558	1,658	1,762	1,875
Gambia local fund (GLF)	77	192	352	348	707	365	638	767	921	1,107
Net lending	63	76	96	57	93	64	50	50	50	50
Overall balance (excl. statistical discrepancy)	-1,008	28	-394	-314	-363	-296	-192	-60	129	267
Statistical discrepancy [1]	-104	48	-11	0	0	0	0	0	0	0
Overall balance	-1,112	76	-405	-314	-363	-296	-192	-60	129	267
Financing	1,112	-76	405	314	363	296	192	60	-129	-267
External financing (net)	876	158	30	431	121	356	505	497	484	467
Borrowing	1,308	586	340	761	441	691	859	888	916	944
Amortization [2]	-477	-428	-310	-330	-320	-335	-354	-391	-432	-476
Domestic financing (net)	236	-234	375	-117	242	-60	-313	-437	-613	-734
Net borrowing	334	-514	585	-147	265	-90	-313	-437	-613	-734
Bank	231	-68	1,044	-100	-76	-7	-139	-218	-306	-367
Nonbank	103	-267	-369	70	390	-7	-139	-218	-306	-367
Repayment of domestic debt	0	-179	-89	-117	-49	-77	-34	0	0	0
Capital revenue	110	24	0	24	0	64	0	0	0	0
Change in arrears (- = decrease)	-209	-369	-210	-33	-33	-33	0	0	0	0
Privatization proceeds	0	626	0	38	9	0	0	0	0	0
Memorandum items:										
Basic balance [3]	300	614	-133	11	-312	-30	240	449	674	830
Basic primary balance [4]	1,221	1,429	580	839	488	732	960	1,144	1,329	1,427
Gross domestic interest bearing debt	4,582	4,546	4,571	4,542	4,885	4,872	4,594	4,157	3,544	2,809
Stock of arrears [5]	562	192	0	0	0	0	0	0	0	0
Stock of HIPC and MDRI debt relief										
Of which: IMF		336								
IDA		4,652								
AfDF		3,518								
Resources freed by debt relief		108	495	603	585	584	506	525	515	472
Amortization		101	378	472	458	468	398	424	420	384
Interest payments		7	116	130	126	116	108	102	95	87
Uses of resources freed by debt relief		108	495	603	585	584	506	525	515	472
Current expenditures		0	129	131	131	138	173	178	197	189
Capital expenditures		0	194	220	220	207	173	178	161	157
Savings		108	172	252	234	239	160	169	157	126
Expenditures financed by privatization receipts		159	391	107	107	0	0	0	0	0

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

[1] The difference between financing and the overall balance of revenue and expenditures.
[2] After MDRI debt relief from 2007 onward.
[3] Domestic revenue - expenditure and net lending, excluding externally financed capital spending.
[4] Domestic revenue - expenditure and net lending, excluding interest payments and externally financed capital spending.
[5] Change in arrears for 2008 includes an additional D25 million for repayments to the National Water and Electricity Company (NAWEC).

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

	2006 Act.	2007 Act.	2008 Act.	2009 5th Rev.	2009 Proj.	2010 Proj.	2011 Proj.	2012 Proj.	2013 Proj.	2014 Proj.
Total revenue and grants	22.5	22.6	20.5	24.6	23.9	25.5	25.7	25.8	26.1	26.2
Revenue	21.2	21.4	19.2	19.4	20.4	20.5	21.0	21.4	21.9	22.0
Tax Revenue	18.8	18.8	17.2	17.6	18.6	18.6	18.9	19.3	19.7	19.8
Non-tax	2.4	2.7	1.9	1.7	1.9	2.0	2.0	2.1	2.2	2.2
Grants	1.3	1.2	1.3	5.2	3.4	4.9	4.8	4.4	4.2	4.2
Budget support	0.1	0.1	0.4	2.2	2.0	2.0	1.8	1.5	1.3	1.2
Project grants	1.1	1.1	0.9	3.0	1.4	3.0	3.0	3.0	3.0	2.9
Expenditures and net lending	29.5	22.4	22.7	26.1	25.7	26.9	26.5	26.1	25.7	25.3
Current expenditures	18.1	16.0	17.5	17.3	17.9	18.7	17.1	16.6	16.1	15.7
Wages and salaries	4.6	4.2	5.4	5.2	5.7	7.0	7.5	7.5	7.5	7.5
Other charges	7.1	6.7	8.2	8.0	8.2	8.2	6.5	6.4	6.3	6.3
Interest	6.5	5.0	3.9	4.2	4.1	3.5	3.0	2.7	2.3	1.9
External	1.6	1.4	0.8	0.8	0.9	0.8	0.8	0.8	0.8	0.7
Domestic	4.8	3.6	3.1	3.3	3.2	2.7	2.3	1.9	1.5	1.1
Capital expenditure	11.0	6.0	4.7	8.6	7.3	7.9	9.3	9.3	9.4	9.4
Foreign financed	10.4	4.8	2.8	6.8	3.7	6.2	6.6	6.4	6.1	5.9
Domestic financed	0.5	1.2	1.9	1.7	3.6	1.7	2.7	2.9	3.2	3.5
Net lending	0.4	0.5	0.5	0.3	0.5	0.3	0.2	0.2	0.2	0.2
Overall balance (excl. statistical discrepancy	-7.1	0.2	-2.2	-1.6	-1.9	-1.4	-0.8	-0.2	0.4	0.8
Statistical discrepancy [1]	-0.7	0.3	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-7.8	0.5	-2.2	-1.6	-1.9	-1.4	-0.8	-0.2	0.4	0.8
Financing	7.8	-0.5	2.2	1.6	1.9	1.4	0.8	0.2	-0.4	-0.8
External financing (net)	6.1	1.0	0.2	2.2	0.6	1.7	2.1	1.9	1.7	1.5
Borrowing	9.2	3.6	1.9	3.8	2.3	3.2	3.6	3.4	3.2	3.0
Amortization [2]	-3.3	-2.6	-1.7	-1.7	-1.6	-1.6	-1.5	-1.5	-1.5	-1.5
Domestic financing (net)	1.7	-1.4	2.1	-0.6	1.2	-0.3	-1.3	-1.7	-2.1	-2.3
Net borrowing	2.3	-3.2	3.2	-0.7	1.4	-0.4	-1.3	-1.7	-2.1	-2.3
Bank	1.6	-0.4	5.7	-0.5	-0.4	0.0	-0.6	-0.8	-1.1	-1.2
Nonbank	0.7	-1.6	-2.0	0.4	2.0	0.0	-0.6	-0.8	-1.1	-1.2
Repayment of domestic debt	0.0	-1.1	-0.5	-0.6	-0.3	-0.4	-0.1	0.0	0.0	0.0
Capital revenue	0.8	0.1	0.0	0.1	0.0	0.3	0.0	0.0	0.0	0.0
Change in arrears (- = decrease)	-1.5	-2.3	-1.2	-0.2	-0.2	-0.2	0.0	0.0	0.0	0.0
Privatization proceeds	0.0	3.9	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Basic balance [3]	2.1	3.8	-0.7	0.1	-1.6	-0.1	1.0	1.7	2.4	2.6
Basic primary balance [4]	8.6	8.8	3.2	4.2	2.5	3.4	4.1	4.4	4.6	4.5
Gross domestic interest bearing debt	32.1	28.1	25.1	22.8	25.0	22.7	19.4	15.9	12.4	8.9
Stock of arrears [5]	3.9	1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Stock of HIPC and MDRI debt relief										
Of which: IMF		2.1								
IDA		28.7								
AfDF		21.7								
Resources freed by debt relief		0.7	2.7	3.0	3.0	2.7	2.1	2.0	1.8	1.5
Amortization		0.6	2.1	2.4	2.3	2.2	1.7	1.6	1.5	1.2
Interest payments		0.0	0.6	0.7	0.6	0.5	0.5	0.4	0.3	0.3
Uses of resources freed by debt relief		0.7	2.7	3.0	3.0	2.7	2.1	2.0	1.8	1.5
Current expenditures		0.0	0.7	0.7	0.7	0.6	0.7	0.7	0.7	0.6
Capital expenditures		0.0	1.1	1.1	1.1	1.0	0.7	0.7	0.6	0.5
Savings		0.7	0.9	1.3	1.2	1.1	0.7	0.6	0.5	0.4
Expenditures financed by privatization receipts		1.0	2.1	0.5	0.5	0.0	0.0	0.0	0.0	0.0

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

[1] The difference between financing and the overall balance of revenue and expenditures.
[2] After MDRI debt relief from 2007 onward.
[3] Domestic revenue - expenditure and net lending, excluding externally financed capital spending.
[4] Domestic revenue - expenditure and net lending, excluding interest payments and externally financed capital spending.
[5] Change in arrears for 2008 includes an additional D25 million for repayments to the National Water and Electricity Company (NAWEC).

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

	2006 Act.	2007 Act.	2008 Act.	2009 5th Rev.	2009 Proj.	2010 Proj.	2011 Proj.	2012 Proj.	2013 Proj.	2014 Proj.
I. Depository Corporation Survey										
Net foreign assets	4,292	4,022	3,504	3,812	4,074	4,061	4,102	4,343	4,636	5,171
Net domestic assets	3,466	4,252	6,292	7,057	7,280	8,536	9,856	11,124	12,494	13,807
Domestic credit	4,184	4,200	6,436	7,197	7,145	8,118	8,831	9,556	10,526	11,440
Claims on central government (net)	1,504	1,189	2,661	3,003	2,585	2,578	2,439	2,221	1,914	1,915
Claims on other public sector 2/	268	229	428	450	881	925	971	1,020	1,071	1,124
Claims on private sector	2,413	2,783	3,347	3,745	3,679	4,615	5,421	6,316	7,541	8,400
Other items (net) 3/	-719	51	-144	-140	135	418	1,025	1,568	1,968	2,367
Broad money	7,758	8,274	9,796	10,869	11,354	12,597	13,958	15,468	17,130	18,978
Currency outside banks	1,937	1,689	1,833	2,034	1,921	2,131	2,362	2,617	2,898	3,211
Deposits	5,820	6,585	7,963	8,835	9,433	10,465	11,596	12,851	14,232	15,767
II. Central Bank										
Net foreign assets	2,828	3,049	2,742	2,946	3,208	2,967	2,976	3,082	3,224	3,589
Foreign assets	3,327	3,192	3,069	3,610	5,005	4,905	5,080	5,244	5,403	5,734
Foreign liabilities	-499	-142	-327	-664	-1,797	-1,938	-2,104	-2,162	-2,180	-2,144
Net domestic assets	39	-305	160	160	-10	484	832	1,121	1,400	1,499
Domestic credit	-239	-903	157	-63	-97	105	35	-73	-225	-406
Claims on central government (net)	-623	-1,294	-219	-442	-475	-278	-348	-457	-610	-794
Claims on banks (net)	34	34	45	45	45	45	45	45	45	45
Claims on private sector	214	220	229	231	231	236	241	247	253	260
Claims on public enterprises	137	137	103	103	103	103	98	93	88	83
Other items (net) 3/	277	599	3	223	87	379	797	1,194	1,624	1,905
Reserve money	2,866	2,745	2,902	3,105	3,198	3,451	3,808	4,203	4,624	5,088
Currency outside banks	1,937	1,689	1,833	2,034	1,921	2,131	2,362	2,617	2,898	3,211
Commercial bank deposits	929	1,055	1,069	1,072	1,277	1,320	1,447	1,586	1,725	1,877

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

1/ End of period
2/ Include public enterprises and the local government.
3/ Including valuation.

Table 5. The Gambia: Monetary Accounts 1/

	2006 Act.	2007 Act.	2008 Act.	2009 5th Rev.	2009 Proj.	2010 Proj.	2011 Proj.	2012 Proj.	2013 Proj.	2014 Proj.
				I. Monetary Survey (Percent change; in beginning of period broad money)						
Net foreign assets	17.8	-3.5	-6.3	3.4	5.8	-0.1	0.3	1.7	1.9	3.1
Net domestic assets	8.5	10.1	24.7	7.5	10.1	11.1	10.5	9.1	8.9	7.7
Domestic credit	20.3	0.2	27.0	7.8	7.2	8.6	5.7	5.2	6.3	5.3
Claims on central government (net)	11.9	-4.1	17.8	3.5	-0.8	-0.1	-1.1	-1.6	-2.0	0.0
Claims on other public sector 2/	0.1	-0.5	2.4	0.2	4.6	0.4	0.4	0.3	0.3	0.3
Claims on private sector	8.3	4.8	6.8	4.1	3.4	8.2	6.4	6.4	7.9	5.0
Other items (net) 3/	-11.8	9.9	-2.4	-0.2	2.9	2.5	4.8	3.9	2.6	2.3
Broad money	26.2	6.7	18.4	10.9	15.9	10.9	10.8	10.8	10.7	10.8
Currency outside banks	8.3	-3.2	1.7	2.0	0.9	1.9	1.8	1.8	1.8	1.8
Deposits	17.9	9.9	16.7	8.9	15.0	9.1	9.0	9.0	8.9	9.0
				II. Central Bank (Percent change; in beginning of period monetary base)						
Net foreign assets	30.1	7.7	-11.2	8.0	16.0	-7.5	0.3	2.8	3.4	7.9
Foreign assets	26.4	-4.7	-4.5	19.6	66.7	-3.1	5.1	4.3	3.8	7.1
Foreign liabilities	3.8	12.4	-6.7	-11.6	-50.7	-4.4	-4.8	-1.5	-0.4	0.8
Net domestic assets	-5.9	-12.0	16.9	-1.0	-5.8	15.4	10.1	7.6	6.6	2.1
Domestic credit	15.8	-23.2	38.6	-7.6	-8.7	6.3	-2.0	-2.8	-3.6	-3.9
Claims on central government (net)	15.8	-23.4	39.2	-7.7	-8.8	6.1	-2.0	-2.9	-3.6	-4.0
Claims on banks (net)	0.0	0.0	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Claims on private sector	0.0	0.2	0.3	0.1	0.1	0.1	0.2	0.2	0.2	0.2
Claims on public enterprises	0.0	0.0	-1.2	0.0	0.0	0.0	-0.1	-0.1	-0.1	-0.1
Other items (net) 3/	-21.7	11.2	-21.7	6.6	2.9	9.1	12.1	10.4	10.2	6.1
Reserve money	24.3	-4.3	5.7	7.0	10.2	7.9	10.4	10.4	10.0	10.0
Currency outside banks	22.2	-8.7	5.2	6.9	3.0	6.6	6.7	6.7	6.7	6.8
Commercial bank deposits	2.0	4.4	0.5	0.1	7.2	1.3	3.7	3.7	3.3	3.3
Memorandum Items:										
Growth of credit to the private sector	26.8	15.4	20.3	…	9.9	23.2	17.5	16.5	19.4	11.4
Velocity	1.84	1.86	2.86	…	1.80	1.79	1.78	1.77	1.76	1.75
Money Multiplier	2.71	3.01	3.38	…	3.55	3.65	3.67	3.68	3.71	3.73

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

1/ End of period

2/ Include public enterprises and the local government.

3/ Including valuation.

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

	2006 Act.	2007 Act.	2008 Act.	2009 5th Rev.	2009 Proj.	2010 Proj.	2011 Proj.	2012 Proj.	2013 Proj.	2014 Proj.
1. Current account										
A. Goods and services	**-87.6**	**-105.3**	**-158.4**	**-149.6**	**-141.4**	**-170.2**	**-180.8**	**-185.7**	**-187.7**	**-197.1**
Trade balance	-138.1	-171.5	-221.3	-192.6	-199.1	-214.6	-230.7	-244.0	-253.3	-260.0
Exports, f.o.b.	84.0	91.4	87.4	85.6	86.1	89.2	97.0	103.2	109.4	116.9
Of which: domestic exports	7.2	7.8	7.2		7.6	8.1	8.7	9.2	9.8	10.6
Imports, f.o.b	-222.2	-262.9	-308.7	-278.2	-285.2	-303.7	-327.7	-347.2	-362.6	-376.9
Of which: oil	-16.1	-28.5	-38.7	-22.5	-30.6	-35.9	-35.2	-33.9	-32.8	-31.7
Services (net)	50.6	66.3	63.0	43.0	57.7	44.3	49.9	58.3	65.6	62.8
Of which: travel income	75.4	81.2	83.0		74.7	78.4	82.3	92.2	104.2	112.4
B. Income (net)	**-48.0**	**-46.8**	**-45.9**	**-43.0**	**-43.2**	**-41.2**	**-40.6**	**-38.7**	**-40.6**	**-41.4**
C. Current transfers	**67.4**	**71.8**	**73.3**	**68.5**	**77.9**	**96.1**	**102.2**	**105.9**	**111.6**	**118.5**
Remittances	51.6	52.5	53.8	43.0	43.0	46.5	50.2	54.2	58.5	63.2
Private transfers	9.3	11.5	8.5	9.6	9.6	9.8	10.1	10.3	10.6	10.9
Official transfers	6.4	7.8	11.0	15.9	25.2	39.8	41.9	41.4	42.5	44.5
Current account (excl. official transfers)	**-74.6**	**-88.1**	**-142.0**	**-140.0**	**-131.9**	**-155.1**	**-161.0**	**-159.8**	**-159.2**	**-164.5**
Current account (incl. official transfers)	**-68.2**	**-80.3**	**-131.0**	**-124.1**	**-106.7**	**-115.3**	**-119.1**	**-118.4**	**-116.7**	**-120.0**
2. Capital and financial account										
A. Capital account	**17.3**	**386.5**	**14.1**	**27.7**	**14.5**	**10.7**	**9.0**	**7.9**	**7.1**	**7.2**
B. Financial account	**77.5**	**-263.6**	**114.3**	**96.5**	**142.1**	**97.8**	**106.4**	**110.8**	**111.1**	**121.5**
Foreign direct investment	74.2	80.6	70.0	72.8	74.9	74.0	83.3	87.7	92.3	97.0
Portfolio investment	1.1	-1.0	-10.1	-6.4	-4.3	-1.5	-1.1	-0.9	-0.6	-0.3
Other investment[1]	2.2	-343.2	54.5	30.1	71.5	25.3	24.2	24.0	19.4	24.9
Of which: Official other investment (net)	26.9	6.4	28.6	15.7	41.1	13.3	18.8	17.9	16.9	15.8
Loans	43.9	23.6	42.6	27.7	14.1	25.9	32.0	32.0	32.0	32.0
SDR Allocations	0.0	0.0	0.0		39.0	0.0	0.0	0.0	0.0	0.0
Amortization	-17.0	-17.2	-13.9	-12.0	-12.0	-12.6	-13.2	-14.1	-15.1	-16.1
Capital and financial account	**94.8**	**122.9**	**128.4**	**124.3**	**156.6**	**108.5**	**115.5**	**118.7**	**118.2**	**128.8**
Errors and omissions	-0.5	-8.7	-32.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	**26.0**	**34.0**	**-35.3**	**0.2**	**49.9**	**-6.8**	**-3.7**	**0.3**	**1.5**	**8.7**
Financing										
Net international reserves (increase -)	-26.0	-34.0	35.3	-0.2	-49.9	6.8	3.7	-0.3	-1.6	-8.8
Change in gross international reserves[1]	-22.0	-23.0	29.0	-15.7	-65.6	0.0	0.0	0.0	0.0	-5.5
Use of IMF resources (net)	-4.0	-11.0	6.3	15.5	15.7	6.8	3.7	-0.3	-1.6	-3.3
Disbursements[2]	0.0	6.1	6.3	15.5	15.7	6.8	3.7	0.0	0.0	0.0
Repayments	-4.0	-17.1	0.0	0.0	0.0	0.0	0.0	-0.3	-1.6	-3.3
Memorandum items:										
Gross International Reserves										
US$ millions	118.6	141.6	112.6	128.3	178.2	178.2	178.2	178.2	178.2	183.7
Months of imports	5.5	5.5	3.7	4.7	6.4	6.0	5.6	5.3	5.0	5.0
National currency per US dollar (average)	28.1	24.9	22.2	…	26.6	…	…	…	…	…
National currency per US dollar (end of period)	28.0	22.5	26.8	…	26.9	…	…	…	…	…

[1] Includes SDR allocation of approximately US$39 million in 2009.
[2] Includes first disbursement (7.5 percent of quota, US$ 3.7 million) of the proposed augmentation in 2010.
Sources: Gambian authorities; and Fund staff estimates and projections.

