

## International Monetary Fund

[The Gambia](#) and the  
IMF

**The Gambia:** Letter of Intent, Memorandum of Economic and  
Financial Policies, and Technical Memorandum of Understanding

**Press Release:**  
[IMF Executive Board  
Completes First  
Review Under the  
Extended Credit  
Facility Arrangement  
for The Gambia and  
Approves US\\$2.3  
Million Disbursement](#)  
May 22, 2013

May 7, 2013

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## Letter of Intent

Banjul, The Gambia  
May 7, 2013

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

Dear Madame Lagarde:

1. The year 2012 marked the beginning of implementation of the Programme for Accelerated Growth and Employment (PAGE), which is The Gambia's development strategy and investment programme for 2012-2015. The PAGE aims to accelerate and sustain economic growth and development while creating employment opportunities for Gambians in order to improve their socio-economic conditions. The Government of The Gambia aims to achieve this objective through strategic investments in infrastructure, education, agriculture, tourism, health, and energy. The PAGE also calls for a sound macroeconomic policy framework that reduces the risks to economic stability and provides a strong foundation for growth and employment. More specifically, this policy framework, which is supported by an arrangement under the Extended Credit Facility (ECF) approved by the IMF Executive Board in May 2012, seeks to reduce Government's domestic borrowing needs, gradually build up international reserves, and ensure a sound financial system.
2. The Gambian economy has begun to recover from the severe drought and crop failure of 2011. By providing food, seeds, and fertilizer, relief efforts by the Government, aid agencies, and donors helped to mitigate the impact of the drought on the most vulnerable farmers and families. In 2012 real GDP is estimated to have grown by about 4 percent, driven by a partial rebound in agriculture and strength in the tourism sector. In 2013, non-agricultural GDP is projected to grow by 5-5½ percent, while overall GDP growth could climb to about 8-9 percent, depending on the expected continuation of the recovery in agriculture. Despite the ongoing agricultural recovery and good performance in the tourism sector, the balance of payments has weakened, contributing to depreciation pressures on the Gambian dalasi.
3. Almost all performance criteria (PCs) for the 1<sup>st</sup> review of the ECF arrangement were met (end-June 2012 test date). During the first half of 2012, progress was achieved on containing government's borrowing and building up international reserves. However, one continuous PC was not observed in late 2012, when external payments arrears were incurred on external debt service obligations due on a Government-guaranteed loan to the National Water and Electricity Company. The Government cleared the past-due balances in December 2012. Good progress has also been achieved on our structural agenda, including the successful introduction of a value-added tax on January 1, 2013, as planned.
4. In light of this performance, we request a waiver for the nonobservance of the continuous PC that sets a zero limit on external arrears. We also request the completion of the 1<sup>st</sup> review under the ECF arrangement and a disbursement in the amount of SDR 1,555,000 (5 percent of quota).

5. Although the 1<sup>st</sup> review of the programme has been delayed and three of the original PCs for the 2<sup>nd</sup> review (end-December 2012 test date) were missed, we have set our sights on targets for 2013 that are largely in line with the original objectives of the ECF-supported programme. Given these, we request a re-phasing of the second and subsequent semi-annual reviews by six months. That is, we request that the test dates for the second and third reviews of the programme be pushed back to end-June 2013 and end-December 2013, respectively. As discussed in the attached Memorandum of Economic and Financial Policies (MEFP), the Government of The Gambia will limit its net domestic borrowing (NDB) to about 1½ percent in 2013, moderately higher than originally planned (1 percent of GDP). In addition, the Central Bank of The Gambia (CBG) will rebuild its international reserves over the course of the year, after experiencing an unseasonal loss in early 2013. The Gambian authorities remain committed to the medium-term objectives of the ECF-supported programme, including reducing the Government's net domestic borrowing (NDB) to ½ percent of GDP a year by 2014 and gradually building up international reserves to 5 months of import coverage.

