INTERNATIONAL MONETARY FUND

IMF Country Report No. 15/272

THE GAMBIA

September 2015

2015 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE GAMBIA

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2015 Article IV consultation with The Gambia, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its September 18, 2015 consideration of the staff report that concluded 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 September 18, 2015, following discussions that ended June 22, 2015, 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 August 4, 2015.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for The Gambia.

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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September 21, 2015

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IMF Executive Board Concludes 2015 Article IV Consultation with The Gambia

On September, 18, 2015, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with The Gambia.

The Gambia has experienced large balance of payments and fiscal imbalances, caused by persistent policy slippages in recent years and financial difficulties in public enterprises. This was exacerbated by sizable exogenous shocks from the impact of the regional Ebola outbreak on tourism and the delayed summer rains in 2014. The authorities embarked on an economic program based on a strong 2015 budget and structural reforms, and efforts to secure donor support. The Fund supported the authorities' efforts through a Rapid Credit Facility (RCF) disbursement in early April 2015 and a Staff-Monitored Program (SMP).

However, major policy slippages have occurred since the RCF disbursement, pushing the SMP off track and worsening the outlook considerably especially since budget support from donors will not be forthcoming. In early May 2015, the President's office issued a directive imposing an exchange rate overvalued by more than 20 percent compared to the prevailing market rates, which the Fund staff assessed to be broadly in equilibrium. The fiscal position too has deteriorated significantly since mid-April, while inflationary pressures and T-bill rates have increased, reflecting the inconsistent macroeconomic policies. In the absence of corrective policies, The Gambia's external viability and fiscal sustainability could be at serious risk.

Executive Board Assessment[2]

Executive Directors noted that a cycle of exogenous shocks followed by policy slippages had led to weaker real GDP growth in The Gambia than in other countries of the region. Directors regretted that recent policy slippages have worsened an already difficult macroeconomic situation and are threatening The Gambia's near- and medium-term growth prospects. Accordingly, they called for strong corrective measures to address the growing macroeconomic imbalances and bring policies back on track to achieve the objectives of the authorities'

[1] 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.

[2] 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.

economic program monitored by Fund staff. Directors agreed that bold action on a variety of fronts, including targeted structural reforms, is urgently needed to restore policy credibility, rebuild policy buffers, re-engage development partners and achieve The Gambia's poverty alleviation goals.

Directors stressed that an ambitious and sustained fiscal adjustment is necessary to bring the fiscal situation under control. They encouraged the authorities to implement the measures in the current budget and to identify soon additional measures for a deep budget restructuring beginning in 2016. Such an adjustment will create space for development spending while fostering macroeconomic stability and social progress over the medium term. Directors also highlighted the need to articulate a strategy to overhaul public enterprises in the energy and telecommunication sectors to stem their demand on budget resources.

Directors welcomed the Central Bank of The Gambia's continued efforts to shore up financial stability. They commended steps underway to improve bank supervision and crisis management capacity. Directors observed that the flexible exchange rate regime had served The Gambia well, and agreed that the exchange directive currently in force to limit exchange rate flexibility should be rescinded immediately.

Directors welcomed The Gambia's significant social gains over the past years but noted that there remains ample room to enhance inclusive growth and competitiveness. They encouraged the authorities to step up agricultural reforms and improve infrastructure in energy and transport to enhance economic diversification and resilience to shocks.

Table 1. The Gambia: Selected Economic Indicators

	2010 Act.	2011 Act.	2012 Act.	2013 Act.	2014 Prel.	2015 Active Policy Scenario	2016 Active Policy Scenario	2017 Active Policy Scenario	2018 Active Policy Scenario	2019 Active Policy Scenario
National account and prices	(Percent change; unless otherwise indicated)									
Nominal GDP (millions of dalasi)	26,662	26,465	29,191	32,320	34,380	38,203	42,372	47,459	52,659	58,429
Nominal GDP	11.1	-0.7	10.3	10.7	6.4	11.1	10.9	12.0	11.0	11.0
GDP at constant prices	6.5	-4.3	5.6	4.8	-0.2	4.7	5.5	7.0	5.9	5.9
GDP per capita (US$)	551	506	499	479	427	385	373	394	414	435
GDP deflator	4.3	3.7	4.5	5.7	6.6	6.2	5.1	4.6	4.8	4.8
Consumer prices (average)	5.0	4.8	4.6	5.2	6.2	6.5	5.3	5.0	5.0	5.0
Consumer prices (end of period)	5.8	4.4	4.9	5.5	6.9	6.0	4.7	5.2	5.0	5.0
External sector										
Exports, f.o.b.	0.9	7.0	22.6	5.4	-6.6	-9.1	8.8	5.3	7.6	4.1
Of which: domestic exports	1.0	0.9	66.1	-37.2	6.8	-11.4	-1.4	15.0	-5.8	5.2
Imports, f.o.b.	5.3	-6.1	11.3	-6.7	10.2	-12.9	1.5	8.2	9.7	7.7
Terms of trade (deterioration -)	-1.1	18.0	2.3	13.5	-0.7	21.1	4.8	-1.2	2.0	-0.2
NEER change (depreciation -)[1]	-1.2	-6.5	-11.2	-10.6	...	...	...	...	...	...
REER (depreciation -)[1]	0.6	-5.7	0.3	-7.5	...	...	...	...	...	...
	(Percent change; in beginning-of-year broad money)									
Broad money	13.7	11.0	7.8	15.1	11.2	11.0	15.0	14.0	14.0	14.0
Net foreign assets	1.3	5.6	2.3	-2.5	0.5	-7.2	8.3	8.7	9.5	9.7
Net domestic assets, of which:	12.3	5.4	5.5	17.7	10.7	18.2	6.7	5.3	4.5	4.3
Credit to the government (net)	16.8	8.2	6.1	13.4	15.8	9.7	2.4	0.9	0.9	0.9
Credit to the private sector (net)	4.7	2.8	1.3	6.2	-2.4	3.2	4.4	4.1	4.1	3.2
Other items (net)	-10.1	-5.2	-1.7	-2.2	-2.2	2.1	-1.6	-0.8	-0.5	0.3
Velocity (level)	2.0	1.8	1.8	1.8	1.7	1.7	1.6	1.6	1.6	1.5
Average treasury bill rate (in percent)[2]	11.3	10.0	10.4	17.1	...	...	...	...	...	...
Central government budget	(In percent of GDP; unless otherwise indicated)									
Domestic revenue (taxes and other revenues)	14.9	16.1	16.4	16.3	18.7	19.7	20.5	20.8	20.8	21.0
Grants	4.0	5.1	8.9	2.2	3.7	4.0	3.8	3.4	3.6	3.6
Total expenditures and net acquisition of financial assets	24.3	25.8	29.8	27.2	35.4	31.7	27.9	26.0	25.0	25.3
Net incurrence of liabilities	3.7	4.3	4.3	8.8	13.2	8.0	3.6	1.8	0.7	0.7
Foreign	1.5	0.8	1.1	1.8	1.1	1.7	0.9	1.3	0.2	0.2
Domestic	2.2	3.5	3.2	7.0	12.1	6.3	2.6	0.5	0.5	0.5
Basic balance	-2.9	-2.1	-2.1	-5.2	-8.3	-5.2	-0.9	1.2	0.9	0.0
Public debt	69.6	77.3	77.0	83.3	101.1	107.6	102.4	95.0	87.9	84.4
Domestic public debt	29.4	33.2	33.3	37.1	47.0	48.6	46.4	41.9	38.3	37.9
External public debt	40.2	44.1	43.7	46.2	54.2	59.0	56.0	53.1	49.6	46.5
External public debt (millions of US$)	377.6	386.2	375.8	394.1	411.2	410.0	418.3	431.4	435.5	440.1
External sector										
Current account balance										
Excluding budget support	-16.3	-12.3	-8.9	-10.2	-15.5	-21.6	-11.9	-11.0	-10.6	-10.6
Including budget support	-16.3	-12.3	-7.9	-10.2	-13.1	-17.3	-11.1	-10.2	-9.8	-9.7
Current account balance	(Millions of U.S. dollars; unless otherwise indicated)									
Excluding budget support	-155.1	-110.3	-81.3	-91.6	-127.5	-164.4	-90.2	-90.4	-94.7	-102.0
Including budget support	-155.1	-110.3	-72.1	-91.6	-108.0	-131.8	-84.0	-83.9	-87.1	-93.3
Overall balance of payments	-23.8	8.4	0.1	-23.6	-18.7	-37.1	37.4	32.9	34.1	42.1
Gross official reserves	157.6	169.7	183.8	161.1	111.9	80.2	111.5	136.9	163.1	198.6
in months of next year's imports of goods and services	5.1	5.1	6.0	4.8	3.7	2.6	3.3	3.8	4.2	4.7
Use of Fund resources	(Millions of SDRs)									
Disbursements	2.0	2.3	9.3	1.6	0.0	7.8	0.0	0.0	0.0	0.0
Repayments	0.0	0.0	-0.2	-1.0	-2.1	-3.8	-4.3	-5.2	-5.5	-4.6
Financing gap (possible ECF financing)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

INTERNATIONAL MONETARY FUND

THE GAMBIA

STAFF REPORT FOR THE 2015 ARTICLE IV CONSULTATION

August 4, 2015

EXECUTIVE SUMMARY

Context. The Gambia's large balance of payments and fiscal imbalances, caused by policy slippages and persistent financial difficulties in public enterprises, were exacerbated by the impact of the regional Ebola outbreak on tourism and the delayed summer rains in 2014, which widened the imbalances further. The Fund supported The Gambia with an RCF disbursement in early April 2015 to meet the urgent balance of payments needs arising from these shocks. The authorities also embarked on an economic program with a strong 2015 budget and structural reforms to be monitored under a staff-monitored program (SMP), and efforts to secure donor support.

Outlook and risks. Major policy slippages have occurred since the RCF disbursement, pushing the SMP off track and worsening the outlook considerably, especially since budget support grants will not be forthcoming. In early May 2015, The Office of the President issued a directive imposing an exchange rate overvalued by about 30 percent, while the fiscal position has deteriorated significantly since mid-April. In the absence of corrective policies, The Gambia's external viability and fiscal sustainability could be at serious risk.

Rebuilding confidence. The exchange rate directive has been highly counterproductive, as it severely erodes exports and government revenue, and should be rescinded immediately. Expenditure pressures thus far this year should be unwound and contingency measures, in addition to those stipulated in the 2015 budget, should be implemented promptly to support the fiscal position in 2015, restore confidence, and reinvigorate donor support.

Buttressing fiscal and external sustainability. It is essential to rebuild fiscal buffers to sustain macroeconomic stability and social progress over the medium term. The authorities should articulate expeditiously measures to realize a deep budget restructuring beginning in 2016 to reduce T-bill rates substantially and create space for priority spending. Concrete medium-term actions need to be delineated to reposition and restructure the energy and telecommunication sectors to shore up fiscal sustainability from 2016 onwards and enhance prospects for growth and competitiveness. Such overarching fiscal consolidation and structural reforms would help ensure external sustainability.

Promoting inclusive growth and competitiveness. In light of the elevated level of public debt, the government should prioritize infrastructure investments which should help address poverty and improve the business environment. The authorities are encouraged to continue their efforts to improve supervision capacity to enhance financial stability.

Approved By
Roger Nord (AFR) and Luis Cubeddu (SPR)

Discussions took place in Banjul during June 9–22, 2015. The staff team comprised Mr. Mukhopadhyay (head), Mr. Konuki, Ms. Gwenhamo (all AFR), Ms. Taheri Sanjani (SPR), Mr. Mpatswe (resident representative), and Mr. Mendy (local economist of the IMF office in Banjul). The team met with Minister of Finance and Economic Affairs Abdou Kolley, Secretary General and Minister for Presidential Affairs Lamin Nyabally, Central Bank Governor Amadou Colley, other senior government officials, members of parliament, senior officials in public enterprises, and representatives of the private sector, civil society organizations, the banking sector, and development partners. Ms. Nkhata (OED) participated in the discussions. The team was assisted by Mmes. Ye and Ourigou (all AFR).

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ANNEXES

BACKGROUND

1. **Historically, The Gambia's growth performance has been mediocre, characterized by repeated weather-related shocks.** The Gambia's real per capita GDP growth over 2004–14 averaged less than ½ percent per year, among the lowest in sub-Saharan Africa (SSA). As a consequence, The Gambia remains among the poorest countries in the world. Over the last 50 years, The Gambia has been hit by eleven instances of drought, with four in just the last 12 years. This has contributed significantly to The Gambia's inability to sustain uninterrupted periods of growth. Since 1965, The Gambia has had just three short-lived episodes—a combined duration of 16 years—of growth spells, i.e., periods of real per capita growth in excess of 2 percent.[1] The remaining years, The Gambia had low or negative per-capita growth. This includes three spells of a combined duration of 22 years in which per-capita growth was negative. The Gambia's growth performance displays fragile state characteristics.[2]

2. **This pattern has continued in recent years as persistent policy slippages, exacerbated by sizable exogenous shocks, have intensified macroeconomic pressures**. Persistent slippages, characterized in particular by very loose fiscal policy, increased significantly macroeconomic vulnerabilities over 2013–14. In addition, while The Gambia has been Ebola free, its tourism industry was hit by a large shock associated with the regional Ebola outbreak which is estimated to have cut tourism receipts for the 2014/15 season by more than half. The country is benefitting from the presently lower global fuel prices, but the net impact of the shocks on the balance of payments is estimated to be $40 million during 2014–15 (over 5 percent of 2015 GDP). Furthermore, the delayed summer rains in 2014 led to about a 15 percent decline of the year's crop with serious implications for real GDP and food security. As a consequence, the already large current account and fiscal deficits expanded substantially (Figure 1, Tables 1–7). Faced with mounting pressures, the exchange rate depreciated by about 10 percent during the first four months of 2015 while inflation has been hovering around 6½–7¼ percent since late 2014, up from around 5½ percent in the summer of 2014. The Fund supported The Gambia with an RCF disbursement in early April 2015 and through a staff-monitored program (SMP).

3. **The persistent pattern of external shocks and policy slippages in recent years has led to the erosion of all policy buffers.** The public debt stock rose from just below 70 percent of GDP at end-2010 to 100 percent by end-2014. Meanwhile, the gross official reserves' import coverage has declined from 6 months at end-2012 to below 3 months now. Reserves' import coverage is even

[1] The benchmark for desired per capita GDP growth is based on the cross-country analysis in Berg et al (2012) (see Annex II).

[2] Using the same methodology as in Annex II, the IMF Policy paper, The Macroeconomic and Operational Challenges of Countries in Fragile Situations, June 2011, reports that over 1960-2009, fragile states had equal numbers of up-breaks and down-breaks in growth, while non-fragile LICs had nearly twice as many up-breaks as down-breaks.

lower after accounting for a swap operation conducted in April 2015 that has temporarily boosted reserves by $20 million.[3]

4. Progress in implementing past Fund policy advice has been mixed (Box 1). Domestic fuel prices have been adjusted to eliminate subsidies. The authorities' continued efforts to strengthen revenue administration helped to raise the revenue-to-GDP ratio from 16½ percent in 2012 to 18¾ percent in 2014. Despite these efforts on the revenue side, sizable extra-budgetary spending pressures and the fiscal burden arising from the financial difficulties of key public enterprises worsened the fiscal position considerably (see IMF Country Report No. 15/104)—the government's net domestic borrowing (NDB) surged from 3½ percent of GDP in 2012 to 12¼ percent of GDP in 2014. The government's domestic borrowing needs have been met substantially by the Central Bank of The Gambia (CBG) financing. The CBG has deployed its available instruments to tighten the monetary policy stance, but its policy conduct has been severely complicated by the government's financing requirements and the temporary impositions of over-valued exchange rates by the Office of the President—October 2012 through November 2012, June 2013 through October 2013, and May 2015 to present (see below).

Box 1. The Gambia: Main Recommendations of the 2013 Article IV Consultation

Recommendations	Status
Fiscal Policy and Public Financial Management	
1. Reduce the net domestic borrowing (NDB) of the government to ½ percent of GDP by 2014 and in the medium term through spending discipline and broadening tax base.	1. The NDB reached 12¼ percent in 2014 due to very large fiscal slippages and persistent financial difficulties in key public enterprises.
2. Eliminate fuel subsidies.	2. Fuel subsidies were eliminated in July 2014, and some progress has been made in bringing utility tariffs closer to cost-recovery levels, but the scope to achieve cost recovery through further tariff increases is limited in the short run.
3. Enhance the budget process and strengthen expenditure control.	3. Expenditure control is still very weak with significant unbudgeted spending in 2014.
4. Improve debt management.	4. Efforts are underway but debt management is still weak.

[3] Under the swap arrangement, a commercial bank supplied US$20 million to the CBG in return for GMD equivalent amount in the first quarter of 2015. The Swap will be reversed in staggered payments of US$4 million each in July 2015 and January, February, March and April 2016.

Box 1. The Gambia: Main Recommendations of the 2013 Article IV Consultation (concluded)

Monetary and foreign exchange policy	
5. Maintain a flexible exchange rate policy.	5. Flexible exchange rate policy has been compromised by repeated presidential directives imposing foreign exchange rates and other restrictions, with the most recent issued on May 4th 2015.
6. Make REPO instruments operational to improve liquidity management and reduce reliance on the reserve requirement ratio which is a blunt instrument.	6. Fiscal dominance has delayed launching of REPOs and prevented the CBG from reducing reliance on the required reserve for liquidity management.
Financial sector policy	
7. Establish a collateral register and resolve Credit Reference Bureau's (CRB's) technical glitches.	7. Significant progress has been achieved with the collateral registry which is almost ready to launch. The CRB is fully functional but commercial banks have been updating borrowers' information only with a delay.
8. Maintain Intensive surveillance of the banking system.	8. The CBG's annual review of individual commercial banks' performance on the basis of end-year financial soundness indicators and discussion of corrective measures where applicable is on track for 2014. There is scope to further strengthen bank supervision.

Source: IMF staff.

5. **The authorities' SMP recognized the need for strong policy actions augmented by substantial donor budget support to address their difficulties.** The 2015 budget aimed at lowering net domestic borrowing (NDB) to 1 percent of GDP in 2015 from 12¼ percent in 2014, with broadly equal contributions from savings measures and external budget support, including the RCF disbursement. The authorities also intended to address the financial problems of key public enterprises to limit their drain on the state budget. These steps were expected to stabilize the macroeconomic situation in 2015 and give the authorities the time needed to develop their medium-term adjustment plans. Policy implementation until mid-April 2015 was broadly in line with commitments in the authorities' Memorandum of Economic and Financial Policies (MEFP) for the SMP.

6. **With continued strong policy implementation the near- and medium-term economic outlook was seen to be positive.** Real GDP growth was expected to rebound strongly driven by the recovery of agriculture and tourism activity while the envisaged fiscal consolidation and reforms under the MEFP were supposed to bring the public debt to a sustainable path, as illustrated in the baseline macro framework tables in the Staff Report for the RCF request (see IMF Country Report No. 15/104). The strategy set out in the SMP was also intended to lay the foundation for The

Gambia to break out of its historically mediocre growth performance. Policy buffers would be gradually rebuilt, and together with appropriate structural reforms, to create a favorable climate for private investment favoring economic diversification.

RECENT ECONOMIC DEVELOPMENTS

7. Since mid-April 2015, major policy slippages have reemerged, worsening considerably the economic outlook. International reserves have underperformed relative to the SMP with confidence in policies slow to return. Furthermore, as modest pressures on the exchange rate manifested itself with the onset of the lean season for foreign exchange receipts, the Office of the President issued a directive in early May fixing the exchange rate at a level overvalued by more than 20 percent compared with prevailing market rates which were slightly overvalued (see the exchange rate assessment in Annex I).[4] The T-bill rates which had started to edge down earlier in the year reversed the trend and recently ticked up to over 20 percent while the commercial banks' subscription of T-bills in recent auctions dropped drastically rendering the CBG's intensified open market operations ineffective (Box 2).[5]

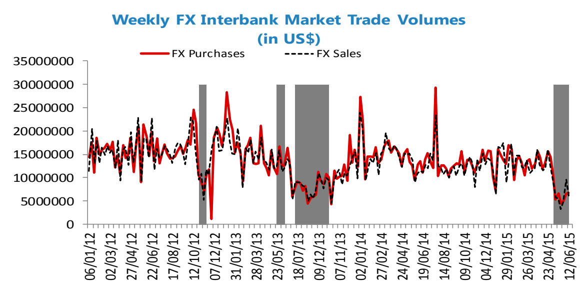
Box 2. The Gambia: The Impact of Exchange Rate Directives

Since late-2012, the Office of the President has issued a series of exchange rate directives. Except for the latest, which was issued in early May 2015 and is still in effect, all directives were lifted after a period of a few weeks to a few months since their imposition. The directives, which were issued as press releases imposing a GMD/$ exchange rate at levels appreciated relative to the prevailing market rates and often accompanied by an initial ban on the shipment of foreign exchange (FX) abroad and other restrictions to eliminate speculation and illegal FX trading. The most recent directive also sets ceiling rates for other major foreign currencies. Compliance by formal FX market participants is monitored through their daily FX returns to the CBG while enforcement agents from the Office of the President monitor closely activities of FX bureaus and other unlicensed dealers.

The Gambia: Exchange rate directives, 2012-2015

Duration of Directive	Targeted GMD/US$ rate	Market GMD/US$ rate	Overvaluation
1. October 22-November 15, 2012	28	34	about 21%
2. June 26-July 15, 2013	30-33	37-39	about 18%
3. July 26-August 14, 2013	37	40	about 8%
4. August 14-October 9, 2013	35	40	about 14%
5. May 4, 2015-present	35-40	50	about 30%

Source: Gambian authorities and Fund staff estimates.



Notes: 1/ Area shaded in grey represents periods of foreign exchange rate directives.
Source: Central Bank of the Gambia.

The directives have had serious damaging effects on the economy by creating policy uncertainties, loss of confidence and chronic FX shortages, evident from the sharp drop in the volumes traded in the FX interbank market. Recently, FX interbank trade volumes plummeted by over 50 percent after imposition of the directive on May 4th.

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[4] Exchange rate developments at end-April 2015 were in line with the staff's expectation under the RCF: depreciation pressures were expected to moderate after the disbursement in the 2nd quarter of budget support grants from the World Bank and African Development Bank.

[5] In the most recent weekly T-bill auction, there was an under subscription of over 50 percent.

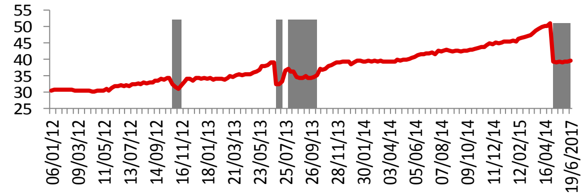
Box 2. The Gambia: The Impact of Exchange Rate Directives (concluded)

In discussions, the private sector attributed the shortage to a drop in FX inflows from remittances, tourism, and re-export trade.

To avert the FX shortage, parallel market trading tends to occur discreetly at exchange rates above those stipulated by the directive. Past experience shows that once the directive is lifted, the likelihood of overshooting is low as agents self regulate the exchange rate movements to prevent directives from re-emerging. Shortages of imported basic commodities due to foreign exchange shortages create inflationary pressure during episodes of directives (CPI inflation figure).

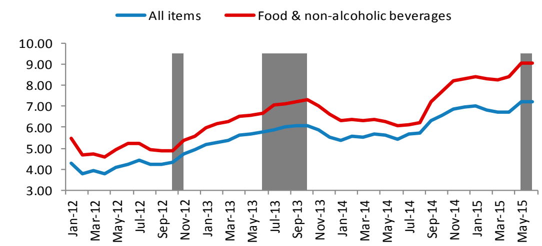
Other negative consequences include loss of government revenue from taxes on imports, additional hardship to poor families associated with the lowered dalasi value of their remittances, and increased market risks for the financial sector. Directives also weaken the CBG's ability to manage the flexible exchange rate by making it difficult for the CBG to accumulate foreign exchange reserves for buffers and for intervention when needed.

Weely GMD/US$ Interbank Market Exchange Rate



Notes: 1/ Area shaded in grey represents periods of foreign exchange rate directives.
Source: Central Bank of the Gambia.

CPI Inflation



Notes: 1/ Area shaded in grey represents periods of foreign exchange rate directives.
Source: Gambia Bureau of Statistics.

