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The Gambia—Fourth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, and Request for a Waiver of Nonobservance of Performance Criterion, Augmentation of Access, and Modification of Performance Criteria—Staff Report; Staff Supplement; Press Release on the Executive Board Discussion; and Statement by the Executive Director for The Gambia

In the context of the fourth review of the three-year arrangement under the Poverty Reduction and Growth Facility, request for a waiver of nonobservance of performance criterion, augmentation of access, and modification of performance criteria the following documents have been released and are included in this package:

- The staff report for the Fourth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, and Request for a Waiver of Nonobservance of Performance Criterion, Augmentation of Access and Modification of Performance Criteria, prepared by a staff team of the IMF, following discussions that ended on November, 6, 2008, with the Gambian officials on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on February 3, 2009. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- A staff supplement on the joint IMF/World Bank debt sustainability analysis.
- A Press Release summarizing the views of the Executive Board as expressed during its February 18, 2009, discussion of the staff report that completed the review and request.
- A statement by the Executive Director for The Gambia.

The documents listed below have been or will be separately released.

Letter of Intent sent to the IMF by The Gambian authorities.*
Memorandum of Economic and Financial Policies by the Gambian authorities*
Technical Memorandum of Understanding*
*Also included in the Staff Report

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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THE GAMBIA

Fourth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, and Request for a Waiver of Nonobservance of Performance Criterion, Augmentation of Access, and Modification of Performance Criteria

Prepared by the African Department
(In consultation with other departments)

Approved by Emilio Sacerdoti and Dominique Desruelle

February 3, 2009

Discussions: The discussions were held in Banjul during October 23–November 6, 2008. The staff team comprised Messrs. Tsikata (head), Dwight, Pamu, Reinke, and Ms. Kaendera (all AFR). The team met President Yahya Jammeh, Secretary of State for Finance and Economic Affairs Mousa Gibril Bala-Gaye, Governor of the Central Bank of The Gambia (CBG) Momodou Mamba Saho, other senior officials of the government and CBG, and representatives of commercial banks, the business community, non-governmental organizations and The Gambia's development partners.

PRGF arrangement: The current three-year PRGF arrangement was approved in February 2007 in the amount of SDR 14 million (45 percent of quota). The third review was completed on September 8, 2008 in conjunction with the conclusion of the 2008 Article IV consultation. The authorities are requesting the fifth disbursement under the arrangement (SDR 2 million). They are also requesting an augmentation of SDR 6.22 million (20 percent of quota) to be disbursed in two equal installments at the completion of this (fourth) and the next (fifth) review, to help mitigate the impact of the global slowdown on their balance of payments and international reserves.

Safeguards assessment: In the context of the proposed augmentation, the CBG is subject to an update safeguards assessment which has been initiated.

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EXECUTIVE SUMMARY

Recessions in the advanced economies triggered by the global financial crisis are adversely affecting The Gambia's tourism receipts and remittances inflows. In 2008, the current account deficit widened substantially, international reserves fell by nearly 2 months of imports, and the exchange rate depreciated significantly. Revisions to the macroeconomic framework for 2009 indicate a wider current account deficit, lower international reserves, and slower growth compared to the projections in the PRGF third review.

The government scaled back its expenditure plans for 2009 in response to uncertain revenue prospects. Due to a shortfall in revenues, the authorities missed the program's fiscal basic balance target for end-September 2008. They took action to shore up revenues but in view of deteriorating growth prospects in the near term, they accepted staff advice to bring 2009 proposed budget expenditures in line with a downward revision of the prospective resource envelope.

The Gambia remains at high risk of debt distress after HIPC and MDRI debt relief due to the high level of debt and the country's vulnerability to shocks. An updated joint Fund-Bank DSA re-affirmed that reached by the staffs a year earlier when The Gambia reached completion point under the enhanced HIPC initiative. To mitigate the risk, staff urged the authorities to expedite the formulation of a national debt strategy and to rely mainly on grants to finance their development plans.

Overall performance under the PRGF-supported program has been satisfactory, but downside risks to achieving program objectives have increased. The main risks to maintaining macroeconomic stability and reducing poverty are slower growth associated with a worsening global environment, underperformance of revenues, and shortfalls in external assistance. The global downturn is leading to a significant deterioration of the external current account and reserve position, justifying the authorities' request for an augmentation of access under the PRGF by SDR6.22 million (20 percent of quota) to be phased over this and the next review.

Staff supports the authorities' requests for a waiver for nonobservance of the fiscal basic balance performance criterion, augmentation of access, and modification of quantitative performance criteria for end-March 2009.

I. Introduction

1. **Over the last two years, the Gambian authorities have maintained macroeconomic stability and the economy has sustained robust growth.** Improved fiscal performance in 2007 and tight monetary policy kept inflation at single-digit levels in spite of rising world food and oil prices. Real GDP growth averaged 6.1 percent a year, with tourism, construction, telecommunications and agriculture leading the way.

2. **The global financial crisis and associated recessions in Europe and the US have clouded The Gambia's medium-term economic outlook.** There are indications that remittances and tourism-related inflows have slowed, putting pressure on international reserves and the exchange rate. Policy discussions centered on the 2009 budget and debt sustainability. An updated DSA indicated that the country remains at high risk of debt distress.

3. **Although fiscal performance and the international reserves position weakened significantly in the fourth quarter of 2008, overall performance under the PRGF-supported program has been satisfactory.** All the quantitative performance criteria for end-September 2008 were met except for the fiscal basic balance (MEFP Table A1). The fiscal target was missed due to lower-than-expected revenues. The authorities are requesting a waiver for the nonobservance of this performance criterion based on their decision to maintain retail prices of petroleum products at their current levels in spite of the decline in world prices (MEFP ¶12). All structural conditions due by end-December 2008 were implemented on time (MEFP Table A2).

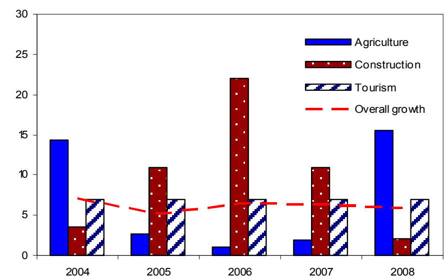
4. **Modifications are proposed to the program for 2009 on account of a revenue shock and the impact of the global financial crisis on The Gambia's balance of payments.** Based on an uncertain revenue outlook and external pressures that led to a sharp decline in international reserves in 2008Q4, three quantitative performance criteria for March 2009 (net domestic assets of the CBG, fiscal basic balance and net usable reserves) have been relaxed compared to the targets under the third review. A structural performance criterion has been introduced to address the emergence of new domestic arrears on government utility payments.

5. **The authorities are requesting an augmentation of access under the current arrangement to rebuild international reserves and mitigate the risk of a more severe impact of the global financial crisis than currently projected.** The augmentation in the amount of SDR6.22 million—equivalent to about 2 weeks of imports—would bring total access under the three-year arrangement to 65 percent of quota. It is to be disbursed in two equal installments at the completion of the fourth and fifth reviews.

II. RECENT DEVELOPMENTS

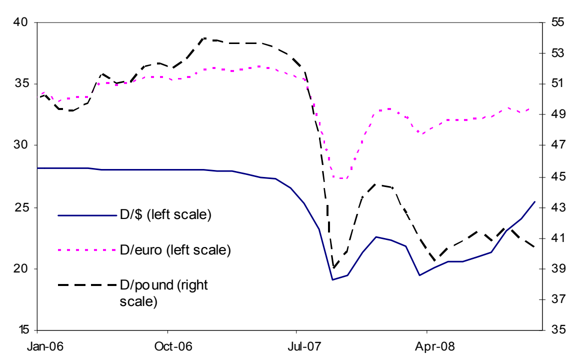
6. **A rebound in agricultural output kept real GDP growth at around 6 percent in 2008.** Aided by good rains, groundnut production increased by 25 percent after declines in 2006 and 2007. Other important growth areas were communications and electricity. Growth in tourism and construction—leading growth sectors in recent years—slowed markedly, while trade-related services contracted. Declines in tourism-related income and remittances weakened domestic demand.

Real GDP Growth (percent, year-on-year)

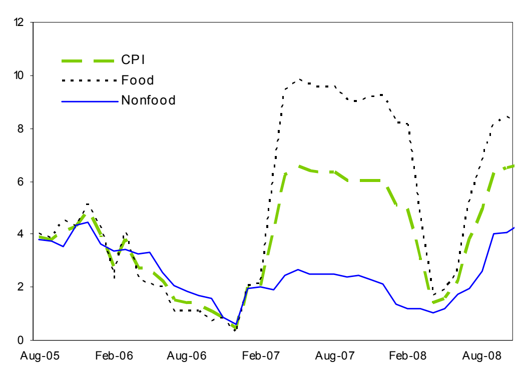


7. **Inflation rose in the second half of 2008 as the effect of dalasi appreciation waned.** Tight monetary policy and appreciation of the dalasi in the second half of 2007 lowered year-on-year inflation to 1.4 percent in April 2008. Since then, inflation has been rising, reaching 6.6 percent in November. After sharp appreciations in the third quarter of 2007 and in early 2008, the dalasi has weakened since March 2008.[1] In the 12 months ending in March 2008, the dalasi appreciated 30 percent against the US dollar and 15 percent against the euro. From March to December 2008, it depreciated 38 percent against the dollar and 10 percent against the euro, mainly due to declining foreign exchange receipts from tourism and remittances. In line with its stated objective of reducing volatility in the exchange rate, the CBG purchased foreign exchange early in the year when there appeared to be excess supply in the interbank market, and sold foreign exchange later in the year to partially offset shortages.

Exchange Rates



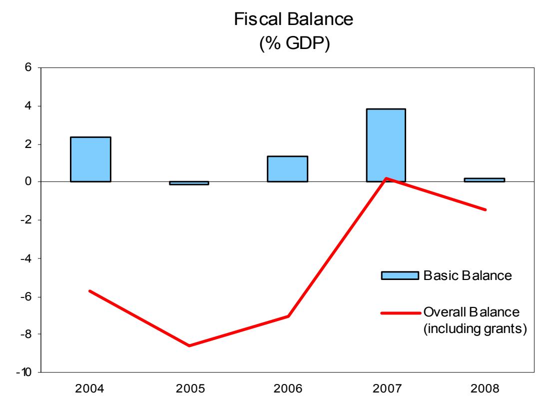
Inflation, year-on-year



[1] As discussed in Country report No. 08/38, the marked appreciation in 2007Q3 reflected the concurrent unwinding of long net open positions in foreign currencies by several commercial banks. The appreciation in early 2008 was due to a temporary surge in foreign exchange inflows to the interbank market.

8. **Domestic credit expansion boosted broad money in 2008.** Broad money grew by about 20 percent in the twelve months ending in November 2008, compared to 8 percent a year earlier. The modest growth in 2007 reflected strong government revenue performance and privatization receipts which substantially reduced the banking system's net claims on the government. The growth in 2008 was driven in about equal measure by credit expansion to government and to the private sector. In contrast to broad money, growth in reserve money remained subdued at about 6 percent in the twelve months to December 2008. The impact of a significant fall in the CBG's net foreign asset position was offset by the government running down deposits it built up last year. In October 2008, concerned about a deteriorating fiscal outlook, the CBG raised the treasury bill rediscount rate from 15 to 16 percent.

9. **Fiscal performance weakened in 2008.** The overall balance turned from a small surplus in 2007 to a 1½ percent of GDP deficit in 2008, mainly due to lower import tax revenues. About two-thirds of the decline came from taxes on non-oil imports, reflecting the relatively appreciated value of the dalasi in the first three quarters of 2008 (compared to the same period in 2007) and possibly a decline in imports for re-export (which comprise consumer goods that attract high import duties). Revenue from petroleum products also fell, as adjustment in retail prices did not keep pace with rising world prices. Furthermore, measures to compensate for revenue loss from the elimination of sales tax on rice imports proved less effective than expected (MEFP ¶6). On the expenditure side, primary current expenditures increased in line with the program; higher wages were offset by lower "other charges". Interest payments fell by 1 percent of GDP, about ½ percent of GDP less than projected. Capital expenditures fell, driven by lower disbursements of external aid. The basic balance surplus was 1.2 percent of GDP lower than targeted. Gross interest-bearing domestic debt fell from 28 percent of GDP at end-2007 to 25½ percent at end-2008.

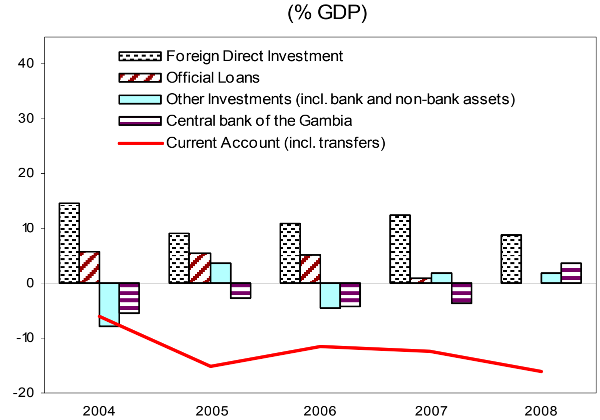


Summary of Central Government Operations, 2007–08
(Percent of GDP)

	2007	2008	
	Actual	3rd rev.	4th rev.
Revenues and Grants	22.6	23.1	19.7
Revenues	21.4	21.1	18.6
Of which: taxes on int'l trade	9.9	9.7	7.4
Oil	2.8	2.8	2.2
Rice	0.4	0.2	0.1
Other	6.8	6.7	5.1
Grants	1.2	2.0	1.1
Budget support	0.1	0.2	0.2
Projects	1.1	1.8	0.9
Expenditure and Net Lending	22.4	26.2	21.2
Current expenditure	16.0	16.2	16.5
Wages	4.2	5.1	5.3
Other charges	6.7	7.5	7.2
Interest	5.0	3.6	4.0
Capital expenditure and net lending	6.5	10.0	4.7
Externally Financed	4.8	6.4	2.8
Gambia Local Fund	1.2	2.9	1.4
Net lending	0.5	0.6	0.5
Basic balance	3.8	1.4	0.2
Overall balance	0.2	-3.0	-1.5
Statistical discrepancy	0.3	0.0	0.0
Adjusted overall balance	0.5	-3.0	-1.5
Financing	-0.5	3.0	1.5
External (net)	1.0	3.5	0.2
Domestic	-1.4	-0.5	1.3
Gross interest bearing domestic debt	28.1	22.6	25.5

10. **The external current account deficit including official transfers widened by about 3½ percent of GDP in 2008—1¾ percent of GDP higher than programmed—on account of adverse shocks.** The rise in world prices of food and oil increased The Gambia's import bill. Staff estimates the magnitude of the price shock at about 5 percent of GDP, assuming import volumes remained at 2007 levels. There appears to have been some adjustment in the volume of non-oil imports as retail prices of consumer items

Sources of Financing the Current Account Deficit
(% GDP)



rose in the second half of the year.[2] International oil and food prices declined in the second half of the year, but the impact of this improvement in the terms of trade was offset by a slowdown in remittances, travel income, and earnings from re-export services. These developments and a decrease in foreign direct investment inflows led to a balance of payments deficit of 5.2 percent of GDP (compared to near balance projected under the third review), and reduced official international reserves from 5.5 months of imports at end-2007 to 3.9 months at end-December 2008 (compared to a programmed 4.9 months).

