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The Gambia: 2017 Article IV Consultation and First Review Under and Extension of the Staff-Monitored Program with The Gambia-Press Release; Staff Report; and Statement by the Executive Director for The Gambia

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THE GAMBIA

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2017 ARTICLE IV CONSULTATION AND FIRST REVIEW UNDER AND EXTENSION OF THE STAFF-MONITORED PROGRAM WITH THE GAMBIA—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE GAMBIA

In the context of the Article IV Consultation and First Review Under and Extension of the Staff-Monitored Program with The Gambia, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board and summarizing the views of the Executive Board as expressed during its March 22, 2018 consideration of the staff report on issues related to the Article IV Consultation with The Gambia.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on March 22, 2018 following discussions that ended on December 13, 2017, with the officials of The Gambia on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on March 7, 2018.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the International Development Association (IDA).
- A **Staff Supplement** updating information on recent developments.
- 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 authorities of The Gambia*
Memorandum of Economic and Financial Policies by the authorities of The Gambia*
Technical Memorandum of Understanding*
Selected Issues
*Also included in Staff Report

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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IMF Executive Board Concludes 2017 Article IV Consultation; and Completion of the First Review Under and Extension of the Staff-Monitored Program with The Gambia [1]

On March 22, 2018, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[2] with The Gambia.

The Gambian economy has started to recover, following the sharp growth slowdown in 2016. For 2017, economic growth is estimated at 3.5 percent with a better agricultural season and a strong rebound of tourism and trade. Headline inflation has declined from 8.8 percent in January 2017 to 6.4 percent in January 2018, reflecting the stabilization of the dalasi and a gradual decrease in food prices. With much-improved fiscal discipline and external financial support, the Dalasi has remained stable since April and gross international reserves increased from 1.6 months of import cover at end-2016 to 2.9 months at end-2017. The Executive Board also granted a waiver.

The authorities' commitment to the staff-monitored program (SMP) is strong. Performance under the program was broadly satisfactory, including good progress in implementing the structural agenda despite severe capacity constraints. The Managing Director approved the authorities' request for an extension of the SMP by six months to end-September 2018. This will provide more time to establish a track record of performance for the transition to an arrangement under the Extended Credit Facility (ECF) to which the authorities aspire.

Over the medium term, The Gambia can achieve a more robust growth path. This will require continued strong policy implementation and effective fiscal reforms, including ensuring debt sustainability. The authorities are committed to further national development through the planned strong expansion of reliable and affordable electricity by 2020, and increasing the economy's

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[1] An SMP is an informal agreement between country authorities and Fund staff, whereby the latter agree to monitor the implementation of the authorities' economic program. SMPs do not entail financial assistance or endorsement by the IMF Executive Board.

[2] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

productivity by promoting irrigation and commercial agriculture, light manufacturing, tourism, and continued infrastructure investment.

Executive Board Assessment[3]

Following the Executive Board discussion, Mr. Furusawa, Deputy Managing Director and Acting Chair, issued the following statement:

Executive Directors agreed with the thrust of the staff appraisal. They commended the authorities for their strong commitment to reforms underpinned by the staff monitored program, and welcomed the progress achieved in stabilizing the economy. They noted that strict fiscal discipline together with substantial external support has enabled the authorities to significantly cut domestic borrowing. Going forward, it will be important to maintain the focus on reducing debt vulnerabilities and implementing reforms to increase private sector activity.

Directors agreed that efforts to maintain fiscal stability will need to continue. It will be important to contain spending while raising domestic revenue, including by implementing the revenue measures that were delayed to 2018, as well as further efforts to streamline the civil service. Directors welcomed the ongoing work to develop a medium term economic and fiscal framework together with a debt management strategy to help anchor fiscal policy. They noted that rehabilitation, reform, and improved oversight of public enterprises will be crucial to limit contingent liabilities and protect fiscal outcomes, improve service delivery, and strengthen the business environment.

Directors noted with concern The Gambia’s substantial debt vulnerabilities and high risk of external debt distress. They agreed that concerted support by the international community will be key in addressing the high debt overhang. Mobilization of assistance for the implementation of the National Development Strategy will need to focus on grants, with only very limited room even for highly concessional loans in the medium term. Directors also called on the international community to provide additional resources to foster debt sustainability, including through debt restructuring and softening of terms on existing commitments. Directors urged the authorities to carefully prioritize and sequence investment projects and refrain from contracting any large new debt or contingent liabilities that would jeopardize debt sustainability.

Directors agreed that further progress in reducing inflation would provide room to lower the policy interest rate. They welcomed the authorities’ commitment to maintain a flexible exchange rate system, which will support rebuilding international reserves. They stressed that it will be important to strengthen the central bank’s independence, governance, and operational effectiveness.

Directors emphasized that it will be important to crowd in the private sector to support broad based growth, including through measures to increase access to financing. They noted that it will

[3] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

be key to safeguard financial stability through heightened and risk based supervision in light of lower interest rates and maturity lengthening of domestic debt. Directors also noted the importance of strengthening the AML/CFT framework to address the decline in correspondent banking relationships. Directors urged a further improvement of the business environment and a strengthening of governance. They also noted that reducing income and gender inequality would support economic growth while achieving better social outcomes.

Table 1. The Gambia: Selected Economic Indicators

	2015	2016	2017		2018	2019	2020	2021	2022	2023
	Actual		EBS/ 17/61	Proj.	Projections					
National account and prices	'(Percent change; unless otherwise indicated)									
Nominal GDP (millions of dalasi)	38,581	42,252	47,139	47,289	52,577	57,973	63,645	69,848	76,574	83,941
Nominal GDP	10.9	9.5	11.6	11.9	11.2	10.3	9.8	9.7	9.6	9.6
GDP at constant prices	4.3	2.2	3.0	3.5	5.4	5.2	4.9	4.8	4.8	4.8
GDP per capita (US$)	451	473	488	480	500	518	531	542	554	563
GDP deflator	6.4	7.1	8.3	8.1	5.5	4.8	4.6	4.7	4.6	4.6
Consumer prices (average)	6.8	7.2	8.3	8.0	5.8	5.0	4.8	4.8	4.8	4.8
Consumer prices (end of period)	6.7	7.9	7.6	6.9	5.1	4.8	4.8	4.8	4.8	4.8
External sector	(Percent change; in beginning-of-year broad money)									
Trade balance (in percent of GDP, deficit -)	-25.7	-17.9	-22.8	-27.8	-31.9	-29.5	-26.2	-24.9	-23.8	-24.1
Exports of goods and services	-9.5	5.0	-6.0	-6.0	16.9	9.3	9.0	8.2	8.0	6.5
Imports of goods and services	11.3	-10.2	12.3	23.2	20.5	3.2	0.9	4.0	4.4	6.1
Broad money	-0.9	15.3	11.4	19.3	11.0	9.1	8.4	8.2	7.1	7.1
Net foreign assets	-11.6	-4.5	4.3	28.3	9.8	6.1	3.8	6.6	2.3	2.5
Net domestic assets, of which:	10.7	19.8	7.1	-9.0	1.2	3.0	4.6	1.6	4.8	4.6
Credit to the government (net)	16.0	24.8	4.4	-7.8	-7.0	0.0	1.2	-1.6	0.2	0.1
Credit to the private sector (net)	-2.1	-3.0	2.8	-0.2	2.0	2.3	2.5	2.6	2.8	3.0
Other items (net)	-5.8	-1.1	-0.1	-4.7	6.3	0.6	1.0	0.5	1.8	1.5
Velocity (level)	1.9	1.8	1.8	1.7	1.7	1.7	1.7	1.8	1.8	1.9
Central government budget	(Percent of GDP; unless otherwise indicated)									
Domestic revenue (taxes and other revenues)	19.7	18.4	18.7	19.6	20.9	18.9	19.2	19.7	20.2	20.4
Grants	1.9	1.7	6.8	11.1	13.2	10.0	7.3	6.2	4.3	4.2
Total expenditures and net acquisition of financial assets	29.7	29.8	28.0	34.5	34.8	30.6	27.6	25.6	25.1	24.6
Of which: Interest payments (percent of government revenue)	36.8	42.0	31.5	24.2	18.2	18.1	19.1	15.6	14.1	13.0
Net lending (+)/borrowing (–)	-8.1	-9.7	-2.5	-3.9	-0.8	-1.7	-1.1	0.3	-0.6	0.0
Net incurrence of liabilities	12.1	13.7	2.3	3.9	0.8	1.7	1.1	-0.3	0.6	0.0
Foreign	0.0	1.1	-0.3	6.6	3.5	1.9	0.6	0.5	0.3	-0.3
Domestic	12.0	12.6	2.5	-2.8	-2.8	-0.2	0.5	-0.8	0.3	0.2
Primary balance	-0.9	-2.0	3.3	0.87	3.04	1.74	2.5	3.4	2.2	2.7
Public debt	105.3	118.5	112.7	122.6	111.5	105.2	99.5	92.7	87.7	82.0
Domestic public debt	53.9	61.9	61.8	59.4	49.4	45.1	42.1	37.5	34.5	31.7
External public debt	51.4	56.6	50.9	63.2	62.1	60.1	57.5	55.2	53.1	50.2
External public debt (millions of US$)	499.0	544.7	517.2	627.7	666.1	687.9	695.2	701.7	706.0	702.0
External sector	(Percent of GDP; unless otherwise indicated)									
Current account balance										
Excluding budget support	-16.9	-9.7	-14.4	-19.4	-23.7	-21.2	-18.1	-16.9	-16.0	-16.0
Including budget support	-15.0	-8.9	-9.4	-14.3	-18.4	-16.9	-14.4	-13.2	-14.1	-13.6
Current account balance	(Millions of U.S. dollars; unless otherwise indicated)									
Including budget support	-134.0	-85.4	-97.0	-144.2	-200.1	-196.4	-177.2	-170.8	-192.1	-193.6
Overall balance of payments	-41.3	-10.3	13.4	75.2	44.0	26.6	28.9	33.8	20.0	19.9
Gross official reserves	76.1	59.8	84.8	143.9	180.0	200.0	223.6	251.7	267.7	281.9
(months of next year's imports of goods and services)	2.3	1.4	2.0	2.9	3.5	3.8	4.1	4.5	4.5	4.4
Use of Fund resources	(Millions of SDRs)									
Disbursements	7.8	0.0	11.7	11.7	0.0	0.0	0.0	0.0	0.0	0.0
Repayments	-3.8	-4.3	-3.0	-5.2	-5.5	-4.6	-3.6	-4.0	-2.8	-4.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

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

THE GAMBIA

March 7, 2018

2017 ARTICLE IV CONSULTATION AND FIRST REVIEW UNDER AND EXTENSION OF THE STAFF-MONITORED PROGRAM WITH THE GAMBIA

KEY ISSUES

Context. Following the historical transition to a democratically elected government in January 2017, the new administration has had to contend with a dire economic situation with unsustainable debt, failing SOEs, and crowding out of the private sector. Moreover, the economy was hit by economic shocks in 2016/17 (agriculture, tourism, trade). The new administration is strongly committed to breaking with past policies and to restoring economic stability and debt sustainability. Substantial financial support has been provided by development partners, including budget support of $56 million from the World Bank and €25 million from the EU. The Fund has supported the authorities through a $16.2 million RCF disbursement accompanied by a one-year staff-monitored program (SMP), performance under which is included in the report for information of the Executive Board. The new administration is now well established and an economic recovery is underway, bolstered by improved market confidence, favorable rains, a much-improved foreign exchange supply, and resurgent trade and tourism. The authorities are requesting an extension of the SMP approved in June 2017 by six months through September 2018. Staff supports the request, which would provide more time to establish a track record of performance for the transition to an ECF arrangement to which the authorities aspire, including because the outcome of the donor conference delayed to May 2018 will be an important input to the design of an ECF.

Recommendations. The authorities have made progress toward fiscal sustainability, including by cutting expenditures, raising revenue and curbing excessive domestic borrowing, but debt sustainability remains on a knife's edge thus severely constraining investment in urgent development priorities and rehabilitation of SOEs.

The authorities need to carefully evaluate investment projects and refrain from contracting large new debt or contingent liabilities that would add to the debt burden. The authorities should fully implement their medium-term debt strategy, including maturity lengthening of domestic debt. Mobilization of support for the implementation of their National Development Strategy will need to focus on grants and very limited amounts of highly concessional loan financing.

Maintaining a flexible exchange rate system will support rebuilding international reserves. Further progress in reducing inflation toward the central bank's 5 percent target would give room to further reductions of the policy rate. With fiscal dominance now waning, it is important to strengthen the central bank's independence as well as operational effectiveness.

Crowding in of the private sector will be important to support growth, including through measures to increase access to financing, which is a major impediment to private sector activity. At the same time, it will be key to safeguard financial stability through continued enhancement of risk based supervision.

Approved By
Roger Nord and Zuzana Murgasova

Discussions were held in Banjul during November 2-15 and December 7-13, 2017 with President Barrow; Finance Minister Sanneh; Central Bank Governor Jammeh; parliamentarians, representatives of the private sector, civil society and the diplomatic community. The staff team comprised Messrs. Jacoby (head), Norat, Wezel, Jenya, Ms. Devine (all AFR) and Mr. Best (SPR), and was assisted by Ms. Randall (Resident Representative) and Mr. Mendy (local economist), and supported by Ms. Njie (local office), Ms. Quartey, and Mr. Treilly. The mission coordinated closely with overlapping missions from the World Bank and the African Development Bank.

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BACKGROUND

1. The Gambia is a small, fragile country which just transitioned to a democratically elected government after 22 years of autocratic rule (Box 1). With a population of two million and GDP per capita of $469 in 2016, the country's development has been hampered in recent years by weakening governance and institutional capacity (Figure 1).

2. Reliant on rain-fed agriculture, tourism and trade, The Gambia's economy is vulnerable to exogenous shocks and carries the burden of economic mismanagement of the previous regime. Lack of economic diversification, combined with the absence of an efficient irrigation system, makes national production sensitive to external demand and weather-related shocks. In addition, more than two decades of poor economic management, including frequent fiscal slippages, sizable unbudgeted bailouts of SOEs, weak PFM, and massive embezzlement by the previous regime have resulted in high public debt and financial sector vulnerabilities.

3. The political situation is now stable and the new administration is committed to restoring economic stability and debt sustainability. The parliamentary elections in April 2017 resulted in an absolute majority in support of the new government, creating a more supportive political environment for reform, though maintaining cohesion in the seven-party ruling coalition will be key to maintaining political stability and achieving consensus around policy objectives. Local elections are scheduled for April 12, 2018.

4. The authorities are taking steps to strengthen governance and the rule of law, and fight corruption. The president and all cabinet members have declared their assets to the Ombudsman. Public expenditure reviews are underway with help from the World Bank, and a security forces reform has recently been kicked off. The authorities are also working on setting up a Truth, Reconciliation and Reparation Commission as well as a Human Rights Commission, and on the legal framework for an Anti-Corruption Commission, with UNDP support. A Commission of Inquiry has been set up and is unearthing previously unknown instances of embezzlement and theft by the former regime. The work of the commission will provide an important input to the special audits of SOEs. While the authorities are still investigating the financial dealings of the former president and his associates, they haven frozen their remaining assets in The Gambia and are also pursuing recovery of assets held abroad, with support from the World Bank's StAR Initiative—meanwhile the United States has also frozen assets of the former president. The Gambia was readmitted to the Commonwealth in February 2018.

5. Support from the international community is indispensable to return to macroeconomic stability and debt sustainability. In July-August 2017, the authorities received significant financial support including from the Fund ($16.2 million RCF disbursement), and budget support from the World Bank ($56 million) and the EU (€25 million) to support economic and structural reforms including tackling political, governance and corruption related vulnerabilities. The AfDB is now expected to disburse US$ 7.5 million in early Spring 2018. The EU has recently indicated plans to scale up support for 2018-21 from €40 million to €100 million. The authorities have

requested an extension of the Staff Monitored Program (SMP) approved in June 2017 which aims to support the authorities in restoring fiscal and debt sustainability and building a track record of performance for the eventual transition to an ECF to which the authorities aspire. An international donor conference is planned for May to raise funds in support of the recently finalized National Development Plan (NDP) as well as to help foster debt sustainability. The costing of the NDP is expected to come out around $1.8 billion, which would have to be provided mostly in the form of grants as borrowing space is extremely limited and would need to be reserved for the very highest priority projects.

Box 1. Strategy for Addressing Fragility

The Gambia is marked by five aspects of fragility. First, the country is exiting from 22 years of Jammeh rule and embarking upon a historic transition to democracy. A newly elected government took power in January 2017, after a tumultuous election and political impasse, and early parliamentary elections were held in April 2017. Second, decades of Jammeh rule have weakened economic institutions and institutional capacity, which has hampered effective macroeconomic management. Third, The Gambia is also economically fragile, stemming from high susceptibility to weather-related shocks, past fiscal slippages and theft of funds by the previous regime. Fourth, limited recent progress on improving socio economic indicators may accentuate frailties in The Gambia's social fabric, such as inter-tribal rivalries. Fifth, provision of vital infrastructure and services, such as reliable electricity, is weak.

The strategy for engagement with The Gambia entails capacity building efforts aimed at rebuilding resilience going forward. Actions such as ensuring that all previously-diverted revenue streams and public expenditures are brought on-budget, SOE reform and improving fiscal oversight of SOEs to put them on a sound financial footing, aim to increase fiscal transparency and improve basic infrastructure provision. At the same time, reducing net domestic borrowing and improving the effectiveness of monetary policy will strengthen macroeconomic management. Furthermore, technical assistance aimed at alleviating capacity limitations will focus on buttressing fiscal institutions; strengthening monetary policy tools and financial sector supervision; and enhancing statistical capacity.

6. Policy recommendations from the 2015 Article IV consultation are now being implemented (Text Table 1). Follow up by the previous regime was weak, except for rescinding the exchange rate directive. The new administration is now implementing the previous recommendations, including by boosting fiscal savings, targeting low domestic borrowing and reforming the energy and telecom sectors, securing donor support, and shoring up financial stability. The authorities have also implemented an impressively broad range of measures, including as part of their SMP commitments ((MEFP ¶6).

Text Table 1. Implementation of Fund Advice from the 2015 Article IV Consultation

Recommendation	Status
Support external sustainability. Rescind the exchange rate directive and adopt a floating exchange rate regime.	The exchange rate directive was rescinded and a de jure floating exchange rate regime adopted although the de facto classification is 'other managed.'
Contain fiscal expenditures and secure donor support. Implement saving measures committed and carry out structural reforms under the SMP. Restructure the fiscal budget to contain the NDB close to the target of 0.5 percent GDP. Restructure the energy and telecommunication sectors.	Not implemented by the previous regime, but now being implemented by the new administration starting in 2017, including as part of their SMP commitments. Savings measures have already been taken and further measures are underway. The authorities target NDB of 1 percent. SOE reforms is ongoing with World Bank support, in particular in the energy and telecommunications sector. Considerable donor support has been secured.
Improve debt management. Implement prudent macroeconomic policy to support fiscal consolidation and structural reforms.	Not implemented by the previous regime, but now being implemented by the new administration starting in 2017, including as part of their SMP commitments.
Shore up financial stability. Upgrade credit risk testing, improve its strategy to deal with weak banks and develop a resolution and crisis management framework.	The CBG has improved oversight of banks through its ongoing work to develop risk-based supervision. Enhanced supervision together with improved stress testing capabilities has provided early warning information on the emergence and impact of credit risk on banks. Weak banks have been required to bolster capital and address asset quality issues through increased provisions.
Enhance growth. Prioritize infrastructure investment, strengthen resource mobilization, reform the tax system, increase access to credit and promote private investment.	Domestic resource mobilization increased in 2015-16 but was hit by shocks in 2017. Access to credit declined due to continued crowding out, with negative impacts on private investment.

RECENT ECONOMIC DEVELOPMENTS

7. The economy has started to recover, following the sharp growth slowdown in 2016 (Figures 2-3; Table 1). Economic growth slowed down sharply from 4.3 percent in 2015 to 2.2 percent in 2016, and in early 2017, reflecting a bad harvest, foreign exchange scarcity, and a drop-in tourism due to the political turmoil after the presidential elections in December 2016. For 2017 overall, a recovery has been under way and economic growth is projected at 3.5 percent. While the agricultural season may turn out not as good as initially hoped for, tourism bookings for the ongoing high season are strong. Port congestion as well as other anecdotal evidence indicate a strong rebound in trade supported by much improved foreign exchange supply and relations with Senegal, and there is keen interest from foreign direct investors in energy, tourism, agriculture and transportation. Headline inflation has reversed its rising trend and declined from 8.8 percent in January 2017 to 6.4 percent in January 2018, reflecting the stabilization of the dalasi and a gradual decrease in food prices. With much-improved fiscal discipline and external financial support, the Dalasi has remained stable since April and gross international reserves increased from 1.6 months of import cover at end-2016 to 2.9 months at end-2017.

8. Higher project support has been driving up public investment. External project support through September 2017 has been much higher than previously anticipated, with both grant and loan disbursements exceeding expectations significantly as implementation of several large projects has accelerated. Higher disbursements of project grants and loans reflect the accelerated

implementation of projects contracted prior to the SMP during 2011-17, mainly of a few large projects.[1] Accordingly, the authorities also expect much higher project grant and loan disbursements in 2018-19, and correspondingly higher public investment.[2]

ECONOMIC OUTLOOK AND RISKS

9. Over the medium term, the economy is expected to embark upon a more robust growth path. This assumes continued strong policy implementation, effective fiscal reforms including ensuring debt sustainability, and normal weather conditions. The new administration is committed to further national development through the planned strong expansion of reliable and affordable electricity by 2020, and increasing the economy's productivity by promoting irrigation and commercial agriculture, light manufacturing especially crop-processing, and tourism, and continued infrastructure investment. Externally, greatly improved relations with Senegal and other countries offer much promise for trade and foreign investor interest and, more generally, regional integration and convergence with the fast-growing sub-region.

10. Economic growth is expected to accelerate in both the baseline and an alternative scenario projection (Text Table 2). The baseline projection incorporates higher project disbursements driving up public investment in 2017-19 and boosting growth to slightly above 5 percent in 2018/19 before gradually declining again (Figure 4). The alternative scenario assumes that grant-only funding for the NDP implementation will be forthcoming but implementation would be stretched out.[3] High levels of government investment persist much longer than in the baseline scenario, with the public investment rate remaining close to 15 percent of GDP until 2024, and remaining above baseline levels until throughout. Total new external project support (in addition to the existing pipeline) reaches USD 1.8 billion over the period 2018-30, broadly consistent with the overall NDP costing. Growth in this scenario would accelerate to a peak of around 6 percent in 2020/21 before gradually declining again.

11. The projected growth path remains subject to significant upside as well as downside risks and is thus fairly conservative (Table 9). Presuming steadfast implementation of sound policies, upside risks include a stronger rebound following the country's recent structural break,

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[1] The entire pipeline of existing projects was contracted prior to the SMP during 2011-17. Implementation has accelerated mainly of three large projects: the Senegambia bridge (AfDB grants), Gambia University (loans by Saudi Arabia, Kuwait, IsDB, BADEA and OFID) and the Lamin-Koto-Passimus road (loans by Saudi Arabia, Kuwait, UAE, BADEA and OFID). Projected loan disbursements for the outer years have been reduced accordingly.

[2] Loan projections for 2018 in IMF Country Report No. 17/179 included additional borrowing assumed to fill the financing gap (DSA, Text Table 5). While these have since been replaced by higher grant commitments, actual and expected project loan disbursements have been much faster and have more than offset this reduction in loan financing in 2017-18.

[3] The NDP was developed for the years 2018-21. However, full implementation over these four years would imply public investment of around 60 percent of GDP which does not appear realistic in light of limited implementation and absorption capacity.

faster convergence with the West-African Monetary and Economic Union sub-region which continues growing at more than 6 percent, the tripling of electricity supply by 2020, and progress in addressing the debt overhang. Strengthened governance and anti-corruption measures would also have a positive economic impact, including supporting much higher inflows of aid, FDI and remittances. On the downside, external risks include slower global growth and withdrawal of correspondent banking relations. Domestically, continued political stability and commitment to fiscal consolidation and debt sustainability are needed, along with financial sector stability.

Text Table 2. The Gambia: Economic Performance and Medium-Term Projections

	2015	2016	2017	2018	2019	2020	2021	2022	2023
Baseline									
Growth and Inflation (annual percent change, unless otherwise indicated)									
Real GDP Growth	4.3	2.2	3.5	5.4	5.2	4.9	4.8	4.8	4.8
GDP per capita (US$)	451	473	480	500	518	531	542	554	563
Headline Inflation (average)	6.8	7.2	8.0	5.8	5.0	4.8	4.8	4.8	4.8
Fiscal Sector (percent of GDP)									
Total Revenue (incl. grants)	21.6	20.0	30.7	34.1	28.9	26.5	25.9	24.5	24.6
Total Revenue (excl. grants)	19.7	18.4	19.6	20.9	18.9	19.2	19.7	20.2	20.4
Total Expenditures	29.7	29.8	34.5	34.8	30.6	27.7	25.6	25.1	24.6
Of which: Investment	6.2	6.4	14.8	17.0	13.3	10.0	8.6	8.3	8.0
Overall Fiscal Balance (incl. grants)	-8.1	-9.8	-3.9	-0.8	-1.7	-1.2	0.3	-0.6	0.0
Primary Balance	-0.9	-2.0	0.9	3.0	1.7	2.5	3.4	2.2	2.7
External Sector (percent of GDP, unless otherwise indicated)									
Current Account Balance (incl budget support)	-15.0	-8.9	-14.3	-18.4	-16.9	-14.4	-13.2	-14.1	-13.6
Current Account Balance (excl budget support)	-16.9	-9.7	-19.4	-23.7	-21.2	-18.1	-16.9	-16.0	-16.0
Public Debt	105.3	118.5	123.2	111.4	105.2	99.6	92.7	87.7	82.0
Gross Official Reserves (months of next year's imports of goods and service	2.3	1.4	2.9	3.5	3.8	4.1	4.5	4.5	4.4
Alternative Scenario									
Growth and Inflation (annual percent change, unless otherwise indicated)									
Real GDP Growth	4.3	2.2	3.5	5.8	5.9	6.0	5.9	5.8	5.7
GDP per capita (US$)	451	473	480	503	525	551	575	599	619
Headline Inflation (average)	6.8	7.2	8.0	5.8	5.0	4.8	4.8	4.8	4.8
Fiscal Sector (percent of GDP)									
Total Revenue (incl. grants)	21.6	20.0	30.7	34.4	31.5	32.0	32.7	31.6	32.1
Total Revenue (excl. grants)	19.7	18.4	19.6	21.2	19.3	19.7	20.1	20.6	20.9
Total Expenditures	29.7	29.8	34.6	35.0	33.0	32.7	32.0	31.7	31.5
Of which: Investment	6.2	6.4	14.8	16.9	15.4	15.0	15.0	14.9	14.9
Overall Fiscal Balance (incl. grants)	-8.1	-9.8	-3.9	-0.6	-1.5	-0.7	0.7	-0.1	0.6
Primary Balance	-0.9	-2.0	0.8	3.1	1.7	2.6	3.3	2.3	2.8
External Sector (percent of GDP, unless otherwise indicated)									
Current Account Balance (incl budget support)	-15.0	-8.9	-14.4	-20.6	-22.3	-21.1	-19.8	-20.3	-19.5
Current Account Balance (excl budget support)	-16.9	-9.7	-19.5	-25.8	-26.6	-24.7	-23.4	-22.1	-21.7
Public Debt	105.3	118.5	123.2	110.9	103.9	97.1	89.3	83.4	76.9
Gross Official Reserves (months of next year's imports of goods and service	2.3	1.4	2.7	2.9	2.7	2.9	3.3	3.5	3.7

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

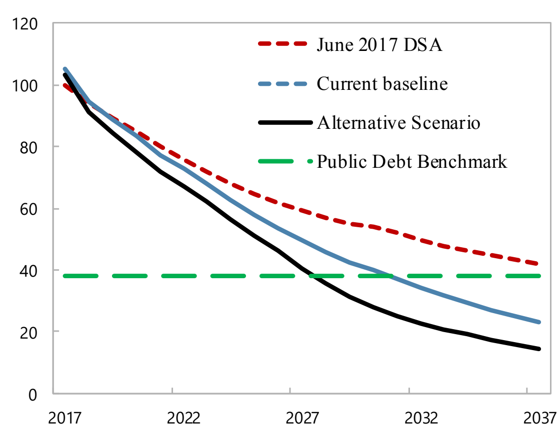
DEBT SUSTAINABILITY

12. **An updated debt sustainability analysis (DSA) indicates that The Gambia is currently at high risk of external debt distress.** While external debt stock indicators have deteriorated since the June 2017 DSA, and all five external debt burden indicators breach their indicative thresholds in the baseline scenario, external debt service indicators have improved in the near-term and the level of external concessional financing in place has increased. The outlook for total public debt (Text Figure 1) and public gross financing needs (Text Figure 2) has also improved, the latter significantly. However, vulnerabilities are substantial: the stress test results illustrate the country's high

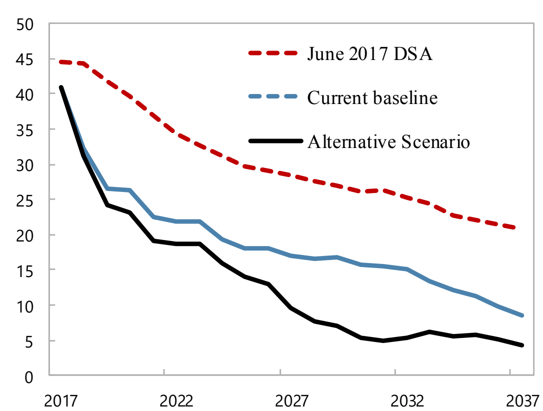
vulnerability to shocks, total public debt is expected to remain elevated throughout the projection period, rollover risks associated with the short maturity of domestic debt are significant, and contingent liabilities related to SOEs debt pose additional risks. However, high and stable remittances provide a reliable source of foreign exchange, and an upcoming GDP rebasing may improve the debt stock indicators somewhat.

13. A higher level of external support, including grant-only financing of the NDP, could significantly reduce The Gambia's debt vulnerabilities. An alternative scenario incorporates a restructuring of bilateral external debt, improvement of the terms of the lending pipeline, and an increase in grant-financing to fund the national development plan. This scenario assumes full financing of the NDP as outlined above, entirely through external grants, and incorporates assumed debt rescheduling by all bilateral and plurilateral creditors in line with the rescheduling provided by Saudi Arabia as well as a softening of terms on existing commitments to a grant element of 50 percent through a combination of reducing interest rates, extending maturity and grace periods, and substituting grants for loans. Under this scenario, the debt service indicators would immediately fall below their relevant thresholds, and remain at manageable levels throughout the projection period. The paydown of domestic debt in the early years would quickly reduce gross financing needs to more manageable levels. Nevertheless, the space for new external borrowing (even on highly concessional terms) is very limited and would need to be reserved for development projects with the highest priority.

Text Figure 1: PV of Total Public Debt
(percent of GDP)



Text Figure 2: Public Gross Financing Needs
(percent of GDP)



14. The authorities remain committed to taking measures to foster debt sustainability (MEFP ¶6, bullet 10). They have developed, with Bank and Fund support, a Medium-term Debt Strategy that includes greater reliance on highly concessional external support and maturity lengthening of domestic debt, including SOE debt, and implementation has commenced with the

issuance of bonds with maturities of 3 and 5 years and rescheduling of the National Water and Electricity Company's (NAWEC) bond for which central government has assumed debt servicing. In June 2017, the authorities also approached five regional development banks and eight bilateral creditors for either debt rescheduling or new financing on highly concessional terms, and efforts are continuing in that regard.[4]

FIRST REVIEW OF THE STAFF-MONITORED PROGRAM

15. Performance so far under the Staff Monitored Program has been broadly satisfactory (LOI and MEFP ¶4-5), albeit with some initial misses and delays. Achievement of the end-June 2017 quantitative targets was mixed, with three out of eight benchmarks missed—the targets on NDB and on external payment arrears were narrowly missed while the central bank credit to government at non-market rates was missed by a wider margin due to spending pressures ahead of the disbursement of budget support, including for external arrears clearance, but was missed only narrowly at end-September. All other targets for end-September 2017 were met, and the authorities expect to meet all December targets. Implementation of the structural end-July 2017 benchmarks was delayed. The cash and debt management committees were constituted on time but did not meet until September, and the policy on opening and closing of accounts was delayed due to prolonged discussions with the accountant general and implemented in December. However, two of three end-September 2017 benchmarks were implemented on time and the third was implemented in December. It will be important to implement benchmarks on time going forward. The establishment of an SMP monitoring committee in September, meeting bi-weekly, and later broadening of its participation has helped in that regard.

16. The CBG is taking steps to address safeguards recommendations from the assessment completed in January 2018 and the staff monitoring visit in June 2017. Measures to strengthen controls on government accounts and transactions have been implemented and progress has been made in drafting amendments to the CBG Act to align it with leading practices (SMP structural measures). The assessment noted that the external audit did not comply with international standards due to capacity constraints and recommended joint audits with an international audit firm starting with the FY 2017 audit.

[4] On January 31, 2018, Saudi Arabia signed an agreement for the rescheduling of principal payments for 2018-2021. Discussions with other bilateral creditors regarding a possible debt restructuring are also ongoing, with the Paris Club secretariat offering to play a coordinating role.