8. **The government's NDB has been increasing sharply since mid-April 2015 and, together with the inconsistent exchange rate policy, has pushed the SMP off track.** Revenue collections remained strong until April, but started slowing down in May as the overvalued exchange rates have lowered the base on which import duties and the VAT on imports are applied. Strong spending pressures have reemerged recently, partly due to delayed implementation of the expenditure saving measures listed in the MEFP of the SMP for 2015, particularly the downsizing of embassies and of the fleet of official vehicles. Extra-budgetary spending magnified pressures. As a result of these policy slippages, the SMP's end-June NDB indicative target was missed by a wide margin, as were the net international reserves (NIR) and net domestic assets (NDA) indicative targets (Table 8). Implementation of the structural agenda under the SMP is behind schedule thus far (Table 9). The financially distressed state-owned companies (SOEs)—the National Water and Electricity Company (NAWEC) and Gambia Telecommunications and its subsidiary cellular company (GAMTEL/GAMCEL)—have been unable to remain within their budgeted cash flow. Meanwhile, The Gambia Groundnut Corporation (GGC) was recently directed to sell farmers fertilizer at a price that did not cover its import costs under its new business mandate to market and sell all agricultural products and ensure food security. These SOEs will be an additional fiscal burden in coming months.

ECONOMIC OUTLOOK AND RISKS

9. The imposition of the exchange rate directive has already damaged the near-term outlook and increased vulnerabilities. Even if the exchange directive is lifted immediately, the revenue loss compared to the RCF baseline would reach 1¼ percent of GDP in 2015. Recently remerged spending pressures will also weigh on the government's NDB. Notwithstanding a number of efforts to improve its finances, NAWEC's cash flow has already come under strain in the first half of the year. These developments and the higher-than-budgeted fuel prices it will face in the second half of the year indicates that it could run an operational loss of about 1½ percent of GDP. Similarly, GAMTEL and GAMCEL are expected to run an operational deficit of around ¼ percent of GDP each in 2015 due to its shrinking customer base. As a result, even if the authorities rescind the directives immediately and implement all short-term fiscal saving measures recommended by the staff in addition to those committed under the SMP (see ¶17–18), the NDB is expected to reach 5¼ percent of GDP in 2015, compared with the target of 1 percent of GDP under the SMP.[6] Under the staff proposed scenario where the authorities implement all medium-term consolidation measures recommended by the staff (see ¶22–23) in addition to the above-mentioned short term measures, the total public debt dynamics for the next several years has worsened compared with the previous DSA presented at the time of the RCF request—the public debt ratio at end-2020 would remain at around 80 percent of GDP (Figure 2, text chart in ¶11). The short maturity and higher domestic debt stock has heightened further the risk of public debt distress. However, external public debt dynamics remain largely unchanged from those presented in the DSA at the time of the RCF request (see IMF Country Report No. 15/104, Supplement 1) and risk of external debt distress remains moderate (Figure 3). Temporary disruptions of foreign exchange supply and import activity would lower the real GDP growth in 2015 and raise inflation in coming months compared with the baseline projection presented at the time of the RCF request. Furthermore, the gross international reserves' import coverage is expected to remain below 3 months until end-2015 even with strong near-term corrective policy actions.

Key macroeconomic indicators under SMP projections, active policy scenario (new baseline), and adverse scenario (in percent of GDP, unless otherwise indicated)

	2015			2016		
	SMP Projections	Active policy scenario (new baseline)	Adverse scenario	SMP Projections	Active policy scenario (new baseline)	Adverse scenario
Fiscal						
Primary balance	4.2	-0.4	-4.7	3.9	4.3	-5.7
Net domestic borrowing	1.0	5.2	10.6	0.5	1.3	13.7
Budget support grant	2.8	0.7	0.5	0.8	0.8	0.0
Public debt 1/	100.0	107.6	95.1	91.0	102.4	115.3
External						
Current account balance	-13.5	-13.7	-16.7	-10.3	-11.1	-13.4
Gross official reserves in months of next year's imports	3.9	2.6	1.3	4.2	3.3	0.8

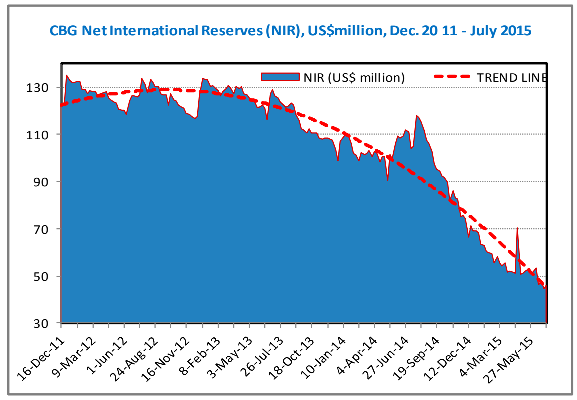
Source: Staff estimates.

1/Under the adverse scenario, public debt in percent of GDP temporarily becomes lower than other scenarios at end-2015 because the exchange rate is fixed at a level overvalued by 30 percent until end-2015 and dalasi value of external debt dips as a result.

10. The Gambia's eroded policy buffers have significantly increased its vulnerability. Notwithstanding very weak policies, on account of its strong international reserves position in 2012,

[6] Budget support grants in 2015 under the revised baseline would be lower by about 2 percent of GDP than the SMP projection (see ¶18).

when policy implementation began to deteriorate, The Gambia has been able to avert a full-blown crisis thus far. However, now its elevated public debt level, severely eroded international reserves, and the very high domestic borrowing costs have materially altered the situation. This is illustrated in the staff's primary downside scenario below which assumes that the exchange directive is not rescinded until end-2015, spending pressures remain unchecked, the measures to address the financial difficulties of public enterprises—other than the short-term budget control measures by NAWEC and GAMTEL/GAMCEL for 2015—are not implemented, and the expanded business mandate for the GGC remains in place.

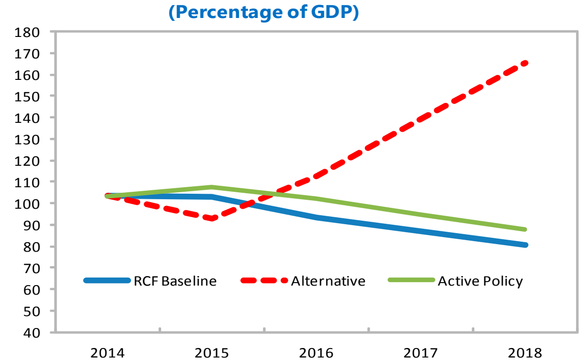


Source: Gambian authorities and Fund staff estimates.

11. In the event that the directive is not immediately rescinded and the fiscal slippages are left unaddressed, The Gambia's external viability and fiscal sustainability will be put at grave risk. Under this scenario:

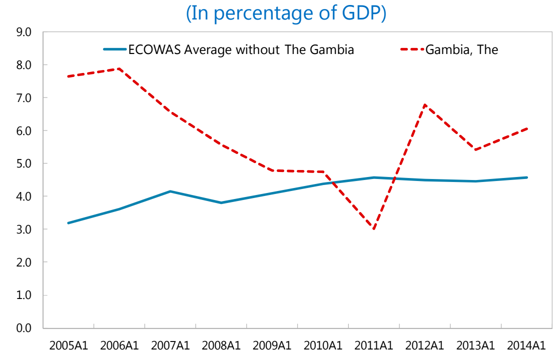
- Lower revenue, higher interest payments, and loss of the expected budget support grants would lead to a sharply higher NDB than envisaged under the SMP: NDB could exceed 13 percent of GDP in 2016 (Figure 4). Fiscal sustainability over the medium-term would be severely jeopardized: if the fiscal spending pressures and financial difficulties of key public enterprises continue to be unaddressed, the total public debt to GDP ratio is estimated to exceed 160 percent by 2018 (see text chart).
- Given the recent history of repeated imposition of the exchange directives, economic agents will be reluctant to surrender their foreign exchange, exacerbating the shortage in foreign exchange supply already being observed. As a result, the external reserve position is expected to fall to about 1¼ months of import cover by end-2015, far below the 4 months of imports targeted under the SMP.
- The parallel market spreads would continue to widen until the exchange rate directive is rescinded and thereafter, the exchange rate would quickly depreciate. As a consequence, the

Public Debt
(Percentage of GDP)



Sources: Gambian authorities and Fund staff estimates.

Remittances
(In percentage of GDP)



Sources: Fund staff estimates.

external public debt ratios would rise rapidly.[7]

- Policy slippages will impose heavy social and economic costs. The shortage in foreign exchange supply will heighten inflationary pressures in coming months by reducing the supply of imported basic goods. The Gambia is heavily dependent on remittances (see text chart), and particularly among the poor, the lowered dalasi value of their remittances would hit hard, adding to their economic difficulties associated with higher inflation. Such developments would also significantly increase The Gambia's vulnerabilities given its exposure to natural disasters, and also to global economic developments, particularly a potential slowdown in advanced economies which are the sources of tourism receipts and remittances to the country (Table 10).[8]

12. In the absence of urgent corrective action, the social progress made in recent years would also be under threat. In the downside scenario presented in ¶11, the interest payment could consume almost 50 percent of government revenue by 2016, leaving no space for poverty reduction and growth oriented spending. Furthermore, inflation would rise and hit the poor particularly hard as illustrated in ¶11.

13. The authorities were divided on the likely medium-term outlook and assessment of associated risks. While many government officials agreed with the staff's projections and assessment, other senior officials expressed a different view, especially as regards the efficacy of the exchange rate directives. They argued that the level at which the exchange rate had been fixed was broadly adequate and it would benefit the poor segment of the population by containing inflation.

POLICY DISCUSSIONS

14. The Gambia's near-term difficulties as well as its longer-term growth experience point to establishing and sustaining macroeconomic stability as a key imperative. The current conjuncture poses grave risks. With buffers severely eroded, immediate corrective actions are required to prevent the economic imbalance spiraling out of control. A forced adjustment would be very costly for The Gambia, particularly among socially vulnerable groups. A broad range of measures are needed to foster fiscal sustainability and improve the environment for private sector growth over the medium term. To this end, deep budget restructuring is urgently needed. Beyond that, reforms to lower energy costs, improve financial sector surveillance, and eliminate structural impediments to growth are also needed.

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[7] The estimated size of the current account deficit under this alternative scenario indicates that the end-2015 exchange rate projected under the RCF baseline scenario would be overvalued by about 16 percent. With some overshooting, the exchange rate could depreciate by 20 percent initially, given the very low level of international reserves. At that level of exchange rate, the external public debt to GDP ratio would reach 69 percent of GDP at end-2015 but lower in NPV terms, and the external debt risk rating would remain moderate.

[8] The negative impact on tourism and remittances triggered by the global slowdown would be partly offset by lower commodity prices for imports of food and fuel.

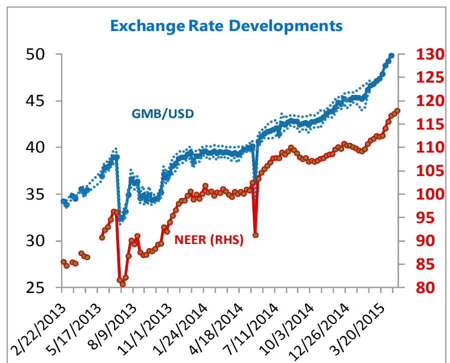
A. Near-Term Agenda—Rebuilding Confidence

15. It is critical that the recent exchange rate directive is rescinded immediately and The Gambia return to a flexible exchange rate policy. The flexible exchange rate policy had served the country well. In staff's assessment, the prevailing market exchange rates at the time of the imposition of the directive were broadly in line with fundamentals (Box 3). The directive has already led to a significant shortage of foreign exchange supply. In turn, this could lead to a shortage of imported basic goods and higher inflation in coming months, as illustrated in the risk scenarios above. The CBG should use the monetary policy tools under its control to continue leaning against inflationary pressures. In this regard, the staff welcomes the CBG's intention to maintain the required reserve ratio at its presently elevated level and its recent action to raise the policy rate by one percentage point to 23 percent. Should indications of exchange rate overshooting emerge when the directive is rescinded, further tightening of monetary policy may be needed.[9] In this context, the staff welcomes the CBG's intention to consider preemptively a tightening of the required reserve ratio and commercial banks' foreign exchange net open positions.

Box 3. The Gambia: Exchange Rate Assessment

Deteriorating macroeconomic conditions have put upward pressure on prices and the exchange rate depreciated by about 10 percent by April 2015 since end-2014. As modest pressures on the exchange rate manifested itself with the onset of the lean season for foreign exchange receipts, the Office of the President issued a directive in early May 2015 fixing the exchange rate at a level overvalued by more than 20 percent compared with prevailing market rates, which were already slightly appreciated according to the staff's exchange rate assessment.

The Gambia's current account position, under the RCF baseline scenario, assessed using the EBA-lite methodology, suggests that current account dynamics are in line with fundamentals. In analyzing current account developments, the EBA methodology makes a distinction between the size of current account attributable to fundamentals and that attributable to a policy gap. Taking into account the contribution of the policy gap, the current account norm is estimated to be a deficit of about 10¾ percent of GDP in 2015. This indicates that the projected current account balance is worse than the norm by 3.2 percent of GDP—suggesting an overvaluation by 8.5 percent, under the baseline scenario with the flexible exchange rate regime and the rate at its pre-directive level.



Sources: Gambian authorities and Fund staff estimates.

Estimated Exchange Rate Misalignment

CA-Actual		**-13.7%**
CA-Norm		**-10.7%**
CA-Gap		**-3.0%**
Policy gap		**1.1%**
of which:	*Fiscal Policy*	*1.0%*
of which:	*Change in Reserves*	*-0.2%*
of which:	*Private Credit*	*0.3%*
Elasticity of CA to REER		**-0.4**
Real Exchange Rate Gap		**8.1%**

Source: Gambian authorities and Fund staff estimates and calculations

16. The CBG indicated that implementing monetary policy and managing the flexible exchange rate regime was challenging under current circumstances. However, they considered

[9] Past experience suggests that the likelihood of overshooting is low with agents self regulating the movement of the exchange rate to prevent directives from re-emerging.

that the required reserve ratio, although a blunt instrument, provided an effective way to manage liquidity and to contain exchange rate pressures. In the past, when open market operations were ineffective in controlling exchange rate pressures, the CBG effectively controlled banking sector liquidity using the required reserve ratio and they are prepared to use this tool in the current circumstances. Staff cautioned that the CBG's ability to manage a flexible exchange rate regime has been undermined by policy inconsistency and uncertainty caused by the repeated presidential directives**.** Foreign exchange shortages arising from the directive have limited the CBG's ability to build up foreign exchange reserves that are needed to cushion the economy from shocks and to intervene in the market to maintain orderliness when there is a need. Furthermore, fiscal dominance has put additional pressure on the CBG's stock of international reserves. To strengthen its ability to manage a flexible exchange rate regime in the medium term, the CBG plans to introduce repos, a short term market-based instrument, to enhance its liquidity management capacity. While the CBG has received significant TA on repos and preparatory work is underway, staff has advised the authorities to delay the launching until this period of fiscal dominance has ended and the CBG has regained control of its balance sheet. The CBG should also ensure that the foreign exchange market is well functioning and sufficiently liquid to allow price discovery. This requires policy consistency, immediate rescinding of the directive, and also improving debt management capacity.

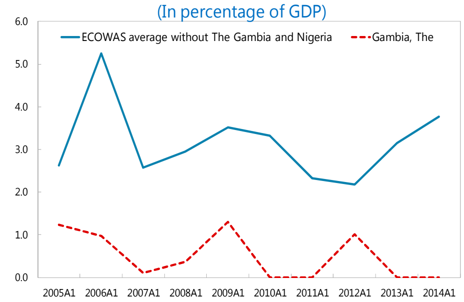
17. The staff urged the authorities to implement quickly measures committed under the SMP to shore up the NDB target in 2015. As illustrated above, the imposition of the exchange directive has already altered the economic and fiscal situation facing The Gambia materially. The authorities need to unwind the expenditure pressures that have emerged in recent months, including putting in place the few expenditure saving measures for 2015 listed in their MEFP that are yet to be implemented to shore up the NDB target. The sales of government-owned land plots, which are expected to create privatization receipts of 0.6 percent of GDP, should take place promptly. The government should also help NAWEC secure the second ECOWAS grant disbursement and introduce a levy of GMD10 on each bill it issues beginning in July 2015 to cover partially the cost of street lights, as committed under the SMP to buttress the cash flow of NAWEC.

18. However, to bring the NDB close to the target established under the SMP, the authorities would need to go beyond the measures identified in the 2015 budget. In light of the recent policy slippages, including the imposition of the exchange rate directive, the budget support grants from donors, expected at around $22 million in the 2015 budget, are not likely to materialize, except for the health sector support grant of $5 million from the World Bank. The authorities are advised to get a firm grip on key public enterprises' (NAWEC, GAMTEL, and GAMCEL) cash flow and establish a monthly monitoring mechanism promptly. The staff strongly advised that the expanded business mandate of GGC should be put on hold before thorough business and financial analyses are completed. It is imperative that the authorities immediately stop funding the budget lines identified as a contingency in the 2015 budget.[10] In addition, the authorities should

[10] The identified contingency in the budget originally amounted to 1.1 percent of GDP, but the funding of these lines since the beginning of the year has lowered the size of the remaining contingency.

accelerate and expand the scope of the downsizing of diplomatic missions, auctioning off of official vehicles while strictly enforcing the vehicle entitlement policy, and sales of government-owned flats and land, beyond those committed under the SMP. Furthermore, the authorities are advised to find lower-priority spending to be postponed or canceled in the 2015 budget. These additional actions would bring down the NDB to about 5 percent of GDP in 2015. Most of the impact of the expanded downsizing of the diplomatic missions and rationalization of official vehicles would materialize only after 2015, but such measures would create larger permanent savings (see ¶23). The government should also identify additional measures to lower the NDB for the year as close as possible to the 1 percent of GDP as committed in the SMP.

Budget Support Grants and Loans
(In percentage of GDP)



Sources: Fund staff estimates.

19. Strong efforts by the authorities to bring the NDB close to the target in 2015 and to implement structural reforms under the SMP must be complemented by renewed efforts to attract more budget support grants after 2015 to ease the required fiscal consolidation. For the past several years The Gambia has received significantly smaller amounts of budget support from donors compared with other countries in the region (see text chart), in large part on account of its record of weak policy implementation. With improved policies and more active engagement with donors, there is much room for The Gambia to enhance the support it receives from donors. Enhanced donor support would help reduce the size of needed consolidation measures in 2016, discussed in ¶23, and reduce the domestic interest payment burden after 2016.

20. The authorities indicated that embarking on the recommended exchange rate and fiscal policies would have to await a consensus among the authorities on the assessment of macroeconomic risks. The CBG though shared the staff's concern on inflationary pressures and indicated that it was ready to further tighten the monetary policy stance, if necessary.

B. Medium-Term Agenda—Addressing Risks and Enhancing Growth

Buttressing Fiscal Sustainability

21. Creating fiscal buffers is essential to sustain macroeconomic stability and social progress over the medium term. The Gambia's experience indicates that repeated episodes of policy slippages, especially in the form of overspending, followed exogenous shocks. Furthermore, in recent years as external pressures emerged, the authorities resorted to exchange directives that are counter-productive to macroeconomic stability. The Gambia needs to move away from this cycle by rebuilding buffers and putting in place strong fiscal institutions that will allow more consistent implementation of good macroeconomic policies. Such developments, together with structural reforms and targeted investment in infrastructure, will help spur economic diversification and high growth that will help reduce poverty. Sustained strong policy implementation will also facilitate a stronger response from donors when shocks occur, enhancing The Gambia's ability to withstand shocks.

22. The staff urged the authorities to develop quickly measures to realize a deep restructuring of the budget beginning in 2016. To bring down the T-bill rates to levels consistent with fiscal sustainability, the government's NDB in 2016 should be contained close to the target of ½ percent of GDP under the SMP as indicated in the updated DSA (Figure 3). Given the one-off nature of some measures in 2015, and the higher than projected T-bill rates expected to prevail, significant additional saving measures will be necessary in 2016, beyond those to support the 2015 target.

23. The staff advised the authorities to promptly articulate the following measures to be implemented beginning in 2016:

- Streamlining the size of the public sector, including but not limited to a reduction of the number of ministries and government agencies;
- Implementing comprehensive civil service reforms to reduce substantially the number of personnel in the central administration and government agencies, and hence the wage bill beginning in 2016;
- Developing and strictly enforcing a new vehicles entitlement policy which restricts the access to official vehicles to those at and above permanent secretary levels, redesigning a new government vehicle scheme to keep the capital, maintenance, and running costs of government vehicles under control, including possible introduction of monetizing and capping such benefits, while selling all redundant vehicles;
- Further downsizing diplomatic missions in addition to that implemented in 2015; and
- Streamlining the country's membership in non-financial international organizations, which have been under the authorities' consideration.

These measures would contribute significantly towards bringing down the NDB to about 1 percent of GDP in 2016 (Box 4), but as the estimated savings are preliminary, the authorities should be ready to take additional measures if needed. Such a fiscal effort should reduce the T-bill rates substantially during 2016, and create space for priority spending within the NDB target of ½ percent of GDP after 2017. This fiscal path would be consistent with medium-term fiscal sustainability and help enhance The Gambia's medium-term growth prospects. It would also help them start rebuilding their gross international reserves to their medium-term target of 5 to 6 months of imports, which is line with the staff's estimated optimal level of reserves for The Gambia (see Annex I).[11]

Estimated fiscal saving impact of potential measures in 2016 (in percent of GDP)

Streamlining of the public sector	1.3
Reforming the official vehicle policy	1.5
Further downsizing diplomatic missions	1.2
Streamlining the country's membership	
in non-financial international organisations	0.1
Total	4.1

Source: Fund staff estimates.

[11] The optimal level of reserves under the alternative policy slippage scenario is estimated at 5¼ months of imports (Annex I). In light of the weak policy implementation capacity characterized by repeated policy slippages in recent years and the country's high vulnerability to external shocks, the staff and the CBG shared the view that it was appropriate for The Gambia to target a level of the international reserves of about 5–6 months of imports.

Box 4. The Gambia: Possible Measures to Create Permanent Budget Savings

Since the program supported by the previous ECF went off track in late 2013 mainly due to fiscal overspending, the staff and the MOFEA and other government officials have intensely discussed possible expenditure measures which could create significant amount of permanent fiscal savings. Based on such discussions, the staff sees room to create sizable savings in the following areas:

- **Streamlining the size of the public sector.** There are 22 ministries, 6 ministerial offices in the central government, and numerous subvention agencies. Meanwhile, the number of non-security civil service staff at the ministries and ministerial offices has increased by more than 50 percent since 2007. Staff estimates that a reduction of the wage bill by at least 20 percent could be implemented even with significant salary increases by substantially reducing the number of ministries and government agencies, as well as civil service personnel. A comprehensive public sector reform that encompasses all functions of the state would be needed to achieve permanent budget savings, improve efficiency and bring the costs of running the state within the resource envelope available to the government.
- **Reforming the official vehicle policy.** Total number of official vehicles is estimated at around 1,500 at the ministries and ministerial offices. Fuel and maintenance costs of these vehicles are fully covered by the budget. While only the officials above a certain grade are entitled to use official vehicles, the rule is not enforced strictly and it is allegedly often abused. By strictly limiting access to the usage of official vehicles, most of such vehicles could be auctioned off. Staff estimates that such auctioning off would create privatization proceeds of about 1 percent of GDP in 2016 and permanent budget savings of about ¼ percent of GDP in fuel and maintenance costs.
- **Downsizing diplomatic mission.** During the course of the discussions to bring the ECF back on track, the authorities indicated that the government could create a permanent saving of up to about 1 percent of GDP by closing down the embassies with lower strategic importance.
- **Rationalizing The Gambia's memberships in non-financial international organizations.** Similarly, the authorities examined the possibility to substantially reduce the number of the country's memberships in various international and regional organizations. It was estimated that it could create a saving of 0.1 percent of GDP by terminating memberships to lower priority organizations.