III. Policy Discussions

A. Medium-Term Macroeconomic Framework

11. **The policy discussions were guided by a revised medium-term macroeconomic framework that took account of the impact of the global financial crisis on The Gambia's balance of payments.** Compared to the framework underlying the third review, growth is lower, inflation is slightly higher, and current account deficits are wider. The main objectives and assumptions underlying the updated framework are:

- recovery in real GDP growth from 4.6 percent in 2009 to at least 5 percent from 2010, based on modest growth in agriculture and a rebound in tourism and construction;
- annual inflation rate of 6 percent in 2009 and 5 percent or less from 2010, reflecting lower world commodity prices and a relatively stable exchange rate;
- reduction in domestic public debt from about 25½ percent of GDP at end-2008 to 17 percent at end-2011, by containing the government's borrowing requirement; and
- reduction in the external current account deficit (including grants) from 16 percent of GDP in 2008 to about 13 percent in 2009 and to 11½ percent in 2011, based on a recovery in tourism and growth in non-traditional exports.

B. The Impact of the Global Financial Crisis on the Balance of Payments in 2009

12. **Slowdowns associated with the global financial crisis are adversely affecting the inflow of tourism income and remittances to The Gambia.** Compared to the projections in the third review, the current account deficit (excluding grants) has widened by a cumulative 1.8 percent of GDP in 2008 and 2009, notwithstanding a 2 percent of GDP fall in the oil bill (see text table). Projections of travel income have been lowered by 3.7 percent of GDP and of remittances by 2.5 percent of GDP in 2008 and 2009. On the capital account, foreign direct

[2] Data weaknesses prevented a detailed analysis of import volumes.

investment is now expected to be lower by 1 percent of GDP cumulatively over 2008–09. The overall balance of payments deficit is estimated to be wider by 5 percent of GDP in 2008 and by almost 2 percent of GDP in 2009. As a result international reserves are expected to fall markedly.

Summary Balance of Payments, 2007-2009

	2007	2008		2009		Change	
	Actual	3rd rev.	4th rev.	3rd rev.	4th rev.	2008	2009
	(In percent of GDP)						
Current account balance (excl official transfers)	**-13.5**	**-16.4**	**-17.1**	**-16.2**	**-17.3**	**-0.7**	**-1.1**
of which:							
Exports of domestic products	1.9	1.6	1.6	1.5	1.5	0.0	0.0
Imports for domestic use (fob)	-28.3	-29.3	-28.5	-29.1	-25.7	0.8	3.4
of which: oil products	-4.4	-5.4	-4.9	-4.8	-2.9	0.5	1.9
Travel income	12.9	11.5	10.4	11.6	9.0	-1.1	-2.6
Re-export earnings	6.1	5.7	4.7	5.5	4.3	-1.0	-1.2
Remittances	8.1	7.3	6.4	7.0	5.4	-0.9	-1.6
Official transfers	**1.2**	**2.0**	**1.1**	**3.1**	**4.0**	**-0.9**	**0.9**
Capital and financial account	**17.3**	**14.2**	**10.8**	**12.5**	**10.7**	**-3.4**	**-1.8**
of which:							
Foreign direct investment	12.4	9.0	8.8	8.0	7.2	-0.2	-0.8
Official loans	3.6	4.6	1.9	5.6	4.9	-2.7	-0.7
Overall balance	**4.9**	**-0.1**	**-5.2**	**-0.6**	**-2.5**	**-5.1**	**-1.9**
Memorandum items:							
Gross official reserves							
In millions of US dollars	141.6	153.0	112.6	160.0	103.3	-40.4	-56.7
In months of imports, cif	5.5	4.9	3.9	4.8	3.6	-1.0	-1.2
In percent of GDP	21.8	19.6	14.2	19.0	12.2	-5.4	-6.8

13. **Confronted with this adverse balance of payments and international reserves outlook, the authorities are requesting an augmentation of access under the current PRGF arrangement.** This would allow them to raise international reserves back to 4 months of imports, and provide some cushion should the international downturn prove more severe than expected. In view of the deterioration of the reserve position, and the risk that the shocks to the current account in 2009 may be larger than projected if the international downturn intensifies, the staff supports the authorities' request for augmentation. The authorities are also seeking additional external grants to meet their higher balance of payments needs (MEFP ¶34).

C. Fiscal Policy

14. **Fiscal policy discussions focused on steps to prevent a further deterioration of the fiscal balance in 2008 and ensure sustainable fiscal policy in 2009 and beyond.** The authorities agreed to maintain retail prices of petroleum products at current levels, in spite of falling world prices, to boost revenues. For the 2009 budget, the authorities adopted an

appropriately conservative revenue forecast (MEFP ¶20). Petroleum revenues are forecast to increase significantly, but this is partially offset by lower revenues from non-oil imports, reflecting a declining re-export trade (MEFP ¶15). Total revenues are projected to reach 19.3 percent of GDP in 2009 compared with the earlier programmed level of 21.1 percent. Given uncertainty about the revenue base and the authorities' concern that tax rates are high, discussions of specific revenue measures were postponed to the next review. It is expected that recommendations of an IMF tax policy mission requested by the authorities will provide the basis for such measures.[3] On the expenditure side, the authorities adjusted their original spending plans to bring them in line with the revised outlook for revenues and grants. In particular, they have deferred a substantial wage increase that was part of civil service reform (MEFP ¶28) and are restraining domestically financed capital expenditures. Staff and the authorities agreed to lower the target for the basic balance surplus from a programmed 1.5 percent of GDP to 0.2 percent of GDP (see Table 2). Two-thirds of this deterioration is due to higher interest payments on domestic debt, because of a lower projected decline in the debt stock. The programmed surplus on the basic primary balance only falls by 0.1 percent of GDP. In the near future, technical assistance will be provided to analyze in greater detail the causes of the revenue decline in 2008 and policy options for boosting fiscal revenue in a sustainable manner over the medium-term.

15. **Disbursement of external grants and loans is expected to pick up in 2009.** The authorities are working with the EU to speed up disbursements on a large roads project funded by EU grants (MEFP ¶21). The World Bank and African Development Bank will be providing budget support grants to the government for the first time in 2009. With regard to external loans, following the ratification of four loans by the National Assembly in October 2008 (MEFP ¶24), disbursements should pick up in 2009.

16. **New domestic arrears have emerged (MEFP ¶23).** They arise from the failure of some government agencies to pay bills from the National Water and Electricity Corporation (NAWEC). A preliminary estimate put the arrears at D83 million (0.5 percent of GDP). The government claims that NAWEC owes back taxes. A structural performance criterion requiring verification of the mutual claims and agreement on a time table for clearing them, has been established under the program (MEFP Table A3).

A. Debt Sustainability

17. **An updated joint Fund-Bank DSA re-affirmed the conclusion from a year earlier that the country remains at high risk of debt distress after HIPC and MDRI**

[3] The mission is expected to be fielded in March 2009.

relief.[4] The level of debt remains high in relation to exports, and sensitivity analyses show that the country is highly vulnerable to external shocks. While the NPV of debt-to-GDP ratio falls comfortably below the sustainable threshold over the 20 year projection horizon, the NPV of debt-to-exports ratio breaches the policy threshold throughout the projection period. With respect to domestic debt, the government is projected to run primary basic surpluses of 4–6 percent of GDP over the medium term which will put the debt on a sustainable path.

Figure 1: PV of Debt to GDP ratio

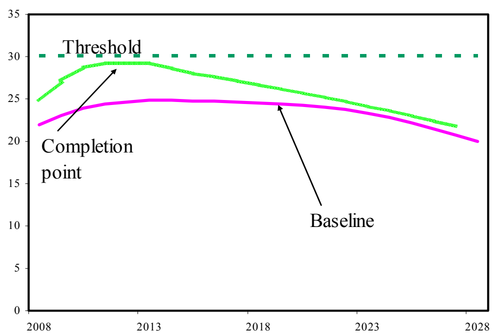
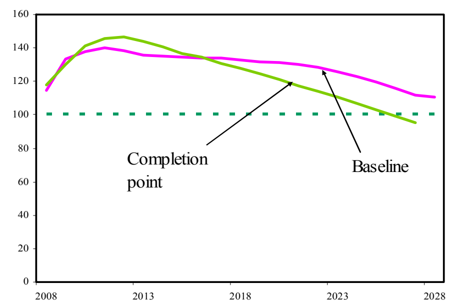


Figure 2: PV of Debt to Exports Ratio



18. **In order to mitigate the risk of debt distress, staff urged the authorities to expedite the formulation of a national debt strategy and to rely mainly on grants to finance their development plans.** The authorities said formulation of the debt strategy will be part of a program to strengthen debt management capacity with support from the World Bank and African Development Bank (MEFP ¶23).

E. Monetary and Exchange Rate Policies

19. **Staff welcomed the CBG's commitment to contain inflation at low single-digit levels using all instruments at its disposal.** Monetary policy is based mainly on a money targeting framework, but the CBG also announces a policy interest rate (the treasury bill rediscount rate) to signal changes in the policy stance. The liquidity forecasting framework that guides monetary operations has facilitated sound decisions and produced low inflation. However, policymakers do not have timely access to all relevant information, including those related to government operations. In this connection, staff urged greater coordination between the CBG and the Department of State for Finance and Economic Affairs.

20. **Staff endorsed the CBG's periodic intervention in the foreign exchange market to provide liquidity and avoid excessive short-term movements of the exchange rate.**

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[4] The DSA is being issued as a supplement to this staff report.

Officials stressed that the CBG does not target a particular level of the exchange rate. This is consistent with the IMF classification of the country's exchange arrangement as "managed float with no predetermined path for the exchange rate."

F. Promoting Growth and Reducing Poverty

21. **Discussion of growth focused on measures to improve the investment climate.** Staff welcomed a review of the Investment Promotion Act currently underway. It advised that applications for investment incentives be carefully scrutinized, but that once approved, the incentives should be provided in a predictable way. The authorities asked that the tax policy technical assistance mission they have requested from the Fund provide advice on rationalization of central and local government taxation to ease the tax burden on businesses (MEFP ¶20). The authorities noted that the country's financial system is sound, and that the entry of new banks has increased competition in the sector (MEFP ¶9). Staff expressed concern that the growing number of banks—eleven in operation, and five awaiting licenses—was stretching the CBG's supervision capacity. The authorities said they would review entry requirements for new banks.

22. **PRSP implementation needs strengthening.** The Annual Progress Report (APR) for 2007 reveals continuing implementation problems and an inadequate monitoring framework (MEFP ¶31).[5] The government reiterated its commitment to increase the share of budgetary resources allocated to poverty-reducing expenditures in line with PRSP priorities.

23. **The Gambia's progress towards meeting the Millennium Development Goals (MDGs) is mixed.** The target of reducing poverty to 15 percent of the population is unlikely to be achieved, but significant strides have been made in other areas. For example, subtantial progress has been made toward universal primary education while gender parity in primary and lower basic schools has been attained.

IV. Program Issues

24. **Staff supports the authorities request for modification of three quantitative performance criteria for end-March 2009 (MEFP ¶35).** The floor on the fiscal basic balance has been lowered to accommodate the 2008 revenue shock. The net usable reserves floor has also been lowered in response to the shock to travel income, remittances, earnings from re-export trade and foreign direct investment. The ceiling on net domestic assets of the CBG has been raised in line with the modifications to the fiscal and international reserves targets. All quantitative targets have been extended through end-2009 (MEFP Table A1).

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[5] The APR and an accompanying JSAN are being distributed to the Board with this staff report.

25. **Structural conditionality remains geared to supporting the authorities' effort to strengthen capacity for formulating and implementing macroeconomic policies (MEFP Table A3).** Areas of focus include public financial management and compilation of timely economic statistics.

26. **Staff supports the authorities request for an augmentation of the PRGF arrangement.** The authorities are requesting an augmentation equivalent to SDR6.22 million (20 percent of quota) to be disbursed in two equal tranches. This will return the coverage of international reserves at end-2009 to about four months of imports (still less than the 4.6 months previously targeted), helping avert a disruptive adjustment in case the adverse impact of the global slowdown on the balance of payments is larger than currently projected. The Gambia's indicators on the capacity to repay the Fund remain strong (Table 7).

27. **The main risks to the program are:**

- *Slower growth associated with a worsening global environment.* If the recessions underway in industrial countries is protracted, there could be an even more severe impact on tourism and remittances.

- *Further worsening of the fiscal outlook.* This could arise from continued underperformance of revenues or failure to maintain spending discipline. These would lead to larger fiscal deficits, higher levels of public debt, and higher domestic interest rates.

- *Shortfall in external assistance.* The authorities' growth and poverty-reduction objectives would be jeopardized is the projected increase in external grants fails to materialize.

- *Weak implementation capacity.* Civil service reform is important for improving the government's capacity to formulate and implement policies as well as to enhance the provision of government services.

V. Staff Appraisal

28. **Performance under the program has been satisfactory, reflecting strong ownership by the authorities.** Fiscal performance has been solid, but suffered a revenue shock and higher interest payments in 2008. The decision to maintain retail prices of petroleum products at current levels even though world prices have dropped substantially will allow some recovery in revenues.

29. **Maintaining fiscal discipline is crucial for achieving the authorities' poverty reducing objectives.** Staff welcomed assurances it received from the highest authorities that

the government would limit its domestic borrowing requirement and continue striving to better align the budget to PRSP priorities.

30. **The current monetary policy stance is appropriate.** While lower world commodity prices have lowered external inflationary impulses, recent exchange rate depreciation may raise inflation expectations. Furthermore, in view of the uncertain fiscal outlook the CBG should err on the side of caution and, for now, avoid loosening the policy stance.

31. **Staff supports the authorities' requests for a waiver for the nonobservance of the fiscal basic balance target for end-September 2008 and modification of three performance criteria for end-March 2009, in view of the impact of external shocks on fiscal revenues and the balance of payments.**

32. **Staff also supports the authorities' request for an augmentation of access under the PRGF arrangement in order to provide a higher reserve buffer should** the global slowdown have a larger negative impact on the external current account than now projected.