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

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

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

Sincerely yours,

/s/

Abdou Kolley  
Minister  
Ministry of Finance and Economic Affairs

/s/

Amadou Colley  
Governor  
Central Bank of The Gambia

Attachments:

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

# Attachment I. Memorandum of Economic and Financial Policies

## Introduction and Background

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

## Background and Recent Economic Developments

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

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

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

(continued)

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

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

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

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

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

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

7. The Government of The Gambia and the CBG have continued to make progress on the structural agenda.
8. On Government revenues:
  - The Commission of Inquiry into Tax Evasion and other Corrupt Practices, which was established in October 2011, published its report in early June 2012. On the basis of its findings, the GRA's executive management team was replaced. In addition, the report spurred the collection of tax arrears.
  - The Government adjusted fuel prices nearly every month in 2012. In December, pump prices were 7.4 percent below the full pass-through level, on average. However, adjustments to pump prices often failed to keep pace with import prices and forgone revenues arising from the subsidies amounted to about GMD 468 million in 2012 (1.6 percent of GDP).
  - All domestic producers are complying with excise taxes and all outstanding arrears have been eliminated.
  - The GRA has implemented a detailed compliance improvement plan for large taxpayers. Around 86 percent of large taxpayers filed their income tax returns in 2012. This is up from 79 percent in 2011.
  - As planned, the Government started bringing holders of expired Special Investment Certificates (SICs) into the tax net, removed tax waivers on sugar and cement, and discontinued the fuel concession given to the Gambia Port Authority (GPA). The Government introduced a quota system for duty exemptions on fuel for diplomatic missions in July 2012.
  - The Government has continued to strengthen the GRA's Domestic Taxes department with more staff to respond adequately to the VAT compliance requirements in audit and enforcement. In 2012, the remaining 25 additional staff needed were hired.
  - In the area of customs administration, ASYCUDA++ has been rolled out to all border stations.

- In line with its commitments to ECOWAS, the Government introduced the new value added tax (VAT) on January 1, 2013, as planned. The GRA continues to work closely with registered companies to facilitate compliance with the new tax.
  - The Government has almost completed the upgrading of the GAMTAXNET and been designing the core processes that are essential for successful VAT implementation, such as taxpayer registration, return filing, payment processing, refund, enforcement, and audit. The remaining two modules (objections and appeals and MIS modules) will be completed by end-April 2013.
  - With help from IMF technical assistance, the Government has prepared the regulations for implementing the VAT Act.
  - The Government has, with effect from 2013, simplified small business taxation by imposing a final tax rate of 3 percent on all taxpayers with a turnover below GMD 500,000.
  - In the area of customs administration, a risk management program is in place. Also the GRA's management approved a training and technical assistance plan for the Customs and Excise Department.
9. On public financial management (PFM) reforms in 2012, including improving budget preparation and execution:
- To meet NDB objectives, the authorities used a cash budgeting approach to keep spending under control. However, toward the end of the year it became necessary to meet necessary debt service and other statutory and essential expenditures and it was too late in the year to cut down on other discretionary expenditures.
  - The audited Government's accounts for 2008 were submitted to the National Assembly in November 2012. In addition, the backlog of Government's accounts for 2009-2011 have been submitted to the National Audit Office (NAO).
  - The Government prepared a budget framework paper for 2013 with indicative budget projections for 2013-2015, which was submitted to the National Assembly as part of the annual budget documentation in November 2012. The budget framework included an indicative Medium-Term Expenditure Framework (MTEF).
  - The Government conducted a comprehensive survey of domestic arrears. As of February 2012, claims totaled GMD 479 million (about 1.7 percent of GDP). Payments will be made only after a thorough verification.
  - Indicative floors on poverty-reducing expenditures were met during 2012.

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

- The Government has continued to refrain from accessing credit from the CBG at below-market interest rates. Overdraft balances have been cleared by the end of each month. Interest arrears of around GMD 133 million on government securities held by the CBG and incurred in previous years were cleared in early 2012.
- Following the resumption of regular meetings of the interagency committee on liquidity management, in January 2012 the CBG has posted each month a rolling 3-month projection of T-bill auctions by maturities.

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

- Financial soundness indicators show that commercial banks are generally well capitalized and liquid. However, non-performing loans (NPLs) remain high at 11.6 percent of total loans at end-2012. In order to facilitate financial intermediation, the CBG reduced the reserve requirement by 2 percentage points (to 10 percent) in late May 2012. Gambian banks do not have significant direct exposure to problem banks in Europe.
- In consultation with commercial banks, the private sector, and other stakeholders, the CBG reviewed the relevant legislation (such as the Sheriffs and Mortgages Acts) and regulations in 2012 and found the laws to be adequate.
- In June 2012, the CBG launched V-RegCoSS, an electronic reporting system for commercial banks which will facilitate the accurate and timely submission of statutory returns. V-RegCoSS will enable the CBG to access information from banks electronically which will improve offsite and onsite supervision.
- In early 2013, the CBG started the collection of new data, including on the term structure of commercial banks' assets and liabilities.
- The installation of CBG's new national payment system is almost complete. Work has progressed on the National Switch and the Securities Settlement System, which will become operational in June 2013. The new system will help reduce the overhead expenses of commercial banks. The CBG anticipates that commercial banks will pass these significant cost savings to consumers of financial products.