24. The authorities should firm up expeditiously the medium-term restructuring strategy on the energy and telecommunication sectors. This is critical to secure the planned fiscal adjustment over the medium term. The government is currently studying the recently received World Bank funded experts' report on a comprehensive energy sector reform strategy, with a view to articulating its medium-term action plans by end-September 2015. This will help secure the World Bank's energy sector support loan and donors' support to finance critical investments and build institutional capacity in the sector during 2016–17. By 2018, The Gambia is expected to be connected to a regional hydropower grid that could reduce the energy generation cost by as much as 90 percent, and help improve considerably the financial health of the energy sector and competitiveness of the country. With the help of the World Bank, the authorities are working out a detailed time-bound action plan for the next three years to substantially improve the performance of the telecommunication sector, with a view to completing it by March 2016. The envisaged reform plan could include (i) liberalizing the international voice gateway; (ii) promoting open access to telecommunications infrastructure and acceleration of broad band access; (iii) privatizing GAMTEL/GAMCEL; and (iv) modernizing the institutional and regulatory framework for the sector to meet international best practice.

25. While the staff welcomes the recent progress made to improve public debt management, prudent macroeconomic policy would be a key to avoid debt distress. The relevant departments of the Ministry of Finance and Economic Affairs (MOFEA) and the CBG hold a monthly meeting on both domestic and external debt to improve information exchange, which will lead to better forecasting of interest payments. The MOFEA recently sent to major SOEs a template for the database on debt and contingent liabilities with a view to completing the database by end-2015. It will help the authorities to plan ahead necessary contingency measures to deal with potential financial difficulties of state-owned enterprises after 2016. However, comprehensive fiscal consolidation and structural reforms in electricity and telecommunication sectors would have to be the cornerstone of efforts to protect the country from an elevated risk of public debt distress.

26. At the technical level the authorities concurred with the staff on the need to implement a deep budget restructuring beginning in 2016, but the political commitment for such actions is still lacking. The economic team, the MOFEA and the CBG, shared the mission's assessment of the urgency of the fiscal situation and the need for bold consolidation measures. However, the sensitive nature of the needed measures will require political support at the highest level. In the absence of a strong consensus among all government officials on the need for such measures, the process to secure the political support cannot be launched. Nonetheless, the staff advised the economic team to start preparing at a technical level measures to realize a deep restructuring of the budget to be implemented in 2016.

Shoring Up Financial Stability and Enhancing Financial Deepening

27. While the banking system is well capitalized and liquid, key macro-financial risks have emerged highlighting the damaging impact of fiscal distress on financial sector stability. Although The Gambia's financial soundness indicators are generally satisfactory, they mask underlying risks associated with commercial banks' high exposure to government debt (see text table). Credit risk stress testing recently conducted by the CBG with the help of MCM experts indicates that, while credit concentration risk is significant, The Gambia's banking sector is resilient to an increase in non-performing loans (NPLs). In addition, market risks appear manageable for both interest and exchange rate risks. However, prolonged high interest rates caused by the government's high NDB have been damaging to the private sector and to SOEs. In particular, the sharp increase in interest rates was instrumental in accelerating NAWEC's and GAMTEL/GAMCEL's financial problems reaching a crisis stage. Furthermore, credit to the private sector contracted by 7½ percent in 2014 and it continues to decline in 2015. Elevated interest rates

The Gambia: Financial Soundness Indicators-All Banks
(Period Average in Percent)

	2011	2012	2013	2014	2015Q1
Capital Adquacy					
Regulatory capital to risk weighted assets	27.1	30.2	27.7	29.8	31.4
Tier-1 Capital to risk weighted assets	28.2	31.2	28.5	30.5	....
Asset Quality					
Non-performing loans to gross loans	12.9	11.6	20.5	7.2	7.0
Earnings and Profitability					
Return on assets	0.0	2.0	1.6	11.7	0.56
Return on equity	0.2	8.0	11.1	73.4	3.97
Liquidity					
Liquid assets to short term liabilities	64.2	80.9	75.8	68.4	89.8
Memorandum items:					
Government debt held by commecial banks					
Percent of banks' total domestic assets	50.3	56.1	49.5	55.7	56.1

Source: Gambian authorities.

would pose the risk of rising NPLs and further crowding out credit to private sector, while exchange rate depreciation will deepen the financial distress of SOEs.

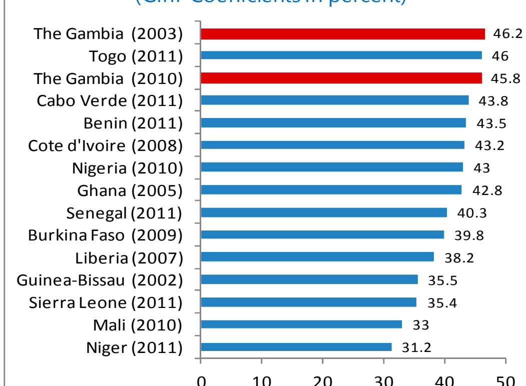
28. Staff encouraged the CBG to continue to step up measures to safeguard financial stability. The recent episode with the two problem banks, which were intervened by the CBG, point to some supervision gaps, particularly the need to upgrade credit risk stress testing, improve its strategy to deal with weak banks, and develop a resolution and crisis management framework. The CBG should take full advantage of the recent MCM TA mission on stress testing. The staff welcomes the CBG's progress in developing a bank resolution and crisis management framework which has recently been submitted to the West African Monetary Institute (WAMI) task force on regional crisis resolution frameworks. The commercial bank intervened by the CBG remains under its control and is improving its financial situation. The staff advised the CBG to divest its control of the bank by early 2017 at the latest in line with the recently articulated time-bound action plan approved by the high court. The staff advised that, in case the CBG could not find any investors for the bank within a reasonable time frame, it should liquidate the bank.

29. The authorities largely concurred with the staff's assessment and recommendations on financial sector stability. Going forward, the CBG plans to implement bank stress tests on a quarterly basis using the new stress testing template developed with assistance from the recent MCM TA mission. The CBG broadly agreed with the staff on the way forward to divesting the bank which is still under its control. The CBG and MOFEA staff recognized the importance of bringing back confidence on economic policy expeditiously to safeguard financial stability and boost financial deepening in The Gambia.

Enhancing Prospects for Inclusive Growth and Competitiveness

30. Although The Gambia has made visible progress in improving social indicators, there is still significant scope to enhance prospects for inclusive growth and competitiveness. The Gambia has made considerable efforts to improve its social indicators. In particular, child and maternal health indicators have improved significantly since 2000, while in the area of education, the youth female literacy rate improved by more than 20 percentage points since 2000. However, The Gambia's Gini coefficient is among the highest in the ECOWAS region, with poverty concentrated among the rural population. While over 60 percent of the population engage in agriculture, its productivity is low and the sector is highly vulnerable to erratic rainfall. Major impediments to international competitiveness, as well as to doing business more generally, include a costly and complicated tax system/administration, limited access to financing, and

ECOWAS: Cross Country Comparison of Inequality
(Gini-Coefficients in percent)



Sources: World Bank Development Indicators.

poor infrastructure, all of which have contributed to holding back growth.[12]

31. Staff encouraged the authorities to delineate a strategy to reduce vulnerability to droughts with a view to avoiding repeated down breaks in growth. The government recently began formulating a new National Development Plan (NDP)—a medium-term development blueprint for 2017–20—to succeed the current Programme for Accelerated Growth and Employment (*PAGE)*. The new NDP should prioritize continued investment in the water management system to boost agricultural productivity and rural incomes. While the recent development of the tourism sector has helped The Gambia diversify its economy, the *PAGE* recognizes the need for reforms to make progress towards further economic diversification to benefit from untapped potential in fisheries and agro-processing. This will require investment in infrastructure and improvement in the business environment.

32. In light of the elevated level of public debt, the government needs to prioritize infrastructure investment. The total public debt to GDP ratio reached 100 percent at end-2014. Even with the ambitious fiscal adjustments in line with the staff's proposed scenario, this ratio would still be above 80 percent until 2019.[13] In the immediate future, a scaling up of investment is not feasible given this debt situation, and hence strict prioritization of available resources is essential. A few key infrastructure projects are in the pipeline: a project to connect The Gambia to the regional hydropower grid and the Trans-Gambia River bridge construction. Given the weakness in the energy sector and the pressing need to address rural poverty, these two projects should be accorded high priority. These projects would also help realize the full potential of the tourism industry and reduce reliance on agriculture. They could generate opportunities to reinvigorate The Gambia's role as a regional trade center.

33. It is imperative to strengthen resource mobilization and the government's capacity to implement the key infrastructure projects. Given the limited budget resources, private sector participation will be needed for timely implementation of major infrastructure projects. Meanwhile, the government should strengthen project design, prioritization, and execution capacity. The government's recent efforts to strengthen the capacity to design and negotiate private-public partnerships (PPPs) and its move toward a program-based budgeting (PBB) approach are welcome. Staff reiterated that the authorities should not take on non-concessional external loans anymore, highlighting the elevated level of public debt.

34. There is room to enhance the business environment by reforming the tax system. Business surveys indicate that a costly and complicated tax system and administration is one of the factors holding back private investment and growth. A detailed study on tax expenditures to be initiated in the coming months, based on the recommendations of the recent FAD TA mission, would provide key inputs to simplify and rationalize business taxation over the medium term.

[12] This is discussed in more detail in Annex I on the analysis of competitiveness.

[13] The medium term anchor for fiscal policy is to lower the NDB to 0.5 percent of GDP in the medium term which would allow public debt fall below 80 percent by 2020 and interest payments to decline significantly.

Meanwhile, replacing the numerous "nuisance" local business fees with an updated property tax would help attract foreign direct investments. In order to modernize property evaluation system and improve revenue collection of property tax, the authorities would need an intensive capacity-building for property evaluation in the short-term and to introduce a rolling property assessment program over the medium term, as recommended by the FAD TA mission.

35. The authorities are advised to step up efforts to increase access to credit and promote private sector investment. The very high domestic interest rates are not only due to crowding out by the public sector and the tight monetary stance but also to legal and institutional difficulties in recovering loans and realizing collateral. In this context, the CBG with the collaboration of related ministries has made visible progress towards developing a Collateral Registry, which became operational in July 2015. Staff advised the CBG to encourage commercial banks to update the data in the Credit Reference Bureau in a timely manner. These measures will help to reduce lending risks and to lower lending rates for creditworthy borrowers.

36. The authorities agreed with staff's analysis and policy recommendations on inclusive growth. They explained that addressing infrastructure gaps in energy and transportation are key priorities. In particular, high energy costs and frequent power outages are not only a bottleneck for promoting economic diversification. High energy costs are also a drag on the financial health of GAMTEL/GAMCEL. They looked forward to The Gambia being connected to the regional hydro power grid, and considered it to be an important element to boost the country's medium term growth prospects. The authorities expected that a completion of the Trans-Gambia Bridge, scheduled for 2017, would greatly facilitate economic diversification, improve the productivity of the agriculture and fishery sectors, and help reduce rural poverty.

C. Other Surveillance Issues

37. Data provision and quality. Weaknesses in the national accounts and balance of payments statistics continue to hamper surveillance. Capacity constraints at the Gambia Bureau of Statistics (GBoS) and CBG, as well as insufficient source data, continue to be major obstacles to deriving quality data. As a result, staff estimates of GDP and the BOP have often differed from the authorities' figures. In addition, the base and the method of averaging used in calculating the consumer price index (CPI) is outdated and there are concerns that inflation has been underestimated. GBoS has been in the process of updating and rebasing its CPI data using the 2010 Integrated Household Survey. The authorities have been working closely with the joint international institutions (Fund, World Bank, AfDB, and IFAD) to improve the quality of economic and financial data, including funding for conducting the surveys and raw data collection that are needed to derive quality statistics.

38. Article VIII issues. Although the exchange rate arrangement of The Gambia is classified as floating, the Office of the President has issued five exchange rate directives that temporarily imposed overvalued fixed exchange rates since 2012: October 22–November 15, 2012; June 26–July 15, 2013; July 26–August 14, 2013; August 14–October 8, 2013; and May 4, 2015–present (see IMF Country Report No. 13/289). All of these directives have been rescinded, with the exception of the fifth directive which was issued on May 4th and is still in effect. LEG, in consultation with MCM, is assessing if the fifth directive gives rise to exchange restrictions or multiple currency practices in breach of The Gambia's obligations under Article VIII, Sections 2(a) and 3.

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39. Persistent policy slippages and sizable exogenous shocks in 2014 led to the emergence of serious macroeconomic vulnerabilities in The Gambia. Policy slippages since 2012, particularly loose fiscal policy, led to widening fiscal and external current account deficits. The regional Ebola outbreak, together with the delayed summer rains in 2014, widened these imbalances further. The authorities embarked on an economic program with a strong 2015 budget with an ambitious consolidation target and structural reforms.

40. The Fund supported The Gambia with an RCF disbursement in early April 2015. Consistent with its objective, the RCF disbursement helped The Gambia meet urgent balance of payments needs arising from the exogenous shock with a view to smoothing adjustment and mitigating volatility. The RCF was also expected to help catalyze further additional donor support. Donors committed to provide such assistance, but owing to the policy slippages the committed financing has only been partially disbursed. The Gambia did, however, benefit from increased donor support in 2014, notably the ECOWAS grant to help reform the energy sector.

41. The Gambian authorities committed to undertake strong policy measures monitored under an SMP to address their acute balance of payments needs. The Gambia faces a protracted balance of payments problem for which it needs to develop a medium-term consolidation strategy. Good implementation of the policies under the SMP together with RCF and donor financing would have provided The Gambian authorities the time needed to firm up such a strategy. Policy implementation until mid-April 2015 was in line with the commitments under the SMP and the economic outlook was positive.

42. Policy slippages in recent months, however, severely worsened the outlook and The Gambia is now facing a dire economic situation. The imposition of a significantly overvalued exchange rate has exacerbated foreign exchange shortages, reduced government revenue collection, pushed up the already-high T-bill rates, and raised inflationary pressures. Spending pressures too have reemerged since the RCF disbursement. These policy slippages have pushed the SMP off track and led to a suspension of donor support. In the absence of prompt implementation of strong corrective actions, going beyond those committed under the SMP, The Gambia's external viability and fiscal sustainability are at grave risk.

43. The recent policy slippages should be unwound expeditiously to rebuild confidence. The exchange rate directive had been highly counterproductive and should be rescinded immediately. The flexible exchange rate regime had served The Gambia well: staff's assessment is that the prevailing market exchange rate was broadly in equilibrium at the time the directive was imposed. To unwind expenditure pressures thus far this year and compensate for lower budget support grant disbursements, the authorities should promptly implement contingency measures, in addition to those stipulated in the 2015 budget. This will help support the fiscal position in 2015 and restore confidence in economic policy implementation. The authorities should also work closely with the donor community to ensure external budget support is brought in line with program commitments.

44. It is vital to rebuild fiscal buffers to sustain macroeconomic stability and social progress over the medium term. The authorities should articulate expeditiously measures to realize a deep budget restructuring beginning in 2016 to reduce the T-bill rates substantially, buttress medium-term fiscal sustainability, and create space for priority spending. Bold civil service reforms to drastically reduce the wage bill, an overhaul in government's vehicle policy, and rationalization of diplomatic missions could create a sizable amount of permanent savings. A medium-term strategy to restructure the energy and telecommunication sectors should be articulated during the year to support fiscal sustainability from 2016 onwards and enhance prospects for inclusive growth and competitiveness.

45. Many government officials agreed with the staff on the urgent need for strong corrective actions, but staff regrets that political support for such actions is yet to emerge. Delaying implementation of the difficult corrective measures that will be needed could lead to a very costly forced adjustment. The staff considers it important for the economic team to start preparing at a technical level the necessary measures to bring economic policy back on track.

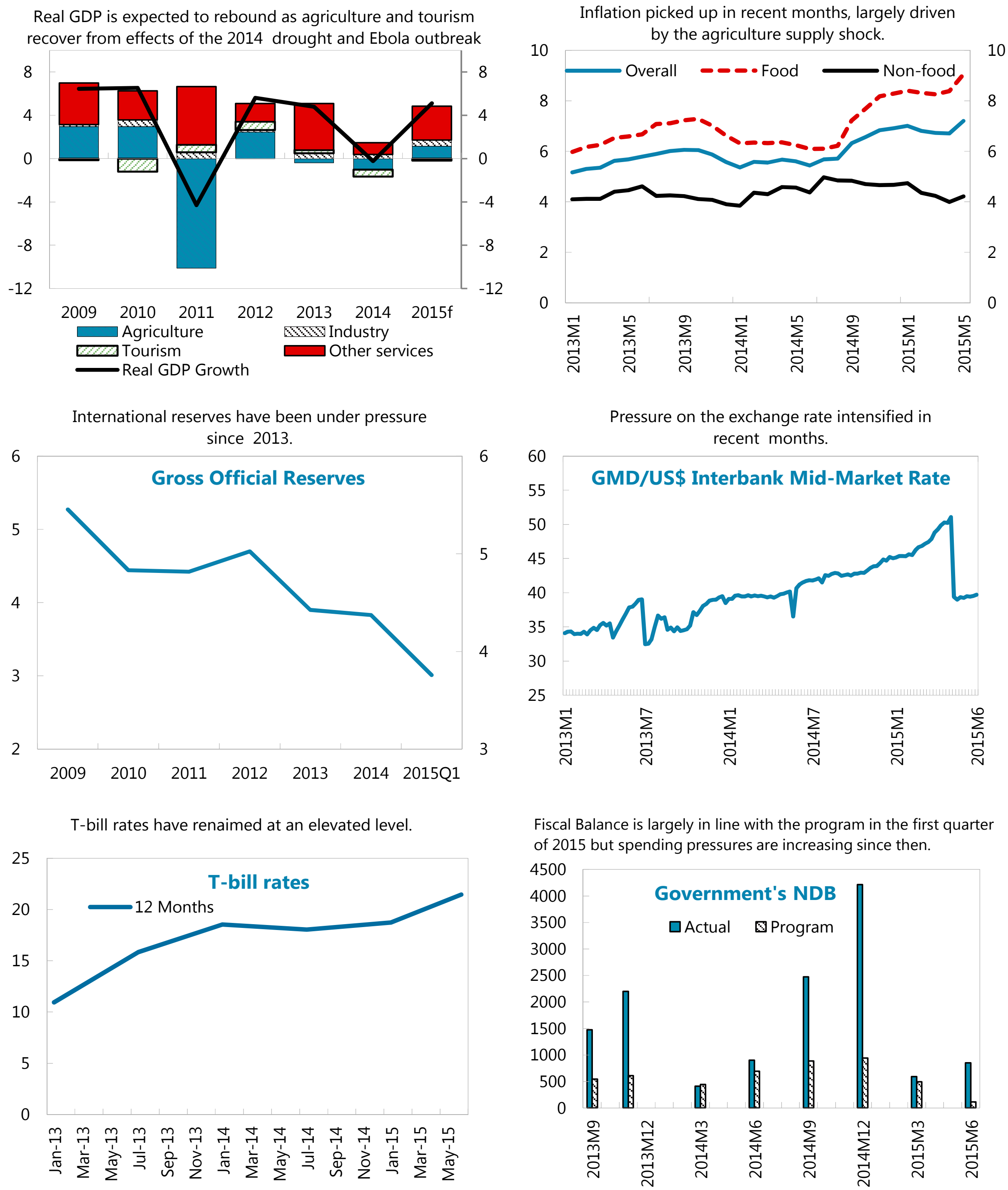
46. The CBG's continued efforts to shore up financial stability are welcome. Although The Gambia's financial soundness indicators are generally satisfactory, they mask underlying risks associated with commercial banks' high exposure to government debt. Steps to improve fiscal policy implementation and restore macroeconomic stability are critical to mitigate the emerging risks in the financial sector. In this regard, the CBG's efforts to improve its supervision of banks and crisis management capacity are timely. Early divestiture of the bank which was intervened by the CBG in 2014 and is still under its control, would help build confidence in the CBG's capacity to supervise the banking system.

47. Although The Gambia has realized significant social gains, there remains ample room to enhance prospects for inclusive growth and competitiveness. Poverty is concentrated in the rural area and productivity in agriculture is low. Efforts to improve infrastructure in energy and transportation, will be key to enhance diversification from agriculture and address rural poverty. It will also create a better business environment, and help realize The Gambia's full potential in developing the tourism sector. In light of the elevated level of public debt, the government should prioritize infrastructure investments which will help it to meet these objectives. The ongoing construction of the Trans-Gambia Bridge and connection to the regional hybrid power grid could considerably improve prospects for competitiveness and growth.

48. Weak economic data continue to hamper effective policy making and surveillance. Staff encourages the authorities working closely with the joint international institutions (Fund, World Bank, AfDB, and IFAD) to improve the quality of economic and financial data, and ensure that adequate resources are allocated for the production of statistical data, including staffing and training. Staff puts particular emphasis on the statistics of national accounts and balance of payments statistics.

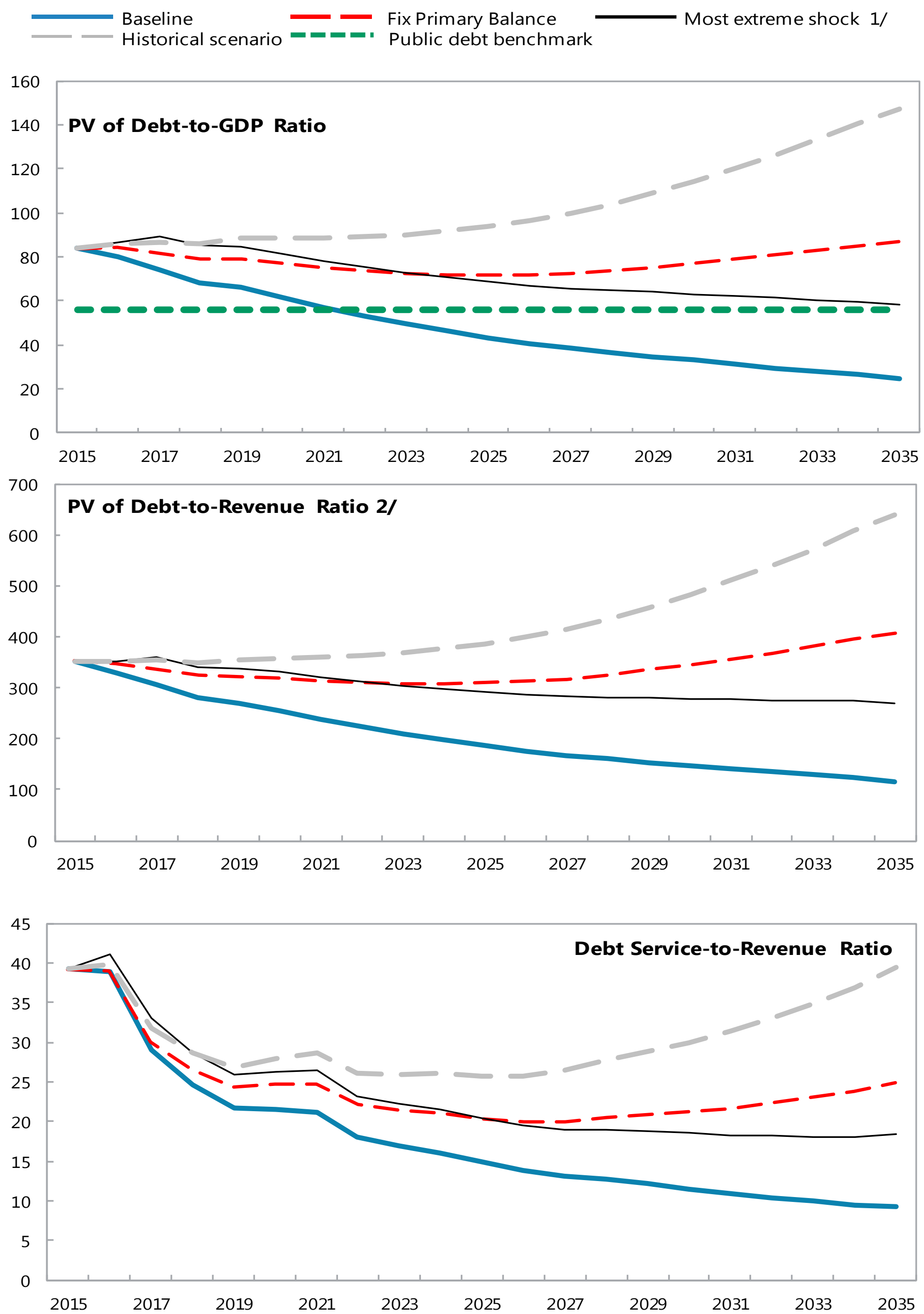
49. Staff recommends that the next Article IV consultation with The Gambia should be held on a standard 12-month cycle.