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

	2006 Act.	2007 Act.	2008 Act.	2009 5th Rev.	2009 Proj.	2010 Proj.	2011 Proj.	2012 Proj.	2013 Proj.	2014 Proj.
1. Current account										
A. Goods and services	**-17.2**	**-16.2**	**-19.3**	**-20.6**	**-19.3**	**-21.1**	**-20.5**	**-19.8**	**-18.7**	**-18.4**
Trade balance	**-27.2**	**-26.3**	**-27.0**	**-26.5**	**-27.2**	**-26.6**	**-26.2**	**-26.0**	**-25.3**	**-24.3**
Exports, f.o.b.	16.5	14.0	10.7	11.8	11.7	11.1	11.0	11.0	10.9	10.9
Of which: other domestic goods	1.4	1.2	0.9		1.0	1.0	1.0	1.0	1.0	1.0
Imports, f.o.b	-43.7	-40.4	-37.6	-38.3	-38.9	-37.7	-37.2	-37.0	-36.2	-35.2
Of which: oil	-3.2	-4.4	-4.7	-3.1	-4.2	-4.5	-4.0	-3.6	-3.3	-3.0
Services (net)	9.9	10.2	7.7	5.9	7.9	5.5	5.7	6.2	6.5	5.9
Of which: travel	14.8	12.5	10.1		10.2	9.7	9.3	9.8	10.4	10.5
B. Income (net)	**-9.5**	**-7.2**	**-5.6**	**-5.9**	**-5.9**	**-5.1**	**-4.6**	**-4.1**	**-4.1**	**-3.9**
C. Current transfers	**13.3**	**11.0**	**8.9**	**9.4**	**10.6**	**11.9**	**11.6**	**11.3**	**11.1**	**11.1**
Remittances	10.2	8.1	6.6	5.9	5.9	5.8	5.7	5.8	5.8	5.9
Private transfers	1.8	1.8	1.0	1.3	1.3	1.2	1.1	1.1	1.1	1.0
Official transfers	1.3	1.2	1.3	2.2	3.4	4.9	4.8	4.4	4.2	4.2
Current account (excl. official transfers)	**-14.7**	**-13.5**	**-17.3**	**-19.3**	**-18.0**	**-19.3**	**-18.3**	**-17.0**	**-15.9**	**-15.4**
Current account (incl. official transfers)	**-13.4**	**-12.3**	**-16.0**	**-17.1**	**-14.6**	**-14.3**	**-13.5**	**-12.6**	**-11.6**	**-11.2**
2. Capital and financial account										
A. Capital account	**3.4**	**59.4**	**1.7**	**3.8**	**2.0**	**1.3**	**1.0**	**0.8**	**0.7**	**0.7**
B. Financial account	**15.2**	**-40.5**	**13.9**	**13.3**	**19.4**	**12.1**	**12.1**	**11.8**	**11.1**	**11.4**
Foreign direct investment	14.6	12.4	8.5	10.0	10.2	9.2	9.5	9.3	9.2	9.1
Portfolio investment	0.2	-0.2	-1.2	-0.9	-0.6	-0.2	-0.1	-0.1	-0.1	0.0
Other investment	0.4	-52.7	6.6	4.1	9.8	3.1	2.8	2.6	1.9	2.3
Of which: Official other investment (net)	5.3	1.0	3.5	2.2	5.6	1.7	2.1	1.9	1.7	1.5
Loans	8.6	3.6	5.2	3.8	1.9	3.2	3.6	3.4	3.2	3.0
SDR Allocations	0.0	0.0	0.0		5.3	0.0	0.0	0.0	0.0	0.0
Amortization	-3.3	-2.6	-1.7	-1.7	-1.6	-1.6	-1.5	-1.5	-1.5	-1.5
Capital and financial account	**18.6**	**18.9**	**15.6**	**17.1**	**21.4**	**13.5**	**13.1**	**12.7**	**11.8**	**12.0**
Errors and omissions	-0.1	-1.3	-4.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	**5.1**	**5.2**	**-4.3**	**0.0**	**6.8**	**-0.8**	**-0.4**	**0.0**	**0.2**	**0.8**
Financing										
Net international reserves (increase -)	-5.1	-5.2	4.3	0.0	-6.8	0.8	0.4	0.0	-0.2	-0.8
Change in gross international reserves	-4.3	-3.5	3.5	-2.2	-8.9	0.0	0.0	0.0	0.0	-0.5
Use of IMF resources (net)	-0.8	-1.7	0.8	2.1	2.1	0.8	0.4	0.0	-0.2	-0.3
Disbursements	0.0	0.9	0.8	2.1	2.1	0.8	0.4	0.0	0.0	0.0
Repayments	-0.8	-2.6	0.0	0.0	0.0	0.0	0.0	0.0	-0.2	-0.3
Memorandum items:										
Gross International Reserves										
US$ millions	118.6	141.6	112.6	128.3	178.2	178.2	178.2	178.2	178.2	183.7
Months of imports	5.5	5.5	3.7	4.7	6.4	6.0	5.6	5.3	5.0	5.0
National currency per US dollar	28.1	24.9	22.2	…	26.6	…	…	…	…	…

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

Table 8. The Gambia: Proposed Schedule of Disbursements

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

1/ The Gambia's quota is SDR 31.10 million.
2/ Disbursement for this date includes augmentation in the amount of SDR 3.11 million.

Table 9. The Gambia: Indicators of Capacity to Repay the Fund, 2007–15

	2007	2008	2009	2010	2011	2012	2013	2014	2015
			Projections						
Fund obligations based on existing credit									
(in millions of SDRs)									
Principal	11.8	0.0	0.0	0.0	0.0	0.2	1.0	2.1	3.6
Charges and interest	0.1	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Fund obligations based on existing and prospective credit 1/									
(in millions of SDRs)									
Principal	11.8	0.0	0.0	0.0	0.0	0.2	1.0	2.1	3.8
Charges and interest	0.1	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1
Total obligations based on existing and prospective credit 1/									
In millions of SDRs	11.9	0.0	0.0	0.0	0.0	0.3	1.1	2.2	3.9
In millions of US$	7.8	0.0	0.0	0.0	0.0	0.2	0.7	1.4	2.5
In percent of Gross International Reserves	5.5	0.0	0.0	0.0	0.0	0.1	0.4	0.8	1.3
In percent of exports of goods and services	5.1	0.0	0.0	0.0	0.0	0.1	0.4	0.7	1.2
In percent of debt service 2/	29.3	0.1	0.0	0.0	0.0	0.5	1.9	3.6	6.4
In percent of GDP	1.2	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.2
In percent of quota	38.2	0.1	0.0	0.1	0.0	0.9	3.4	7.0	12.5
Outstanding Fund credit 1/									
In millions of SDRs	4.0	8.0	18.2	22.55	24.9	24.7	23.7	21.6	17.7
In millions of US$	6.1	12.6	27.9	35.1	38.7	38.3	36.7	33.4	27.5
In percent of Gross International Reserves	4.3	11.2	15.7	19.7	21.7	21.5	20.6	18.1	14.0
In percent of exports of goods and services	4.0	8.4	19.6	23.6	24.5	22.3	19.5	16.6	13.0
In percent of debt service 2/	23.1	75.2	118.3	118.8	113.9	109.3	99.4	84.8	69.8
In percent of GDP	0.9	1.5	3.8	4.4	4.4	4.1	3.7	3.1	2.4
In percent of quota	12.9	25.7	58.6	72.5	80.0	79.4	76.1	69.4	57.0
Net use of Fund credit (millions of SDRs)	-7.8	4.0	10.2	4.3	2.3	-0.2	-1.0	-2.1	-3.8
Disbursements	4.0	4.0	10.2	4.3	2.3	0.0	0.0	0.0	0.0
Repayments and Repurchases	11.8	0.0	0.0	0.0	0.0	0.2	1.0	2.1	3.8
Memorandum items:									
Nominal GDP (in millions of US$)	650.9	820.4	733.1	805.7	880.8	938.4	1,001.8	1,070.6	1,151.3
Exports of goods and services (in millions of US$)	152.5	150.9	142.1	148.8	157.8	172.0	188.1	201.6	210.5
Gross International Reserves (in millions of US$)	141.6	112.6	178.2	178.2	178.2	178.2	178.2	184.4	195.5
Debt service (in millions of US$) 2/	26.5	16.8	23.6	29.5	33.9	35.1	37.0	39.4	39.3
Quota (millions of SDRs)	31.1	31.1	31.1	31.1	31.1	31.1	31.1	31.1	31.1

Sources: IMF staff estimates and projections.

1/ Includes prospective PRGF disbursements of SDR 6.6 million (21.42 percent of quota), of which an augmentation of SDR 4.66 million (15 percent of the quota).

2/ Total debt service includes IMF repurchases and repayments.

Banjul, The Gambia
January 21, 2010

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

Dear Mr. Strauss-Kahn:

1. The Gambia's three-year Extended Credit Facility (ECF) arrangement was approved by the IMF Executive Board in February 2007. The fifth review was completed on August 7, 2009.

2. All quantitative performance criteria for end-September 2009, except for the fiscal basic balance, were met. The criterion for the basic balance was missed due to expenditure overruns in the second quarter of 2009. The Government approved a budget for 2010 aiming at a near-zero basic balance, which will enable the government to reduce its domestic debt obligations and ease the burden of servicing this debt. On this basis, we request a waiver for the nonobservance of the quantitative performance criterion on the basic balance for end-September 2009.

3. All structural benchmarks for end-September 2009 were implemented, except for the submission to the National Assembly of the audited government accounts for 2007. The following actions were completed: (i) submitting audited government accounts for 2005 and 2006 to the National Assembly, (ii) preparing a national debt strategy, and (iii) publishing first and second quarter balance of payments statistics with a one quarter lag. The credit reference bureau also became operational in July 2009. Submission of the accounts for 2007 was delayed by ongoing efforts to improve the quality of the audits and prevent qualifications. The 2007 audited accounts are expected to be submitted to the National Assembly during the first half of 2010.

4. The Government of The Gambia requests completion of the sixth review and the seventh disbursement under the ECF arrangement in an amount equivalent to SDR 2.00 million.

5. Further, the Government of The Gambia requests an extension of one year and augmentation (15 percent of quota; SDR 4.66 million) of the ECF arrangement. The extension will provide time to consolidate the achievements of the past three years while considering options and building domestic support for a new program. The augmentation would contribute to reducing the risks arising from a large current account deficit and

fluctuating financial account flows. It would be disbursed in two equal tranches following the seventh and eighth review.

6. The Government of The Gambia will pursue prudent macroeconomic policies to promote growth, low inflation, and poverty reduction.

7. The Government intends to make the contents of this letter, the Fund staff report, and other documents related to this review available to the public. Therefore, it authorizes the IMF to arrange for these documents to be posted on the IMF website following Executive Board conclusion of the review.

Sincerely yours,

/s/	/s/
Abdou Kolley Minister Ministry of Finance and Economic Affairs	Momodou Bamba Saho Governor Central Bank of The Gambia

MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

JANUARY 21, 2010

I. INTRODUCTION

1. **This memorandum updates the economic and financial program of the Government of The Gambia supported by the Extended Credit Facility (ECF) arrangement with the International Monetary Fund (IMF), which was approved by the Executive Board of the IMF on February 21, 2007.** The program covers the requested one-year extension to the original three-year ECF and aims at consolidating macroeconomic stability, fostering the conditions for sustaining high economic growth, and reducing poverty. This memorandum also reports on performance under the program through December 2009, including the end-September 2009 performance criteria for the sixth review of the ECF. The fifth review of the ECF was completed on August 7, 2009.

II. RECENT ECONOMIC DEVELOPMENTS

2. **The Gambian economy has performed better in 2009 than was projected at the time of the fifth review.** Real GDP growth is estimated to have been in the range of 4.5-5.0 percent, approximately one percentage point higher than the earlier projection. A second consecutive year of strong growth in agriculture, largely because of good rains and the successful expansion of rice farming, helped to offset the negative impact of the global financial crisis, particularly for the rural poor. Tourism and residential construction, however, have taken a hard hit. A sharp drop-off in remittances greatly limited financing for home building and purchases. Inflation fell to 2.6 percent by end-November 2009, down from its peak of 7.0 percent in February, partly reflecting a tight monetary stance. Both the food and non-food components of inflation have been falling—to 2.6 percent and 2.7 percent, respectively, in November.

3. **Fiscal operations incurred some slippages in 2009. In particular, there were large expenditure overruns in the second quarter of the year—mainly due to an unanticipated concentration of spending and other one-off expenditures.** As a result, and despite greater fiscal discipline in the third quarter, government's basic balance, which excludes grants and foreign-financed project spending, stood at GMD -138 million and GMD -61 million as of end-June and end-September 2009, respectively. On a cumulative basis (since end-December 2006) for program monitoring, the end-June and end-September basic balances stood at GMD 342 million and GMD 419 million, which were far below the corresponding program floors of GMD 745 million and GMD 773 million (indicative target and performance criterion, respectively).

4. **In September 2009, the National Assembly approved a supplementary appropriation bill to the National Assembly in the sum of GMD 344 million (1.8 percent**

of GDP), much of which covered the spending over and above the initial budget during the second quarter. For 2009 as a whole, total expenditures, excluding foreign-financed projects, are estimated to have exceeded the initially budgeted ceiling by an even larger margin (GMD 450 million or 2.3 percent of GDP) for 2009 as a whole, mainly reflecting the repurchase of GAMTEL/GAMCEL shares ($5.0 million) and investment in the GRTS satellite link project ($1.5 million) in addition to the supplementary expenditures. Total government revenues exceeded the budget target, boosted by a strong recovery in revenues from the petroleum import duty. Revenue from the corporate income tax, however, fell well short of its target. The basic balance is estimated to have ended the year in a deficit of GMD 312 million (1.6 percent of GDP) compared with the initial budget target of a slight surplus.

5. **Interest on government debt is estimated to have consumed 20.0 percent of government revenues in 2009, of which 15.7 percent of revenues was paid on domestic debt.** In contrast to a slight drop in outstanding (interest-bearing) domestic debt, as planned in the initial budget for 2009, domestic debt is estimated to have risen by GMD 314 million. Moreover, this additional borrowing, which was concentrated in the second quarter, put upward pressure on T-bill yields. The weighted average yield on T-bills peaked at 14.0 percent at end-June 2009, before falling to 11.1 percent at end-December 2009. At end-December 2009, domestic debt stood at GMD 4885 million (25.0 percent of GDP). The Gambia also has substantial external debt liabilities (about 45 percent of GDP as of end-December 2009), but the terms are sufficiently soft so that the debt service burden is manageable.[1]

6. **To fight the rise in inflation earlier in the year, the Central Bank of the Gambia (CBG), implemented a tight monetary policy stance.** The rediscount rate was maintained at 16 percent throughout the year even as inflation fell by 4½ percentage points. Reserve money growth, however, has been quite volatile, partly reflecting difficulties in liquidity forecasting. Although broad money growth remained strong (24.4 percent during the 12 months to October 2009, credit to the private sector has been constrained, rising by only 11.6 percent during this period, despite the entry of new banks.