Table 1. The Gambia: Selected Economic and Financial Indicators, 2006–13

	2006	2007	2008		2009		2010	2011	2012	2013
	Act.	Act.	Proj. 3rd rev.	Proj. 4th rev.	Proj. 3rd rev.	Proj. 4th rev.	Proj. 4th rev.	Proj. 4th rev.	Proj. 4th rev.	Proj. 4th rev.
	(Percent change, unless indicated otherwise)									
National income and prices										
Nominal GDP (millions of dalasis)	14,266	16,192	17,901	17,959	20,017	20,061	22,213	24,487	26,921	29,526
Nominal GDP	8.2	13.5	10.6	10.9	11.8	11.7	10.7	10.2	9.9	9.7
GDP at constant prices	6.5	6.3	5.5	5.9	6.5	4.6	5.0	5.3	5.4	5.4
Consumer price index (period average)	2.1	5.4	6.0	4.5	5.0	6.4	5.5	4.8	4.2	4.0
Consumer price index (end of period)	0.4	6.0	6.0	6.8	5.0	6.0	5.0	4.5	4.0	4.0
External sector										
Exports, f.o.b.[1]	3.9	8.8	11.0	-6.9	4.5	0.9	4.4	7.7	8.0	7.5
Of which: domestic exports	143.9	-27.9	0.9	0.9	2.7	2.7	12.0	7.2	7.2	3.5
Imports, f.o.b.[1]	-0.6	18.4	20.7	13.7	6.7	-2.4	7.3	7.8	8.2	8.2
Terms of trade[2]	-3.0	-6.1	-16.2	-4.8	-0.8	-2.1	1.2	1.1	1.0	1.0
Nominal effective exchange rate (period average)	0.5	7.6	...	...	...	...	...	...	...	...
Real effective exchange rate (period average)	-0.3	10.7	...	...	...	...	...	...	...	...
Money and credit		(Percent change; in beginning-of-year broad money)								
Broad money	26.2	6.7	12.2	12.5	11.8	5.7	10.7	10.2	9.9	9.7
Net foreign assets	17.8	-3.5	4.7	-2.4	3.9	-4.7	3.8	6.2	7.0	4.3
Net domestic assets	8.5	10.1	7.5	14.3	7.9	10.4	6.9	4.0	2.9	5.4
Credit to the government (net)[3]	3.8	-5.0	4.8	13.8	-0.6	1.1	-0.3	0.2	-0.6	-1.3
Credit to the private sector and public enterprises	8.4	4.3	4.5	2.2	4.0	4.0	2.9	5.9	4.4	7.2
Claims on foreign exchange bureaus	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other items net	-3.7	10.9	-1.8	-2.0	4.5	5.5	4.2	-2.1	-0.9	-0.4
Velocity (GDP/average broad money)	1.9	2.0	2.0	2.0	2.0	2.1	2.2	2.1	2.1	2.1
Yield on treasury bills (percent per year)[4]	10.4	11.9	11.7	11.5	…	…	…	…	…	…
	(Percent of GDP)									
Central government budget										
Domestic revenue	21.2	21.4	21.1	18.6	21.1	19.3	19.8	20.3	20.9	21.5
Grants	1.3	1.2	2.0	1.1	3.1	4.0	4.5	4.2	4.0	4.1
Total expenditure and net lending	29.5	22.4	26.2	21.2	28.2	26.5	27.3	27.0	26.6	26.3
Overall balance, including grants	-7.1	0.2	-3.0	-1.5	-4.0	-3.2	-3.0	-2.6	-1.7	-0.8
Basic balance[5]	1.4	3.8	1.4	0.2	1.5	0.2	0.9	1.6	2.3	3.0
Net foreign financing	6.1	1.0	3.5	0.2	4.5	3.4	3.2	3.2	3.0	2.6
Net domestic financing	1.7	-1.4	-0.5	1.3	-0.6	-0.2	-0.2	-0.7	-1.2	-1.8
Gross domestic interest bearing debt	32.1	28.1	22.6	25.5	19.2	22.5	20.2	17.3	14.4	11.3
External sector										
Current account balance										
Excluding official transfers	-14.7	-13.5	-16.4	-17.1	-16.2	-17.3	-16.3	-15.6	-14.7	-14.7
Including official transfers	-11.5	-12.3	-14.3	-16.0	-13.1	-13.2	-11.7	-11.4	-10.7	-10.6
	(Millions of U.S. dollars, unless otherwise indicated)									
Current account balance										
Excluding official transfers	-74.6	-88.1	-127.6	-135.9	-136.5	-147.0	-147.7	-151.6	-154.0	-165.6
Including official transfers	-58.3	-80.3	-111.8	-127.2	-110.3	-112.6	-106.6	-110.6	-111.7	-119.8
Overall balance of payments	24.4	32.0	-1.1	-41.6	-5.1	-21.3	1.1	13.1	18.0	8.0
Gross official reserves	118.6	141.6	153.0	112.6	160.0	103.3	112.8	130.3	152.5	162.8
In months of imports, c.i.f.	5.5	5.5	4.9	3.9	4.8	3.6	3.7	4.0	4.3	4.2
External public debt										
Stock[7]	676.7	299.4	325.9	311.4	363.3	349.2	388.0	428.0	466.5	504.5
Stock (percent of GDP)	133.1	46.0	41.8	40.1	43.1	41.9	43.4	44.5	45.0	45.2
Net present value of debt (percent of exports)[8]	101.9	109.6	117.6	116.5	126.4	137.7	143.8	147.0	147.0	145.5
External debt service (percent of exports)[8]	16.3	17.4	8.0	9.1	7.8	8.9	9.5	10.0	10.3	10.3
Use of Fund resources					(Millions of SDRs)					
Purchases/disbursements	0.0	4.0	4.0	4.0	4.0	4.0	2.0	0.0	0.0	0.0
Repurchases/repayments	-2.7	-11.8	0.0	0.0	0.0	0.0	0.0	0.0	-0.2	-1.0
Credit outstanding	11.8	4.0	8.0	8.0	…	…	…	…	…	…

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

[1]Computed based on values in U.S. dollars.

[2]Excluding reexports and imports for reexport.

[3]Including advances to the government in foreign currencies.

[4]Weighted average for all maturities based on weekly auction data for the month of December; and for 2008, data are for June 2008.

[5]Defined as domestic revenue minus expenditure and net lending, excluding externally financed capital expenditure.

[6]Defined as domestic revenue minus expenditure and net lending, excluding interest payments and externally financed capital expenditure.

[7] Reflects HIPC and MDRI debt relief delivered at end-2007.

[8]Exports of goods and nonfactor services (not including reexports).

Table 2A. The Gambia: Central Government Operations, 2006-13
(Millions of dalasis, unless otherwise indicated)

	2006	2007	2008		2009		2010	2011	2012	2013
	Outturn	Actual	3rd rev.	Prog.	3rd rev.	Prog.	Proj.	Proj.	Proj.	Proj.
Revenue and grants	3,203	3,663	4,142	3,540	4,847	4,682	5,406	5,995	6,705	7,550
Revenue	3,024	3,468	3,779	3,344	4,226	3,870	4,399	4,963	5,619	6,350
Tax revenue	2,678	3,037	3,379	3,001	3,741	3,491	3,971	4,472	5,053	5,698
Nontax revenue	346	431	400	343	485	380	428	490	566	652
Grants	180	194	363	196	621	811	1,008	1,032	1,086	1,200
Projects	163	174	328	161	428	513	800	820	870	980
Expenditure and net lending	4,211	3,635	4,686	3,805	5,639	5,326	6,068	6,622	7,171	7,775
Current expenditure	2,584	2,586	2,898	2,956	3,193	3,429	3,664	3,922	4,231	4,544
Wages and salaries	653	680	918	954	1,193	1,034	1,214	1,338	1,471	1,614
Other charges	1,010	1,091	1,340	1,288	1,432	1,586	1,667	1,776	1,953	2,141
Interest	921	815	640	714	568	808	783	807	807	789
External[1]	232	231	72	149	83	147	173	203	236	265
Domestic	689	584	568	565	485	661	610	605	571	524
Capital expenditure and net lending	1,627	1,048	1,788	850	2,446	1,897	2,403	2,700	2,940	3,231
Capital expenditure	1,564	973	1,679	755	2,315	1,840	2,319	2,612	2,872	3,163
Externally financed	1,487	780	1,153	497	1,706	1,492	1,875	2,049	2,172	2,307
Loans	1,308	586	825	337	1,112	979	1,057	1,212	1,285	1,310
Grants	180	194	328	161	594	513	818	837	887	997
GLF (Gambia Local Fund)	77	192	526	257	609	348	444	563	700	856
Net lending	63	76	110	95	131	57	84	88	68	68
Overall balance	-1,008	28	-544	-265	-792	-644	-662	-627	-466	-225
Statistical discrepancy[2]	-104	48	0	-1	0	0	0	0	0	0
Adjusted overall balance	-1,112	76	-544	-266	-792	-644	-662	-627	-466	-225
Financing	1,112	-76	544	266	792	644	662	627	466	225
External (net)	876	158	627	30	903	676	701	793	799	766
Borrowing	1,308	586	825	337	1,112	979	1,057	1,212	1,285	1,310
Amortization[1]	-477	-428	-198	-307	-209	-303	-357	-419	-486	-544
Domestic	236	-234	-83	236	-111	-32	-39	-166	-333	-541
Net borrowing	334	-514	-135	453	-111	-87	-39	-166	-333	-541
Bank	231	-68	-56	750	-36	100	-26	20	-75	-175
Nonbank	103	-267	12	-206	17	-70	64	-152	-258	-366
Repayment of domestic debt	0	-179	-92	-92	-92	-117	-77	-34	0	0
Capital revenue	110	24	15	0	0	24	0	0	0	0
Change in arrears (- decrease)[3]	-209	-369	-106	-217	0	0	0	0	0	0
Privatization proceeds	0	626	143	0	0	31	0	0	0	0
Memorandum items:										
Basic balance[4]	196	614	246	35	293	37	206	390	620	882
Basic primary balance[5]	1,221	1,429	886	750	861	845	989	1,197	1,427	1,671
Gross domestic interest-bearing debt	4,582	4,546	4,039	4,571	3,848	4,521	4,479	4,233	3,885	3,344
Stock of arrears	561	192	0	0	0	0	0	0	0	0
Stock of HIPC and MDRI debt relief										
Of which : IMF		336								
IDA		4,652								
AfDF		3,518								
Resources freed by MDRI debt relief		111	511	502	521	518	536	474	486	472
Amortization		101	390	384	408	406	430	373	392	384
Interest payments		11	120	118	113	112	107	101	94	87
Uses of resources freed by MDRI debt relief		111	511	502	521	518	536	474	486	472
Current expenditures		0	129	129	131	131	138	173	178	197
Capital expenditures		0	194	194	220	220	207	173	178	161
Savings		111	188	179	170	167	192	128	130	114
Exp. financed by privatization proceeds		159	390	390	221	109	0	0	0	0

Sources: Gambian authorities; IMF staff estimates and projections.

[1] After MDRI debt relief from 2007 onward.

[2] The difference between financing and the overall balance of revenue and expenditure.

[3] Change in arrears for 2008 includes an additional D25m for repayments to the National Water and Electricity Company (NAWEC).

[4] Domestic revenue - expenditure and net lending, excluding externally financed capital spending.

[5] Domestic revenue - expenditure and net lending, excluding interest payments and externally financed capital spending.

Table 2B. The Gambia: Central Government Operations, 2006-13 (Percent of GDP)

	2006	2007	2008		2009		2010	2011	2012	2013
	Actual	Actual	3rd rev.	Prog.	3rd rev.	Prog.	Proj.	Proj.	Proj.	Proj.
Revenue and grants	22.5	22.6	23.1	19.7	24.2	23.3	24.3	24.5	24.9	25.6
Revenue	21.2	21.4	21.1	18.6	21.1	19.3	19.8	20.3	20.9	21.5
Tax revenue	18.8	18.8	18.9	16.7	18.7	17.4	17.9	18.3	18.8	19.3
Nontax revenue	2.4	2.7	2.2	1.9	2.4	1.9	1.9	2.0	2.1	2.2
Grants	1.3	1.2	2.0	1.1	3.1	4.0	4.5	4.2	4.0	4.1
Of which: Projects	1.1	1.1	1.8	0.9	2.1	2.6	3.6	3.3	3.2	3.3
Expenditure and net lending	29.5	22.4	26.2	21.2	28.2	26.6	27.3	27.1	26.6	26.3
Current expenditure	18.1	16.0	16.2	16.5	15.9	17.1	16.5	16.0	15.7	15.4
Wages and salaries	4.6	4.2	5.1	5.3	6.0	5.2	5.5	5.5	5.5	5.5
Other charges	7.1	6.7	7.5	7.2	7.2	7.9	7.5	7.3	7.3	7.3
Interest	6.5	5.0	3.6	4.0	2.8	4.0	3.5	3.3	3.0	2.7
External[1]	1.6	1.4	0.4	0.8	0.4	0.7	0.8	0.8	0.9	0.9
Domestic	4.8	3.6	3.2	3.1	2.4	3.3	2.7	2.5	2.1	1.8
Capital expenditure and net lending	11.4	6.5	10.0	4.7	12.2	9.5	10.8	11.0	10.9	10.9
Capital expenditure	11.0	6.0	9.4	4.2	11.6	9.2	10.4	10.7	10.7	10.7
Externally financed	10.4	4.8	6.4	2.8	8.5	7.4	8.4	8.4	8.1	7.8
Loans	9.2	3.6	4.6	1.9	5.5	4.9	4.8	5.0	4.8	4.4
Grants	1.3	1.2	1.8	0.9	3.0	2.6	3.7	3.4	3.3	3.4
GLF (Gambia Local Fund)	0.5	1.2	2.9	1.4	3.0	1.7	2.0	2.3	2.6	2.9
Net lending	0.4	0.5	0.6	0.5	0.7	0.3	0.4	0.4	0.3	0.2
Overall balance	-7.1	0.2	-3.0	-1.5	-4.0	-3.2	-3.0	-2.6	-1.7	-0.8
Statistical discrepancy[2]	-0.7	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Adjusted overall balance	-7.8	0.5	-3.0	-1.5	-4.0	-3.2	-3.0	-2.6	-1.7	-0.8
Financing	7.8	-0.5	3.0	1.5	4.0	3.2	3.0	2.6	1.7	0.8
External (net)	6.1	1.0	3.5	0.2	4.5	3.4	3.2	3.2	3.0	2.6
Borrowing	9.2	3.6	4.6	1.9	5.6	4.9	4.8	5.0	4.8	4.4
Amortization[1]	-3.3	-2.6	-1.1	-1.7	-1.0	-1.5	-1.6	-1.7	-1.8	-1.8
Domestic	1.7	-1.4	-0.5	1.3	-0.6	-0.2	-0.2	-0.7	-1.2	-1.8
Net borrowing	2.3	-3.2	-0.8	2.5	-0.6	-0.4	-0.2	-0.7	-1.2	-1.8
Bank	1.6	-0.4	-0.3	4.2	-0.2	0.5	-0.1	0.1	-0.3	-0.6
Nonbank	0.7	-1.6	0.1	-1.1	0.1	-0.3	0.3	-0.6	-1.0	-1.2
Repayment of domestic debt	0.0	-1.1	-0.5	-0.5	-0.5	-0.6	-0.3	-0.1	0.0	0.0
Capital revenue	0.8	0.1	0.1	0.0	0.0	0.1	0.0	0.0	0.0	0.0
Change in arrears (- decrease)[3]	-1.5	-2.3	-0.6	-1.2	0.0	0.0	0.0	0.0	0.0	0.0
Privatization proceeds	0.0	3.9	0.8	0.0	0.0	0.2	0.0	0.0	0.0	0.0
Memorandum items:										
Basic balance[4]	2.1	3.8	1.4	0.2	1.5	0.2	0.9	1.6	2.3	3.0
Basic primary balance[5]	8.6	8.8	5.0	4.2	4.3	4.2	4.5	4.9	5.3	5.7
Gross domestic interest-bearing debt	32.1	28.1	22.6	25.5	19.2	22.5	20.2	17.3	14.4	11.3
Stock of arrears	3.9	1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Stock of HIPC and MDRI debt relief										
Of which : IMF		2.1								
IDA		28.7								
AfDF		21.7								
Resources freed by MDRI debt relief		0.7	2.9	2.8	2.6	2.6	2.4	1.9	1.8	1.6
Amortization		0.6	2.2	2.1	2.0	2.0	1.9	1.5	1.5	1.3
Interest payments		0.1	0.7	0.7	0.6	0.6	0.5	0.4	0.4	0.3
Uses of resources freed by MDRI debt relief		0.7	2.9	2.8	2.6	2.6	2.4	1.9	1.8	1.6
Current expenditures		0.0	0.7	0.7	0.7	0.7	0.6	0.7	0.7	0.7
Capital expenditures		0.0	1.1	1.1	1.1	1.1	0.9	0.7	0.7	0.5
Savings		0.7	1.1	1.0	0.8	0.8	0.9	0.5	0.5	0.4
Exp. financed by privatization proceeds		1.0	2.2	2.2	1.1	0.5	0.0	0.0	0.0	0.0

Sources: Gambian authorities; IMF staff estimates and projections.