Figure 1. The Gambia: Recent Economic Developments, 2009–15



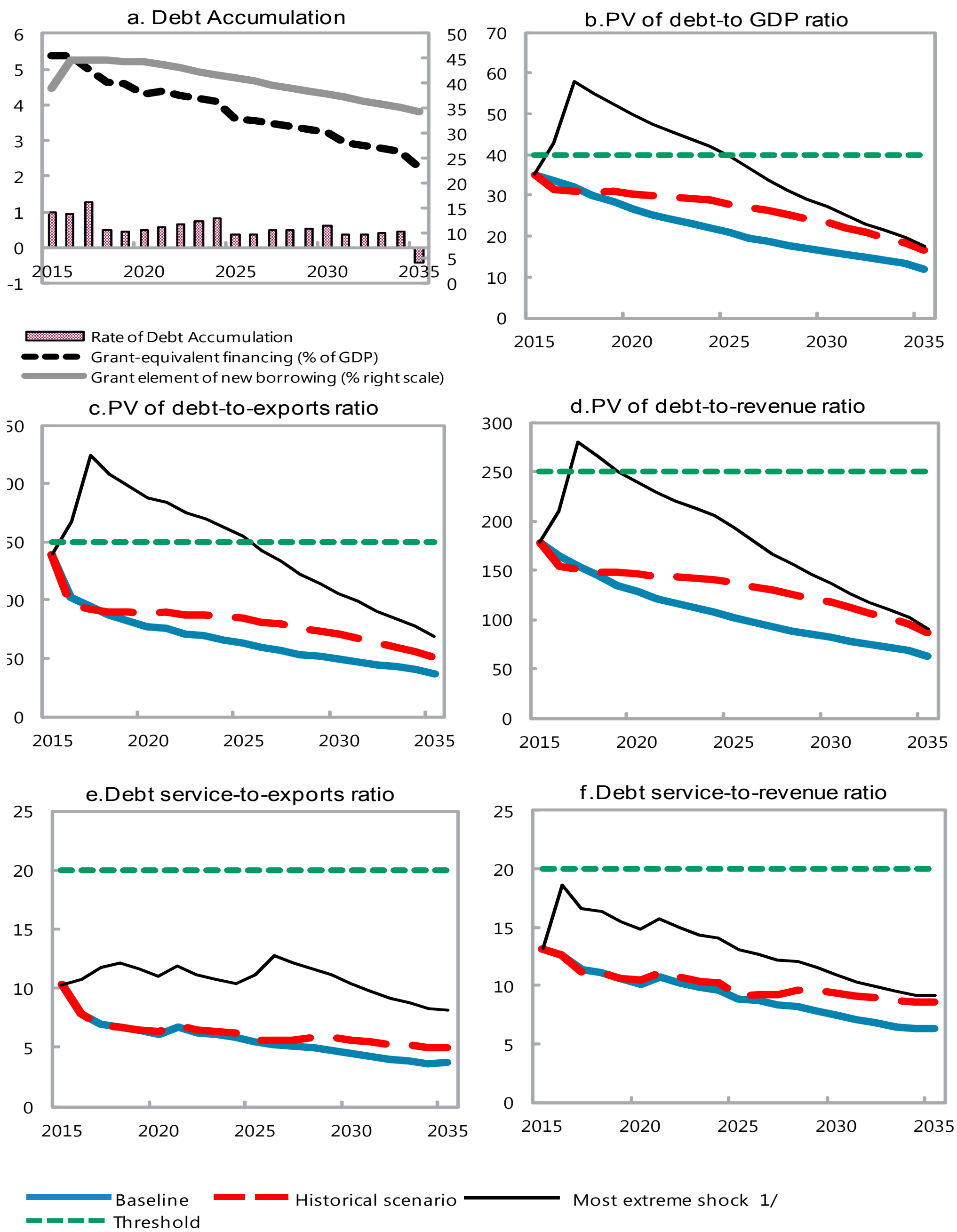
Source: Gambian authorities; and Fund staff estimates and projections.

Figure 2. The Gambia: Indicators of Public Debt Under Staff's Proposed Baseline and Alternative Scenarios, 2015–35 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 2025.
2/ Revenues are defined inclusive of grants.

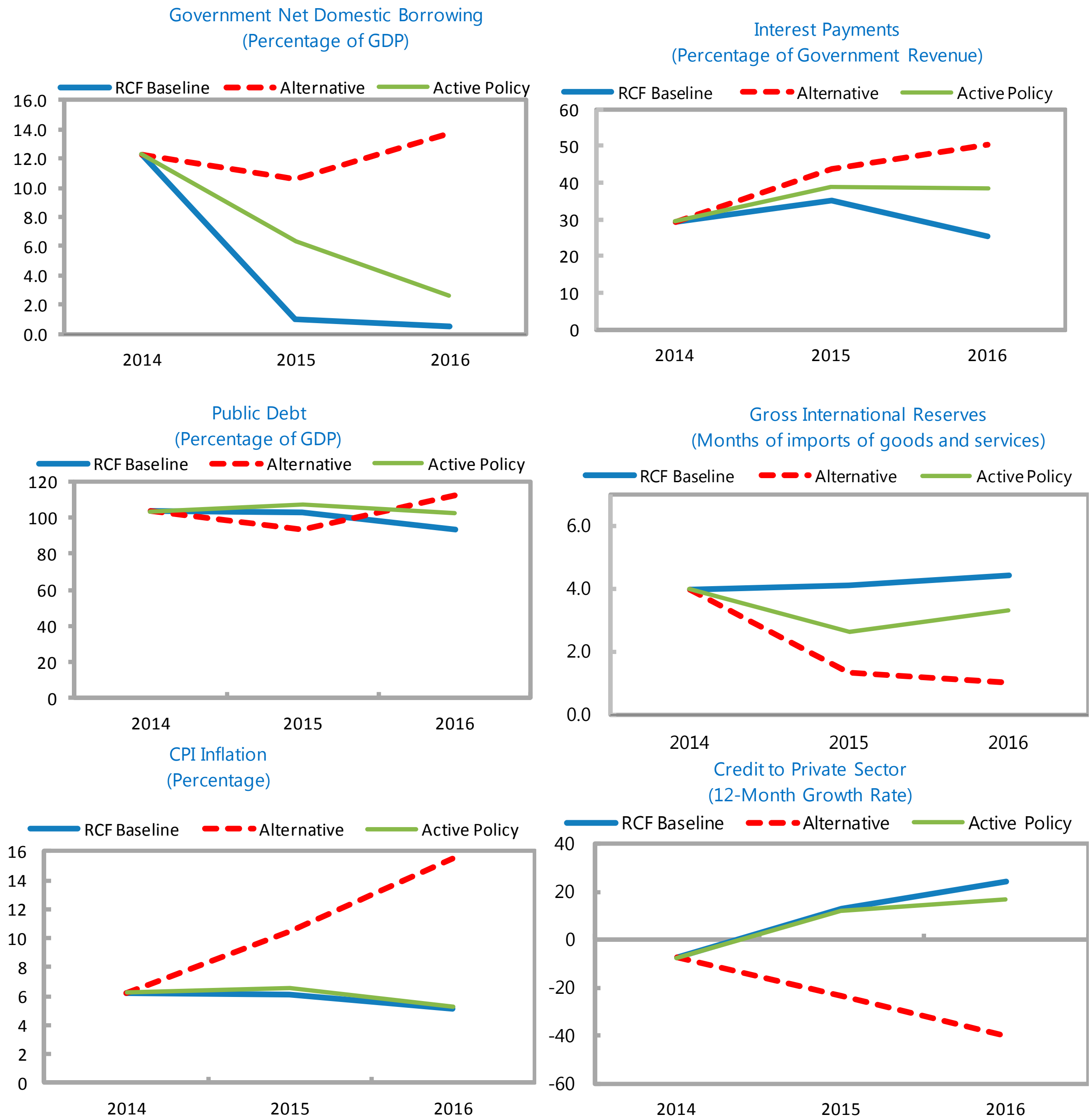
Figure 3. The Gambia: Indicators of Public and Publicly Guaranteed External Debt Under Staff's Proposed Baseline and Alternative Scenarios, 2015–35 1/



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 2025. In figure b. it corresponds to a Combination shock; in c. to a Combination shock; in d. to a Combination shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

Figure 4. The Gambia: Rapid Credit Facility Baseline, Active Policy and Alternative Scenarios



Sources: Gambian authorities and Fund staff estimates.

1/ Alternative scenario assumes that the exchange rate is fixed at 40 GMD/$ until end- 2015 in line with the recently imposed directive and fiscal slippages will continue unresolved. In particular no public enterprise reform and no corrective actions on overspending pressures will be implemented. The fixed exchange rate will lead to a loss of competitiveness particularly in the tourism sector and worsen the current account balance. Together, the policy slippages would lead to a loss of confidence among investors, capital flight, discourage direct investment and a spike in T-Bill rates. External budget support grants will be ceased throughout the period.

Table 1. The Gambia: Selected Economic Indicators

	2010 Act.	2011 Act.	2012 Act.	2013 Act.	2014 Prel.	2015 Active Policy Scenario	2016 Active Policy Scenario	2017 Active Policy Scenario	2018 Active Policy Scenario	2019 Active Policy Scenario	2020 Active Policy Scenario
National account and prices	(Percent change; unless otherwise indicated)										
Nominal GDP (millions of dalasi)	26,662	26,465	29,191	32,320	34,380	38,203	42,372	47,459	52,659	58,429	64,831
Nominal GDP	11.1	-0.7	10.3	10.7	6.4	11.1	10.9	12.0	11.0	11.0	11.0
GDP at constant prices	6.5	-4.3	5.6	4.8	-0.2	4.7	5.5	7.0	5.9	5.9	5.9
GDP per capita (US$)	551	506	499	479	427	385	373	394	414	435	456
GDP deflator	4.3	3.7	4.5	5.7	6.6	6.2	5.1	4.6	4.8	4.8	4.8
Consumer prices (average)	5.0	4.8	4.6	5.2	6.2	6.5	5.3	5.0	5.0	5.0	5.0
Consumer prices (end of period)	5.8	4.4	4.9	5.5	6.9	6.0	4.7	5.2	5.0	5.0	5.0
External sector											
Exports, f.o.b.	0.9	7.0	22.6	5.4	-6.6	-9.1	8.8	5.3	7.6	4.1	5.5
Of which: domestic exports	1.0	0.9	66.1	-37.2	6.8	-11.4	-1.4	15.0	-5.8	5.2	8.9
Imports, f.o.b.	5.3	-6.1	11.3	-6.7	10.2	-12.9	1.5	8.2	9.7	7.7	7.8
Terms of trade (deterioration -)	-1.1	18.0	2.3	13.5	-0.7	21.1	4.8	-1.2	2.0	-0.2	2.4
NEER change (depreciation -)[1]	-1.2	-6.5	-11.2	-10.6	...	...	...	...	...	...	...
REER (depreciation -)[1]	0.6	-5.7	0.3	-7.5	...	...	...	...	...	...	...
	(Percent change; in beginning-of-year broad money)										
Broad money	13.7	11.0	7.8	15.1	11.2	11.0	15.0	14.0	14.0	14.0	14.0
Net foreign assets	1.3	5.6	2.3	-2.5	0.5	-7.2	8.3	8.7	9.5	9.7	8.6
Net domestic assets, of which:	12.3	5.4	5.5	17.7	10.7	18.2	6.7	5.3	4.5	4.3	5.4
Credit to the government (net)	16.8	8.2	6.1	13.4	15.8	9.7	2.4	0.9	0.9	0.9	0.8
Credit to the private sector (net)	4.7	2.8	1.3	6.2	-2.4	3.2	4.4	4.1	4.1	3.2	3.6
Other items (net)	-10.1	-5.2	-1.7	-2.2	-2.2	2.1	-1.6	-0.8	-0.5	0.3	-0.7
Velocity (level)	2.0	1.8	1.8	1.8	1.7	1.7	1.6	1.6	1.6	1.5	1.5
Average treasury bill rate (in percent)[2]	11.3	10.0	10.4	17.1	...	...	...	...	...	...	...
Central government budget	(In percent of GDP; unless otherwise indicated)										
Domestic revenue (taxes and other revenues)	14.9	16.1	16.4	16.3	18.7	19.7	20.5	20.8	20.8	21.0	20.9
Grants	4.0	5.1	8.9	2.2	3.7	4.0	3.8	3.4	3.6	3.6	3.3
Total expenditures and net acquisition of financial assets	24.3	25.8	29.8	27.2	35.4	31.7	27.9	26.0	25.0	25.3	25.0
Net incurrence of liabilities	3.7	4.3	4.3	8.8	13.2	8.0	3.6	1.8	0.7	0.7	0.8
Foreign	1.5	0.8	1.1	1.8	1.1	1.7	0.9	1.3	0.2	0.2	0.3
Domestic	2.2	3.5	3.2	7.0	12.1	6.3	2.6	0.5	0.5	0.5	0.5
Basic balance	-2.9	-2.1	-2.1	-5.2	-8.3	-5.2	-0.9	1.2	0.9	0.0	0.1
Public debt	69.6	77.3	77.0	83.3	101.1	107.6	102.4	95.0	87.9	84.4	78.7
Domestic public debt	29.4	33.2	33.3	37.1	47.0	48.6	46.4	41.9	38.3	37.9	35.0
External public debt	40.2	44.1	43.7	46.2	54.2	59.0	56.0	53.1	49.6	46.5	43.8
External public debt (millions of US$)	377.6	386.2	375.8	394.1	411.2	410.0	418.3	431.4	435.5	440.1	447.0
External sector											
Current account balance											
Excluding budget support	-16.3	-12.3	-8.9	-10.2	-15.5	-21.6	-11.9	-11.0	-10.6	-10.6	-10.5
Including budget support	-16.3	-12.3	-7.9	-10.2	-13.1	-17.3	-11.1	-10.2	-9.8	-9.7	-9.7
Current account balance	(Millions of U.S. dollars; unless otherwise indicated)										
Excluding budget support	-155.1	-110.3	-81.3	-91.6	-127.5	-164.4	-90.2	-90.4	-94.7	-102.0	-108.5
Including budget support	-155.1	-110.3	-72.1	-91.6	-108.0	-131.8	-84.0	-83.9	-87.1	-93.3	-101.0
Overall balance of payments	-23.8	8.4	0.1	-23.6	-18.7	-37.1	37.4	32.9	34.1	42.1	34.9
Gross official reserves	157.6	169.7	183.8	161.1	111.9	80.2	111.5	136.9	163.1	198.6	229.4
in months of next year's imports of goods and services	5.1	5.1	6.0	4.8	3.7	2.6	3.3	3.8	4.2	4.7	5.1
Use of Fund resources	(Millions of SDRs)										
Disbursements	2.0	2.3	9.3	1.6	0.0	7.8	0.0	0.0	0.0	0.0	0.0
Repayments	0.0	0.0	-0.2	-1.0	-2.1	-3.8	-4.3	-5.2	-5.5	-4.6	-2.8
Financing gap (possible ECF financing)	0.0	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.

[1] Percentage change between December of the previous year and December of the current year.

[2] Average for the month of December.

Table 2. The Gambia: Statement of Central Government Operations

(In millions of local currency)

	2010 Act.	2011 Act.	2012 Act.	2013 Act.	2014 Prel.	2015 Active Policy Scenario	2016 Active Policy Scenario	2017 Active Policy Scenario	2018 Active Policy Scenario	2019 Active Policy Scenario	2020 Active Policy Scenario
Revenue	5,026	5,619	7,397	5,992	7,720	9,060	10,374	11,504	12,936	14,393	15,781
Taxes	3,528	3,780	4,221	4,579	5,529	6,799	7,693	8,690	9,721	10,832	11,999
Taxes on income, profits, and capital gains	1,109	1,225	1,520	1,384	1,595	1,704	1,924	2,163	2,404	2,671	2,963
Domestic taxes on goods and services	1,500	1,683	1,833	1,899	2,349	2,898	3,275	3,701	4,139	4,613	5,109
Taxes on international trade and transactions	867	830	856	1,286	1,544	2,131	2,421	2,744	3,088	3,448	3,815
Other taxes	53	42	12	10	41	66	73	81	90	100	111
Grants	1,065	1,355	2,611	725	1,285	1,540	1,619	1,621	1,888	2,087	2,147
Budget support	0	0	296	0	0	251	345	285	450	529	469
Project grants	1,065	1,355	2,315	725	1,285	1,289	1,274	1,335	1,438	1,558	1,677
Other revenues	433	484	565	688	906	722	1,062	1,194	1,326	1,474	1,635
Expenditures	6,292	6,871	8,675	8,753	11,141	11,448	11,593	12,022	13,280	14,797	16,296
Expenses	3,948	4,579	5,068	6,451	7,250	8,377	8,124	7,758	7,759	8,234	9,076
Compensation of employees	1,516	1,693	1,804	1,889	1,910	2,150	1,612	1,772	1,869	2,074	2,302
Use of goods and services	1,106	1,273	1,540	2,009	2,117	1,930	1,933	2,029	2,130	2,364	2,623
Interest	766	967	1,079	1,307	1,895	2,918	3,356	2,673	2,410	2,300	2,491
External	137	183	202	250	213	357	447	460	474	487	501
Domestic	629	785	877	1,057	1,682	2,561	2,909	2,212	1,937	1,813	1,991
Subsidies	561	646	645	1,246	1,328	1,380	1,224	1,284	1,349	1,496	1,660
Net acquisition of nonfinancial assets	2,344	2,292	3,607	2,302	3,891	3,071	3,469	4,263	5,521	6,563	7,220
Acquisitions of nonfinancial assets	2,344	2,292	3,607	2,302	3,891	3,071	3,469	4,263	5,521	6,563	7,220
Foreign financed[1]	1,744	1,985	3,308	1,823	3,232	2,593	2,755	3,039	2,687	2,495	2,707
Gambia local fund	599	307	299	479	659	478	714	1,224	2,834	4,067	4,513
Gross Operating Balance	1,078	893	2,328	-459	470	683	2,250	3,746	5,177	6,159	6,704
Net lending (+)/borrowing (–)	-1,266	-1,252	-1,278	-2,760	-3,421	-2,388	-1,219	-517	-344	-404	-516
Net acquisition of financial assets	178	-56	24	26	1,375	652	288	326	0	0	0
Net incurrence of liabilities	973	1,150	1,261	2,852	4,877	3,040	1,507	843	344	404	516
Domestic	586	926	945	2,273	4,161	2,403	1,105	221	261	294	328
Net borrowing[2]	683	904	1,042	2,310	4,216	1,977	535	221	261	294	327.9
Bank	887	1,094	906	2,137	2,897	1,977	535	363	305	395	355
Nonbank	-204	-190	136	173	1,319	0	0	-142	-44	-101	-27
Change in arrears	-97	16	-98	-37	-54	0	0	0	0	0	0
Privatization proceeds	0	6	0	0	0	426	570	0	0	0	0
Foreign	387	224	317	579	716	637	402	622	83	110	188
Loans	387	224	317	579	716	637	402	622	83	110	188
Borrowing	742	630	852	1,135	1,948	1,705	1,481	1,704	1,249	1,339	1,471
Amortization	-355	-406	-535	-556	-1,232	-1,068	-1,078	-1,082	-1,166	-1,229	-1,283
Statistical discrepancy[3]	470	46	40	-66	-80	0	0	0	0	0	0
Memorandum items:											
Government revenue (excluding grants)	3,961	4,264	4,786	5,267	6,435	7,520	8,755	9,884	11,048	12,305	13,634
Overall balance	-1,444	-1,195	-1,302	-2,852	-4,797	-3,040	-1,507	-843	-344	-404	-516
Basic balance[4]	-765	-565	-605	-1,688	-2,849	-1,987	-371	576	455	4	45
Basic primary balance[5]	1	402	474	-381	-954	931	2,984	3,248	2,866	2,303	2,536
Domestic public debt	7,847	8,773	9,718	11,991	16,152	18,555	19,660	19,881	20,143	22,120	22,654
Interest payments as a percent of government rev	19.3	22.7	22.5	24.8	29.4	38.8	38.3	27.0	21.8	18.7	18.3

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] In 2012, target under the ECF was adjusted downwrad to GMD 667 million reflecting donor-provided drought relief.

[3] The difference between financing and the overall balance of revenue and expenditures. In 2015, it is the remaining financing gap.

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

[5] Basic balance, excluding interest payments.

Table 3. The Gambia: Statement of Central Government Operations

(In percent of GDP)

	2010 Act.	2011 Act.	2012 Act.	2013 Act.	2014 Prel.	2015 Active Policy Scenario	2016 Active Policy Scenario	2017 Active Policy Scenario	2018 Active Policy Scenario	2019 Active Policy Scenario	2020 Active Policy Scenario
Revenue	18.9	21.2	25.3	18.5	22.5	23.7	24.5	24.2	24.6	24.6	24.3
Taxes	13.2	14.3	14.5	14.2	16.1	17.8	18.2	18.3	18.5	18.5	18.5
Taxes on income, profits, and capital gains	4.2	4.6	5.2	4.3	4.6	4.5	4.5	4.6	4.6	4.6	4.6
Domestic taxes on goods and services	5.6	6.4	6.3	5.9	6.8	7.6	7.7	7.8	7.9	7.9	7.9
Taxes on international trade and transactions	3.3	3.1	2.9	4.0	4.5	5.6	5.7	5.8	5.9	5.9	5.9
Other taxes	0.2	0.2	0.0	0.0	0.1	0.2	0.2	0.2	0.2	0.2	0.2
Grants	4.0	5.1	8.9	2.2	3.7	4.0	3.8	3.4	3.6	3.6	3.3
Budget support	0.0	0.0	1.0	0.0	0.0	0.7	0.8	0.6	0.9	0.9	0.7
Project grants	4.0	5.1	7.9	2.2	3.7	3.4	3.0	2.8	2.7	2.7	2.6
Other revenues	1.6	1.8	1.9	2.1	2.6	1.9	2.5	2.5	2.5	2.5	2.5
Expenditures	23.6	26.0	29.7	27.1	32.4	30.0	27.4	25.3	25.2	25.3	25.1
Expenses	14.8	17.3	17.4	20.0	21.1	21.9	19.2	16.3	14.7	14.1	14.0
Compensation of employees	5.7	6.4	6.2	5.8	5.6	5.6	3.8	3.7	3.6	3.6	3.6
Use of goods and services	4.1	4.8	5.3	6.2	6.2	5.1	4.6	4.3	4.0	4.0	4.0
Interest	2.9	3.7	3.7	4.0	5.5	7.6	7.9	5.6	4.6	3.9	3.8
External	0.5	0.7	0.7	0.8	0.6	0.9	1.1	1.0	0.9	0.8	0.8
Domestic	2.4	3.0	3.0	3.3	4.9	6.7	6.9	4.7	3.7	3.1	3.4
Subsidies	2.1	2.4	2.2	3.9	3.9	3.6	2.9	2.7	2.6	2.6	2.6
Net acquisition of nonfinancial assets	8.8	8.7	12.4	7.1	11.3	8.0	8.2	9.0	10.5	11.2	11.1
Acquisitions of nonfinancial assets	8.8	8.7	12.4	7.1	11.3	8.0	8.2	9.0	10.5	11.2	11.1
Foreign financed[1]	6.5	7.5	11.3	5.6	9.4	6.8	6.5	6.4	5.1	4.3	4.6
Gambia local fund	2.2	1.2	1.0	1.5	1.9	1.3	1.7	2.6	5.4	7.0	7.0
Gross Operating Balance	4.0	3.4	8.0	-1.4	1.4	1.8	5.3	7.9	9.8	10.5	10.3
Net lending (+)/borrowing (–)	-4.7	-4.7	-4.4	-8.5	-10.0	-6.3	-2.9	-1.1	-0.7	-0.7	-0.8
Net acquisition of financial assets	0.7	-0.2	0.1	0.1	4.0	1.7	0.7	0.7	0.0	0.0	0.0
Net incurrence of liabilities	3.7	4.3	4.3	8.8	14.2	8.0	3.6	1.8	0.7	0.7	0.8
Domestic	2.2	3.5	3.2	7.0	12.1	6.3	2.6	0.5	0.5	0.5	0.5
Of which											
Net borrowing[2]	2.6	3.4	3.6	7.1	12.3	5.2	1.3	0.5	0.5	0.5	0.5
Bank	3.3	4.1	3.1	6.6	8.4	5.2	1.3	0.8	0.6	0.7	0.5
Nonbank	-0.8	-0.7	0.5	0.5	3.8	0.0	0.0	-0.3	-0.1	-0.2	0.0
Change in arrears	-0.4	0.1	-0.3	-0.1	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Privatization proceeds	0.0	0.0	0.0	0.0	0.0	1.1	1.3	0.0	0.0	0.0	0.0
Foreign	1.5	0.8	1.1	1.8	2.1	1.7	0.9	1.3	0.2	0.2	0.3
Loans	1.5	0.8	1.1	1.8	2.1	1.7	0.9	1.3	0.2	0.2	0.3
Borrowing	2.8	2.4	2.9	3.5	5.7	4.5	3.5	3.6	2.4	2.3	2.3
Amortization	-1.3	-1.5	-1.8	-1.7	-3.6	-2.8	-2.5	-2.3	-2.2	-2.1	-2.0
Statistical discrepancy[3]	1.6	0.2	0.1	-0.2	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:											
Taxes (in percent of non-agricultural GDP)	18.6	17.6	18.2	17.5	19.5	21.7	22.2	22.3	22.5	22.5	22.4
Government revenue (excluding grants)	14.9	16.1	16.4	16.3	18.7	19.7	20.7	20.8	21.0	21.1	21.0
Overall balance	-5.4	-4.5	-4.5	-8.8	-14.0	-8.0	-3.6	-1.8	-0.7	-0.7	-0.8
Basic balance[4]	-2.9	-2.1	-2.1	-5.2	-8.3	-5.2	-0.9	1.2	0.9	0.0	0.1
Basic primary balance[5]	0.0	1.5	1.6	-1.2	-2.8	2.4	7.0	6.8	5.4	3.9	3.9
Domestic public debt	29.4	33.2	33.3	37.1	47.0	48.6	46.4	41.9	38.3	37.9	34.9

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] In 2012, target under the ECF was adjusted downwrad to GMD 667 million reflecting donor-provided drought relief.