7. **The Gambia's gross official international reserves have risen significantly in 2009, bolstered by the SDR allocations in August and September (equivalent to US$39 million) and budget support from the African Development Bank and World Bank (equivalent to US$13 million).** Gross reserves ended the year at US$178 million (or 6.4 months of imports). Despite this comfortable level of reserves, the balance of payments showed some weaknesses, including the sharp drop in tourism receipts and remittances and

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[1] Based on current thresholds, a joint World Bank-IMF debt sustainability analysis indicates that The Gambia is at high risk of debt distress. Scheduled reassessments of The Gambia's CPIA and PEFA ratings has the potential to lead to higher thresholds, which would indicate a lowering of the risk of debt distress to moderate.

an estimated current account deficit, including official transfers, of about 14½ percent of GDP. Nevertheless, the nominal exchange rate has remained fairly stable in 2009, trading in the tight range of GMD 26–27 per U.S. dollar, while the CBG has largely refrained from intervening in the FX market. In real effective terms, the Gambian dalasi has appreciated by 2.5 percent since the end of 2008.

III. Performance Under the Program

8. **Performance under the ECF-supported program was generally positive.** All end-September quantitative performance criteria were met, except for the floor on the government's basic balance, which was missed by a wide margin (GMD 403 million or 2.0 percent of GDP). Even adjusted for the SDR allocation, net international reserves exceeded the target by US$11.5 million. Also, the net domestic assets of the Central Bank of The Gambia (CBG) were well below the program ceiling (Table 1).

9. **Structural reforms are broadly on track, albeit with modest delays (Table 2):**

- The credit reference bureau became effective in July.
- The Government's audited accounts for 2005 and 2006 were submitted to the National Assembly in March 2009. In an effort to prevent qualifications of the audits of government accounts for unresolved differences dating back to 1991, a restatement exercise for the 2006 accounts was undertaken and a final report was approved by Cabinet in December 2009. The report will be submitted to the National Assembly by March 2010. As a result the audit of the 2007 accounts has been delayed, but is expected to be completed and submitted to the National Assembly by June 2010.
- The quarterly balance of payments statistics through 2009:Q2 were posted on the CBG's website in October.
- A national medium-term debt management strategy was completed in September and submitted to Cabinet for discussion in November.

10. **The Government has taken corrective actions for the nonobservance of the end-September performance criterion on the government's basic balance.** In particular, the budget for 2010 approved by the National Assembly in December has a near-zero basic balance (GMD -30 million or -0.1 percent of GDP).

IV. Macroeconomic Policies and Objectives for 2010

11. **The outlook for the Gambian economy in 2010 is generally positive.** With an expected partial recovery in tourism and remittances, real GDP growth is projected to rise slightly to 4.8 percent and inflation is projected to be in line with its longer-term trend of 5 percent. However, given the uncertainty of the outlook for tourism and remittances and

weather conditions, there are still considerable downside risks to this projection. The external current account deficit is projected to narrow slightly, but remain high, in 2010. Nevertheless, gross international reserves are projected to remain stable, with modest support from the IMF. Gross reserves would end the year at a comfortable level of US$178 million (equivalent to 6 months of imports).

12. **The overriding objective for macroeconomic policies is to maintain a stable economic environment that would support strong growth and poverty reduction.** At the same time, the Government will take steps to increase the resources available for non-interest expenditures, notably by achieving savings on domestic interest costs—through a reduction in domestic debt and, with supporting measures from the CBG, lower T-bill yields—and securing budget support from development partners. Achieving a path for government debt with lower risk of debt distress would also reduce a major element of macroeconomic vulnerability and could eventually create additional space for non-interest expenditures. Lower T-bill yields will also help to reduce interest rates more broadly, which would be beneficial for private sector investment and economic growth, but to avoid any sudden disruptions to banks' balance sheets, the Government and CBG will exercise care to achieve a gradual reduction in yields.

13. **The Government plans to reduce the stock of T-bills slightly in 2010 by achieving a near-zero basic balance, as budgeted**. While this measure has significant potential for reducing yields, highly disciplined budget execution, and avoiding the expenditure overruns of the previous year, will be critical to its success. Under the budget, government revenues are projected to rise by 10.5 percent in 2010 (to GMD 4413 million), representing a slight increase relative to GDP. Total government spending and net lending, excluding foreign-financed projects, is budgeted to be GMD 4443 million in 2010, as donors' budget support grants supplement government revenues. This would allow a net repayment of the Government's domestic debt (including loans and advances from the CBG and other domestic debt obligations assumed by the Government) of GMD 90 million (0.4 percent of GDP) in 2010**.**

14. **Tax and nontax measures included in the 2010 budget are expected to raise revenue by GMD 110 million (0.5 percent of GDP).** They include:

- Corporate tax rate is lowered from 35 percent to 33 percent;
- Import sales tax on rice is re-instated at 5 percent;
- Excise tax on alcohol and tobacco products is raised;
- Road tax for car owners is increased;
- Tax enforcement and compliance will be strengthened.

At the same time, however, higher global fuel prices are projected to reduce the Government's fuel tax receipts by 0.3 percent of GDP.

15. **To enhance future revenues and strengthen the business environment the Government will pursue tax reforms over the medium term (2011-13), which would simplify the tax system, reduce corporate income tax rates, and eliminate exemptions and discretionary investment incentives, in line with recommendations of the Fund's technical assistance on tax policy (March 2009).** Reforming taxes on consumption would also be considered to bolster revenues. Reforms to tax administration are also needed, including measures to improve taxpayer-oriented services by the GRA and protect taxpayers' rights, such as implementing a tax tribunal. These reforms would help to improve The Gambia's investment climate.

16. **Government and the CBG intend to take the following steps consistent with the aim of reducing domestic debt and lowering domestic interest payments:**

- Rely less on sales of T-bills for the sterilization of liquidity generated by donor-financed government spending. Instead, over the course of the year, the CBG could sell the expected foreign exchange receipts from donors' budget support. The sales could be conducted in a gradual manner to minimize the impact on the exchange rate.

- Improve liquidity forecasting and liquidity management procedures to maintain stable money market conditions consistent with low inflation. An inter-agency committee with high-level representation from the CBG and MFEA will be established for this purpose.

- Explore the possibility of a shift to a fortnightly T-bill auction and reforms to the primary dealership arrangements to enhance competition and market development, which should also help to reduce yields. Introduction of repo instruments for daily monetary operations, however, is an essential precondition for this measure. Encouraging development of a liquid secondary market, would help to flatten the yield curve on government securities, which would facilitate the introduction of government bonds with longer maturities.

17. **Government is making some progress toward allocating resources to poverty reducing activities.** Under The Gambia's second Poverty Reduction Strategy Paper (PRSP II), covering 2007-2011, the Government has intended to increase spending on identified poverty reducing activities to 25 percent of domestic revenue, but thus far this target has not been met. Although higher than in 2006, expenditures for these activities amounted to 20.8 percent and 20.1 percent of domestic revenues in 2007 and 2008, respectively.[2] In

[2] Actual figure for 2007. Figure for 2008 based on approved expenditures.

addition to health and education, other major priority areas include agriculture and natural resources, governance and civil service reform, and infrastructure development. In 2010, the Government will seek to develop an indicative target for spending on poverty reducing activities that can be monitored in a timely manner under the ECF-supported program with the IMF.

18. **Government will intensify its efforts to attract greater donor support.** The establishment of a Partnership Framework for budget support between the Government of The Gambia and its Development Partners (AfDB, EU and the World Bank) led to the signing of the budget support agreement in Banjul on 9 December 2009. Actions aimed at strengthening public financial management, combined with disciplined execution of the budget, will be key for maintaining this support. Immediate attention will focus on the EU's requirements for an initial disbursement of budget support, including a Cabinet-approved PFM strategy and action plan, which will be submitted to Cabinet in January 2010. Timely implementation of the PFM action plan could also encourage other development partners to join the framework.

19. **In addition, government will work towards increasing access to concessional external resources. The thresholds on external debt indicators for the DSA are, at present, contingent on the three-year average for a country's World Bank's CPIA rating.** The submission to the National Assembly of the audited accounts for 2007, following the write-off of the unresolved differences in the 2006 closing balances, is an important step, albeit not the only one, toward securing a higher CPIA rating. While The Gambia will still face restrictions on external borrowing and guaranteeing debt on non-concessional terms, the ceiling on concessional borrowing could then be lifted. Until The Gambia officially achieves improved ratings for macroeconomic and public financial management and lowers the risk of debt distress, government will maintain the minimum grant element on external borrowing at 45 percent. Working together with the IMF, the Government will seek to harmonize its DSA with the one prepared by the IMF. In particular, the strengthening and reconciliation of national accounts statistics and projections will be critical.

20. **Monetary policy will be aimed at holding inflation to no more than 5 percent, by targeting reserve money growth to 10 percent during 2010.** Broad money is projected to grow by about 11 percent during the year, while growth in bank credit to the private sector is projected to pick up to 23 percent. The increasing of the minimum capital requirement for banks to D150 million by end-2010 will allow for a strong expansion of banks' portfolios.

21. **The CBG will maintain vigilant supervision of the banking system**. Because of the recent increase in the number of banks, the Banking Supervision Department will add a third team of bank examiners. In addition, the CBG is increasing banks' capital requirements from D60 million in 2009 to D150 million at end-2010 and D200 million at end-2012.

22. **The CBG will maintain a floating exchange rate regime.** While the CBG will institute a systematic process for selling foreign exchange aimed at sterilizing liquidity generated by donor-financed government spending, it may also intervene occasionally to maintain an orderly market. The monetary program for 2010 aims at maintaining the end-year stock of gross international reserves (in U.S. dollars) at the same level as the previous year.

23. **Overdrafts of the treasury main account have resulted in the government breaching the statutory limit on borrowing from the central bank (10 percent of the previous year's tax revenues as set by the CBG Act; but temporarily set at 20 percent by a memorandum of understanding between the Minister of Finance and Central Bank Governor).** Compliance with the statutory limit is a critical element for maintaining central bank independence and was a key recommendation of the November 2009 Safeguards Assessment by the IMF. The Government will reduce its overdrafts to be in full compliance with the statutory limit beginning end-September 2010. Better forecasting of expenditures would help reduce this overdraft and allow the central bank to better plan T-bill auctions.

24. **The government is committed to improving its debt sustainability position, primarily by curbing domestic debt.** It will also continue to reach and finalize agreements with creditors on HIPC debt relief.

25. **The government seeks additional technical assistance from the IMF in the areas of liquidity forecasting, tax administration, fiscal decentralisation, debt management, and national accounts and price statistics.**

V. PROGRAM MONITORING

26. **The program will continue to be monitored based on agreed quantitative targets and performance criteria (see Table 1), structural benchmarks (Table 3), and program reviews.** The quantitative financial targets for end-March 2010 and end-September 2010 are performance criteria, and those for end–June 2010 and end-December 2010 are indicative targets. The seventh review and eighth review are scheduled to be completed by end-July 2010 and end-January 2011, respectively. Definitions of all targeted variables and reporting requirements are contained in the attached technical memorandum of understanding (TMU).

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

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

	2006	2007		2008		2009							2010			
	End-Dec.	End-Dec.[1]		End-Dec.		End-Mar.		End-Jun.		End-Sep.		End-Dec.	End-Mar.	End-Jun.	End-Sep	End-Dec
	Act.	Prog.	Act.	Prog.	Act.	Prog.	Act.	Prog.	Act.	Prog.	Act.	Prog.	Prog.	Prog.	Prog.	Prog.
Performance criteria [2]	(Stock)	(Cumulative change from end-December 2006)														
		(Millions of dalasis)														
Net domestic assets of the central bank (ceiling)	38.7	504.5		-97.0		759.0		859.0		964.6		914.5	767.3	638.6	756.1	983.2
Adjusted for privatization proceeds and budget support[3]		262.5	-270.4	46.0	590.3	905.3	530.4	1,135.1	554.1	984.9	292.3					
Basic balance (floor)[4]	...	659.4		859.3		616.9		745.5		772.7		685.6	204.6	288.6	266.8	141.0
Adjusted for budget support		659.4	613.6	859.3	480.4	616.9	681.3	745.5	342.4	772.7	444.6					
New external payments arrears of the central government (ceiling)[5]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
		(Millions of U.S. dollars)														
Net usable international reserves (floor)	94.9	12.3		36.5		-2.9		-6.1		-5.9		-13.7	50.7	53.5	47.3	47.0
Adjusted for privatization proceeds and budget support[6]		23.3	32.0	30.0	1.3	-9.6	0.9	-18.7	0.3	32.2	43.7					
New nonconcessional debt contracted or guaranteed by the government with original maturity of more than one year (ceiling)[7]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Outstanding stock of external public debt with original maturity of one year or less (ceiling)[8]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Indicative targets		(Millions of dalasis)														
Domestic budgetary arrears[9]	561.5	-440.2	-369.5	-561.5	-561.5	-561.5	-494.3	-531.3	-494.3	-531.3	-494.3	-531.3	-561.5	-561.5	-561.5	-561.5
		(Millions of U.S. dollars)														
Net present value of new contracted external debt (cumulative ceiling)[10]		4.2	0.0	31.7	30.2	40.1	36.7	40.1	42.7	45.6	46.3	45.6	…	…	…	…
Memorandum item:																
Program exchange rate (D/$)		22.0	22.0	22.0	22.0	22.0	22.0	22.0	22.0	22.0	22.0	22.0	22.0	22.0	22.0	22.0
Privatization proceeds ($ millions)	…	17.5	28.5	35.0	28.5	28.5	28.9	29.9	28.9	29.9	28.9	29.9	28.9	28.9	28.9	28.9
Privatization proceeds (D millions at program exchange rate)	…	385.0	627.0	770.0	627.0	627.0	634.7	657.8	634.7	657.8	634.7	657.8	634.7	634.7	634.7	634.7
Expenditure from privatization receipts (D millions)	…	70.0	158.6	612.0	612.0	612.0	612.0	612.0	612.0	657.8	634.7	657.8	634.7	634.7	634.7	634.7
Budget support grants ($ million)		0.0	0.0	0.0	0.0	7.0	0.0	11.5	0.0	11.5	11.6	11.5	11.5	19.3	23.2	23.2
Budget support grants (D millions at program exchange rate)		0.0	0.0	0.0	0.0	154.0	0.0	253.0	0.0	253.0	255.8	253.0	253.0	424.1	509.7	509.7
SDR allocation (SDR millions)										0.0	24.7	24.7	24.7	24.7	24.7	24.7
SDR allocation (dalasi at program exchange rate)										0.0	859.2	859.2	859.2	859.2	859.2	859.2

Source: Gambian authorities.

[1] MDRI debt relief took place in the fourth quarter of 2007.

[2] March 2009, September 2009, March 2010, and September 2010 are performance criteria; December 2007, December 2008, June 2009, December 2009, June 2010, and December 2010 are indicative targets.

[3] Adjusted upward (downward) by the dalasi equivalent of the extent to which actual receipts fall short of (exceed) projected level of privatization receipts and budget support grants.

[4] Defined as domestic revenue minus expenditure and net lending, excluding externally financed capital expenditure. The end-December 2009 outcome is estimated as 168.8; targets for 2010 were calculated on the basis of this estimate. Adjusted downward by the dalasi equivalent of the amount of external budget support in excess of the projected levels up to a cumulative maximum in of US$10 million in 2009 and 2010.

[5] To be applied on a continuous basis.

[6] Adjusted upward (downward) by the extent to which actual receipts exceed (fall short of) projected level of privatization receipts and budget support grants.

[7] External debt contracted or guaranteed other than that with a grant element equivalent to 45 percent or more, calculated using a discount rate based on the Organization for Economic Corporation and Development (OECD) commercial interest reference rates (CIRRs). Excludes borrowing from the IMF.

[8] Excluding normal import-related credits.

[9] Actual domestic budgetary arrears have been revised upwards for December 2007 and March 2008 to exclude loans that were initially included in arrears. Arrears for March 2009 were revised upwards to account for new arrears owed to the National Water and Electricity Corporation (NAWEC).

[10] Cumulative from October 1, 2007.

Table 2: Structural Benchmarks, July-December 2009

Measure	Target date	Status
Public financial management and accountability		
1. Auditing of government accounts: submit to the national assembly audited government accounts for 2005, 2006, and 2007	End-Sept 2009	Delayed. Accounts for 2005 and 2006 were submitted to the National Assembly, but the audit of 2007 accounts has been delayed, because of the restatement exercise for end-2006 balances to account for long-running discrepancies. The restated balance for end-2006 will help prevent qualifications in subsequent audits.
2. Prepare a national debt strategy after receiving TA	End-Sept 2009	Met
Statistics		
3. Publish quarterly balance of payments statistics, with a one quarter lag	(i) End-Sept 2009 (2009 Q2 data) (ii) End-Dec 2009 (2009 Q3 data)	Met

Table 3. Structural Benchmarks, January-December 2010

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

TECHNICAL MEMORANDUM OF UNDERSTANDING

I. INTRODUCTION

1. This memorandum sets out the understandings between the Gambian authorities and staff of the International Monetary Fund (IMF) regarding the definitions of quantitative performance criteria, indicative targets, structural performance criteria, and structural benchmarks that will be used to monitor the Poverty Reduction and Growth Facility (ECF)-supported program covering the period of 2007–09.[1] It also sets out the related reporting requirements and describes the adjusters that will be applied to certain quantitative performance criteria of the program.

II. QUANTITATIVE PERFORMANCE CRITERIA

A. Net Domestic Assets of the Central Bank

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

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

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

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

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

[1] The authorities are requesting an extension of the program by one year. If this extension is approved, this memorandum will also apply to the period of extension.

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

B. Basic Balance of the Central Government

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

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

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

C. New External Payments Arrears of the Central Government

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

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

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

13. **Definition:** ***Net usable international reserves (NIR)*** of the CBG are defined as the difference between usable reserve assets and reserve liabilities. ***Usable reserve assets*** are readily available claims on nonresidents denominated in foreign convertible currencies. They include the CBG holdings of SDRs, foreign currency cash, foreign currency securities, deposits abroad, and the country's reserve position at the IMF. Excluded are any assets that are pledged, collateralized, or otherwise encumbered, claims on residents, claims in foreign exchange arising from derivatives in foreign currencies vis-à-vis domestic currency (such as

futures, forwards, swaps, and options), precious metals, assets in nonconvertible currencies, and illiquid assets (including capital shares in international organizations). ***Reserve liabilities*** are all foreign exchange liabilities to residents and nonresidents, including commitments to sell foreign exchange arising from derivatives (such as futures, forwards, swaps, and options), and all credit outstanding from the IMF.