POLICY DISCUSSIONS

17. The authorities remain committed to breaking with the economic mismanagement of the past regime, restoring macroeconomic stability and fiscal sustainability, and boosting growth. (MEFP ¶7) Their key economic objectives are to restore macroeconomic stability and attain sustained high and inclusive growth to promote socio-economic development. Starting from a very weak legacy position, this will require careful sequencing: (i) Restoring macroeconomic stability and fiscal sustainability, including through fiscal consolidation, SOE reform and external financial support; (ii) fostering debt sustainability by implementing the debt strategy and securing grants and limited highly concessional external loans; (iii) mobilizing resources for carefully prioritized social and infrastructure investment without endangering debt sustainability; and (iv) creating an environment conducive to private sector initiative, including by safeguarding financial stability, strengthening governance and fighting corruption.

FISCAL POLICIES

18. The fiscal situation is stabilizing thanks to improved fiscal discipline and donor support. Asset sales of land and the presidential planes (1 percent of GDP), implementation of the approved vehicle fleet reform (0.3 percent of GDP), and disbursement of AfDB budget support (0.7 percent of GDP) have been delayed to 2018. However, offsets include much stronger tax revenue collection which looks set to exceed earlier projections by 1.8 percent of GDP, additional interest savings (1 percent of GDP), the elimination of ghost workers from the payroll in June (0.2 percent of GDP), and a new travel policy for senior officials (0.1 percent of GDP).

19. Budget execution in 2017 and projections for 2018 based on the draft budget submitted to parliament are broadly in line with the SMP except for much higher project grants and loans and correspondingly higher externally-financed investment (Text Table 3). Accelerated implementation of loan-financed projects has pushed up debt by about 7 percent of GDP which, however, will be offset by lower disbursements in the outer years. The draft 2018 budget includes budget neutral tax reductions on corporate, personal and rental income and an increase in the tax-free threshold for personal income. The authorities expect that this will help boost domestic demand while increasing compliance as well as broadening the tax base. The lowering of the corporate tax toward the lower Senegalese level is also intended to encourage the return of previously resettled companies. The initial revenue loss of 0.5 percent of GDP will be more than offset by lower debt servicing on the restructured NAWEC bond (0.9 percent of GDP), additional savings on T-bill interest (0.7 percent of GDP), continuation of the Voice-Gateway revenue through 2018 (1.3 percent of GDP), and privatization proceeds from the sale of Megabank (1.9 percent of GDP).

Text Table 3. The Gambia: Statement of Central Government Operations

(Percent of GDP)

	2017		2018	
	EBS /17/61	Prel.	EBS /17/61	Proj.
Revenue	25.4	30.7	22.9	34.1
Taxes	15.2	17.2	16.2	17.5
Grants	6.8	11.1	5.5	13.2
Other revenues	3.5	2.4	1.1	3.4
Expenditures	28.0	34.5	26.5	34.8
Expenses	21.5	19.7	19.3	17.9
Compensation of employees	5.0	4.7	4.9	4.5
Use of goods and services	5.5	5.8	5.2	5.3
Interest	5.9	4.7	5.0	3.8
Subsidies	5.1	4.5	4.2	4.2
Net acquisition of nonfinancial assets	6.5	14.8	7.2	17.0
Net lending (+)/borrowing (–)	-2.5	-3.9	-3.6	-0.8
Net incurrence of liabilities	2.3	3.9	3.6	0.8
Domestic	2.5	-2.8	0.5	-2.8
Foreign	-0.3	6.6	3.1	3.5
Statistical discrepancy/Financing Gap	0.3	0.0	0.0	0.0

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

20. **Progress toward achieving fiscal sustainability will need to be maintained** (MEFP ¶9)**.** Increased donor support, fiscal consolidation and the recent revenue pick-up are helping the authorities to drastically lower NDB which so far has had the desired effect of lowering interest rates significantly. Going forward, the authorities will need to maintain fiscal discipline, in particular adhere to the NDB ceiling of 1 percent of GDP, and further align expenditure to available resources by implementing the remaining fiscal measures committed to under the SMP, notably the vehicle fleet reform, asset sales and the streamlining of embassies and the civil service (Text Table 4).

21. **Implementation and regular review of the authorities' medium-term debt strategy (MTDS) is a high priority** (MEFP ¶13)**.** The MTDS, developed with support from the Fund and the World Bank, is broadly consistent with debt sustainability in the medium-term and involves the progressive lengthening of the maturity of domestic debt and increased reliance on external concessional financing, reducing domestic refinancing risk over time, while allowing a more rapid reduction of both external and total public debt ratios. Mobilizing additional resources to foster

debt sustainability, including at the international donor conference in May 2018, and making progress on the proposed rescheduling of external debt would further support this strategy. While financial spillovers from the MTDS implementation on the financial sector remain manageable, action will be needed to further bolster capital and liquidity buffers in larger systemic banks.

Text Table 4. The Gambia: Status of Fiscal Measures Committed to Under the SMP, 2018–20

Measures	Projected Savings		Status
	Percent of GDP	GMD Millions	
Medium-term proposals, 2018-20			
Ongoing reforms to vehicle fleet	2.0	1051	Currently implementing
Elimination of ghostworkers from payroll	0.3 p.a	125	Completed
Sale of the presidential and two other defunct planes	0.4	202	Delayed to 2018
Sale of land, including in prime tourist locations	0.5	263	Delayed to 2018
Streamlining ministries and subvented agencies, downsizing and rationalizing of embassies, and streamlining of memberships in non-financial international organizations	1.0	524	TBD
Recovery of stolen assets by the previous regime still held in the Gambia, with support from the UN/World Bank StAR Initiative	TBD	TBD	TBD
Total Savings-Medium Term	3.9	2166	

Sources: Gambian authorities; and IMF staff.

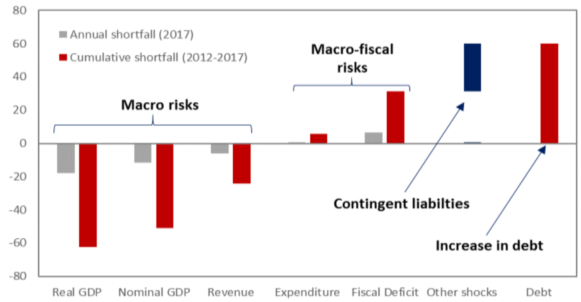
22. Developing a credible medium-term economic and fiscal policy framework (MTEF) will be necessary to anchor fiscal policy and facilitate policy-driven budget allocations (MEFP ¶11)**.** In particular, the MTEF will need to reflect and support the authorities' debt strategy. Staff is also working with the authorities to build into the MTEF analysis pertaining to fiscal stress tests and their macro-financial implications (Box 2).

23. It will also be crucial to refrain from any new large-scale investment projects involving loans or contingent liabilities before additional fiscal and borrowing space has been achieved, while seeking to leverage private capital and initiative without sovereign guarantee (MEFP ¶14)**.** Given the very limited borrowing space, it will be imperative to carefully evaluate and prioritize investment projects within the due diligence procedures of the Investment Implementation Task Force. Regular meetings of the High Level Economic Committee (HILEC) to oversee program implementation would also help to gain wider political support for coordinated policies to foster debt sustainability and avoid fiscal shocks.

24. The authorities broadly agreed with staff's assessment and recommendations on fiscal policy and debt management (MEFP ¶¶9-14).

Box 2. Fiscal Stress Tests in The Gambia

The Gambia's past fiscal outturns have differed substantially from budgeted or other fiscal projections. Deviations arose due to persistent fiscal slippages and shocks related to weather and pandemics, terms of trade, bad governance and embezzlement and resulting government support for SOEs. Failure to identify and prepare for such risks has caused additional government obligations and larger public debts, including higher debt servicing.

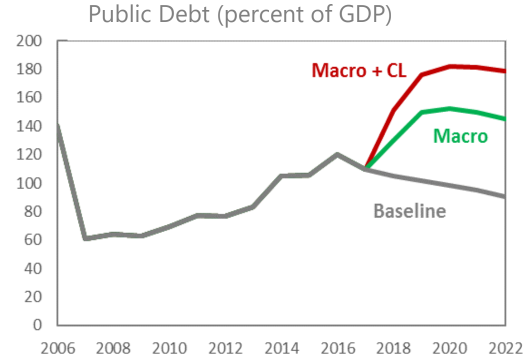


Sources of Fiscal Risks (percent of GDP).

A fiscal stress test was conducted for The Gambia—a first for a low-income, fragile-country. The country's weak fiscal position is underlined by the materialization of fiscal risks in the past, its high debt of around 120 percent of GDP and related vulnerabilities. Even so, the fiscal stress tests make clear that additional unrealized fiscal risks and shocks still exist from other contingent liabilities (e.g., financial sector, future PPPs) and off-balance-sheet items that are not fully apparent in headline fiscal indicators. Incorporating regular fiscal stress tests into the preparation of a medium-term economic fiscal framework will help the authorities identify and mitigate fiscal risks. This would further support policies to foster fiscal and debt sustainability, thereby avoiding fiscal shocks, reducing borrowing costs and the likelihood of future debt crises.

The fiscal stress test results underline the importance of fiscal and SOE reform and the need to rebuild fiscal buffers. A large macro shock resulting from a combined drought and Ebola-like pandemic would hit the key tourism and agricultural sectors particularly hard and result in a cumulative 20 percent depreciation of the dalasi between 2018-2019, a 10-percentage point surge in interest rates in 2018 and a spike in inflation. While the drought is assumed to last for only one season, the pandemic is assumed to be more persistent, lasting for two years, with long-term consequences for the tourism sector. GDP would contract 8 percent in 2018 and remain cumulatively around 16 percent below baseline projections by the end of 2022. SOEs would be particularly exposed to this shock resulting in government capital injections of 19.4 percent of GDP over 2018-2025 to make-up for weaker cashflows and assumption of their debt service by government (13.9 percent of GDP). Public debt would balloon to around180 percent of GDP by 2020, in debt default territory, driven by lower tax revenues, higher debt service, valuation changes, and realization of further SOE and financial sector contingent liabilities (3 percent of GDP).

Public Debt (percent of GDP)



Fiscal shocks propagate through several macrofinancial linkages and channels in The Gambia. The sovereign-bank nexus can result in vicious sovereign-bank loops. SOE vulnerabilities, especially default, and provisioning on the NAWEC bond held by banks is another channel. Addressing fiscal and debt sustainability vulnerabilities and mitigating potential macrofinancial spillovers will require PFM and SOE reform, maturity lengthening of domestic debt, debt relief by external creditors, and relying on grant financing from development partners.

STATE-OWNED ENTERPRISE REFORMS

25. SOE reform remains critical as they pose significant fiscal risks and contribute to high public debt (MEFP ¶15)**.** Reform and rehabilitation of key SOEs should continue in line with World Bank advice and support, including medium-term plans for achieving financial viability and annual performance contracts for NAWEC. In September 2017, agreement was reached with creditors on a restructuring of NAWEC's domestic debt and the central government has taken on the restructured bond, providing some breathing room for NAWEC to repay tax arrears and pursue urgently needed investment. If needed, further restructuring of SOE debt could be considered to support their financial viability and reduce the likelihood of fiscal shocks, with careful consideration of its impact on the financial sector including wider macrofinancial linkages.

26. The authorities are considering divesting some SOEs (MEFP ¶15), including the national mobile carrier GAMCEL, the distribution network of the national petroleum company GNPC, and tendering a concession for the operation of the Banjul port. The authorities have made progress on strengthening the monitoring of SOEs financial development. With the special audits of SOEs delayed due to procurement challenges, it is important to nonetheless make progress on arrears determination and a strategy to clear them.

MONETARY AND EXCHANGE RATE POLICIES AND FINANCIAL SECTOR STABILITY

27. Monetary policy has eased, but private sector credit remains sluggish so far. The average T-bill rate across all tenors has fallen from 17.5 percent in October 2016 to around 6 percent in early 2018, reflecting the drastic reduction in net domestic borrowing. Against this background, the CBG has also gradually reduced its policy rate from 23 percent to 15 percent in mid-2017, which has caused commercial lending rates to decline from 28 percent to about 18 percent. While private sector credit overall in 2017 stagnated, it reversed its declining trend and grew by 11 percent from its low in August. Some banks are actively preparing to expand private sector credit.

28. Monetary policy may have further room to ease, but at a slower pace. The real monetary policy rate is still rather high at about 8 percent. However, with T-bill rates now close to or slightly below the inflation rate, the CBG should avoid sending mixed signals and hold off on easing pending further progress in reducing inflation toward the CBG's target of 5 percent.

29. With fiscal dominance now waning, CBG independence as well as its operational framework should be strengthened (MEFP ¶18)**.** The revision of the CBG Act should proceed as committed to under the SMP. Financial reporting and internal and external audit arrangements require strengthening in line with safeguards recommendations. Liquidity forecasting and management need to be enhanced and the CBG should implement overnight facilities to establish a corridor for interest rates while discontinuing the rediscount window. Legal and technical work on

the introduction of repos will take more time. Issuance of CBG bills for liquidity purposes is desirable but the CBG's balance sheet will not be able to support this prior to the recapitalization of the CBG which is needed to offset the impact of the low 5 percent interest rate on the 30-year bond into which all credit to government was consolidated at end-2016. However, the CBG's share of the expected proceeds from the sale of Megabank is expected to help strengthen its balance sheet.

30. The CBG should continue maintaining a flexible exchange rate regime and rebuild reserves. Staff commends the CBG for rescinding the remaining foreign exchange directives (surrender requirement, reference rate).[5] The EBA-lite assessment suggests that the external position in 2016 was moderately weaker than implied by fundamentals and desirable policy settings (Annex 1). The greatly increased international reserves are expected to decline again somewhat as budget support is spent. By end-2017, the CBG had unwound the expensive foreign exchange against T-bill swaps it contracted previously when reserves were low, thus also reducing the stock of T-bills by 3.3 percent of GDP. The CBG should continue to abstain from foreign exchange intervention, except to restore orderly market conditions and smooth excessive volatility, and maintain reserves within a target range of 3 5 months of imports considering external vulnerabilities and the high debt (Annex 1). Going forward, the CBG should improve the transparency of foreign exchange operations by revising the calculation of representative rates and publishing them, in line with recent TA advice.

31. Safeguarding the stability of the financial sector will be a key priority (MEFP ¶19)**.** Aggregate financial stability indicators through mid-2017 suggest that the banking sector remains healthy and profitable (Table 8 and [SIP]), with only two smaller banks with more severe asset quality problems. However, the large share of T-bills and SOE debt in banks' assets creates vulnerabilities. Lower interest rates will feed through to the profitability of banks, which will increase pressure to find other sources of income, including private sector credit. Moreover, the banking system is vulnerable to debt adjustment around sovereign and SOE debt, including spillovers from the MTDS implementation and possible further restructuring of SOE debt. The CBG should closely monitor and mitigate these risks, including by bolstering capital and liquidity buffers in larger systemic banks to meet stress scenarios, step up monitoring, and strengthen the CBG's oversight capacity through a risk-based and forward-looking approach (Box 3). In the medium-term, establishing financial safety nets including deposit insurance and frameworks for banking resolution and crisis preparedness and management would further help safeguard financial sector stability.

32. A specific area of recent concern is the growing withdrawal of correspondent banking relationships (CBRs) (Annex 2). Systemic macro-financial impacts are being mitigated by a 'network rewiring' with alternate CBRs in other currencies or through nested relationships. The capital and direct costs in preserving these relationships have risen, and the growing volume of transactions is conducted through fewer correspondent banks, raising concentration risks. CBR

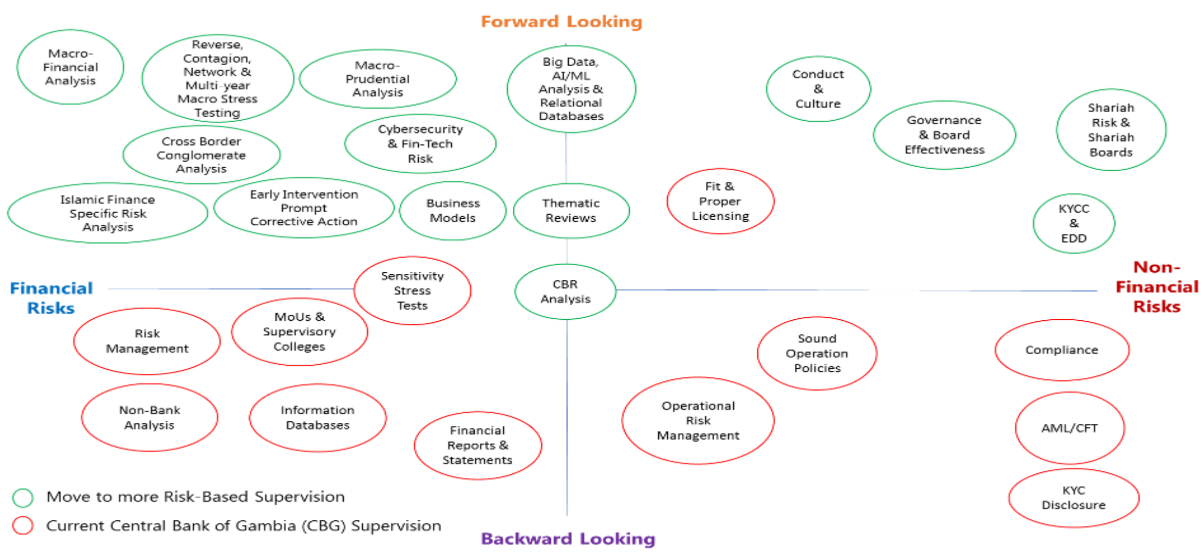
[5] The de jure exchange rate arrangement in The Gambia is free floating but its de facto classification is *other managed*.

concentration in The Gambia is one of the highest in the SSA region which is already heavily impacted by CBR withdrawal.

Box 3. Macrofinancial Challenges: Managing the Rebound in Private Sector Credit

The Gambia is exposed to a variety of domestic and external shocks and macro-financial interlinkages (SIP). Macroeconomic shocks in particular weather-related are challenging for The Gambia and their impact can exacerbate vulnerabilities in the banking sector. Sizable arrears from government to SOEs, among SOEs, and to private-sector suppliers not only represent a fiscal risk but have also led to payment arrears with banks. Shrinking spreads and high operating costs are impacting profitability and banks generally prefer safe investments in government securities, with sovereign exposures exceeding private sector credit. The risks from an excessive sovereign-bank nexus is not adequately recognized in banks' balance sheets as the zero-risk weight on government exposures and lack of provisions on restructured SOE debt have led to inflated capital ratios. Sensitivity tests suggest that the system's capital ratio would remain at a prudent level if there were a sizable rebound in private sector credit implying higher risk-weighted assets and additional allowances for the excessive sovereign exposure. Still, capital buffers at individual banks could shrink to near the regulatory minimum in case of such a normalization of banking operations.

Enhanced supervision will be critical to managing macrofinancial risks and fault-lines between non-financial and financial sectors as private sector credit expands. Moving to a risk-based supervision (RBS) framework together with strengthened crisis resolution, recovery and safety net policies can help substantially to secure macroeconomic gains. The Gambia has started to implement an RBS framework but it will require a fundamentally different mindset and investment in people, data, and improved credit rating and collateral (moveable and non-moveable) registry systems. Importantly, there needs to be sufficient time to embed these changes within the CBG in moving to a more forward-looking risk-based approach wherein early detection of vulnerabilities (including through stress testing) and prompt corrective action addresses emergent financial and non -financial risks.



A key current challenge facing Gambian banks is making the transition from sovereign assets to increased private sector credit provision without worsening macrofinancial vulnerabilities. The CBG RBS framework should undertake a thematic review of this transition, including assessing the impact on bank balance sheets under adverse future scenarios in stress tests wherein the viability of bank business models could be more fully assessed at an institution and system level. Early action to bolster capital and liquidity buffers, if needed for bank safety and soundness without weakening credit underwriting standards, would support private sector credit provision while mitigating the risk of fiscal shocks from financial sector contingent liabilities. Credit provision would be further enhanced with more complete information at and better use of the Credit Reference Bureau and with more effective and timely loan default resolution through the court system.

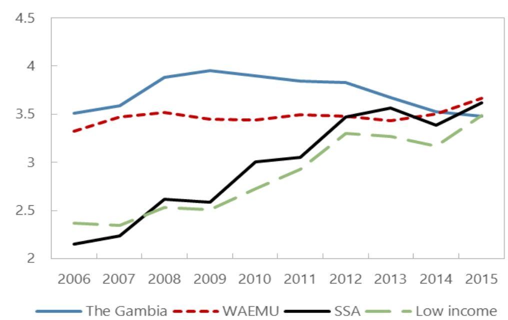
33. The authorities broadly concurred with staff's assessment and recommendations on monetary policy and financial sector stability (MEFP ¶¶17-19)**.** The CBG expects to make further progress on reducing inflation and reach its target by end-2018.

PRIVATE SECTOR DEVELOPMENT AND INCLUSIVE GROWTH

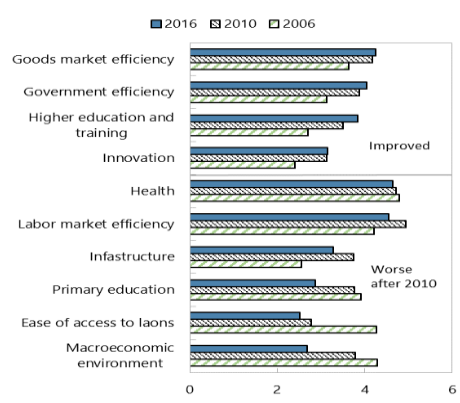
34. In recent years, The Gambia appears to have lost its competitive edge over neighboring and comparator countries (Text Figure 2).[6] While the factors that have deteriorated the most include the macroeconomic environment (which is already being addressed) and sectors already identified in the NDP (education, health, infrastructure), access to financing clearly shows a massive deterioration reflecting the crowding out of the past as well as structural factors.

35. Structural measures could support private credit growth and access to financing. These include strengthening laws that protect property and creditor rights and their enforcement in a swift manner; promoting credit information systems and collateral registries, including strengthening the operational effectiveness of the credit reference bureau and movable collateral registry; and fostering financial literacy. Other measures to increase financial inclusion include establishing an SME financing scheme, expansion of banking access in rural areas, including through microfinance and mobile banking, and addressing gender inequality issues. Over the medium-term, these should be accompanied by appropriate regulatory and supervisory frameworks.

Text Figure 2. Global Competitiveness Indicators



Sources: World Economic Forum



36. The Gambia currently lags its regional peers in addressing income and gender inequality gaps (Box 4). Currently, The Gambia performs poorly compared with benchmark countries on income and gender inequality. While there have been positive gains, particularly in education and health outcomes, high rates of poverty and gender inequality persist, particularly in rural areas. Strengthening inclusion in The Gambia could improve real GDP per-capita growth by 0.5 percent of GDP, in addition to better social

[6] The World Economic Forum's *Global Competitiveness Indicators* are mostly indicator-based but also include some perception-based survey results.

outcomes. Boosting female participation in the labor force and in decision making positions would be supported by removing legal inequalities, including in land tenure, prioritizing women's education, and provision of infant care, among other measures.

37. The authorities welcomed staff's analysis and recommendations and pointed out that these were being addressed in the context of the NDP (MEFP ¶20).

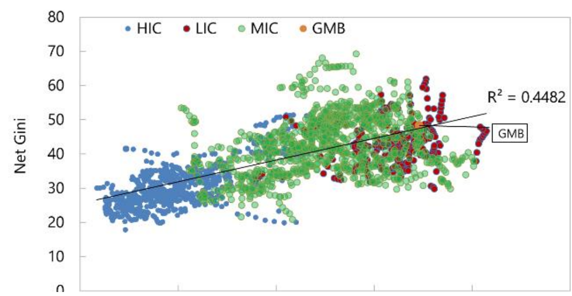
Box 4. Poverty and Inequality in The Gambia

High levels of poverty and inequality persist in The Gambia. Trends in income and gender inequality show the Gambia performs poorly against regional peers, with gender inequality measured by the UNDP Gender Inequality Index amongst the highest in the world (The Gambia is ranked 148 out of 159 countries). Poverty rates are also high, particularly in rural areas and have remained unchanged from 2010 to 2015 (Figure 1).

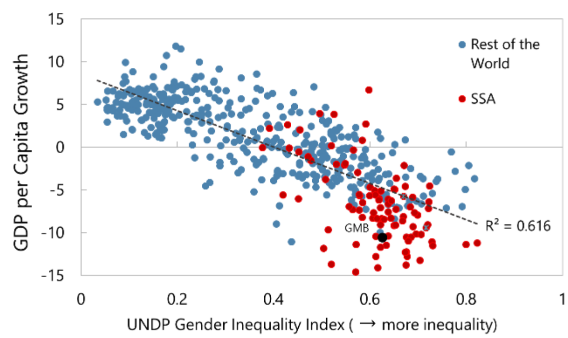
The outcomes underlying the index are mixed. For example, health outcomes, especially for women, are very poor, whereas educational attainment and labor force participation is positive, though largely in subsistence agriculture and informal sector employment.

Emerging from two decades of autocratic rule, The Gambia remains a fragile state with significant developmental and infrastructure gaps that have limited growth. There is increasing evidence that reducing inequalities is associated with faster and more sustained inclusive growth.[1] Reducing gender and income inequality in the Gambia could improve real GDP per capita growth by 0.5 percentage points compared to benchmark countries.

Income Inequality and Gender Inequality



Gender Inequality and Real GDP per Capita Growth



Sources: United Nations, IMF and own estimates.

Policies to reduce income and gender inequalities include: improving access to reliable electricity and water supply; a focused effort to improve women's health outcomes, in particularly maternal and infant health; removal of legal inequalities between men and women; and advancing women's participation in decision making positions including parliament, business and the courts would raise productivity, employment and growth. There is also an opportunity to improve access to credit for women to improve economic opportunities outside subsistence agriculture and the large informal sector.

The recently finalized National Development Plan (NDP) already identifies and prioritizes projects to address poverty and gender inequality. Inclusiveness is essential for sustained growth and the current and proposed institutional and economic reforms will be essential for poverty reduction and economic prosperity for Gambians.

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[1] IMF, 2015. Inequality and Economic Outcomes in Sub-Saharan Africa, October 2015 Regional Economic Outlook: Sub-Saharan Africa.

NEW NATIONAL DEVELOPMENT PLAN PROVIDES KEY STRATEGIC DIRECTIONS

38. A new National Development Plan (NDP) covering 2018-2021 has just been finalized (MEFP ¶20)**.** The NDP was formulated in a broad consultative process and aims at delivering "good governance and accountability, social cohesion, and national reconciliation and a revitalized and transformed economy". It seeks to achieve this overarching goal through eight strategic priorities, including restoration of good governance and the rule of law; economic stabilization, accelerated growth and structural transformation; modernization of agriculture and fisheries, and promotion of tourism; improved education and health services; infrastructure development and restoration of energy services; and making the private sector the engine of growth. While the costing of the NDP is still ongoing, the authorities indicated that it will likely be around $1.8 billion. They hope to mobilize substantial grants to finance the NDP at the International Conference planned for May 2018.

STAFF APPRAISAL

39. Coming from a very weak legacy position a year ago, the new administration has made commendable progress in stabilizing the economy as well as the fiscal position. Strict fiscal discipline together with substantial external support has enabled them to drastically cut domestic borrowing, leading to a virtuous circle of declining interest rates and lower interest payments. While expenditures were contained through strict ceilings, tax revenue collection was strengthened and exceeded projections considerably, despite the exogenous shocks earlier in 2017. Performance under the SMP was broadly satisfactory, including good progress in implementing the structural agenda, despite severe capacity constraints.

40. Efforts to maintain fiscal stability will need to continue. It will be important to continue containing spending while raising domestic revenue. The revenue measures that were delayed to 2018 as well as further efforts to streamline the civil service should be implemented. Ongoing work to develop a MTEF is important as a forward-looking anchor to fiscal policy. Rehabilitation and reform of SOEs with World Bank support is crucial to protect fiscal outcomes, improve service delivery and the business environment. The rescheduling of the NAWEC bond and assumption of its debt service by the central government was an important milestone.

41. The Gambia is currently at high risk of external debt distress. While external debt stock indicators have deteriorated since the June 2017 DSA, external debt service indicators have improved in the near-term, the level of external concessional financing in place has increased, and the outlook for total public debt and public gross financing has improved, the latter significantly. However, vulnerabilities are substantial, and in the near-term even small shocks could leave Gambia unable to meet its financing needs and/or put debt on an unsustainable path.

42. Concerted support by the international community will be key in addressing the high debt overhang which holds back investment in pressing development needs. Mobilization of support for the implementation of their National Development Strategy will need to focus on grants, with only very limited room even for highly concessional loans in the medium term. Additional resources to foster debt sustainability, including to pay down debt, debt restructuring as well as softening of terms on existing commitments are all needed. The authorities will need to carefully prioritize and sequence investment projects, possibly delaying some existing debt-financed projects to make room for higher priority projects, and refrain from contracting any large new debt or contingent liabilities that would jeopardize debt sustainability. They should also continue implementing their medium-term debt strategy, including maturity lengthening of domestic debt, which so far has been successful.

43. Monetary policy is broadly on the right track. Further progress in reducing inflation toward the central bank's 5 percent target would give room to further reductions of the policy rate. The external position in 2016 was moderately weaker than implied by fundamentals and desirable policy settings, in part reflecting external shocks as well as the previous regime's tampering with the exchange rate regime. Going forward, continuing to maintain a flexible exchange rate system will support rebuilding international reserves, and staff commends the CBG for rescinding the remaining foreign exchange directives. With fiscal dominance now waning, it will be important to strengthen the central bank's independence as well as operational effectiveness, including strengthening liquidity forecasting and management and setting up overnight standing facilities. CBG governance should also be strengthened in line with safeguards recommendations.

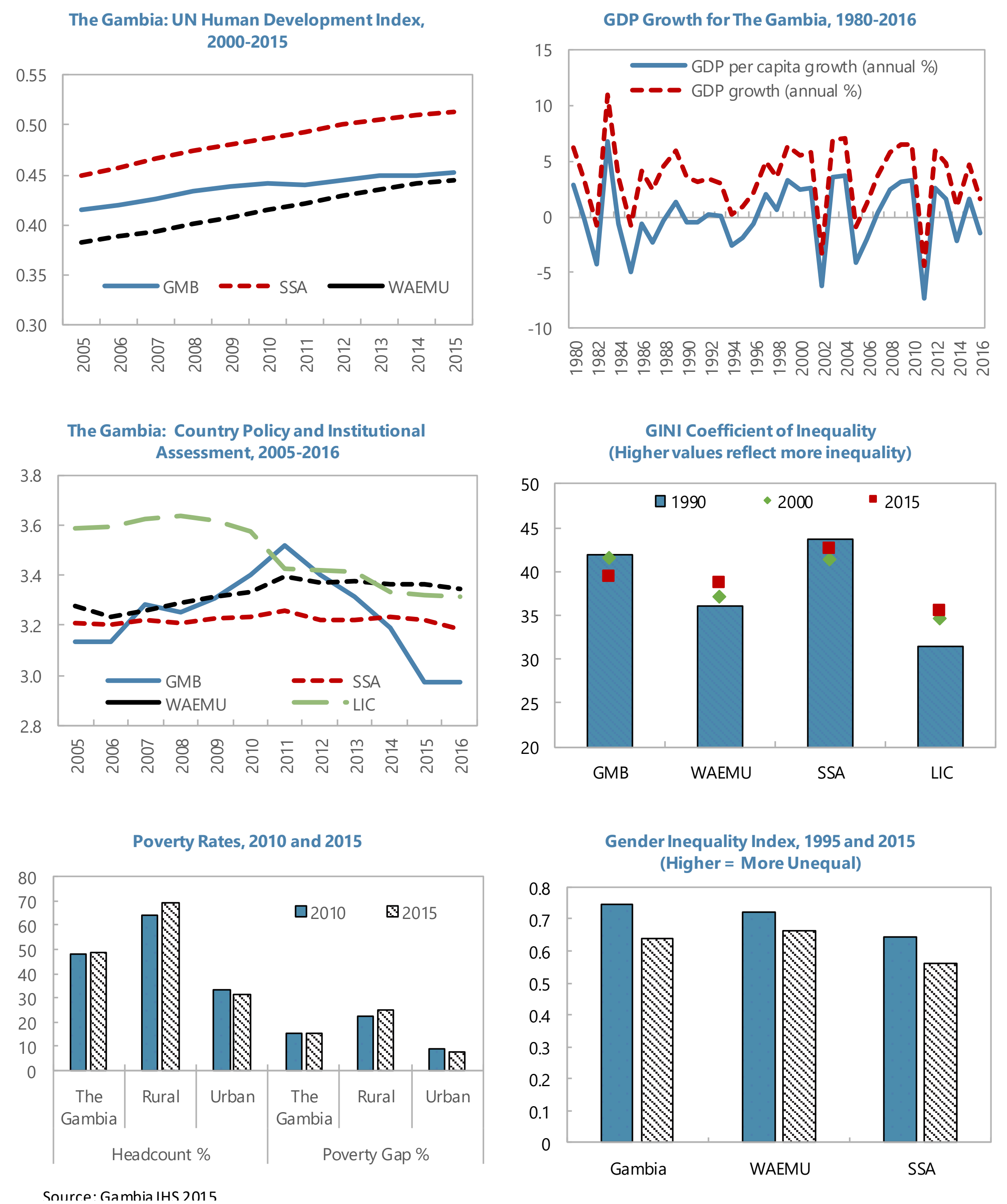
44. Crowding in the private sector will be important to support growth, including through measures to increase access to financing which is a key impediment to private sector activity. At the same time, it will be key to safeguard financial stability through heightened and more risk based supervision in light of drastically lower interest rates, the expected rebound in private sector credit, a strong sovereign-bank nexus and maturity lengthening of domestic debt. Bolstering banks' capital and liquidity buffers to mitigate spillovers, enhancing risk-focused supervision and stepping up monitoring would be important in that regard. Promoting credit information systems and collateral registries and fostering financial literacy would help facilitate higher private sector credit. Reducing income and gender equalities would further support growth while achieving better social outcomes.