[3] The difference between financing and the overall balance of revenue and expenditures. In 2015, it is the remaining financing gap.

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

[5] Basic balance, excluding interest payments.

Table 4. The Gambia: Monetary Accounts[1]

(In millions of local currency, unless otherwise indicated)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
	Act.	Act.	Act.	Act.	Prel.	Active Policy Scenario	Active Policy Scenario	Active Policy Scenario	Active Policy Scenario	Active Policy Scenario	Active Policy Scenario
I. Monetary Survey											
Net foreign assets	3,808	4,548	4,883	4,481	4,574	3,113	4,997	7262	10067	13,346	16,658
in millions of U.S. dollars	134	150	144	118	101	57	88	124	168	216	262
Net domestic assets	9,485	10,205	11,019	13,828	15,791	19,491	20,999	22,373	23,716	25,167	27,250
Domestic credit	10,161	11,570	12,628	15,792	18,164	21,440	23,308	24,882	26,375	27,741	30,079
Claims on central government (net)	5,041	6,135	7,042	9,179	12,076	14,053	14,587	14,826	15,088	15,383	15,707
Claims on other financial corporations	10	12	12	10	6	6	6	6	6	6	6
Claims on other public sector[2]	870	811	765	807	721	1,369	1,712	1,969	1,988	1,988	2,622
Claims on private sector	4,240	4,612	4,809	5,797	5,361	6,012	7,002	8,081	9,292	10,363	11,743
Other items (net)[3]	-677	-1,365	-1,609	-1,963	-2,373	-1,949	-2,309	-2,509	-2,659	-2,573	-2,829
Broad money	13,292	14,753	15,902	18,309	20,365	22,605	25,995	29,635	33,784	38,513	43,908
Currency outside banks	2,065	2,376	2,819	3,255	3,508	3,894	4,478	5,105	5,820	6,634	7,563
Deposits, of which:	11,228	12,377	13,083	15,054	16,857	18,711	21,517	24,530	27,964	31,879	36,345
	7,270	8,087	8,506	8,791	9,882	10,969	12,615	14,381	16,394	18,689	21,305
II. Central Bank Survey											
Net foreign assets	2,452	3,088	3,415	2,834	1,486	26	2,026	4,172	6,551	9,741	12,970
Foreign assets	4,637	5,517	6,618	6,454	5,415	4,357	6,171	8,030	10,068	12,983	16,075
Foreign liabilities	-2,185	-2,429	-3,203	-3,620	-3,929	-4,331	-4,145	-3,858	-3,518	-3,242	-3,105
Net domestic assets	1,052	846	788	2,548	4,535	6,675	5,680	4,612	3,464	1,675	120
Domestic credit	644	703	593	2,604	4,499	4,599	4,699	4,749	4,749	4,663	5,055
Claims on central government (net)	588	649	529	2,539	4,407	4,507	4,607	4,657	4,657	4,657	4,657
Claims on other financial corporations	10	12	12	10	6	6	6	6	6	6	6
Claims on private sector	46	42	51	56	86	86	86	86	86	0	220
Claims on public enterprises	0	0	0	0	0	0	0	0	0	0	137
Other items (net)[3]	408	143	196	-56	36	2,075	981	-137	-1,285	-2,988	-4,935
Reserve money	3,503	3,934	4,203	5,383	6,021	6,701	7,706	8,784	10,014	11,416	13,089
Currency outside banks	2,065	2,376	2,819	3,255	3,508	3,894	4,478	5,105	5,820	6,634	7,563
Commercial bank deposits	1,439	1,558	1,384	2,127	2,513	2,807	3,228	3,679	4,195	4,782	5,526

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]

(Percent change, unless otherwise indicated)

	2010 Act.	2011 Act.	2012 Act.	2013 Act.	2014 Prel.	2015 Active Policy Scenario	2016 Active Policy Scenario	2017 Active Policy Scenario	2018 Active Policy Scenario	2019 Active Policy Scenario	2020 Active Policy Scenario
I. Monetary Survey (Percent change; in beginning of period broad money)											
Broad money	13.7	11.0	7.8	15.1	11.2	11.0	15.0	14.0	14.0	14.0	14.0
Net foreign assets	1.3	5.6	2.3	-2.5	0.5	-7.2	8.3	8.7	9.5	9.7	8.6
Net domestic assets	12.3	5.4	5.5	17.7	10.7	18.2	6.7	5.3	4.5	4.3	5.4
II. Central Bank Survey (Percent change; in beginning of period monetary base)											
Reserve money	10.5	12.3	6.8	28.1	11.9	11.3	15.0	14.0	14.0	14.0	14.7
Net foreign assets	-16.7	18.2	8.3	-13.8	-25.0	-24.3	29.8	27.9	27.1	31.9	28.3
Net domestic assets	27.2	-5.9	-1.5	41.9	36.9	35.5	-14.8	-13.9	-13.1	-17.9	-13.6
Memorandum Items:											
Growth of credit to the private sector	14.8	8.8	4.3	20.5	-7.5	12.1	16.5	15.4	15.0	11.5	13.3
Growth of currency in circulation	3.0	15.1	18.6	15.5	7.8	11.0	15.0	14.0	14.0	14.0	14.0
Growth of demand deposits	10.1	8.4	6.7	36.8	11.4	11.0	15.0	14.0	14.0	14.0	14.0
Growth of time and savings deposits	19.3	11.2	5.2	3.3	12.4	11.0	15.0	14.0	14.0	14.0	14.0
Net usable international reserves (in millions of U.S. dollars)[2]	126.5	135.1	135.1	111.4	68.3	43.6	78.8	114.6	152.3	201.0	247.5
Money velocity (levels)	2.01	1.79	1.84	1.77	1.69	1.69	1.63	1.60	1.56	1.52	1.48
Money multiplier (levels)	3.79	3.75	3.78	3.40	3.38	3.37	3.37	3.37	3.37	3.37	3.35
Broad money (percent of GDP)	49.9	55.7	54.5	56.6	59.2	59.2	61.4	62.4	64.2	65.9	67.7
Credit to the private sector (percent of GDP)	15.9	17.4	16.5	17.9	15.6	15.7	16.5	17.0	17.6	17.7	18.1
Central bank financing of central government (in millions of local currency)	488	61	-119	2010	1868	100	100	50	0	0	0
Commercial bank financing of central government (in millions of local currency)	986	1034	1025	127	1029	1877	435	189	262	294	324

Sources: Gambian authorities and Fund staff estimates and projections.

[1] End of period.

[2] In 2012, target under the ECF was adjusted upward by US$ 14.1 million reflecting donor-provided drought relief. After this adjustment, NIR targets under the original ECF, measured at the market exchange rate, would be US$ 142.6 million at end-2012 and US$ 151.5 million at end-2013.

Table 6. The Gambia: Balance of Payments

(In millions of U.S. dollars, unless otherwise indicated)

	2010 Act.	2011 Act.	2012 Act.	2013 Act.	2014 Prel.	2015 Active Policy Scenario	2016 Active Policy Scenario	2017 Active Policy Scenario	2018 Active Policy Scenario	2019 Active Policy Scenario	2020 Active Policy Scenario
1. Current account											
A. Goods and services	**-180.2**	**-131.2**	**-122.2**	**-105.5**	**-160.4**	**-170.3**	**-121.7**	**-123.0**	**-128.7**	**-137.8**	**-146.1**
Trade balance	-216.6	-190.7	-200.6	-171.9	-211.5	-179.6	-174.0	-192.0	-213.4	-234.7	-256.4
Exports, f.o.b.	95.6	102.3	125.4	132.2	123.5	112.2	122.0	128.5	138.3	143.9	151.8
Of which: domestic goods [1]	10.9	11.0	18.3	11.5	12.3	10.9	10.7	12.4	11.6	12.2	13.3
Imports, f.o.b.	-312.2	-293.1	-326.0	-304.1	-335.0	-291.8	-296.1	-320.5	-351.7	-378.6	-408.1
Of which: oil	-40.9	-69.7	-94.3	-76.2	-76.9	-55.4	-53.5	-60.5	-65.7	-72.7	-77.9
Services (net)	36.4	59.5	78.4	66.4	51.1	9.3	52.4	69.1	84.7	97.0	110.3
Services exports	130.7	135.4	155.3	131.7	120.5	80.0	128.4	149.1	168.9	186.4	205.3
Of which: travel income	70.9	78.1	94.4	72.1	60.5	30.6	62.7	72.9	81.4	88.2	95.9
Services imports	-94.3	-75.8	-76.9	-65.3	-69.4	-70.7	-76.0	-80.1	-84.2	-89.4	-95.0
B. Income (net)	**-29.9**	**-31.9**	**-29.3**	**-22.4**	**-23.5**	**-28.8**	**-32.7**	**-34.2**	**-35.8**	**-37.5**	**-39.3**
Income debits	-32.2	-34.4	-31.5	-24.2	-25.3	-31.0	-35.3	-36.9	-38.6	-40.5	-42.4
Of which: interest on government debt	-7.3	-7.5	-7.6	-7.0	-5.2	-8.0	-8.0	-8.0	-8.0	-8.0	-8.0
C. Current transfers	**55.0**	**52.8**	**79.3**	**36.3**	**75.9**	**67.2**	**70.4**	**73.3**	**77.5**	**82.0**	84.4
Official transfers[2]	0.0	0.0	9.2	0.0	19.5	32.6	6.2	6.5	7.6	8.7	7.5
Remittances	45.2	27.2	61.8	48.7	50.1	53.5	55.2	57.6	60.5	63.6	67.0
Other transfers	9.8	25.6	8.3	-12.5	6.3	8.8	9.0	9.2	9.4	9.7	9.9
Current account (excl. budget support)	**-155.1**	**-110.3**	**-81.3**	**-91.6**	**-127.5**	**-164.4**	**-90.2**	**-90.4**	**-94.7**	**-102.0**	**-108.5**
Current account (incl. budget support)	**-155.1**	**-110.3**	**-72.1**	**-91.6**	**-108.0**	**-131.8**	**-84.0**	**-83.9**	**-87.1**	**-93.3**	**-101.0**
2. Capital and financial account											
A. Capital account[3]	**38.0**	**46.0**	**81.4**	**20.2**	**28.8**	**25.7**	**31.1**	**25.2**	**27.3**	**28.6**	**29.8**
B. Financial account	**139.0**	**103.1**	**108.2**	**71.2**	**60.5**	**69.0**	**90.3**	**91.6**	**93.9**	**106.8**	**106.1**
Foreign direct investment	85.6	60.6	101.6	85.7	76.8	59.9	87.1	85.0	96.8	109.5	107.8
Portfolio investment	-1.5	-1.1	-1.1	-2.1	-2.1	-1.9	-1.9	-2.1	-2.2	-2.4	-2.6
Other investment	54.8	43.6	7.7	-12.3	-14.2	11.0	5.1	8.7	-0.7	-0.3	0.9
Of which: Change in the NFA of commercial banks (increase -)	-22.9	-0.5	5.0	-0.2	-24.8	12.1	3.8	-0.6	-5.7	0.2	0.3
Official other investment (net)	11.1	11.4	11.2	18.3	17.2	6.4	7.2	10.8	1.4	1.8	3.0
Loans	23.6	25.3	27.7	34.7	46.7	26.0	26.5	29.6	21.1	22.0	23.5
SDR Allocations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	-12.6	-13.9	-16.5	-16.4	-29.5	-19.6	-19.3	-18.8	-19.7	-20.2	-20.5
Capital and financial account	**177.0**	**149.1**	**189.6**	**91.4**	**89.3**	**94.7**	**121.4**	**116.8**	**121.2**	**135.4**	**135.9**
Errors and omissions	-45.7	-30.3	-117.4	-23.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	**-23.8**	**8.4**	**0.1**	**-23.6**	**-18.7**	**-37.1**	**37.4**	**32.9**	**34.1**	**42.1**	**34.9**
Financing											
Net international reserves (increase -)	23.8	-8.4	-0.1	23.6	18.7	37.1	-37.4	-32.9	-34.1	-42.1	-34.9
Change in gross international reserves	20.7	-12.1	-14.0	22.7	21.9	31.7	-31.3	-25.4	-26.2	-35.4	-30.8
Use of IMF resources (net)	3.1	3.7	14.0	0.8	-3.2	-5.4	-6.1	-7.5	-7.9	-6.6	-4.1
Disbursements	3.1	3.7	14.3	2.4	0.0	10.8	0.0	0.0	0.0	0.0	0.0
Repayments	0.0	0.0	-0.3	-1.5	-3.2	-5.4	-6.1	-7.5	-7.9	-6.6	-4.1
Memorandum items:											
Exports of goods and services	226.4	237.7	280.8	263.9	244.0	192.2	250.4	277.6	307.2	330.3	357.0
Imports of goods and services	-406.6	-368.9	-403.0	-369.4	-404.4	-362.5	-372.0	-400.6	-435.9	-468.0	-503.1
Gross International Reserves[2]											
US$ millions	157.6	169.7	183.8	161.1	111.9	80.2	111.5	136.9	163.1	198.6	229.4
Months of current year's imports of goods and services	4.7	5.5	5.5	5.2	3.3	2.7	3.6	4.1	4.5	5.1	5.5
Months of next year's imports of goods and services	5.1	5.1	6.0	4.8	3.7	2.6	3.3	3.8	4.2	4.7	5.1

Sources: Gambian authorities and Fund staff estimates and projections.

[1] Domestic goods consist of (in decreasing order of importance): groundnuts, fruits and vegetables, zircon, fish, and cotton.

[2] The figure for 2012 includes US$ 14.3 million in donor assistance for drought relief, which was not included in the 2012 prog. column.

[3] Project grants explain the entire amount of capital account.

[4] The numbers are affected by a reclassification of equity stakes in various international organizations from "official reserves assets" to "other foreign assets"on the CBG's balance sheet. After these adjustments, effective GIR targets underthe original ECF would be US$ 193.9 million at end-2012, US$ 205.6 million at end-2013, US$ 222.3 million at end-2014, and US$ 235.9 million at end-2015.

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

	2010 Act.	2011 Act.	2012 Act.	2013 Act.	2014 Prel.	2015 Active Policy Scenario	2016 Active Policy Scenario	2017 Active Policy Scenario	2018 Active Policy Scenario	2019 Active Policy Scenario	2020 Active Policy Scenario
1. Current account											
A. Goods and services	**-18.9**	**-14.6**	**-13.4**	**-11.7**	**-19.5**	**-22.4**	**-16.0**	**-14.9**	**-14.5**	**-14.3**	**-14.1**
Trade balance	**-22.8**	**-21.2**	**-22.0**	**-19.1**	**-25.7**	**-23.6**	**-22.9**	**-23.3**	**-24.0**	**-24.4**	**-24.8**
Exports, f.o.b.	10.0	11.4	13.8	14.7	15.0	14.7	16.1	15.6	15.5	15.0	14.7
Of which: domestic goods [1]	1.1	1.2	2.0	1.3	1.5	1.4	1.4	1.5	1.3	1.3	1.3
Imports, f.o.b.	-32.8	-32.6	-35.8	-33.8	-40.7	-38.3	-39.0	-38.9	-39.5	-39.4	-39.4
Of which: oil	-4.3	-7.8	-10.4	-8.5	-9.3	-7.3	-7.1	-7.3	-7.4	-7.6	-7.5
Services (net)	3.8	6.6	8.6	7.4	6.2	1.2	6.9	8.4	9.5	10.1	10.6
Of which: travel	7.5	8.7	10.4	8.0	7.3	4.0	8.3	8.8	9.1	9.2	9.3
B. Income (net)	**-3.1**	**-3.5**	**-3.2**	**-2.5**	**-2.9**	**-3.8**	**-4.3**	**-4.2**	**-4.0**	**-3.9**	**-3.8**
Income credits	0.2	0.3	0.3	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3
Income debits	-3.4	-3.8	-3.5	-2.7	-3.1	-4.1	-4.7	-4.5	-4.3	-4.2	-4.1
Of which: interest on government debt	0.8	0.8	0.8	0.8	0.6	1.1	1.1	1.0	0.9	0.8	0.8
C. Current transfers	**5.8**	**5.9**	**8.7**	**4.0**	**9.2**	**8.8**	**9.3**	**8.9**	**8.7**	**8.5**	**8.2**
Official transfers [2]	0.0	0.0	1.0	0.0	2.4	4.3	0.8	0.8	0.9	0.9	0.7
Remittances	4.7	3.0	6.8	5.4	6.1	7.0	7.3	7.0	6.8	6.6	6.5
Other transfers	1.0	2.8	0.9	-1.4	0.8	1.1	1.2	1.1	1.1	1.0	1.0
Current account (excl. budget support)	**-16.3**	**-12.3**	**-8.9**	**-10.2**	**-15.5**	**-21.6**	**-11.9**	**-11.0**	**-10.6**	**-10.6**	**-10.5**
Current account (incl. budget support)	**-16.3**	**-12.3**	**-7.9**	**-10.2**	**-13.1**	**-17.3**	**-11.1**	**-10.2**	**-9.8**	**-9.7**	**-9.7**
2. Capital and financial account											
A. Capital account [3]	**4.0**	**5.1**	**8.9**	**2.2**	**3.5**	**3.4**	**4.1**	**3.1**	**3.1**	**3.0**	**2.9**
B. Financial account	**14.6**	**11.5**	**11.9**	**7.9**	**7.3**	**9.1**	**11.9**	**11.1**	**10.6**	**11.1**	**10.2**
Foreign direct investment	9.0	6.7	11.2	9.5	9.3	7.9	11.5	10.3	10.9	11.4	10.4
Portfolio investment	-0.2	-0.1	-0.1	-0.2	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3
Other investment	5.8	4.9	0.8	-1.4	-1.7	1.4	0.7	1.1	-0.1	0.0	0.1
Of which: Change in the NFA of commercial banks (increase -)	-2.4	-0.1	0.5	0.0	-3.0	1.6	0.5	-0.1	-0.6	0.0	0.0
Official other investment (net)	1.2	1.3	1.2	2.0	2.1	0.8	0.9	1.3	0.2	0.2	0.3
Loans	2.5	2.8	3.0	3.9	5.7	3.4	3.5	3.6	2.4	2.3	2.3
SDR Allocations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	-1.3	-1.6	-1.8	-1.8	-3.6	-2.6	-2.5	-2.3	-2.2	-2.1	-2.0
Capital and financial account	**18.6**	**16.6**	**20.8**	**10.2**	**10.8**	**12.4**	**16.0**	**14.2**	**13.6**	**14.1**	**13.1**
Errors and omissions	-4.8	-3.4	-12.9	-2.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	**-2.5**	**0.9**	**0.0**	**-2.6**	**-2.3**	**-4.9**	**4.9**	**4.0**	**3.8**	**4.4**	**3.4**

Sources: Gambian authorities and Fund staff estimates and projections.

[1] Domestic goods consist of (in decreasing order of importance): groundnuts, fruits and vegetables, zircon, fish, and cotton.

[2] The figure for 2012 includes US$ 14.3 million in donor assistance for drought relief, which was not included in the 2012 prog. column.

[3] Project grants explain the entire amount of capital account.

Table 8. The Gambia: Quantitative Targets Under the Staff-Monitored Program

(Stocks; unless otherwise indicated)

	Jun. 2015			Sep. 2015	Dec. 2015
	Prog.	Adj.	Act.	Prog.	Prog.
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]	-510	115	850	-158	386
2. Ceiling on the stock of net domestic assets of the central bank (GMD millions, TMU exchange rates)	5,075	5,075	5,957	4,887	5,345
3. Floor on the stock of net usable international reserves of the central bank (USD millions, TMU exchange rates)[2 3]	77.7	77.7	46.9	77.5	74.6
4. Continuous ceiling on new external payments arrears of the central government (USD millions)	0	0	…	0	0
5. Continuous ceiling on new nonconcessional external debt contracted or guaranteed by the central government (USD millions)[4]	28	28	…	28	28
6. Continuous ceiling on the outstanding stock of external public debt with original maturity of one year or less (USD millions)	0	0	…	0	0
7. Monthly ceiling on central bank credit to the central government at non-market terms (GMD millions)[5]	0	0	…	0	0
8. Floor on poverty-reducing expenditures (cumulative flows from the beginning of the calendar year, GMD millions)	2,874	2,874	…	3,736	5,747

Sources: Gambian authorities.

[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, which was revised at the beginning of 2013 (see TMU of the MEFP for the 1st ECF review).

[4] The non-zero limit starting in December 2012 is tied to a specific loan financing a specific project, as defined in the TMU.

[5] Zero ceiling applies to outstanding credits (for example, overdrafts) at non market terms as of the end of each month during the quarter.

Table 9. The Gambia: Structural Agenda, 2015

Measures	Implementation Date	Status
I. Strengthen Expenditure Controls/ Budget Preparation		
• Transfer all cash management functions to the Directorate of the National Treasury.	End-March 2015	Not met. Significant capacity needed before the function can be created.
• Submit the strategic plans of three more line ministries to the Cabinet.	End-June 2015	Not met. Delayed until September 2015.
• Institutionalize a mechanism for monitoring and reporting of domestic arrears and for evaluation and valuation of the stock of arrears for 2013 and every end of each year starting 2014.	End-June 2015	Not met. FAD TA provided. Significant hands-on training required before the mechanism can be institutionalized.
II. Strengthen Revenue Collection		
• Update the basis for property valuations used in the property tax	End-December 2015	FAD TA provided. Lack of capacity is likely delay implementation
III. Shore up Medium-term Fiscal Sustainability		
• Complete the database on debt and contingent liabilities of State Owned Enterprises (SOEs)	End-December 2015	
• Increase the water and electricity tariff in line with PURA's recommendations.	February 2015	Met.
• Submit a policy note outlining medium-term reform strategy on telecommunication sector to the World Bank.	End-April 2015	Not met.
• Articulate a civil service reform plan with a view to starting implementation in 2016.	End-June 2015	Not met, mostly due to lack of strong political support.
IV. Strengthen Monetary Operations and Financial Intermediation		
• Submit to the National Assembly amendments to the Banking Act 2009	End-June 2015	Not met. Draft still ongoing review by the Ministry of Justice.
• Submit to the National Assembly amendments to the CBG Act	End-June 2015	Not met. Draft still ongoing review by the Ministry of Justice.
• Adopt a time bound action plan to implement a strategy for the CBG to terminate its ownership position in Keystone Bank	End-March 2015	Met.