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

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

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

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

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

18. **Definition:** This target refers to new nonconcessional external debt with original maturity of more than one year contracted or guaranteed by the central government. It applies not only to debt as defined in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt, adopted by the Executive Board of the IMF on August 24, 2000 (Decision No. 12274–00/85), but also to commitments contracted or guaranteed for which value has not been received. Excluded from this target are loans or purchases from the IMF and debts with a grant element of at least 45 percent.[2] Also excluded are two loans from the OPEC Fund for International Development with grant elements of 39.5 percent each, which were approved in the first half of 2007.

19. **Supporting material:** A comprehensive record, including a loan-by-loan accounting of all new concessional and nonconcessional debt contracted or guaranteed by the central government with detailed explanations, will be transmitted on a quarterly basis within four weeks of the end of each quarter. Nonconcessional external debt over one year includes

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

financial leases and other instruments giving rise to external liabilities, contingent or otherwise, on nonconcessional terms.

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

20. **Definition**: This target refers to the stock of outstanding external public sector debt with original maturity of one year or less, owed or guaranteed by the central government.[3] Public sector consists of the central and regional governments and other public agencies, including the CBG. Excluded from this target are normal import-related credits.

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

III. Quantitative Indicative Targets

A. Domestic Budgetary Arrears

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

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

B. Net Present Value of New Contracted External Debt

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

[3] The term "debt" has the meaning set forth in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt, adopted by the Executive Board of the IMF on August 24, 2000 (Decision No. 12274–00/85).

actual exchange rate at the test date, based on the projected drawdown consistent with the medium-term fiscal framework as discussed with the Fund staff.

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

IV. Structural Performance Criteria and Benchmarks

A. Pro-Forma Financial Statements

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

B. Credit Reference Bureau

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

C. Quarterly Balance of Payments Statistics

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

V. Other Data Requirements and Reporting Standards

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

A. Prices

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

B. Government Accounts Data

31. A monthly consolidated central government budget report (i.e., the analytical table) on budget execution during the month and cumulatively from the beginning of the year, will be transmitted to the IMF within four weeks of the end of the month. The report will comprise: (i) revenue data by major item, including tax (direct tax, taxes on domestic goods and services, and taxes on international trade) and nontax; (ii) external grants by type (e.g., project, program); (iii) details of recurrent expenditure (including data on wages and

salaries, interest payments, and other charges); (iv) details of capital expenditure and net lending (including data on externally financed capital expenditure, expenditures from the Gambia Local Fund, and net lending); (v) the overall balance and the basic balance (defined in paragraph 7); and (vi) details of budget financing (including net domestic borrowing and its gross components, external grants, net external borrowing and its gross components, utilization of privatization proceeds, and arrears).

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

C. Poverty Reducing Expenditures

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

D. Monetary Sector Data

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

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

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

37. The CBG will also forward within four weeks of the end of each month, data on government borrowing from the CBG as defined in the CBG Act 2005. The data shall

indicate the limit on government borrowing from the CBG based on the government's tax revenues in the preceding year.

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

E. Treasury Bills

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

F. External Sector Data

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

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

G. CBG Report on Monetary Program Data

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

INTERNATIONAL MONETARY FUND

AND

INTERNATIONAL DEVELOPMENT ASSOCIATION

THE GAMBIA

Joint IMF/IDA Debt Sustainability Analysis

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

Approved by Roger Nord and Dominique Desruelle (IMF) and
Sudhir Shetty and Carlos Alberto Braga (IDA)

January 21, 2010

The results of this debt sustainability analysis (DSA) indicate that The Gambia remains at high risk of debt distress, reflecting weak export performance, significant new borrowing, and depreciation of the exchange rate. Projections indicate that the present value (PV) of external debt to export ratio exceeds its threshold for a protracted period while the standard stress tests show that The Gambia is vulnerable to adverse developments with the PV of debt to exports and debt to GDP breaching their thresholds under some stress tests. Staffs recommend that the authorities limit new borrowing, rely mainly on grants, seek highly concessional loans with a grant element of at least 45 percent, reduce their stock of domestic debt, and complete reforms that would improve the country's competitiveness.

I. Background

1. **This debt sustainability analysis (DSA) was prepared by the staffs of the Fund and the World Bank, in collaboration with the Gambian authorities.** This DSA is based on debt and debt service data obtained from the authorities as of November 30, 2009, and reflects a revised macroeconomic framework following discussions of the sixth review of the Extended Credit Facility (ECF) arrangement with the Fund. The last joint DSA[1] prepared by staffs of the IMF and the World Bank for the fourth review of the country's ECF arrangement concluded that The Gambia was at high risk of debt distress.

2. **The Gambia's stock of external debt declined substantially after full delivery of debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI).** HIPC and MDRI debt relief reduced The Gambia's stock of nominal external public debt from US$676.7 million (133.1 percent of

[1] IMF Country Report No 09/92.

GDP) to US$299.4 million (41.7 percent of GDP). In PV terms, the stock of debt decreased from US$439 million at end-2007 to US$347 million following HIPC debt relief and to US$165 million after MDRI debt relief. Jointly, these reduced the debt to exports ratio to about 113 percent at completion point. In January 2008, Paris Club creditors agreed to cancel outstanding claims totaling US$13 million in PV terms at end-2006. Although the country received bilateral debt relief from Kuwait, further agreements with other non-Paris club creditors on the delivery of debt are still pending with the Economic Community of West African States (ECOWAS), Saudi Arabia, Taiwan Province of China, Libya, and China.

3. **Despite receiving HIPC and MDRI debt relief, The Gambia's debt indicators remain elevated, reflecting a number of factors.** These factors include weaker-than-expected export performance, unanticipated depreciation of the real exchange rate during 2008, and reliance on expensive domestic borrowing. In particular, the high debt stock is attributable to significantly larger-than-previously projected new borrowing,[2] which at completion point in 2007 was about US$84 million above projections made at decision point in 1999, and an additional US$46.3 million in PV terms since completion point. The weak performance of exports is mainly due to the persisting difficulties with the country's re-export trade. A significant depreciation of the dalasi against the US dollar in 2008 also put significant pressure on the PV of debt to GDP. Given that the Gambia receives fewer grants (as a percentage of GDP) than comparable HIPC countries, the government has had to rely on expensive domestic borrowing. Although the debt risk classification in the DSA only considers external debt, the large domestic debt stock (27 percent of GDP) and high debt service payments on domestic debt (15¾ percent of government revenues) provide further evidence of the need for the authorities to develop and implement a prudent borrowing plan in line with the country's medium-term debt strategy (MTDS).

4. **The Gambia's program with the IMF includes limits on the amount and terms of new borrowing to prevent a build-up of debt to levels that may be unsustainable over the medium- and long-term**. Under the ECF program, the authorities have committed to a minimum grant element of 45 percent in new external loans contracted or guaranteed by the government. The program also has indicative quarterly limits on the total amount of new borrowings.[3]

[2] New borrowing was contracted on less concessional terms than anticipated at decision point. Since completion point, however, all external borrowing has been contracted in line with the 45 percent grant element agreed under the ECF arrangement.

[3] Although not binding in The Gambia's case, IDA also has a minimum grant element under the NCBP of 35 percent or higher. The policy is complementary to other policies and tools that the Bank and Fund have in place to help countries maintain debt sustainability, such as the LIC Debt Sustainability Framework, the Debt Management Performance Assessment (DeMPA) tool, and the toolkit for developing Medium-Term Debt Management Strategies (MTDS). See "IDA's Non-Concessional Borrowing Policy: Review and Update", Resource Mobilization Department, (FRM), The World Bank, June 2008.

II. MACROECONOMIC ASSUMPTIONS

5. **The macroeconomic framework takes into account the impact of the global economic and financial crisis in 2008 and 2009 and is consistent with the ECF-supported program** (Box 1). Recent developments in the global economy moderately affected economic activity in The Gambia in 2009 mainly through reduced tourist receipts and remittances. Economic activity is expected to return to trend over the medium term as the authorities pursue prudent fiscal and monetary policies, and investment in agriculture and infrastructure, while the recovery in the global economy allow tourism receipts to increase.

Box 1: Baseline Macroeconomic Assumptions Underlying the DSA

Real GDP growth is projected to decline from 6.1 percent in 2008 to 4.6 percent in 2009, reflecting declines in foreign exchange earnings from tourism and re-exports, as well as lower remittances inflows. The effect of the global economic downturn was moderated however by favorable rains, which led to a recovery in agricultural output, with a rebounding of groundnut production and increases in the rice harvest. Looking forward, real GDP growth is projected to average about 5¼ percent annually, buoyed by the recovery in tourism and construction, and the sustained expansion in telecommunications and banking.

Inflation is projected to remain low. Year-on-year consumer price inflation fell to 2.3 percent in November 2009, down from its peak of 7 percent in January. This reduction in inflation has been driven by tight monetary policy and a decline in food price inflation.

The **external current account** deficit narrowed in 2009. There was a significant slowdown in imports of goods and services, reflecting substantial nominal depreciation in 2008, difficulties with the re-export trade, and the slowdown in the world economy associated with the global financial crisis. Although there was a fall in remittances and tourism receipts, reflecting the effects of the global financial crisis, it was offset by increased budget support from the World Bank and the African Development Bank. Over the medium term (2010–12), the EU plans to disburse about €25 million in budget support. In 2009, **exports of goods and services** are estimated to have fallen by nearly 6 percent compared to 2008 but over the medium- and long-term export growth is projected to rebound to about 7 percent per year reflecting projected recovery in the re-export trade and sustained increase in agricultural production. **Imports of goods and services** are projected to grow about 6¾ percent per year, in line with nominal GDP growth over the period. Official transfers are projected to increase from 3½ percent of GDP in 2009 to about 5 percent of GDP over the medium term while gross external borrowing is projected to decline from 4½ percent to about 3 percent of GDP. In view of the expected recovery of exports, increase in services (in line with the recovery of the tourism sector), and projected rebounds in remittances, the current account deficit is projected to narrow gradually over the medium to long term. **Net investment (FDI)** increased from 8½ percent in 2008 to 10¼ percent in 2009, mostly reflecting the influx of new commercial banks, especially from Nigeria. Over the medium term, net FDI will remain above 9 percent as these banks expand and consolidate their presence in The Gambia.

The **primary fiscal surplus** is projected to average 1½ percent of GDP for 2009–2014 before returning to balance as interest savings allow an increase in capital expenditures. Revenues are projected to increase marginally from 20½ percent of GDP in 2009 to about 22 percent of GDP over the medium-term in line with expected implementation of tax reforms. Donor support, including program and project grants, is projected to remain at 4½ percent of GDP over the medium term and will help reduce domestic borrowing.

III. External Debt Sustainability

A. Baseline

6. **The trends in debt indicators under the baseline scenario are broadly similar to those estimated in the previous DSA**. The Gambia remains in the "poor performer" category according to the three-year (2006–08) average rating of the World Bank's Country Policy and Institutional Assessment (CPIA).[4] The associated policy-dependent debt burden thresholds and debt indicators for 2009 and the medium- to long-term indicators are presented in Text Table 1. Most debt indicators decline over the medium and long term, reflecting assumptions of sustained growth following the current global crisis. New public borrowing is assumed to increase moderately in the medium-term in line with the authority's planned investments but will stabilize over the long-term as growth is sustained.

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

	Threshold 1/	2009	Medium-term (2009-14)	Long-term (2015-29)
PV of External Debt				
In percent of GDP	30	28	26	19
In percent of exports	100	144	139	108
In percent of revenues	200	137	122	86
Debt Service				
In percent of exports	15	12	13	11
In percent of revenues	25	12	11	9

1/ Based on The Gambia's ranking as a "poor performer" with an average (2006--08) CPIA rating of 3.18.

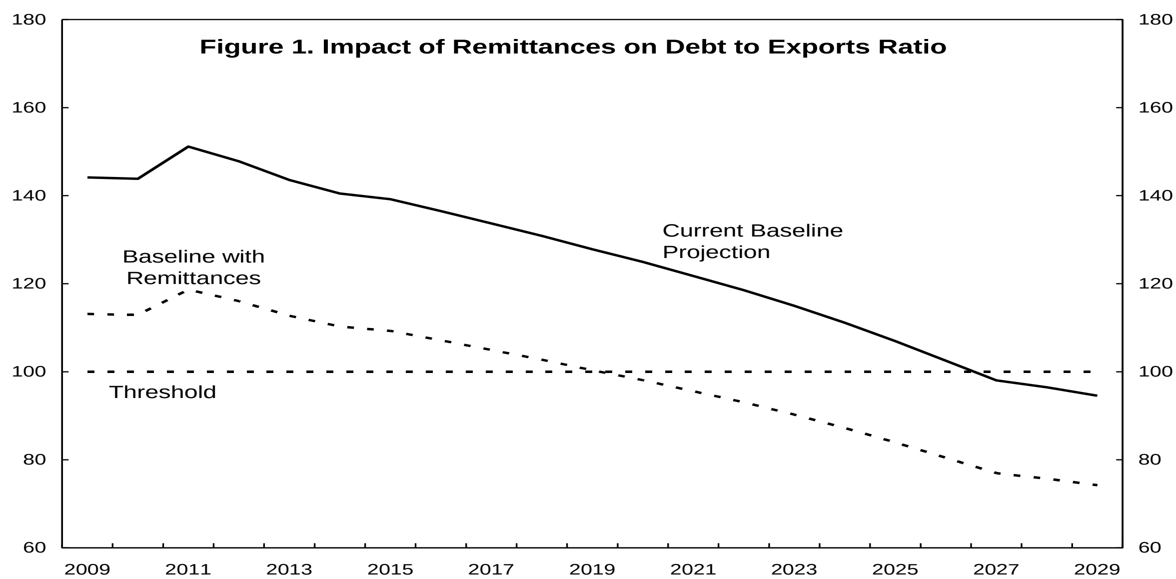
7. **While most debt burden indicators are below their indicative policy-related thresholds, the PV of debt-to-exports ratio breaches its threshold for a protracted period** (Table 1 and Figure 3). Estimated at about 144 percent of exports in 2009, the PV of debt to exports ratio breaches its threshold by a substantial margin and for a protracted period. This ratio peaks at 145 percent in 2011, as new borrowing continues in the context of relatively weak export performance, but declines only slightly below the threshold in 2027. The PV of debt to GDP ratio is slightly below its threshold in 2009 and declines only marginally in the medium-term as economic growth picks up in the aftermath of the global crisis. With expected strong GDP growth over the long-term,[5] the debt-to-GDP ratio declines to about 15 percent at the end of the projection period, down from 28 percent in 2009. The

[4] The World Bank's CPIA is an assessment of a country's policy and institutional framework, and consists of a set of 16 criteria grouped into four equally weighted clusters: (i) economic management; (ii) structural policies; (iii) policies for social inclusion and equity; and (iv) public sector management and institutions. The CPIA rating for 2009 is expected to be announced by the end of the first quarter of 2010.

[5] This reflects projected growth in agriculture, tourism, services, and construction.

debt service ratios are below their respective thresholds. In particular, the debt service-to-revenues ratio is well below the threshold and continues to decline gradually over the medium and long-term reflecting the decline in the PV of debt-to-GDP. However, the debt service to exports ratio is only slightly below its threshold and stabilizes close to its current value even in the long-run.

8. **With only one debt burden indicator exceeding its threshold, this DSA also considers the role of remittances**.[6] Remittances are equivalent to other "measures of repayment capacity" (like exports or GDP) because they increase the foreign exchange earnings available to a country. Although there is usually under-reporting of remittances inflows, raising concerns about the quality and the coverage of data, in the case of The Gambia the World Bank's World Development Indicators (2009) shows that on average (2002—08), remittances account for 27½ percent of exports and 11 percent of GDP. As expected, incorporating[7] remittances in our analysis reduces the debt-to-exports ratio by a substantial margin (Figure 1).[8] Nevertheless, this ratio still breaches the threshold until about 2019 with a peak of about 119 percent in 2011.



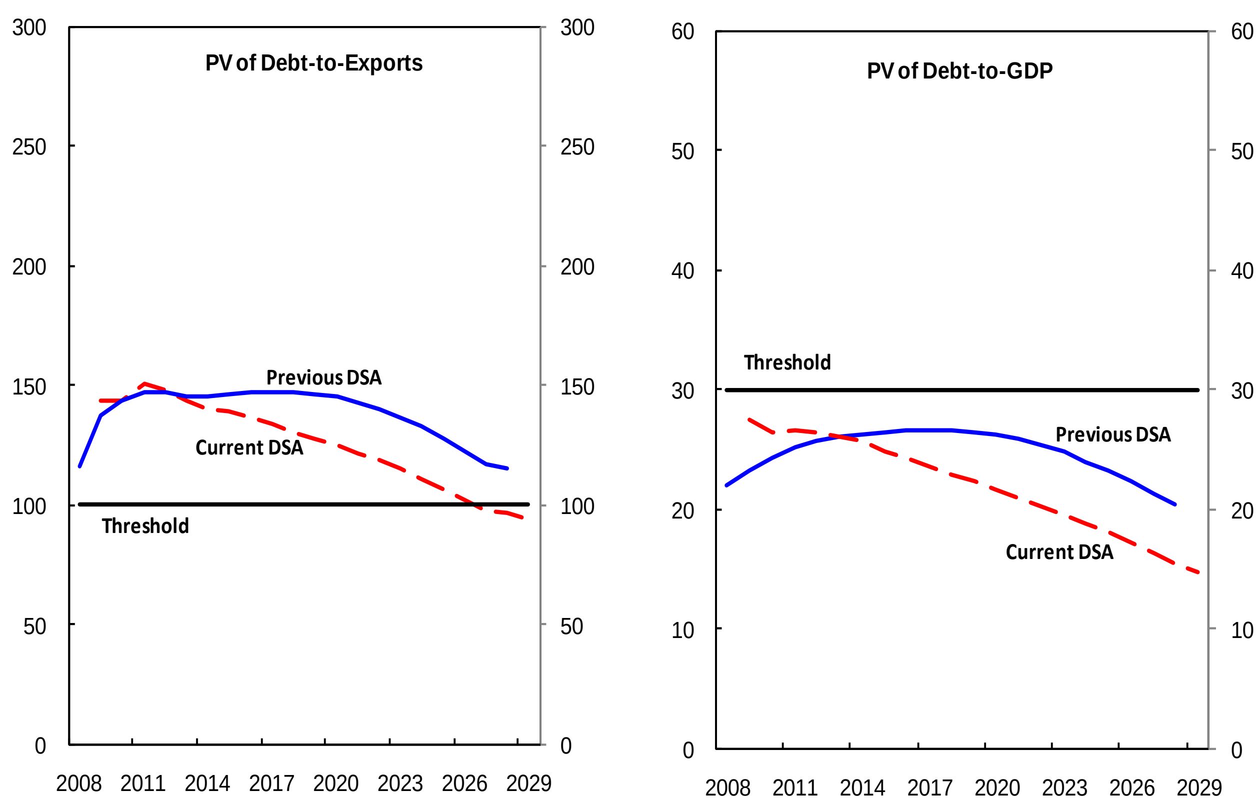
[6] This is in line with suggestions in a recent policy paper titled "A Review of Some Aspects of the Low-Income Country Debt Sustainability Framework", which calls for a more explicit recognition of remittances in DSAs.