## **Performance under the ECF-supported Program**

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

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

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

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

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

## **Economic and Financial Policies for 2013–2015**

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

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

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

## A. Economic Outlook for 2013 and the Medium Term

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

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

## B. Fiscal Policy and Related Structural Reforms for 2013

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

21. The Government will pursue tax policy and revenue administration reforms to increase revenues, make the tax system simpler and more efficient, and improve the business environment. Beyond the VAT, which was introduced at the beginning of 2013, the Government intends to pursue a comprehensive agenda for tax reform aimed at broadening the tax base, eliminating certain taxes which do not meet a cost-benefit test<sup>2</sup> and simplifying direct taxes,

including by reducing both the number of tax brackets and the levels of tax rates. Next steps include:

- The MOFEA will examine the TA report of the recently held FAD TA mission assessing its capacity to undertake tax expenditure budgeting.
- The Government will also assess the need to realign excise taxes on alcohol, tobacco, and other products.

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

- To rebuild revenues from fuel taxes, the Government will steadfastly adjust fuel prices on the 26<sup>th</sup> day of each month, to gradually eliminate the fuel subsidy, as indicated in the supplementary budget.
- The Government will update and better utilize the Taxpayer Identification Number (TIN) register, for example, by linking it to national ID numbers.

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

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

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

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

- To strengthen budget execution and monitoring, the Government will publish quarterly budget execution reports within 45 days of the end of each quarter (structural benchmark).
- By end-May 2013, the Government will update and prioritize the strategic plan of the Ministry of Basic and Secondary Education. It will also review, update, and cost MOFEA's strategic plan and that of two other line ministries (agriculture and health) in 2013, and expand the number of ministries that are preparing MTEF-compliant strategic plans in 2014, with a view to covering all ministries within four years.
- By May 2013, the MTEF concept note will be submitted to Cabinet for information.
- Ministry of Basic and Secondary Education and MoFEA will be pilots for an MTEF in 2013 while the Ministries of Agriculture and Health will be pilots in 2014.
- The 2014 budget framework paper will be submitted to Cabinet for approval by end-June 2013.

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

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

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<sup>3</sup> The Government intends to request a modification to the PC on non-concessional borrowing before signing the IsDB loan.

## C. Monetary and Exchange Rate Policies

29. The CBG will continue to use a money targeting framework to pursue its price stability objective (inflation at or below 6 percent in 2013 and 5 percent thereafter). The CBG will continue to use its rediscount rate to signal changes in policy stance. The CBG will continue to monitor average daily reserve money, with a view toward shifting to an average daily reserve money target in 2013, once an effective market tool for managing daily liquidity is available and fully tested.<sup>4</sup> Monetary policy in 2013 will aim to limit growth in average reserve money and broad money to 10.9 percent and 12½ percent, respectively. The central bank will continue to actively monitor energy and food prices. The Gambia's low inflation provides scope for monetary policy to accommodate first-round inflationary effects of higher energy and food prices. However, the CBG will be prepared to tighten monetary policy if shocks to energy and food prices start sifting into the general price level.

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

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

- The Government will continue to adhere to a zero limit, on a monthly basis, on new credit from the central bank at below-market interest rates. The Government will adhere strictly to the schedule for payments of principal and interest on CBG-held government securities (see Table 1), which have been incorporated in the 2013 budget.
- MOFEA will continue to collaborate with CBG to strengthen liquidity forecasting, both by participating in the regular meetings of the interagency committee and by improving its weekly forecasts of the public sector borrowing requirement.
- With the expected completion of the installation of the Securities Settlement System by June 2013, the CBG plans to launch the market for daily repos by December 2013. The CBG will bear the interest costs of repo operations.
- The existence of a working tool for daily liquidity management will allow the CBG to start targeting average daily reserve money in 2014, and to also switch to a fortnightly schedule for T-bill auctions in 2014, which will make auctions more competitive and help lower interest rates.

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<sup>4</sup> The CBG will also conduct a study of alternative policy interest rates.