45. While the authorities have made remarkable progress compared to the near-crisis situation a year ago, risks to the outlook remain elevated. The authorities remain committed to maintaining macroeconomic stability and fostering long-term fiscal and debt sustainability, including by following through on their commitments under the SMP. However, resolving the legacy of the past two decades of autocratic rule will require strong support from the international community.

46. Staff recommends that the next Article IV consultation should be held on the standard 12-month cycle.

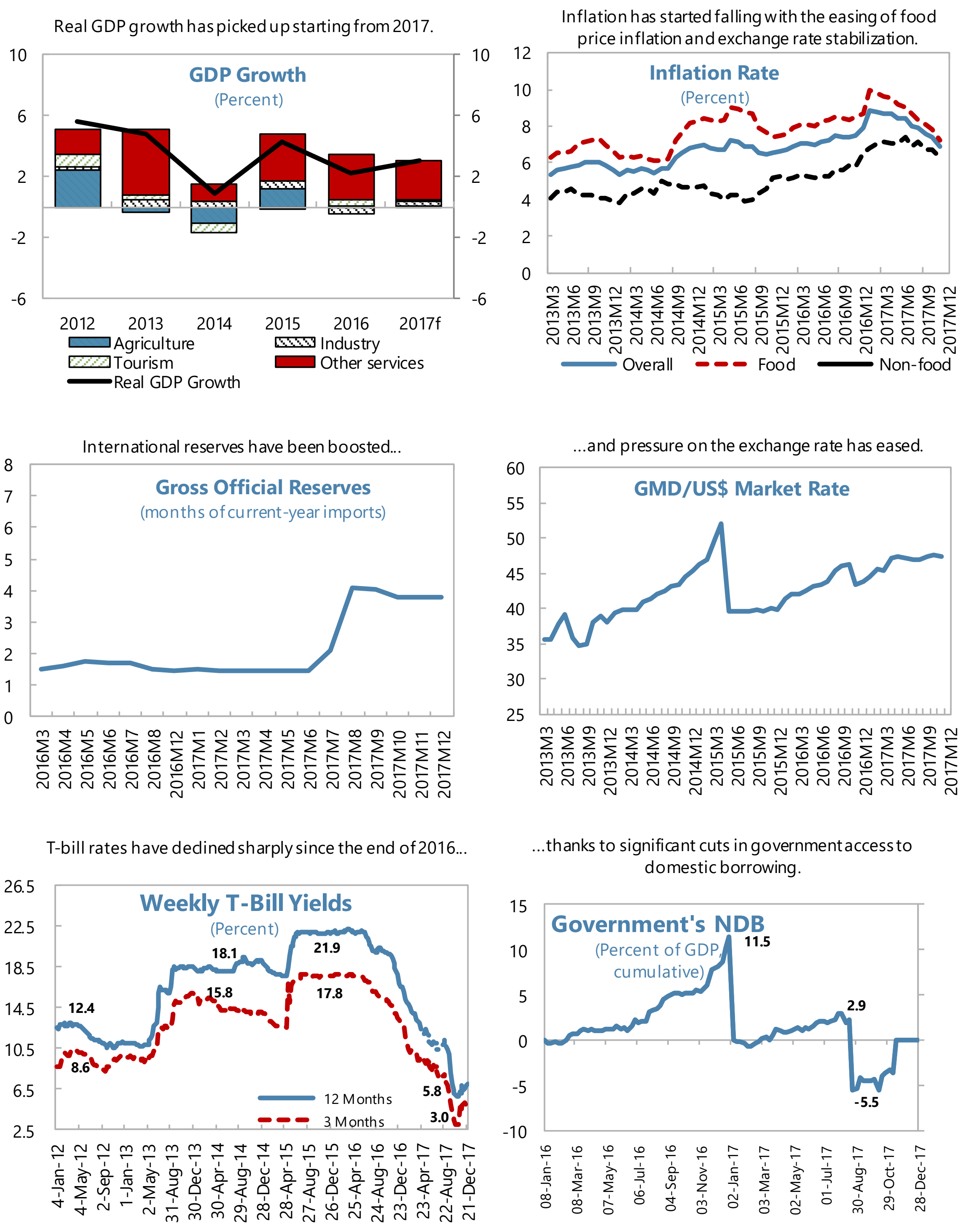
47. Staff also supports the authorities' request for a six-month extension of the Staff Monitored Program. This would provide more time to establish a track record of performance for the transition to an ECF arrangement to which the authorities aspire, including because the outcome of the donor conference delayed to May 2018 will be an important input to the design of an ECF.

Figure 1. The Gambia: Social and Fragility Indicators, 2005–16



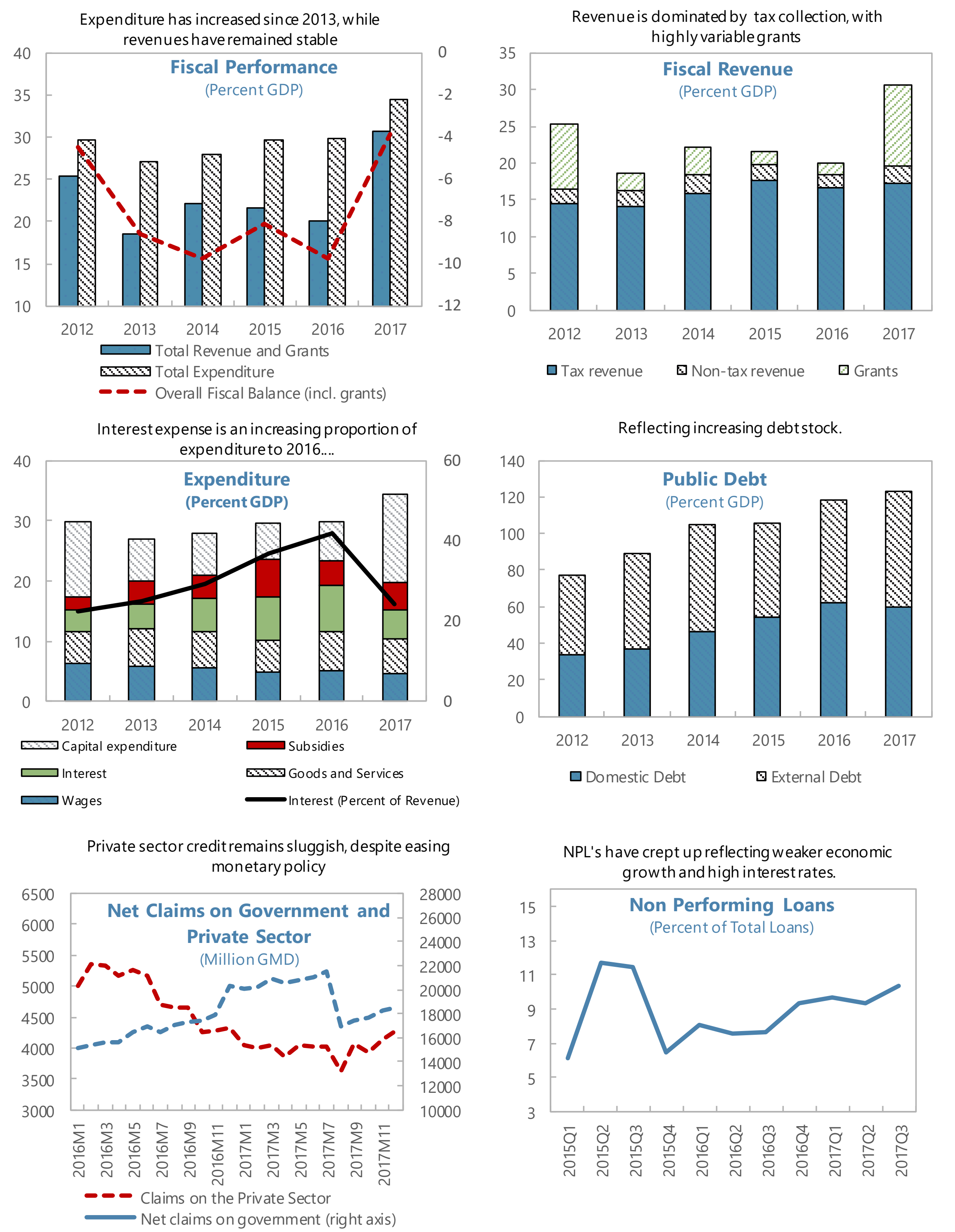
Sources: Gambian authorities; World Bank, United Nations; and Fund Staff estimates.

Figure 2. The Gambia: Recent Economic Developments, 2012–17



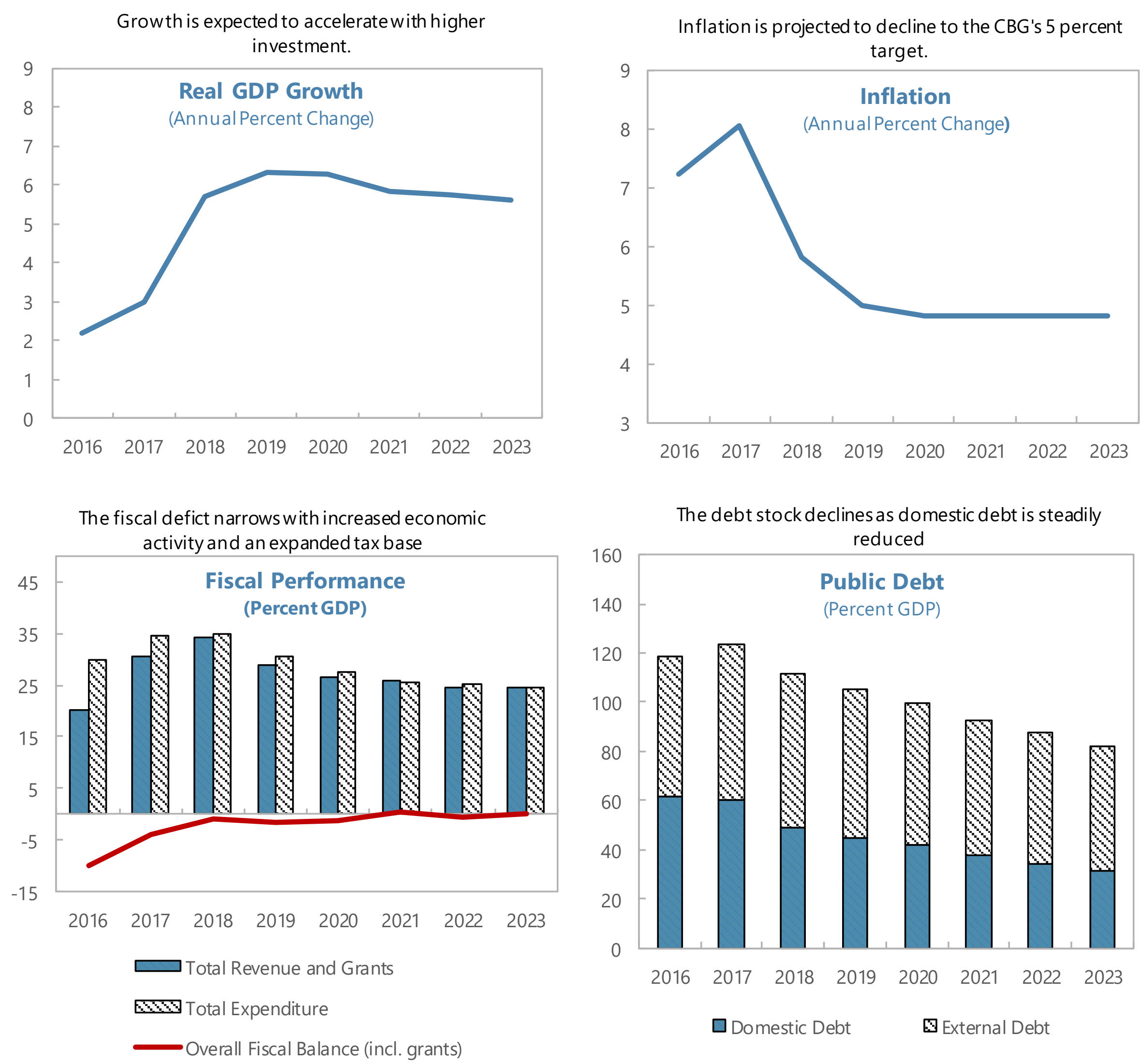
Sources: Gambian authorities; and IMF staff estimates and projections.

Figure 3. The Gambia: Fiscal and Financial Sector Indicators, 2012–17



Sources: Gambian authorities; and IMF staff calculations.

Figure 4. The Gambia: Medium Term Outlook, 2016-23



Sources: Gambian authorities; and IMF staff calcualtions.

Table 1. The Gambia: Selected Economic Indicators, 2015-23

	2015	2016	2017		2018	2019	2020	2021	2022	2023
	Act.		EBS /17/61	Proj.	Projections					
National account and prices	(Percent change; unless otherwise indicated)									
Nominal GDP (millions of dalasi)	38,581	42,252	47,139	47,289	52,577	57,973	63,645	69,848	76,574	83,941
Nominal GDP	10.9	9.5	11.6	11.9	11.2	10.3	9.8	9.7	9.6	9.6
GDP at constant prices	4.3	2.2	3.0	3.5	5.4	5.2	4.9	4.8	4.8	4.8
GDP per capita (US$)	451	473	488	480	500	518	531	542	554	563
GDP deflator	6.4	7.1	8.3	8.1	5.5	4.8	4.6	4.7	4.6	4.6
Consumer prices (average)	6.8	7.2	8.3	8.0	5.8	5.0	4.8	4.8	4.8	4.8
Consumer prices (end of period)	6.7	7.9	7.6	6.9	5.1	4.8	4.8	4.8	4.8	4.8
External sector	(Percent change; unless otherwise indicated)									
Trade balance (in percent of GDP, deficit -)	-25.7	-17.9	-22.8	-27.8	-31.9	-29.5	-26.2	-24.9	-23.8	-24.1
Exports of goods and services	-9.5	5.0	-6.0	-6.0	16.9	9.3	9.0	8.2	8.0	6.5
Imports of goods and services	11.3	-10.2	12.3	23.2	20.5	3.2	0.9	4.0	4.4	6.1
	(Percent change; in beginning-of-year broad money)									
Broad money	-0.9	15.3	11.4	19.3	11.0	9.1	8.4	8.2	7.1	7.1
Net foreign assets	-11.6	-4.5	4.3	28.3	9.8	6.1	3.8	6.6	2.3	2.5
Net domestic assets, of which:	10.7	19.8	7.1	-9.0	1.2	3.0	4.6	1.6	4.8	4.6
Credit to the government (net)	16.0	24.8	4.4	-7.8	-7.0	0.0	1.2	-1.6	0.2	0.1
Credit to the private sector (net)	-2.1	-3.0	2.8	-0.2	2.0	2.3	2.5	2.6	2.8	3.0
Other items (net)	-5.8	-1.1	-0.1	-4.7	6.3	0.6	0.9	0.5	1.8	1.5
Velocity (level)	1.9	1.8	1.8	1.7	1.7	1.7	1.7	1.8	1.8	1.9
Central government budget	(Percent of GDP; unless otherwise indicated)									
Domestic revenue (taxes and other revenues)	19.7	18.4	18.7	19.6	20.9	18.9	19.2	19.7	20.2	20.4
Grants	1.9	1.7	6.8	11.1	13.2	10.0	7.3	6.2	4.3	4.2
Total expenditures and net acquisition of financial assets	29.7	29.8	28.0	34.5	34.8	30.6	27.7	25.6	25.1	24.6
Of which: Interest payments (percent of government revenue)	36.8	42.0	31.5	24.2	18.2	18.1	19.3	15.6	14.1	13.0
Net lending (+)/borrowing (–)	-8.1	-9.7	-2.5	-3.9	-0.8	-1.7	-1.2	0.3	-0.6	0.0
Net incurrence of liabilities	12.1	13.7	2.3	3.9	0.8	1.7	1.2	-0.3	0.6	0.0
Foreign	0.0	1.1	-0.3	6.6	3.5	1.9	0.6	0.5	0.3	-0.3
Domestic	12.0	12.6	2.5	-2.8	-2.8	-0.2	0.5	-0.8	0.3	0.2
Primary balance	-0.9	-2.0	3.3	0.9	3.0	1.7	2.5	3.4	2.2	2.7
Public debt	105.3	118.5	112.7	123.2	111.4	105.2	99.6	92.7	87.7	82.0
Domestic public debt	53.9	61.9	61.8	60.0	49.4	45.1	42.0	37.5	34.5	31.7
External public debt	51.4	56.6	50.9	63.2	62.1	60.1	57.5	55.2	53.2	50.3
External public debt (millions of US$)	499.0	544.7	517.2	627.7	666.1	687.9	695.7	702.1	706.4	702.4
External sector	(Percent of GDP; unless otherwise indicated)									
Current account balance										
Excluding budget support	-16.9	-9.7	-14.4	-19.4	-23.7	-21.2	-18.1	-16.9	-16.0	-16.0
Including budget support	-15.0	-8.9	-9.4	-14.3	-18.4	-16.9	-14.4	-13.2	-14.1	-13.6
	(Millions of U.S. dollars; unless otherwise indicated)									
Current account balance										
Including budget support	-134.0	-85.4	-97.0	-144.2	-200.1	-196.4	-177.2	-170.8	-192.1	-193.6
Overall balance of payments	-41.3	-10.3	13.4	75.2	44.0	26.6	29.3	33.8	20.0	19.9
Gross official reserves	76.1	59.8	84.8	143.9	180.0	200.0	224.1	252.2	268.2	282.3
(months of next year's imports of goods and services)	2.3	1.4	2.0	2.9	3.5	3.8	4.1	4.5	4.5	4.4
Use of Fund resources	(Millions of SDRs)									
Disbursements	7.8	0.0	11.7	11.7	0.0	0.0	0.0	0.0	0.0	0.0
Repayments	-3.8	-4.3	-3.0	-5.2	-5.5	-4.6	-3.6	-4.0	-2.8	-4.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

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

Table 2. The Gambia: Statement of Central Government Operations, 2015-23

(Millions of local currency)

	2015	2016	2017		2018	2019	2020	2021	2022	2023
	Actual		EBS /17/61	Proj.	Projections					
Revenue	8,335	8,466	11,980	14,504	17,920	16,779	16,872	18,100	18,758	20,663
Taxes	6,808	7,052	7,167	8,145	9,201	10,301	11,488	12,952	14,604	16,152
Taxes on income, profits, and capital gains	1,717	1,831	1,730	2,021	2,143	2,364	2,596	2,849	3,123	3,423
Domestic taxes on goods and services	2,925	3,055	3,184	3,611	3,990	4,472	4,874	5,519	6,422	7,109
Taxes on international trade and transactions	2,109	2,110	2,195	2,439	2,986	3,374	3,919	4,475	4,939	5,488
Other taxes	57	56	58	74	82	91	100	109	120	131
Grants	722	708	3,183	5,247	6,946	5,818	4,659	4,353	3,282	3,556
Budget support	0	0	2,401	2,436	2,753	2,491	2,325	2,569	1,424	1,566
Project grants	722	708	782	2,811	4,193	3,327	2,335	1,785	1,858	1,991
Other revenues	805	706	1,630	1,113	1,773	660	724	795	871	955
Expenditures	11,469	12,585	13,183	16,332	18,318	17,756	17,613	17,885	19,233	20,634
Expenses	9,095	9,876	10,112	9,335	9,401	10,058	11,265	11,890	12,886	13,959
Compensation of employees	1,826	2,117	2,343	2,210	2,385	2,679	2,941	3,228	3,539	3,879
Use of goods and services	2,066	2,747	2,605	2,734	2,811	3,016	3,358	3,660	4,028	4,416
Interest	2,798	3,261	2,770	2,241	1,996	1,986	2,356	2,138	2,179	2,222
External	499	456	343	351	402	441	681	523	543	561
Domestic	2,299	2,805	2,427	1,890	1,594	1,544	1,676	1,616	1,636	1,661
Subsidies	2,405	1,752	2,395	2,151	2,208	2,377	2,609	2,864	3,140	3,442
Net acquisition of nonfinancial assets	2,374	2,709	3,071	6,997	8,917	7,698	6,348	5,995	6,348	6,674
Acquisitions of nonfinancial assets	2,374	2,709	3,071	6,997	8,917	7,698	6,348	5,995	6,348	6,674
Foreign financed[1]	1,699	1,954	2,234	6,162	7,900	6,310	4,589	3,793	3,883	3,972
Gambia local fund	675	755	837	835	1,016	1,387	1,759	2,202	2,465	2,702
Gross Operating Balance	-760	-1,410	1,868	5,169	8,519	6,721	5,607	6,210	5,872	6,704
Net lending (+)/borrowing (–)	-3,134	-4,119	-1,201	-1,828	-398	-977	-741	215	-476	30
Net acquisition of financial assets	0	6	0	0	0	0	0	0	0	0
Net incurrence of liabilities	4,660	5,787	1,063	1,828	398	977	741	-215	476	-30
Domestic	4,641	5,315	1,182	-1,303	-1,463	-115	338	-563	233	206
Net borrowing	4,556	4,808	1,182	-1,303	-2,118	156	635	-563	233	206
Bank	3,503	5,013	1,027	-1,532	-1,954	5	388	-571	67	44
o/w CBG lending RCF			711	773						
Nonbank	1,053	-205	156	229	-164	151	247	7	167	161
Change in arrears	86	507	0	0	-245	-271	-297	0	0	0
Privatization proceeds	0	0	0	0	900	0	0	0	0	0
Foreign	19	471	-120	3,131	1,861	1,092	402	349	242	-235
Loans	19	471	-120	3,131	1,861	1,092	402	349	242	-235
Borrowing	976	1,246	1,452	4,794	3,708	2,984	2,290	2,252	2,279	2,246
Amortization	-958	-775	-1,571	-1,663	-1,847	-1,892	-1,888	-1,903	-2,036	-2,481
Statistical discrepancy/Financing Gap[2]	-1,526	-1,662	139	0	0	0	0	0	0	0
Memorandum items:										
Government revenue (excluding grants)	7,613	7,759	8,797	9,258	10,974	10,961	12,213	13,746	15,476	17,107
Overall balance	-3,134	-4,125	-1,201	-1,828	-398	-977	-741	215	-476	30
Basic balance[3]	-2,158	-2,878	-2,153	-913	557	-485	-811	-346	125	445
Basic primary balance[4]	640	382	617	1,328	2,553	1,501	1,545	1,793	2,304	2,668
Primary balance	-336	-864	1,568	412	1,598	1,008	1,615	2,353	1,703	2,252
Domestic public debt	20,794	26,152	29,141	28,387	25,969	26,125	26,761	26,198	26,431	26,637
Interest payments as a percent of government revenue	36.8	42.0	31.5	24.2	18.2	18.1	19.3	15.6	14.1	13.0

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

[1] Equals the sum of project grants, external project loans, and changes in project accounts.

[2] The difference between financing and the overall balance of revenue and expenditures. In 2017 and beyond, is the remaining financing gap.

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

[4] Basic balance, excluding interest payments.

Table 3. The Gambia: Statement of Central Government Operations, 2015-23

(Percent of GDP)

	2015	2016	2017		2018	2019	2020	2021	2022	2023
	Act.		EBS /17/61	Proj.	Projections					
Revenue	21.6	20.0	25.4	30.7	34.1	28.9	26.5	25.9	24.5	24.6
Taxes	17.6	16.7	15.2	17.2	17.5	17.8	18.1	18.5	19.1	19.2
Taxes on income, profits, and capital gains	4.5	4.3	3.7	4.3	4.1	4.1	4.1	4.1	4.1	4.1
Domestic taxes on goods and services	7.6	7.2	6.8	7.6	7.6	7.7	7.7	7.9	8.4	8.5
Taxes on international trade and transactions	5.5	5.0	4.7	5.2	5.7	5.8	6.2	6.4	6.5	6.5
Other taxes	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Grants	1.9	1.7	6.8	11.1	13.2	10.0	7.3	6.2	4.3	4.2
Budget support	0.0	0.0	5.1	5.2	5.2	4.3	3.7	3.7	1.9	1.9
Project grants	1.9	1.7	1.7	5.9	8.0	5.7	3.7	2.6	2.4	2.4
Other revenues	2.1	1.7	3.5	2.4	3.4	1.1	1.1	1.1	1.1	1.1
Expenditures	29.7	29.8	28.0	34.5	34.8	30.6	27.7	25.6	25.1	24.6
Expenses	23.6	23.4	21.5	19.7	17.9	17.3	17.7	17.0	16.8	16.6
Compensation of employees	4.7	5.0	5.0	4.7	4.5	4.6	4.6	4.6	4.6	4.6
Use of goods and services	5.4	6.5	5.5	5.8	5.3	5.2	5.3	5.2	5.3	5.3
Interest	7.3	7.7	5.9	4.7	3.8	3.4	3.7	3.1	2.8	2.6
External	1.3	1.1	0.7	0.7	0.8	0.8	1.1	0.7	0.7	0.7
Domestic	6.0	6.6	5.1	4.0	3.0	2.7	2.6	2.3	2.1	2.0
Subsidies	6.2	4.1	5.1	4.5	4.2	4.1	4.1	4.1	4.1	4.1
Net acquisition of nonfinancial assets	6.2	6.4	6.5	14.8	17.0	13.3	10.0	8.6	8.3	8.0
Acquisitions of nonfinancial assets	6.2	6.4	6.5	14.8	17.0	13.3	10.0	8.6	8.3	8.0
Foreign financed[1]	4.4	4.6	4.7	13.0	15.0	10.9	7.2	5.4	5.1	4.7
Gambia local fund	1.8	1.8	1.8	1.8	1.9	2.4	2.8	3.2	3.2	3.2
Gross Operating Balance	-2.0	-3.3	4.0	10.9	16.2	11.6	8.8	8.9	7.7	8.0
Net lending (+)/borrowing (–)	-8.1	-9.7	-2.5	-3.9	-0.8	-1.7	-1.2	0.3	-0.6	0.0
Net acquisition of financial assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	12.1	13.7	2.3	3.9	0.8	1.7	1.2	-0.3	0.6	0.0
Domestic	12.0	12.6	2.5	-2.8	-2.8	-0.2	0.5	-0.8	0.3	0.2
Net borrowing	11.8	11.4	2.5	-2.8	-4.0	0.3	1.0	-0.8	0.3	0.2
Bank	9.1	11.9	2.2	-3.2	-3.7	0.0	0.6	-0.8	0.1	0.1
o/w CBG lending RCF	0.0	0.0	1.5	1.6	0.0	0.0	0.0	0.0	0.0	0.0
Nonbank	2.7	-0.5	0.3	0.5	-0.3	0.3	0.4	0.0	0.2	0.2
Change in arrears	0.2	1.2	0.0	0.0	-0.5	-0.5	-0.5	0.0	0.0	0.0
Privatization proceeds	0.0	0.0	0.0	0.0	1.7	0.0	0.0	0.0	0.0	0.0
Foreign	0.0	1.1	-0.3	6.6	3.5	1.9	0.6	0.5	0.3	-0.3
Loans	0.0	1.1	-0.3	6.6	3.5	1.9	0.6	0.5	0.3	-0.3
Borrowing	2.5	2.9	3.1	10.1	7.1	5.1	3.6	3.2	3.0	2.7
Amortization	-2.5	-1.8	-3.3	-3.5	-3.5	-3.3	-3.0	-2.7	-2.7	-3.0
Statistical discrepancy/Financing Gap[2]	-4.0	-3.9	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Taxes (in percent of non-agricultural GDP)	21.3	20.1	18.2	20.6	21.0	21.3	21.6	22.2	22.8	23.0
Government revenue (excluding grants)	19.7	18.4	18.7	19.6	20.9	18.9	19.2	19.7	20.2	20.4
Overall balance	-8.1	-9.8	-2.5	-3.9	-0.8	-1.7	-1.2	0.3	-0.6	0.0
Basic balance[3]	-5.6	-6.8	-4.6	-1.9	1.1	-0.8	-1.3	-0.5	0.2	0.5
Basic primary balance[4]	1.7	0.9	1.3	2.8	4.9	2.6	2.4	2.6	3.0	3.2
Primary balance	-0.9	-2.0	3.3	0.9	3.0	1.7	2.5	3.4	2.2	2.7
Domestic public debt	53.9	61.9	61.8	60.0	49.4	45.1	42.0	37.5	34.5	31.7

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

[1] Equals the sum of project grants, external project loans, and changes in project accounts.

[2] The difference between financing and the overall balance of revenue and expenditures. In 2017 and beyond, is the remaining financing gap.

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

[4] Basic balance, excluding interest payments.

Table 4. The Gambia: Monetary Accounts,[1] 2015-23

(Millions of local currency; unless otherwise indicated)

	2015	2016	2017		2018	2019	2020	2021	2022	2023
	Act.		EBS /17/61	Proj.	Projections					
I. Monetary Survey										
Net foreign assets	2,201	1,296	2,301	7,874	10,584	12,475	13,767	16,175	17,090	18,146
in millions of U.S. dollars	55	30	50	165	216	246	262	294	296	302
Net domestic assets	17,978	21,963	23,610	19,866	20,207	21,119	22,649	23,227	25,109	27,049
Domestic credit	21,534	25,739	27,410	24,724	23,313	24,040	25,260	25,649	26,823	28,143
Claims on central government (net)	15,333	20,346	21,373	18,541	16,588	16,592	16,981	16,410	16,477	16,521
Claims on other financial corporations	5	5	5	5	5	5	5	5	5	5
Claims on other public sector[2]	1,257	1,055	1,055	1,897	1,897	1,897	1,897	1,897	1,897	1,897
Claims on private sector	4,940	4,333	4,977	4,281	4,824	5,546	6,378	7,338	8,444	9,720
Other items (net)[3]	-3,556	-3,775	-3,800	-4,858	-3,106	-2,921	-2,611	-2,423	-1,713	-1,094
Broad money	20,179	23,259	25,911	27,740	30,792	33,594	36,415	39,401	42,199	45,195
Currency outside banks	3,641	4,726	5,264	5,300	5,659	6,048	6,418	6,795	7,114	7,444
Deposits	16,538	18,534	20,647	22,440	25,133	27,546	29,997	32,607	35,085	37,751
II. Central Bank Survey										
Net foreign assets	-144	-536	47	2,692	4,796	6,284	8,056	10,253	11,895	13,579
Foreign assets	3,374	2,977	4,284	7,254	9,170	10,483	12,145	14,208	15,812	17,310
Foreign liabilities	-3,518	-3,514	-4,238	-4,562	-4,374	-4,199	-4,089	-3,956	-3,917	-3,730
Net domestic assets	6,770	8,832	9,685	7,104	6,511	6,577	6,015	5,283	4,792	4,227
Domestic credit	6,441	9,051	9,762	6,614	5,316	4,716	4,115	3,515	2,915	2,315
Claims on central government (net)	5,409	8,953	9,664	6,503	5,205	4,605	4,005	3,405	2,804	2,204
Claims on other financial corporations	5	5	5	5	5	5	5	5	5	5
Claims on private sector	117	94	94	106	106	106	106	106	106	106
Claims on public enterprises	911	0	0	0	0	0	0	0	0	0
Other items (net)	328	-220	-77	490	1,195	1,861	1,900	1,768	1,877	1,912
Reserve money	6,626	8,295	9,731	9,796	11,307	12,861	14,071	15,536	16,687	17,806
Currency outside banks	3,641	4,726	5,264	5,300	5,659	6,048	6,418	6,795	7,114	7,444
Commercial bank deposits	2,984	3,570	4,467	4,496	5,648	6,813	7,653	8,741	9,573	10,363

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

[1] End of period.

[2] Includes public enterprises and the local government.

[3] Including valuation.

Table 5. The Gambia: Monetary Accounts,[1] 2015-23

(Percent change; unless otherwise indicated)

	2015	2016	2017		2018	2019	2020	2021	2022	2023
	Act.		EBS /17/61	Proj.	Projections					
					I. Monetary Survey (Percent change; in beginning of period broad money)					
Broad money	-0.9	15.3	11.4	19.3	11.0	9.1	8.4	8.2	7.1	7.1
Net foreign assets	-11.6	-4.5	4.3	28.3	9.8	6.1	3.8	6.6	2.3	2.5
Net domestic assets	10.7	19.8	7.1	-9.0	1.2	3.0	4.6	1.6	4.8	4.6
					II. Central Bank Survey (Percent change; in beginning of period monetary base)					
Reserve money	10.0	25.2	17.3	18.1	15.4	13.7	9.4	10.4	7.4	6.7
Net foreign assets	-27.1	-5.9	7.0	38.9	21.5	13.2	13.8	15.6	10.6	10.1
Net domestic assets	37.1	31.1	10.3	-20.8	-6.1	0.6	-4.4	-5.2	-3.2	-3.4
Memorandum Items:										
Growth of credit to the private sector	-7.9	-12.3	14.9	-1.2	12.7	15.0	15.0	15.0	15.1	15.1
Growth of currency in circulation	3.8	29.8	11.4	12.2	6.8	6.9	6.1	5.9	4.7	4.6
Growth of demand deposits	-3.3	11.9	11.4	15.4	12.0	8.4	7.7	7.5	6.4	6.3
Growth of time and savings deposits	-0.9	12.2	11.4	25.0	12.0	10.4	9.7	9.5	8.3	8.3
Net usable international reserves (in millions of U.S. dollars)	28.9	19.8	33.4	91.2	133.5	159.9	189.2	223.0	243.1	263.0
Money velocity (levels)	1.9	1.8	1.8	1.7	1.7	1.7	1.7	1.8	1.8	1.9
Money multiplier (levels)	3.0	2.8	2.7	2.8	2.7	2.6	2.6	2.5	2.5	2.5
Broad money (percent of GDP)	52.3	55.0	55.0	58.7	58.6	57.9	57.2	56.4	55.1	53.8
Credit to the private sector (percent of GDP)	12.8	10.3	10.6	9.1	9.2	9.6	10.0	10.5	11.0	11.6
Central bank financing of central government (in millions of local currency)	1,002	3,543	711	-2,449	-1,298	-600	-600	-600	-600	-600
Commercial bank financing of central government (in millions of local currency)	2,254	1,470	316	645	-656	605	989	30	667	645

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

[1] End of period.