[1] After MDRI debt relief from 2007 onward.

[2] The difference between financing and the overall balance of revenue and expenditure.

[3] Change in arrears for 2008 includes an additional D25m for repayments to the National Water and Electricity Company (NAWEC).

[4] Domestic revenue - expenditure and net lending, excluding externally financed capital spending.

[5] Domestic revenue - expenditure and net lending, excluding interest payments and externally financed capital spending.

Table 3. The Gambia: Monetary Survey, 2006-13

	2006	2007	2008		2009	2010	2011	2012	2013
	Dec.	Dec.	Dec.	Dec.	Dec.	Dec.	Dec.	Dec.	Dec.
	Act.	Act.	3rd. rev.	Program	Program	Proj.	Proj.	Proj.	Proj.
	(Millions of dalasis, unless otherwise indicated; end of period)								
Net foreign assets	4,292	4,022	4,409	3,825	3,392	3,767	4,438	5,280	5,838
Net domestic assets	3,466	4,252	4,871	5,432	6,391	7,065	7,502	7,847	8,559
Domestic credit	4,259	4,200	4,972	5,523	5,990	6,252	6,916	7,371	8,140
Claims on government (net)	1,579	1,189	1,587	2,333	2,433	2,406	2,426	2,351	2,176
Claims on the private sector and public enterprises[3]	2,497	2,829	3,201	3,008	3,374	3,662	4,306	4,836	5,781
Claims on public enterprises	268	229	251	251	264	277	291	306	321
Claims on private sector	2,230	2,600	2,950	2,756	3,110	3,385	4,015	4,531	5,460
Claims on foreign exchange bureaus[4]	183	183	183	183	183	183	183	183	183
Other items (net)	-793	51	-101	-112	402	813	587	476	418
Broad money	7,758	8,274	9,280	9,257	9,784	10,832	11,941	13,127	14,397
Currency outside banks	1,937	1,689	1,949	1,880	1,987	2,200	2,425	2,666	2,924
Deposits	5,820	6,585	7,331	7,377	7,797	8,632	9,516	10,461	11,474
Contribution to growth of broad money	(Percent change in beginning-of-year broad money, unless otherwise indicated)								
Broad money	26.2	6.7	12.2	11.9	5.7	10.7	10.2	9.9	9.7
Net foreign assets	17.8	-3.5	4.7	-2.4	-4.7	3.8	6.2	7.0	4.3
Net domestic assets	8.5	10.1	7.5	14.3	10.4	6.9	4.0	2.9	5.4
Domestic credit	12.2	-0.8	9.3	16.0	5.0	2.7	6.1	3.8	5.9
Claims on government (net)	3.8	-5.0	4.8	13.8	1.1	-0.3	0.2	-0.6	-1.3
Claims on government (net)[1]	11.9	-4.1	4.8	13.8	1.1	-0.3	0.2	-0.6	-1.3
Advances to the government in foreign currencies[2]	-8.1	-1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Claims on the private sector and public enterprises[3]	8.4	4.3	4.5	2.2	4.0	2.9	5.9	4.4	7.2
Claims on public enterprises	0.1	-0.5	0.3	0.3	0.1	0.1	0.1	0.1	0.1
Claims on private sector	8.3	4.8	4.2	1.9	3.8	2.8	5.8	4.3	7.1
Claims on foreign exchange bureaus[4]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other items (net)	-3.7	10.9	-1.8	-2.0	5.5	4.2	-2.1	-0.9	-0.4
Memorandum items:									
Credit to the private sector and public enterprises									
Twelve-month change (percent)	26.2	13.3	13.2	6.3	12.2	8.5	17.6	12.3	19.5
Percent of GDP	17.5	17.5	17.9	16.7	16.8	16.5	17.6	18.0	19.6
Selected ratios (in percent)									
Currency outside banks/broad money	25.0	20.4	21.0	20.3	20.3	20.3	20.3	20.3	20.3
Currency outside banks/deposits	33.3	25.7	26.6	25.5	25.5	25.5	25.5	25.5	25.5
Deposits/broad money	75.0	79.6	79.0	79.7	79.7	79.7	79.7	79.7	79.7
Nominal GDP (millions of dalasis)	14,266	16,192	17,901	17,959	20,057	22,206	24,479	26,911	29,514
(percentage change)	8.2	13.5	11.8	10.9	11.7	10.7	10.2	9.9	9.7
Velocity (calendar-year GDP/end-of-period broad money)	1.8	2.0	1.9	1.9	2.1	2.1	2.1	2.1	2.1
Velocity (GDP/average broad money)	1.9	2.0	2.0	2.0	2.1	2.2	2.1	2.1	2.1
Velocity (GDP/end-of-period broad money)	1.8	2.0	1.9	1.9	2.1	2.1	2.1	2.1	2.1
Money multiplier (broad money/reserve money)	2.71	3.01	3.05	3.19	3.30	3.35	3.35	3.35	3.35

Sources: Gambian authorities; IMF staff estimates and projections.

Note: MDRI debt relief, incorporated for end-2007, has increased net foreign assets and decreased net domestic assets by D335 millions (at current exchange rate).

[1] Excluding advances to the government in foreign currencies.

[2] These advances reflect previously unrecorded public spending and borrowing in 2001, financed by the Central Bank of The Gambia (CBG), and the previously unrecorded depletion of foreign exchange reserves in 2001-03 as reported by the authorities on October 28, 2003.

[3] In March 2003, the government instructed the CBG to lend the equivalent of D137 million in U.S. dollars to a newly created public enterprise and the previously unrecorded of offshore oil deposits.

[4] Claims on foreign exchange bureaus reflect the delayed delivery of foreign currency purchased on a spot basis.

Table 4. The Gambia: Analytical Account of the Central Bank of The Gambia (CBG), 2006-13
(Millions of dalasis, unless otherwise indicated; end of period)

	2006	2007	2008		2009	2010	2011	2012	2013
	Dec.	Dec.	Dec.	Dec.	Dec.	Dec.	Dec.	Dec.	Dec.
	Act.	Act.	3rd rev.	Act.	Program	Proj.	Proj.	Proj.	Proj.
Net foreign assets	2,827.7	3,049.2	3,298.0	2,714.5	2,131.6	2,349.2	2,843.1	3,493.3	3,837.3
Foreign assets	3,326.8	3,191.6	3,580.0	3,041.5	2,568.9	2,872.3	3,380.7	4,035.8	4,352.4
Foreign liabilities	-499.1	-142.5	-282.0	-327.0	-437.3	-523.1	-537.6	-542.4	-515.0
Net usable reserves (millions of U.S. dollars)	94.9	126.9	131.3	96.4	81.2	87.8	105.1	127.5	139.0
Net domestic assets	38.7	-304.6	-255.4	187.6	833.2	884.3	721.3	425.3	460.4
Domestic credit	-164.0	-903.4	-345.2	157.0	258.8	235.5	196.8	117.7	34.2
Claims on government (net)	-548.5	-1,294.0	-701.3	-219.5	-65.1	-56.9	-91.6	-165.4	-243.9
Claims on government (net) [1]	-623.3	-1,294.0	-701.3	-219.5	-65.1	-56.9	-91.6	-165.4	-243.9
Advances to the government in foreign currencies [2]	74.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Claims on banks (net) [3]	33.6	33.6	33.6	33.6	33.6	33.6	33.6	33.6	33.6
Claims on other resident sectors	350.9	357.0	322.5	322.5	290.2	258.8	254.7	249.5	244.5
Claims on private sector	30.7	36.8	36.5	36.5	38.5	41.3	42.2	42.0	42.0
Claims on public enterprises	136.9	136.9	102.7	102.7	68.5	34.2	29.2	24.2	19.2
Claims on foreign exchange bureaus [4]	183.3	183.3	183.3	183.3	183.3	183.3	183.3	183.3	183.3
Other items (net)	202.7	598.8	89.7	30.7	574.4	648.8	524.5	307.6	426.1
Of which: Holdings of government's noninterest-bearing securities	534.9	415.4	873.4	873.4	806.2	751.0	697.7	629.0	591.1
Reserve money	2,866.5	2,744.5	3,042.6	2,902.1	2,964.7	3,233.5	3,564.4	3,918.6	4,297.7
Currency in circulation outside banks	1,937.3	1,689.2	1,948.8	1,879.9	1,986.8	2,199.8	2,424.9	2,665.9	2,923.8
Bank reserves	929.2	1,055.3	1,093.8	1,022.2	977.9	1,033.7	1,139.5	1,252.8	1,373.9
Cash	149.9	204.3	218.8	204.4	195.6	206.7	227.9	250.6	274.8
Deposits at the central bank	779.3	851.0	875.1	817.8	782.3	827.0	911.6	1,002.2	1,099.2
Contribution to growth of reserve money	(Percent change in beginning-of-period reserve money)								
Reserve money	24.3	-4.3	10.9	5.7	2.2	9.1	10.2	9.9	9.7
Net foreign assets	30.1	7.7	9.1	-12.2	-20.1	7.3	15.3	18.2	8.8
Net domestic assets	-5.9	-12.0	1.8	17.9	22.2	1.7	-5.0	-8.3	0.9
Domestic credit	-5.8	-25.8	20.3	38.6	3.5	-0.8	-1.2	-2.2	-2.1
Claims on government (net)	-5.8	-26.0	21.6	39.2	5.3	0.3	-1.1	-2.1	-2.0
Claims on banks (net) [3]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Claims on private and public enterprises	0.0	0.2	-1.3	-1.3	-1.1	-1.1	-0.1	-0.1	-0.1
Claims on public enterprises	0.0	0.0	-1.2	-1.2	-1.2	-1.2	-0.2	-0.1	-0.1
Claims on private enterprises	0.0	0.2	0.0	0.0	0.1	0.1	0.0	0.0	0.0
Claims on foreign exchange bureaus [4]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other items (net)	0.0	13.8	-18.5	-20.7	18.7	2.5	-3.8	-6.1	3.0
Memorandum items:									
Twelve-month change (percent)									
Reserve money	24.3	-4.3	10.9	5.7	2.2	9.1	10.2	9.9	9.7
Net foreign asset	32.6	7.8	8.2	-11.0	-21.5	10.2	21.0	22.9	9.8
Net domestic asset	-77.8	-886.3	-16.1	-161.6	344.0	6.1	-18.4	-41.0	8.2
Of which:									
Claims on government (net)	32.5	135.9	-45.8	-83.0	-70.3	-12.6	61.0	80.6	47.5
Claims on banks (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Claims on public and private enterprises	0.0	3.6	-19.9	-19.9	-23.2	-29.4	-5.3	-7.4	-7.6
Claims on foreign exchange bureaus	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other items (net)	-0.4	195.4	-85.0	-94.9	1,772.7	13.0	-19.2	-41.4	38.5
MDRI debt relief (millions of dalasis)[5]		-335.3							
Gross international reserves (millions of U.S. dollars)	118.6	141.6	153.0	112.6	103.3	112.8	130.3	152.5	162.8

Sources: Gambian authorities.

[1]Excluding advances to the government in foreign currencies.
[2]These advances reflect previously unrecorded public spending and borrowing in 2001, financed by the CBG, and previously unrecorded depletion of foreign exchange reserves in 2001-03 as reported by the authorities on October 28, 2003.
[3]Advances to commercial banks and commercial banks' holdings of central bank bills.
[4]Claims on foreign exchange bureaus reflect the delayed delivery of foreign currency purchased on a spot basis.
[5] Based on the current exchange rate; however, the CBG and the government agreed to use the accounting exchange rate prevailing in April 2007 to arrive at D393.9 million as the MDRI deposits.