[7] There is no consensus yet on how best to incorporate remittances into debt sustainability analysis. However, staffs adopted the approach in the paper referenced in Footnote 6, and added remittances to total exports.

[8] Staffs expect remittances to have the same effect on both the debt to GDP and debt service to exports ratios, namely, a reduction in the ratios over the projection horizon. However, staffs have not carried out this exercise because both ratios are currently below their respective thresholds throughout the projection horizon.

9. **A numbers of factors explain the difference between the debt indicators in this DSA compared to the previous one (Figure 2).** As against the previous DSA, the worsening in debt indicators at end-2009 was mainly due to significant depreciation of the exchange rate against the US dollar, and decline in export growth reflecting difficulties with the re-export trade. In addition, GDP growth was adversely affected by the global crisis through a fall in tourism and remittance inflows. Over the medium and long term, an improvement in the debt indicators (as compared to the previous DSA) is attributable to downward revisions in projected debt disbursements, and the recovery in GDP and exports growth.

Figure 2. The Gambia: Post mortem of Past Assumptions, 2008--29



Source: Gambian Authorities and IMF staff estimates and projections.

B. Alternative Scenarios and Stress Tests

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

Alternative Scenarios:

- Under the historical scenario, which is associated with key variables (GDP growth, current account balance, and non-debt creating flows) being at their historical levels,[9] all three debt burden indicators (which reflect capacity repayment measures) worsen significantly. Compared to the baseline, the debt to GDP ratio is higher by 8 percentage points in 2019, while the debt to exports and debt to revenue ratios exceed the baseline by 44 percentage points and 35 percentage points, respectively. Under this scenario, debt service indicators decline relative to the baseline but only marginally (Table 2b).

- In the scenario where new borrowing occurs on less favorable terms,[10] all the debt indicators worsen substantially with the debt service ratios mostly affected under this scenario. In particular, the debt service to exports ratio breaches its threshold until 2019 with a peak of about 7 percentage points increase in 2011. The debt service to revenue ratio also increases with a peak of about 8 percentage points in 2011 but remains under its threshold throughout the projection horizon. These results underscore the need for the authorities to seek highly concessional financing for new borrowing.[11]

Bound Tests:

- Most bound tests show significant deterioration in debt indicators. Of the six bound tests, four involve "shocks" to some key variables in the second and third years of the projection period;[12] another is a combination of these four shocks while the sixth

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[9] Historically, The Gambia has had low real GDP growth, persistent current account deficits, and low foreign direct investment. The country also receives fewer grants (as a percentage of GDP) than other HIPC countries.

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

[11] To be considered concessional in Fund arrangements, loans should have a grant element of at least 35 percent. Under the current ECF arrangement for The Gambia, concessional financing is defined as loans with a grant element of 45 percent or higher.

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

assumes a one-time 30 percent depreciation in the nominal exchange rate. The results (Table 2) are interpreted such that the most extreme shock is the one yielding the highest ratio in 2019. Except for the debt service to exports ratio where the worst shock is a one-time 30 percent depreciation, the most extreme shocks are generally associated with a combination of the first four shocks with most of the debt indicators breaching their respective thresholds. These results highlight the need for the authorities to adhere to a prudent borrowing plan associated with the approved medium-term debt management strategy (MTDS).

- The Gambia's debt dynamics would also deteriorate sharply with a shock to non-debt creating flows. Under this stress test, the debt to GDP ratio breaches its threshold by about 10 percentage points in 2010 and remains above its threshold until 2021. Debt service indicators (which reflect liquidity constraints) also increase under this scenario, with the debt service to exports ratio breaching its threshold until 2014. In the light of the fact that non-debt creating flows (including official and private transfers, and FDI) have been historically low in The Gambia, achieving external debt sustainability will require that the authorities pursue policies resulting in higher non-debt creating flows.

IV. Public Debt Sustainability

A. Baseline

11. **Over the medium to long term, domestic debt is expected to fall from 27 percent of GDP at the end of 2009 to 14 percent of GDP in 2013, and to stabilize at around 10½ percent of GDP thereafter, reflecting sustained fiscal discipline.** Despite the global crisis, a 20 percent nominal depreciation of the dalasi against the US dollar in 2008 helped with partial recovery of international trade and the resulting increase in trade taxes and revenues. The government also received more grants in 2009 (about 2 percentage points of GDP) than anticipated. Over the medium-term, revenues will rise gradually from 20 to 21 percent of GDP as general economic activity stabilizes. As programmed for the medium term, fiscal discipline should help lower domestic interest rates and provide fiscal space to increase basic primary expenditures. [13]

12. **Under the baseline scenario, the PV of total public debt is projected to decline from about 55 percent of GDP in 2009 to 35 percent in 2014 and to 22½ percent in 2029** (Table 3 and Figure 3). The largest factor in this near term decline in the PV of total public debt is a projected fall in the domestic debt. As a ratio of domestic revenues and grants, the PV of public debt is projected to fall from about 223 percent in 2009 to 84½ percent by the end of the projection period.

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

B. Alternative Scenarios and Stress Tests

13. **Under alternative scenarios and stress tests, the public debt ratios would deteriorate significantly.** In particular, public debt ratios are mostly sensitive to lower GDP growth over the long run, persistent primary fiscal deficits, and one-time depreciation of the nominal exchange rate (Table 4 and Figure 4). Of the three alternative scenarios, public debt ratios are mostly affected by a persistent fiscal deficit, suggesting that a status quo in fiscal policy results in an explosive debt path, while the most extreme stress test is temporary deceleration in real GDP growth.

Alternative Scenarios:

- Under a scenario where the primary balance for 2009 (a deficit of about 1½ percent of GDP) is unchanged over the projection period, the PV of debt to GDP ratio would increase from 55 percent in 2009 to 81 percent in 2029, as compared to a decline under the baseline to 22 percent in 2029. Similarly, the PV of debt to revenue will increase from 223 percent in 2009 to 306 percent in 2029 as against a decline under the baseline to 85 percent in 2029.

- The present values of all public debt indicators decline over time under the scenario with reduced real GDP growth, while the primary balance at historical averages[14] shows a similar downward trend as in the baseline; this decline is not as pronounced as under the baseline scenario, however. The PV of debt to GDP ratio declines from 55 percent in 2009 to 49 percent in 2029 (as compared to 22 percent in the baseline), while the PV of debt to revenue ratio declines from 223 percent to 185 percent (as against 85 percent in the baseline).

Bound Tests:

- The most extreme bound test consists of real GDP growth being at one standard deviation less than its historical average. Under this circumstance, the PV of debt to GDP ratio would worsen to 42 percent in 2029 as compared to 22 percent under the baseline scenario while the PV of debt to revenue ratio would worsen to 155 percent as against 85 percent under the baseline.

- A combination of shocks (to growth and the primary balance) and a one-time 30 percent depreciation also results in a moderate worsening of debt ratios compared to the baseline. Under the former, the PV of debt-to-GDP ratio would rise to 34 percent in 2029 while under the latter it would rise to 32 percent. In comparison, under the baseline, this ratio would reach 22 percent.

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[14] At historical averages, real GDP growth is 5¼ percent while the primary deficit is 0.7 percent of GDP.

V. Debt Distress Classification[15] and Conclusions

14. **In staff's view, The Gambia remains at high risk of debt distress based on external debt burden indicators and the results of the stress tests.[16]** This assessment reflects the significant and protracted breach of the policy-dependent indicative threshold by the PV of debt to exports ratio, as well as the vulnerability of other debt indicators to alternative scenarios. In particular, the debt indicators could deteriorate significantly either if new borrowing were contracted on less favorable terms, or if the exchange rate depreciates significantly. While an assessment of domestic debt does not affect a country's classification of debt distress, The Gambia's large domestic debt stock (27 percent of GDP) and high debt service payments on domestic debt (15¾ percent of government revenues) provide further evidence that the country's overall debt vulnerabilities are high. At the time of the preparation of this DSA, the evidence indicates that there is considerable risk that a lack of fiscal discipline may lead to further accumulation of domestic debt.

15. **A number of policy recommendations emanate from this assessment and attendant risks.** The authorities are urged to pursue a medium-term debt management strategy (to include the debt of public enterprises and contingent liabilities) anchored on a combination of grants and highly concessional borrowing in external financing and maintaining a borrowing policy consistent with debt sustainability. The authorities may also consider efforts to raise the country's export potential through policies aimed at diversifying the economy and increasing competition. In view of The Gambia's debt vulnerability, as well as to prevent a build-up of unsustainable debt, while allowing for adequate external financing, staff recommends that the minimum grant element on external borrowing be maintained at 45 percent. The major risks to The Gambia's debt sustainability include lower than expected economic and/or export growth, higher than expected new borrowing, and further slippages in fiscal performance.

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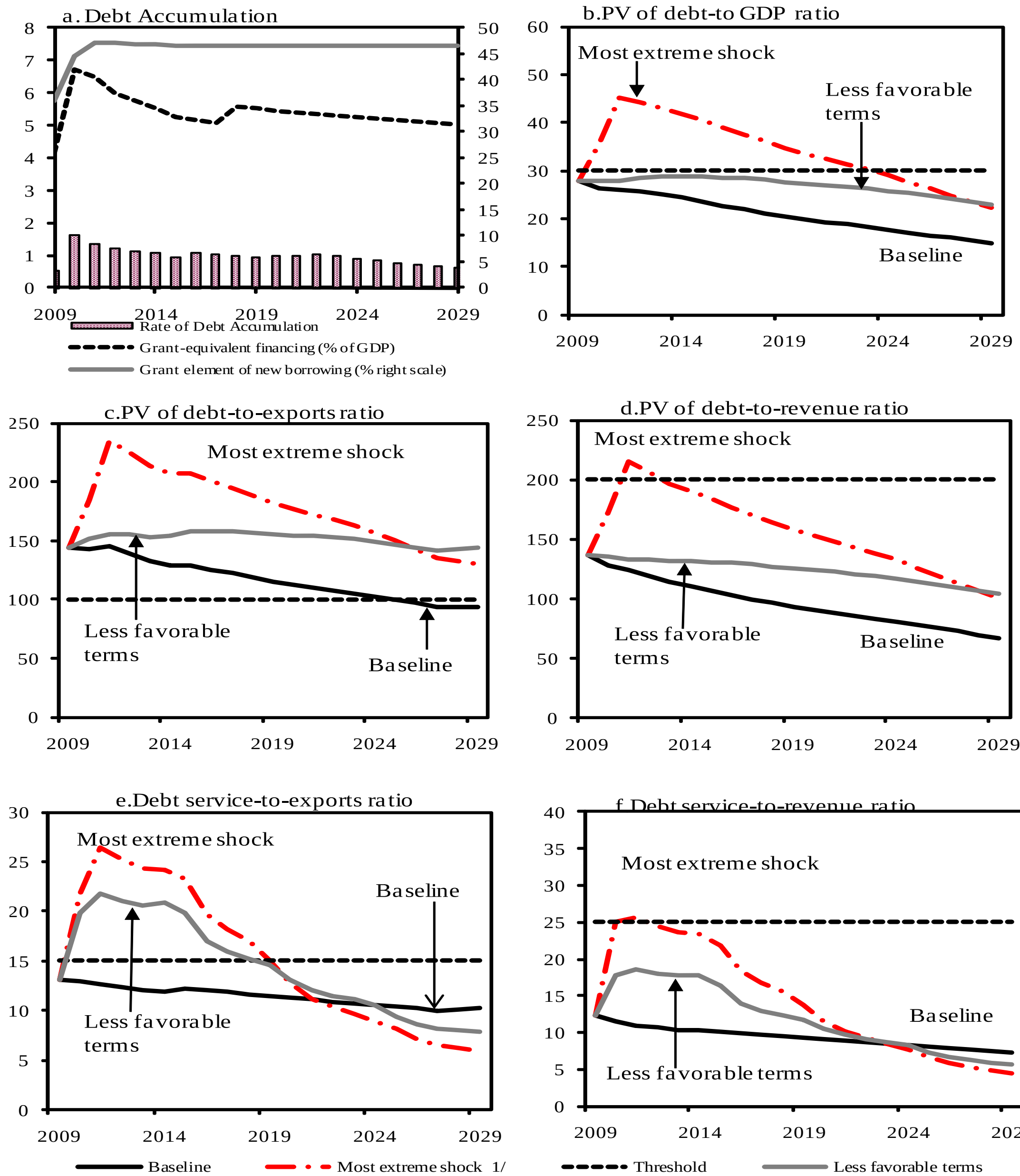
[15] This classification plays an important role in determining the mix of grants and loans under IDA assistance and in Fund program design. Countries assessed to be at high risk of debt distress or in debt distress receive 100 percent grant financing from IDA, while countries at moderate risk receive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

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

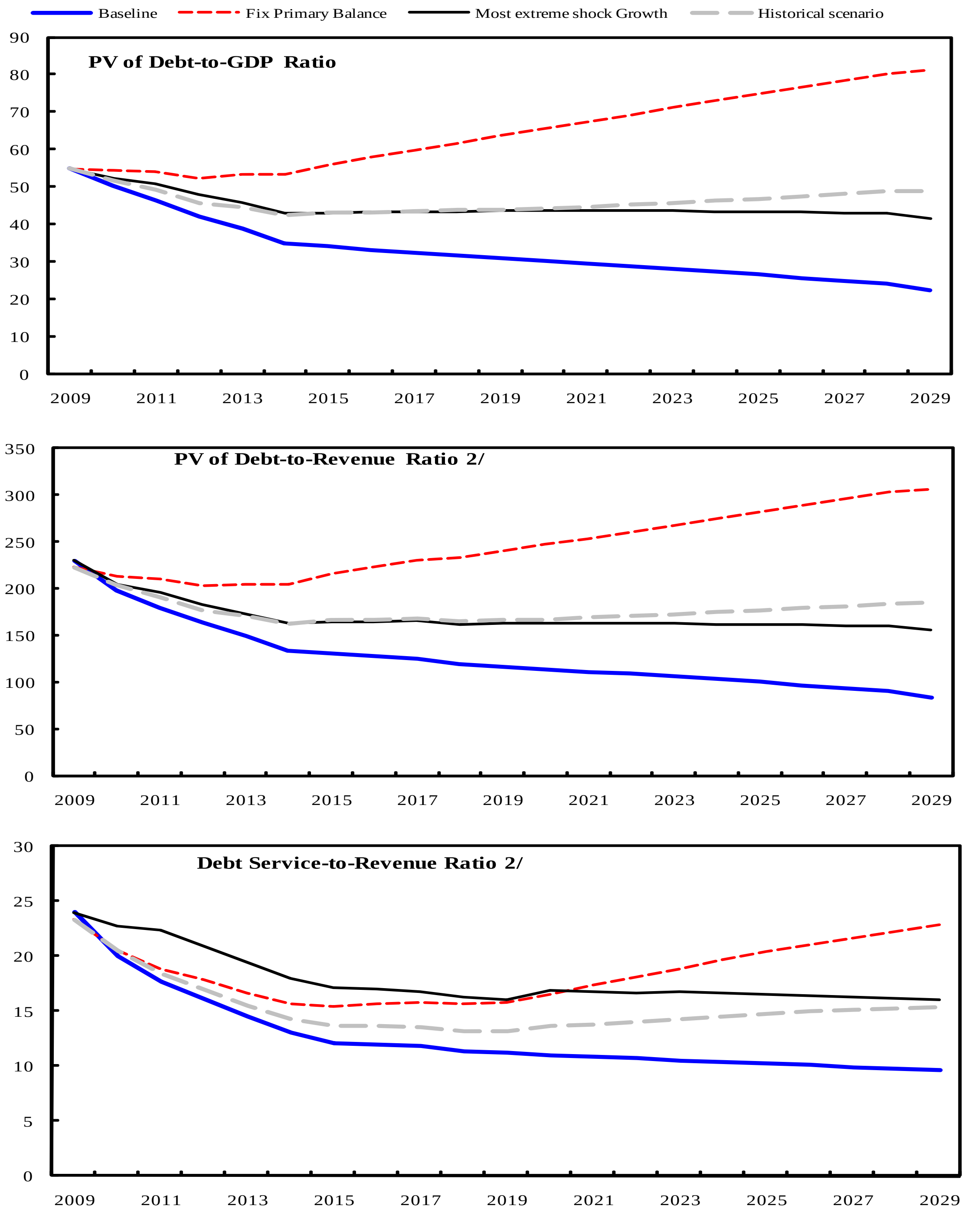
Figure 3. The Gambia: Indicators of Public and Publicly Guaranteed External Debt under Alternative Scenarios, 2009-2029/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2019. In figure b. it corresponds to a Combination shock; in c. to a Combination shock; in d. to a Combination shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

Figure 4. The Gambia: Indicators of Public Debt Under Alternative Scenario, 2009-2029



Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in 2019.
2/ Revenues are defined inclusive of grants.