Table 6. The Gambia: Balance of Payments, 2015-23

(Millions of U.S. dollars, unless otherwise indicated)

	2015	2016	2017		2018	2019	2020	2021	2022	2023
	Act.		EBS /17/61	Proj.			Projections			
1. Current account										
A. Goods and services	**-229.5**	**-172.7**	**-236.2**	**-280.1**	**-345.6**	**-341.5**	**-321.9**	**-321.8**	**-324.3**	**-343.0**
Goods (net)	-261.9	-220.1	-274.8	-318.7	-385.0	-386.5	-373.0	-376.2	-385.7	-408.9
Exports, f.o.b.	108.3	106.6	101.6	101.6	117.4	127.4	139.8	150.9	160.9	174.2
Imports, f.o.b.	-370.2	-326.7	-376.4	-420.3	-502.5	-513.9	-512.7	-527.1	-546.6	-583.1
Services (net)	32.4	47.4	38.6	38.6	39.4	45.0	51.0	54.4	61.3	65.9
Services exports	112.1	124.9	116.1	116.1	137.0	150.6	163.2	177.0	193.1	202.7
Of which: travel income	63.9	70.7	61.9	61.9	81.2	92.9	104.6	117.5	133.0	136.9
Services imports	-79.7	-77.6	-77.5	-77.5	-97.6	-105.5	-112.2	-122.6	-131.8	-136.8
B. Income (net)	**-28.3**	**-27.5**	**-28.7**	**-28.3**	**-29.2**	**-30.1**	**-31.1**	**-32.2**	**-35.5**	**-31.4**
Income credits	2.2	2.1	2.2	2.2	2.3	2.4	2.4	2.5	2.8	2.5
Income debits	-30.5	-29.6	-30.9	-30.5	-31.5	-32.5	-33.6	-34.7	-38.3	-33.9
C. Current transfers	**123.9**	**114.8**	**167.8**	**164.2**	**174.7**	**175.3**	**175.9**	**183.2**	**167.7**	**180.9**
Official transfers	17.0	7.7	52.9	52.0	56.8	49.8	44.8	47.5	25.3	34.4
Remittances	93.6	93.5	101.1	98.3	105.7	112.9	118.5	124.8	131.3	135.1
Other transfers	13.3	13.6	13.9	13.9	12.3	12.6	12.6	10.9	11.2	11.5
Current account (excl. budget support)	**-151.0**	**-93.1**	**-149.9**	**-196.2**	**-256.9**	**-246.2**	**-222.0**	**-218.3**	**-217.4**	**-227.9**
Current account (incl. budget support)	**-134.0**	**-85.4**	**-97.0**	**-144.2**	**-200.1**	**-196.4**	**-177.2**	**-170.8**	**-192.1**	**-193.6**
2. Capital and financial account										
A. Capital account	**23.2**	**16.2**	**25.9**	**60.0**	**86.5**	**66.5**	**45.0**	**33.0**	**33.0**	**33.8**
B. Financial account	**72.5**	**45.5**	**84.5**	**159.4**	**157.7**	**156.4**	**161.5**	**171.6**	**179.2**	**179.7**
Foreign direct investment	73.2	72.7	83.2	83.3	96.3	108.3	120.2	131.6	144.2	151.5
Portfolio investment	2.9	3.1	3.8	3.7	4.0	3.8	3.7	3.5	3.7	3.9
Other investment	-3.5	-30.3	-2.5	72.3	57.3	44.3	37.6	36.6	31.2	24.3
Capital and financial account	**95.7**	**61.6**	**110.4**	**219.4**	**244.2**	**222.9**	**206.5**	**204.6**	**212.2**	**213.5**
Errors and omissions	-3.1	13.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	**-41.3**	**-10.3**	**13.4**	**75.2**	**44.0**	**26.6**	**29.3**	**33.8**	**20.0**	**19.9**
Financing										
Net international reserves (increase -)	41.3	10.3	-13.4	-75.2	-44.0	-26.6	-29.3	-33.8	-20.0	-19.9
Change in gross international reserves	35.8	16.3	-25.0	-84.1	-36.1	-20.0	-24.1	-28.1	-16.0	-14.1
Use of IMF resources (net)	5.5	-5.9	11.7	8.9	-7.9	-6.6	-5.2	-5.7	-4.0	-5.8
Disbursements	10.9	0.0	15.7	16.2	0.0	0.0	0.0	0.0	0.0	0.0
Repayments	-5.4	-5.9	-4.0	-7.3	-7.9	-6.6	-5.2	-5.7	-4.0	-5.8
Memorandum items:										
Exports of goods and services	220.4	231.5	217.7	217.7	254.5	278.0	303.0	327.9	354.0	376.9
Imports of goods and services	-449.9	-404.2	-453.9	-497.8	-600.1	-619.5	-624.9	-649.7	-678.4	-719.9
GMD per US dollar, period average	43.2	43.8	45.4	46.8	48.5	50.0	51.9	54.1	56.3	58.9
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross International Reserves										
US$ millions	76.1	59.8	84.8	143.9	180.0	200.0	224.1	252.2	268.2	282.3
Months of current year's imports of goods and services	2.0	1.8	2.2	3.5	3.6	3.9	4.3	4.7	4.7	4.7
Months of next year's imports of goods and services	2.3	1.4	2.0	2.9	3.5	3.8	4.1	4.5	4.5	4.4
Net usable international reserves										
US$ millions	28.9	19.8	33.4	91.2	133.5	159.9	189.2	223.0	243.1	263.0
Months of current year's imports of goods and services	0.8	0.6	0.9	2.2	2.7	3.1	3.6	4.1	4.3	4.4
Months of next year's imports of goods and services	0.9	0.5	0.8	1.8	2.6	3.1	3.5	3.9	4.1	4.1

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

Table 7. The Gambia: Balance of Payments, 2015-23

(Percent of GDP)

	2015	2016	2017		2018	2019	2020	2021	2022	2023
	Act.		EBS /17/61	Proj.	Projections					
1. Current account										
A. Goods and services	**-25.7**	**-17.9**	**-22.8**	**-27.8**	**-31.9**	**-29.5**	**-26.2**	**-24.9**	**-23.8**	**-24.1**
Goods (net)	**-29.4**	**-22.8**	**-26.5**	**-31.6**	**-35.5**	**-33.4**	**-30.4**	**-29.1**	**-28.4**	**-28.7**
Exports, f.o.b.	12.1	11.0	9.8	10.1	10.8	11.0	11.4	11.7	11.8	12.2
Imports, f.o.b.	-41.5	-33.9	-36.3	-41.6	-46.3	-44.3	-41.8	-40.8	-40.2	-40.9
Services (net)	3.6	4.9	3.7	3.8	3.6	3.9	4.2	4.2	4.5	4.6
Services exports	12.6	13.0	11.2	11.5	12.6	13.0	13.3	13.7	14.2	14.2
Of which: travel	7.2	7.3	6.0	6.1	7.5	8.0	8.5	9.1	9.8	9.6
Services imports	-8.9	-8.0	-7.5	-7.7	-9.0	-9.1	-9.1	-9.5	-9.7	-9.6
B. Income (net)	**-3.2**	**-2.8**	**-2.8**	**-2.8**	**-2.7**	**-2.6**	**-2.5**	**-2.5**	**-2.6**	**-2.2**
Income credits	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Income debits	-3.4	-3.1	-3.0	-3.0	-2.9	-2.8	-2.7	-2.7	-2.8	-2.4
Of which: interest on government debt	1.0	0.8	0.7	0.7	0.8	0.8	1.1	0.7	0.7	0.7
C. Current transfers	**13.9**	**11.9**	**16.2**	**16.3**	**16.1**	**15.1**	**14.3**	**14.2**	**12.3**	**12.7**
Official transfers	1.9	0.8	5.1	5.2	5.2	4.3	3.7	3.7	1.9	2.4
Remittances	10.5	9.7	9.7	9.7	9.7	9.7	9.7	9.7	9.7	9.5
Other transfers	1.5	1.4	1.3	1.4	1.1	1.1	1.0	0.8	0.8	0.8
Current account (excl. budget support)	**-16.9**	**-9.7**	**-14.4**	**-19.4**	**-23.7**	**-21.2**	**-18.1**	**-16.9**	**-16.0**	**-16.0**
Current account (incl. budget support)	**-15.0**	**-8.9**	**-9.4**	**-14.3**	**-18.4**	**-16.9**	**-14.4**	**-13.2**	**-14.1**	**-13.6**
2. Capital and financial account										
A. Capital account	**2.6**	**1.7**	**2.5**	**5.9**	**8.0**	**5.7**	**3.7**	**2.6**	**2.4**	**2.4**
B. Financial account	**8.1**	**4.7**	**8.1**	**15.8**	**14.5**	**13.5**	**13.2**	**13.3**	**13.2**	**12.6**
Foreign direct investment	8.2	7.5	8.0	8.3	8.9	9.3	9.8	10.2	10.6	10.6
Portfolio investment	0.3	0.3	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.3
Other investment	-0.4	-3.1	-0.2	7.2	5.3	3.8	3.1	2.8	2.3	1.7
Capital and financial account	**10.7**	**6.4**	**10.6**	**21.7**	**22.5**	**19.2**	**16.8**	**15.8**	**15.6**	**15.0**
Errors and omissions	-0.3	1.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	**-4.6**	**-1.1**	**1.3**	**7.4**	**4.1**	**2.3**	**2.4**	**2.6**	**1.5**	**1.4**
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

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

Table 8. The Gambia: Financial Soundness Indicators for the Banking Sector, 2014-17

	2014	2015	2016	2017
	End-December			End-June
	(Percent, unless otherwise indicated)			
Capital Ratios				
Capital Adequacy Ratio	29.6	33.1	38.2	34.4
Regulatory Capital Ratio (i.e T1+T2)	30.3	34.8	39.8	35.8
Primary Capital Ratio (i.e.T1)	28.8	31.4	35.9	33.0
Non-Performing Loans/Primary Capital	10.6	7.9	9.8	8.5
Asset Quality Ratios				
Non-Performing Loan Ratio	7.2	6.5	9.3	9.4
Aggregate Provision Level	95.6	82.2	79.1	81.9
Loan Loss Reserve Ratio	4.7	4.6	6.8	6.9
Earnings Ratios				
ROA	2.9	0.5	0.7	1.0
ROE	19.0	3.5	4.2	7.0
Net Interest Margin	1.7	1.8	1.9	4.3
Non-Interest Income Ratio	38.4	34.0	6.8	1.7
Liquidity Ratios				
Liquid Assets Ratio	84.8	93.4	101.3	96.5
Dalasi Liquid Assets/Dalasi Deposits	-	88.4	97.5	108.7
Time Deposits/Deposits	17.7	18.1	16.5	16.9

Source: Central Bank of The Gambia.

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

Nature/source of main risks	Relative Likelihood	Expected impact if realized	Policy Response
Spillover Risks			
Structurally weak growth in key advanced economies:	*High* • Low productivity growth (U.S., the Euro Area, and Japan), a failure to fully address crisis legacies and undertake structural reforms, and persistently low inflation (the Euro Area, and Japan) undermine medium-term growth in advanced economies.	*Low* • Decline in Gambia's exports and tourism receipts. • Employment pressures abroad could reduce the inflow of remittance.	• Diversify the tourism base. • Promote regional trade and integration. • Promote private investment and diversify domestic production.
Reduced financial services by correspondent banks	*High* • Significant curtailment of cross-border financial services in emerging and developing economies.	*High* • Negative impact on payment services, bank profits, trade, remittances and investors' confidence.	• Strengthen the AML/CFT framework. • Use alternative methods (regional systems or networks).
Domestic/Regional Risks			
Financial Instability	*Medium* • Banks' high exposure to sovereign and SOE debt coupled with debt reprofiling and restructuring and declining interest rates and may negatively affect banks.	*High* • Reduced profitability and capital adequacy, negatively affecting financial intermediation.	• Monitor and mitigate debt risks with debt management strategy, enhance risk-focused supervision, improve CBG's independence • Develop crisis management capacity and improve the bank resolution framework.
Fiscal policy slippages	*Medium* • A looser fiscal policy without effective control of fiscal spending and lack of fiscal reforms. • Fiscal shocks from SOEs.	*High* • Increase in NDB and renewed pressure on fiscal and debt sustainability, also undermining the growth outlook. • Pressure on foreign reserves. • Crowding out of private credit.	• Implement TA recommendations on PFM, including strengthening cash management, improving budget execution, avoiding unbudgeted spending. • Implement SOE reforms.
Political Instability	*Medium* • Tribal politics and tensions among the coalition parties supporting President Barrow may lead to government ineffectiveness.	*High* • Political uncertainty hurts market confidence and private investment. • Delay or non-implementation of economic and policy reforms, weakened institutions.	• Give policy priority to socio-economic stability and development.
Natural disasters	*Low* • Recurring droughts.	*High* • Domestic production, especially rain-fed agriculture.	• Continue taking out insurance against crop failure. • Build up fiscal and reserve buffer. • Increase economic resilience to droughts and natural disasters.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline scenario within the next three years. "Low" is meant to indicate a probability below 10 percent, "Medium" a probability between 10 percent and 30 percent, and "High" a probability of 30 percent or more. The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risk may interact and materialized jointly.

Appendix I. Letter of Intent

Banjul, The Gambia
March 6, 2018

Ms. Christine Lagarde
Managing Director
International Monetary Fund
Washington, DC 20431

Dear Ms. Lagarde:

1. We thank the International Monetary Fund (IMF) for its continued support of our economic reform program through the RCF disbursement, policy advice and valuable technical assistance. This support has played a pivotal role in our efforts to save the economy from near collapse, catalyze support from the international community, and start addressing the severe macroeconomic imbalances and eroded institutions that we inherited from the previous government.

2. The macroeconomic situation has improved in the short time of our government and our re-engagement with the IMF in early 2017. Our fiscal position is much improved, thanks to tight expenditure limits, fiscal consolidation and reforms, and strong support from the international community, including the Fund. Net domestic borrowing has been dramatically reduced from more than 10 percent of GDP to well below 1 percent of GDP, leading to desired strong decline in interest rates, with average T-bill rates dropping from 17.4 percent in October 2016 to 5.5 percent most recently. International reserves have increased from 1.6 months of import cover at end-2016 to 2.9 months at end-2017.

3. With the macroeconomic situation off the edge of the cliff, we are now seeking to address the underlying problems of our economy. The huge debt overhang of about 120 percent of GDP that we inherited is a severe vulnerability and reduces our fiscal and borrowing space to near zero, while investment and development needs are huge and expectations of the population even larger. Most urgent are drastic improvements in power supply, water and sanitation, and health care. Other development needs in infrastructure, in particular port expansion and roads, are also large, and education is also a top priority. With advice and support from the World Bank, we are seeking to address the severe difficulties in several public enterprises, foremost the national utility and telecom companies that have been in difficulties for some time and have been a recurrent cause of fiscal shocks and debt buildup. We have approached our external creditors to request a restructuring of our existing bilateral debts, and a donor conference in May will be geared towards raising grant financing for our development priorities and seeking an improvement in the financing terms of our existing project pipeline.

4. As earlier indicated, we are interested in a future ECF arrangement to help maintain economic stability and make progress towards inclusive growth and poverty reduction over the medium term, in line with our national development plan. We recognize the need to establish a strong record of performance before moving to an ECF, but are confident that performance under the current SMP will provide that. We will continue to need close engagement with IMF staff to guide policy implementation. In light of the delay in holding the donor conference which would provide an important input into a future ECF program we would like to request an extension of the SMP by six months through September 2018, with an ECF arrangement hopefully following suit.

5. The attached Memorandum of Economic and Financial Policies (MEFP) describes the policies that we plan to implement over that period. It emphasizes policies—particularly fiscal policy, public enterprise reforms, and measures to make the debt sustainable—that will enable us to foster and further build on the rapid positive results we have achieved so far under the SMP. We continue to remain committed to breaking with the policies of the previous regime and implement policies that support growth, poverty reduction and broader socio-economic development.

6. We will consult with the IMF staff prior to any revisions to the policies contained in the MEFP, in accordance with the IMF's policies on such consultations. We will continue to provide to the IMF staff on a timely basis the information required to monitor accurately the staff-monitored program. We will fully cooperate with the IMF to achieve our policy objectives, and furthermore undertake not to introduce measures to compound the current balance of payments difficulties in The Gambia.

7. The Gambian authorities agree to the publication of this Letter of Intent (LOI) and the attached MEFP and Technical Memorandum of Understanding (TMU), as well as the IMF staff report related to the 2018 Article IV consultation and 1st review of the Staff Monitored Program. We hereby authorize their publication and posting on the IMF website.

Sincerely yours,

/s	/s
Amadou Sanneh	Bakary Jammeh
Minister of Finance and Economic Affairs	Governor, Central Bank of The Gambia

Attachments: I. Memorandum of Economic and Financial Policies (MEFP)
II. Technical Memorandum of Understanding (TMU)

Attachment I. Memorandum of Economic and Financial Policies

This memorandum reviews recent economic developments and outlines our policies and reforms for the remainder of The Gambia's Staff-Monitored Program (SMP) with the International Monetary (IMF) through March 2018 and beyond.

A. Background

1. **The Gambia is a small, fragile country which transitioned to a democratically elected government in early 2017, after 22 years of autocratic rule.** The country's development has been hampered in recent years by weakening governance and institutional capacity.

2. **Reliant on rain-fed agriculture, tourism and trade, The Gambia's economy is vulnerable to exogenous shocks and carries the burden of economic mismanagement of the previous regime**. Lack of economic diversification, combined with the absence of an efficient irrigation system, makes national production sensitive to external demand and weather-related shocks. In addition, more than two decades of poor economic management, including frequent fiscal slippages, sizable unbudgeted bailouts of SOEs, weak PFM, and massive embezzlement by the previous regime have resulted in high public debt and financial sector vulnerabilities.

B. Recent Economic Developments

3. **The economy has started to recover, following the sharp growth slowdown in 2016.** Economic growth slowed down sharply from 4.3 percent in 2015 to 2.2 percent in 2016 and early 2017, reflecting a bad harvest, foreign exchange scarcity, and a drop-in tourism due to the political turmoil after the presidential elections in December 2016. For 2017, a recovery is under way and economic growth is projected at 3 percent and to accelerate in 2018 to 5.7 percent. While the agricultural season may turn out not as good as initially hoped for, tourism bookings for the ongoing high season are strong. Port congestion as well as other anecdotal evidence indicates a strong rebound in trade supported by much improved foreign exchange supply and relations with Senegal, and there is keen interest from foreign direct investors in energy, tourism, agriculture and transportation. Headline inflation has reversed its growing trend and declined from 8.8 percent in January to 6.9 percent in November 2017, reflecting the stabilization of the dalasi and a gradual decrease in food prices. With much improved fiscal discipline and external financial support, the Dalasi has remained stable since April and gross international reserves increased from 1.6 months of import cover at end-2016 to 2.9 months at end-2017. The average T-bill rate has fallen from 17.5 percent in October 2016 to around 6 percent in early 2018. The CBG has also gradually reduced its policy rate from 23 percent to 15 percent, which has caused commercial lending rates to decline from 28 percent to about 18 percent.

C. Performance under the Program

4. Program performance so far has been broadly satisfactory. Three of the eight end-June quantitative benchmarks were met. The end-June targets for net domestic borrowing (NDB) and external arrears were narrowly missed.[1] Only nonmarket-rate government credit from the CBG was missed by a wider margin due to spending pressures ahead of the disbursement of budget support, including to settle external arrears (Table 1). At end-September, all quantitative benchmarks were met except for nonmarket-rate government credit which was narrowly missed. We expect to meet all end-December quantitative targets.

5. Structural benchmarks. On the structural side, all three structural **end-July** benchmarks were implemented, albeit after the end-July target date given capacity constraints.[2] (Table 2). While the cash and debt management committees were set up on time, their first meetings were delayed until September. The development of a policy for opening and closing of accounts at the CBG was delayed and it was agreed with the safeguards and country team to reprogram the benchmark to end-December; it was implemented in early December. For **end-September**, two of the three benchmarks were implemented on time: we are now publishing monthly budget execution data, and we have prepared a complete inventory of all government and other public sector accounts at the CBG and commercial banks. Issuing a clear definition of payment arrears and clearly defined procedures for their monitoring and validation was delayed due to methodological differences with the Accountant General but was implemented in December. **Looking ahead**, the start of special audits of SOEs, due end-March 2018, has been delayed due to a procurement challenge regarding the tender for the five key SOEs and the audits are now expected to start in the first quarter of 2018 and conclude by late summer/early fall. Separately, donor funding for the audits of the remaining eight SOEs and the CBG has not yet been identified.

6. Beyond performance against the benchmarks, we have made strong progress implementing fiscal and other measures:

- We have revised the 2017 budget to reduce expenditure by 1 percent of GDP, as indicated in our June MEFP.
- We have strengthened tax collection which has been a main driver behind the much better-than-expected revenue results so far this year, and likely overperformance by 1.8 percent of GDP in 2017.

[1] Accumulation of a small amount of arrears to IFAD was accidental as the paper invoice was sent to the wrong recipients. The arrears have been settled now and we have asked staff to communicate to IFAD the request to also send invoices by email, providing the contact details of those responsible, so as to avoid any recurrence in the future.

[2] To avoid slippages going forward, we have set up a SMP monitoring committee in September to meet bi-weekly, chaired by the CBG governor and with the IMF Resident Representative attending as an observer.

- The staff audits of the civil and uniformed services identified 3,146 ghost workers which were removed from the payroll in June, with annual savings of 0.3 percent of GDP.

- The vehicle fleet reform has been approved by cabinet but implementation was delayed as we had to conduct outreach to meet initial strong resistance. Implementation will now start in January 2018 and is expected to generate savings of 2 percent of GDP over the next three years by reducing the bloated vehicle fleet, strengthening accountability, reducing fuel and maintenance cost and generating receipts from the sale of excess cars.

- Asset sales of land and of the presidential planes have been delayed but we expect to conclude these in early 2018, together yielding an estimated 0.9 percent of GDP.

- A new policy restricting overseas travel to economy class for some senior government officials (Permanent Secretaries, Heads of Agencies, and Executive Directors/CEOs) was implemented and is expected to deliver additional savings of 0.1 percent of GDP.

- The sale of excess vehicles from the Office of the President with the help of the STAR program is likely to raise 0.1 percent of GDP.

- We are vigorously pursuing recovery of stolen assets. A Commission of Inquiry was set up and is investigating the financial dealings of the former regime. All Gambian assets of the former President, his family and associates have been frozen. Recovery of assets abroad is being pursued in parallel, with support from the StAR Initiative, and we have recently hired a forensic legal and accounting firm (on a pro-bono basis).

- We have channeled previously diverted fees and revenue sources back to the budget, including from the international voice gateway, heavy metal and sand mining, and fees for the use of the container scanner in the port, with expected annual revenue of 1.2 percent of GDP in non-tax revenue in 2017-18.

- We have developed a medium-term debt strategy (MTDS) to support debt sustainability, with technical assistance from the Fund and the World Bank, which foresees maturity lengthening of domestic debt to reduce rollover risk and debt service, and greater reliance on external concessional financing and grants. We have started its implementation and have rescheduled the NAWEC bond and issued four bonds with maturities of 3 and 5 years. Externally, we have already secured considerable resources for budget and project support, and plan to mobilize more in the future. We have also approached our official creditors for debt rescheduling or new highly concessional financing and discussions in that regard are ongoing.

- Given our very limited fiscal and borrowing space, we have established an Investment Implementation Committee at ministerial level to ensure due diligence is followed and to add scrutiny to make sure the selection of new investment projects in the best interest of the country and does not undermine debt sustainability.

- We will revive the *High-level Economic Council (HILEC)* in order to take on a more active role in strengthening the monitoring of policy implementation under the SMP and beyond, and ensure high-level buy-in. The HILEC is comprised of the Vice President, the Minister of Finance and Economic Affairs, the Governor of the CBG, and the Secretary General of the Office of the President.

- We are making good progress in strengthening governance. The President, Vice-President and all cabinet members have declared their assets to the Ombudsman. Public expenditure reviews are underway with help from the World Bank, and a security forces reform has recently been kicked off. We are also working on the legal framework for an Anti-Corruption Commission to be established next year, with UNDP support.

D. Macroeconomic Policies and Structural Reforms for the Remainder of the SMP and Beyond

7. We remain committed to breaking with the economic mismanagement of the past regime and to pursuing prudent macroeconomic policies to restore macroeconomic stability and fiscal sustainability, and boost growth. Our key economic objectives are to restore macroeconomic stability and attain sustained high and inclusive growth to promote socio-economic development. Starting from a very weak legacy position, this will require careful sequencing: (i) Restoring macroeconomic stability and fiscal sustainability, including through fiscal consolidation, SOE reform and external financial support; (ii) fostering debt sustainability by implementing the debt strategy and securing additional highly concessional external financing; (iii) mobilizing resources for carefully prioritized social and infrastructure investment without endangering debt sustainability; and (iv) creating an environment conducive to private sector initiative, including by safeguarding financial stability, strengthening governance and fighting corruption.

8. We also remain committed to implementing the remaining structural measures under the SMP (Table 2).

Fiscal policies

9. We remain committed to returning to fiscal sustainability by further aligning expenditure with available resources and strictly limiting domestic borrowing to facilitate lower interest cost, while securing donor assistance. Over the medium term we will consider streamlining ministries and subvented agencies, downsizing and rationalizing embassies, and streamlining of memberships in nonfinancial international organizations which could yield up to 1 percent of GDP. Policies will continue to be anchored at an NDB ceiling of 1 percent of GDP, beyond the duration of the SMP. We are also intent on resolving the difficulties of SOEs to protect fiscal outcomes, and work toward resolution of cross arrears between government and the SOEs as well as payment arrears in general.

10. The draft 2018 budget is broadly consistent with the projections underlying the SMP. It differs in markedly higher disbursements of project grants and loans as three pre-existing main projects have entered the construction phase (Senegambia bridge, Gambia University and the Lamin-Koto-Passimus road). The budget includes budget-neutral tax reductions on corporate, personal and rental income and an increase in the tax-free threshold for personal income. This is intended to boost domestic demand while increasing compliance as well as broadening the tax base. The lowering of the corporate tax toward the lower Senegalese level is also intended to encourage the return of companies that previously resettled under the old regime (about 200). The initial revenue loss of 0.5 percent of GDP will be more than offset by lower debt servicing on the restructured NAWEC bond (0.9 percent of GDP), additional savings on T-bill interest from the stronger than anticipated decline in rates (1 percent of GDP), continuation of the Gateway revenue through 2018 (1.3 percent of GDP), and privatization proceeds from the planned sale of Megabank (1.7 percent of GDP).

11. Developing a credible medium-term economic and fiscal policy framework (MTEF) will be necessary to anchor fiscal policy and facilitate policy driven budget allocations. In particular, the MTEF will need to reflect and support the MTDS. We also very much appreciate the ongoing support of Fund staff to build into the MTEF analysis pertaining to fiscal stress tests and their macro-financial implications.

Debt management

12. With debt sustainability continuing to be in danger, we are committed to safeguard it through strict prioritization of investment projects, including existing projects.

13. We continue to be firmly committed to take measures to foster debt sustainability, including with the help of our development partners. The high debt stock that we have inherited is placing a very severe burden on The Gambia and, if not resolved, will hold back development for years to come. Domestically, the marked decline in T-bill rates since the beginning of the year is already starting to reduce the burden of debt service. We will continue implementation of the MTDS, including further maturity lengthening of domestic debt and pursuing our external creditors for debt rescheduling. We are also seeking to raise substantial additional grant financing and improvement in the terms of our existing loan pipeline at a donor conference in May 2018. Additional resources could be used in part to retire expensive domestic debt, in part to support growth-enhancing and poverty-reducing investment in line with our new National Development Plan (NDP) which has just been completed.

14. Prudent debt management is needed to manage the risks associated with the large public debt while accommodating financing needed for development. Given The Gambia's elevated debt level and the importance of tight controls on new borrowing, we will refrain from any new large-scale investment projects that would render debt unsustainable through loans or contingent liabilities until we have created sufficient new fiscal and borrowing space. We are committed to following due process and applying particular scrutiny to the selection of investment projects within the framework of the Investment Implementation Task Force. The government

agrees to consult with IMF staff before contracting or guaranteeing new concessional external loans, guaranteeing any new external or domestic loans to SOEs, or entering into contingent liabilities of any other kind such as those related to public-private partnerships (PPPs) or power purchasing agreements (PPAs).

SOE reforms

15. We are developing a comprehensive strategy to address the operational and financial difficulties of NAWEC and GAMTEL/GAMCEL, with support from the World Bank. We are planning to implement performance contracts for NAWEC and are continuing to rehabilitate the company with support and guidance from the World Bank. Regarding GAMTEL/GAMCEL, we have agreed with the World Bank to reposition GAMTEL prior to divesting GAMCEL, in the course of 2018. For the Gambia Ports Authority, we are planning to tender a concession to a private operator in order to bring private capital to bear for the expansion and modernization of the port which is much needed to facilitate the resurgence of trade and boost economic growth. As to other SOEs that are more stable, we are confident that implementation of the 2017-19 SOE reform program agreed with the World Bank will put them on a sounder footing so that they can eventually contribute dividend payments to the budget. We are also considering privatization of the retail fuel distribution network of the Gambia National Petroleum Company, possibly in 2019.

16. We remain committed to conduct special audits of all SOEs to uncover all leakages and embezzlement of the past, with support from our development partners. We are also working to step up MOFEAs oversight and monitoring of SOEs' operations, financial position and contingent liabilities and fiscal risks emanating from them, and resolving existing cross arrears among SOEs and government.

Monetary and Exchange rate Policies

17. We remain committed to a flexible exchange rate policy and a monetary policy that aims at price stability. The CBG will intervene in the market only to ensure orderly market conditions, or purchase foreign exchange to meet its needs for external obligations. The CBG will continue to use a money targeting framework to pursue its price stability objective of keeping inflation at or below 5 percent. The CBG will consider further easing of the policy rate which is now at 15 percent in tandem with further progress on reducing inflation toward its target of 5 percent or less, and while ensuring that real T-bill interest rates do not turn negative.

18. With the monetization of government deficits now eliminated, strengthening the independence, governance and operations of the CBG is a priority. The Government will adhere to a zero limit, on a monthly basis, on new credit from the central bank at below-market interest rates. Separately, we will adhere strictly to the schedule for payments of principal and interest on the CBG-held 30-year bond. We also intend to strengthen the independence of the CBG, to align with leading practices for central banks particularly in the areas of autonomy, credit to government, governance and oversight, and audit mechanisms. Improving liquidity forecasting and management, and adjusting the tool kit of the CBG for monetary policy operations will be equally important. In the

medium term, a recapitalization of the CBG will likely be necessary to offset the impact of the 30-year government bond on its balance sheet to ensure the CBG can execute its mandate.

Financial Sector Stability

19. The financial sector continues to be stable and profitable, but large exposure to the public sector, declining interest rates and likely expansion of private sector credit bear risks that require heightened supervision. Profitability is predicated on large public interest payments, and financial stability indicators mask large vulnerabilities due to the high exposure to the public sector. The CBG will step up the monitoring of the health of the banking sector with a focus on the impact of declining interest rates and lower government borrowing, and spillovers from the implementation of the MTDS, including SOE debt rescheduling, NPLs and exposure to SOEs. We will also expeditiously develop our crisis management capacity and upgrade the bank resolution framework, including strategies to handle possible bank crisis.

E. Poverty Reduction and Key Strategic Directions

20. A new National Development Plan (NDP) covering 2018-2021 has just been finalized in December. The NDP was formulated in a broadly consultative process involving all relevant stakeholders. The NDP has as its goal the delivery of "good governance and accountability, social cohesion, and national reconciliation and a revitalized and transformed economy." It seeks to achieve this overarching goal through eight strategic priorities:

- Restoration of good governance, respect for human rights, the rule of law, and empowering citizens through decentralization and local governance.
- Economic stabilization, accelerated growth and structural transformation.
- Modernization of agriculture and fisheries, for sustained economic growth, food and nutritional security and poverty reduction.
- Investment in people through improved education and health services, and building a caring society.
- Development of infrastructure, including through the restoration of energy services.
- Promoting an inclusive and culture-centered tourism, for sustainable growth.
- Reaping the demographic dividend through youth empowerment.
- Making the private sector the engine of growth, transformation, and job creation.

The strategic priorities will be complemented by seven cross-cutting, critical enablers: (i) an efficient and responsive public sector; (ii) women empowerment; (iii) an engaged and participatory Diaspora; (iv) a sustainable environment, climate-resilient communities and appropriate land use;

(v digitalization and information technology development; (vi) an active and participatory civil society; and (vii) evidence-based policy planning and decision-making.