Table 5A. The Gambia: Balance of Payments, 2006–13
(Millions of U.S. dollars)

	2006 Actual	2007 Actual	2008 3rd Rev.	2008 Program	2009 Program	2010 Proj.	2011 Proj.	2012 Proj.	2013 Proj.
1. Current account									
A. Goods and Services	**-87.6**	**-105.3**	**-148.1**	**-149.3**	**-159.6**	**-167.4**	**-177.9**	**-185.2**	**-199.1**
Trade balance	-138.1	-171.5	-215.8	-213.7	-205.7	-223.4	-240.8	-260.7	-283.0
Exports, f.o.b.	84.0	91.4	101.5	85.1	85.9	89.7	96.6	104.4	112.2
Groundnuts/groundnut products	10.2	5.8	5.4	5.4	5.1	6.0	6.3	6.6	6.4
Other domestic exports	7.2	6.7	7.3	7.3	7.9	8.6	9.3	10.1	11.0
Reexports	66.6	78.9	88.8	72.5	72.9	75.1	81.0	87.6	94.8
Imports, f.o.b.	-222.2	-262.9	-317.3	-298.9	-291.7	-313.1	-337.4	-365.1	-395.2
For domestic use	-155.5	-184.1	-228.4	-226.4	-218.8	-238.0	-256.4	-277.5	-300.3
Of which: oil products	-16.1	-28.5	-42.1	-38.7	-24.5	-26.0	-27.4	-29.0	-30.5
For reexport	-66.6	-78.9	-88.8	-72.5	-72.9	-75.1	-81.0	-87.6	-94.8
Services balance	50.6	66.3	67.7	64.5	46.2	55.9	62.9	75.5	83.9
Travel income	75.4	84.0	89.9	83.0	76.7	83.6	91.9	102.9	116.3
Other services	-67.7	-57.2	-66.6	-55.6	-66.9	-65.2	-69.5	-71.2	-79.9
Reexport earnings	42.9	39.4	44.4	37.1	36.5	37.6	40.5	43.8	47.4
B. Income	**-48.0**	**-46.8**	**-45.9**	**-45.9**	**-43.0**	**-41.2**	**-40.6**	**-38.7**	**-40.6**
Income	-48.0	-46.8	-45.9	-45.9	-43.0	-41.2	-40.6	-38.7	-40.6
C. Current transfers	**77.3**	**71.8**	**82.2**	**68.0**	**90.0**	**102.1**	**107.8**	**112.1**	**119.9**
Remittances	51.6	52.5	56.6	50.8	46.0	51.1	56.7	59.5	63.5
Private transfers	9.3	11.5	9.8	8.5	9.6	9.8	10.1	10.3	10.6
Official transfers	16.3	7.8	15.8	8.7	34.4	41.2	41.0	42.3	45.8
Current account (ex. official transfers)	**-74.6**	**-88.1**	**-127.6**	**-135.9**	**-147.0**	**-147.7**	**-151.6**	**-154.0**	**-165.6**
Current account (inc. official transfers)	**-58.3**	**-80.3**	**-111.8**	**-127.2**	**-112.6**	**-106.6**	**-110.6**	**-111.7**	**-119.8**
2. Capital and financial account									
A. Capital account		**377.4**							
Capital transfers		14.9							
Debt forgiveness (IDA/AfDF-MDRI relief)		362.5							
B. Financial account	**77.5**	**-263.6**	**110.6**	**85.6**	**91.3**	**107.7**	**123.7**	**129.7**	**127.8**
Private capital	50.5	92.5	83.4	84.2	62.6	79.1	92.2	98.6	98.6
Direct investment (net)	74.2	80.6	70.2	70.1	61.1	71.0	79.7	85.7	90.2
Other investment (net)	-23.7	11.9	13.1	14.1	1.5	8.1	12.5	12.9	8.4
Official loans (net)	26.9	6.4	27.3	1.3	28.7	28.6	31.5	31.1	29.2
Loans	43.9	23.6	35.9	14.9	41.5	43.2	48.2	50.0	50.0
Amortization	-17.0	-17.2	-8.6	-13.6	-12.8	-14.6	-16.6	-18.9	-20.7
Other capital (IDA, AfDF loans)		-362.5							
Capital and financial account balance	**77.5**	**113.8**	**110.6**	**85.6**	**91.3**	**107.7**	**123.7**	**129.7**	**127.8**
Errors and omissions	5.3	-1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	**24.4**	**32.0**	**-1.1**	**-41.6**	**-21.3**	**1.1**	**13.1**	**18.0**	**8.0**
Financing	-24.4	-32.0	1.1	41.6	21.3	-1.1	-13.1	-18.0	-8.0
Change in gross official reserves (- = increase)	-22.0	-23.0	-11.5	29.0	9.3	-9.5	-17.5	-22.2	-10.3
Use of IMF resources (net)	-4.0	-11.1	6.0	6.0	6.1	3.0	0.0	0.0	-1.9
Repayments	-4.0	-17.1	0.0	0.0	0.0	0.0	0.0	0.0	-1.9
Disbursements	0.0	6.0	6.0	6.0	6.1	3.0	0.0	0.0	0.0
Exceptional financing [1]	1.6	2.1	6.6	6.6	6.0	5.3	4.4	4.2	4.2
Memorandum items:									
Gross official reserves (end of period)									
Millions of U.S. dollars	118.6	141.6	153.0	112.6	103.3	112.8	130.3	152.5	162.8
Months of imports, c.i.f.	5.5	5.5	4.9	3.9	3.6	3.7	4.0	4.3	4.2
New public borrowing/GDP	8.6	3.6	4.6	1.9	4.9	4.8	5.0	4.8	4.4
Nominal GDP (millions U.S. dollars)	507.7	650.9	779.3	795.7	849.9	907.4	972.8	1046.9	1126.1

Sources: Gambian authorities; IMF staff estimates and projections.

[1] Includes debt relief from Paris Club; interim relief from multilaterals is treated as grants.

Table 5B. The Gambia: Balance of Payments, 2006–13
(Percent of GDP)

	2006 Actual	2007 Actual	2008 3rd Rev.	2008 Program	2009 Program	2010 Proj.	2011 Proj.	2012 Proj.	2013 Proj.
1. Current account									
A. Goods and Services	**-17.2**	**-16.2**	**-19.0**	**-18.8**	**-18.8**	**-18.5**	**-18.3**	**-17.7**	**-17.7**
Trade balance	-27.2	-26.3	-27.7	-26.9	-24.2	-24.6	-24.8	-24.9	-25.1
Exports, f.o.b.	16.6	14.0	13.0	10.7	10.1	9.9	9.9	10.0	10.0
Groundnuts/groundnut products	2.0	0.9	0.7	0.7	0.6	0.7	0.6	0.6	0.6
Other domestic exports	1.4	1.0	0.9	0.9	0.9	0.9	1.0	1.0	1.0
Reexports	13.1	12.1	11.4	9.1	8.6	8.3	8.3	8.4	8.4
Imports, f.o.b.	-43.8	-40.4	-40.7	-37.6	-34.3	-34.5	-34.7	-34.9	-35.1
For domestic use	-30.6	-28.3	-29.3	-28.5	-25.7	-26.2	-26.4	-26.5	-26.7
Of which: oil products	-3.2	-4.4	-5.4	-4.9	-2.9	-2.9	-2.8	-2.8	-2.7
For reexport	-13.1	-12.1	-11.4	-9.1	-8.6	-8.3	-8.3	-8.4	-8.4
Services balance	10.0	10.2	8.7	8.1	5.4	6.2	6.5	7.2	7.4
Travel income	14.8	12.9	11.5	10.4	9.0	9.2	9.4	9.8	10.3
Other services	-13.3	-8.8	-8.5	-7.0	-7.9	-7.2	-7.1	-6.8	-7.1
Reexport earnings	8.5	6.1	5.7	4.7	4.3	4.1	4.2	4.2	4.2
B. Income	**-9.5**	**-7.2**	**-5.9**	**-5.8**	**-5.1**	**-4.5**	**-4.2**	**-3.7**	**-3.6**
Income	-9.5	-7.2	-5.9	-5.8	-5.1	-4.5	-4.2	-3.7	-3.6
C. Current transfers	**15.2**	**11.0**	**10.5**	**8.5**	**10.6**	**11.3**	**11.1**	**10.7**	**10.6**
Remittances	10.2	8.1	7.3	6.4	5.4	5.6	5.8	5.7	5.6
Private transfers	1.8	1.8	1.3	1.1	1.1	1.1	1.0	1.0	0.9
Official transfers	3.2	1.2	2.0	1.1	4.0	4.5	4.2	4.0	4.1
Current account (ex. official transfers)	**-14.7**	**-13.5**	**-16.4**	**-17.1**	**-17.3**	**-16.3**	**-15.6**	**-14.7**	**-14.7**
Current account (inc. official transfers)	**-11.5**	**-12.3**	**-14.3**	**-16.0**	**-13.2**	**-11.7**	**-11.4**	**-10.7**	**-10.6**
2. Capital and financial account									
A. Capital account		**58.0**							
Capital transfers		2.3							
Debt forgiveness (IDA/AfDF-MDRI relief)		55.7							
B. Financial account	**15.3**	**-40.5**	**14.2**	**10.8**	**10.7**	**11.9**	**12.7**	**12.4**	**11.3**
Private capital	10.0	14.2	10.7	10.6	7.4	8.7	9.5	9.4	8.8
Direct investment (net)	14.6	12.4	9.0	8.8	7.2	7.8	8.2	8.2	8.0
Other investment (net)	-4.7	1.8	1.7	1.8	0.2	0.9	1.3	1.2	0.7
Official loans (net)	5.3	1.0	3.5	0.2	3.4	3.2	3.2	3.0	2.6
Loans	8.6	3.6	4.6	1.9	4.9	4.8	5.0	4.8	4.4
o/w guaranteed									
Amortization	-3.3	-2.6	-1.1	-1.7	-1.5	-1.6	-1.7	-1.8	-1.8
Other capital (IDA, AfDF loans)		-55.7							
Capital and financial account balance	**15.3**	**17.5**	**14.2**	**10.8**	**10.7**	**11.9**	**12.7**	**12.4**	**11.3**
Errors and omissions	1.0	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	**4.8**	**4.9**	**-0.1**	**-5.2**	**-2.5**	**0.1**	**1.3**	**1.7**	**0.7**
Financing	-4.8	-4.9	0.1	5.2	2.5	-0.1	-1.3	-1.7	-0.7
Change in gross official reserves (- = increase)	-4.3	-3.5	-1.5	3.6	1.1	-1.0	-1.8	-2.1	-0.9
Use of IMF resources (net)	-0.8	-1.7	0.8	0.8	0.4	0.0	0.0	-0.2	-0.3
Repayments	-0.8	-2.6	0.0	0.0	0.0	0.0	0.0	-0.2	-0.3
Disbursements	0.0	0.9	0.8	0.8	0.4	0.0	0.0	0.0	0.0
Exceptional financing [1]	0.3	0.3	0.8	0.8	0.6	0.5	0.4	0.4	0.4
Memorandum items:									
Gross official reserves (end of period)									
Percent of GDP	23.4	21.8	19.6	14.2	12.2	12.4	13.4	14.6	14.5
Months of imports, c.i.f.	5.5	5.5	4.9	3.9	3.6	3.7	4.0	4.3	4.2
Nominal GDP (millions U.S. dollars)	508	651	779	796	850	907	973	1047	1126

Sources: Gambian authorities; IMF staff estimates and projections.

[1] Includes debt relief from Paris Club; interim relief from multilaterals is treated as grants.

Table 6. The Gambia: Proposed Schedule of Disbursements

	Disbursement		
Timing	SDRs	Percent of quota 1/	Conditions
February 21, 2007	2,000,000	6.43	Approval of the arrangement.
August 29, 2007	2,000,000	6.43	Completion of first review (end-March 2007 test date)
December 19, 2007	2,000,000	6.43	Completion of second review (end-September 2007 test date)
September 8, 2008	2,000,000	6.43	Completion of third review (end-March 2008 test date)
January 30, 2009 2/	5,110,000	16.43	Completion of fourth review (end-September 2008 test date)
July 31, 2009 2/	5,110,000	16.43	Completion of fifth review (end-March 2009 test date)
January 15, 2010	1,995,000	6.42	Completion of sixth review (end-September 2009 test date).
Total	20,215,000	65.00	

1/ The Gambia's quota is SDR 31.10 million.
2/ Disbursement for this date includes augmentation in the amount of SDR 3.11 million.

Table 7. The Gambia: Indicators of Capacity to Repay the Fund, 2007–15

	2007	2008	2009	2010	2011	2012	2013	2014	2015
			Projections						
Fund obligations based on existing credit (in millions of SDRs)									
Principal	11.8	0.0	0.0	0.0	0.0	0.2	1.0	1.6	1.6
Charges and interest	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Fund obligations based on existing and prospective credit 1/ (in millions of SDRs)									
Principal	11.8	0.0	0.0	0.0	0.0	0.2	1.0	2.1	3.8
Charges and interest	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Total obligations based on existing and prospective credit 1/									
In millions of SDRs	11.9	0.0	0.1	0.1	0.1	0.3	1.1	2.2	4.0
In millions of US$	7.5	0.0	0.1	0.1	0.1	0.2	0.7	1.5	2.6
In percent of Gross International Reserves	5.3	0.0	0.1	0.1	0.1	0.1	0.5	0.8	1.4
In percent of exports of goods and services	4.9	0.0	0.1	0.1	0.1	0.1	0.4	0.7	1.1
In percent of debt service 2/	21.5	0.2	0.6	0.6	0.5	1.2	3.3	5.7	9.0
In percent of GDP	1.2	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.2
In percent of quota	38.2	0.1	0.4	0.5	0.5	1.1	3.7	7.2	12.7
Outstanding Fund credit 1/									
In millions of SDRs	4.0	8.0	18.2	20.2	20.2	20.0	19.0	16.9	13.1
In millions of US$	6.3	12.2	27.6	30.4	30.5	30.3	28.9	25.6	19.8
In percent of Gross International Reserves	4.5	10.8	26.7	26.9	23.4	19.9	17.8	14.4	10.5
In percent of exports of goods and services	4.1	8.1	19.2	19.7	18.3	16.6	14.3	11.8	8.5
In percent of debt service 2/	18.1	89.5	211.5	205.3	180.7	156.1	128.7	99.2	68.4
In percent of GDP	1.0	1.5	3.2	3.3	3.1	2.9	2.6	2.1	1.6
In percent of quota	12.9	25.7	58.6	65.0	65.0	64.4	61.2	54.3	42.0
Net use of Fund credit (millions of SDRs)	-7.8	4.0	10.2	2.0	0.0	-0.2	-1.0	-2.1	-3.8
Disbursements	4.0	4.0	10.2	2.0	0.0	0.0	0.0	0.0	0.0
Repayments and Repurchases	11.8	0.0	0.0	0.0	0.0	0.2	1.0	2.1	3.8
Memorandum items:									
Nominal GDP (in millions of US$)	650.9	795.7	849.9	907.4	972.8	1,046.9	1,126.1	1,192.4	1,262.5
Exports of goods and services (in millions of US$)	152.5	149.8	143.8	154.0	167.0	183.1	201.6	217.8	233.1
Gross International Reserves (in millions of US$)	141.6	112.6	103.3	112.8	130.3	152.5	162.8	177.7	188.1
Debt service (in millions of US$) 2/	35.0	13.6	13.0	14.8	16.9	19.4	22.5	25.8	28.9
Quota (millions of SDRs)	31.1	31.1	31.1	31.1	31.1	31.1	31.1	31.1	31.1

Sources: IMF staff estimates and projections.

1/ Includes prospective PRGF disbursements of SDR 6 million (19.29 percent of quota) and the prospective augmentation of SDR 6.22 million (20 percent of the quota).

2/ Total debt service includes IMF repurchases and repayments.

APPENDIX I

Banjul, The Gambia
February 3, 2009

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. Strauss-Kahn:

1. The Gambia's three-year Poverty Reduction and Growth Facility (PRGF) arrangement was approved by the IMF's Executive Board in February 2007. The third review was completed on September 8, 2008. The attached Memorandum of Economic and Financial Policies (MEFP) reviews progress in implementing the Government's PRGF-supported program in 2008, and sets out the policies that the Government will pursue in 2009.