Sources: Gambian authorities.

Table 10. The Gambia: Risk Assessment Matrix[1]			
Nature/source of main risks	**Likelihood of realization in the next three years**	**Expected impact on economy if risk is realized**	**Possible Remedial Policy**
Fiscal policy slippages on top of continuation of exchange directive	*MEDIUM* • A looser fiscal policy without control over spending pressures or structural reforms to address financially weak key SOEs would lead to a significant increase in interest payments, intensify currency depreciation pressures, and could precipitate capital flight.	*HIGH* It will undermine fiscal sustainability as the interest costs will consume prohibitively large share of revenues. Growth will be much lower as the government borrowing will leave no room for private credit. Gross international reserves will also decline considerably.	Stick to the fiscal consolidation path under the SMP. Immediately return to a flexible exchange rate policy.
Natural disasters, including severe weather/health conditions	*LOW* • As the 2011 drought and the 2014 regional Ebola outbreak illustrate, the country is vulnerable to natural disasters.	*MEDIUM to HIGH* Growth would be severely impaired as the agriculture and tourism sectors' share to GDP has been around 40 percent. Extent of the negative impacts would depend on donors' assistance.	Delay the GIR accumulation and fiscal adjustment temporarily.
Structurally weak growth in key advanced economies	*HIGH* • Weak demand in Euro area countries could lower export demand for The Gambia.	*RELATIVELY LOW* Negative impact through reduced tourism receipts and remittances will be partially offset by downward pressures on commodity prices.	Temporarily loosen monetary policy compared with the staff proposed scenario.
Geopolitical risks in the Middle East and some countries in Africa	*MEDIUM* • Heightened risk of fragmentation/state failure/security dislocation in the Middle East and some countries in Africa will lead to a sharp rise in oil prices.	*MEDIUM to HIGH* *The Gambia will suffer from a significantly weaker external position and higher inflation.*	Delay the GIR accumulation and fiscal adjustment temporarily.

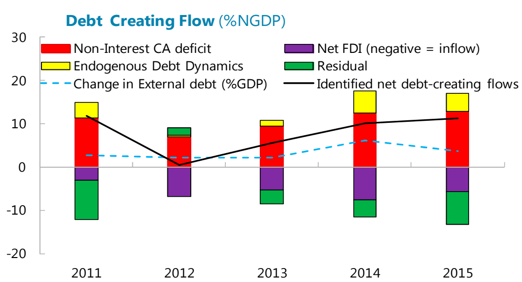
[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability of 30 percent or more). The RAM reflects staff views as of the end of the discussions with the authorities.

Annex I. External Stability Assessment[1]

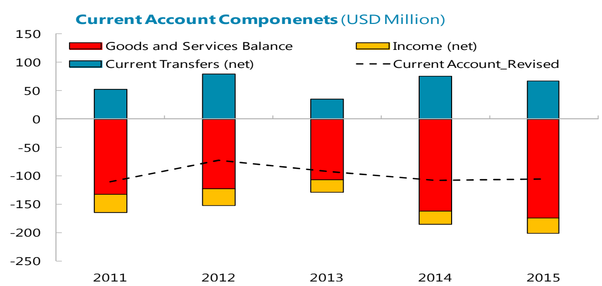
Staff estimates from EBA-lite approach indicate that the Gambia's exchange rate, calibrated on the basis of the SMP's baseline scenario with a flexible regime, is slightly overvalued: by 8½ percent. Fund's reserve adequacy metrics indicate that The Gambia's 2015 projected reserve level is not adequate, given the adjustment to shocks and policy slippages. However, the authorities have recently introduced a directive administratively fixing the rate at a level that is overvalued by more than 20 percent compared with the prevailing market rate. Were the directive to continue, it would have serious negative implications for external competitiveness and viability.

A. Evolution of the Balance of Payments

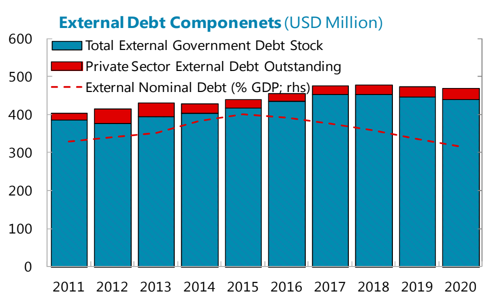
1. The widening current account has led to the external balance in the Gambia worsening. The current account deficit has been widening, mainly driven by the increasing goods and services trade deficit (excluding re-exports). The current account deficit remains the main source of debt creating flows.



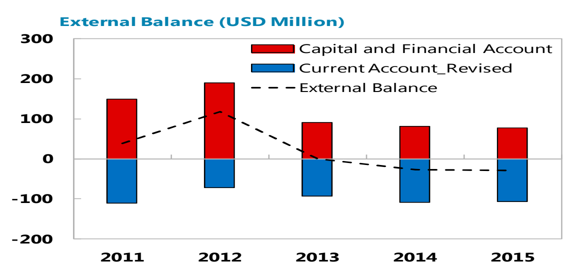
Sources: Gambian authorities and Fund staff calculations.



Sources: Gambian authorities and Fund staff calculations.



Sources: Gambian authorities and Fund staff calculations.



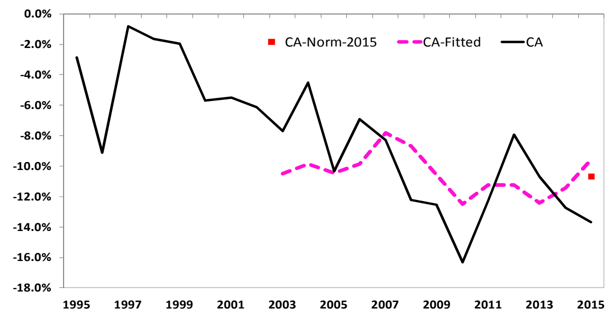
Sources: Gambian authorities and Fund staff calculations.

[1] Prepared by Marzie Taheri Sanjani (SPR).

B. Exchange Rate Assessment

2. The recent imposition of the exchange rate directive has damaged severely economic prospects going ahead. As modest pressures on the exchange rate manifested itself with the onset of the lean season for foreign exchange receipts, the Office of the President issued a directive fixing the exchange rate at a level overvalued by more than 20 percent compared with prevailing market rates, which were broadly in line with the equilibrium estimated by staff. In case the directives remain in effect until end-2015, the overvalued exchange rates would also reduce revenue collections and puts upward pressure on NDB and T-bill rates.

CA: Actual, Fitted, and Norm



Sources: Gambian authorities and Fund staff estimates and calculations.

3. The Gambia's current account position, under the baseline scenario presented in the RCF request, is assessed using the EBA-lite methodology. EBA makes a distinction between descriptive understanding of current accounts and real exchange rates and making normative evaluations:

Actual CA = CA Gap + (Fitted CA – Policy Gap)

The term in parentheses is the current account norm and the *CA Gap* is the deviation of the actual current account from the norm, i.e., the misalignment. The term *Policy Gap* is the change in the current account that results from a deviation of The Gambia's policies from its optimal level and also on account of the average policy misalignment relative to the rest of the world.

4. The analysis suggests that The Gambia's current account dynamics are broadly in line with the fundamentals. Policy gap is estimated to contribute 1.1 percent of GDP to the current account, based on deviations of minus 0.2 percent of GDP in the level of reserves, 0.3 percent in the private credit to GDP ratio and 1.0 percent from the fiscal policy gap. Taking into account the policy gap, the current account norm is estimated to be a deficit of about 10¾ percent of GDP in 2015. This suggests an overvaluation by 8.5 percent, under the baseline scenario with the flexible exchange rate regime.

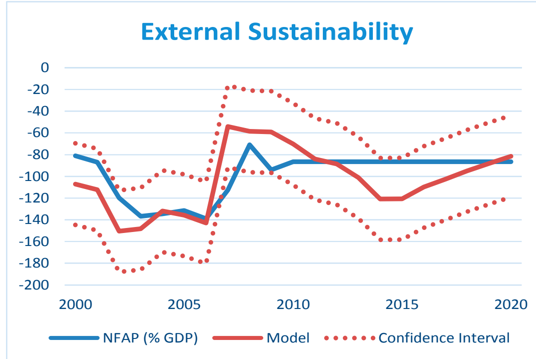
Estimated Exchange Rate Misalignment		
CA-Actual		**-13.7%**
CA-Norm		**-10.7%**
CA-Gap		**-3.0%**
Policy gap		**1.1%**
of which:	*Fiscal Policy*	*1.0%*
of which:	*Change in Reserves*	*-0.2%*
of which:	*Private Credit*	*0.3%*
Elasticity of CA to REER		**-0.4**
Real Exchange Rate Gap		**8.1%**

Source: Gambian authorities and Fund staff estimates and calculations

5. The EBA-lite[2] assessment is complemented by an assessment based on the external sustainability approach. The external sustainability approach indicates that the dalasi is overvalued

[2] For technical background, please see the EBA working paper (IMF WP/13/272).

by about 8½–11¾ percent.[3] This is based on two alternative benchmarks of the level at which to stabilize the NFA-to-GDP ratio typically used in such assessments. With the end-2014 NFA position of -86.4 percent of GDP as a benchmark, an overvaluation is estimated at 11¾ percent. When the benchmark is set to the average NFA position of -120.8 percent of GDP over 2000–14, the overvaluation is at about 8½ percent. Meanwhile, the macro-balance approach[4] indicates that the misalignment is much smaller, overvaluation at around 2½ percent, with the actual CA deficit in 2014.



Source: Gambian Authorities and Fund staff estimates and calculations

Model	Variable	Projection	Model Estimate	Elasticity	Misalignment
ES	NFAP (% GDP)	-86.4	-120.8	0.1	8.4-11.8
MB	CAB (% GDP)	-12.7	-11.1	-0.2	2.3-2.6

Sources: Gambian authorities, and staff estimates and

6. **It is critical that the recent exchange rate directive is rescinded immediately to return to a flexible exchange rate policy.** The flexible exchange rate policy had served the country well. The directive fixes the exchange rate at a level overvalued by almost 30 percent compared with the equilibrium indicated by the EBA-lite approach. The exchange directive has already led to a significant shortage of foreign exchange supply. This could lead to a shortage of imported basic goods and a higher inflation in coming months. Additionally, this current directive has been more damaging than the previous ones because of the higher overvaluation and lower level of reserve this time around. Past experience suggests that the likelihood of overshooting, when the directive is rescinded, is low since the financial market is shallow and agents self regulating the movement of the exchange rate to prevent directives from re-emerging. However, should indications of exchange rate overshooting emerge, the CBG should stand ready for further tightening of monetary policy.

C. Reserve Adequacy Assessment

7. **Given the persistence and magnitude of shocks The Gambia faces and its weak institutional environment, strong reserve buffers should be built.**

- Staff's assessment of the buffer starts with the standard Low-Income Country reserve

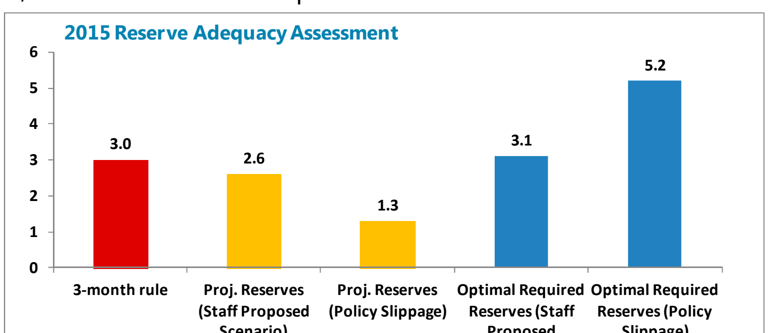
[3] Under the external sustainability approach, the current account norm is equated to that ratio of the current account balance to nominal output needed to stabilize the ratio of the net foreign asset position to nominal output around its norm, which is generally equated to its most recently observed value.

[4] Following the macroeconomic balance approach, the degree of exchange rate misalignment relative to medium-term fundamentals is then inferred as that proportional change in the real effective exchange rate.

adequacy metric.[5] This analytical framework used to compute the optimal level of GIR is based on a cost- benefit analysis; the optimal reserve is determined so that a country's benefit from holding reserves (prevention and mitigation of large external and domestic shock events) is balanced against the associated financial cost (interest rate differential between domestic and US treasury bills), while taking into account the country's fundamentals. Using this framework, the optimal level of reserve given the fundamentals of the Gambian economy is estimated to be 3.1 months of import in 2015 assuming opportunity cost of 3 percent.

- Given The Gambia's very weak institutional capacity, manifested in persistent policy slippages, staff sees merit in building an additional cushion to manage shocks. Based on past policy slippages following external and domestic shocks, staff estimates the need for an additional cushion of 2.1 months of import to offset the associated deterioration in the balance of payments.
- As a result, a reserve buffer of 5.2 months of import is deemed necessary for The Gambia. This represents the combination of the optimal level determined by the new reserve adequacy framework for LICs and an additional cushion to correct for weaknesses in the institutional and policy frameworks.

8. **Reserves are inadequate against the benchmarks determined above.** Under staff's proposed scenario, the reserve coverage by the end of 2015 will be 2.6 months of next year import (the yellow bar). This indicates that even in this best case scenario, reserves would be below the calculated benchmarks. Assuming that the directive is not rescinded and the fiscal slippages are left unaddressed, in contrast to staff's advice, reserves would be depleted down to 1.3 months of next year import. This suggest that The Gambia's level of reserve is not adequate in light of the county's characteristics as a small open low-income country, including weak institutional and policy frameworks, lack of access to international capital markets, reliance on FDI and donors' support, and vulnerability to adverse weather conditions, terms of trade shocks and external demand.



Sources: Fund staff estimates.

9. **In sum, the authorities should make every effort to improve the policy environment and build more buffers against shocks.** The weak policy implementation in recent years, distortion

[5] See, 2015 IMF Board Paper "*Assessing Reserves Adequacy–Specific Proposals*" (http://www.imf.org/external/np/pp/eng/2014/121914.pdf).

due to the exchange rate directive, inherent structural instability, risk of high inflation caused by global price shocks and bad weather, as well as its high reliance on food imports for subsistence, provide strong support for the high reserve buffer estimated above. The policy mix should aim to rebuild the reserves to 5–6 months of imports in line with the CBG's medium-term target.

D. Competitiveness Assessment

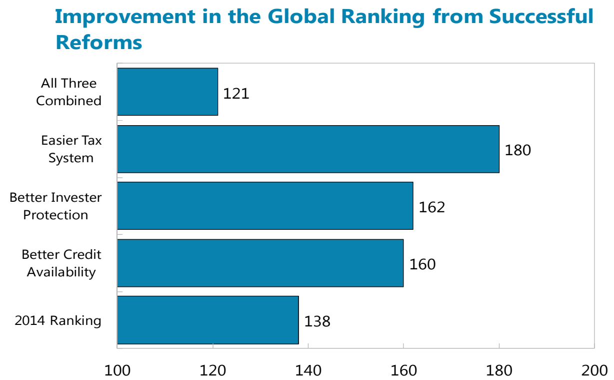
10. The Gambia's the lack of progress in addressing key institutional bottlenecks could begin to undermine The Gambia's relative competitiveness in the region.[6] The Gambia ranks favorably among ECOWAS members in some categories of the latest World Bank's Doing Business Indicators and Global Competitiveness Index. However, the cumulative change in Doing Business score from 2008 to 2014 indicates that The Gambia has made little progress in improving its overall business environment and is lagging behind all other ECOWAS countries by a substantial margin. This justifies The Gambia's recent depreciation in maintaining the economy's external competitiveness.

Table 3. 2014 World Bank Ease of Doing Business Global (ECOWAS) Rankings

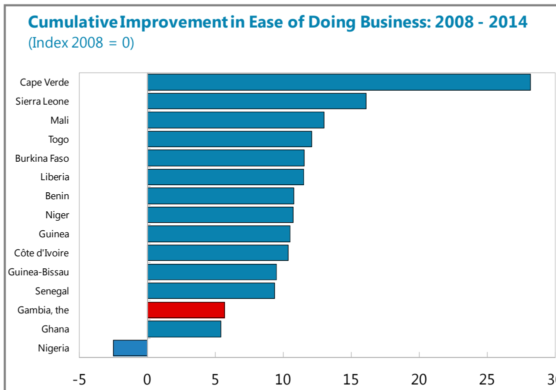
	Ease of Doing Business	Starting a Business	Dealing with Construction Permits	Getting Electricity	Getting Credit	Paying Taxes
Ghana	70 (1)	96 (6)	106 (5)	71 (1)	36 (1)	101 (3)
Cape Verde	122 (2)	78 (3)	114 ()	133 ()	104 (3)	91 (2)
Nigeria	170 (13)	129 (8)	171 (14)	187 (15)	52 (2)	179 (12)
Sierra Leone	140 (4)	91 (5)	120 (8)	172 (10)	151 (13)	130 (4)
Gambia, the	**138 (3)**	**159 (11)**	**71 (2)**	**138 (5)**	**160 (14)**	**180 (13)**
Burkina Faso	167 (10)	153 (10)	75 (3)	177 (12)	131 (5)	152 (7)
Senegal	161 (9)	90 (4)	151 (10)	183 (14)	131 (5)	183 (14)
Mali	146 (5)	169 (12)	97 (4)	132 (2)	131 (5)	145 (5)
Liberia	174 (14)	30 (1)	143 (9)	166 (9)	160 (14)	77 (1)
Togo	149 (7)	134 (9)	170 (13)	134 (4)	131 (5)	163 (9)
Côte d'Ivoire	147 (6)	44 (2)	180 (15)	161 (7)	131 (5)	175 (10)
Benin	151 (8)	117 (7)	64 (1)	173 (11)	116 (4)	178 (11)
Niger	168 (11)	177 (15)	119 (7)	165 (8)	131 (5)	155 (8)
Guinea-Bissau	179 (15)	176 (14)	165 (12)	180 (13)	131 (5)	150 (6)
Guinea	169 (12)	175 (13)	159 (11)	154 (6)	131 (5)	184 (15)

Source: 2014 World Bank Easing of Doing Business Survey.

[6] See the world bank report on "Doing business": http://www.doingbusiness.org/~/media/GIAWB/Doing%20Business/Documents/Annual-Reports/English/DB15-Chapters/DB15-Report-Overview.pdf



Sources: 2014 World Bank Ease of Doing Business Survey and staff calculations.

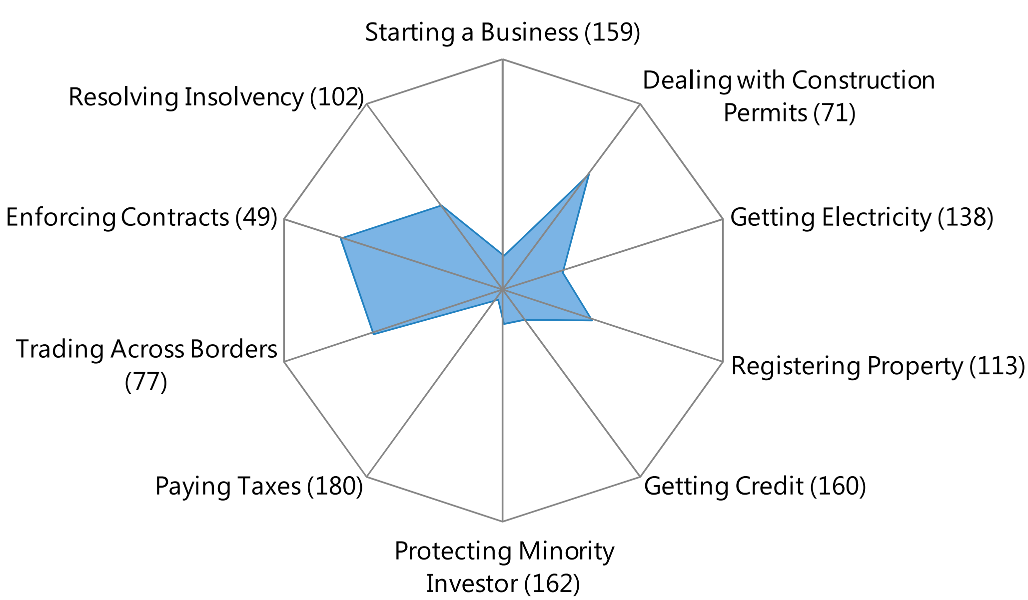


Sources: 2014 World Bank Ease of Doing Survey and staff calculations.

11. To stay competitive, The Gambia needs to augment its structural reform efforts. According to the survey among business community, access to finance, tax policy, foreign exchange regulations, inflation and infrastructure are among the major impediments to doing business. Even moderate improvements in enhancing access to credit, better investor protection, and removing impediments for paying taxes could yield large competitiveness gains for The Gambia. Ensuring the authorities' commitment to the flexible exchange rate regime would also improve the business environment.

The Gambia-Ranking on Doing Business Topics

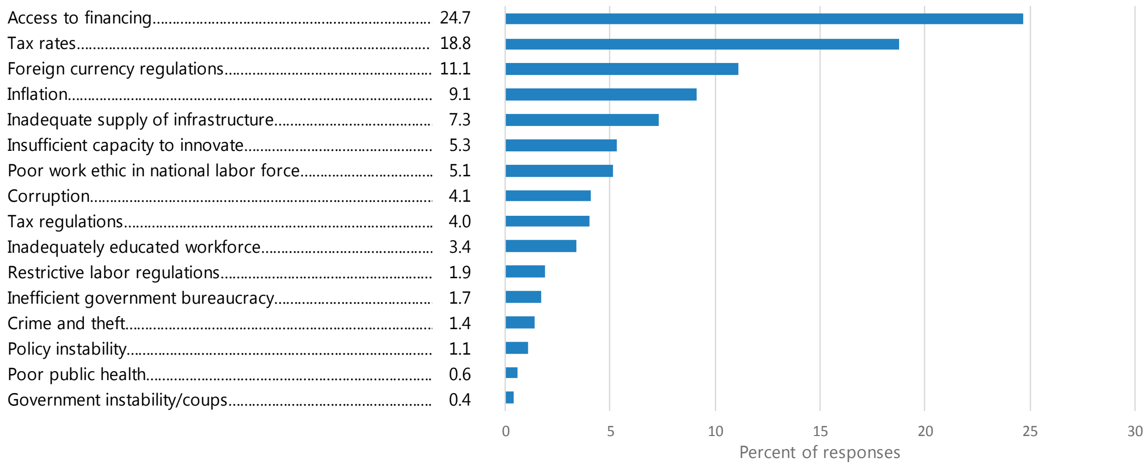
Scale: Centre-Rank 189; Outer edge-Rank 1



Source: 2015 World Bank Ease of doing Business Report.