Our macroeconomic framework under the SMP has drastically reduced the government's domestic borrowing needs as well as its cost, and has eased the crowding out of the private sector. Fiscal savings from lower interest costs could eventually be redirected to spending on NDP priorities. The RCF disbursement has already helped our efforts to rebuild international reserves, including by catalyzing large external support from other development partners, which is important for our small open economy that is vulnerable to external shocks.

Table 1. The Gambia: Proposed Indicative Targets under a Staff-Monitored Program, 2017-18

(Stocks; unless otherwise indicated)

	Mar. 2017	Jun. 2017				Sep. 2017				Dec. 2017	Mar. 2018
	Prog.	Prog.	Adj. Prog.	Actual	Status	Prog.	Adj. Prog.	Actual	Status	Prog.	Proposed
Indicative quantitative targets											
1. Ceiling on net domestic borrowing of the central government (cumulative flows from the beginning of the calendar year, GMD millions)[1]	545	943	...	989	**Not Met**	943	...	-2,127	**Met**	471	526
2. Ceiling on the stock of net domestic assets of the central bank (including RCF onlending, GMD millions, TMU exchange rates)	8,897	9,704	...	9,497	**Met**	10,525	...	6,171	**Met**	9,685	10,707
3. Floor on the stock of net usable international reserves of the central bank (USD millions, TMU exchange rates)[2 3]	-10.2	-23.9	-39.8	-11.8	**Met**	9.9	...	70.3	**Met**	-0.1	78.8
4. Ceiling on new external payments arrears of the central government (USD millions)[4]	0	0	...	0.2	**Not Met**	0	...	0	**Met**	0	0
5. Ceiling on new nonconcessional external debt contracted or guaranteed by the central government (USD millions)[4]	0	0	...	0	**Met**	0	...	0	**Met**	0	0
6. Ceiling on the outstanding stock of external public debt with original maturity of one year or less (USD millions)[4]	0	0	...	0	**Met**	0	...	0	**Met**	0	0
7. Monthly ceiling on central bank credit to the central government at non-market terms (GMD millions)[5]	1,187	943	...	1,421	**Not Met**	946	...	988	**Not Met**	0	0
8. Floor on poverty-reducing expenditures (cumulative flows from the beginning of the calendar year, GMD millions)	575	843	...	1,426	**Met**	1,112	...	2,393	**Met**	1,380	949

[1] The proposed targets to be adjusted by the dalasi equivalent of the shortfall of the receipts of the external budget support grants.
[2] The proposed targets to be adjusted by the US dollar equivalent of the shortfall of the receipts of the external budget support grants.
[3] Measured at the TMU exchange rates as at 31 March 2017 (see TMU of the MEFP for the RCF and SMP).
[4] Monitored on a continuous basis
[5] The zero ceiling applies to all outstanding credit (for example, overdrafts and advances) at non market terms as of the end of each quarter, excluding the RCF onlending and the 30-year bond held by the CBG.

Table 2. The Gambia: Structural Agenda

Measures	Implementation	Status	Observation
Establish a debt management advisory committee comprising MOFEA the CBG, and relevant SOEs, and hold quarterly meetings. Enhance monitoring and coordination to avoid recurrence of arrears.	End-July 2017	Not Met	Implemented with delay. First meeting held on September 18 2017.
Enhance the timely and comprehensive provision and monitoring of debt data by establishing a back-up system.	End-March 2018		
Finalize audits of all SOEs and the CBG (with donor support).	End-March 2018		Finalization of the audits will be delayed beyond the current program period due to a procurement challenge.
Prepare up-to date position on financial status and contingent liabilities of key SOEs, and regularly monitor SOE operations and fiscal risks.	End-December 2017	Met	
Issue a clear definition of payment arrears, and clearly defined procedures for their monitoring and validation.	End-September 2017	Not Met	Implemented with delay in December 2017 after resolution of methodological differences with the Accountant General.
Compile an inventory of existing payment arrears, and cross-arrears between government and SOEs; define and approve a strategy for reducing the existing stock, and start implementing it at an appropriate pace (total of the expenditure arrears/3 years).	End-March 2018		In progress
Set up a Cash Management Committee (CMC) to oversee determination of the NDB requirement, and approve and monitor implementation of the consolidated government cash plan.	End-July 2017	Not Met	Implemented with delay. First meeting held on September 18 2017.
The CBG should develop a policy for opening and closing accounts to align it with the Public Finance Act of 2014, **including proper authorization by the Accountant General's Department of MOFEA.**	End-July 2017	Not Met	Implemented in December 2017, as agreed with Safeguards team; and suggest clarification in description (highlighted in bold) to align with the safeguards recommendation.
Start publishing detailed monthly budget execution data, including all extra-budgetary spending, on the MoFEA's website no later than 6-weeks after execution to foster greater fiscal transparency and monitoring.	End-September 2017	Met	The data is being regularly published on MoFEA website.
Establish additional procedures adopted by MoFEA to ensure all government expenditures and revenues are entered through IFMIS.	End-December 2017	Met	
Prepare a complete inventory of all government and other public sector bank accounts at the CGB and commercial banks.	End-September 2017	Met	List of accounts has been prepared. CBG and Accountant General's Department to identify dormant and active accounts, and make decision on dormant accounts.
Prepare an action plan to restore the Treasury single account.	End-March 2018		In progress. Draft action plan has been prepared with technical assistance support to the Accountant General.
The CBG to draft amendments to the CBG Act to align with leading practices for central banks particularly in the areas of autonomy, credit to government, governance and oversight, and audit mechanisms.	December 2017	Not Met	Substantial progress has been made and revised Act has been drafted. Agreed with Safeguards team to allow additional time to ensure quality.
Submit draft amendments to the CBG Act to the National Assembly, in coordination with the Ministry of Justice and the MOFEA.	March 2018		

Attachment II. Technical Memorandum of Understanding

Introduction

This memorandum sets out the understandings between the Gambian authorities and the staff of the International Monetary Fund (IMF) regarding the definitions of quantitative indicative targets, and structural benchmarks that will be used to monitor under the staff-monitored program (SMP) covering the period of April 2017 to March 2018. It also sets out the related reporting requirements and describes the adjusters that will be applied to certain quantitative targets of the program.

Quantitative Targets

A. Net Domestic Borrowing of the Central Government

1. **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, on-lending of the RCF to the budget, as well as changes in the balances of the project accounts listed in Table 1 will be excluded.

2. **Adjuster: The quarterly NDB targets for each quarter will be adjusted downward/upward by the excess/shortfall of the dalasi equivalent of the total budget support grants and loans received in that quarter relative to the program forecasts for the quarter as specified in the table below.** In the event that budget support is lower than programmed, upward adjustment of the net domestic borrowing may not exceed 472 million GMD.

Program Forecasts of External Budget Support Grants and Loans in 2017-18
(Flow in each quarter, in millions of US dollars)

June 2017	September 2017	December 2017	March 2018
0	66.80	7.0	0

3. Supporting material: Reporting on net domestic borrowing will form part of the consolidated budget report described in paragraph 25 below.

B. Net Domestic Assets of the Central Bank

4. 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.

5. 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 March 2017: 45.39 GMD/USD, 1.07 USD/EUR, 1.25 USD/GBP, 1.00 USD/CHF, 1.36 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 March 2017, and then into dalasi at the rate listed above. These are accounting exchange rates only and should not be construed as projections.

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 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

7. 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.

8. 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 5 above.

9. Adjuster: The quarterly NIR targets for each quarter will be adjusted downward/upward by the US dollar equivalent of the shortfall/excess of total budget support grants and loans received in that quarter relative to the program forecasts for the quarter as specified in the table above.

10. 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.

11. 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

12. Definition: External payment arrears are external payments due but unpaid. Under the program the government agrees not to accumulate external payment arrears on its debt, except arrears arising from obligations being renegotiated with external creditors, including bilateral non-Paris Club creditors. No accumulation of new external arrears by the government is a benchmark, to be observed continuously.

13. 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

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

15. 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**

[1] To be considered concessional under this arrangement, a loan should have a grant element of at least 35 percent, calculated using the discount rate as 5 percent.

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

16. Definition: **This target refers to the stock of outstanding external public debt with original maturity of one year or less, owed or guaranteed by the public sector.**[2] 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.

17. 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

18. 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.

19. Supporting material: Reporting on new central bank credit to the government at nonmarket terms will form part of the monetary sector data described in paragraphs 27 and 28 below.

H. Poverty-Reducing Expenditures

20. 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

[2] The term "debt" has the meaning set forth in point No 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt, adopted by the Executive Board of the IMF o August 3, 1979 (Decision No. 6230-(79/140), as amended by Decision No. 14415-(09/91). "Domestic debt" is defined as debt denominated in Gambian dalasi, while "external debt" is defined as debt denominated in any currency other than the Gambian dalasi.

Cross-Cutting Programmes; ICT Research and Development; Decentralization and Local Government Capacity Building; Governance and Civil Service Reform Programme.

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

Other Data Requirements and Reporting Standards

22. 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:

I. Prices

23. 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.

J. Government Accounts Data

24. 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, the primary and the basic balance; and (vi) details of budget financing (including net domestic and net external borrowing and their components).

25. 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.

K. Monetary Sector Data

26. 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 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.

27. 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.

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

L. Treasury Bill Market and Interbank Money Market

29. 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.

30. 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.

M. External Sector Data

31. The CBG will also forward within four weeks of the end of each month, data on transactions in official reserves.

32. 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.

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

34. 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.

35. 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.

N. Public Enterprises' Data

36. The MOFEA will forward within four weeks of the end of each month, data on monthly cash flow of NAWEC, GNPC, GAMTEL, GAMCEL, GCAA, SSHFC and NFSPMC.

37. The MOFEA will forward within four weeks of the end of each month, data on the stock of consolidated Central Government's stock of payment arrears to NAWEC at the end of each month.

O. Concessional External Debt Contracted or Guaranteed by the Central Government

38. The MOFEA will forward, within four weeks of the Central Government contracting or guaranteeing any new domestic or external loan, the loan's terms and conditions including disbursement schedule, interest rate, grace period, maturity, interest and principal payment schedule.

39. For existing loans, the MOFEA will provide on a loan-by-loan basis, within four weeks of the Board discussion of the SMP, the outstanding disbursed stock, disbursement schedule, and interest and principal payment schedule.

Table 1. The Gambia: List of Projects Accounts at the CBD Excluded from the Calculation of NDB

ACCOUNT NUMBER	PROJECT ACCOUNT NAME
1101004067	NATIONAL AGRICULTURAL LAND & WATER MANAGEMENT DEV. PROJECT (NEMA)
1103002218	BUILDING RESILIENCE TO RECURRING FOOD INSECURITY IN THE GAMBIA IDB COMPONENT
1101005064	AGRICULTURAL VALUE CHAIN PROJECT (GCAV)
1101004689	BUILDING RESILIENCE AGAINST FOOD & NUTRITION INSECURITY IN THE SAHEL PROJECT.
1101004483	GAMBIA COMMERCIAL AGRICULTURE VALUE CHAIN PROJECT.
1101004201	FOOD & AGRICULTURE SECTOR DEV. PROJECT. FASDEP
1103001613	BILINGUAL EDUCATION SUPPORT PROJECT
1101003606	DEV. OF THE UNI. OF THE GAMBIA PROJECT.
1101003709	AFRICA CENTRE OF EXCELLENCE (ACE)
1103001974	RESULTS FOR EDUC. ACHIEVEMENT & DEV. (READ)
1101000832	RURAL WATER & SANITATION PROJECT
1103001754	TRANS GAMBIA CORRIDOR PROJ.
1103000685	GLOBAL FUND MALARIA GRANT
1101003864	GEF PROJ. IMPLEMENTATION IN THE GAMBIA UNIDO/GEF 5 PROJ. MNGMNT. OFFICE
1101004304	IFMIS ADDITIONAL FINANCING PROJ.
1101004988	INST. SUPPORT ECON/FIN GOV (ISEFG) III PROJ.
1101004902	NDEMBAN ULTRA MODERN TVET CENTRE PROJ.
1201200015	LIVESTOCK DEVELOPMENT PRJ
1201200228	UNICEF PRIMARY EDUC. PRJ
1201200252	ENERGY INFRASTRUCTURE (ROC)
1201200371	IDA 3RD EDUC. PHASE 11 GLF

Table 1. The Gambia: List of Projects Accounts at the CBD Excluded from the Calculation of NDB (concluded)

ACCOUNT NUMBER	PROJECT ACCOUNT NAME
1201200399	PROJ. IMPL.MNGMT A/C PIMA
1201200434	LIVESTOCK H/DEVELOPMENT PROJ
1201200451	WORLD BANK DEV. POLICY OP ACCO
1201200491	IFMIS PHASE II
3201200360	SDF (EDMDP) PRJ
3201200361	SDF (EDMDP) CREDIT FUNDS
3201200363	IDA 3RD EDUC. PHASE II
3201200403	INST. SUPPORT ECON/FIN GOV A/C
3201200483	IDB SUPPORTED MALARIA PROJECT
3201200486	IFMIS II
3201200495	GCP
3201200290	GLOBAL FUND/ MALARIA
9201200436	GOLBAL FUND/HIV
3201200497	GLOBAL FUND/ TB
3201200400	PROJ. IMPL. MNGMT A/C PIMA

Annex I. External Sector Assessment

The external position of The Gambia in 2016 was moderately weaker than implied by fundamentals and desirable policy settings. While the external position deteriorated sharply at the beginning of 2017, in large part this reflects temporary shocks, and an improvement is to be expected as these shocks unwind. Reserves had fallen to very low levels by the end of 2016, but the CBG have subsequently taken actions to begin rebuilding gross reserves to more prudent levels.

A. Current account and Exchange Rate

Figure 1. Current Account Balance (% of GDP)

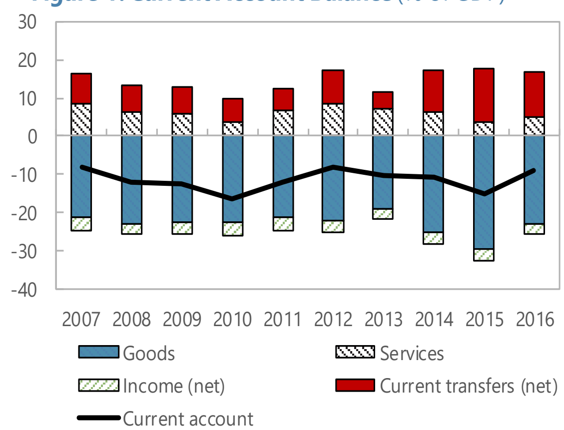
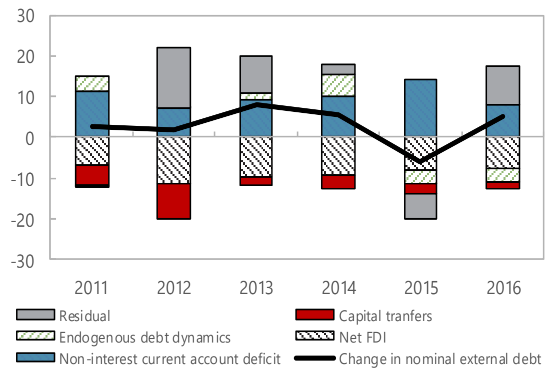


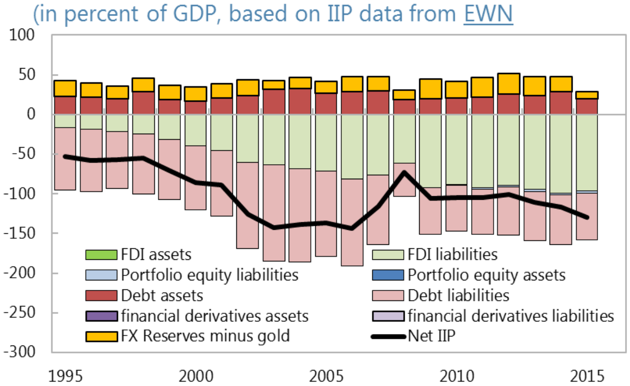
Figure 2. Drivers of External Debt accumulation
(% of GDP)



The Gambia's balance of payments has been characterized by persistent current account deficits, financed by a mix of external debt, inward FDI and project grants. The current account has averaged -10.9% over the past five years (Figure 1), reflecting a large deficit on the goods balance, partially offset by tourism income, foreign remittances, and aid inflows. Financing has mostly stemmed from a mix of inward FDI, project grants, and debt accumulation (Figure 2), resulting in a gradually deteriorating external balance sheet which has provoked debt sustainability concerns (Figure 3).

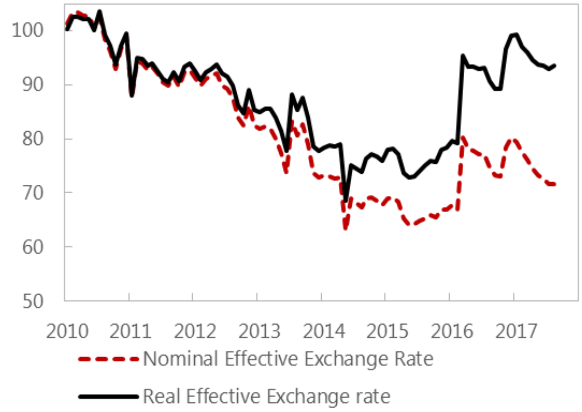
The current account balance improved substantially in 2016. The trade balance accounted for most of this improvement, thanks largely to reduced goods imports (in part reflecting the impact of declines in commodity prices) but also a rebound in tourism revenues. However, a confluence of (mostly transitory) negative shocks including a weak cash crop harvest, the loss of revenue due to political turmoil at the height of the tourism season, and higher commodity prices, look set to cause a deterioration in 2017, even after accounting for improvements in the second half of the year.

Figure 3. IIP Composition, by Instrument
(in percent of GDP, based on IIP data from EWN



Source: Lane and Milesi-Ferretti's External Wealth of Nations Dataset, IMF WEO

Figure 4. Exchange Rate Developments
(Index 2010=100, increase is appreciation)



The CBG currently operates a flexible exchange rate policy, but in the past government exchange rate directives have limited this flexibility. Most recently, a directive introduced in November 2016 required commercial banks to sell 15 percent of any foreign exchange purchases to the CBG and established a reference rate to guide foreign exchange transactions. However, the 15 percent surrender requirement was rescinded in May, and subsequently foreign currency transaction volumes have recovered to more normal levels.

The Gambian Dalasi depreciated substantially in both real and nominal terms between 2008 and early 2015, but has stabilized more recently (Figure 4). A series of foreign exchange rate directives in 2015-16 limited the influence of market forces on the real exchange rate over this period, but inflows from development partners have helped stabilize the exchange since these measures were withdrawn earlier this year. The real exchange rate is currently broadly in line with its average level in 2016.

The assessment of the external position builds on the External Balance Assessment for developing and emerging economies (EBA-lite[1]). The EBA-lite methodology includes three approaches:

- The **current account (CA) approach** indicates that the real effective exchange rate was overvalued. This model estimates a current account "norm" based consistent with fundamentals and desirable policies, based on a panel regression. Under this methodology, the current account was 2.1 percent weaker than the "norm" in 2016, largely reflecting the need for substantially tighter fiscal policy in the medium term. Based on an estimated elasticity of the current account to the real exchange rate of -0.23, this implies that the REER was 9.4 percent overvalued.

[1] Methodological Note on EBA-Lite.

- The **external sustainability (ES) approach** also suggests that the real exchange rate is somewhat overvalued. This approach calculates the projected current account that would stabilize the net international investment position (Net IIP) at a benchmark level. Given the weak initial net IIP position, and concerns around external debt sustainability, an improvement in net foreign assets would be desirable in the long term. In light of this, returning net IIP to -101 percent, the 1995-2015 average, would imply a current account norm of -10.6 percent, relative to the reference value of -14.1 percent. Based on the estimated REER elasticity, this implies that the real exchange rate was 15.6 percent overvalued.[2]

- The **equilibrium real exchange rate (ERER) approach** instead suggests that the RER is substantially undervalued. This model uses estimates from a panel regression to determine the real exchange rate consistent with fundamentals and desirable policies. This approach implies an undervaluation of 15.4 percent. However, the fit of the model has been very poor for The Gambia, persistently suggesting undervaluation in the range 15-20 percent since 2013, despite large current account deficits and a substantial deterioration in the external balance sheet over this period (Figures 1, 2). In part, this is because the model associates high real interest rates over this period with an increase in domestic risk-free rates (and hence the equilibrium REER) whereas high risk premia, which have declined more recently, were probably the more significant factor. As a result, less weight is placed on the results of this approach.

Table 1. EBA-Lite Assessment Results

	(1) Current Account Approach	(2) External Sustainability Approach	(3) Equilibrium REER Approach
		(Percent of GDP)	
Current account reference[1]	-8.9	-14.1	
Current account 'norm'	-6.8	-10.6	
Current account gap	-2.1	-3.5	
Of which: policy gap	-.3.3		
		(Percent)	
Real exchange rate gap[2]	9.4	15.6	-14.4
Of which: policy gap	6.8		7.3

Source: IMF staff estimates.

[1]For current account approach, 2016 value; for external sustainability approach, 2022 value.

[2]Positive numbers indicate overvaluation. Elasticity of current account to real exchange rate gap is -0.23.

[2] Alternatively, assuming a benchmark for net IIP of -74 percent%, the level achieved after the completion point of the HIPC initiative, would imply a current account norm of -9.0 percent%, and real exchange rate overvaluation of 22 percent.

Overall, Gambia's external position is weaker than implied by fundamentals and desirable policy settings. The current account is assessed to be around 1-3 percent below the estimated norm, implying exchange rate overvaluation of 8-10 percent. As such, the government's planned policy mix, including an ambitious medium-term fiscal consolidation, bringing down domestic real interest rates as pressure in government bond markets abates, and avoiding the FX directorates that have caused distortions in the past, should go some way to addressing the weakness of the external position.

B. Reserve Adequacy

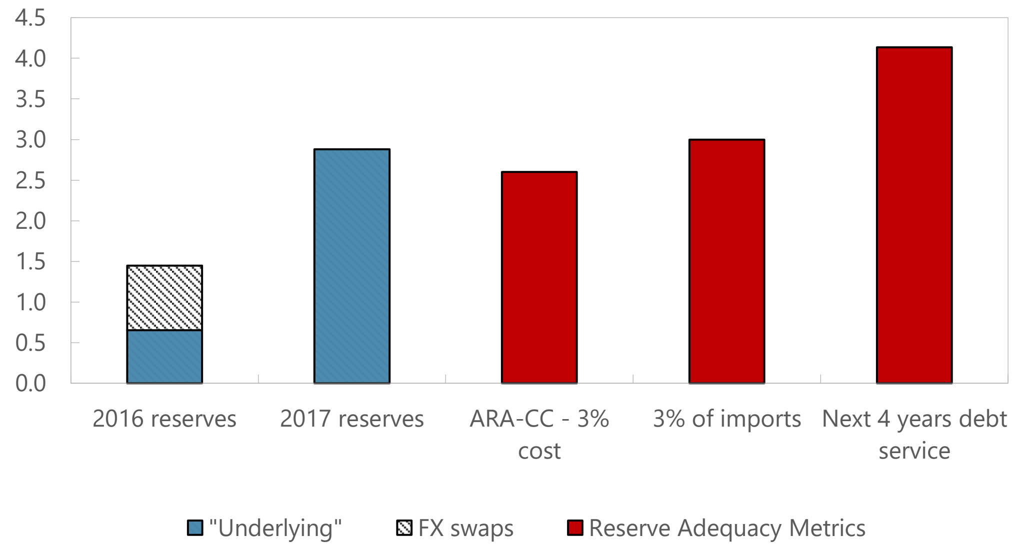
The Gambia's gross international reserves have rebounded in 2017, after falling to very low levels. By end-2016, gross reserves had fallen to $60mn (1.8 months of imports), and even this level was bolstered by $33mn of short-term (91 day) FX swaps with domestic commercial banks. Net usable reserves were even lower, at $19.8mn (0.6 months of imports). However, with the removal of FX restrictions, the CBG have begun to reaccumulate reserves this year, and have committed to gradually unwinding these (expensive) FX swap arrangements. Disbursements of budget support from the EU, IMF and World Bank, have further bolstered reserves more recently, with gross reserves reaching $168mn by end-August (approx. $140mn net of FX swaps). While reserves fell back to $144mn (2.9 months of imports) by the end of 2017 as external debt service needs picked up and the authorities unwound their FX swaps, they are expected to resume a gradual upward trend in 2018.

An application of The Fund's approach to assessing reserve adequacy in credit-constrained economies (ARA-CC)[3] to The Gambia implies relatively modest reserve needs. In this approach, an "optimal" level of reserves is estimated that would equalize the opportunity cost of holding reserves with the marginal benefit, in terms of reduced probability and cost of large balance of payments shocks. Assuming an opportunity cost of reserves of 3 percent, the estimated "optimal" level of reserves for The Gambia under the ARA-CC approach is 2.6 months of import cover (a higher cost estimate of 5 percent would result in a requirement of just 1.9 months) (Figure 5). However, these needs would be much higher under a fixed exchange rate regime (8 months at 3 percent cost, 5 months at 5 percent cost), underscoring the benefits for the authorities of their intention to avoid the FX directives (fixing the exchange rate at above-market rates) which have drained reserves in the past.

However, a broader assessment of The Gambia's reserve needs suggests a larger buffer would be desirable. External debt service needs over the next four years (estimated at $172mn) are very substantial, suggesting that it would be prudent to build additional buffers over this period. Furthermore, Gambia's small size, vulnerability to drought and other-weather related shocks, and high reliance on food imports for subsistence are further factors in support of a higher target.

[3] "Assessing Reserve Adequacy—Further Considerations," IMF Policy Paper 2013.

Figure 5. Gross International Reserves and Adequacy Metrics
(months of imports)



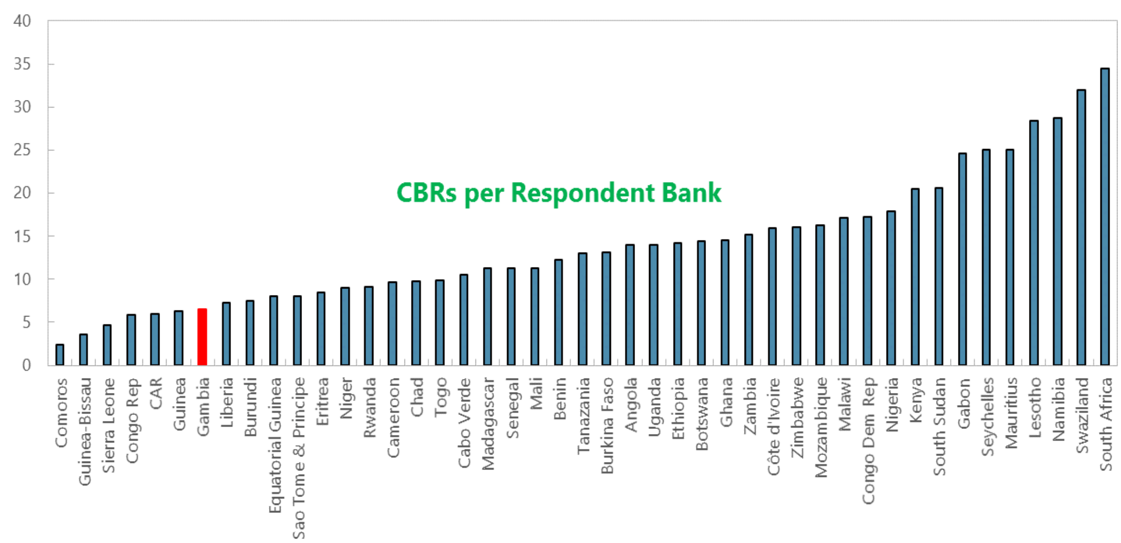
Reserves covering 4-5 months of imports should provide an appropriate buffer against shocks. This result is broadly aligned with the CBG's medium-term target for reserve levels, although it will take some time for the authorities to reach this benchmark.

Annex II. Correspondent Banking Relations for The Gambia

The loss of correspondent banking relationships (CBRs) that facilitate payments for international trade in goods and services and financial transactions on a cross-border basis have been under stress globally and across the Sub-Saharan Africa (SSA) region. The Gambia is a country with sizeable economic and social fragilities, burdensome debt vulnerabilities and with a high reliance on trade, tourism and remittances - the additional loss of CBRs could undermine the recovery in economic activity and growth as well as the implementation of national development priorities.

In the case of the Gambia, the concern is the growing vulnerability stemming from a reduction in the availability of active CBRs (global, direct and nested) for Gambian respondent banks with global correspondent banks. The growing concentration risk in terms of reduced number of CBRs per respondent bank was significantly worse for the Gambia in 2017 than most SSA countries (Figure 1). Many of the drivers of CBR withdrawal are the same for SSA countries, such as lack of profitability, relatively low volumes, and concerns over weaker AML/CFT controls in local banks. However, Gambia-specific risks have increased also due to the sizeable sovereign-bank nexus, elevated sovereign debt vulnerabilities and the high likelihood of fiscal shocks. Global correspondent banks have also raised the issue of weak risk management at foreign bank subsidiaries as a factor in loss of CBRs.

Figure 1: CBR Concentration in SSA[1]

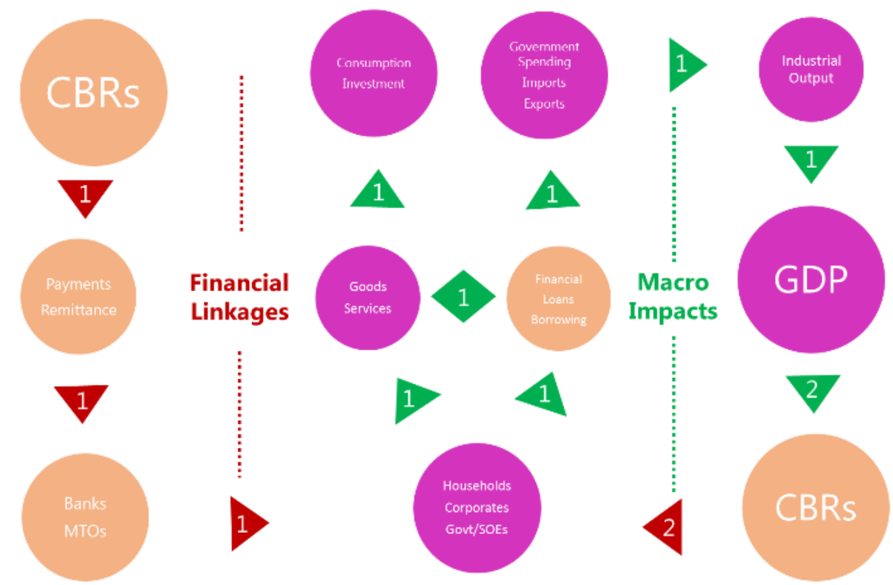


Source: Banker's Almanac, Staff estimates

[1] CBRs per respondent bank are averages for each country derived from each individual respondent bank's correspondents in each of the SSA countries. Some banks in the country will have either a greater or lesser number of correspondents than the average depicted here.

The loss of CBRs would likely unleash adverse growth impacts through macrofinancial linkages between the financial sector (banks/money transfer organizations (MTOs)) and the real sector. Fewer CBRs would result in fewer payment transactions, impacting bank and MTO balance sheets (Figure 2). This would inhibit their ability to meet their clients' (households, corporates, governments and SOEs) transaction needs, reducing purchases of goods and services and loan provisions and further reducing consumption, investment, government spending, trade and remittances. Lower GDP growth could potentially feed-back to further reduce CBRs and lower profits for banks/MTOs, higher NPLs and reduced payment availability, leading to further second round effects. So far, The Gambia has avoided such systemic macrofinancial impacts as alternative CBRs have been found, but at a greater cost and growing payment network concentration risks. The alternative CBRs remain more fragile as payment chains are now longer necessitating greater due diligence by final global correspondent banks while the intermediary correspondent banks are lower credit-rated and riskier.

Figure 2: Macrofinancial Linkages of CBR Loss



THE GAMBIA

March 7, 2018

2017 ARTICLE IV CONSULTATION AND FIRST REVIEW UNDER AND EXTENSION OF THE STAFF-MONITORED PROGRAM WITH THE GAMBIA—DEBT SUSTAINABILITY ANALYSIS[1]

Approved By
Roger Nord and Zuzana Murgasova (IMF), and Paloma Anos-Casero (IDA)

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

An updated debt sustainability analysis (DSA) indicates that The Gambia is currently at high risk of external debt distress. Both external and domestic debt are very high, and a significant pipeline of already-contracted loans poses risks to solvency. While external debt stock indicators have deteriorated since the June 2017 DSA, and all five external debt burden indicators breach their indicative thresholds in the baseline, the external debt service indicators have improved in the near-term, and the level of external concessional financing in place has increased. The outlook for total public debt and public gross financing needs has also improved, the latter significantly. However, vulnerabilities are substantial: the stress test results illustrate the country's high vulnerability to shocks, total public debt is expected to remain elevated throughout the projection period, rollover risks associated with the short maturity of domestic debt are significant, and contingent liabilities related to SOE debt pose additional risks. Space for any new borrowing is very limited, and would need to be on highly concessional terms and reserved for the very highest priority projects for which grant-financing is not available. The government should carefully contain fiscal risks and refrain from contracting any large guarantees that add to an already high level of public and publicly guaranteed debt. The donor conference

[1] The DSA update was prepared by IMF and World Bank staff in collaboration with the authorities of The Gambia. The analysis updates the previous Joint DSA dated June 13, 2018 (IMF Country Report No. 17/179). For the purpose of defining debt burden thresholds under the Debt Sustainability Framework (DSF), The Gambia is classified as a weak policy performer. The Gambia's average rating on the World Bank's Country Policy and Institutional Assessment (CPIA) for the period 2014-16 is 3.00. The corresponding indicative thresholds are: 30 percent for the NPV of debt-to-GDP ratio; 100 percent for the net present value (NPV) of debt-to-exports ratio; 200 percent for NPV of debt-to-revenue ratio; 15 percent for the debt service-to-exports ratio; and 18 percent for the debt service-to-revenue ratio.

planned for later in the year should focus on raising grants to fund the NDP and reduce debt vulnerabilities, and on improving the terms of existing project financing.