## D. Financial Intermediation

32. Improving the framework for financial supervision and prudential regulation will be important to support economic growth and stability. The CBG continues to regard the continuous capacity building of its supervisory staff as absolutely critical for keeping pace with a rapidly changing banking system. It also recognizes the fact that supervision is labor intensive. Therefore, the CBG will continue to maintain adequate staffing levels and provide training for the staff of the Financial Supervision Department (FSD), with a particular focus on IT-related needs.

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

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

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

- The CBG will continue to push the banking sector to reduce overheads further and to become even more competitive.
- The CBG is working with other stakeholders, such as the Ministry of Trade, Regional Integration and Employment and the Ministry of Justice, on developing a Collateral Registry, which should be operational in 2013.

## E. Other Structural Reforms

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

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

## F. Statistics

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

- The Government has increased the budget allocations for GBoS for 2013 and a recent meeting with the MOFEA and Permanent Secretary II indicates that Government is willing to allocate more for GBoS to enable the Bureau to recruit more staff and train them as

well. We intend to do the recruitment by May/June 2013. The proposed vacancies will be advertised immediately after completion of the data collection exercise of the 2013 Population and Housing Census. The conduct of an establishment survey has been budgeted under the WB Trust Fund for Statistical Capacity Building (TFSCB) project proposal.

- CBG also plans to re-build staffing levels and continuously build up capacity in the BOP unit at the Economic Research Department, in line with recommendations from IMF technical assistance.
- Line ministries will contribute to the development of sectoral statistics, particularly in agriculture, health, education, transport, and construction. Line ministries and government agencies will cooperate closely with GBoS and submit all necessary data in a timely manner.
- In November 2012, with help from donors, the Government held a forum for dialogue among users and producers of the National Statistical System.
- By June 2013, GBoS will rebase the CPI using the 2010 Integrated Household Survey.
- GBoS, CBG, the GRA's Customs and Excise Department, and the National Transport Union will resume holding regular quarterly meetings on re-exports, in order to standardize procedures and reports for border stations by end-June 2013, with a particular focus on recording re-exports correctly and consistently.
- The NA unit at GBoS will develop GDP estimates by the expenditure approach by end-2013.
- The Government will maintain a consolidated database of government debt.

## **Program Monitoring for 2013**

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

39. Although the slippages at end-December 2012 were substantial, we have set our sights on targets for 2013 that are largely consistent with the original objectives of the ECF-supported programme. In light of this and the delay to completing the 1<sup>st</sup> review, the Gambian authorities seek a re-phasing of the semi-annual reviews under the ECF-supported programme, beginning with the 2<sup>nd</sup> review (end-June 2013 test date). The targets for the 2<sup>nd</sup> and 3<sup>rd</sup> reviews presented in Table 2 are consistent with the original programme objectives of gradually reducing Government's NDB to ½ percent of GDP in 2014 and beyond. The goal of building up official gross international reserves to 5 months of imports, however, has been pushed back a year or two, because current weaknesses in the balance of payments are not conducive to reserve accumulation at this time.