The Gambia: Major Issues in Doing Business

(Business Survey. Global Competitiveness Report (2014–15)

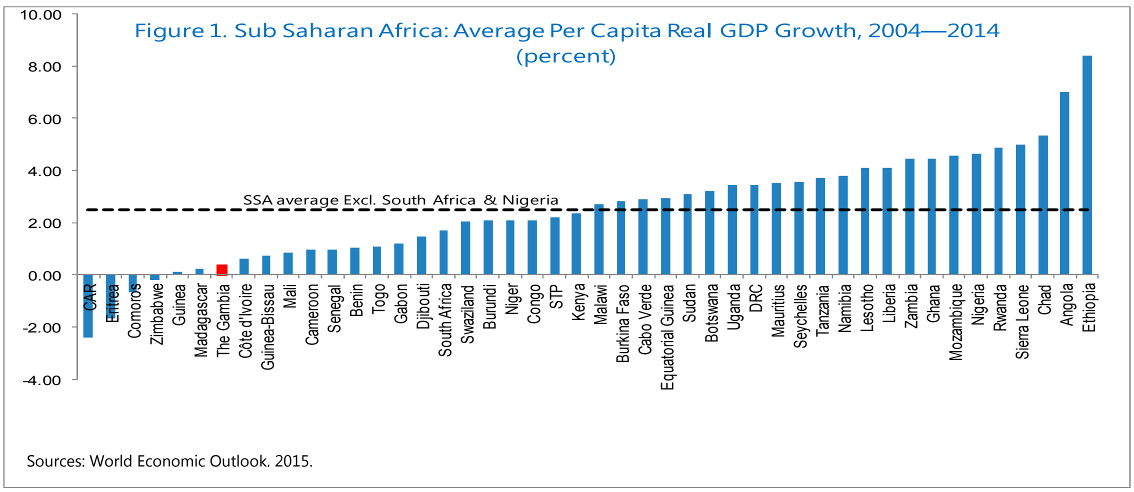


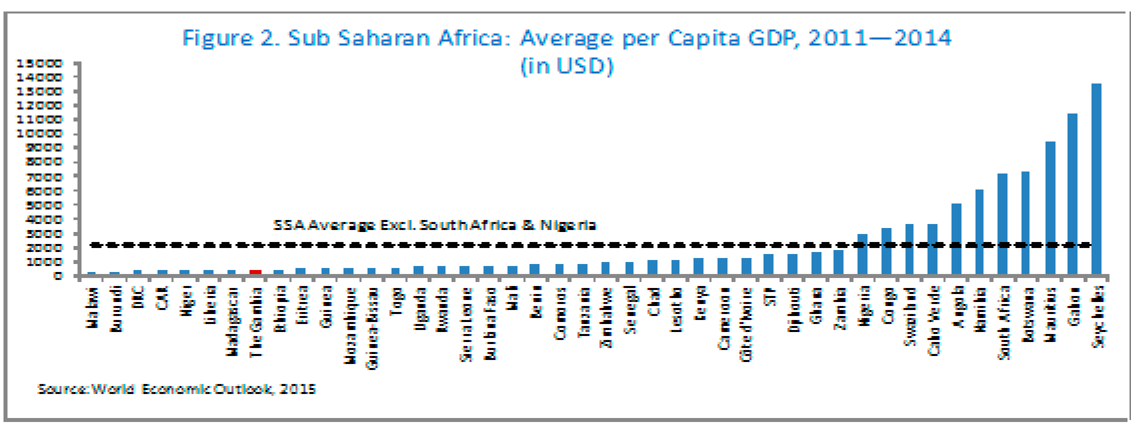
Source: 2015 World Bank Ease of doing Business Report.

Annex II. Growth Episodes in The Gambia's Policies to Boost Medium-Term Growth Prospects[1]

A. The Gambia's Economic Growth Experience

1. **The Gambia's growth in per capita terms has been low and it remains one of the poorest countries in Sub Saharan Africa (SSA).** In the past decade, The Gambia's per capita real GDP growth averaged less than ½ percent per year and with the level of the per capita GDP at about US$500 in 2014, it is amongst the poorest countries in SSA (Figures 1 and 2).



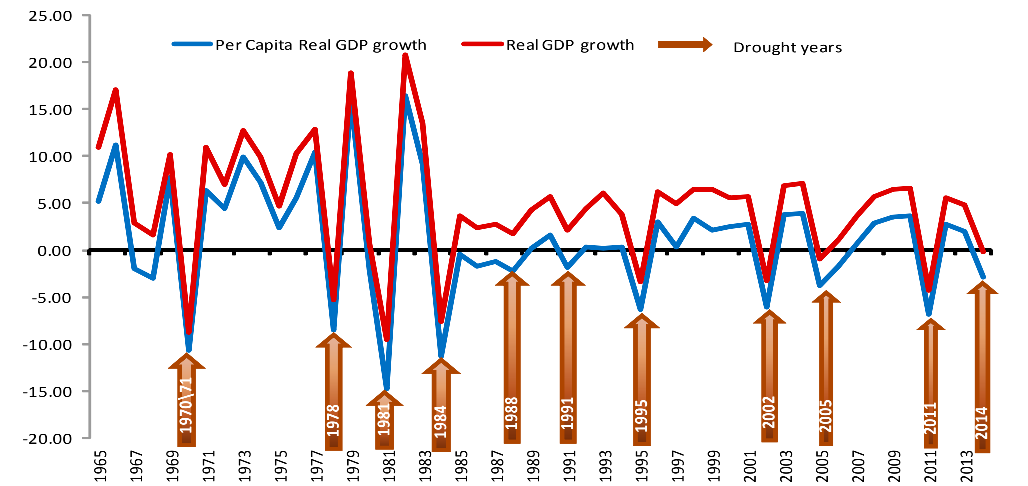


2. **Its economic growth is extremely vulnerable to repeated weather related shocks.** Over the last 50 years, The Gambia has been impacted by eleven instances of droughts, each leading to a significant downturn in economic growth (Figure 3). Droughts tend to have a more severe effect in The Gambia than in Senegal, which has similar weather patterns but has a more diversified economy

[1] Prepared by Farayi Gwenhamo (AFR).

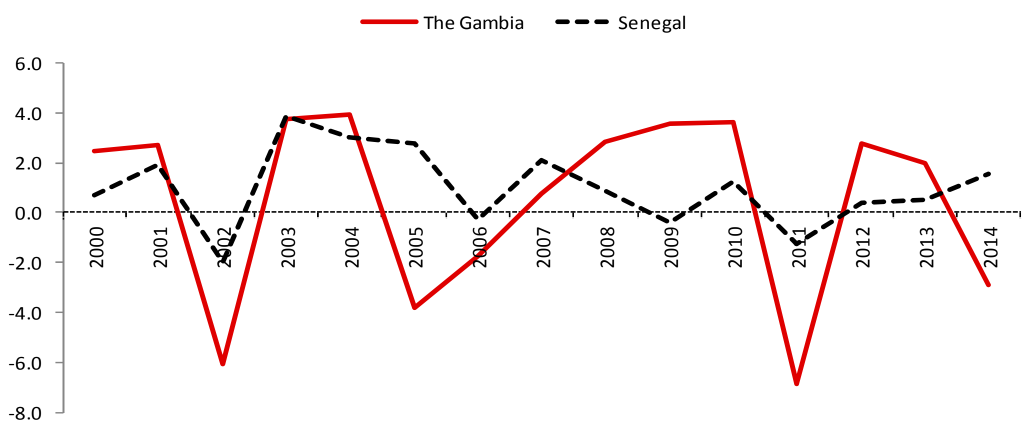
(Figure 4). The effect of droughts on economic growth is amplified by the high level of dependence on agriculture—over 60 percent of The Gambia's population depends on agriculture although the sector contributes just about 20 percent to GDP.

Figure 3. The Gambia— Percentage Real GDP Growth: 1965—2014



Sources: World Economic Outlook, 2015.

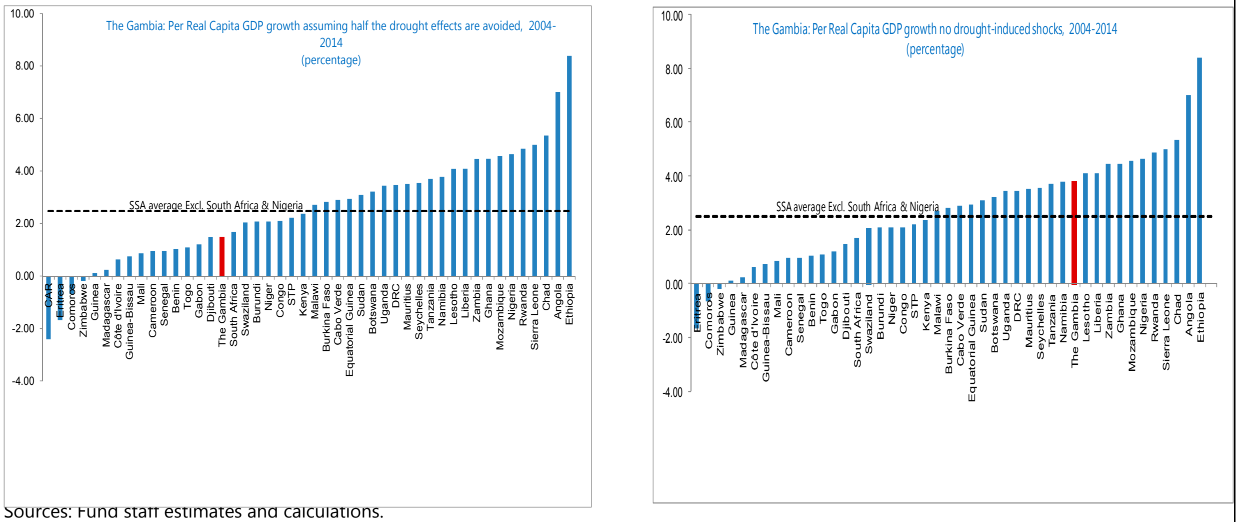
Figure 4. Per Capita Real GDP growth: 2000—2014
(percent)



Sources: World Economic Outlook, 2015.

3. **With a mechanism to reduce the dependence of agriculture on erratic rainfall economic growth could be more favorable (Figure 5).** Compared to the average per capita real GDP growth of about ¼ percent reached during 2004–14, growth could have reached approximately 1½ percent if 50 percent of the agriculture shocks could have been avoided. Moreover, in the absence of droughts, the Gambia's growth would have been among that of high performers in SSA. More importantly, there would have been significantly greater progress on poverty alleviation with a mechanism to reduce the dependence on erratic rainfall, such as a robust irrigation system.

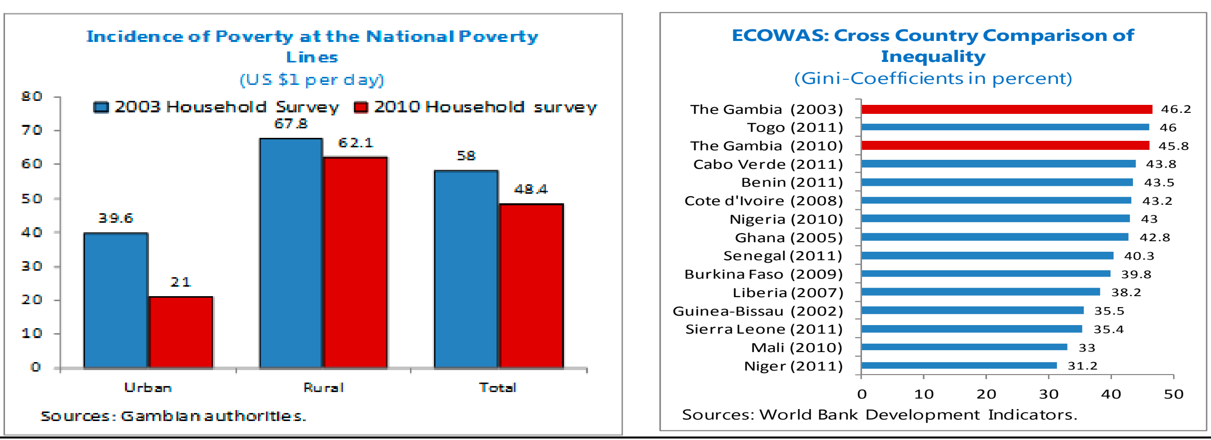
Figure 5. The Gambia's Per Capita Real GDP Growth with Lower Impact of Erratic Rainfall, 2004–14



Sources: Fund staff estimates and calculations.

4. **Notwithstanding low economic growth, the country has made visible progress in key social indicators and poverty reduction.** The overall incidence of poverty fell from about 58 percent in 2003 to 48 percent in 2010. Key social indicators such as education and health have also shown significant progress but robust growth is needed to make further gains in poverty reduction.

Figure 6. The Gambia: Incidence of Poverty and Inequality, 2003–2010

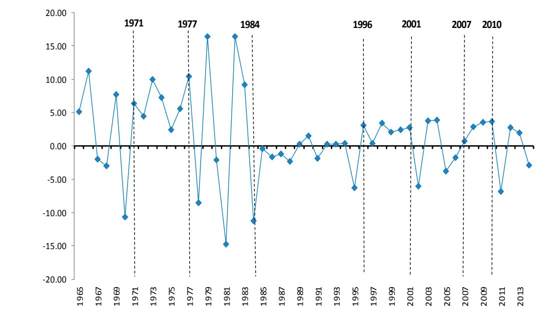


B. Identifying and Explaining Growth Episodes in The Gambia

5. **Following Berg *et al* (2012), we identify and explain growth episodes in The Gambia over the period 1965–2014.** The key result is that The Gambia has not been able to sustain uninterrupted periods of growth due to exogenous shocks (Figure 7a). The amplitude of the shocks has declined since the mid-1980s but the frequency is still high and growth episodes have been characterized by the following:

- The Gambia has had just three short lived episodes— a combined duration of 16 years—of growth spells, i.e., periods of real per capita GDP growth in excess of 2 percent (Figure 7b).
- The remaining years were characterized by either low or negative per capita GDP growth. This includes three spells of a combined duration of 22 years in which average per-capita growth was negative (Figure 7b).
- In its frequency of growth breakdowns, The Gambia resembles fragile countries, although it is not considered a fragile economy.[2]

Figure 7a. The Gambia—Structural Breaks in Per Capita GDP Growth: 1965—2014



Sources: World Economic Outlook, 2015 and Fund staff estimates and calculations.

Figure 7b. The Gambia—Growth Episodes:1965—2014

Period	Period average growth Real GDP	Real GDP per capita	Growth Status[1]
1971-1977	9.76	6.62	growth spell
1978-1984	4.47	0.75	low growth
1985-1995	3.06	-1.01	negative growth
1996-2001	5.88	2.35	growth spell
2002-2007	2.41	-0.53	negative growth
2008-2010	6.24	3.35	growth spell
2011-2014	1.47	-1.26	negative growth

Sources: Fund staff calculations.
[1] Classified on the basis of per capita real GDP growth.

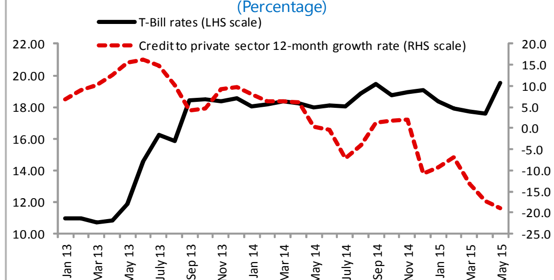
6. **Policy slippages, particularly those subsequent to external shocks, have hindered economic growth by exacerbating macroeconomic imbalances.** A pattern of repeated policy slippages, notably, fiscal slippages and exchange rate directives was particularly evident from the latest two shock episodes in 2011/12 and 2014/15. After the 2011 drought, despite a significant increase in grants—4 percent of GDP increase—the government's 2012 NDB overshot the target adjusted for shocks by 1¼ percent of GDP due to extra-budgetary spending late in the year. The magnitude of fiscal slippages further widened in 2013 with NDB overshooting the target by 5¼ percent of GDP. Even larger breakdown in fiscal policy happened after the Ebola and drought related shocks in 2014/15 with the 2014 shock-adjusted NDB target overshot by about 9¼ percent

Net Domectic Borrowing (NDB)

	2012	2013	2014
(in percent of GDP)			
NDB target	1.8	1.8	2.5
Actual NDB	3.6	7.0	12.3
Negative Impact of shock on NDB	0.6	0	0.7
NDB overshooting not attributed to shocks	**1.2**	**5.2**	**9.1**

Sources: Gambian authorities and Fund staff estimates.

Monthly Interest rates and Private Sector Credit Growth
(Percentage)



Sources: Central Bank of the Gambia.

[2] Using the same methodology used in this Annex, the IMF Policy Paper, "The Macroeconomic and Operational Challenges of Countries in Fragile Situations, June 2011", reports that over 1960–2009, fragile states has equal number of up-breaks and down-breaks in growth, while non-fragile LICs had nearly twice as many up-breaks as down-breaks.

of GDP largely on account of quasi-fiscal spending on behalf of financially distressed key state-owned enterprises. While it was expected for fiscal deficits to increase due to exogenous shocks, the actual NDB realizations went far beyond the expected shock-adjusted levels signifying a general break down in fiscal policy. These sizeable fiscal slippages lead to spiraling interest rates and private sector crowding out.

7. During 2012–14, the Office of the President issued several foreign exchange directives imposing overvalued exchange rates leading to a loss of confidence and increased policy uncertainty. The exchange rate directives have negative effects on inflation, government revenue and central bank's foreign reserves buildup, (see text table). More broadly, the break down in policy in the aftermath of shocks has compounded The Gambia's growth problems as negative growth episodes tend to be associated with fiscal slippages, higher inflation and loss of international reserves (Figure 8 and Box 1).

BOP and Net Usable Reserves (NIR)

	2012	2013	2014
(in millions of US$)			
NIR Target	139.6	130.8	126.5
Actual NIR	134.3	107.1	68.3
Negative impact of shock on BOP	...	0.0	15.0

Sources: Gambian authorities and Fund staff estimates.

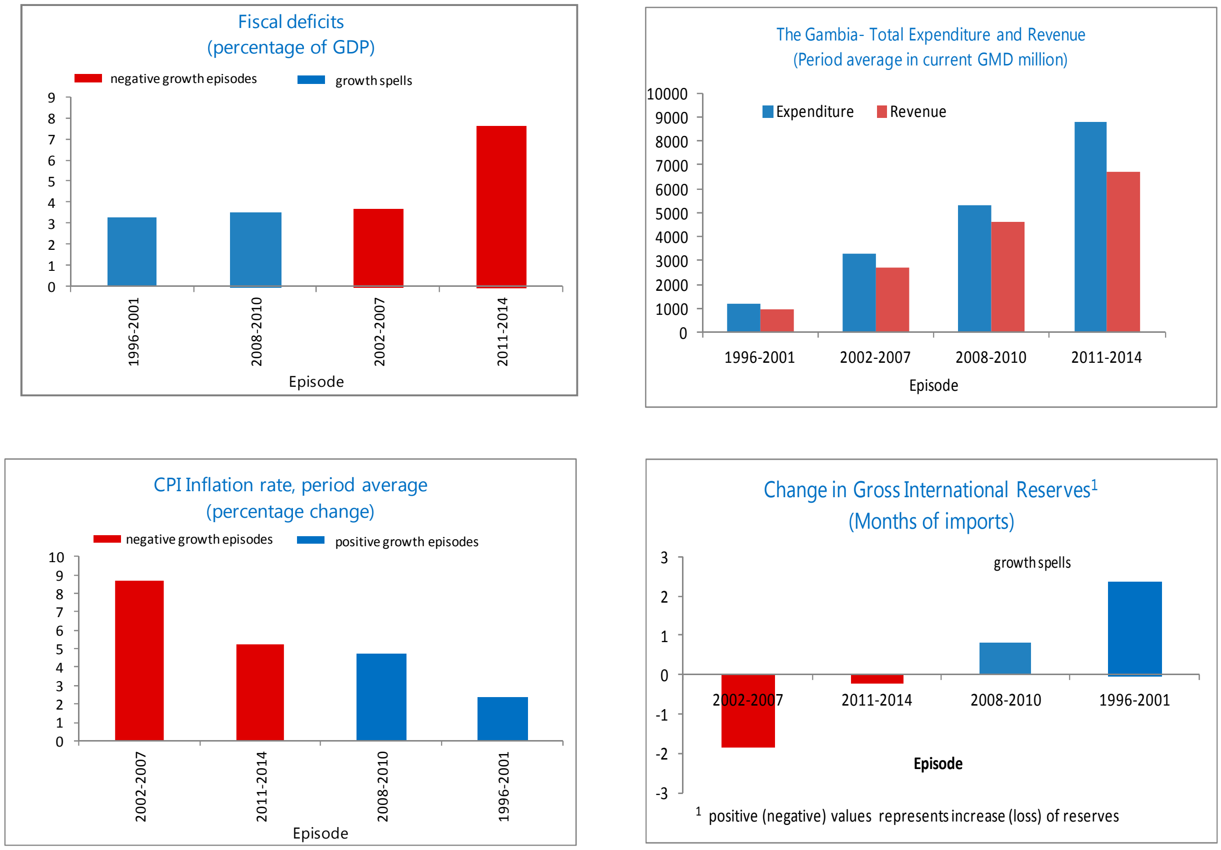
8. Policy slippages were also prevalent during the early part of the 2002–07 negative growth episode. There were acute difficulties in policy implementation and governance shortcomings particularly in 2002–03 and 2005. Significantly higher than programmed fiscal deficits were caused by expenditure overruns unrelated to drought-related shocks. The fiscal slippages were mainly financed by the central bank causing a spike in monetary expansion, a sharp increase in inflation rate to 17½ percent in 2003 and decline in gross international reserves.

CPI Inflation & Gross International Reserves: 1998-2007

	1998-2001 Average	2002	2003	2004	2005	2006	2007	2002-2007 Average
End Period CPI Inflation								
Actual	2.5	13.0	17.6	8.1	4.8	0.4	6.0	8.3
Staff projection		5.5	4.0	3.0	3.0	4.0	3.5	3.8
Gross International reserves (months of imports)								
Actual	5.5	4.0	3.9	4.1	4.2	4.0	4.2	4.1
Staff Projection		5.1	5.3	5.5	6.0	6.5	6.4	5.8

Sources: Gambian authorites and Fund staff estimates.

Figure 8. The Gambia, The Role of Policy Slippages in Explaining Growth Episodes, 1996–2014



Source: Gambian authorities and Fund staff estimates.

Box 1. The Gambia: Factors Distinguishing Growth Spells and Negative Growth Episodes

Factors differentiating two distinct episodes, a growth spell (2008–10) and a negative growth episode (2011–14) include:

Exogenous Shocks:

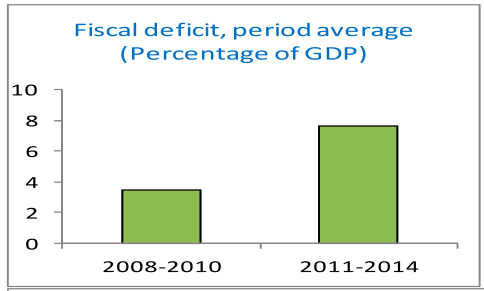
Despite the oil price shock in 2008, and the 2009-10 global economic crisis, economic growth held up well during 2008-2010 with about 3¼ percent average growth. The resilience of the economy to the 2009–10 global economic crisis was due to the offsetting effect of a continued rebound in agriculture. Contrary to this, economic growth declined by about 1¼ percent on average during period 2011–14 on account of two droughts in 2011 and 2014 compounded by the effects of the 2014 drop in tourism caused by the regional Ebola outbreak.

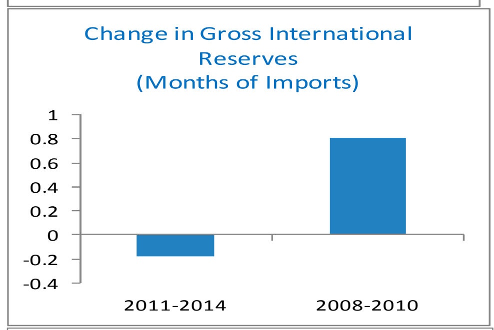
Policy slippages:

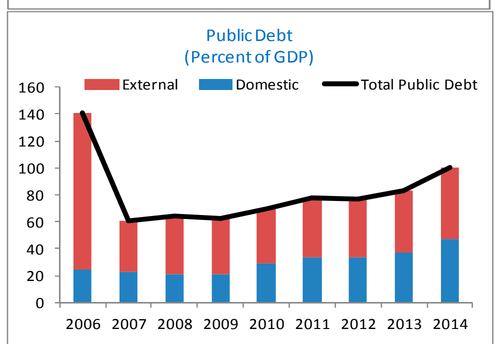
Fiscal policy was much more prudent during the growth episode with a deficit of 3½ percent of GDP, on average, compared to 7¾ percent during the negative growth spell. While it is normal to expect some increase in the deficit, the realized deficits went far beyond what would have been expected under a mix of adjustment and accommodation. The fiscal slippages of 2011–14 which were mainly financed by the central bank and had negative effects on international reserves and inflation.

Policy buffers:

The prudent fiscal policy supported by special factors helped boost buffers during the growth episode of 2008–10. First, the 2009 SDR allocations to IMF member countries boosted The Gambia's gross international reserves with import cover peaking at 6.2 months of imports in 2009. Secondly, The Gambia had reached the completion point under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative in December 2007 which created some fiscal space. These buffers helped cushion the economy from shocks during the 2008–10. However, after 2010, policy slippages eroded buffers significantly. Policy slippages after the massive exogenous shocks in 2014 left the authorities with little wiggle room.







Source: Gambia authorities and Fund staff estimates.

C. Medium-Term Strategies to Break Through the Low Growth Trap

9. Structural reforms are needed to unlock growth potential in The Gambia and prevent the frequent growth breakdowns it has experienced:

- The agricultural sector is concentrated in crops that are vulnerable to droughts, leading to low productivity. Measures are needed to improve productivity in agriculture sector through investments in improved water management systems, cultivation of drought-resistant crop varieties, and diversifying within the agriculture sector to reduce reliance on crops. Diversifying into agro-processing activities is also needed. The authorities' new National Development Plan covering 2017–20 should continue to prioritize such investments.