BACKGROUND

1. **The Gambia's public and publicly guaranteed (PPG) external debt level is high.** As of end-2016, external debt had risen to 56.5 percent of GDP (Text Table 1). The creditor base is dominated by multilateral creditors (70 percent), with a significant share owed to so-called 'plurilateral' creditors, most notably the Islamic Development Bank. Non-Paris Club bilaterals (28 percent) are the other major creditor category, with only a small amount owed to members of the Paris Club. Central government domestic debt is also very high (text table 2), and the large share of T bills and short-maturity debt mean that rollover risks are significant.

Text Table 1. The Gambia: Structure of PPG External Public Debt at end-2016

		Percent of	
	$US millions	Total External Debt	GDP
Total	**544.7**	**100.0**	**56.5**
Multilateral creditors	**382.4**	**70.2**	**39.6**
IMF	40.1	7.4	4.2
IDA	53.6	9.8	5.6
AfDB	53.7	9.9	5.6
Other Multilaterals	235.0	43.1	24.4
Of which: Islamic Development Bank	120.4	22.1	12.5
Of which: Arab Bank for Economic Development in Africa	41.9	7.7	4.3
Of which: OPEC Fund for Internation Development	28.7	5.3	3.0
Bilateral Creditors	**162.3**	**29.8**	**16.8**
Paris Club	9.8	1.8	1.0
Non Paris Club	152.5	28.0	15.8
Of which: Kuwait Fund for Arab Economic Development	41.0	7.5	4.3
Of which: Export-Import Bank of India	29.0	5.3	3.0
Of which: Saudi Fund for Development	24.4	4.5	2.5
Other Borrowing	**0.0**	**0.0**	**0.0**

Sources: Gambian authorities; and IMF Staff.

Text Table 2. The Gambia: Structure of Domestic Debt at end-2017

		Percent of	
	GMD millions	Total Domestic Debt	GDP
Total	**28,388**	**100.0**	**60.0**
Marketable debt	**16,402**	**57.8**	**34.7**
T-bills	14,195	50.0	30.0
held by Banks	10,840	38.2	22.9
held by Non Banks	3,354	11.8	7.1
Bonds	2,208	7.8	4.7
held by Banks	1,551	5.5	3.3
held by Non Banks	657	2.3	1.4
Non-marketable debt	**11,986**	**42.2**	**25.3**
CBG Bond (30-Year)	10,420	36.7	22.0
Restructured NAWEC bond	1,566	5.5	3.3

Sources: Gambian authorities; and IMF Staff.

2. External debt accumulation was rapid in 2017. The latest data suggest that external indebtedness at end-2017 will be about US$111 million (11 percent of GDP) higher than projected in June 2017, reflecting a revision to the 2016 debt stock following a reconciliation exercise with external creditors (4 percent of GDP), and a rapid ramp-up of project execution in the last year (7.1 percent of GDP).

3. There is a large pipeline of previously contracted debt (Text Table 3), and accelerated project execution will push up further on debt accumulation in the near-term (Figure 1). The Gambia has a pipeline of almost $350 million in undisbursed amounts on existing (more than half of which are concessional) loan facilities contracted prior to the RCF/SMP in 2017, the vast majority of which were signed under the previous regime. The authorities expect high project execution to continue in 2018 and 2019, with US$136 million (12.2 percent of GDP) forecast to disburse over this period. Cumulatively, project loan disbursements are expected to be 10 percent of GDP higher over 2018-23 than in the June 2017 DSA. Given the risks posed by this large pipeline, a careful review of the existing project portfolio is appropriate, and mechanisms to avoid cost-over-runs should be put in place. However, these higher near-term project disbursements are expected to be offset by lower budget support borrowing requirements (by 14.4 percent of GDP) over that period, and by lower project disbursements beyond 2023.

Text Table 3. The Gambia: Pipeline of Already-contracted Debt

	Disbursement Pipeline (USD mn)	
	Total undisbursed at end-2017[1]	Projected disbursements for 2018-19
IDA	50.9	6.0
AfDB	12.8	3.6
Other multilaterals	142.3	77.7
Non-Paris Club Bilateral	144.1	48.8
Total	350.0	136.1

Sources Gambian authorities and IMF Staff.

[1] Based on end-2016 undisbursed, and estimated 2017 disbursements

4. There has been a step-up in donor support since the summer, and The Gambia has opened discussions with its external creditors regarding a potential debt restructuring. Subsequent to the issuance of the June 2017 DSA, staff were informed of commitments of additional support from Multilateral Development Banks, and received assurances of highly concessional support from some of The Gambia's major official bilateral creditors. Pledged grant commitments over the period 2018-20 are already significant, and a donor conference planned for later in 2018 will provide an opportunity to mobilize further grants to fund the authorities' recently launched National Development Plan, and to seek improved financing terms on existing projects to help foster debt sustainability. Saudi

Arabia signed an agreement to restructure The Gambia's loans in January 2018,[2] and discussions with other bilateral creditors regarding a possible debt restructuring are also ongoing, with the Paris Club secretariat offering to play a coordinating role.

5. **The economy has begun to recover following the sharp growth slowdown in 2016, and the political situation has stabilized.** For 2017 overall, a recovery has been under way and economic growth is projected at 3.5 percent. While the agricultural season may turn out not as good as initially hoped for, tourism bookings for the ongoing high season are strong. Port congestion as well as other anecdotal evidence indicate a strong rebound in trade supported by much improved foreign exchange supply and relations with Senegal, and there is keen interest from foreign direct investors in energy, tourism, agriculture and transportation. Headline inflation has declined from 8.8 percent in January 2017 to 6.4 percent in January 2018, the Dalasi has stabilized and gross international reserves increased to 2.9 months of import cover at end-2017.

6. **Conditions in the domestic debt market have improved markedly.** Average T-bill rates have fallen sharply, from 17.5 percent in October 2016 to around 6 percent in early 2018, as increased donor support, fiscal consolidation and a pick-up in revenues helped the government to drastically reduce domestic borrowing. With market conditions more favorable, the authorities issued 3 and 5-year bonds for the first time, an important step in their strategy to extend domestic maturities. Restructuring of the government-guaranteed domestic NAWEC bond was completed, and the central government has now fully assumed the servicing of the restructured instrument.

7. **Debt management, monitoring and recording capacity is low.** Developing the capacity to project disbursements more reliably and conduct timely and accurate debt recording will be critical if The Gambia is to successfully manage its debt vulnerabilities going forward. An IMF-World Bank TA mission in 2017 provided the authorities with assistance in developing a medium-term debt strategy consistent with sustainability, and implementation and regular review of this strategy will be important to contain risks. Building on this, US AID will also be providing broader TA in this area based on an assessment of the current regulatory framework, institutional framework, strategies, policies and processes, and staff capacity related to debt management. The authorities have also requested World Bank TA to assist them in formulating a Debt Management Reform Plan, which will be undertaken in May 2018.

DEBT COVERAGE

8. **The updated DSA includes all public and publicly guaranteed external debt.** SOEs domestic and unguaranteed external debts are not included in the baseline DSA, except where they are already serviced by the government (the NAWEC bond). However, deficiencies remain in the government's information on the extent and terms of SOE debts, including non-guaranteed external debts, a situation which may be remedied by the planned special audits of SOEs. A tailored contingent

[2] The restructuring provides an NPV haircut of 10 percent, and amounts to a rescheduling of principal payments falling due in 2018-21, at an average maturity of 15 years and at a grant element of 40 percent.

liability shock in the public DSA assumes that responsibility for servicing the entire known stock of SOE debt, estimated at 11 percent of GDP (lower than in June 2017, following the inclusion of the NAWEC bond in central government debt).

BASELINE ASSUMPTIONS

9. The assumptions underpinning the DSA are those of the baseline scenario of the Staff Report (Text Table 4):

- Real GDP growth is estimated at 2.2 percent in 2016 and 3.5 percent in 2017, reflecting weak agricultural output, foreign exchange scarcity and the impact of the political turmoil on tourism early in the year. Growth is expected to accelerate next year (Text Table 4), driven by the lagged effect of the pick-up in public investment in 2017, and by increased domestic activity associated with these investment projects[3], greater credit availability along with lower nominal and real interest rates as public borrowing declines, growing FDI and the rebound in tourism and trade.As public investment falls back, longer-term growth is expected to stabilize at 4.8 percent, in line with the June 2017 DSA.

- The substantial fall in domestic interest rates in 2017 is reflected in 2017, but over the projection period domestic real rates rise slightly to an average of 2 percent.

- The current account deficit is expected to widen in the medium term, reflecting the high import content of public investment, while the fiscal outlook has improved somewhat, thanks in large part to the projected increase in budget support grants.

- Pledges for increased budget support grants (Text Table 5) have been reflected in the period 2017-20. As in the June 2017 DSA, concessional loan-financed budget support (with a grant element of 35 percent) is assumed to be available to plug any remaining financing gaps. Project grant commitments in the near-term have also increased, but total grants are expected to fall back to 4 percent of GDP by 2022, and more gradually thereafter.

- Disbursements on the substantial pipeline of existing project loans are incorporated, based on the contractual terms; an average grant element of 54 percent from major multilaterals, 29 percent from plurilaterals, and 38 percent from bilateral creditors. There are no disbursements on *new* external project loans in 2018-25. From 2026 onwards, disbursements on new project loans, with an assumed grant element of 35 percent, increase gradually to around2 percent of GDP.

[3] The public investment-realism tool developed in "IMF, Review of the Debt Sustainability Framework for Low Income Countries" (October, 2017) would imply a mechanical impact of the higher public investment profile of 2.7 percent by 2023, and 3 percent by 2030.

Text Table 4: Selected Macroeconomic Indicators

	2015	2016	2017	2018	2019	2020	2021	2022	2023	15-year average[1]
Real GDP Growth (percent)										
Current DSA: baseline	4.3	2.2	3.5	5.4	5.2	4.9	4.8	4.8	4.8	4.8
Current DSA: upside	4.3	2.2	3.0	5.7	7.0	7.5	7.4	7.1	6.7	5.6
Previous DSA[2]	4.3	2.2	3.0	3.5	4.0	4.5	4.8	4.8	4.8	4.8
CA deficit (percent of GDP)[3]										
Current DSA: baseline	15.0	8.9	14.3	18.4	16.9	14.4	13.2	14.1	13.6	15.2
Current DSA: upside	15.0	8.9	16.0	21.2	22.4	20.9	19.2	19.4	18.3	16.6
Previous DSA	15.0	8.9	9.4	12.0	13.0	13.4	13.1	12.0	8.0	8.0
Exports of goods and services growth (percent)[4]										
Current DSA: baseline	-9.5	5.0	-6.0	16.9	9.3	9.0	8.2	8.0	6.5	6.5
Current DSA: upside	-9.5	5.0	-6.0	16.2	11.4	12.7	10.8	10.7	11.5	7.7
Previous DSA	-9.5	5.0	-6.0	13.3	8.8	9.3	8.1	8.6	10.2	7.2
Imports of goods and services growth (percent)[4]										
Current DSA: baseline	11.3	-10.2	23.2	20.5	3.2	0.9	4.0	4.4	6.1	6.2
Current DSA: upside	11.3	-10.2	27.2	22.1	10.3	6.0	5.6	5.7	7.6	6.3
Previous DSA	-9.9	10.3	10.9	10.1	8.5	9.5	10.5	11.5	12.5	6.5
Public investment (percent of GDP)										
Current DSA: baseline	6.2	6.4	14.8	17.0	13.3	10.0	8.6	8.3	8.0	7.8
Current DSA: upside	6.2	6.4	16.7	17.4	17.9	17.3	16.8	16.4	14.8	9.1
Previous DSA	6.2	6.4	6.5	7.2	6.9	6.9	6.6	6.5	6.8	6.0
Overall fiscal deficit[5]										
Current DSA: baseline	8.1	9.8	3.9	0.8	1.7	1.2	-0.3	0.6	0.0	-0.3
Current DSA: upside	8.1	9.8	6.0	-1.0	2.1	1.6	1.2	1.8	2.8	0.2
Previous DSA	8.1	9.8	2.6	3.6	3.0	2.7	1.7	1.1	0.9	2.8

[1] Defined as the simple average of the last 15 years of the projection (2023-37).
[2] June 2017 (Debt Sustainability Analysis)
[3] Includes worker's remittances
[4] In current dollar terms, including re-exports.
[5] Includes re-exports and grants.

Text Table 5: Baseline external financing assumptions
(Percent of GDP)

	2018	2019	2020	2021	2022	2023	2024-30	2031-37
Budget Support loans[1]	0.0	0.0	0.1	0.3	0.3	0.3	0.1	0.0
Project loans	7.1	5.1	3.5	2.9	2.6	2.4	1.2	1.7
Already-signed	*7.1*	*5.1*	*3.5*	*2.9*	*2.6*	*2.4*	*0.6*	*0.0*
New Projects	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.6*	*1.7*
Total loans	**7.1**	**5.1**	**3.6**	**3.2**	**3.0**	**2.7**	**1.3**	**1.7**
Budget Support grants	5.2	4.3	3.6	3.7	1.9	1.8	1.7	1.5
Pledged	*5.2*	*4.3*	*3.2*	*2.3*	*0.0*	*0.0*	*0.0*	*0.0*
Unpledged	*0.0*	*0.0*	*0.4*	*1.4*	*1.9*	*1.8*	*1.7*	*1.5*
Project grants	*8.0*	*5.7*	*3.3*	*2.6*	*2.4*	*2.4*	*2.1*	*1.8*
Already-signed	*3.1*	*1.2*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Pledged	*4.8*	*4.5*	*2.4*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Unpledged	*0.0*	*0.0*	*0.8*	*2.6*	*2.4*	*2.4*	*2.1*	*1.8*
Total grants	**13.2**	**10.0**	**6.9**	**6.2**	**4.3**	**4.2**	**3.8**	**3.3**
memo: June 2017 DSA Budget Support loans [1]	*3.6*	*3.7*	*3.6*	*2.8*	*2.0*	*1.2*	*1.1*	*1.1*
memo: June 2017 DSA Project loans	*3.5*	*2.7*	*2.3*	*1.6*	*1.5*	*2.0*	*1.7*	*1.8*
memo: June 2017 DSA Budget Support grants	*3.8*	*3.1*	*2.4*	*1.9*	*1.5*	*1.5*	*1.0*	*0.6*
memo: June 2017 DSA Project grants	*1.7*	*1.7*	*1.7*	*1.7*	*1.7*	*1.5*	*1.1*	*0.6*

Source: Gambian authorities, World Bank, AfDB, EU, and IMF calculations
[1] Determined by government's remaining financing gap

ALTERNATIVE SCENARIO

10. Given The Gambia's significant development needs, recently launched National Development Plan, and an upcoming donor conference, we also examine an alternative scenario featuring higher levels of external support. Any further scaling-up of investment will need to be accompanied by a careful strategy to contain and significantly reduce existing debt vulnerabilities. This scenario features official bilateral debt restructuring, an improvement in the terms of the existing project pipeline, and increased project grants consistent with the total envelope for the authorities' NDP. The key elements of the scenario, include:

- All existing bilateral debts are rescheduled, based on the terms agreed by Saudi Arabia in January 2018: a rescheduling of amounts falling due over the next four years at a 15 year maturity and with a grant element of 40 percent. Although this rescheduling only has a modest impact (2 percent of GDP) on the PV of external debt, it creates space to retire expensive domestic debt over the next four years, reducing the government's debt service burden going forward.

- For loans in the existing pipeline with a grant element of less than 50 percent, it is assumed that all bilateral and plurilateral creditors agree to adjust the terms to increase the average grant element to 50 percent.[4]

- High levels of government investment persist for much longer than in the baseline scenario, with the public investment rate remaining close to 15 percent of GDP until 2024, and remaining above baseline levels throughout. Total new external project support (in addition to the existing pipeline) reaches $1.8 billion over the period 2018-32, consistent with the overall envelope for the authorities' latest national development plan, although spread over a much longer period, reflecting implementation and absorption constraints.

- Higher investment generates positive impacts on GDP growth, with spillovers to trade and inward investment. GDP growth accelerates to 6 percent in 2020 before falling back gradually to a higher trend of 5.3 percent. Imports surge in the near-term, reflecting the direct impact of higher government investment, but further out, exports, imports, and inward FDI are all boosted by improved infrastructure and the stronger economy.

[4] This could be achieved at the international donor conference, through a combination of reducing interest rates, extending maturity and grace periods, and substituting grants for loans. If such a softening in terms cannot be achieved, then the authorities' may need to seek to delay the implementation of these existing projects to make room for any higher priority projects.

- External investment financing is assumed to be drawn entirely in the form of grants. Space for any new borrowing is very limited, and would need to be on highly concessional terms and reserved for the very highest priority projects for which grant-financing is not available. Space for any other borrowing during this period (even on highly concessional terms) would need to be created by either softening the terms on or delaying (or cancelling) existing project loans.

DSA RESULTS

11. While external debt stock indicators have deteriorated further since the June 2017 DSA, and all five external debt burden ratios breach their indicative thresholds in the baseline scenario, the external debt service indicators have improved in the near-term (Figure 1). The PV of PPG external debt-to-GDP increased to 46 percent in 2017, 8 percent higher than projected in the June 2017 DSA, and 16 percent above the threshold. The PV of debt-to-exports and PV of debt-to-revenue also show large breaches (113 percent, and 34 percent, respectively), and while all three solvency indicators are on a downward path, the PV of debt-to-GDP and PV of debt-to-exports remain above threshold levels until 2026 and 2027, respectively. Initial breaches for the debt service indicators are smaller and both indicators fall below the thresholds in 2021, although there is a further small breach (by 0.6 percent) of the debt service-to-revenue threshold in 2025.

12. Increased donor support, and the normalization of domestic financing conditions, has eliminated near-term external financing gaps and should allow the authorities to meet debt service obligations in the next few years. In the absence of further shocks, the high level of grant support already committed by development partners, including the World Bank, African Development Bank and EU, should allow the authorities to service their debts in the next few years. In the updated baseline, the government is expected to begin paying down domestic debt in 2018, and the significant external financing gaps in the first few years of the June 2017 DSA (which were assumed to be filled by external bilateral financing) have been eliminated. Lower domestic interest rates have reduced the burden of domestic debt, and the continuation of the government's strategy to extend the maturity of domestic debt should mitigate rollover risks.

13. The stress test results underscore The Gambia's high vulnerability to external shocks (Figure 2). All five indicators show very large breaches under the stress tests, and remain above threshold levels for most (or all) of the projection period. The shock with the biggest effect across all five indicators is the combination shock, reflecting The Gambia's multiple sources of vulnerability, and the frequent occurrence of large shocks in recent years.

14. While the shift to greater reliance on grant financing from development partners is appropriate, debt sustainability would be brought back into question if these grants did not materialize. The substantial grants pledged by development partners in the early years of projection will be conditional on strong policy implementation by the authorities, and while grants are assumed to fall back in the later years, the Gambia will remain reliant on both budget support and project

grants to fund development well-beyond the horizon for which assurances have so-far been received.

15. The Public DSA underscores vulnerabilities arising from the high level and short maturity of domestic debt (Figure 3), but the outlook for public debt and public gross financing needs has improved since the June 2017 DSA., the latter significantly. While the PV of total public debt increased further in 2017 (Figure 1), higher grant inflows, the recovery of the economy and improved conditions in the domestic debt market are expected to result in a faster debt reduction than in the June 2017 DSA, though public debt is still expected to remain above the benchmark until 2027. These developments, coupled with the authorities' efforts to extend domestic maturities, have resulted in a significantly improved outlook for public gross financing needs (Figure 1), although debt service remains high in absolute terms. Furthermore, risks from the contingent liabilities of SOEs remain substantial, and their materialization would result in a further deterioration in the debt burden indicators.

16. The elevated solvency indicators are also mitigated somewhat by relatively high remittances, and the likely downward-impact of an upcoming GDP rebasing. Gross worker's remittances are large (9.7 percent of GDP) and relatively reliable, and constitute an important additional source of FX revenue. Furthermore, an upcoming rebasing of GDP, which will incorporate a greater share of activity and which the authorities expect to complete later this year, is likely to result in a reduction in the ratio of total and external debt-to-GDP, although the magnitude of this change is uncertain.

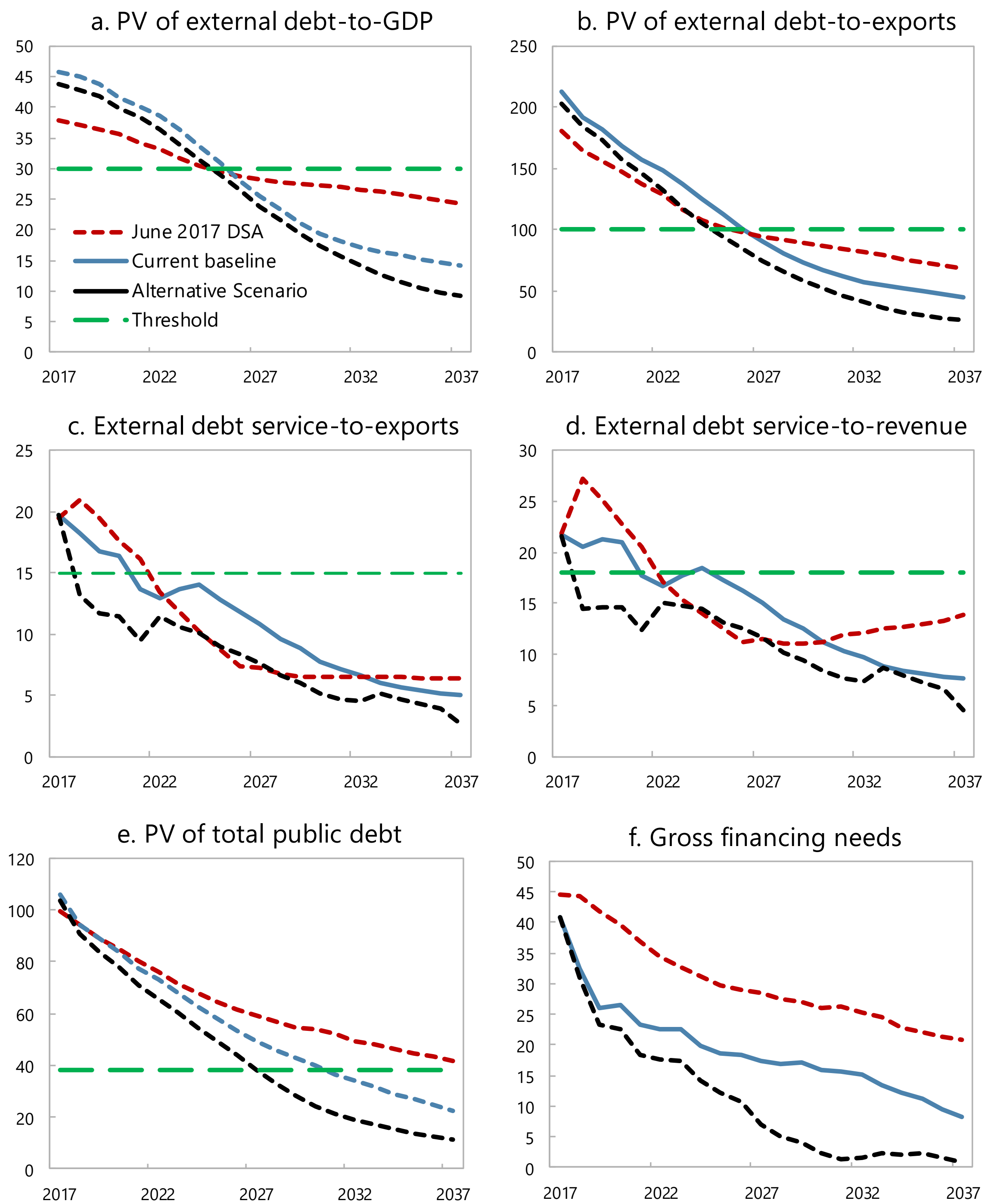
17. Under the 'alternative scenario, debt vulnerabilities could be significantly reduced (Figures 4 and 5). The debt service indicators would immediately fall below their relevant thresholds, and remain at manageable levels throughout the projection period. The initial PV of external debt would also fall (by 2 percent of GDP), although the pace of external debt reduction would remain similar to the baseline. However, The PV of total public debt (Figure 5) would be reduced more rapidly, and the reduction of domestic debt in the early years would reduce gross financing needs further (Figure 1).

18. Based on the external debt burden indicators, the current DSA finds that The Gambia is at 'high' risk of external debt distress. All external debt burden indicators breach their thresholds for an extended period, indicating that risks will remain elevated for some time. However, debt service indicators have improved, and the level of grant support in place has increased.

19. There are also significant risks stemming from domestic debt, and overall public debt sustainability is on a "knife edge". The overall level of public debt is expected to remain high throughout the projection period, and rollover risks associated with the short maturity of domestic debt are significant. As a result, in the near-term even small shocks could leave Gambia unable to meet its financing needs and/or put debt on an unsustainable path. Space for any new borrowing is very limited, and would need to be on highly concessional terms and reserved for the very highest priority projects for which grant-financing is not available. The government should carefully contain

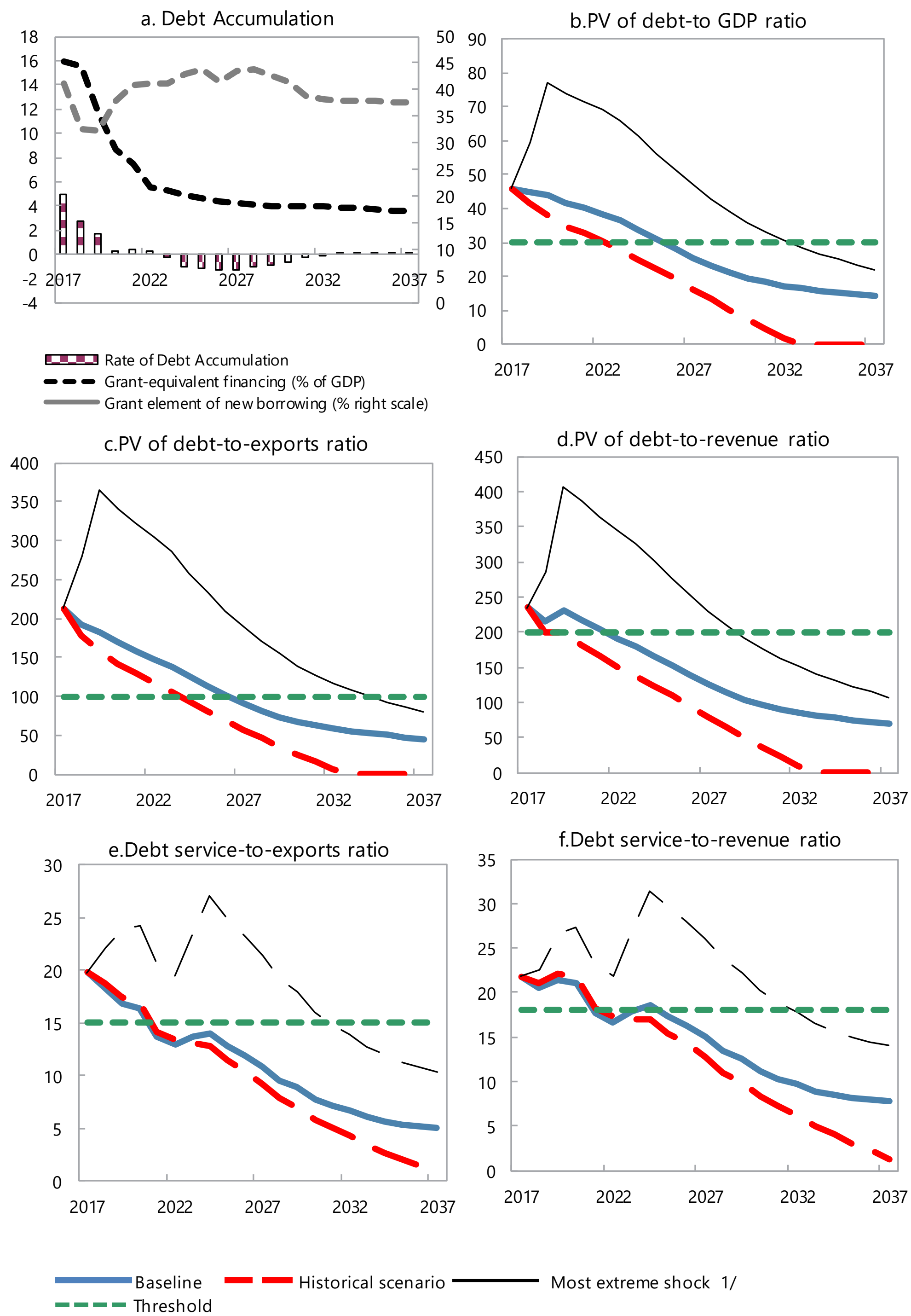
fiscal risks and refrain from contracting any large guarantees that add to an already high level of public and publicly guaranteed debt.

Figure 1. The Gambia: External and Public Debt Sustainability Indicators in the Updated Baseline Scenario, Alternative Scenario, and the June 2017 Baseline



Sources: Country authorities; and staff estimates and projections.

