“The authorities remain committed to achieving sustained growth and poverty reduction by maintaining fiscal discipline, reducing the still high debt level, and promoting private sector development. The authorities will increase the share of budgetary resources allocated to poverty reduction, in line with the priorities of their poverty reduction strategy, and in order to make faster progress toward achieving the Millennium Development Goals (MDGs). The authorities intend to review the system of investment incentives to improve the climate for private investment while maintaining fiscal prudence.

“Fiscal policy is being strengthened to ensure long-term fiscal sustainability. The authorities have appropriately scaled back their expenditure plans to partially compensate for the contraction of revenues. They have also maintained the retail prices of petroleum products at current levels to allow for some recovery in government revenues. Going forward, it will be important to improve the revenue base, rationalize taxation, better align the budget with PRSP priorities, and further strengthen public financial management.

“The commitment of the Central Bank of the Gambia (CBG) to maintain a monetary policy designed to keep inflation at single-digit levels is commendable. The authorities are appropriately planning to rebuild international reserves in order to provide a stronger buffer against adverse external developments, and the augmentation of access under the PRGF arrangement will provide helpful support in this regard.

“The Gambia remains at high risk of debt distress, even after receiving HIPC and MDRI debt relief, due to high levels of debt in relation to exports and vulnerability to external shocks. It is important to expedite the formulation of a national debt strategy to guide government borrowing decisions and ensure long-term sustainability. As much as possible, there should be reliance on grants to finance the country’s development programs,” Mr. Portugal said.

The PRGF is the IMF's concessional facility for low-income countries. PRGF-supported programs are based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners and articulated in the country's Poverty Reduction Strategy Paper. This is intended to ensure that PRGF-supported programs are consistent with a comprehensive framework for macroeconomic, structural, and social policies to foster growth and reduce poverty. PRGF loans carry an annual interest rate of 0.5 percent and are repayable over 10 years with a 5½ -year grace period on principal payments.

Statement by Moeketsi Majoro, Alternate Executive Director for The Gambia
February 18, 2009

Introduction

1. The Gambian authorities request a waiver of the nonobservance of the fiscal basic balance target; modification of three performance criteria for end-March 2009; completion of the fourth review; and augmentation of access under the PRGF. They agree with the main thrust of the staff report and request Directors' support for their requests. The authorities thank the staff for the candid and constructive policy dialogue during the mission.

Recent economic developments

2. The Gambian economy continues to record buoyant performance because of disciplined macroeconomic policy implementation and strong effort in carrying out structural reforms. Real GDP growth was propelled by agriculture, communications and electricity. However, during the second half of 2008, The Gambia was buffeted by two shocks: the recent high, albeit subsiding, food and fuel prices; and the global economic and financial crisis. The shocks have triggered a rise in annual inflation from 1.4 percent in April 2008 to 7.3 percent in November 2008 and a slowdown in real GDP growth from 6.3 percent in 2007 to an estimated 6 percent in 2008. The impact on the real economy includes significant decline in tourism receipts, remittances and official transfers, and sharp depreciation pressure on the dalasi in recent months. As a result, the balance of payments and fiscal positions have deteriorated significantly, including a decline by about two months in import cover since December 2007.

Program performance

3. All but one quantitative performance criteria for end-September 2008 were met; the fiscal basic balance target was missed narrowly because The Gambian economy was hit by a revenue shock. Also, all structural measures for end-September 2008 and end-December 2008 were met.

Objectives and policies going forward

4 The authorities remain committed to consolidating macroeconomic and financial stability, sustaining high growth, and reducing poverty. They are considering several fiscal, monetary, financial sector and exchange rate policies, as well as structural reforms. The macroeconomic policies for 2009 are as outlined in the Memorandum of Economic and Financial Policies (MEFP). The main objectives and assumptions underlying the medium term macroeconomic framework are: real GDP growth rates of 4.6–6 percent a year; inflation falling to 6 percent in 2009 and to 5 percent in 2010; a reduction in government's domestic debt from 25.5 percent of GDP at end-2008 to 17.3 percent at end-2011; external current account

deficits(including official transfers) falling from about 16 percent of GDP in 2008 to about 12 percent in 2011; and rebuilding international reserves to cover at least 4 months of imports.

Fiscal policy

5. The authorities have maintained fiscal prudence. However, the economy suffered a revenue shock and higher domestic debt interest payments in 2008. The authorities have curtailed planned expenditures in light of the lower-than-expected revenues in the fourth quarter of 2008. They have maintained the retail price of petroleum products at current levels to allow some recovery of revenue despite the fall in world oil prices. The authorities have requested for technical assistance from FAD to assess the revenue shock. Going forward, the authorities will take appropriate action on the basis of FAD mission findings.

6. The Gambia remains at high risk of debt distress despite the HIPC and MDRI relief. Over the medium term, the authorities remain committed to reducing the ratio of domestic debt to GDP and safeguarding fiscal sustainability. Following the completion of several debt sustainability analyses, the authorities plan to strengthen the Debt Directorate and prepare a comprehensive national debt strategy by September 2009.

Monetary policy and financial sector reform

7. The primary objective of monetary policy is to maintain price stability, guided by the monetary targeting framework. The significant part of the run-up in prices in 2008 can be attributed to high, albeit subsiding, global food and fuel prices. Monetary policy tools will continue to be used to anchor inflation expectations by, inter alia, managing the growth of monetary aggregates and/or adjusting the policy rate to reflect the monetary policy stance. The subsiding of international commodity prices in the wake of the global financial crisis may help reduce inflation further. In the context of the global financial crisis, the Central Bank of The Gambia (CBG) will continue to rely on an appropriate mix of sterilization instruments to manage liquidity. In determining an appropriate monetary policy stance, the CBG will take into account trends in the real economy and financial markets, growth in monetary aggregates and implementation of monetary operations, and the inflation target. Furthermore, the CBG is refining its liquidity forecasting and management framework.

8. Going forward, stepping up the coordination of monetary and fiscal policies, the strengthening the CBG's financial position and the signing a memorandum of understanding will enhance the effectiveness of monetary policy.

9. The CBG will carefully monitor developments in the banking system, particularly in light of the global financial crisis. The Gambia's financial system has been relatively insulated from the global financial crisis, but the increasing risk aversion from investors and the spiral effects of a depressed global economy could present significant challenges. The banks have remained sound, stable, profitable and sufficiently capitalized as a result of strengthened prudential supervision, and effective contract enforcement by the courts.