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

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

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

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

**Table 2. The Gambia: Quantitative Performance Criteria and Indicative Targets**  
(Stocks; unless otherwise indicated)

	Jun. 2012			Sep. 2012			Dec. 2012			Jun. 2013	Sep. 2013	Dec. 2013
	Prog.	Adj.	Act.	Prog.	Adj.	Act.	Prog.	Adj.	Act.	Proposed	Proposed	Proposed
<b>Quantitative performance criteria and indicative targets<sup>1</sup></b>												
1. Ceiling on net domestic borrowing of the central government (cumulative flows from the beginning of the calendar year, GMD millions) <sup>2,3</sup>	799	430	275	464	37	417	1,094	667	901	398	435	500
2. Ceiling on the stock of net domestic assets of the central bank (GMD millions, TMU exchange rates) <sup>2,3</sup>	1,608	1,238	1,081	1,257	831	919	1,429	1,003	1,145	1,116	1,228	1,283
3. Floor on the stock of net usable international reserves of the central bank (USD millions, TMU exchange rates) <sup>4,5,6</sup>	112.7	125.0	126.3	124.9	139.0	122.1	125.5	139.6	134.3	129.4	126.8	134.1
4. Continuous ceiling on new external payments arrears of the central government (USD millions)	0	0	0	0	0	0	0	0	2	0	0	0
5. Continuous ceiling on new nonconcessional external debt contracted or guaranteed by the central government (USD millions) <sup>7</sup>	0	0	0	0	0	0	0	0	0	28	28	28
6. Continuous ceiling on the outstanding stock of external public debt with original maturity of one year or less (USD millions)	0	0	0	0	0	0	0	0	0	0	0	0
7. Monthly ceiling on central bank credit to the central government at non-market terms (GMD millions) <sup>8</sup>	0	0	-193	0	0	0	0	0	0	0	0	0
<b>Quantitative indicative targets</b>												
8. Floor on total government revenues (cumulative flows from the beginning of the calendar year, GMD millions)	2,473	2,473	2,465	3,644	3,644	3,735	4,651	4,651	4,786	2,756	4,163	5,572
9. Floor on poverty-reducing expenditures (cumulative flows from the beginning of the calendar year, GMD millions)	905	905	1,104	1,358	1,358	1,624	1,811	1,811	2,154	1,357	1,822	2,334
10. Ceiling on average daily reserve money (GMD millions)										4,433	4,365	4,725
<sup>1</sup> Numbers for June and December of each year are performance criteria. All other numbers are indicative targets. Upon the Board's approval of the re-phasing request, the end-December 2012 numbers will no longer be performance criteria.												
<sup>2</sup> The program targets for June, September, and December 2012 to be adjusted downward by the dalasi equivalent of donor-provided drought relief beyond the budget support grants from the World Bank and the African Development Bank, up to a maximum of USD 14.1 million.												
<sup>3</sup> The program targets for June and December 2013 to be adjusted upward by the dalasi equivalent of the shortfall of the donor-provided support for the 2013 population Census, by up to GMD 111 million.												
<sup>4</sup> The program targets for June, September, and December 2012 to be adjusted upward by the U.S. dollar equivalent of donor-provided drought relief beyond the budget support grants from the World Bank and the African Development Bank, up to a maximum of USD 14.1 million.												
<sup>5</sup> The program targets for June and December 2013 to be adjusted downward by the US dollar equivalent of the shortfall of the donor-provided support for the 2013 population Census, by up to US\$ 3.3 million.												
<sup>6</sup> Measured at the TMU exchange rates, which was revised at the beginning of 2013 (see TMU of the MEFP for the 1st ECF review.).												
<sup>7</sup> The non-zero limit starting in December 2012 is tied to a specific loan financing a specific project, as defined in the TMU.												
<sup>8</sup> Zero ceiling applies to outstanding credits (for example, overdrafts) at non market terms as of the end of each month during the quarter.												

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

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

<sup>1</sup> See the Technical Memorandum of Understanding for specifics.

<sup>2</sup> See the Technical Memorandum of Understanding for specifics.

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

<b>Measures</b>	<b>Implementation Date</b>	<b>Macroeconomic Rationale</b>
<ul style="list-style-type: none"> <li>Submit a Supplementary Budget to the National Assembly (prior action).</li> </ul>	Done on April 26, 2013	<b>Shore up the NDB targets in 2013.</b>
<b><i>Improving Projections of External Debt Service</i></b>		
<b>Quarterly update of monthly external debt service projections.</b>		<b>Strengthen debt management</b>
<ul style="list-style-type: none"> <li>Within 30 days of the end of each quarter, update projections of monthly scheduled external debt service through the end of the next calendar year.</li> </ul>	End-June, 2013	
<b><i>Strengthening Budget Preparation, Execution and PFM</i></b>		
<b>Strengthen budget preparation, execution, and monitoring using the Integrated Financial Management and Information System (IFMIS).</b>		<b>Improve efficiency and transparency in the use of government resources</b>
<ul style="list-style-type: none"> <li>Submit the 2014 budget framework paper to Cabinet for approval.</li> </ul>	End-June 2013	
<ul style="list-style-type: none"> <li>Publish quarterly budget execution reports on MOFEA's website</li> </ul>	Continuous, within 45 days after the end of each quarter	
<ul style="list-style-type: none"> <li>Transfer all cash management functions to the Directorate of the National Treasury.</li> </ul>	End-December 2013	
<b>Introduce a medium-term and performance focus to the budget.</b>		<b>Improve allocation of government resources in line with the PAGE</b>
<ul style="list-style-type: none"> <li>Submit the updated strategic plan of one line ministry to the MOFEA.</li> </ul>	End-June 2013	<b>Initial step of multi-year plan to implement the MTEF.</b>
<b><i>Improving the Conduct of Monetary Policy</i></b>		
<ul style="list-style-type: none"> <li>Launch the market for daily repos and reverse repos.</li> </ul>	End-December 2013	<b>Improve liquidity management.</b>
<ul style="list-style-type: none"> <li>Submit to the National Assembly amendments to the CBG Act 2005.</li> </ul>	December 2013	<b>Strengthen the de jure autonomy of the CBG.</b>
<b><i>Strengthening Financial Stability</i></b>		
<ul style="list-style-type: none"> <li>Review the Manual of Guidelines and Instructions.<sup>1</sup></li> </ul>	End-December 2013	<b>Boost financial stability.</b>
<ul style="list-style-type: none"> <li>Submit to the National Assembly amendments to the Banking Act 2009.<sup>2</sup></li> </ul>	September 2013	<b>Boost financial stability.</b>
<b><i>Improving Macroeconomic Statistics</i></b>		
<ul style="list-style-type: none"> <li>Standardize procedures and reports for border stations, with a particular focus on recording re-exports correctly and consistently at all border stations.</li> </ul>	June 2013	<b>Strengthen BOP statistics.</b>