Table 1: External Debt Sustainability Framework, Baseline Scenario, 2006-2029 1/
(In percent of GDP, unless otherwise indicated)

	Actual			Historical 0 Average	Standard 0 Deviation	Projections								
	2006	2007	2008			2009	2010	2011	2012	2013	2014	2009-2014 Average	2029	2015-2029 Average
External debt (nominal) 1/	**133.0**	**41.7**	**48.2**			**45.0**	**42.6**	**41.1**	**40.5**	**39.6**	**38.6**		**22.6**	
o/w public and publicly guaranteed (PPG)	133.0	41.7	48.2			45.0	42.6	41.1	40.5	39.6	38.6		22.6	
Change in external debt	0.4	-91.4	6.5			-3.2	-2.4	-1.5	-0.6	-0.9	-1.0		-1.1	
Identified net debt-creating flows	-13.4	-29.2	-1.3			2.1	0.6	0.3	0.0	-0.1	-0.4		-1.0	
Non-interest current account deficit	**11.8**	**10.9**	**15.1**	**10.0**	**3.5**	**13.7**	**11.0**	**11.0**	**10.5**	**10.2**	**9.8**		**5.6**	7.4
Deficit in balance of goods and services	17.2	16.2	19.3			19.3	18.6	18.8	18.5	18.1	17.8		14.3	
Exports	30.5	23.4	18.4			19.4	18.5	17.9	18.3	18.8	18.8		15.8	
Imports	47.7	39.6	37.7			38.7	37.1	36.7	36.8	36.8	36.6		30.1	
Net current transfers (negative = inflow)	-13.3	-11.0	-8.9	-9.8	4.7	-10.6	-11.9	-11.6	-11.3	-11.1	-11.1		-9.8	-10.4
o/w official	-1.3	-1.2	-1.3			-3.4	-4.9	-4.8	-4.4	-4.2	-4.2		-4.5	
Other current account flows (negative = net inflow)	7.8	5.8	4.8			5.0	4.3	3.8	3.3	3.3	3.1		1.1	
Net FDI (negative = inflow)	**-14.6**	**-12.4**	**-8.5**	**-7.6**	**5.6**	**-10.2**	**-9.2**	**-9.5**	**-9.3**	**-9.2**	**-9.1**		**-5.8**	-7.2
Endogenous debt dynamics 2/	**-10.6**	**-27.7**	**-7.8**			**-1.4**	**-1.2**	**-1.2**	**-1.2**	**-1.2**	**-1.1**		**-0.8**	
Contribution from nominal interest rate	1.6	1.4	0.8			1.1	0.8	0.8	0.8	0.7	0.7		0.3	
Contribution from real GDP growth	-7.9	-6.6	-2.0			-2.5	-2.0	-1.9	-1.9	-1.9	-1.9		-1.1	
Contribution from price and exchange rate changes	-4.3	-22.6	-6.6			...	...	...	...	...	...		...	
Residual (3-4) 3/	**13.8**	**-62.2**	**7.8**			**-5.2**	**-3.0**	**-1.8**	**-0.6**	**-0.8**	**-0.6**		**-0.1**	
o/w exceptional financing	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		...	
PV of external debt 4/	...	...	29.1			27.9	26.3	26.0	25.5	24.9	24.3		14.8	
In percent of exports	...	...	158.2			143.9	142.6	145.2	139.3	133.0	129.4		93.4	
PV of PPG external debt	**...**	**25.7**	**29.1**			**27.9**	**26.3**	**26.0**	**25.5**	**24.9**	**24.3**	**25.8**	**14.8**	**18.9**
In percent of exports	**...**	**109.6**	**158.2**			**143.9**	**142.6**	**145.2**	**139.3**	**133.0**	**129.4**	**138.9**	**93.4**	**108.3**
In percent of government revenues	**...**	**119.9**	**151.7**			**136.5**	**128.2**	**124.0**	**119.1**	**114.0**	**110.6**	**122.1**	**67.1**	**85.7**
Debt service-to-exports ratio (in percent)	**16.3**	**17.4**	**13.8**			**13.1**	**12.9**	**12.7**	**12.4**	**12.1**	**11.9**		**10.2**	
PPG debt service-to-exports ratio (in percent)	**16.3**	**17.4**	**13.8**			**13.1**	**12.9**	**12.7**	**12.4**	**12.1**	**11.9**	**12.5**	**10.2**	**11.0**
PPG debt service-to-revenue ratio (in percent)	**23.5**	**19.0**	**13.2**			**12.4**	**11.6**	**10.8**	**10.6**	**10.3**	**10.2**	**11.0**	**7.4**	**8.7**
Total gross financing need (Billions of U.S. dollars)	11.0	16.8	74.9			43.8	33.5	33.4	32.4	32.9	32.1		49.6	
Non-interest current account deficit that stabilizes debt ratio	11.4	102.3	8.6			16.8	13.4	12.5	11.1	11.1	10.8		6.7	
Key macroeconomic assumptions														
Real GDP growth (in percent)	6.5	6.3	6.1	5.2	3.0	4.6	4.8	5.0	5.0	5.0	5.0	4.9	5.2	5.2
GDP deflator in US dollar terms (change in percent)	3.4	20.5	18.8	2.1	10.8	-14.5	4.9	4.1	1.5	1.7	1.8	-0.1	2.8	2.8
Effective interest rate (percent) 5/	1.3	1.4	2.3	1.3	0.4	2.0	2.0	2.0	2.0	1.9	1.9	2.0	1.5	1.8
Growth of exports of G&S (US dollar terms, in percent)	18.5	-1.6	-1.0	4.7	9.4	-1.5	4.7	6.0	9.0	9.3	7.2	5.8	4.4	6.9
Growth of imports of G&S (US dollar terms, in percent)	2.9	6.2	20.0	10.2	7.5	-8.3	5.3	8.2	6.9	6.9	6.1	4.2	5.4	6.7
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	36.1	44.7	47.2	47.0	46.9	46.8	44.8	46.4	46.5
Government revenues (excluding grants, in percent of GDP)	21.2	21.4	19.2			20.4	20.5	21.0	21.4	21.9	22.0		22.0	22.0
Aid flows (in Billions of US dollars) 7/	50.3	31.4	26.3			52.9	74.8	76.9	76.4	77.5	79.5		218.8	
o/w Grants	6.4	7.8	11.0			25.2	39.8	41.9	41.4	42.5	44.5		155.8	
o/w Concessional loans	43.9	23.6	15.3			27.7	35.0	35.0	35.0	35.0	35.0		63.0	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			4.1	6.7	6.5	6.0	5.7	5.6		5.0	5.3
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			77.1	75.4	77.2	76.9	77.2	77.7		89.1	84.2
Memorandum items:														
Nominal GDP (Billions of US dollars)	508.3	650.9	820.4			733.1	805.7	880.8	938.4	1001.8	1070.6		3461.7	
Nominal dollar GDP growth	10.1	28.1	26.0			-10.6	9.9	9.3	6.5	6.8	6.9	4.8	8.2	8.1
PV of PPG external debt (in Billions of US dollars)			198.2			202.4	214.4	225.1	235.7	246.3	256.8		506.0	
(PVt-PVt-1)/GDPt-1 (in percent)						0.5	1.6	1.3	1.2	1.1	1.1	1.1	0.6	0.9

Sources: Country authorities; and staff estimates and projections.

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

Table 2a. The Gambia: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2009-29 including HIPC and MDRI
(In percent)

	Projections							
	2009	2010	2011	2012	2013	2014	**2019**	2029
PV of debt-to GDP ratio								
Baseline	28	26	26	26	25	24	**20**	15
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2009-2029 1/	28	28	27	27	27	27	**28**	32
A2. New public sector loans on less favorable terms in 2009-2029 2	28	28	28	28	29	29	**28**	23
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	28	27	27	26	26	25	**21**	15
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	28	28	28	28	27	26	**22**	15
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	28	31	33	33	32	31	**26**	19
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	28	34	40	39	38	37	**31**	19
B5. Combination of B1-B4 using one-half standard deviation shocks	28	36	45	44	43	42	**35**	22
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	28	37	36	35	34	34	**28**	20
PV of debt-to-exports ratio								
Baseline	144	143	145	139	133	129	**115**	93
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2009-2029 1/	144	149	153	149	145	145	**159**	199
A2. New public sector loans on less favorable terms in 2009-2029 2	144	151	156	155	153	154	**156**	144
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	144	144	143	137	131	127	**114**	92
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	144	164	192	184	176	171	**152**	119
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	144	144	143	137	131	127	**114**	92
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	144	185	224	214	204	198	**174**	122
B5. Combination of B1-B4 using one-half standard deviation shocks	144	184	234	224	213	207	**182**	130
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	144	144	143	137	131	127	**114**	92
PV of debt-to-revenue ratio								
Baseline	137	128	124	119	114	111	**93**	67
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2009-2029 1/	137	134	130	127	124	124	**128**	143
A2. New public sector loans on less favorable terms in 2009-2029 2	137	136	133	133	131	131	**125**	104
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	137	133	128	124	118	115	**97**	70
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	137	134	134	129	123	120	**100**	70
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	137	149	160	154	147	143	**120**	87
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	137	166	192	183	175	169	**140**	88
B5. Combination of B1-B4 using one-half standard deviation shocks	137	173	215	206	197	190	**158**	101
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	137	181	171	164	157	153	**128**	93

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

(In percent)

	2009	2010	2011	2012	2013	2014	**2019**	2029
Debt service-to-exports ratio								
Baseline	13	13	13	12	12	12	**11**	10
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2009-2029 1/	13	20	22	21	20	20	**13**	7
A2. New public sector loans on less favorable terms in 2009-2029 2	13	20	22	21	21	21	**15**	8
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	13	20	22	20	20	20	**12**	4
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	13	22	26	25	24	24	**15**	6
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	13	20	22	20	20	20	**12**	4
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	13	20	22	22	21	21	**13**	7
B5. Combination of B1-B4 using one-half standard deviation shocks	13	21	24	24	23	23	**14**	7
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	13	20	22	20	20	20	**12**	4
Debt service-to-revenue ratio								
Baseline	12	12	11	11	10	10	**9**	7
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2009-2029 1/	12	18	19	18	17	17	**11**	5
A2. New public sector loans on less favorable terms in 2009-2029 2	12	18	19	18	18	18	**12**	6
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	12	18	19	18	18	18	**10**	3
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	12	18	18	18	17	17	**10**	3
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	12	21	24	23	22	22	**13**	4
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	12	18	19	18	18	18	**10**	5
B5. Combination of B1-B4 using one-half standard deviation shocks	12	20	22	22	21	21	**12**	6
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	12	25	26	24	24	23	**14**	4
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	46	46	46	46	46	46	**46**	46

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.

3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly an offsetting adjustment in import levels).

4/ Includes official and private transfers and FDI.

5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.

6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Table 3. The Gambia: Public Sector Debt Sustainability Framework, Baseline Scenario, 2006-2029
(In percent of GDP, unless otherwise indicated)

	Actual			Average	Standard Deviation	Estimate	Projections								
	2006	2007	2008			2009	2010	2011	2012	2013	2014	2009-14 Average	2019	2029	2015-29 Average
Public sector debt 1/	167.5	72.0	79.5			72.7	67.3	63.2	58.9	55.4	51.2		44.3	30.2	
o/w foreign-currency denominated	133.0	41.7	48.2			45.7	43.2	42.9	42.2	41.4	40.5		33.7	22.6	
Change in public sector debt	5.0	-95.5	7.5			-6.8	-5.4	-4.1	-4.3	-3.6	-4.2		-1.3	-2.3	
Identified debt-creating flows	-5.6	-47.7	-1.3			-2.4	-8.8	-6.2	-5.0	-6.8	-6.2		-5.3	-5.0	
Primary deficit	0.6	-5.2	-1.8	-0.7	4.0	1.5	-2.2	-2.2	-1.0	-2.7	-2.7	-1.6	-2.1	-3.1	-2.5
Revenue and grants	22.5	22.6	20.5			24.6	25.5	25.7	25.8	26.1	26.2		26.5	26.5	
of which: grants	1.3	1.2	1.3			3.4	4.9	4.8	4.4	4.2	4.2		4.5	4.5	
Primary (noninterest) expenditure	23.1	17.4	18.8			26.1	23.3	23.5	24.8	23.4	23.4		24.4	23.4	
Automatic debt dynamics	-6.3	-38.1	3.0			-0.9	-3.9	-1.7	-1.9	-2.2	-2.0		-2.1	-1.5	
Contribution from interest rate/growth differential	-7.9	-10.2	-2.7			-0.8	-1.6	-1.8	-2.0	-2.2	-2.0		-1.8	-1.3	
of which: contribution from average real interest rate	2.1	-0.3	1.5			2.7	1.7	1.4	1.1	0.8	0.6		0.5	0.3	
of which: contribution from real GDP growth	-10.0	-9.9	-4.1			-3.5	-3.3	-3.2	-3.0	-3.0	-2.6		-2.3	-1.6	
Contribution from real exchange rate depreciation	1.7	-27.8	5.6			-0.1	-2.2	0.1	0.1	0.1	0.1		...	...	
Other identified debt-creating flows	0.0	-4.5	-2.5			-2.9	-2.8	-2.2	-2.1	-1.9	-1.5		-1.1	-0.4	
Privatization receipts (negative)	0.0	-3.9	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	-0.6	-2.5			-2.9	-2.8	-2.2	-2.1	-1.9	-1.7		-1.1	-0.4	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.2		0.0	0.0	
Residual, including asset changes	10.6	-47.8	8.8			-4.4	3.4	2.1	0.8	3.2	2.0		4.0	2.7	
Other Sustainability Indicators															
PV of public sector debt	34.5	30.3	60.5			54.9	50.4	46.3	42.2	38.9	35.0		31.0	22.4	
o/w foreign-currency denominated	0.0	0.0	29.1			27.9	26.3	26.0	25.5	24.9	24.3		20.4	14.8	
o/w external	...	...	29.1			27.9	26.3	26.0	25.5	24.9	24.3		20.4	14.8	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	10.4	2.5	3.9			3.5	2.9	2.3	1.7	1.1	0.7		0.9	-0.5	
PV of public sector debt-to-revenue and grants ratio (in percent)	153.6	134.1	294.5			223.3	197.9	180.1	163.3	148.8	133.8		117.0	84.5	
PV of public sector debt-to-revenue ratio (in percent)	162.7	141.6	315.1			259.6	245.5	220.9	197.0	177.6	159.1		141.0	101.8	
o/w external 3/	…	…	151.7			131.9	128.2	124.0	119.1	114.0	110.6		92.8	67.1	
Debt service-to-revenue and grants ratio (in percent) 4/	43.7	33.9	27.3			24.0	20.0	17.6	16.1	14.5	13.0		11.2	9.6	
Debt service-to-revenue ratio (in percent) 4/	46.3	35.8	29.2			28.0	24.9	21.6	19.5	17.3	15.4		13.5	11.6	
Primary deficit that stabilizes the debt-to-GDP ratio	-4.4	90.3	-9.3			8.3	3.2	1.9	3.3	0.8	1.4		-0.8	-0.8	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	6.5	6.3	6.1	5.2	3.0	4.6	4.8	5.0	5.0	5.4	5.0	5.0	5.2	5.2	5.2
Average nominal interest rate on forex debt (in percent)	1.3	1.4	2.3	1.3	0.4	2.0	2.0	2.0	2.0	1.9	1.9	2.0	1.9	1.5	1.8
Average real interest rate on domestic debt (in percent)	15.7	4.8	4.9	5.8	9.2	8.3	5.9	5.2	5.1	4.9	4.7	5.7	4.5	4.5	4.5
Real exchange rate depreciation (in percent, + indicates depreciation)	1.4	-22.6	14.4	3.3	14.9	-0.3	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	1.6	6.8	6.2	9.6	8.1	2.4	4.9	4.9	4.9	4.9	4.9	4.5	4.9	4.9	4.9
Growth of real primary spending (deflated by GDP deflator, in percent)	0.1	-0.2	0.1	0.1	0.3	0.2	0.1	0.1	0.0	0.1	0.1	0.1	0.0	0.0	0.1
Grant element of new external borrowing (in percent)	...	...	...	…	…	36.1	44.7	47.2	47.0	46.9	46.8	44.8	46.6	46.4	...

Sources: Country authorities; and staff estimates and projections.

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

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

3/ Revenues excluding grants.