2. Performance under the program has been quite strong. All but one of the quantitative performance criteria for end-September 2008 were met. The fiscal basic balance target was missed on account of lower-than-expected government revenue. All structural measures slated for completion by end-December 2008 were implemented on time. In order to boost revenues, the government decided to maintain the retail price of petroleum products at current levels even though world prices have fallen significantly since the prices were last adjusted in May 2008. On that basis, we request a waiver for the nonobservance of the fiscal basic balance performance criterion.

3. The Gambia has been adversely affected by the ongoing global financial crisis as the exchange rate and international reserves have come under pressure in recent months. In particular, as a result of recessions in Europe and the US, receipts from tourism and remittances have fallen, and real GDP growth is projected to fall significantly in 2009. On the basis of the revised outlook for 2009 agreed with IMF staff, we request modification of the performance criteria for end-March 2009 with respect to net domestic assets of the Central Bank of The Gambia, fiscal basic balance, and net usable international reserves.

4. Notwithstanding the challenging global environment, the government is committed to continue pursuing prudent policies in order to maintain macroeconomic stability and promote high growth and poverty reduction. To help us rebuild our international reserves to a

comfortable level, we request an augmentation of access under the current PRGF arrangement in the amount of SDR 6.22 million (20 percent of quota) to be disbursed in two equal installments of SDR3.11 million each at the completion of the fourth and fifth reviews (augmenting these two disbursements to SDR5.11 million each). We are aware that an augmentation will require completion of an update safeguards assessment of the central bank, and will provide Fund staff with all the information required to complete it in a timely manner.

5. In support of our policies described in the MEFP, the Government of The Gambia requests the completion of the fourth review and fifth disbursement under the PRGF arrangement in an amount equivalent to SDR5.11 million (including an augmentation of SDR3.11 million).

6. The Government believes that the policies set forth in the attached MEFP are adequate to achieve the objectives of its program. However, it will stand ready to take any additional measures that may become appropriate to meet these objectives. The Gambia will consult with the IMF on the adoption of these measures and in advance of revisions to policies contained in the MEFP, in accordance with the Fund's policies on such consultation. The fifth and sixth reviews under the PRGF arrangement are expected to be completed by no later than end-July 2009 and end-January 2010, respectively.

7. The government intends to make the contents of this letter, the attached MEFP and Technical Memorandum of Understanding available to the public. Therefore, it authorizes the IMF to arrange for these documents to be posted on the IMF website following Executive Board conclusion of the review.

Sincerely yours,

/s/	/s/
Mousa Gibril Bala-Gaye Secretary of State Department of State for Finance and Economic Affairs	Momodou Bamba Saho Governor Central Bank of The Gambia

Attachments: Memorandum of Economic and Financial Policies
Technical Memorandum of Understanding

ATTACHMENT I

MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

I. INTRODUCTION

1. This memorandum updates the Government of The Gambia's economic and financial program under the three-year Poverty Reduction and Growth Facility (PRGF) arrangement with the International Monetary Fund (IMF). The program, which was approved by the Executive Board of the IMF in February 2007, aims at consolidating macroeconomic stability and fostering the conditions for sustaining high economic growth and reducing poverty. The third review under the arrangement was completed on September 8, 2008. Discussions on the fourth review took place against the backdrop of the global financial crisis and recessions in Europe and the US. There is a high degree of uncertainty about the prospective impact of these exogenous developments on the country. So far, The Gambia's financial system has not been affected directly but there are indications of adverse impacts on tourism income and inflows from remittances and foreign direct investment.

II. RECENT ECONOMIC DEVELOPMENTS

2. Real GDP growth declined from 6.3 percent in 2007 to about 6 percent in 2008. The main contributor to growth in 2008 was the agriculture sector, reflecting the impact of relatively good rains. Other important sources of growth were communications and electricity. Growth slowed in the tourism and construction sectors, while trade-related services contracted.

3. Inflation rose in the second half of 2008. Tight monetary policy and appreciation of the dalasi helped lower year-on-year inflation from 6 percent in December 2007 to 1.4 percent in April 2008, despite rising world food prices. Subsequently, annual year-on-year inflation has been rising, reaching 6.6 percent in November 2008.

4. Growth in broad money picked up in 2008 after a significant slowdown in 2007, but reserve money continued to grow more slowly than programmed. In the twelve months to end-November 2008, broad money grew by 19.8 percent compared to 7.9 percent a year earlier. Domestic factors were largely responsible for the growth in broad money; net domestic assets of the banking system rose by 24.4 percent while net foreign assets increased by 12.1 percent. Reserve money growth stayed relatively flat, growing at 5.7 percent in the year ending December 2008, compared to a growth rate of 4 percent a year earlier. The CBG raised the rediscount rate from 15 percent to 16 percent in October 2008 after the treasury bill yield rose to 14.5 percent. The rate had remained at 15 percent since June 2007 when it was raised from 14 percent on inflation concerns.

5. Fluctuations in the value of the dalasi have become more pronounced after the sharp appreciation of the currency in the third quarter of 2007. A partial reversal of the appreciation occurred in the fourth quarter of 2007, representing a market correction. Responding to changing supply and demand conditions in the interbank foreign exchange market, the dalasi again strengthened in the first quarter of 2008 before beginning a steady depreciation the rest of the year. In the twelve months ending in March 2008, the dalasi appreciated 30 percent against the US dollar and 15 percent against the euro. From end-March to end-December 2008, it depreciated by 38 percent against the dollar and 10 percent against the euro. The recent depreciation has been driven by external shocks—high world food and oil prices earlier in the year, and declining inflows of remittances and tourism receipts more recently. The CBG supplied foreign exchange to the market in October and November 2008 to contain exchange rate volatility. The CBG had also intervened to purchase foreign currency earlier in the year to stem a sharp appreciation of the dalasi.

6. Fiscal performance weakened in 2008, mainly on account of lower-than-expected revenues from imports. The fiscal basic balance surplus fell from D614 million in 2007 to an estimated D35 million in 2008 (compared to a budget estimate of D111 million). A shortfall of D450 million in revenues is the main factor behind the lower-than-budgeted performance. This is partially offset by lower-than-budgeted expenditure from the Gambia Local Fund (GLF). The revenue shortfall is explained by three main factors: (i) lower non-oil import revenues, reflecting the relatively appreciated dalasi in the first three quarters of 2008 compared to 2007 and a decline in the volume of some high-revenue-yielding imports (reflecting a decline in the re-export trade); (ii) adjustment of the retail price of petroleum products lagged behind rising world prices during most of the year, leading to a substantial loss of revenues from petroleum products; and (iii) increases in the import duties on car spare parts and used vehicles—intended to compensate for the revenue loss from the removal of sales tax on rice imports—did not yield the expected additional revenue as imports of these goods seem to have declined.

7. On the expenditure side, wages and salaries rose significantly in 2008 because of the wage increase awarded at the beginning of the year as part of the civil service reform program. Basic salaries were increased by 20 percent across the board, but the wage bill increased by about 40 percent reflecting: (i) the extension of the salary increase to subvented agencies; (ii) the impact of the salary increase on allowances (including double shift allowance for teachers and exchange concession for officials serving abroad); and (iii) an increase in the number of employees on the payroll.

8. The current account deficit (including official transfers) increased by about 4 percentage points of GDP in 2008. To a large extent the deterioration was driven by the impact of higher international prices of commodities in the earlier part of the year, and by the effects of the global financial crisis and associated economic slowdowns in Europe and the

US. Tourism receipts, remittances and re-export trade have all slowed down, and official transfers have been much lower than expected. Gross official reserves of the CBG dropped to under 4 months of imports at end-December 2008 compared to 5.5 months of imports at end-December 2007.

9. The financial sector is relatively sound and competition has been increasing. With the entry of two new banks in 2008, there are now eleven commercial banks operating in The Gambia. Approvals-in-principle have been granted to five other banks, and it is expected that there will be sixteen banks operating in the country by the end of 2009. Generally, the banks are profitable but their gross earnings in 2007 were significantly lower than in 2006, reflecting, in large part, revaluation losses associated with the marked appreciation of the dalasi. The risk-weighted capital adequacy ratio was 30 percent at end-September 2008, against the minimum requirement of 8 percent. The ratio of nonperforming loans to total loans fell to 7 percent in September 2008 (compared to 13 percent in December 2007), reflecting the recovery of some previously nonperforming loans, restructuring of other loans, as well as enhanced enforcement of court orders by the Sheriff Department.

10. In November 2008, the government terminated the partnership agreement with Spectrum Company which bought 50 percent shares of GAMTEL/GAMCEL in 2007. At the time the contract was terminated, the government had received US$28.5 million out of the US$35 million sale price, leaving a balance of US$6.5 million. The government is in negotiations with Spectrum for the settlement of all matters surrounding the latter's operation of GAMTEL/GAMCEL. For now, government intends to retain control over GAMTEL but will offer a significant portion of its shares in GAMCEL (the mobile phone service provider) for sale.

III. Performance Under the Program

11. All the quantitative performance criteria for end-September 2008 were met except the target on the fiscal basic balance (Table A1). The targets for net usable international reserves, net domestic assets of the CBG were met comfortably after adjustment for the nonreceipt of the outstanding balance of US$6.5 million in privatization proceeds from the sale of 50 percent of GAMTEL/GAMCEL. The indicative limit on the contracting of new concessional external loans was also met.

12. The target for the fiscal basic balance was missed by D49 million due to lower than expected revenues. By maintaining the retail price of petroleum products in spite of falling world prices, the government was able to recoup some of the revenue loss in the fourth quarter of 2008. The government requests that the Executive Board grant a waiver for the nonobservance of this performance criterion on the basis of the decision to maintain retail prices of petroleum products at current levels in spite of the sharp fall in their world prices.

13. All structural measures expected to be undertaken by end-December 2008 have been implemented (Table A2). With the submission of the 2007 government account to the Auditor-General in August 2008, DoSFEA has cleared the backlog of outstanding government accounts. The Auditor-General submitted his report on the accounts for 2000–04 to the National Assembly in January 2009, and expects to submit the report on the 2005–07 accounts by end-September 2009. The CBG is making progress toward adopting International Financial Reporting Standards (IFRS) in the preparation of its financial statements for 2009. It successfully produced pro-forma statements for 2007 based on IFRS, and will repeat the exercise for the 2008 accounts. The Gambia Bureau of Statistics (GBoS) has released new estimates of GDP for 2004–07 in current and constant (2004) prices, including by expenditure components. The CBG has made steady progress toward making the Credit Reference Bureau operational by end-March 2009. The proposed amendment to the Financial Institutions Act (2003) to facilitate the sharing of information among banks is being reviewed by the Department of State for Justice.

IV. Medium-Term Objectives and Strategy

14. The government's medium-term objectives and strategy are contained in The Gambia's second Poverty Reduction Strategy Paper (PRSP II) which spans 2007–11. PRSP II provides the framework for poverty reduction efforts in the country as well as the path to reaching the Millennium Development Goals (MDGs) by 2015. It is organized around five pillars: (i) creating an enabling environment for rapid and sustainable economic growth; (ii) enhancing the capacity and output of productive sectors; (iii) improving the coverage of basic social services and social protection for the poor and vulnerable; (iv) enhancing governance systems and building the capacity of local communities and civil society organizations to play an active role in economic growth and poverty reduction; and (v) mainstreaming cross-cutting issues, including gender and the environment.

15. A Diagnostic Trade Integration Study (DTIS) led by the World Bank was approved by the government in August 2007, following the validation of its findings by stakeholders. It found that re-export trade (on which a large part of the economy and public finances depend) was in decline as a result of The Gambia losing some of the advantages which made it an attractive regional entrepot. In particular, harmonization of imports and sales taxes in the region and improvements in ports and customs operations in Senegal and other neighboring countries have eroded The Gambia's competitive edge. The DTIS contains a wide range of recommendations to enhance The Gambia's international competitiveness through sector-specific reforms and cross-cutting measures to improve the investment climate. Key areas of focus include infrastructure (e.g., transport, energy), tourism, and agricultural export diversification. The government is seeking funding to implement the highest priority recommendations of the DTIS, including those related to reinforcing trade facilitation services.

16. The government is reviewing the Investment Promotion Act with a view to increasing the predictability, stability and transparency of the legal regime for investment. Amendments will be proposed to the law based on international best practice. Existing procedures will be streamlined and the list of activities eligible for incentives will be updated. The new law will also clarify the framework for coordination of data-gathering activities related to investment.

17. The Gambia has achieved and maintained macroeconomic stability over the last three years with strong growth and low inflation. The government will continue to implement prudent macroeconomic policies in the face of challenging global economic and financial conditions. The main objectives and assumptions underlying the medium term macroeconomic framework are:

- real GDP growth rates of 4.6–6 percent a year;
- inflation falling to 6 percent in 2009 and to 5 percent in 2010;
- a reduction in government's domestic debt from 25.5 percent of GDP at end-2008 to 17.3 percent at end-2011;
- external current account deficits (including official transfers) falling from about 16 percent of GDP in 2008 to about 12 percent in 2011; and
- rebuilding international reserves to cover at least 4 months of imports.

18. The baseline scenario takes into account the importance of preserving fiscal discipline, containing inflation, and ensuring the sustainability of the external current account. It seeks to reduce the burden of domestic debt to ease upward pressure on interest rates and create fiscal space for poverty-reducing expenditures. The current account path reflects the medium-term projections of capital inflows.

19. The Gambia reached completion point under the enhanced Initiative for Heavily Indebted Poor Countries (HIPC) in December 2007 and is receiving debt relief under both the HIPC Initiative and the Multilateral Debt Relief Initiative (MDRI). Resources freed by debt relief will be used to increase poverty-reducing expenditures, in line with PRSP II priorities. They will be allocated among various uses, including increased social sector expenditures and reduced domestic debt.

V. Policies for 2009

A. Fiscal Policies and Public Debt Sustainability

20. In view of the uncertain revenue outlook, the government adopted a conservative approach toward revenue projections for 2009. Domestic tax revenues are expected to grow

in line with nominal GDP with the exception of taxes on petroleum products which recover substantially because of the government's decision to maintain retail prices at current levels. In the event world oil prices reverse course, the government will act speedily to fully pass-through rising world prices to retail prices. Should the world price for rice continue to fall, the government will consider re-instating sales tax on rice imports. The government has requested technical assistance from the IMF to review tax policy and provide recommendations for broadening the tax base and rationalizing central and local government taxation. The government would like to learn from countries that have lowered taxes on businesses while broadening the tax base to cover informal sectors. The results of the assistance will feed into the 2010 budget preparation process.

21. Program grants which have been negligible in recent years are expected to provide substantial resources to the budget in 2009. In particular, the World Bank and the African Development bank (AfDB) will provide budget support in the amounts of US$7 million and US$4.5 million, respectively. These funds are in support of the government's public sector reforms and the revitalization of the groundnut sector. Project grants, especially from the EU-supported roads project, are also expected to increase as problems between the consultant and contractor that have led to slow disbursements are resolved.