<sup>1</sup> See the Technical Memorandum of Understanding for specifics.

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

## Attachment II. Technical Memorandum of Understanding

### Introduction

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

### Quantitative Performance Criteria

#### A. Net Domestic Borrowing of the Central Government

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

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

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

#### B. Net Domestic Assets of the Central Bank

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

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

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

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

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

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

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

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

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

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

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

#### D. New External Payments Arrears of the Central Government

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

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

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

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

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

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

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

**19. Definition:** This target refers to the stock of outstanding external public sector debt with original maturity of one year or less, owed or guaranteed by the public sector.<sup>5</sup> Public sector consists of the Central Government and regional governments and other public agencies, including the central bank. Normal import-related credits are excluded from this target.

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

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

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

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

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

## Quantitative Indicative Targets

### A. Total Government Revenues

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

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

### B. Poverty-Reducing Expenditures

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

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

### C. Average Daily Reserve Money

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

**28. Supporting material:** See paragraph 39 below.

## Structural Benchmarks

### A. VAT

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

### B. Review of Manual of Guidelines and Instructions

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

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

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

### **C. Amendments to the Banking Act 2009**

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

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

### **D. Strategic Study of GAMTEL and GAMCEL**

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

## **Other Data Requirements and Reporting Standards**

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

### **A. Prices**

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

### **B. Government Accounts Data**

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

financed capital expenditure, expenditure from the Gambia Local Fund, and net lending); (v) the overall balance and the basic balance; and (vi) details of budget financing (including net domestic and net external borrowing and their components).

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

### **C. Monetary Sector Data**

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

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

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

### **D. Treasury Bill Market and Interbank Money Market**

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

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

## **E. External Sector Data**

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

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

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

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

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

## **Other Issues**

### **Monthly Fuel Subsidies Reduction**

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

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

<b>Account number</b>	<b>Account name</b>
1101000124	Livestock Development Project
1101000306	Small Scale Water Ctl. Project
1101001633	UNICEF PRIMARY EDUC. PROJECT]
1101001822	ENERGY INFRASTRUCTURE (ROC)
1101002692	IDA 3RD EDUC PHASE II GLF
1101002881	Proj.Impl.Mngmt A/C PIMA
1101003039	INST.SUPPORT PROJ.ECON/FIN.G...
1101003125	Livestock H/Development Proj.
1101003204	WORLD BK DEV. POLICY OP.ACCO
1101003527	IFMIS PHASE II
1103000654	LOWER BASIC EDUC.SUPP.PROJ
1103000908	SDF (EPMDP) PROJECT
1103000915	SDF (EPMDP) CREDIT FUNDS
1103000939	IDA 3RD EDUCATIO PHASE(II)
1103001008	IFAD RURAL FINANCE PROJ. USD
1103001053	INST. SUPPORT ECON/FIN GOV A/C
1103001118	IDB/GOTG WATER SUPPLY PROJECT
1103001156	Livestock H/Development Proj.
1103001259	Education for All-Fast Track II
1103001266	GAMBIA ARTISANAL FISHERIES
1103001280	LIVESTOCK H/Development Proj.(IFAD)
1103001297	IDB SUPPORTED MALARIA PROJECT
1103001307	IFMIS II
1103001321	GCP
1103000685	Global Fund/Malaria
1109000058	Global Fund Round 8 HIV/AIDS
1103001345	GLOBAL FUND TUBERCULOSES RND 9
1103001314	GAMBIA EMERGENCY AGRIC. PRO
1103000702	EDUC FOR FAST TRACK INITIATIVE
1103001046	Proj.Impl.Mngmt.A/C PIMA