Figure 2. The Gambia: Indicators of Public- and Publicly-Guaranteed External Debt under Baseline Scenario and Stress Tests, 2017-37[1]



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2027. 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 Combination shock; and in figure f. to a Combination shock

Table 1. The Gambia: External Debt Sustainability Framework, Baseline Scenario, 2017-37[1]

(Percent of GDP, unless otherwise indicated)

	Actual			Historical [6/] Average	Standard [6/] Deviation	Projections									
	2014	2015	2016			2017	2018	2019	2020	2021	2022	2017-2022 Average	2027	2037	2023-2037 Average
External debt (nominal) 1/	**61.5**	**55.5**	**60.4**			**66.7**	**66.3**	**65.5**	**64.6**	**63.8**	**63.0**		**48.6**	**30.5**	
of which: public and publicly guaranteed (PPG)	58.4	51.4	56.6			63.2	62.1	60.1	57.6	55.3	53.2		35.5	20.2	
Change in external debt	5.4	-6.0	4.9			6.3	-0.4	-0.9	-0.9	-0.8	-0.8		-3.3	-1.2	
Identified net debt-creating flows	6.1	2.8	-2.9			4.0	6.2	4.4	1.6	0.1	0.6		1.3	5.9	
Non-interest current account deficit	**10.2**	**14.1**	**8.1**	**10.5**	**2.9**	**13.5**	**17.7**	**16.2**	**13.4**	**12.5**	**13.4**		**13.5**	**16.8**	14.6
Deficit in balance of goods and services	19.3	25.7	17.9			27.8	31.9	29.5	26.2	24.9	23.8		23.9	26.4	
Exports	29.2	24.7	24.0			21.6	23.5	24.0	24.7	25.4	26.0		28.3	31.4	
Imports	48.5	50.4	41.9			49.3	55.3	53.5	50.9	50.3	49.9		52.2	57.8	
Net current transfers (negative = inflow)	-11.3	-13.9	-11.9	-8.4	3.1	-16.3	-16.1	-15.1	-14.3	-14.2	-12.3		-12.1	-11.4	-11.9
of which: official	-2.3	-1.9	-0.8			-5.2	-5.2	-4.3	-3.7	-3.7	-1.9		-2.2	-1.8	
Other current account flows (negative = net inflow)	2.2	2.2	2.1			2.1	1.9	1.8	1.5	1.7	1.9		1.6	1.8	
Net FDI (negative = inflow)	**-9.2**	**-8.2**	**-7.5**	**-8.7**	**1.4**	**-8.3**	**-8.9**	**-9.3**	**-9.8**	**-10.2**	**-10.6**		**-10.3**	**-9.7**	-10.1
Endogenous debt dynamics 2/	**5.1**	**-3.0**	**-3.4**			**-1.3**	**-2.6**	**-2.4**	**-2.0**	**-2.2**	**-2.2**		**-1.9**	**-1.3**	
Contribution from nominal interest rate	0.7	1.0	0.7			0.7	0.8	0.8	1.1	0.8	0.7		0.5	0.2	
Contribution from real GDP growth	-0.5	-2.5	-1.1			-2.0	-3.4	-3.2	-3.0	-2.9	-2.9		-2.4	-1.5	
Contribution from price and exchange rate changes	5.0	-1.6	-3.0			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**-0.7**	**-8.8**	**7.8**			**2.3**	**-6.6**	**-5.2**	**-2.5**	**-0.9**	**-1.4**		**-4.6**	**-7.1**	
of which: exceptional financing	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	46.1			49.3	49.3	49.1	48.7	48.6	48.4		38.6	24.4	
In percent of exports	...	...	192.3			228.7	209.9	204.7	197.2	191.5	185.9		136.2	77.6	
PV of PPG external debt	**...**	**...**	**42.3**			**45.8**	**45.0**	**43.8**	**41.7**	**40.0**	**38.6**		**25.5**	**14.1**	
In percent of exports	**...**	**...**	**176.4**			**212.6**	**191.9**	**182.5**	**168.7**	**157.7**	**148.1**		**90.1**	**45.0**	
In percent of government revenues	**...**	**...**	**230.5**			**234.2**	**215.6**	**231.5**	**217.2**	**203.4**	**190.8**		**125.0**	**69.5**	
Debt service-to-exports ratio (in percent)	**14.2**	**14.7**	**10.7**			**19.8**	**18.3**	**16.8**	**16.4**	**13.7**	**13.0**		**10.8**	**5.0**	
PPG debt service-to-exports ratio (in percent)	**14.2**	**14.7**	**10.7**			**19.8**	**18.3**	**16.8**	**16.4**	**13.7**	**13.0**		**10.8**	**5.0**	
PPG debt service-to-revenue ratio (in percent)	**22.5**	**18.4**	**14.0**			**21.8**	**20.5**	**21.3**	**21.0**	**17.7**	**16.7**		**15.0**	**7.7**	
Total gross financing need (Millions of U.S. dollars)	79.4	110.0	66.1			133.2	176.9	171.9	155.3	161.0	195.0		322.8	547.3	
Non-interest current account deficit that stabilizes debt ratio	4.8	20.1	3.1			7.2	18.1	17.0	14.2	13.2	14.2		16.8	18.0	
Key macroeconomic assumptions															
Real GDP growth (in percent)	0.9	4.3	2.2	3.6	3.3	3.5	5.4	5.2	4.9	4.8	4.8	4.8	4.8	4.8	4.8
GDP deflator in US dollar terms (change in percent)	-8.1	2.7	5.8	0.8	9.6	1.1	1.9	1.6	0.9	0.5	0.4	1.1	0.4	0.4	0.4
Effective interest rate (percent) 5/	1.1	1.8	1.4	1.7	0.3	1.3	1.3	1.2	1.8	1.2	1.2	1.3	0.9	0.7	0.8
Growth of exports of G&S (US dollar terms, in percent)	-7.7	-9.5	5.0	0.7	8.0	-6.0	16.9	9.3	9.0	8.2	8.0	7.6	6.3	6.4	6.5
Growth of imports of G&S (US dollar terms, in percent)	9.2	11.3	-10.2	3.1	9.3	23.2	20.5	3.2	0.9	4.0	4.4	9.4	6.3	6.3	6.2
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	41.2	32.6	32.3	37.8	40.8	41.2	37.7	43.4	37.6	40.4
Government revenues (excluding grants, in percent of GDP)	18.5	19.7	18.4			19.6	20.9	18.9	19.2	19.7	20.2		20.4	20.3	20.3
Aid flows (in Millions of US dollars) 7/	65.4	79.9	31.6			175.3	161.1	130.8	113.7	106.7	84.6		83.8	135.0	
of which: Grants	30.8	16.7	16.2			112.0	143.3	116.3	89.8	80.5	58.3		66.0	84.5	
of which: Concessional loans	34.7	63.2	15.4			63.3	17.8	14.5	23.9	26.2	26.3		17.8	50.6	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			16.0	15.5	11.7	8.7	7.5	5.5		4.2	3.6	4.1
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			69.8	76.6	77.1	79.5	79.8	75.9		88.0	76.6	81.7
Memorandum items:															
Nominal GDP (Millions of US dollars)	833.2	892.2	964.6			1009.5	1084.7	1158.9	1226.6	1291.6	1360.2		1749.0	2913.2	
Nominal dollar GDP growth	-7.3	7.1	8.1			4.7	7.5	6.8	5.8	5.3	5.3	5.9	5.2	5.2	5.2
PV of PPG external debt (in Millions of US dollars)			407.5			455.3	483.1	501.0	503.9	508.9	512.2		437.2	403.1	
(PVt-PVt-1)/GDPt-1 (in percent)						5.0	2.8	1.6	0.3	0.4	0.3	1.7	-1.2	0.2	-0.5
Gross workers' remittances (Millions of US dollars)	59.3	93.6	93.5			98.3	105.7	112.9	118.5	124.8	131.3		161.0	261.5	
PV of PPG external debt (in percent of GDP + remittances)	...	...	38.6			41.8	41.0	39.9	38.0	36.5	35.2		23.4	13.0	
PV of PPG external debt (in percent of exports + remittances)	...	...	125.6			146.4	135.6	129.8	121.3	114.2	108.1		68.0	35.0	
Debt service of PPG external debt (in percent of exports + remittance	...	...	7.6			13.6	12.9	11.9	11.8	9.9	9.4		8.2	3.9	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt. Debt values may vary marginally from those in the accompanying staff report due to exchange rate conventions.

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.

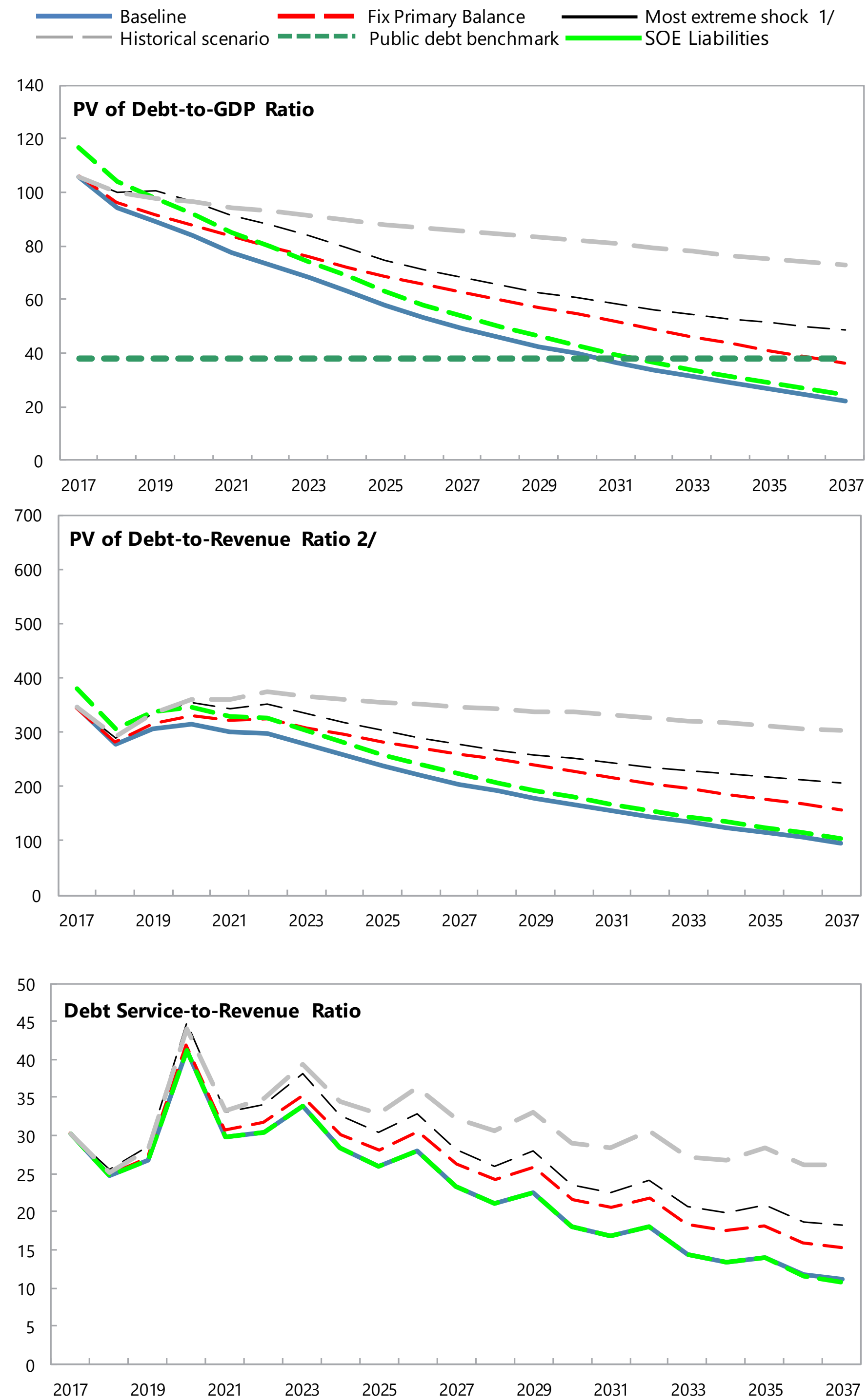
5/ Current-year interest payments divided by previous period debt stock.

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).

Figure 3. The Gambia: Indicators of Public Debt Under Baseline Scenario and Stress Tests, 2017-37[1]



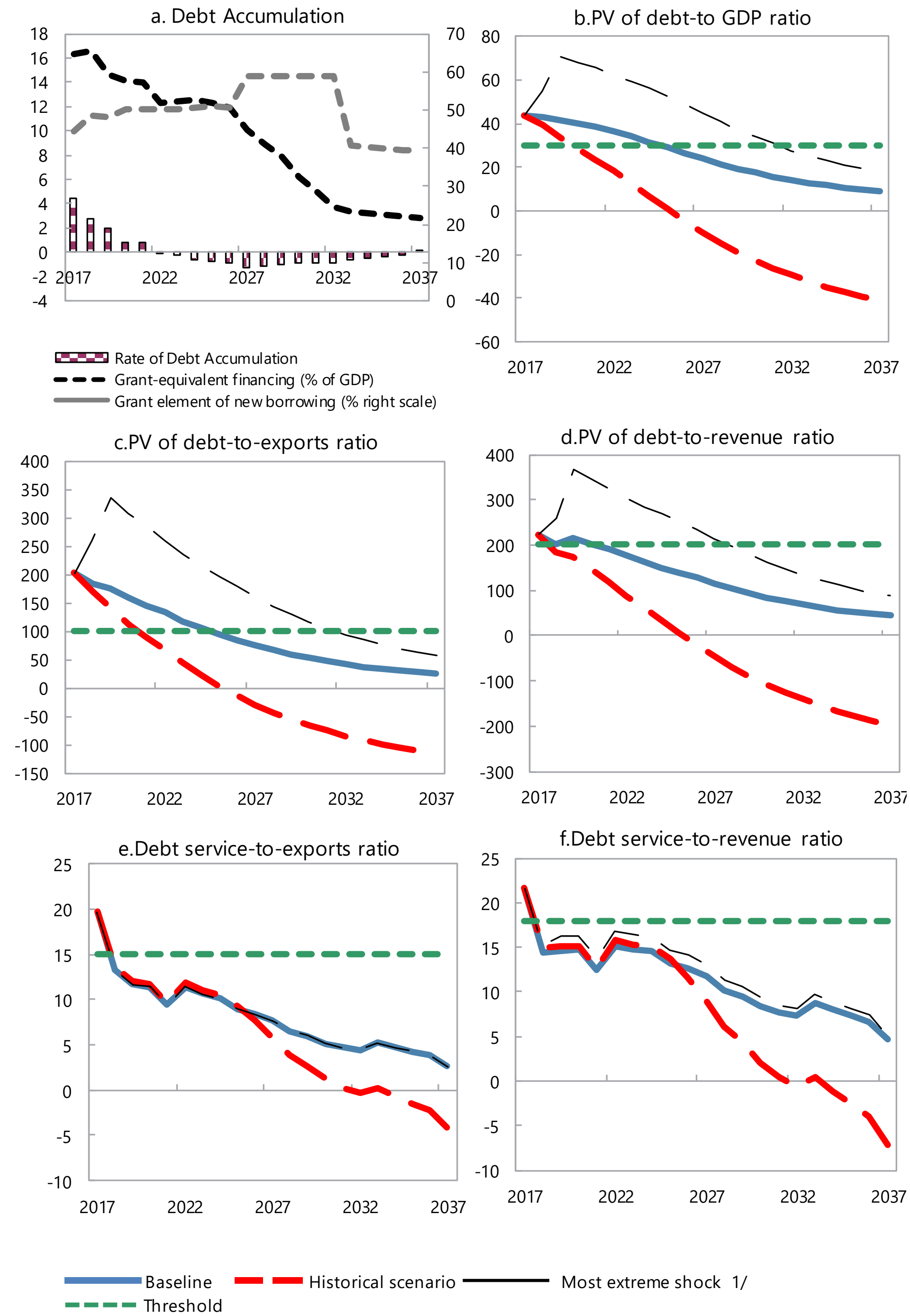
Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio on or before 2027.
2/ Revenues are defined inclusive of grants.

Table 2. The Gambia: Public Sector Debt Sustainability Framework, Baseline Scenario, 2017-37[1]

	Actual					Estimate	Projections								
	2014	2015	2016	Average[5/]	Standard Deviation[5/]	2017	2018	2019	2020	2021	2022	2017-22 Average	2027	2037	2023-37 Average
Public sector debt 1/	104.9	105.3	118.5			123.3	111.5	105.2	99.6	92.8	87.7		59.5	28.5	
of which: foreign-currency denominated	58.4	51.4	56.6			63.2	62.1	60.1	57.6	55.3	53.2		35.5	20.2	
Change in public sector debt	15.8	0.4	13.1			4.8	-11.8	-6.3	-5.6	-6.8	-5.0		-4.8	-2.4	
Identified debt-creating flows	12.9	-8.7	5.5			-4.4	-11.7	-6.8	-6.1	-6.8	-5.0		-4.8	-2.4	
Primary deficit	4.3	1.2	2.3	1.0	2.6	-0.9	-3.0	-1.7	-2.5	-3.4	-2.2	-2.3	-2.6	-1.3	-2.1
Revenue and grants	22.2	21.6	20.0			30.7	34.1	28.9	26.5	25.9	24.5		24.2	23.2	
of which: grants	3.7	1.9	1.7			11.1	13.2	10.0	7.3	6.2	4.3		3.8	2.9	
Primary (noninterest) expenditure	26.5	22.8	22.4			29.8	31.0	27.2	24.0	22.5	22.3		21.6	22.0	
Automatic debt dynamics	8.6	-9.9	3.1			-3.6	-7.0	-5.0	-3.5	-3.5	-2.8		-2.1	-1.1	
Contribution from interest rate/growth differential	1.5	0.0	1.0			-4.9	-6.9	-5.8	-4.4	-3.4	-3.7		-2.6	-1.3	
of which: contribution from average real interest rate	2.3	4.3	3.2			-0.9	-0.5	-0.3	0.5	1.2	0.5		0.4	0.1	
of which: contribution from real GDP growth	-0.8	-4.3	-2.3			-4.0	-6.3	-5.5	-4.9	-4.6	-4.3		-3.0	-1.4	
Contribution from real exchange rate depreciation	7.1	-9.9	2.2			1.3	-0.1	0.8	0.9	-0.1	0.9		...	...	
Other identified debt-creating flows	0.0	0.0	0.0			0.0	-1.7	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	-1.7	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	2.8	9.2	7.7			9.2	-0.1	0.5	0.5	0.0	0.0		0.0	0.0	
Other Sustainability Indicators															
PV of public sector debt	...	...	104.2			105.9	94.4	88.8	83.7	77.5	73.1		49.5	22.4	
of which: foreign-currency denominated	...	...	42.3			45.8	45.0	43.8	41.7	40.0	38.6		25.5	14.1	
of which: external	...	...	42.3			45.8	45.0	43.8	41.7	40.0	38.6		25.5	14.1	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	47.8	52.7	60.8			40.9	32.4	26.0	26.6	23.3	22.6		17.4	8.1	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	520.1			345.2	277.0	306.9	315.8	299.2	298.3		204.7	96.4	
PV of public sector debt-to-revenue ratio (in percent)	...	...	567.6			540.8	452.3	469.9	436.3	394.0	361.6		242.6	110.2	
of which: external 3/	...	...	230.5			234.2	215.6	231.5	217.2	203.4	190.8		125.0	69.5	
Debt service-to-revenue and grants ratio (in percent) 4/	40.5	44.4	46.0			30.2	24.8	26.7	41.2	29.8	30.3		23.4	11.1	
Debt service-to-revenue ratio (in percent) 4/	48.6	48.6	50.2			47.4	40.5	40.9	56.9	39.2	36.8		27.7	12.7	
Primary deficit that stabilizes the debt-to-GDP ratio	-11.5	0.8	-10.8			-5.7	8.7	4.5	3.1	3.5	2.8		2.2	1.1	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	0.9	4.3	2.2	3.6	3.3	3.5	5.4	5.2	4.9	4.8	4.8	4.8	4.8	4.8	4.8
Average nominal interest rate on forex debt (in percent)	1.2	1.9	1.5	1.8	0.4	1.4	1.3	1.3	1.9	1.4	1.4	1.5	1.2	1.0	1.2
Average real interest rate on domestic debt (in percent)	6.9	7.4	5.9	6.7	1.1	-0.8	0.1	1.1	1.7	1.3	1.6	0.8	2.1	2.1	2.1
Real exchange rate depreciation (in percent, + indicates depreciation	13.8	-17.3	4.3	2.2	12.9	2.4	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	6.6	6.4	7.1	5.0	1.5	8.1	5.5	4.8	4.6	4.7	4.6	5.4	4.6	4.6	4.6
Growth of real primary spending (deflated by GDP deflator, in percer	15.9	-10.2	0.3	0.7	6.3	37.8	9.8	-7.8	-7.5	-1.4	3.6	5.7	7.1	4.4	4.8
Grant element of new external borrowing (in percent)	...	...	...	...	...	41.2	32.6	32.3	37.8	40.8	41.2	37.7	43.4	37.6	...

Sources: Country authorities; and staff estimates and projections.
1/ Comprises domestically denominated central government debt, and general government external debt, gross.
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.

Figure 4. The Gambia: Alternative Scenario: Indicators of Public- and Publicly-Guaranteed External Debt Under Alternative Scenario and Stress Tests, 2017-37[1]



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2027. 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 Growth shock; and in figure f. to a Growth shock

Table 3. The Gambia: Alternative Scenario: External Debt Sustainability Framework, 2017–37[1]

(Percent of GDP, unless otherwise indicated)

	Actual			Historical [6/] Average	Standard [6/] Deviation	Projections									
	2014	2015	2016			2017	2018	2019	2020	2021	2022	2017-2022 Average	2027	2037	2023-2037 Average
External debt (nominal) 1/	**61.5**	**55.5**	**60.4**			**66.7**	**67.2**	**67.0**	**66.3**	**65.2**	**63.4**		**47.2**	**22.7**	
of which: public and publicly guaranteed (PPG)	58.4	51.4	56.6			63.2	63.0	61.7	59.4	56.9	54.0		35.1	13.4	
Change in external debt	5.4	-6.0	4.9			6.3	0.5	-0.2	-0.7	-1.1	-1.8		-4.1	-1.0	
Identified net debt-creating flows	6.1	2.8	-2.9			4.1	8.3	9.0	7.0	5.3	5.7		5.7	6.8	
Non-interest current account deficit	**10.2**	**14.1**	**8.1**	**10.5**	**2.9**	**13.6**	**19.9**	**21.7**	**20.2**	**19.2**	**19.7**		**18.5**	**17.8**	18.2
Deficit in balance of goods and services	19.3	25.7	17.9			27.8	34.0	34.8	32.9	31.5	30.0		28.5	26.6	
Exports	29.2	24.7	24.0			21.6	23.2	24.1	25.3	26.3	27.4		32.0	35.9	
Imports	48.5	50.4	41.9			49.4	57.3	58.9	58.2	57.8	57.4		60.5	62.6	
Net current transfers (negative = inflow)	-11.3	-13.9	-11.9	-8.4	3.1	-16.3	-16.1	-15.1	-14.2	-14.1	-12.2		-11.6	-10.5	-11.3
of which: official	-2.3	-1.9	-0.8			-5.2	-5.2	-4.3	-3.6	-3.6	-1.8		-2.0	-1.6	
Other current account flows (negative = net inflow)	2.2	2.2	2.1			2.1	2.0	1.9	1.5	1.8	1.9		1.6	1.6	
Net FDI (negative = inflow)	**-9.2**	**-8.2**	**-7.5**	**-8.7**	**1.4**	**-8.3**	**-8.7**	**-9.6**	**-10.4**	**-10.8**	**-11.0**		**-10.6**	**-10.0**	-10.4
Endogenous debt dynamics 2/	**5.1**	**-3.0**	**-3.4**			**-1.3**	**-2.9**	**-3.0**	**-2.8**	**-3.0**	**-3.0**		**-2.2**	**-1.1**	
Contribution from nominal interest rate	0.7	1.0	0.7			0.7	0.7	0.7	1.0	0.6	0.6		0.3	0.1	
Contribution from real GDP growth	-0.5	-2.5	-1.1			-2.0	-3.6	-3.7	-3.8	-3.7	-3.6		-2.6	-1.2	
Contribution from price and exchange rate changes	5.0	-1.6	-3.0			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**-0.7**	**-8.8**	**7.8**			**2.2**	**-7.8**	**-9.3**	**-7.7**	**-6.4**	**-7.5**		**-9.8**	**-7.8**	
of which: exceptional financing	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	44.4			47.2	47.1	47.1	46.8	46.7	45.8		36.0	18.6	
In percent of exports	...	...	185.2			218.7	202.5	195.6	185.0	177.4	167.2		112.4	51.7	
PV of PPG external debt	**...**	**...**	**40.6**			**43.7**	**42.9**	**41.8**	**39.9**	**38.4**	**36.4**		**23.9**	**9.4**	
In percent of exports	**...**	**...**	**169.3**			**202.7**	**184.4**	**173.7**	**157.7**	**145.8**	**132.7**		**74.6**	**26.1**	
In percent of government revenues	**...**	**...**	**221.2**			**222.5**	**202.0**	**216.9**	**203.2**	**191.4**	**176.4**		**114.1**	**45.4**	
Debt service-to-exports ratio (in percent)	**14.2**	**14.7**	**10.7**			**19.7**	**13.2**	**11.7**	**11.4**	**9.4**	**11.4**		**7.6**	**2.6**	
PPG debt service-to-exports ratio (in percent)	**14.2**	**14.7**	**10.7**			**19.7**	**13.2**	**11.7**	**11.4**	**9.4**	**11.4**		**7.6**	**2.6**	
PPG debt service-to-revenue ratio (in percent)	**22.5**	**18.4**	**14.0**			**21.6**	**14.4**	**14.6**	**14.7**	**12.4**	**15.1**		**11.7**	**4.6**	
Total gross financing need (Millions of U.S. dollars)	79.4	110.0	66.1			134.1	190.2	219.7	220.6	230.9	277.9		407.1	580.6	
Non-interest current account deficit that stabilizes debt ratio	4.8	20.1	3.1			7.3	19.4	21.9	20.9	20.3	21.5		22.6	18.8	
Key macroeconomic assumptions															
Real GDP growth (in percent)	0.9	4.3	2.2	3.6	3.3	3.5	5.8	5.9	6.0	5.9	5.8	5.5	5.3	5.3	5.4
GDP deflator in US dollar terms (change in percent)	-8.1	2.7	5.8	0.8	9.6	1.1	1.9	1.5	0.8	0.4	0.4	1.0	0.4	0.4	0.3
Effective interest rate (percent) 5/	1.1	1.8	1.4	1.7	0.3	1.3	1.2	1.1	1.5	1.0	1.0	1.2	0.7	0.5	0.6
Growth of exports of G&S (US dollar terms, in percent)	-7.7	-9.5	5.0	0.7	8.0	-6.0	16.2	11.3	12.5	10.6	10.5	9.2	7.5	6.7	7.7
Growth of imports of G&S (US dollar terms, in percent)	9.2	11.3	-10.2	3.1	9.3	23.4	25.0	10.5	5.7	5.6	5.5	12.6	5.3	6.1	6.3
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	44.5	48.7	48.0	50.1	50.1	50.2	48.6	58.9	39.3	50.3
Government revenues (excluding grants, in percent of GDP)	18.5	19.7	18.4			19.6	21.2	19.3	19.7	20.1	20.6		20.9	20.6	20.8
Aid flows (in Millions of US dollars) 7/	65.4	80.0	31.6			214.3	219.8	202.7	198.1	205.1	191.7		188.9	113.7	
of which: Grants	30.8	16.7	16.2			112.0	143.3	143.1	154.7	168.0	155.7		188.9	79.9	
of which: Concessional loans	34.7	63.3	15.4			102.3	76.5	59.6	43.4	37.1	36.0		0.0	33.7	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			16.3	16.6	14.7	14.1	14.0	12.3		10.1	2.9	7.1
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			71.4	82.1	84.7	89.1	91.0	90.7		100.0	82.0	93.0
Memorandum items:															
Nominal GDP (Millions of US dollars)	833.2	892.2	964.6			1009.5	1088.5	1170.2	1251.0	1330.2	1413.4		1876.2	3254.5	
Nominal dollar GDP growth	-7.3	7.1	8.1			4.7	7.8	7.5	6.9	6.3	6.3	6.6	5.7	5.7	5.7
PV of PPG external debt (in Millions of US dollars)			391.0			434.1	461.7	482.9	492.7	502.8	501.8		438.6	298.4	
(PVt-PVt-1)/GDPt-1 (in percent)						4.5	2.7	1.9	0.8	0.8	-0.1	1.8	-1.3	0.1	-0.7
Gross workers' remittances (Millions of US dollars)	59.3	93.6	93.5			98.3	106.0	114.0	120.8	128.5	136.4		167.3	271.7	
PV of PPG external debt (in percent of GDP + remittances)	...	...	37.0			39.8	39.1	38.1	36.4	35.0	33.2		21.9	8.6	
PV of PPG external debt (in percent of exports + remittances)	...	...	120.6			139.6	129.9	123.6	114.2	106.7	98.1		58.3	21.1	
Debt service of PPG external debt (in percent of exports + remittance	...	...	7.6			13.6	9.3	8.3	8.2	6.9	8.4		6.0	2.1	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt. Debt values may vary marginally from those in the accompanying staff report due to exchange rate conventions.

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.

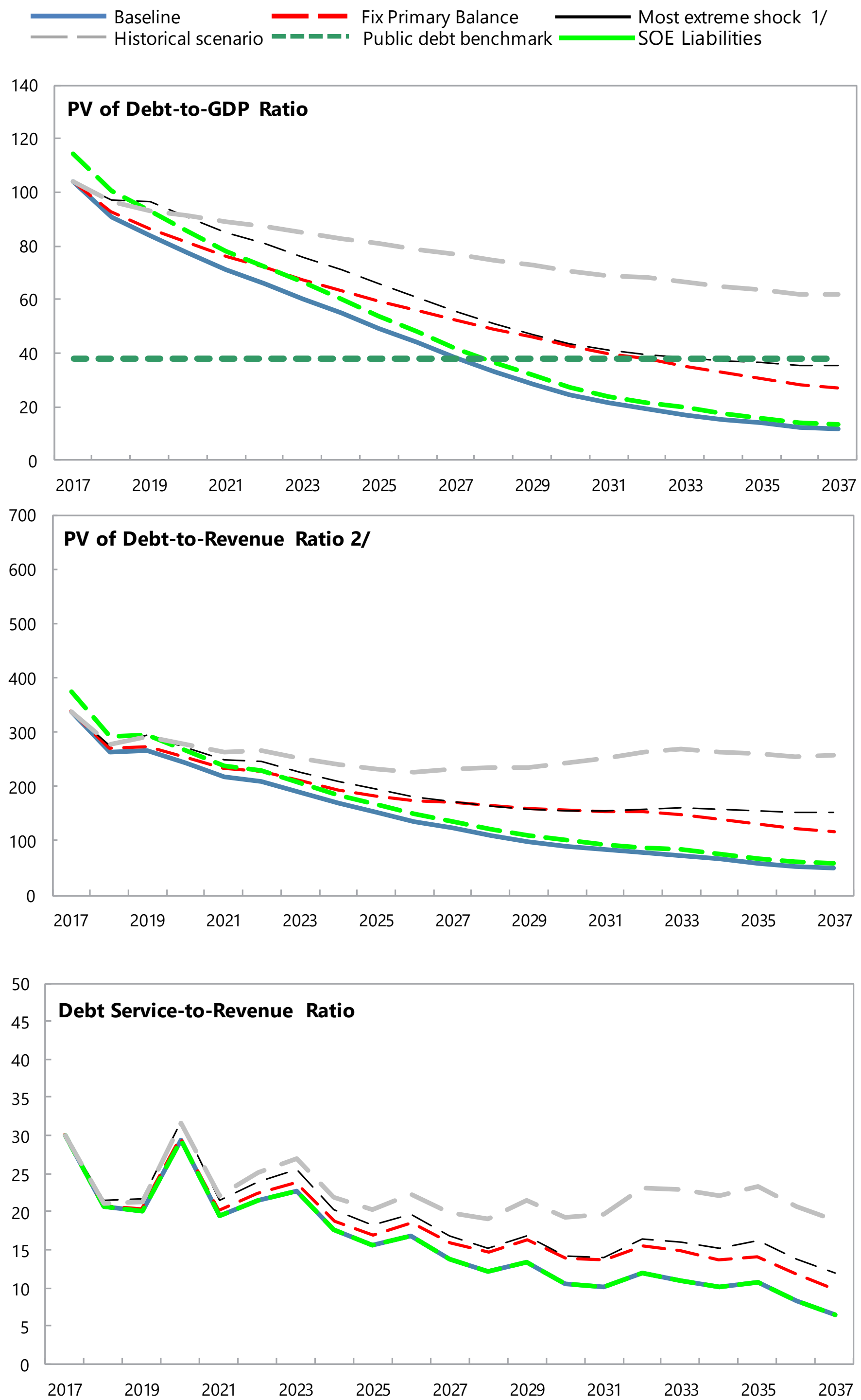
5/ Current-year interest payments divided by previous period debt stock.

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).

Figure 5. The Gambia: Indicators of Public Debt Under Alternative Scenario and Stress Tests, 2017-37[1]



Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio on or before 2027.
2/ Revenues are defined inclusive of grants.

Table 4. The Gambia: Public Sector Debt Sustainability Framework, Alternative Scenario, 2017-37[1]

	Actual					Estimate	Projections								
	2014	2015	2016	Average[5/]	Standard Deviation[5/]	2017	2018	2019	2020	2021	2022	2017-22 Average	2027	2037	2023-37 Average
Public sector debt 1/	104.9	105.3	118.5			123.3	110.9	103.9	97.1	89.5	83.5		49.3	15.6	
of which: foreign-currency denominated	58.4	51.4	56.6			63.2	63.0	61.7	59.4	56.9	54.0		35.1	13.4	
Change in public sector debt	15.8	0.4	13.1			4.8	-12.3	-7.0	-6.9	-7.6	-5.9		-7.3	-0.9	
Identified debt-creating flows	12.9	-8.7	5.5			-4.4	-12.3	-7.5	-7.3	-7.8	-5.9		-7.3	-1.5	
Primary deficit	4.3	1.2	2.3	1.0	2.6	-0.8	-3.0	-1.6	-2.6	-3.3	-2.3	-2.3	-4.8	-0.9	-2.7
Revenue and grants	22.2	21.6	20.0			30.7	34.4	31.5	32.0	32.7	31.6		31.0	23.1	
of which: grants	3.7	1.9	1.7			11.1	13.2	12.2	12.4	12.6	11.0		10.1	2.5	
Primary (noninterest) expenditure	26.5	22.8	22.4			29.9	31.3	29.9	29.4	29.4	29.4		26.1	22.2	
Automatic debt dynamics	8.6	-9.9	3.1			-3.6	-7.5	-5.9	-4.7	-4.5	-3.7		-2.5	-0.7	
Contribution from interest rate/growth differential	1.5	0.0	1.0			-4.9	-7.4	-6.7	-5.7	-4.5	-4.7		-2.9	-0.8	
of which: contribution from average real interest rate	2.3	4.3	3.2			-0.9	-0.7	-0.6	0.2	0.9	0.3		0.0	0.0	
of which: contribution from real GDP growth	-0.8	-4.3	-2.3			-4.0	-6.8	-6.2	-5.9	-5.4	-4.9		-2.9	-0.8	
Contribution from real exchange rate depreciation	7.1	-9.9	2.2			1.3	-0.1	0.8	1.0	0.0	1.0		...	...	
Other identified debt-creating flows	0.0	0.0	0.0			0.0	-1.7	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	-1.7	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	2.8	9.2	7.7			9.2	-0.1	0.5	0.5	0.2	0.0		-0.1	0.7	
Other Sustainability Indicators															
PV of public sector debt	...	...	102.5			103.7	90.8	84.0	77.6	70.9	65.9		38.0	11.5	
of which: foreign-currency denominated	...	...	40.6			43.7	42.9	41.8	39.9	38.4	36.4		23.9	9.4	
of which: external	...	...	40.6			43.7	42.9	41.8	39.9	38.4	36.4		23.9	9.4	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	47.8	52.7	60.8			40.9	30.9	23.3	22.5	18.3	17.7		7.1	0.9	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	511.6			337.5	264.0	266.7	242.4	217.0	208.3		122.8	49.9	
PV of public sector debt-to-revenue ratio (in percent)	...	...	558.3			528.1	427.7	435.9	394.8	353.5	319.7		182.0	55.9	
of which: external 3/	...	...	221.2			222.5	202.0	216.9	203.2	191.4	176.4		114.1	45.4	
Debt service-to-revenue and grants ratio (in percent) 4/	40.5	44.4	46.0			30.1	20.7	20.0	29.3	19.4	21.4		13.9	6.5	
Debt service-to-revenue ratio (in percent) 4/	48.6	48.6	50.2			47.1	33.6	32.8	47.8	31.6	32.9		20.5	7.3	
Primary deficit that stabilizes the debt-to-GDP ratio	-11.5	0.8	-10.8			-5.6	9.3	5.4	4.3	4.3	3.7		2.5	0.0	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	0.9	4.3	2.2	3.6	3.3	3.5	5.8	5.9	6.0	5.9	5.8	5.5	5.3	5.3	5.4
Average nominal interest rate on forex debt (in percent)	1.2	1.9	1.5	1.8	0.4	1.3	1.2	1.2	1.7	1.1	1.1	1.3	0.9	0.8	0.9
Average real interest rate on domestic debt (in percent)	6.9	7.4	5.9	6.7	1.1	-0.8	0.0	0.9	1.5	1.1	1.6	0.7	1.1	3.8	1.9
Real exchange rate depreciation (in percent, + indicates depreciation	13.8	-17.3	4.3	2.2	12.9	2.4	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	6.6	6.4	7.1	5.0	1.5	8.1	5.5	4.8	4.6	4.6	4.5	5.3	4.6	4.6	4.6
Growth of real primary spending (deflated by GDP deflator, in percer	15.9	-10.2	0.3	0.7	6.3	38.3	10.9	0.9	4.5	5.9	5.7	11.0	-2.9	5.0	3.4
Grant element of new external borrowing (in percent)	...	...	...	...	...	44.5	48.7	48.0	50.1	50.1	50.2	48.6	58.9	39.3	...