22. On the expenditure side, the government will limit spending to levels that will ensure the attainment of a target surplus in the fiscal basic balance of about D37 million. This will allow some new domestic borrowing while maintaining the downward trajectory of the domestic debt/GDP ratio. Notably, the government decided to defer a significant increase in wages and salaries that had been planned for 2009 as part of the civil service reform program. To promote growth and meet its commitment to provide matching funds for externally financed projects, the government plans a modest boost to locally funded capital investment. Debt relief is expected to lower external interest payments and offset an increase in domestic interest due to higher interest rates. Other expenditures, including net lending and "other charges" will be constrained to grow at or below the nominal GDP growth rate.

23. Existing domestic expenditure arrears included in the program's indicative targets were cleared as of end-2008. However, additional arrears to the state-owned National Water and Electricity Corporation (NAWEC) have come to light. These arrears arose as some ministries failed to pay their water and electricity bills. At the same time, NAWEC has additional tax payments outstanding to the government. By end-June 2009, the government will verify the outstanding arrears and tax due and draw up a timetable for settlement of net claims. To prevent arrears on utility payments in the future, the government has embarked on a program to install pre-paid meters in government departments and agencies.

24. At the request of the government, the Commonwealth Secretariat completed an independent debt sustainability analysis (DSA) in October 2008. The independent DSA

reached broadly similar conclusions as the DSA undertaken by the staffs of the IMF and World Bank, but was not as categorical about the degree to which The Gambia was at risk of falling back into debt distress. Assuming higher export growth and less new external borrowing than the staffs of the IMF and World Bank, the Commonwealth Secretariat DSA concluded that The Gambia was bordering on being at high risk of debt distress, and that improvement in the Country Policy and Institutional Assessment conducted by the World Bank—reflecting a strengthening of policies and institutions—would lower the risk of debt distress from "high" to "moderate". The government will seek assistance from the World Bank—under the newly launched Debt Management Facility for low-income countries—to prepare a detailed and sequenced program for capacity building in debt management. The focal point of the assistance will be the Debt Directorate of DoSFEA. That Directorate will also have the services of a resident expert on debt management (funded by AfDB) starting in early 2009. In view of these developments, and to foster on-the-job training and government ownership, the target date for completing the national debt strategy has been reset to September 2009 (from February 2009).

25. Meanwhile, the government will continue to adhere to its commitments under the PRGF-supported program with regard to the contracting of new external concessional loans. In particular, it will seek a minimum grant element of 45 percent in new loans, and will stay within the indicative limit on the total amount of new borrowing. In October 2008, the National Assembly ratified four new loans contracted by the government, all of which satisfied the conditions agreed with the IMF. The loans are: (i) US$10.85 million from the Kuwait Fund for expansion of the Banjul international airport; (ii) US$20 million from EBID for rural electrification; (iii) US$7.5 million from BADEA for construction of the Brikama-Dimbaya road; and (iv) US$10 million from Exim Bank (India) for construction of a new National Assembly complex.

B. Exchange Rate and Monetary Policies

26. The principal objective of monetary policy will continue to be maintaining price stability. The CBG will use all the available instruments at its disposal to reach this goal. A money targeting framework will continue to guide the CBG's monetary operations. The CBG will also use its rediscount rate to signal changes in its policy stance. In setting the rediscount rate, the CBG will analyze developments in the economy and the inflation outlook. It will strengthen the short-term liquidity forecasting framework through efforts to improve forecasts of government revenues and expenditures.

27. The exchange rate of the dalasi is market determined. The CBG will intervene in the foreign exchange market from time to time mainly to: (1) accumulate foreign reserve assets to meet targets or prevent reserves from being depleted; or (2) calm disorderly developments in the market which cause exchange rate volatility and market illiquidity.

28. The CBG and DoSFEA have enhanced their coordination of fiscal and monetary policies. Further to signing a memorandum of understanding last year to guide domestic debt management and monetary operations, the government has undertaken the following to strengthen the CBG's financial position and its ability to conduct monetary policy. It will: (1) take over a nonperforming loan of the CBG to the Gambia National Petroleum Corporation of D136.9 million and clear the loan within four years at equal installments with the first one beginning in the last quarter of 2008; (2) continue to replenish the CBG's capital by D20 million each year to the total of D100 million, of which contributions for 2006–08 have been made.

VI. Capacity Building and PRSP Implementation

A. Capacity Building

29. Since the mid-1980s, the government of The Gambia has implemented reform programs aimed at accelerating economic growth and reducing poverty. The effectiveness of these programs, however, has been limited partly by capacity constraints that hindered sustained implementation. To address these constraints, the government has developed a plan for comprehensive reform of the civil service with support from the World Bank, the AfDB, and the EC to be implemented 2009–2011. The plan includes measures to boost professional and managerial capacity, raise salaries and benefits (which are low even by low income country standards), increase pension benefits, and improve coordination and strategic planning. Due to unexpected revenue shortfalls in 2008 and uncertain revenue prospects for 2009, the government has deferred pay increases originally planned for 2009. Instead, it has set aside D50 million for fiscal year 2009 to provide flexible mechanisms to address the immediate problem of attracting and retaining critical skills within the service and a taskforce has already started work to distribute these funds in line with recommendations from consultants. The taskforce will report to the Public Service Capacity Board.

30. The government is receiving assistance from the AfDB to strengthen capacity and improve macroeconomic management and financial governance. The assistance is in the form of a UA 1.4 million grant to meet foreign exchange and local cost associated with hiring resident experts and undertaking a study on aid coordination. The project which was launched in May 2008, provides for the recruitment of resident experts in the following areas: macroeconomics, debt management, and fiscal/financial management.

31. The government and the CBG appreciate the technical assistance received from the IMF in recent years in the areas of public financial management (PFM), central bank operations, and compilation of economic statistics. The government will welcome closer engagement with the regional PFM advisor based in Liberia. It also requests that the IMF provide assistance in the compilation of producer prices. The CBG requests further assistance in banking supervision and that The Gambia be considered for an FSAP.

B. PRSP Implementation and Progress Toward MDGs

32. The first Annual Report on the implementation of PRSP II, covering developments in 2007, was completed in October 2008. It reports notable achievements in social services, including significant increase in the enrolment rate for basic education (reflecting the completion of new classrooms and the expanded school feeding program), and improved access to health services. However, it acknowledges the inadequacy of the current monitoring framework and highlights severe data limitations that hamper analysis of developments. The Annual Report on PRSP implementation is supplemented by the Poverty Reduction Expenditure Report for 2007 and a report on progress toward the achievement of the MDGs. Progress towards the MDGs is reported to be mixed. While the target of reducing poverty to 15 percent (goal 1) is unlikely to be achieved, The Gambia has made significant strides in several areas including: (i) Goal 2 on the achievement of universal primary education; (ii) Goal 3 on the promotion of gender equality and empowerment of women; and (iii) Goal 4 on the reduction of child mortality.

33. Under the government's ownership and leadership, an in-country Development Partners Coordination and Consultation Mechanism has been established under the Chairmanship of the Secretary of State for Finance and Economic Affairs. This mechanism is to facilitate and deepen development dialogue with The Gambia's partners, bring about positive changes to aid practices, and encourage more effective use of aid resources for greater development impact for the implementation of PRSP II. In December 2008, there was an in-country sector-wide consultation on the Aid Effectiveness Action Plan that had been updated following a Donor Coordination meeting in London earlier in the year. The implementation time frame is now 2009-11. A sector-wide approach has been agreed upon, with the Department of State for Basic Education serving as a in-country best practice on aid coordination. The Education model will be replicated at the Departments of State for Health and Social Welfare, Agriculture, and Infrastructure.

VII. Access Level, Modification of the Program, and Program Monitoring

34. In view of emerging pressures on international reserves and the uncertain balance of payments outlook, the government is requesting an augmentation in the access level under the current PRGF arrangement by SDR 6.22 million (20 percent of quota). Inflows of remittances have slowed in recent months and the level of net usable reserves have fallen from US$127 million at end-December 2007 to US$96 million at end-December 2008. The government is seeking additional grants from its development partners, including the EU, to meet the country's higher balance of payments need.

35. The government also requests modification of three quantitative performance criteria for end-March 2009. In line with the revised outlook for 2009 agreed with IMF staff, the modifications loosen the targets for net domestic assets of the CBG, fiscal basic balance, and

net usable international reserves. Due to delays in receiving technical assistance, the government has postponed the target date for completing the national debt strategy—a structural benchmark under the program—from February 2009 to September 2009.

36. The program will continue to be monitored based on agreed quantitative targets (Table A1), a set of structural performance criteria and benchmarks (Table A3), and program reviews. The quantitative financial targets for end–March 2009 and end-September 2009 are performance criteria; and those for end–December 2008, end–June 2009, and end-December 2009 are indicative targets. The fifth and sixth reviews are scheduled to be completed by end–July 2009 and end-January 2010, respectively. Definitions of all targeted variables and reporting requirements are contained in the attached technical memorandum of understanding (TMU).

37. To ensure effective monitoring of program implementation, the PRGF Monitoring Committee, headed by the Secretary of State for Finance and Economic Affairs will continue to meet regularly to review performance under the program. It will also ensure that data are reported to the IMF as per the schedule agreed in the TMU and will provide any other information deemed necessary or requested by IMF staff in order to monitor the program. The committee will also take remedial actions in the event there are gaps or delays in reporting reliable statistics.

Table A1. The Gambia: Quantitative Targets and Projections, End-December 2006 to End-December 2009

	2006	2007		2008								2009			
	End-Dec.	End-Dec.[1]		End-Mar.		End-Jun.		End-Sep.		End-Dec.		End-Mar.	End-Jun.	End-Sep.	End-Dec.
	Act.	Prog.	Act.	Prog.	Act.	Prog.	Act.	Prog.	Act.	Prog.	Act.	Prog.	Prog.	Prog.	Prog.
Performance criteria [2]	(Stock)	(Cummulative change from end-December 2006)													
		(Millions of dalasis)													
Net domestic assets of the central bank (ceiling)	38.7	504.5		603.2		581.7		-48.8		-97.0		759.0	859.0	964.6	914.5
Adjusted for privatization proceeds[3]		262.5	-270.4	361.2	-334.5	339.7	-393.2	94.2	-365.9	46.0	617.8				
Basic balance (floor)[4]	...	659.4	613.6	628.5	661.8	746.2	755.6	793.4	744.9	859.3	…	616.9	745.5	772.7	685.6
New external payments arrears of the central government (ceiling)[5]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
		(Millions of dalasis)													
Net usable international reserves (floor)	94.9	12.3		15.8		16.2		27.0		36.5		-2.9	-6.1	-5.9	-13.7
Adjusted for privatization proceeds[6]		23.3	32.0	26.8	27.5	27.2	29.0	20.5	32.7	30.0	1.5				
New nonconcessional debt contracted or guaranteed by the government with original maturity of more than one year (ceiling)[8]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Outstanding stock of external public debt with original maturity of one year or less (ceiling)[9]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Indicative targets		(Millions of dalasis)													
Domestic budgetary arrears[10]	561.5	-440.2	-369.5	-486.5	-441.6	-532.5	-494.3	-561.5	-494.3	-561.5	-561.5	-561.5	-561.5	-561.5	-561.5
		(Millions of U.S. dollars)													
Net present value of new contracted external debt (cumulative ceiling)[9]		4.2	0.0	20.7	4.2	20.7	4.2	31.7	4.2	31.7	30.2	40.1	40.1	45.6	45.6
Memorandum item:															
Program exchange rate (D/$)		22.0	22.0	22.0	22.0	22.0	22.0	22.0	22.0	22.0	22.0	22.0	22.0	22.0	22.0
Privatization proceeds ($ millions)	…	17.5	28.5	17.5	28.5	17.5	28.5	35.0	28.5	35.0	28.5	28.5	29.9	29.9	29.9
Privatization proceeds (D millions at program exchange rate)	…	385.0	627.0	385.0	627.0	385.0	627.0	770.0	627.0	770.0	627.0	627.0	657.8	657.8	657.8
Expenditure from privatization receipts (D millions)	…	70.0	158.6	179.0	180.1	288.0	612.0	548.6	612.0	612.0	612.0	612.0	612.0	657.8	657.8

Source: IMF staff estimates.

[1] MDRI debt relief took place in the fourth quarter of 2007.
[2] March 2008, September 2008, and March 2009 are performance criteria; December 2007, June 2008, December 2008, June 2009, September 2009, and December 2009 are indicative targets.
[3] Adjusted upward (downward) by the dalasi equivalent of the extent to which actual receipts fall short of (exceed) projected level of privatization receipts.
[4] Defined as domestic revenue minus expenditure and net lending, excluding externally financed capital expenditure.
Adjusted downward by the dalasi equivalent of the amount of external budget support in excess of the projected levels up to a cummulative maximum in of US$10 million in 2009.
[5] To be applied on a continuous basis.
[6] Adjusted upward (downward) by the extent to which actual receipts exceed (fall short of) projected level of privatization receipts.
[7] External debt contracted or guaranteed other than that with a grant element equivalent to 45 percent or more, calculated using a discount rate based on the Organization for Economic Corporation and Development (OECD) commercial interest reference rates (CIRRs). Excludes borrowing from the IMF.
[8] Excluding normal import-related credits.
[9] Cumulative from October 1, 2007.
[10] Actual domestic budgetary arrears have been revised upwards for December 2007 and March 2008 to exclude loans that were initially in

Table A2. Structural Conditionality August - December 2008 1/

Measure	Target date	Status
2009 Budget		
1. Submit to the National Assembly, a budget for 2009 that is in line with understandings reached with IMF staff on revenues, budget support grants, and the basic balance (PA)	December 15, 2008	Met
Public financial management and accountability		
2. Auditing of government accounts: submit to the Auditor-General the accounts for 2007 (PC)	End-Sept 2008	Met
3. Issue a comprehensive monthly budget execution report, including information on commitments, with a one-month lag (PC)	Monthly	Met
Central bank governance		
4. Prepare pro-forma financial statements for 2007 based on on IFRS and have this reviewed by the CBG's external auditors (PC)	End-Sept 2008	Met
Statistics		
5. Publish quarterly balance of payments statistics, with a one quarter lag (B)	(i) End-Sept 2008 (2008Q2 data)	Met
	(ii) End-Dec 2008 (2008 Q3 data)	Met
6. Rebase the national accounts to 2004 prices and begin estimating GDP by expenditure components (B)	End-Sept 2008	Met

1/ PA, PC and B denote prior action, performance criterion and benchmark, respectively.