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

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

Table 4. The Gambia: Sensitivity Analysis for Key Indicators of Public Debt 2009-2029

	Projections							
	2009	2010	2011	2012	2013	2014	2019	2029
PV of Debt-to-GDP Ratio								
Baseline	55	50	46	42	39	35	**31**	22
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	55	52	49	45	44	43	**44**	49
A2. Primary balance is unchanged from 2009	55	54	54	52	53	53	**64**	81
A3. Permanently lower GDP growth 1/	55	51	48	44	42	39	**42**	52
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2010-2011	55	52	51	48	46	43	**43**	42
B2. Primary balance is at historical average minus one standard deviations in 2010-2011	55	56	58	53	50	46	**40**	29
B3. Combination of B1-B2 using one half standard deviation shocks	55	55	55	51	48	45	**42**	34
B4. One-time 30 percent real depreciation in 2010	55	61	57	52	49	45	**40**	32
B5. 10 percent of GDP increase in other debt-creating flows in 2010	55	61	57	52	49	45	**40**	29
PV of Debt-to-Revenue Ratio 2/								
Baseline	230	198	180	163	149	134	**117**	85
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	223	203	192	176	171	163	**166**	185
A2. Primary balance is unchanged from 2009	223	213	210	203	204	205	**240**	306
A3. Permanently lower GDP growth 1/	230	200	185	172	161	149	**155**	193
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2010-2011	230	205	196	184	174	163	**163**	155
B2. Primary balance is at historical average minus one standard deviations in 2010-2011	223	220	224	207	192	176	**152**	110
B3. Combination of B1-B2 using one half standard deviation shocks	223	214	212	197	184	170	**156**	129
B4. One-time 30 percent real depreciation in 2010	230	240	221	203	188	172	**152**	122
B5. 10 percent of GDP increase in other debt-creating flows in 2010	230	238	220	203	188	172	**150**	109
Debt Service-to-Revenue Ratio 2/								
Baseline	24	20	18	16	14	13	**11**	10
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	23	21	18	17	16	14	**13**	15
A2. Primary balance is unchanged from 2009	23	21	19	18	17	16	**16**	23
A3. Permanently lower GDP growth 1/	24	21	19	17	16	14	**13**	16
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2010-2011	24	21	19	18	16	15	**13**	15
B2. Primary balance is at historical average minus one standard deviations in 2010-2011	23	21	19	18	17	15	**13**	13
B3. Combination of B1-B2 using one half standard deviation shocks	23	21	19	18	17	15	**13**	13
B4. One-time 30 percent real depreciation in 2010	24	23	22	21	19	18	**16**	16
B5. 10 percent of GDP increase in other debt-creating flows in 2010	24	21	20	18	17	15	**13**	12

Sources: Country authorities; and staff estimates and projections.

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

2/ Revenues are defined inclusive of grants.

INTERNATIONAL MONETARY FUND

THE GAMBIA

Sixth Review Under the Arrangement Under the Extended Credit Facility and Request for Extension and Augmentation of the Arrangement, and Waiver of Nonobservance of Performance Criterion—Informational Annex

Prepared by the African Department

Approved by Roger Nord

February 16, 2010

- **Relations with the Fund.** Describes financial and technical assistance from the Fund and provides information on the safeguards assessment and exchange rate system. Outstanding purchases and loans amounted to SDR 18.22 million (58.59 percent of quota) at end-December 2009.

- **Joint Bank-Fund Work Program.** Lists the work program of the Bank and the Fund on The Gambia during January–December 2010.

- **Relations with the African Development Bank.** Describes the African Development Bank Group program and portfolio.

- **Statistical Issues.** Assesses the quality of statistical data. The authorities have made progress in improving the compilation of economic and financial statistics. However, weaknesses in a broad range of economic statistics are hampering the analyses of economic developments in the country.

The Gambia: Relations with the Fund
(As of December 31, 2009)

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	29.62	95.23
Reserve position in Fund	1.48	4.77

SDR Department	SDR Million	% Allocation
Net cumulative allocation	29.77	100.00
Holdings	24.66	82.84

Outstanding Purchases and Loans	SDR Million	% Quota
Poverty Reduction and Growth Facility (PRGF) arrangements	18.22	58.59

Latest Financial Arrangements

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
PRGF	Feb. 21, 2007	Feb. 20, 2010	20.22	18.22
PRGF	Jul. 18, 2002	Jul. 17, 2005	20.22	2.89
PRGF	Jun. 29, 1998	Dec. 31, 2001	20.61	20.61
PRGF	Nov. 23, 1988	Nov. 25, 1991	20.52	18.02

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

	Forthcoming				
	2010	2011	2012	2013	2014
Principal	0.11	0.11	0.11	0.10	00.9
Charges/interest	0.11	0.11	0.31	1.10	2.20
Total					

[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 (yearend 2000 NPV terms)[3]	
Total assistance (US$ million)	66.60
Of which: IMF assistance (US$ million)	2.30
SDR equivalent, million	1.80
Completion point date	December 19, 2007
Disbursement of IMF assistance (SDR million)	2.29
Assistance disbursed	1.80
Interim assistance	0.44
Completion point balance	1.36
Additional disbursement of interest income [4]	0.49

Implementation of Multilateral Debt Relief Initiative (MDRI)

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

[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.

Debt Relief by Facility (SDR million)

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

Safeguards assessments

Safeguards assessments of the Central Bank of The Gambia (CBG) were completed in February 2004 and February 2007. The 2007 assessment concluded that the CBG had instituted a series of control reforms to strengthen its safeguards framework, but also found vulnerabilities in the internal control and financial reporting areas. The assessment recommended measures to enhance controls over the reserves management function, a phased implementation of International Financial Reporting Standards (IFRS), and an action plan to ensure that government borrowing from the CBG was within the statutory limits. An update assessment is currently in progress.

Exchange rate arrangement

Until January 20, 1986, the Gambian currency, the dalasi, was pegged to the pound sterling at a rate of D5 = £1. On January 20, 1986, an interbank market for foreign exchange was introduced, and since then the exchange rate has been determined by market forces. Effective June 30, 2002, the exchange rate arrangement of The Gambia was reclassified from independently floating to managed float with no preannounced path. As of end–December 2009, the midpoint exchange rate in the interbank market was D26.94 per U.S. dollar. The Gambia has accepted the obligations of Article VIII, Sections 2(a), 3, and 4 and maintains an exchange system that is free of restrictions on the making of payments and transfers for current international transactions. The Gambia maintains exchange restrictions for security reasons, based on UN Security Council Resolutions, that have been notified to the Fund for approval under the procedures set forth in Executive Board Decision No. 144-(52/51).

Last Article IV consultation

The Executive Board concluded the 2008 Article IV consultation on September 8, 2008.

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 are the following:

Fiscal Affairs Department

April 2009	TA mission advised on measures to reform the tax system.
Jul. 2008	Peripatetic regional advisor followed up on the work of the Aug./Sep. 2007 FAD mission.
Aug./Sep. 2007	TA mission assessed all areas of public financial management and provided an action plan to secure the actual implementation of reforms initiated in the recent past.
Sep. 2004–May 2006	Peripatetic regional advisor assisted the authorities in putting the new organic budget law into effect, strengthening public expenditure management, and improving the reporting of budget execution.
Feb./Mar. 2004	Mission worked jointly with the World Bank on the Assessment and Action Plan (AAP).
Apr. 2003	TA advisor reviewed reforms in public expenditure management.
Mar. 2003–Oct. 2003	Long-term resident budget expert helped the authorities to strengthen budgetary expenditure reporting and control.
Dec. 2002	TA advisor advised the authorities on drafting an organic budget bill.
Oct. 2002	TA advisor reviewed reforms in public expenditure management.
Mar. 2002–Oct. 2003	Long-term resident budget expert helped the authorities to strengthen budgetary expenditure reporting and control, initially for a year beginning from March 2002. The assignment was later extended until October 2003.
Nov. 2001–Oct. 2003	Peripatetic advisor assisted the DoSFEA in revenue administration reforms, including customs, implementing a large-taxpayer unit, and establishing a central revenue authority.
Jul. 2001	TA mission assessed the authorities' capacity to track poverty-related spending.
Aug. 2000–Aug. 2001	Long-term resident budget expert assisted the authorities in strengthening budgetary expenditure reporting and control.
Sep. 1999	TA mission assisted the authorities in expenditure management, budget execution issues, cash and debt management, short-term financial planning, fiscal reporting, and information systems.
Jan./Feb. 1996	Joint FAD/United Nations Development Program (UNDP) TA mission helped set up a system for monitoring the financial operations of public enterprises.

Monetary and Capital Markets Department/ Monetary and Financial Systems Department /Monetary and Exchange Affairs Department

January 2010	TA missions advised on monetary operations and liquidity forecasting.
January 2009	Technical expert advised the CBG on banking supervision.
Sept. 2007	Mission advised on improving the monetary policy framework and enhancing the effectiveness of monetary, foreign exchange, and debt management operations for the CBG.
Mar./May 2007	Technical expert advised the CBG on banking supervision.
Mar./Apr 2007	Technical expert advised the CBG in strengthening its capacity in internal auditing.
Jan./Feb. 2007	Technical expert advised the CBG on improving monetary operations.
Jul./Aug. 2006	Technical expert advised the CBG on banking supervision.
Jul./Aug. 2006	Mission reviewed progress made in strengthening the CBG's capacity in monetary operations and liquidity forecasting, foreign exchange operations, and foreign reserves management.
Apr./May 2006	Technical expert advised the CBG on banking supervision.
Apr./May 2006	Technical expert advised the CBG on improving monetary operations.
Nov. 2005	Technical expert advised the CBG on improving monetary operations.
Mar. 2005	Follow-up to the October 2004 mission.
Oct. 2004	Advisory mission made recommendations for improving monetary and foreign exchange operations and for reorganizing the central bank.
Jul. 2002	TA diagnostic mission focused on financial supervision and the insurance sector; and helped review the Central Bank Act and draft the Financial Institutions and Insurance Act.
Dec. 2001	TA diagnostic mission focused on strengthening CBG ability to , formulate and implement monetary policy and manage its foreign exchange operations and the financial system.
May 2001	Short-term expert helped the authorities to design operational, prudential, and policy safeguards (including assessing the

	adequacy of legislation) for introducing foreign-currency-denominated accounts.
Apr. 2001	Short-term expert helped the authorities to set up a book-entry system.
May 2000	Short-term expert helped the authorities to set up a short-term liquidity forecasting system.
Nov. 1999	Short-term expert helped the authorities design operational, prudential, and policy safeguards (including assessing the adequacy of legislation) for introducing foreign-currency-denominated accounts in the banking system.
Aug. 1998	TA mission helped the CBG draft market-based monetary policy instruments and review its program for strengthening banking supervision.
Dec. 1996	Technical expert helped the CBG in foreign exchange operations.
Jan./Feb. 1994	TA mission worked on monetary management and bank supervision.

Statistics Department

February 2010	TA mission advised on measures to improve monetary and financial statistics.
Jun. 2008	Fourth visit of the U.K. Department of International Development (DfID)-funded TA mission helped the authorities improve the compilation of national accounts statistics, particularly in rebasing the GDP series and calculation of GDP by expenditure approach, with results from the 2004 Economic Census.
Apr./May 2008	Follow-up of the 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.
Mar. 2008	Third visit of the DfID-funded TA mission helped the authorities improve the compilation of national accounts statistics, particularly in rebasing the GDP series and calculation of GDP by expenditure approach, with results from the 2004 Economic Census.
Oct./Nov. 2007	Second visit of the DfID-funded TA mission helped the authorities improve the compilation of national accounts statistics, particularly in rebasing the GDP series with results from the 2004 Economic Census.

Sep. 2007	The DfID-funded TA mission helped to improve the compilation of balance of payments statistics.
Aug. 2007	The DfID-funded TA mission advised in improving the compilation of national accounts statistics, particularly in rebasing the GDP series with results from the 2004 Economic Census.
Apr./May 2006	TA mission helped to improve the compilation and analytical soundness of monetary and financial statistics.
Feb. 2006	TA mission advised on compilation of balance of payments statistics.
Feb. 2005	Report on the Observance of Standards and Codes (ROSC)—Data Module—mission assessed data quality in four main areas of macroeconomic statistics (national accounts, government finance, monetary, and balance of payments) based on the Fund's Data Quality Assessment Framework (DQAF, July 2003) and The Gambia's dissemination practices against the recommendations of the General Data Dissemination System (GDDS).
2002–04	Peripatetic statistical advisor helped the Central Statistics Department update CPI data and improve the compilation of national accounts statistics.
May 2003	Mission advised on building an integrated database to report monetary statistics for all IMF data submissions.
Aug. 2001	TA mission advised on compilation of monetary and financial statistics.
Sep. 2000	TA mission advised on compilation of balance of payments statistics.
Nov. 1999	Mission reviewed collection of statistics to develop GDDS metadata for The Gambia.
Jun./Jul. 1999	TA mission advised on compilation of balance of payments statistics.
Nov./Dec. 1998	TA mission advised on national accounts statistics.

Others

Mar./Apr. 2007	A Poverty and Social Impact Analysis (PSIA) mission analyzed the planned reform of the groundnut sector and discussed with the authorities the implications of these reforms.
Apr. 2002–Apr. 2004	A long-term resident macroeconomic advisor was assigned initially for a year beginning from April 2002, and later the assignment was extended by one more year through April 2004.

Resident Representative

Mr. Meshack Tjirongo was appointed the Fund's Resident Representative to The Gambia in January 2010. He is also the Resident Representative to Sierra Leone.

The Gambia: Joint Bank-Fund Work Program, January-December 2010

Title	Products	Timing of Missions	Expected Delivery Date
A. Mutual Information on Relevant Work Program			
Bank work program in next 12 months	**Economic Management and Public Service Delivery** 1. Integrated Financial Management Information System project 2. Public Expenditure Review Update **Growth and Competitiveness** 1. Investment Climate Assessment	1. Jun./Jul. 2010 2.Sept./ Oct. 2010 3. Oct./Nov. 2010	1. Target Board Date Jun./Jul. 2010 2. Draft report – Sept./Oct. 2010 4. Final report – Nov./Dec. 2010 5. Target Board Date – Oct./Nov. 2010
Fund work program in next 12 months	**Policy Advice** 1. Seventh ECF review 2. Eighth ECF review **Technical Assistance** 1. Monetary operations and liquidity forecasting 2. Monetary and financial statistics 3. Banking supervision 4. Tax administration 5. Medium-term debt management 6. National accounts	May 2010 October 2010 January 2010 February 2010 March 2010 April-May 2010 September 2010 Not confirmed	July 2010 December 2010
B. Requests for Work Program Inputs			
Fund request to Bank	Periodic updates on: PFM reform, civil service reform, and CPIA updates		
Bank request to Fund	Periodic updates on macroeconomic framework.		
C. Agreement on Joint Products and Missions			
Joint products in next 12 months	Debt Sustainability Analysis Update	May 2011	

The Gambia: Relations with the African Development Bank
(As of June 22, 2009)

The African Development Bank (AfDB) Group began lending to The Gambia in 1974. As of June 8, 2009, it had approved 56 operations with total commitments (net of cancellations) of UA213.82 million (US$327.8 million) in the following sectors: transport (24 percent); agriculture (22 percent); social (24. percent); public utilities (12 percent); multi-sector (10 percent); environment (6 percent); and industry (2.0 percent).[6] About 85.4 percent of the Bank Group's net commitments were made from the resources of the African Development Fund (ADF), 8.6 percent from the ADB nonconcessional window, and 6. percent from the Nigeria Trust Fund (NTF).

As of June 8th, 2009, 42 operations had been completed, 2 were cancelled at the government's request, and 12 others continue, including 3 multinational projects, all in agriculture. Implementation of the portfolio is generally satisfactory; it achieved a rating score of 2.01 (on a scale from 0 to 3) during the Bank Group's 2006 portfolio review. The portfolio has a relatively low project-at-risk (PAR) rate of 33.3 percent, which compares well with the Bank-wide average of 45 percent as indicated in the AfDB's 2008 Annual Portfolio Performance Review (APPR). Total disbursement rates for the portfolio are also satisfactory. By November 10, 2008, they were 91 percent (overall), 100 percent (AfDB-financed projects), 92 percent (ADF), and 71 percent (NTF). The disbursement rate for the ongoing portfolio was 55.5 percent as of June 8th 2009.

The AfDB is also a major participant in The Gambia's enhanced Heavily Indebted Poor Countries (HIPC) Initiative program, under which it is to grant debt relief of US$15.8 million in net present value (NPV) terms (23.6 percent of total debt relief under the program). Of this, $6.3 million in end-1999 NPV has been paid as interim relief. Additionally, MDRI relief from the AfDB will yield annual debt service savings (net of HIPC assistance) averaging US$1.6 million over the next 5 years and US$3.9 million over the following 39 years.

The AfDB prepared a Joint Assistance Strategy (JAS) with the World Bank in early 2008 to cover 2008–11. The JAS is based on two main pillars—(1) strengthening the institutional framework for economic management and public service delivery, and (2) enhancing growth and competitiveness and the productive capacity of the economy. The JAS will help support the Government's national priorities through the main channels of budget and project support in the context of growth poles and enhanced service delivery. The strategy was approved at the World Bank in February 2008 and at the AfDB in March 2008. The JAS is anchored to the Gambia's Poverty Reduction Strategy Paper PRSP II (2007–2011) and will be supported

[6] UA stands for unit of account = 1 SDR (equivalent to about $1.6445 as of March 31, 2008).

by new lending and by the ongoing portfolio, which is summarized in Table 2. Table 1 below describes some of the recent projects in the portfolio:

Table 1. Some Recent Projects in the Portfolio

Objective	Instrument and Amount	Focus
Meet the MDGs	Basic Education Project, UA10.0 million	Increase access to quality education and skills development, particularly for girls and pupils in the poorest areas of the country.
Reduce poverty	Entrepreneurship promotion and microfinance development project UA8.0 million	Enhance entrepreneurial skills and improve capacity and income generation ability by providing microfinance. Focus is poverty reduction.
Implement multi-sector Institutional Support (Approved November 2007; articulated in the JAS)	Institutional Support Project for Economic Management and Financial Governance, grant of UA1.4 million	Strengthen capacity of departments and institutions involved in preparing and implementing the PRSP. Extend support to institutions dealing in economic governance, including the new Directorate of Central Project Management and Aid Coordination in the Department of State for Finance and Economic Affairs (DOSFEA), National Audit Office (NAO), and SPACO.

Under ADF–10 and ADF–11, The Gambia is a grants-only recipient. Additional resources can be made available if there is improvement in both performance under the Country Policy Institutional Assessment (CPIA) and portfolio performance.

The AfDB’s strategy is implemented through both lending and non-lending activities. Lending activities will comprise project finance and budget support. Non-lending intervention is designed to strengthen policy dialogue between the government and stakeholders and focuses mainly on studies, funded through grants, to improve governance, mainstream gender, enhance efficiency of infrastructure, and improve the energy supply. The AfDB prepared a Governance Profile for The Gambia in 2007 and has recently collaborated with the World Bank and the U.K. Department for International Development (DfID) in the preparation of a study on Civil Service Reform. A Gender Profile is programmed for 2009.