- While tourism has emerged as the main source of foreign exchange for the economy, it also entails significant imports of goods consumed by tourists. Increasing the backward linkages of the tourism sector with other sectors, e.g. agriculture and fisheries, would help The Gambia to retain a larger share of value added within the country and lower the population's dependence on agriculture. Additional reform efforts are also needed to diversify the range of services offered by the hospitality industry, raise the level of tourist spending and smooth seasonality.
- The Gambia River is an open natural highway for transport, which together with improved port infrastructure, has the potential to make The Gambia a more competitive transit center for regional trade.

10. Diversification will require greater foreign direct investment and private sector participation. This in turn requires making progress towards restoring macroeconomic stability and improving the business environment. In particular, investments in infrastructure, energy supply and human capital, simplifying the tax system, and easing access to finance, are needed.

11. Strong political commitment is necessary in order to improve macroeconomic management and to build buffers to ensure policy consistency. While The Gambia has benefitted from significant levels of technical assistance, the political commitment to continued sound macroeconomic policies has been noticeably lacking. In the absence of such reforms it will be difficult for The Gambia to durably break from the stop-go nature of its growth experience.

References

Berg, A., J. D. Ostry, and J. Zettelmeyer, (2012) "What Makes Growth Sustained?"; Journal of Development Economics , Vol. 98(2), pp 149–66.

The Republic of the Gambia, (2011) Programme for Accelerated Growth and Employment, 2012–15.

INTERNATIONAL MONETARY FUND

THE GAMBIA

STAFF REPORT FOR THE 2015 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

August 4, 2015

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

CONTENTS

RELATIONS WITH THE FUND

(As of June 30, 2015)

Membership status. Joined September 21, 1967. The Gambia accepted the obligations under Article VIII, Sections 2(a), 3, and 4, of the Fund's Articles of Agreements on January 21, 1993. It maintains an exchange system that is free of restrictions on the making of payments and transfers for current international transactions.

General Resources Account	SDR Million	% Quota
Quota	31.10	100.00
Fund holdings of currency	29.59	95.14
Reserve Tranche Position	1.54	4.96

SDR Department	SDR Million	% Allocation
Net cumulative allocation	29.77	100.00
Holdings	19.42	65.24

Outstanding Purchases and Loans	SDR Million	% Quota
RCF Loans	7.78	25.00
ECF arrangements	28.30	91.00

Latest Financial Arrangements

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF	May 25, 2012	May 24, 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				
	2015	2016	2017	2018	2019
Principal	2.02	4.28	5.24	5.53	4.58
Charges/interest	0.00	0.01	0.01	0.01	0.05
Total	2.02	4.28	5.25	5.54	4.62

[1] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Implementation of HIPC Initiative

	Enhanced Framework
Commitment of HIPC assistance	
Decision point date[2]	Dec. 11, 2000
Assistance committed (year-end 2000 NPV terms)[3]	
Total assistance (US$ million)	66.60
Of which: IMF assistance (US$ million)	2.30
SDR equivalent, million	1.80
Completion point date	Dec. 19, 2007
Disbursement of IMF assistance (SDR million)	2.29
Assistance disbursed to the member	1.80
Interim assistance	0.44
Completion point balance	1.36
Additional disbursement of interest income[4]	0.49

Implementation of Multilateral Debt Relief Initiative (MDRI)

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

Debt Relief by Facility (SDR million)

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

[2] The Fund approved the decision on 12/15/2000 as Decision 12365-(00/126). The World Bank Board decision was taken on 12/14/2000.

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

[4] Under the enhanced HIPC Initiative, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim period.

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

Safeguards assessments

Safeguards assessments of the Central Bank of The Gambia (CBG) were completed in February 2004, February 2007, November 2009, and July 2012. The 2012 update report concluded that the CBG governance has strengthened since the 2009 assessment. The recent assessment stressed that continued and effective oversight by both the Board and the Audit Committee will be important to ensure that key areas of CBG operations such as transactions with the government, controls around IT systems, and compilation of program data are adequately monitored to mitigate heightened risk. The CBG is facing capacity issues in accounting and internal audit that need to be addressed in the near term. Future amendment of the CBG Law would provide the opportunity to strengthen CBG autonomy by the incorporation of safeguards recommendations in this area.

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 preservationof 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 and more recently, on May 4th 2015 to date. The end-June 2015 midpoint exchange rate in the interbank market was D39.72 per U.S. dollar compared to about D51 per U.S. dollar reached prior to the directive. The 2012 and 2013 directives have since been rescinded. LEG in consultation with MCM is assessing if the fifth directive gives rise to exchange restrictions or multiple currency practices in breach of The Gambia's obligations under Article VIII, Sections 2(a) and 3.

Last Article IV consultation

The Executive Board concluded the 2013 Article IV consultation (SM/13/289) on September 11, 2013.

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	
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	
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

June/July 2015	Mission advised on the compilation of price 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
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

Mr. Gaston, K Mpatswe was appointed the Fund's Resident Representative to The Gambia in August 2013.

JOINT BANK-FUND WORK PROGRAM

The Gambia: Joint Bank-Fund Work Program, July 2015–September 2016			
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. Economic Governance Reform Grant **Energy** 2. Gambia Energy Project	 July 2015 (tentative) September 2015	 To be determined To be determined
Fund work program in next 12 months	**Policy Advice** 1. Article IV consultation 2. Staff Visit 3.Article IV consultation **Technical Assistance** 4. Bank supervision 5. Bank Supervision	 June 2015 September 2015 June 2016 July/August 2015 October 2015	 September 2015 n.a September 2016
B. Requests for Work Program Inputs			
Fund request to Bank	Periodic updates on: CPIA, PFM reform, and civil service reform.		
Bank request to Fund	Periodic updates on macroeconomic framework.	July and Sep/Oct 2015 and Feb/Mar 2016 (tentative)	n.a
C. Agreement on Joint Products and Missions			
Joint products in next 12 months	Joint DSA	June 2016	September 2016

STATISTICAL ISSUES

The Gambia—Statistical Issues Appendix

As of July 14, 2015

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 balance of payments, national accounts, and external debt statistics.

National Accounts (NA): The Gambia Bureau of Statistics (GBoS) has disseminated in March 2015 a set of annual GDP estimates—by activity and by expenditure approaches for 2004-2013 based on the 2006 Economic Census with 2004 as benchmark year. Although data issues, including shortage/inadequate survey coverage and poor quality of external sector data, still affect the quality and accuracy of these estimates, the IMF October 2014 and March 2015 TA missions believe that the annual processing systems are as good as they are going to be until updated data, principally the new Economic Census results are available to derive a new set of annual GDP estimates. In this regard, GBoS, aided by TA, has made significant progress in conducting an establishment survey for updating the business register. The first phase of the survey is now complete paving way for the actual economic census to take place. The Integrated Household Survey (IHS) under preparation will also be used for the new benchmark estimates of Household Final Consumption Expenditure (HFCE).

Other issues of concern are the timeliness of GDP figures compilation and dissemination. The government increased the budget allocations for GBoS in 2013 which enabled the recruitment and training of more staff. However, GBoS still faces capacity and financial constraints to process data in a timely manner. Collaboration between NA 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.

Price Statistics: The current CPI with a weight reference period of 2004 was introduced in January 2007 and has a weight reference period of 2004. The GBoS had a target to rebase the CPI using the results of the 2010 integrated household survey and to release the rebased by January 2015. This target was missed with the rebased CPI now scheduled to be released from January 2016 onward. In addition to rebasing, GBoS is also revising its methodology for calculation of CPI elementary aggregates. Once completed, these changes are expected to improve the CPI 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.

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

Monetary and Financial Statistics: The Central Bank of The Gambia (CBG) has improved data reporting to the Fund. In June 2012, the CBG completed migration to the Standardized Report Forms (SRFs) for the submission of its monetary and financial statistics (MFS) to the Fund.

Additionally, in June 2012, the CBG launched an electronic reporting system for commercial banks which will facilitate the accurate and timely submission of relevant information for supervision. In early 2013, the CBG started the collection of new data, including those on term structure of commercial banks' assets and liabilities. One major limitation is that the validation of electronic returns is manual since the electronic system does not contain algorithms to validate data automatically. In addition, the deadline for the official roll out of the new system has been postponed several times due to connectivity problems of some banks.

Despite this progress, MFS data are still in need of improvements in terms of financial institution coverage. The depository corporation survey does not include data from non-bank deposit taking institutions, a growing sector in the country.

In February 2015, an STA technical assistance mission on financial soundness indicators (FSIs) visited the CBG to assist with regular compilation and reporting of the FSIs. The work is ongoing and is foreseen to be completed by 2015Q3. As in the case of MFS, FSI data will be subject to some limitations, particularly concerning coverage and availability of balance sheet breakdowns.

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.

External sector statistics: Despite some improvements, balance of payments statistics continue to be affected by serious shortcomings. These include delays in the collection of trade, customs, and tourist arrival data; outdated methods for estimating the re-export trade; poor data on capital flows; lack of a register of firms and establishments engaged in external transactions; poor classification of balance of payments data; and lack of a consistent methodology. Institutional weaknesses have also been a major impediment to improving statistics. Official grant and loan disbursements and repayments are generally well recorded, but there are some gaps in project disbursements. Due to the various data shortcomings, there is a large discrepancy between the BOP data reported by the authorities to STA and the adjusted data used by AFR. For example, data reported by the authorities to STA point to a small current account surplus (except in 2012), while adjusted AFR data indicate that the country is running a large current account deficit.

The CBG produces balance of payments statistics according to the *Balance of Payments Manual*, 5th edition *(BPM5)*. The CBG has been compiling quarterly balance of payments statistics through a Fund-

administered technical assistance project funded by DfID. The most recent data available are for the third quarter of 2013. An IIP statement in the standard format has not yet been prepared but this remains a primary goal (for the period 2008-2013), following the last TA mission (February 2015). To improve the quality of BOP statistics, the CBG conducted surveys of tourism expenditures and re-exports in 2011, and surveys of FDI and trade credits and advances in 2012. GBoS, CBG, and the Gambian Revenue Authorities (GRA) have been holding regular quarterly meetings on re-exports, in order to standardize procedures and reports for border stations. CBG also plans to rebuild staffing levels and continuously build up capacity in the BOP unit at the Economic Research Department, in line with recommendations from the DfID-funded STA TA mission held in early 2013.

II. Data Standards and Quality	
Participant in the Fund's General Data Dissemination System (GDDS) since 2003. Metadata and GDDS improvement plans have not been updated since 2007, except for the balance of payments and gross official reserves which were updated in 2011.	A data ROSC was published on December 1, 2005.

III. Reporting to STA
The authorities provide some financial soundness indicators (FSIs) to the IMF database; however, not all core FSIs are reported and the reported indicators are not timely. No data are being reported for publication in the *Government Finance Statistics Yearbook* or in the *International Financial Statistics (IFS)*. Since June 2012, monthly SRF-based monetary statistics have been reported to STA for publication in *IFS*. Balance of payments statistics are submitted for publication in the *IFS* and in the *Balance of Payments Statistics Yearbook* since 2005..

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	10/7/15	16/7/15	D	W	M		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	31/5/15	01/7/15	W	W	M		
Reserve/Base Money	10/7/15	16/7/15	D	W	M	LO, LO, LO, LO	LNO, LO, O, LO, LNO
Broad Money	31/5/15	01/7/15	M	M	M		
Central Bank Balance Sheet	31/5/15	01/7/15	M	M	M		
Consolidated Balance Sheet of the Banking System	31/5/15	01/7/15	M	M	M		
Interest Rates[2]	08/7/15	16/7/15	W	W	M		
Consumer Price Index	30/6/15	16/7/15	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	30/6/15	16/7/15	M	M	M		
Stocks of Central Government and Central Government-Guaranteed Debt[5]	30/6/15	16/7/15	M	M	M		
External Current Account Balance	31/12/14	16/7/15	Q	I	A	LNO, LNO, LNO, LO	LNO, LNO, LNO, LO, NO
Exports and Imports of Goods and Services	31/12/14	16/7/15	Q	I	A		
GDP/GNP	31/12/14	09/7/2015	A	A	A	LNO, LNO, O, LO	LNO, O, LNO, LO, NO
Gross External Debt	30/4/15	16/7/15	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.

Statement by Ms. Chileshe Mpundu Kapwepwe, Executive Director for The Gambia and by Ms. Gillian Nkhata, Senior Advisor to the Executive Director September 18, 2015

On behalf of the Gambian authorities, we thank staff for the frank and constructive policy dialogue during this particularly challenging consultation cycle. The mission team and the IMF's resident representative in The Gambia made commendable efforts to engage with the authorities, development partners and other stakeholders, which has greatly helped to inform the policy agenda going forward. The authorities appreciate the continuing engagement with the Fund and broadly agree with staff's assessment of the economy, although with a more optimistic view of the outlook. We also thank Executive Directors and Management for their continued support and guidance. My Gambian authorities have conveyed their continued commitment to strong macroeconomic management, as well as to restoring macroeconomic stability and promoting inclusive growth.

Recent economic developments and outlook

Although The Gambia has remained Ebola free, the economy is still facing urgent balance of payments needs, triggered mostly by the impact of the regional outbreak on tourism, which contributes around 20 percent of GDP. The outbreak is estimated to have cut tourism receipts by more than half for the 2014/15 season. The overall impact of the shocks on the balance of payments during 2014/15 was estimated to be $40 million (over 5 percent of GDP in 2015, even taking into account the positive impact of lower global fuel prices). Gross international reserves have declined to cover less than two months of imports, from almost 5 months of imports at end-2013. In addition, the delayed rains in 2014 have led to a 15 percent decline in the year's crop, pushing down real GDP and threatening food security. Nevertheless, according to the Gambia Bureau of Statistics, real GDP grew by 1.6 percent in 2014, an upward revision from the estimated 1.4 percent contraction.

Going forward, however, growth is expected to return to trend in the medium term, and could exceed 5 percent already in 2016, with strong policy implementation and the projected rebound in agricultural output and tourism, which together account for 40 percent of GDP. We note, in particular, that agricultural production is estimated to have declined by 8.4 percent, which is less severe than the 22.7 percent decline previously reported. Regarding the tourism sector, economic recovery in the EU, the low incidence of new Ebola cases in the region, and marketing and investment efforts in the sector should bolster performance. With the recovery in these two sectors, we expect the external current account deficit to narrow in the medium term. Gross international reserves would also be restored, while inflation could be expected to return to the targeted 5 percent, given the currently subdued international prices for food and fuel.

Performance under the Staff Monitored Program

As Executive Directors recall, The Gambia's program under the Extended Credit Facility (ECF) was pushed off track and cancelled earlier this year. On April 2, the Board approved a disbursement of US$10.8 million under the Rapid Credit Facility (RCF), which was intended to support the authorities' own adjustment efforts, and catalyze donor financing. The RCF disbursement was supported by a one-year SMP, under which my authorities committed to lowering net domestic borrowing (NDB) to 1 percent of GDP in 2015 from 12¼ percent in 2014. This would bring interest payments down, and create space to move to a more sustainable fiscal path. In addition, the authorities resolved to take steps to tackle the financial problems of key public enterprises and to secure their medium-term fiscal consolidation and poverty reduction objectives. About US$22 million was expected in external budget support.

My Gambian authorities believe that the Staff Monitored Program has been helpful in enhancing the implementation of the authorities' planned fiscal adjustment measures and the government's Program for Accelerated Growth and Employment (PAGE). Initially, the authorities were confident that they could maintain policy implementation in line with the main commitments under the program. However, there were some spending pressures in the face of the growing impact of the Ebola crisis, and except for the health sector support grant of $5 million from the World Bank, donor financing, including the expected budget support has not been forthcoming. Earlier in December 2014, the European Union (EU) announced that it was stopping around $16 million in development aid, based on non-program related issues.

Macroeconomic policies

Fiscal policy

Despite recent challenges, my Gambian authorities remain committed to fiscal consolidation. Over the past few years, they have demonstrated this by taking some sensitive measures, including adjusting fuel prices to eliminate subsidies, bringing utility tariffs closer to cost recovery level and continuing to make efforts to strengthen revenue collection and administration. Efforts in mobilizing revenue, in particular the introduction of the value added tax, have helped raise the revenue to GDP ratio from 16 percent in 2012 to 18 ¾ percent in 2014. The authorities have also been working to secure medium-to long-term fiscal sustainability, in particular to reduce the fiscal burden arising from financial difficulties in the key public enterprises. Noteworthy steps have been made to address the financial problems of the National Water and Electricity Company (NAWEC) and other public enterprises, especially GAMTEL and GAMCEL. The authorities are also undertaking efforts to switch spending toward strategic priority infrastructure and social sector projects. Accordingly, they have launched actions to restrict nonessential travel of civil servants, cut down on foreign missions, and introduce a comprehensive government vehicle policy.

The government remains steadfast in the implementation of expenditure measures outlined in the SMP to shore up the NDB target in 2015. In particular, executive approval has been secured to articulate these measures and develop a strategy for their implementation. On the proposed sale of government-owned land plots, an evaluator has been contracted to determine the value of the plots to be sold. Once the evaluation is complete, the land sales will begin in earnest. In addition, the government has helped NAWEC secure a second ECOWAS grant disbursement, which should help strengthen NAWEC's financial position. The authorities are also developing a framework on the implementation of GMD 10 levy on each bill issued by NAWEC to buttress its cash flow.

The authorities are about to submit a paper to cabinet for consideration and approval on streamlining membership to non-financial international organizations. Once the proposal is approved by the cabinet, implementation will start. Furthermore, besides the downsizing of diplomatic missions, government has established a taskforce to review Foreign Service Regulations, with a view to minimizing staff-related costs. The authorities intend to seek approval on the new regulations for implementation at the start of 2016.

My Gambian authorities recognize the need to press on with the implementation of agreed measures identified in the MEFP and the 2015 budget, and to implement contingency measures in addition to those stipulated in the budget. They are also aware of the need to garner more support from the donor community to shore up external budget support. In this regard, discussions are underway with some nontraditional bilateral partners. The authorities are also considering measures to achieve deeper budget restructuring. Further measures under consideration, such as civil service reform, will require garnering further political support and caution before implementation. The authorities also recognize the importance of reform in the energy and telecommunications sectors.

The authorities have also engaged the World Bank to support the civil service reform program and the Bank has expressed interest in it. Work has commenced on the Project Design, and it is hoped that this would be concluded soon. The authorities are currently developing a strategy on streamlining and reducing the number of government ministries and agencies, with a view to ultimately reducing the size of the public sector. Once finalized, a concept note will be submitted to the Executive for approval.

Public debt management

The authorities are also taking steps to improve public debt management. In particular, the relevant departments of the Ministry of Finance and the Central Bank of the Gambia (CBG) coordinate regularly on both domestic and external debt to improve information exchange, which will lead to better forecasting of interest payments. The Ministry is also compiling a database on debt and contingent liabilities of SOEs.

Monetary policy and exchange rate policies

The CBG has steadfastly deployed available instruments to control inflationary pressures, managing to contain inflation has within the single digits at around 6.5–7.5 percent since late 2014. In May, the CBG raised the policy rate by one percentage point to 23 percent. In addition, the CBG has continued efforts to improve liquidity management and forecasting, including by strengthening its collaboration with the fiscal authorities.

The authorities recognized that the flexible exchange rate regime has served the country well and enhanced competitiveness over the years. The CBG was able to build-up reserves to five months of import cover. However, due to speculative activities in the domestic foreign exchange market, an Executive Directive was issued fixing the exchange rate with the US dollar at a level estimated to be 30 percent higher than the prevailing market rates. This is believed to be a temporary measure. Staff stresses the need to rescind the recent exchange rate directive and to return to a flexible exchange rate policy. The CBG has continued to maintain a tight monetary policy stance by maintaining high reserve required reserve ratio and has continued to tighten the foreign exchange net open positions of banks to increase the supply of foreign exchange. The CBG stands ready to tighten policy further should indications of exchange rate over-shooting emerge upon lifting of the Executive Directive.

The authorities are emphasizing the need to proceed with caution, carefully assessing the policy implications of any alternatives, to avoid policy reversals that, in themselves might be destabilizing. They cannot act on the staff's recommendations without securing a consensus among the authorities on the assessment of macroeconomic risks.

Financial sector policy

As indicated in the staff report, the banking sector has continued to be sound and resilient, and it appears able to cope with increases in NPLs, although credit concentration risks have increased with the fiscal instability. Market risks are manageable for both interest and exchange rate risks, although prolonged high interest rates have been damaging to the private sector and SOEs. There has been strong asset growth and increased competition in deposit mobilization. In addition, solvency remains strong and all banks remain within the capital adequacy ratio prudential limit.

International Financial Reporting Standards (IFRS)

Commercial banks have been complying with the Directive issued by the CBG to submit their audited accounts in accordance with International Financial Reporting Standards. This was meant to enhance the quality of financial reporting. It followed a series of training programs for both CBG and commercial bank staff to enhance their knowledge on the reporting standards. Further, an electronic data submission system, the V-RegCoss, which was designed to further enhance the accuracy and transparency of reporting of commercial banks to the CBG, is functioning smoothly.

Financial Intelligence Unit

The Financial Intelligence Unit (FIU) started operating as an independent entity with the appointment of a new Director. The Unit, which was temporarily housed in the CBG of the Gambia, has now secured a new office with adequate funding and staffing to enable it to effectively carry out its mandate. The staff also took part in series of training and capacity building programs while the national AML/CFT strategy, action and implementation plan has been finalized in a bid to enhance efforts in combating money laundering and terrorist.

National Crisis Resolution Framework

The CBG is in the process of establishing a National Crisis Resolution Framework. A taskforce has been setup to conduct research on the design of the framework. The taskforce has completed and submitted its findings to the management of the Bank for review. The development of the Crisis Management and Resolution Framework (CMRF) was prompted by the decision of the Committee of Governors of the West African Monetary Zone (WAMZ) at its Convergence Meeting held on July 16, 2014. The decision provided that the College of Supervisors of the Zone should develop a harmonized framework for financial resolution in the sub-region. Each country would provide a draft crisis resolution framework, which would highlight any operational, legal and other challenges and/or impediments, including solutions towards integration into one broad resolution regime. All the frameworks would then be merged into a harmonized framework for the sub-region.

My authorities are aware of the heightened risks at this current juncture. They have thus intensified efforts on structural reforms to guarantee financial stability, including developing a national crisis resolution framework as outlined above, which will be extended to cross border in the sub-region. Plans are also underway to strengthen supervision, by migrating from a hybrid (compliance and risk-based) to a fully risk-based supervisory framework, once the architecture to implement risk-based supervision is completed. The CBG will continue to conduct top-down stress testing using simple sensitivity-based models to assess the resilience of the banking system to various shocks.

Inclusive growth and competitiveness

The Gambian authorities' efforts to promote inclusive growth over the past few years are bearing fruit. As noted in the staff report, child and maternal health indicators have improved, as have those in education, and youth and female literacy. Nevertheless, poverty remains a concern and recent economic challenges have constrained the achievement of inclusive growth objectives. The authorities recognize the need to step up efforts to improve competitiveness, which will help boost inclusive growth. They have thus embarked on a number of projects to scale up investments in energy and transportation, including the Trans Gambia River bridge construction and a project to connect the regional hydropower grid.

The authorities recognize the vulnerability of the agricultural sector to drought and its overall impact on economic activity. As a result, the Government has identified some measures to mitigate the risks of drought on agriculture. Recently, the authorities signed a Drought Insurance Policy with the Africa Risk Capacity (ARC). Under this arrangement, resources would be made available immediately in the event of a drought to dampen the impact on economic activity. The government has also signed an agreement with the Islamic Development Bank, with the Drought Resilient Project also geared toward tackling drought-related shocks.

Conclusion

In closing, I would reiterate the strong appreciation of The Gambian authorities for the continuing support from the Fund. They have expressed their strong commitment to sound macroeconomic management and inclusive growth, which they recognize needs to be underpinned by solid public financial management. The authorities intend to continue pursuing policy efforts towards narrowing the budget deficit as a key foundation in efforts to reduce the debt burden and related interest payments. They are also committed to deepening structural reforms to boost competitiveness, promote inclusive growth and accelerate poverty reduction.