Statement by IMF Staff at the International Conference for The Gambia

May 22, 2018

This statement provides an overview of The Gambia's economic situation and an update on the performance under the Staff Monitored Program (SMP), which the Gambian authorities embarked upon in April 2017. The macroeconomic situation has been improving as fiscal discipline strengthened in the context of the SMP, but key structural reforms have been delayed and the SMP was recently extended to support their implementation. Public debt sustainability is of utmost concern. At nearly 130 percent of GDP, public debt is weighing heavily on The Gambia's economic prospects, and a comprehensive debt strategy is needed. At the same time, for its National Development Plan (NDP), The Gambia critically needs to mobilize additional resources, which should come preferably in the form of grants.

The Gambian economy has gained momentum in recent months. In 2017, GDP growth is estimated to have rebounded to 3.5 percent from 2.2 percent in 2016, owing mainly to a pickup in tourism, trade, and transportation. In 2018, GDP growth is expected to rise to 5–5½ percent, helped by an accelerated implementation of public projects and a rebound in credit to the private sector. Inflation dropped from a peak of 8.8 percent in January 2017 to 6.5 percent in March 2018, on the back of a more reliable food supply and exchange rate stability, and is projected to drop to about 5¼ percent in 2018, close to The Gambia's central bank target of 5 percent. Strong inflows of foreign support boosted international reserve cover to nearly 3 months of next year's imports of goods and services at end-March 2018, from less than 1 month a year ago. In recent months, as interest rates eased and confidence in the economy increased, private sector credit growth picked up from -1.2 percent in December 2017 to 6.2 percent in March 2018, although banks' portfolio remains heavily concentrated on T-bills and state-owned enterprise (SOE) debt.

Budget execution in 2017 was bolstered by strong foreign grant inflows, equivalent to nearly 12 percent of GDP. Tax revenues were broadly in line with program projections, and while the 2017 deficit was affected by weak revenues during the political impasse early in the year, performance improved in the second half of 2017. Fiscal discipline has strengthened but some politically difficult measures (including the government vehicle policy reform) were delayed and the domestic interest bill absorbed 40 percent of domestic revenue. The availability of foreign grants helped reduce domestic borrowing and, as a result, interest rates on T-bills have declined sharply from an average (across maturities) of 18.9 percent in October 2016 to an average of 8.8 percent in the most recent auctions, setting the stage for savings in budgetary interest expenses down the road. However, the fiscal deficit reached 7.9 percent in 2017, and was by 5.4 percent of GDP higher than expected, mainly because of larger (by about 4 percent of GDP) than anticipated disbursements from the existing project pipeline.

Since April 2017, The Gambia has pursued a Staff-Monitored Program (SMP), which was accompanied by a disbursement of $16.2 million under the Rapid Credit Facility in July 2017. The SMP was recently extended by six months (through September 2018) to provide more time to complete the program reform agenda and incorporate the outcome of this conference in the design of a prospective arrangement under the Extended Credit Facility, which the authorities aspire to. An IMF staff team visited Banjul during May 3–9 to assess program performance and discuss policy commitments for the remainder of the SMP.

Program performance through March 2018 was broadly satisfactory. All quantitative targets at end-December 2017 and end-March 2018 were met, with the exception of the target related to contracting of external debt, as the authorities signed a loan whose grant element fell short of the minimum program requirement. At the same time, progress on the structural agenda was uneven. The implementation of the Treasury Single Account is on track and the reforms to strengthen central bank independence and the monetary policy framework are advancing. More effort is needed to improve the economic governance of state-owned enterprises, beginning by completing the audits of the five largest SOEs that pose systemic fiscal risks. The work on cross arrears from SOEs has advanced but the outcome has yet to be validated by the internal audit office. The implementation of the vehicle policy reform, an important signal of the government's resolve to take politically difficult measures, was delayed and is now to be implemented by end-June 2018.

Public debt sustainability is of utmost concern. The public debt-to-GDP ratio reached almost 130 percent of GDP at end-2017, nearly 20 percentage points of GDP higher than expected at the outset of the program. This unanticipated additional buildup of public debt reflected faster than expected disbursements of already contracted external debt, the recognition of external liabilities incurred by the previous regime, and the assumption of SOE liabilities in the context of financial restructuring of the National Water and Electricity Company. Furthermore, public debt may rise further, given a large pipeline of already contracted debt ($392 million, or 39 percent of 2017 GDP), which is currently being disbursed, and because the SOE debt may be revised upward once the SOE audits are completed.

External debt accounts for more than half of total public debt and its amortization represents a major drain on The Gambia's fiscal and foreign exchange resources (3½ percent of GDP on average over the next five years). The present value of external public and publicly guaranteed debt at end-2017 exceeded 52 percent of GDP, that is 22 percentage points of GDP above the applicable debt sustainability threshold for low-income countries of similar debt carrying capacity. While the upcoming rebasing of GDP will likely reduce the debt-to-GDP ratio, it will not affect the ratios of debt and debt service to revenue or exports, which are also well above the applicable thresholds and expected to remain so for an extended period. Although The Gambia remains current on its external debt service obligations, it is extremely vulnerable to shocks and dependent on foreign grants, in the absence of which it might fall into arrears on its external debt obligations.

In these circumstances, IMF staff continues to believe that the authorities' ongoing actions to address the existing debt stock are critical to safeguarding debt sustainability. The authorities have approached their creditors to request debt relief (through debt rescheduling or forgiveness), which would immediately reduce debt servicing requirements and the present value of debt. In this regard, the recent examples set by China (debt forgiveness) and the Saudi Fund (extension of the grace period and debt maturity) could serve as a precedent. It is of equal importance that the authorities re-prioritize their existing project pipeline in the context of the NDP and we support their intention to seek improvements in the terms of the already-contracted loans to raise their grant element (which could be achieved through a combination of replacing loans with grants, reducing interest rates, renewing grace periods, and extending maturities).

We recognize that The Gambia also needs to mobilize fresh resources for the NDP and do it in the context of a strategy that is consistent with debt sustainability. The key elements of such a financing strategy should include: (i) Relying predominantly on grant financing; (ii) Strengthening domestic revenue mobilization, notably to generate the resources needed for the operation and maintenance of public infrastructure that the NDP seeks to create; and (iii) Improving the business environment so that, where feasible, the private sector can carry out projects that offer high economic returns, without the government assuming any risk or offering any guarantees on these projects. We recognize that grant financing may not be available for all projects that are deemed to have a high expected social return. In such exceptional cases, the authorities should seek highly concessional loans (with a grant element of 50 percent or higher, for instance comparable to the terms offered by the African Development Fund on their regular ADF-only loans) if the criticality of such projects is confirmed (in consultation with World Bank staff) against other NDP priorities.

Resolute implementation of the authorities' program is needed to move beyond fragility, capture the country's potential and to deliver inclusive growth. The IMF staff welcome the progress made by the new administration in pressing ahead with economic reform. IMF staff remain closely engaged with The Gambian authorities to support economic policy design and implementation of economic reforms. The IMF staff wish to support and contribute to the administration's efforts to address economic challenges and lay the foundation for high and inclusive growth for The Gambian economy.