Table 2: The Gambia: AfDB Ongoing Portfolio as of June 8th, 2009

Sector/Project	Approval Date	Completion Date	Remarks	Financing Source	Amount Approved (UA million)	Disbursements (UA million)	%
Agriculture							
1. Participatory. Integrated Watershed Management.	09/06/04	31/12/11		NTF Loan	4.95	4.37	88.3
2. Artisanal Fisheries Development	17/05/00	30/06/09		NTF Loan	2.90	1.9	65.5
3. NERICA Rice Dissemination- Gambia (multinational)	26/09/03	31/12/10		ADF Loan	1.56	0.823	52.7
4. Farmer Managed Rice Irrigation Project	26/04/05	30/04/11		ADF Loan	5.00	3.67	73.7
				ADF Grant	0.50	0.37	73.9
5. Invasive Aquatic Weeds-Gambia (multinational)	22/09/04	31/12/11		ADF Loan	0.31	0.24	76.6
6. Livestock and Horticulture Development	26/12/08	31/12/14		ADF Grant	4.02	0.0	0.0
Total Agriculture					**19.24**	**11.37**	**59**
Social Sector							
7. Basic Education III	11/09/02	30/06/09	Extension Requested	ADF Loan	10.00	8.76	87.6
8. Community Skills Development Project	16/02/00	30/06/09		ADF Loan	4.44	3.97	89.5
				ADF Grant	1.45	1.28	88.3
9. Entrepreneurship Promotion and Microfinance Development Project	15/11/06	31/12/12		ADF Grant	8.0	0.67	8.4
Total Social Sector					**23.89**	**14.68**	**61.4**
Multi-sector							
10. Institutional Support Project for Economic and Financial Governance	21/11/07	31/12/10		ADF Grant	1.4	0.90	64.4
11. Poverty Reduction Budget Support Program	12/01/09	31/12/12		ADF Grant	3.0	0.0	
				ADB Grant	1.0	0.0	
Total Multi-sector					**5.4**	**0.90**	**16.7**
Total Ongoing Portfolio					**48.53**	**26.95**	**55.5**

Sector	Net Amount Approved (UA Million)	Percentage Share (%)
Agriculture	19.24	40
Social Sector	23.89	49
Multi-sector	5.400	11
Total	**48.53**	**100%**

The Gambia: Statistical Issues

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

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

Real sector

The main constraints to improving national accounts include inadequate source data due to low response rates of surveys (manufacturing, trade, and business services industries), as well as poor quality of external data and inattention to other important sources (such as the household budget survey, livestock census, and census of industrial production). The GBoS continues to face human and financial constraints to undertake such surveys and process the data.

STA missions on national accounts in 2007 and March 2008 assisted the GBoS to implement the *1993 System of National Accounts* methodology and rebase the national accounts to properly reflect the country's output levels, economic structure and relative prices. In this context, STA missions have helped the authorities: (1) process the data collected for the 2004 Economic Census; (2) rebase the GDP series using the results of the 2004 Economic Census; and (3) improve the GDP estimates by the production approach and begin compiling GDP series by the expenditure approach. The authorities now have a preliminary revised nominal GDP series compiled by the production approach for the period 2000–07 (with a base year of 2004). GDP series by the expenditure approach are still under review. In May 2007, the country began participating in the second phase of the GDDG Project for Anglophone Africa on national accounts, which is funded by the U.K. Department for International Development (DfID).

The 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. The GBoS began to publish in early 2007 a new national CPI with representative expenditure basket as of August 2004.

Government finance

The authorities release data on central government transactions with a lag of about four weeks for both revenue and expenditure. The central government accounts for 1991–99 were not audited until 2005. Inadequacies persist in compiling data on an economic basis and in tracking foreign-financed expenditure. Monthly data on domestic government financing are available with a delay of six to eight weeks. At a meeting with STA in October 2007, the authorities expressed interest in technical assistance to facilitate the migration to *GFSM2001*. No data are being reported for publication in the *Government Finance Statistics Yearbook* or in the *IFS*.

Monetary data

The Central Bank of The Gambia (CBG) has improved data reporting to the Fund, but sometimes the reports are delayed. An April–May 2006 STA mission recommended: expanding the coverage of depository corporations to include credit unions; including accrued interest in the value of financial instruments; and compiling a financial survey given the significant influence of the Social Security and Housing Finance Corporation in monetary developments. To improve the accuracy and classification of government accounts, the mission designed a supplementary form for reporting government positions at the CBG, to be reported to the IMF monthly. It also assisted the CBG in the introduction of standardized report forms (SRFs). A follow-up mission in April/May 2008 made further progress on the SRFs for reporting data on the central bank and other depository corporations to STA and establishing an integrated monetary database, which would generate alternative outputs for use by the CBG, STA, and AFR. The authorities have now prepared a preliminary set of SRFs.

External sector statistics

Despite recent improvements, balance of payments statistics continue to be affected by shortcomings. These include long delays in the collection of trade, customs, and tourist arrival data; crude methods of estimating 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 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.

The CBG produces balance of payments statistics according to the *Balance of Payments Manual*, 5th edition *(BPM5)*. These statistics are published in *International Financial Statistics (IFS)* and in the 2007 IMF *Balance of Payments Statistics Yearbook (BOPSY 2007*). The CBG has been compiling quarterly balance of payments statistics through a Fund-administered technical assistance project funded by DfID. The most recent data available are for the first quarter of 2008.

With DfID assistance the CBG conducted an enterprise survey in March 2006 to collect data for the international investment position. In April 2006, the CBG also initiated a survey funded by the World Bank to collect data on selected components of the current account.

The Gambia: Table of Common Indicators Required for Surveillance
(As of February 4, 2010)

	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of Publication[6]	Memo Items: Data Quality Methodological Soundness[7]	Memo Items: Data Quality Accuracy and Reliability[8]
Exchange rates	12/30/09		M	M	M		
International reserve assets and reserve liabilities of the monetary authorities[1]	12/30/09		M	M	A		
Reserve/base money	12/30/09		M	M	M	LO, LO, LO, LO	LNO, LO, O, LO, LNO
Broad money	12/30/09		M	M	M		
Central Bank balance sheet	12/30/09		M	M	M		
Consolidated balance sheet of the banking system	11/30/09		M	M	M		
Interest rates[2]	12/30/09		W	W	W		
Consumer Price Index	12/30/09		M	M	M		
Revenue, expenditure, balance, and composition of financing[3] – general government[4]						LO, LO, O, O	LNO, LO, LO, LNO, NO
Revenue, expenditure, balance, and composition of financing[3]– central government	12/30/09		M	M	A		
Central government and central government–guaranteed debt[5]							
External current account balance	Dec. 2008		A	A	A	LNO, LNO, LNO, LO	LNO, LNO, LNO, LO, NO
Exports and imports of goods and services	Dec. 2008		A	A	A		
GDP/GNP	2008		A	A	A	LNO, LNO, O, LO	LNO, O, LNO, LO, NO
Gross external debt	Dec. 2008		M	Q	A		

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

INTERNATIONAL MONETARY FUND EXTERNAL RELATIONS DEPARTMENT

Press Release No. 10/55
FOR IMMEDIATE RELEASE
February 19, 2010

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Sixth Review Under The Gambia's ECF Arrangement and Approves a 12-Month Extension and US$ US$7.1 Million Augmentation

The Executive Board of the International Monetary Fund (IMF) today completed the sixth review of The Gambia's economic performance under a program supported by the Extended Credit Facility (ECF)[1]. The Board also approved a waiver for the nonobservance of the fiscal performance criterion based on corrective actions, notably the government's 2010 budget approved by the National Assembly, which aims for a near-zero basic balance. The Board's decision allows the government to request a further disbursement amounting to SDR 2.0 million (about US$ 3.0million), bringing total disbursements under the ECF to The Gambia to SDR 20.2 million (about US$30.8 million).

The Executive Board also approved an extension for one year and an augmentation by SDR 4.67 million (about US$ 7.1 million) of The Gambia's ECF arrangement, originally approved on February 21, 2007 (see Press Release No. 07/28).

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

"The Gambian authorities are pursuing satisfactory economic policies that have contributed to robust economic growth and low inflation. However, even after extensive debt relief, The Gambia remains at high risk of debt distress. High yields on Treasury Bills—largely as a result of fiscal slippages and the government's recourse to domestic borrowing—have added to the domestic debt burden. The government's efforts to strengthen its debt management

[1] The Extended Credit Facility (ECF) has replaced the Poverty Reduction and Growth Facility (PRGF) as the Fund's main tool for medium-term financial support to low-income countries by providing a higher level of access to financing, more concessional terms, enhanced flexibility in program design features, and more focused streamlined conditionality. Financing under the ECF currently carries a zero interest rate, with a grace period of 5½ years, and a final maturity of 10 years. The Fund reviews the level of interest rates for all concessional facilities every two years.

strategy are, therefore, welcome. Until the debt burden is reduced, it will remain important to continue to limit external borrowing to highly concessional loans.

“The government’s budget for 2010 appropriately targets a near-zero basic balance that will return The Gambia to a path of declining domestic debt. Fiscal restraint will ease pressure on T-Bill yields and eventually generate fiscal savings for other spending priorities. Disciplined budget execution will be key to achieve these results, and the government’s new action plan to improve public financial management will help achieve such discipline.

“The authorities are committed to maintain low inflation and to take steps to ease pressure on interest rates. The reinforced banking supervisory framework, including the phased-in increase in the minimum capital requirement, will contribute to ensuring continued soundness in the banking system.”

Statement by Samuel Itam, Executive Director for The Gambia
February 19, 2010

1. The Gambian authorities extend their profound gratitude to staff for the constructive policy dialogue in Banjul during the Fund mission for the sixth review under the Extended Credit Facility (ECF) arrangement and for the subsequent policy discussions. My authorities share the thrust of the staff report as it provides a candid assessment of recent economic developments and program performance. They are especially thankful to the Executive Board and Fund Management for their continued support and valuable policy guidance against the backdrop of a very difficult global economic environment. My authorities request a waiver for the nonobservance of the fiscal balance target; completion of the sixth review; and extension and augmentation of the current ECF arrangement for one year.

Recent economic developments

2. The Gambian economy recorded relatively strong growth, in spite of the adverse effects of the global financial crisis and subsequent economic decline. Real GDP growth for 2009 is estimated at about 4.6 percent, supported by buoyant agricultural production due to abundant and evenly distributed rainfall coupled with the successful expansion of rice cultivation. Consumer price inflation declined by 4.0 percentage points to 2.6 percent in the twelve months to end-November 2009. The deceleration in inflation reflects the tight monetary policy stance of the central bank and the fall in food prices. In contrast, fiscal performance in 2009 was weaker-than-projected. The strong revenue growth was more than offset by higher spending, pushing the basic balance to a deficit of 1.6 percent of GDP relative to a budget target of a slight surplus, due mainly to unbudgeted capital spending.

3. Reflecting the sharp decline in travel income and remittances, the external current account deficit, before official transfers, widened during the period, but was financed by increased grants and new loans. The country's gross international reserves position was bolstered by the recent SDR allocation and ECF disbursements, reaching the equivalent of 6.5 months of imports at the end of 2009. The exchange rate of the Dalasi remained fairly stable during 2009.

Program performance

4. Performance under the ECF supported program improved steadily. All the quantitative performance criteria for end-September 2009 were met, with the exception of thefiscal target. While total government revenues surpassed program targets, there were significant expenditure overruns. This was predominantly the result of the authorities' intervention to repurchase shares in the Gambian Telecommunications Company (GAMTEL), which had been privatized but was encountering managerial difficulties. This intervention is one-off, and appropriate mitigating actions have been taken, including the formulation of the 2010 budget on the basis of a near-zero floor on the basic balance.

5. On the structural front, all benchmarks through December 2009 were observed, except for a delay in submitting audited government accounts. The 2005 and 2006 governmentaudited accounts were submitted to the National Assembly in the first quarter of 2009. The delay in the audit of the 2007 account has been the result of retroactive action by the authorities to reconcile differences in the accounts dating back to 1991. It is expected that the audit will be completed and submitted to the National Assembly by June 2010.

Outlook and policies going forward

6. My authorities' overriding policy objective over the near to medium term is to maintain a stable macroeconomic environment that would support strong and sustainable growth. It is expected that such growth would result in employment creation, poverty reduction and the attainment of the Millennium Development Goals. GDP growth is expected to return to trend in the medium term as government pursues prudent monetary and fiscal policies, coupled with increase investment in infrastructure and agriculture. Concurrently, the rebound in global economic activities would boost tourism receipts, remittances and construction. The external current account deficit is estimated to narrow in the medium term, reflecting the expected recovery of exports, increase in services (given the recovery of the tourism sector), and projected rebound in remittances. Gross international reserves are projected to stabilize and remain above 5 months of imports through 2014. The exchange rate is expected to maintain its relative stability over the medium term, while inflation will be maintained at low single digits. On the fiscal front, government will strengthen efforts to enhance public financial management (PFM) to reduce the stock of domestic debt and thereby, help lower interest rates.

Fiscal policy

7. Following the fiscal slippages in 2009 caused largely by unplanned expenditures, my authorities would like to reaffirm their commitment to prudent public finance management that controls expenditure while enhancing revenue mobilization. The strong revenue performance was not matched by the huge expenditure overruns, resulting in widening the deficit of the basic balance from 0.8 percent of GDP in 2008 to 1.6 percent of GDP in 2009. The higher-than-anticipated spending was predominantly caused by government's repurchase of the shares of the previously privatized Gambia Telecommunication Company (GAMTEL), the acquisition of satellite disc for the Gambia Radio and Television Services (GRTS), and other supplementary expenditures. To restore discipline in budget execution, the 2010 Budget approved by the National Assembly, is anchored on a near zero basic balance, with the intent of creating fiscal space to allow government to reduce domestic debt and ease pressure on treasury bill yields. In this regard, a draft paper on the PFM strategy for the Gambia will be submitted to Cabinet for consideration and approval in February 2010. A PFM Coordinating Committee has already been constituted to oversee and monitor the implementation of the PFM action plan. Also, the Ministry of Finance and the Office of the Auditor General are closely collaborating to facilitate the timely submission of annual audited government accounts to the National Assembly. This notwithstanding, government remain committed to allocating resources to poverty reduction activities, in particular, health, education, agriculture and infrastructure development.

8. On the revenue front, my authorities are working to strengthen tax administration and improve voluntary compliance. To this end, the Gambian Revenue Authority (GRA) continues to introduce modern ICT tools, including ASYCUDA++ and Gamtaxnet, to improve efficiency in domestic tax collection, especially customs clearance. My authorities are also pursuing a comprehensive tax reform program aimed at rationalizing taxes to improve the investment climate. This involves the gradual reduction in corporate and turnover taxes, while excise tax on alcoholic products and unmanufactured tobacco has been increased. The sales tax on imported rice which was zero-rated in 2008 to mitigate the impact of the global food crisis has been reinstated at 5 percent. Furthermore, the audit and enforcement capacity of the GRA is being strengthened in anticipation of the planned introduction of a value added tax (VAT) system in place of sales tax on or before January 2013.

External debt management

9. My authorities are concerned that the recent debt sustainability analysis conducted by the Bank and the Fund indicates that the country remains at a high risk of debt distress, in spite of the substantial debt relief granted under the HIPC and MDRI initiatives. To mitigate this risk, my authorities have completed a medium-term debt strategy (MTDS) aimed at improving the situation. In addition, my authorities will try to rely more on grants and will continue their commitment to seek only concessional external loans with minimum grant element of 45 percent.

Monetary and financial sector policies

10. The Central Bank of The Gambia's (CBG) monetary policy will continue to focus on the attainment of low and non-volatile inflation, exchange rate stability and a viable external sector for sustained economic growth. The current monetary targeting framework in the conduct of monetary policy has proved to be effective. The central bank's policy rate remained at 16 percent in the first ten months of 2009 but was reduced to 14 percent at the end of the year. To provide greater stability and predictability to the domestic money market and facilitate the achievement of reserve money targets, the liquidity forecasting framework would be made more robust by the provision of timely data on the public sector borrowing requirement from the fiscal authorities through the inter-agency committee. Furthermore, to improve the conduct of monetary policy and enhance competition in the treasury bills market, my authorities plan to introduce Repos and reverse Repos instruments this year. As stated in the Memorandum of Economic and Financial Policies, the central bank and the fiscal authorities have agreed to move towards compliance with the statutory limit on lending to government by end-September 2010.

11. The banking sector in the Gambia remains sound, stable and adequately capitalized. The growth in the number of bank has increased competition as evident by the rate of branch network expansion countrywide. With the prospects of increased financial innovations and further change in industry structure, intense competition is envisaged. The banking industry's risk weighted capital adequacy ratio (CAR) stood at 33.2 percent at end-September 2009,

well above the 8 percent regulatory requirement. Non-performing loans declined from a peak of 9.5 percent in December 2008 to 7 percent in the first 9 months of 2009 and were adequately provisioned.

12. In response to the growing number of banks and technological developments, reforms were undertaken by the CBG to enhance supervisory framework. The Financial Institution Act 2003 has been replaced with the Banking Act 2009, which gives more emphasis on on-site rather than off-site examinations, and the newly established Credit Reference Bureau is fully operational and accessible by all banks. As part of the on-going battle against Money Laundering and Terrorism Financing, it is now mandatory for all banks to report suspicious transaction to the Financial Intelligence Unit at the CBG. This reporting requirement is expected to be extended to non-bank financial institutions.

Exchange rate policy

13. The current floating exchange rate regime has served the country well, with the exchange rate remaining relatively stable over recent years, while at the same time retaining the capacity to adjust to external shocks. The central bank will thus maintain this policy over the medium term. However, it may intervene occasionally to smooth out volatility in the foreign exchange market.

Conclusion

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