Sources: Country authorities; and staff estimates and projections.

1/ Comprises domestically denominated central government debt, and general government external debt, gross.

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.

INTERNATIONAL MONETARY FUND

THE GAMBIA

March 7, 2018

2017 ARTICLE IV CONSULTATION AND FIRST REVIEW UNDER AND EXTENSION OF THE STAFF-MONITORED PROGRAM WITH THE GAMBIA—INFORMATIONAL ANNEX

Prepared By | The staff of the International Monetary Fund in Consultation with the World Bank

CONTENTS

RELATIONS WITH THE FUND

(As of Jan 31, 2018)

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	62.20	100.00
Fund holdings of currency	52.91	85.06
Reserve Tranche Position	9.35	15.03

SDR Department	**SDR Million**	**% Allocation**
Net cumulative allocation	29.77	100.00
Holdings	1.07	3.06

Outstanding Purchases and Loans	**SDR Million**	**% Quota**
RCF Loans	19.44	31.25
ECF arrangements	16.76	26.89

Latest Financial Arrangements

Type	**Date of Arrangement**	**Expiration Date**	**Amount Approved (SDR Million)**	**Amount Drawn (SDR Million)**
ECF	May 25, 2012	May 20, 2015	18.66	10.89
ECF	Feb. 21, 2007	Mar. 31, 2011	24.88	22.55
ECF	Jul. 18, 2002	Jul. 17, 2005	20.22	2.89

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

	Forthcoming				
	2018	**2019**	**20120**	**2021**	**2022**
Principal	5.10	4.58	3.62	3.97	2.80
Charges/interest	0.22	0.22	0.22	0.22	0.22
Total	5.31	4.79	3.84	4.18	3.02

[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
I. Commitment of HIPC assistance	
Decision point date[1]	Dec 2000
Assistance committed (year-end 2000 NPV terms)[2]	
Total assistance (US$ million)	66.60
Of which: IMF assistance (US$ million)	2.30
SDR equivalent, million	1.80
Completion point date	Dec 2007
II. Disbursement of IMF assistance (SDR million)	
Assistance disbursed to the member	1.80
Interim assistance	0.44
Completion point balance	1.36
Additional disbursement of interest income[3]	0.49
Total disbursement	2.29

Implementation of Multilateral Debt Relief Initiative (MDRI)

MDRI-eligible debt (SDR million)[4]	9.42
Financed by: MDRI Trust	7.44
Remaining HIPC resources	1.98

Debt Relief by Facility (SDR million)

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

[1] 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.

[2] Assistance committed under the enhanced HIPC Initiative is expressed in net present value (NPV) terms at the decision point.

[3] 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.

[4] The MDRI provides 100 percent debt relief to eligible member countries that qualified for the assistance. Grant assistance from the MDRI Trust and HIPC resources provide debt relief to cover the full stock of debt owed to the Fund as of end–2004 that remains outstanding at the time the member qualifies for such debt relief.

Safeguards assessments

An update of the 2012 safeguards assessment of the Central Bank of The Gambia (CBG), completed on January 24, 2018 found that safeguards risks at the CBG have increased in recent years. The CBG faces significant capacity challenges in many areas that impact its internal control environment, including internal audit and the quality of financial reporting. In addition, excessive lending to government, in contravention of the CBG Act, compromises the bank's autonomy, and the external audit arrangements fall short of leading practices. Recommendations included: (i) amending the CBG Act to align it with leading practices for central banks; (ii) conducting the CBG audit by a local auditor and a large international audit firm with central banking experience; (iii) revising the procedures for opening and closing accounts to ensure that all required information is provided, and that transactions are properly authorized, and (iv) developing a capacity building plan. The authorities are committed to implement these recommendations.

Exchange rate arrangement

Until January 20, 1986, the Gambian currency, the dalasi, was pegged to the pound sterling at a rate of D5 = £1. On January 20, 1986, an interbank market for foreign exchange was introduced, and since then the exchange rate has been determined by market forces. Effective February 2, 2009, the classification of the de facto exchange rate arrangement has been changed from managed floating with no predetermined path for the exchange rate to floating, retroactively to April 30, 2008, due to the revision of the classification methodology. The Gambia has accepted the obligations of Article VIII, Sections 2(a), 3 and 4 and maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions, except for restrictions maintained solely for the preservation of national or international security, which have been notified to the Fund in accordance with the procedures set forth in Executive Board decision 144-(52/51). However, since end-2012, a series of presidential directives imposing fixed, overly appreciated exchange rates were issued during October 22-November 15, 2012; June 26-July 15, 2013; July 26-October 9, 2013 and more recently, on May 4 2015 to January 1, 2017. The 2012, 2013 and 2015 directives have all been rescinded.

Last Article IV consultation

The Executive Board concluded the 2015 Article IV consultation (SM/15/272) on September 18, 2015.

Technical assistance

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

Fiscal Affairs Department	
Jan 2018	TA mission on cargo inspection procedures and mentoring support to the Post Clearance Audit (PCA) Unit, ARFITAC W2
Oct 2017	TA mission on the development of a national intelligence strategy and provision of mentoring support to the intelligence and investigation unit of the GRA, AFRITAC W2
September 2017	TA mission to undertake a fiscal stress test
Aug- Sept 2017	TA mission to the GRA for development a Stakeholder Engagement Strategy and Risk Management Strategy, AFRITAC W2
August 2017	TA mission to GRA on delivery of an Induction Training Program for customs officers, ARFITAC W2
June 2017	TA mission on fiscal oversight of state-owned enterprises with AFRITAC W2
April/May 2017	TA mission to strengthen the monitoring and reporting of contingent liabilities and accounting practices on debt, contingent liabilities
July 2016	TA mission on revenue administration
February 2016	TA mission to strengthening Budget Formulation within a Medium-term Framework
April/May 2015	TA mission advised on tax expenditure budgeting and property tax evaluation.
April/May 2015	TA mission advised on the identification, management and clearance of expenditure arrears and cash management
August 2014	TA mission advised on revenue administration
February/March 2014	TA mission advised on the implementation of the Medium-Term Expenditure Framework and program based budgeting
February 2013	TA mission advised on tax policy reform options
January/February 2013	TA mission advised on reorganization of MOFEA to strengthen budget and MTEF reforms and fiscal reporting
June 2012 -	A resident advisor advised on PFM.

June 2012 -	A resident advisor advised on revenue administration.
April 2012 -	A resident advisor advised on VAT preparations and implementations.
February/March 2012	A couple of experts advised on PFM.
January/February 2012	An IMF regional advisor visited twice to provide TA on revenue administration and VAT preparations.
September 2011	A couple of experts advised on PFM (preparing a Budget Framework Paper) and on VAT preparations.
August 2011	Peripatetic expert advised on improving compliance and tax administration.
April/May 2011	TA mission advised on VAT preparations.
April 2011	TA mission reviewed the pricing formula for petroleum products.
February/March 2011	TA mission reviewed status of revenue administration reforms, including VAT implementation plans.
November/December 2010	Peripatetic expert advised on VAT preparations.
August 2010	Peripatetic expert advised on VAT preparations.
June 2010	TA mission on public financial management (PFM).
April/May 2010	TA mission advised on improvements in revenue administration and provided input into the design of tax reforms.
April 2009	TA mission advised on measures to reform the tax system.
July 2008	Peripatetic regional advisor followed up on the work of the August/September 2007 FAD mission.
	Monetary and Capital Markets Department
Feb 2018	TA mission on development of the payment systems and monetary policy analysis, AFRITAC W2
Dec 2017	TA mission on external sector statistics, ARFITAC W2
Nov 2017	TA mission on enhancing risk-based onsite supervision, ARFITAC W2
Oct 2017	Ongoing TA for FIRST Initiative Banking Supervision and Resolution
Aug 2017	TA mission on improving monetary policy analysis and monetary operations with AFRITAC W2
July 2017	TA mission to develop a medium-term debt strategy
May 2017	TA mission on enhancing risk-based onsite supervision with AFRITAC W2
April 2017	TA mission assessing the establishment of deposit insurance

April 2017	TA mission on introducing Basel II with AFRITAC W2
March 2017	TA mission on improving monetary analysis and monetary operations with AFRITAC W2
April 2017	TA mission to improve monetary policy analysis and monetary operations
Sept 2016	TA mission to enhancing risk based onsite supervision
Aug 2016	TA mission to improve monetary analysis and review of monetary policy toolkit
June 2016	Implementation of Liquidity Forecasting and Liquidity Management
Jun 2016	Regional Workshop on Basel Core Principles
Jan 2016	Enhancing Risk-Based Onsite Supervision
Sept 2015	TA mission on International Financial Reporting Standards Principles Part II
Jul 2015	TA mission on introducing International Financial Reporting Standards Principles
Jul 2015	TA mission to assess the Basel Core Principles
June 2015	TA mission on liquidity forecasting and management
May 2015	TA mission on banking supervision (offsite supervision framework)
February 2015	TA mission on banking supervision (stress testing)
March 2014	TA mission on banking supervision (manual of guidelines for regulatory returns)
March 2014	TA mission advised on monetary operations and liquidity management
April/May 2013	TA mission on banking supervision.
September/October 2012	Technical expert advised on monetary operations and liquidity forecasting.
January 2012	Technical expert advised the CBG on amending its Manual of Guidelines and Instructions to strengthen bank supervision.
September 2011	TA mission conducted stress testing and helped built capacity in this area.
February/March 2011	TA mission conducted a diagnostic assessment of the banking system.
March/April 2010	Technical expert advised the CBG on banking supervision.
January 2010	Technical expert advised on monetary operations and liquidity forecasting.
January 2009	Technical expert advised the CBG on banking supervision.

Statistics Department	
Dec 2017	TA mission on the Balance of Payments and External Sector Statistics, AFRITAC W2
Sept 2017	Ongoing TA mission on the National Accounts with ARFITAC West 2.
Aug 2017	Ongoing TA support on Producer Price Index with ARFITAC West 2
June 2017	Ongoing TA mission on the National Accounts with ARFITAC West 2.
March 2017	Ongoing TA mission on the National Accounts with ARFITAC West 2.
March 2017	TA mission on the National Accounts.
Sept 2016	Ongoing TA support on National Accounts with ARFITAC West 2.
Oct 2015	Ongoing TA support on Producer Price Index with ARFITAC West 2
June/July 2015	Mission advised on the compilation of price statistics
May 2015	TA mission on the Balance of Payments and External Sector Statistics
February 2015	Mission advised on the compilation of financial soundness indicators for the banking sector.
February/March 2015	Mission advised on economic census, national accounts and quarterly national accounts.
January/ February 2015	DfID-funded TA mission advised on the compilation of mutually consistent BOP and IIP statements.
October 2014	Mission on advised on national accounts and economic census.
October/November 2013	Mission advised on the compilation of national accounts.
July/ August 2013	Mission advised the compilation of price statistics.
February/March 2013	DfID-funded TA mission advised the authorities on improving BOP statistics.
January/February 2012	Technical expert advised on improving the compilation of price statistics.
September 2011	DfID-funded TA mission advised the authorities on improving BOP statistics.
July 2011	DfID-funded short-term expert advised the authorities on improving national accounts statistics.
March/April 2011	DfID-funded TA mission advised the authorities on improving BOP statistics.
September 2010	DfID-funded short-term expert advised the authorities on improving national accounts statistics.

August/September 2010	DfID-funded TA mission advised the authorities on improving BOP and IIP statistics.
February 2010	TA mission advised on measures to improve monetary and financial statistics.
June 2008	Fourth visit of the DfID-funded TA mission assisted the authorities in improving the compilation of national accounts statistics, particularly in rebasing the GDP series and in calculating GDP by the expenditure approach, using the results from the 2004 Economic Census.
April/May 2008	Follow-up visit of a 2006 TA mission to assist the CBG in improving the compilation of monetary and financial statistics and in preparing the standardized report forms for reporting monetary data to the IMF.
March 2008	Third visit of the DfID-funded TA mission assisted the authorities in improving the compilation of national accounts statistics, particularly in rebasing the GDP series and in calculating GDP by the expenditure approach, using the results from the 2004 Economic Census.
Others	
March and October 2017	FIN safeguards monitoring missions.
February 2012	An LEG expert held a VAT workshop for stakeholders and helped finalize the new VAT law and related background materials.
December 2011	An LEG expert helped draft the new VAT law.

Resident Representative

Ms. Ruby Randall has been the Fund's Resident Representative in The Gambia since September 2017.

JOINT BANK-FUND WORK PROGRAM

The Gambia: Joint Bank-Fund Work Program, June 2017–June 2018			
Title	**Products**	**Timing of Missions**	**Target Board Date**
A. Mutual Information on Relevant Work Program			
Bank work program in next 12 months	**Economic Management and Public Financial Management** 1. Gambia DPO series **Energy** 2. Gambia Energy Project	 May 2018 (tentative) March 2018 (tentative)	 To be determined To be determined
Fund work program in next 12 months	**Policy Advice** 1. Article IV consultation and SMP review mission 2. Staff visit 3. SMP review / ECF negotiation mission	 November-December 2017 May 2018 (tentative) H2 2018	 March 2018 To be determined
B. Requests for Work Program Inputs			
Fund request to Bank	Periodic updates on: CPIA, PFM reform, and civil service reform, SOE audits and reform.	Ongoing	
Bank request to Fund	Periodic updates on macroeconomic framework.	Ongoing	
C. Agreement on Joint Products and Missions			
Joint products in next 12 months	Joint DSA	Ongoing	March 2018

STATISTICAL ISSUES

As of February 16, 2018

I. Assessment of Data Adequacy for Surveillance
General: Data have serious shortcomings that significantly hamper surveillance but efforts are underway to improve statistics. The most affected areas are monetary and financial data, balance of payments, and external debt statistics.
National Accounts (NA): The Gambia Bureau of Statistics (GBoS) disseminated in April 2017 a set of annual GDP estimates—by activity and by expenditure approaches—for 2004-16 based on the 2006 Economic Census with 2004 as the benchmark year. Using the 2016 Economic Census (with a base year of 2015), GDP estimates of production and expenditure are to be rebased in the first half of 2018. Collaboration between stakeholders has improved somewhat and line ministries will continue to contribute to the development of sectoral statistics, particularly in agriculture, health, education, transport, and construction. The timeliness and accessibility of GDP figures remain a concern. The GBoS continues to face capacity and financial constraints to process data in a timely manner and develop quarterly estimates of GDP.
Price Statistics: The CPI weights and item basket are based on 2004 expenditures and are not therefore representative of current expenditure patterns. The GBoS planned to rebase the CPI using the results of the 2010 Integrated Household Survey and to release the rebased by January 2015 but this target was missed. The results of the 2015 (HIS) are now being finalized and the GBoS should use these data to update the CPI expenditure weights during 2018. An improved methodology for calculation of CPI elementary aggregates has been prepared and should be implemented at the time of the expenditure weights update. Once completed, these changes are expected to improve compilation significantly and to make CPI movements more reflective of the underlying price movements.
Government Finance Statistics: The authorities release data on central government transactions with a lag of about four weeks for both revenues and expenditures. With the introduction of the IFMIS in 2010, the compilation of expenditure data by functional category and by administration is now possible. However, the authorities have not yet started to make them available to the public at regular intervals, contrary to best practices. The compilation of project grant disbursements and project grant use has been a challenge, leading to financing discrepancies. Monthly data on domestic government financing are available with a delay of about four weeks.
Monetary and Financial Statistics: The Central Bank of The Gambia (CBG) reports monetary data, using Standardized Report Forms for the central bank and other depository corporations (ODCs), which are published in the *International Financial Statistics*. However, the CBG faces some data shortcomings. The CBG suspended reporting monetary data to STA in November 2015 due to capacity constraints (the latest data refer to April 2015).Although the CBG resumed reporting monetary data to STA in October 2017, there is a large gap in the historical data between May 2015 and December 2016. For some financial assets and liabilities including loans and deposits of ODCs,

economic sector and currency breakdowns consistent with the IMF's *Monetary and Financial Statistics Manual* are not available. The coverage of ODCs excludes credit institutions, deposit-taking microfinance companies and Post Office Savings banks, which issue short-term liabilities. The CBG does not currently report data for other financial corporations.
Financial sector surveillance: Data quality has improved significantly following the introduction of an automated platform for regulatory returns. This paved the way for the recent implementation of comprehensive stress tests for the first time. However, cross border exposure data for financial corporations are not available. The CBG reported Financial Soundness Indicators (FSIs) to STA in October 2016 for publication on the IMF's FSI webpage, including 11 of the 12 core indicators and 8 encouraged indicators for deposit takers. However, the CBG has not updated FSIs since then.
External sector statistics: The CBG produces quarterly balance of payments (BOP) statistics following the *Balance of Payments Manual*, 5th edition *(BPM5)*. The international investment position (IIP) is not currently compiled. The CBG recently resumed BOP data submission to STA. Other improvements included the update of the enterprise registry and the launching of report forms to real estate agencies on a quarterly basis. Despite some improvements, BOP statistics continue to be affected by serious shortcomings. All transfers inflows are classified as current transfers; however, some relate to real estate purchases by nonresidents. The foreign assets and liabilities survey (FALS) was discontinued in 2015; there is lack of reliable data sources for direct investment and other financial account transactions of other sectors. Financial account transactions of central bank and commercial banks are estimated as differences of positions without exchange rate changes adjustments; therefore, revaluations are incorrectly recorded as transactions. There is room to improve coordination within the CBG and with other agencies to make full use of available administrative data for compilation purposes, including the use of financial statements of banks and selected nonfinancial corporations and the validation of financial account transactions of the general government with external debt data of the Ministry of Finance and Economic Affairs. The production of IIP statistics, even though partial and preliminary, is key to improve and validate the quality of investment income and financial account transactions. The latest TA mission conducted in 2017 assisted on revising 2015 and 2016 BOP, resulting in lower errors and omissions and on the preparation of preliminary partial IIP statistics for 2014–2016.

II. Data Standards and Quality	
The Gambia has participated since 2003 in the General Data Dissemination System (GDDS). STA has planned a mission in March 2018 to implement the enhanced GDDS (e-GDDS).	A data ROSC was published on December 1, 2005.

III. Reporting to STA
The Gambia has suspended reporting GFS data to the *Government Finance Statistics Yearbook* from the fiscal year 2010 onwards.

The Gambia: Common Indicators Required for Surveillance

	Date of latest observation	Date received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]	Memo Items:[8]	
						Data Quality – Methodological soundness[9]	Data Quality – Accuracy and reliability[10]
Exchange Rates	06/2017	11/2017	D	W	M		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	06/2017	11/2017	W	W	M		
Reserve/Base Money	06/2017	11/2017	D	W	M	LO, LO, LO, LO	LNO, LO, O, LO, LNO
Broad Money	06/2017	12/2017	M	M	M		
Central Bank Balance Sheet	06/2017	11/2017	M	M	M		
Consolidated Balance Sheet of the Banking System	03/2017	05/2017	M	M	M		
Interest Rates[2]	06/2017	11/2017	W	W	M		
Consumer Price Index	05/2017	06/2017	M	M	M		
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	N/A	N/A				LO, LO, O, O	LNO, LO, LO, LNO, NO
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	02/2017	02/2017	M	M	M		
Stocks of Central Government and Central Government-Guaranteed Debt[5]	04/2017	04/2017	M	M	M		
External Current Account Balance	Q4/2016	06/2017	Q	I	A	LNO, LNO, LNO, LO	LNO, LNO, LNO, LO, NO
Exports and Imports of Goods and Services	12/2017	03/2017	Q	I	A		
GDP/GNP	12/2016	03/2017	A	A	A	LNO, LNO, O, LO	LNO, O, LNO, LO, NO
Gross External Debt	12/2016	04/2017	Q	I	A		
International Investment Position[6]	N/A	N/A					

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

INTERNATIONAL MONETARY FUND

THE GAMBIA

March 19, 2018

STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION; AND COMPLETION OF THE FIRST REVIEW UNDER AND EXTENSION OF THE STAFF-MONITORED PROGRAM—SUPPLEMENTARY INFORMATION

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1. **This supplement provides an update on economic and policy developments since the issuance of the staff report on March 8, 2018**. The additional information does not change the thrust of the staff appraisal.

2. **Following the issuance of the staff report, the central government of The Gambia formally assumed a large part of the debt owed by the National Water and Electricity Company (NAWEC) as part of the World Bank-supported Electricity Sector Roadmap to make NAWEC financially viable and rehabilitate the energy sector**. Under the agreement, central government formally assumes government guaranteed external loans of GMD 2.1 billion (5 percent of 2017 GDP) which staff had already included as public and publicly guaranteed external debt in the debt sustainability analysis; a government-guaranteed domestic bond of GMD 1.7 billion (4 percent of GDP) which staff had already included in central government domestic debt; and capitalized government loans to NAWEC of GMD 2.6 billion (6.3 percent of GDP), on which staff had already assumed no repayment would be received. Finally, central government assumed two unsecured loans in local currency owed to the Social Security and Housing Financing Company (SSHFC) amounting to GMD 0.8 billion (1.9 percent of GDP) which staff had included as a contingent liability of central government. The latter change will lead to slightly higher public domestic debt and debt service, and lower contingent liabilities, but does not materially alter the analysis presented in the staff report. Staff will incorporate this information when setting June and September targets during the Second Review.

Statement by Maxwell M. Mkwezalamba, Executive Director for The Gambia and Bernard Wleh Jappah, Advisor to Executive Director
March 22, 2018

1. Introduction

The Gambia continues to make significant strides in addressing long-standing economic and institutional fragilities inherited from a challenging political environment experienced over more than two decades. Since the transition to the new democratically elected government, the authorities' steadfast implementation of reforms has contributed markedly to improved macroeconomic conditions. More specifically, there have been easing of fiscal stress, abating of inflationary pressures, rebalancing the foreign exchange market, and rebuilding of reserve buffers. Nonetheless, attainment of broad-based growth remains constrained by debt vulnerability challenges, structural impediments, and protracted balance of payments (BOP) needs.

Sustaining the reform momentum requires substantial support from development partners and international financial institutions, including the Fund. Within this context, The Gambian authorities remain committed to advancing macro-critical structural reforms aimed to unlock the country's growth potential and improve economic resilience in the near and long-term. To this end, they request a six (6) month extension of the staff-monitored program (SMP) approved in June 2017, till September 2018. The extension of the SMP will also provide them with more time to establish a track record of policy implementation to transition to a program to be supported under the Extended Credit Facility (ECF) arrangement, which they desire. The economic program under the ECF arrangement will be anchored in the recently-concluded National Development Plan (2018-2021) designed to restore macroeconomic stability and build foundations for sustained socio-economic development.

2. Recent Economic Developments

Economic activity is projected to pick up to 3.5 percent in 2017, from 2.2 percent in 2016, and thereafter accelerate to 5.7 percent in 2018. The rebound in economic activity has benefitted from a recovery cycle which began in 2017, underpinned by prudent macroeconomic management in the context of the SMP, a stable political environment, and increased donor support. Going forward, buoyant activity in the agriculture and tourism sectors, reflecting renewed business confidence, coupled with infrastructure investments aimed at upgrading capacity and improving operational efficiency at the port of Banjul as well as addressing bottlenecks in energy supply and agro-processing sector, will strengthen economic growth.

Inflationary pressures have abated since January 2017, largely owing to improved fiscal discipline, stabilization of the dalasi (GMD), and decrease in food prices. The average inflation for 2018 is forecast to average 5.8 percent, from 8 percent at-end 2017. Over the medium term, inflation is projected to move towards the medium-term target of 5 percent.

Further, with the reduced pressures in the foreign exchange market, the reserves position edged up from 1.6 months of import cover at end-2016 to 2.9 months at end-2017, and is projected to reach 3.5 months at end-2018.

The Gambia continues to face considerable fiscal challenges owing largely to limited fiscal space to accommodate development expenditures, the sizable risks posed by contingent liabilities from state-owned enterprises (SOEs), and the higher risk of debt distress. To tackle these challenges, the supplementary budget for 2017 introduced adjustments to the fiscal stance, broadly in line with the SMP. The 2018 budget continues this adjustment by fostering fiscal consolidation and revamping reforms to achieve fiscal sustainability.

3. PROGRAM PERFORMANCE

The authorities are committed to deliver on the targets set under the SMP. Overall, program performance has been broadly satisfactory. Five (5) out of eight (8) indicative targets for end-June 2017 were met. The end-June targets for net domestic borrowing (NDB) and external arrears were missed by a small margin, whilst the non-market Central Bank of The Gambia (CBG) credit to the central government was missed by a large margin owing to spending pressures ahead of the disbursement of budget support. The authorities have taken remedial actions to avoid recurrence of arrears in future. All but one end-September quantitative benchmarks were met and end-December quantitative targets have also been met.

On structural reforms, all three end-June structural benchmarks (SBs) were met with a slight delay due to capacity constraints. For end-September, the authorities have met two out of three SBs. Commencement of special audits of SOEs, scheduled for end-March, have been postponed to the first quarter of 2018 due to procurement challenges as well as the need to seek funding. To ensure an effective implementation of reforms under the SMP, the authorities established an SMP Monitoring Committee in September 2017. The Committee holds bi-weekly meetings, and is chaired by the CBG Governor.

4. POLICY PRIORITIES AND REFORMS

The authorities are firmly committed to press ahead with the implementation of their reform agenda, which broadly seeks to gradually ease the structural impediments to accelerated inclusive and sustainable growth, achieve macroeconomic stability and fiscal sustainability, improve institutions, and create an appropriate set on incentives to unleash private sector development.

Fiscal Policy

The authorities' fiscal priorities for the near and medium term are geared towards fostering fiscal consolidation. These include boosting domestic revenue mobilization, accelerating expenditure rebalancing towards productivity-lifting expenditures, preserving fiscal space for social outlays, and upgrading institutional capacity for enhanced Public Financial

Management (PFM). To this end, they have undertaken decisive policy actions which have helped preserve fiscal discipline and improve fiscal transparency and accountability.

On the expenditure front, our Gambian authorities have revised FY 2017 budget expenditure estimates to generate much-needed savings of approximately 1 percent of GDP, which would culminate in the reduction in the overall fiscal deficit to 2.5 percent of GDP and ensure the target to reduce NDB to 1 percent of GDP is met. This is critical to crowding-in private sector investment, and thereby accelerating the pace of economic recovery. Further, they have streamlined current expenditures, notably the wage bill and goods and services. Through audits of the civil and uniformed services, 3,146 ghost workers have been removed from the payroll, resulting in annual savings of 0.3 percent of GDP. Furthermore, they have approved the vehicle fleet reform for senior government officials, which is projected to yield savings of 2 percent of GDP over the next three years. The authorities will also soon be concluding the sale of land and presidential planes of the previous administration, which should generate savings of 0.9 percent of GDP in 2018.

Our authorities recognize the criticality of PFM reforms in ensuring fiscal sustainability to foster social outlays and upgrade institutional capacity. With an intent to improve fiscal transparency and accountability, the authorities are pursuing audit and procurement reforms. In this context, they are committed to accelerating the rollout of audits to line ministries, and the development of a risk assessment matrix to identify institutions with high procurement risks. These reforms take into consideration steps to build capacity within the public sector to ameliorate fiscal risks to the government.

The authorities will step up ongoing efforts to tap concessional sources of financing to create room for public infrastructure investments. More importantly, their current tax initiatives are intended to encourage the return of private enterprises that re-settled in external jurisdictions as well as streamline tax expenditures.

Debt Management

The authorities have developed a Medium-Term Debt Strategy (MTDS) to support debt sustainability with technical assistance from the Fund and the World Bank (WB). To this end, determined policy actions have been taken to strengthen debt management, and support engagement with bilateral creditors with the aim of restructuring the country's debt profile. At the same time, the authorities intend to increase reliance on external concessional financing and grants to finance development expenditures. Moreover, they have recently established an Investment Implementation Committee at Ministerial level, tasked with the responsibility to exercise due diligence on selection of new investment projects, while preserving debt sustainability.

To mitigate the fiscal risks related to the sizable contingent liabilities from SOEs, The Gambian authorities are developing a Comprehensive Strategy for Restructuring the SOEs with support from the WB. Under this strategy, the authorities are planning to improve operational efficiency and financial viability of loss making SOEs, predominantly in the

energy, telecommunication, and transportations sectors (NAWEC, GAMTEL, GAMCEL, and the Gambia Port Authority). Likewise, they are committed to undertaking audits of all SOEs to assess the financial viability, quantify the leakages related to embezzlement of funds from the past regime, as well as clear existing cross arrears among SOEs.

Monetary, Exchange Rate, and Financial Sector Policies

Monetary and exchange rate policies are geared towards preserving price stability, smoothening exchange rate volatility, and rebuilding reserve buffers. The steep decline in treasury bill (T-Bill) rates, largely reflecting the authorities' concerted efforts to preserve fiscal discipline, has helped to dampen inflationary pressures. The CBG capitalized on the low inflation environment to cut the monetary policy rate to 15 percent in mid-2017, from 23 percent in 2016, to drive down commercial lending rates, and support efforts to accelerate economic recovery.

Going forward, the CBG will continue to maintain a flexible exchange rate regime to absorb external shocks and build international reserves. Similarly, they will revamp reforms aimed at safeguarding macroeconomic and financial stability, through the following actions:

i. Revision of the CBG Act to strengthen the Central Bank's autonomy and operational independence. The Amendment of the CBG Act is near completion and is expected to be sent to the National Assembly by end-March 2018;

ii. Modernization of the monetary policy framework through creation of adequate institutional capacity to move from rediscount rate to repo rate as a policy instrument, coupled with enhancement of measures to strengthen liquidity forecasting and management; upgrading macro-prudential regulations; and extending the regulatory framework to non-financial institutions to better contain financial vulnerabilities;

iii. To prevent risks to financial stability owing to significant exposure of the banking system to the public sector, the CBG will continue to monitor closely the banking sector vulnerabilities emanating from the sharp decline in the T-Bill rates, while simultaneously addressing spillovers from the implementation of the MTDS; and

iv. To mitigate the systemic macro-financial impacts stemming from the withdrawal of correspondent banking relationships (CBRs), the CBG is determined to invigorate the implementation of structural actions aimed at reinforcing the AML/CFT framework, strengthening the CBG's oversight capacity on the financial system through a shift to a risk-based supervision framework, and enhancing the regulatory framework for banking resolution and crisis preparedness and management.

Structural Reforms

The Gambian authorities are committed to foster the implementation of the structural reform agenda to lift potential growth, reduce the incidence of poverty and inequality, and rebuild

institutions. To this end, they plan to pursue structural reform actions aimed at easing the bottlenecks to economic competitiveness, particularly through public infrastructure investments to address the gap in power supply, improve access to potable water, build adequate capacity at the port of Banjul, coupled with creation of an adequate set of institutions to promote private sector development. These developments will be funded through highly concessional facilities.

The authorities' reform agenda attaches greater importance to improving overall governance of domestic institutions. In this respect, they are working on setting up a Human Rights Commission, and a legal framework for an anti-corruption commission. A Commission of Inquiry has made meaningful progress in identifying instances of theft and embezzlement by past officials.

In addition, the authorities are undertaking measures to expand capacity for generation and distribution of electricity. Specifically, they have recently approved a roadmap for the energy sector, which includes the restructuring of the National Water and Electricity Company's (NAWEC's) liabilities and implementation of high-priority investments to rebuild power generation capacity, with support from multilateral financial institutions. In addition, the Ministry of Energy is considering power rental as a short-term measure to bridge the energy gap. As a short-term measure, the authorities are sourcing electricity from Senegal to supply the northern region of the country. Further steps aimed at improving the business climate include plans to upgrade the legal framework to protect property rights; increase access to credit, particularly by SMEs; and strengthen the operational efficiency of the credit reference bureau and movable collateral registry.

Other structural priorities include deployment of measures intended to reduce the country's vulnerability to weather-related shocks, through climate-resilient infrastructure. This includes incentivizing commercial agriculture. In addition, steps to boost institutional capacity for data collection, analysis, and reporting, paramount for adequate economic policy analysis, will continue to be given primacy going forward.

5. Conclusion

The Gambia is at a critical juncture of its development path and implementation of a well-designed and sequenced structural reform agenda remains important. This requires concerted efforts by the authorities and support of development partners. The Fund's continued engagement and catalytic role in obtaining development support remains critical in supporting the authorities' efforts to advance their economic development agenda. In this respect, the authorities request Board support for conclusion of the 2017 Article IV Consultation, a waiver for non-observance of Prior Action under the RCF, and a six-month extension of the SMP.