Table A3. Structural Conditionality January-December 2009 1/

Measure	Target date	Macro rationale
Public financial management and accountability		
1. Verify claims of government and NAWEC on each other and draw up timetable for settlement of net claims (PC)	End-June 2009	To instil fiscal discipline and promote fiscal sustainability.
2. Auditing of government accounts: submit to the national assembly audited government accounts for 2005, 2006, and 2007 (B)	End-Sept 2009	To improve fiscal accountability and control.
3. Prepare a national debt strategy after receiving TA (B)	End-Sept 2009	To promote debt sustainability.
Central bank governance		
4. Prepare pro-forma financial statements for 2008 based on IFRS and have this reviewed by the CBG's external auditors (B)	End-June 2009	To enhance CBG internal controls and audit capacity, thereby reducing financial risk.
Financial deepening		
5. Make the credit reference bureau operational (PC)	End-March 2009	To deepen financial intermediation and promote growth.
Statistics		
7. Publish quarterly balance of payments statistics, with a one quarter lag (B)	(i) End-March 2009 (2008Q4 data) (ii) End-June 2009 (2009 Q1 data) (iii) End-Sept 2009 (2009 Q2 data) (iv) End-Dec 2009 (2009 Q3 data)	To facilitate policy formulation through timely provision of economic statistics.

1/ PC and B denote performance criterion and benchmark, respectively.

ATTACHMENT II

TECHNICAL MEMORANDUM OF UNDERSTANDING

(October 2008–December 2009)

I. INTRODUCTION

1. This memorandum sets out the understandings between the Gambian authorities and staff of the International Monetary Fund (IMF) regarding the definitions of quantitative performance criteria, indicative targets, structural performance criteria, and structural benchmarks that will be used to monitor the Poverty Reduction and Growth Facility (PRGF)-supported program covering the period of 2007–09. It also sets out the related reporting requirements and describes the adjusters that will be applied to certain quantitative performance criteria of the program.

II. QUANTITATIVE PERFORMANCE CRITERIA

A. Net Domestic Assets of the Central Bank

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

3. For program monitoring purposes, in the calculation of the net domestic assets of the CBG, foreign assets and liabilities will be converted first into U.S. dollars at the prevailing cross-rates and then converted into dalasi using the program exchange rate of D22/US$. This is an accounting exchange rate only and should not be construed as a projection.

4. **Adjuster:** The net domestic assets of the CBG will be adjusted upward (downward) by the dalasi equivalent of the extent to which actual privatization receipts fall short of (exceed) the programmed levels specified in the budget..

5. **Adjuster:** The net domestic assets of the CBG will be adjusted upward (downward) by the dalasi equivalent of the extent to which actual budget support receipts fall short of (exceed) the programmed levels specified in the budget..

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

7. **Supporting material:** The CBG will report data on privatization receipts in the currency it is received in as well as equivalent amounts in U.S. dollars and in dalasis on a monthly basis within two weeks of the end of the month. The Department of State for Finance and Economic Affairs (DoSFEA) will report data on a monthly basis within two weeks of the end of the month on expenditures made from the privatization receipts.

B. Basic Balance of the Central Government

8. **Definition:** The basic balance of the central government is defined as revenue (tax and nontax) minus total expenditure and net lending, excluding externally financed capital expenditure. Central government excludes local and regional governments and public enterprises.

9. **Supporting material:** Reporting on the basic balance will form part of the consolidated budget report described in paragraph 29 below.

C. New External Payments Arrears of the Central Government

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

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

D. Net Usable International Reserves of the Central Bank of The Gambia

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

are all foreign exchange liabilities to residents and nonresidents, including commitments to sell foreign exchange arising from derivatives (such as futures, forwards, swaps, and options), and all credit outstanding from the IMF.

13. **Adjuster:** Net usable international reserves of the CBG will be adjusted upward (downward) by the extent to which actual privatization receipts exceed (fall short of) the programmed level specified in the budget..

14. **Adjuster:** Net usable international reserves of the CBG will be adjusted upward (downward) by the extent to which actual budget support receipts exceed (fall short of) the programmed level specified in the budget..

15. **Supporting material:** End-month data on net usable international reserves of the CBG will be transmitted within seven days of the end of each month. The CBG will identify the U.S. dollar equivalent of privatization receipts within net usable international reserves as a memorandum item.

E. New Nonconcessional Debt Contracted or Guaranteed by the Central Government with Original Maturity of More Than one Year

16. **Definition:** This target refers to new nonconcessional external debt with original maturity of more than one year contracted or guaranteed by the central government. It applies not only to debt as defined in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt, adopted by the Executive Board of the IMF on August 24, 2000 (Decision No. 12274–00/85), but also to commitments contracted or guaranteed for which value has not been received. Excluded from this target are loans or purchases from the IMF and debts with a grant element of at least 45 percent.[1] Also excluded are two loans from the OPEC Fund for International Development with grant elements of 39.5 percent each, which were approved in the first half of 2007.

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

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

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

18. **Definition**: This target refers to the stock of outstanding external public sector debt with original maturity of one year or less, owed or guaranteed by the central government.[2] Public sector consists of the central and regional governments and other public agencies, including the CBG. Excluded from this target are normal import-related credits.

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

III. Quantitative Indicative Targets

A. Domestic Budgetary Arrears

20. **Definition:** Domestic budgetary arrears are defined as the sum of all bills that have been received by a central government spending unit or line ministry under the recurrent expenditure budget (including rents and utilities) or the development expenditure budget, and for which payment has not been made within 30 days. Arrears can be cleared in cash or through debt swaps.

21. **Supporting material:** A comprehensive record of all domestic budgetary arrears, with detailed explanations, will be transmitted on a quarterly basis within four weeks of the end of each quarter.

B. Net Present Value of New Contracted External Debt

22. **Definition:** The net present value (NPV) of new external debt contracted or guaranteed by the government from October 2007 onward is calculated by discounting the future stream of payments of debt service due by the country-specific commercial interest reference rates (CIRRs) as published by the Organization for Economic Cooperation and Development (OECD). The new external debt will be measured by the U.S. dollar nominal sum of all loan agreements that have been contracted (ratified by parliament). Disbursed debt will be converted to U.S. dollars, based on prevailing WEO test date exchange rates; for loans contracted but not yet disbursed, the profile disbursement will be measured at the actual exchange rate at the test date, based on the projected drawdown consistent with the medium-term fiscal framework as discussed with the Fund staff.

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[2] The term "debt" has the meaning set forth in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt, adopted by the Executive Board of the IMF on August 24, 2000 (Decision No. 12274–00/85).

23. **Supporting material:**. Data on the NPV of the stock of outstanding external debt contracted or guaranteed by the government since October 2007 will be provided on a monthly basis within five weeks of the end of each month.

IV. Structural Performance Criteria and Benchmarks

A. Pro-Forma Financial Statements

24. The CBG shall prepare pro-forma financial statements based on the International Financial Reporting Standards (IFRS) for the 2008 financial year by end-June 2009. The pro-forma financial statement shall include IFRS-required disclosures and balances valued in accordance with the IFRS and reviewed by external auditors.

B. Credit Reference Bureau

25. The Bureau is deemed operational when it is staffed, begins compiling a database on commercial bank customers, and commercial banks are able to share information from the database. The legal basis for sharing such information should be formalized by amending Section 60 of the Financial Institutions Act (2003).

C. Quarterly Balance of Payments Statistics

26. **Supporting material**: Quarterly balance of payments data transmitted to the IMF with a one quarter lag.

V. Other Data Requirements and Reporting Standards

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

A. Prices

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

B. Government Accounts Data

29. A monthly consolidated central government budget report (i.e., the analytical table) on budget execution during the month and cumulatively from the beginning of the year, will be transmitted to the IMF within four weeks of the end of the month. The report will comprise: (i) revenue data by major item, including tax (direct tax, taxes on domestic goods and services, and taxes on international trade) and nontax; (ii) external grants by type (e.g., project, program); (iii) details of recurrent expenditure (including data on wages and

salaries, interest payments, and other charges); (iv) details of capital expenditure and net lending (including data on externally financed capital expenditure, expenditures from the Gambia Local Fund, and net lending); (v) the overall balance and the basic balance (defined in paragraph 7); and (vi) details of budget financing (including net domestic borrowing and its gross components, external grants, net external borrowing and its gross components, utilization of privatization proceeds, and arrears).

30. Net domestic borrowing by the central government over a given period is defined as the difference between the net domestic debt at the end of the period and the net domestic debt at the beginning of the period. The central government's net domestic debt is defined as: claims on the central government by the banking system minus deposits of the central government with the banking system plus claims by the nonbanking sector, including public enterprises. Central government excludes local and regional governments and public enterprises. The banking system comprises the CBG and commercial banks.

C. Poverty Reducing Expenditures

31. A monthly report on poverty-reducing expenditures, by functional and economic classifications, will be transmitted within four weeks of the end of each month. Poverty-reducing expenditures comprise line items in the budget that have been specifically tagged as PRSP-related. For 2007, they include expenditure on the construction of trunk roads.

D. Monetary Sector Data

32. The balance sheets of the CBG, prepared on the basis of current and program exchange rates, will be transmitted on a monthly basis to the IMF within four weeks of the end of each month. The balance sheet should explicitly identify all claims on, and liabilities to, the government. Claims include overdrafts, holdings of treasury bills, interest and noninterest-bearing government bonds, advances to the government in foreign currency, and other claims. Liabilities include balances in the treasury main, treasury expenditure, consolidated revenue fund and other revenue accounts, treasury bill special deposit, privatization, special projects, foreign projects, and other deposit accounts.

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

34. The CBG will also forward, within four weeks of the end of each month, data on banks' reserves held at the CBG to meet statutory reserve requirements during the last week of each month (broken down by total reserves, and excess reserves or deficits). Data will be provided for each commercial bank as well as for the industry as a whole.

35. The CBG will also forward within four weeks of the end of each month, data on government borrowing from the CBG as defined in the CBG Act 2005. The data shall indicate the limit on government borrowing from the CBG based on the government's tax revenues in the preceding year.

E. Treasury Bills

36. Weekly data on the amount offered, issued, net issuance, over/under subscription, and yields (interest rates) of the various instruments will be transmitted on a monthly basis within seven days of the end of the month. Data on treasury bills outstanding (including information on the distribution by bank and nonbank holders) will be transmitted on a monthly basis within six weeks of the end of each month. The monthly Liquidity Management Report, reflecting the data as of the last working day of the month, will be transmitted within seven days after the end of each month.

F. External Sector Data

37. The following standards will be adhered to in reporting data on exchange rates: (i) the interbank market exchange rates, defined as the simple average of the weekly weighted average buying and selling rates, will be transmitted on a weekly basis within five business days of the end of the week; and (ii) the CBG's published monthly average and end-month exchange rates, including those for all currencies in which foreign assets and liabilities are denominated, will be transmitted within two weeks of the end of the month.

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

G. CBG Report on Monetary Program Data

39. The CBG shall forward a report prepared by the Internal Audit Department verifying the accuracy of monetary data submitted to the IMF. The report shall be submitted within one quarter after each test date. The first test date for which the report to be prepared is September 2008.

INTERNATIONAL MONETARY FUND

AND

INTERNATIONAL DEVELOPMENT ASSOCIATION

THE GAMBIA

Joint IMF/World Bank Debt Sustainability Analysis[1]

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

Approved by Emilio Sacerdoti and Dominique Desruelle (IMF) and
Sudhir Shetty and Carlos Alberto Braga (IDA)

February 3, 2009

The Debt Sustainability Analysis (DSA) assesses the sustainability of The Gambia's external and public debt. The DSA, prepared by the staffs of the Fund and the World Bank, shows that The Gambia remains at high risk of debt distress even after Enhanced HIPC initiative and MDRI debt relief. In particular, the present value (PV) of external debt-to-exports ratio remains above The Gambia's policy-dependent threshold throughout the projection period. The DSA indicates that public debt is declining due to recent fiscal consolidation.

I. BACKGROUND

1. **This debt sustainability analysis (DSA) updates the DSA undertaken jointly by the staffs of the Fund and the Bank in December 2007 in the context of The Gambia's completion point under the enhanced HIPC initiative**. The DSA is based on debt and debt service data prepared for the completion point document, updated to reflect recent debt data and a revised macroeconomic framework following discussions for the fourth review under the Poverty Reduction and Growth Facility (PRGF). The last DSA concluded that The Gambia is at high risk of debt distress even after receiving HIPC and MDRI debt relief.

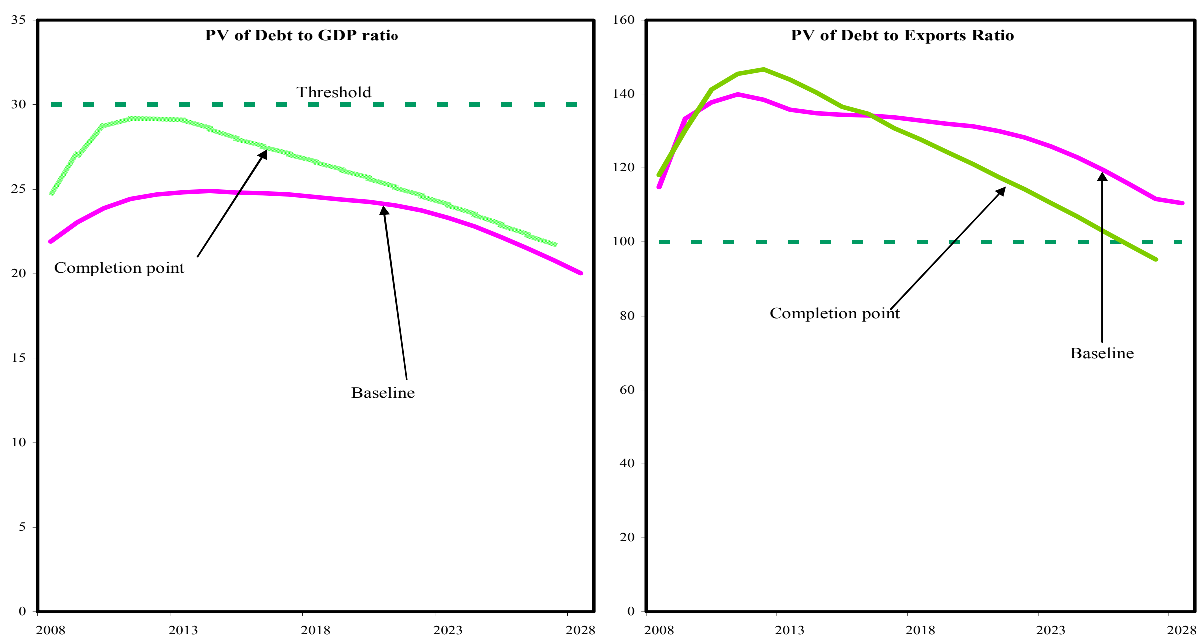
2. **The stock of external debt declined substantially at end-2007 following HIPC and MDRI debt relief.** At the end of 2006, prior to completion point, the stock of nominal external public debt was US$676.7 million (133.1 percent of GDP). Multilateral creditors accounted for 84 percent of this debt, with IDA as the largest creditor (39 percent of total outstanding debt). At end-2007, post-completion point, the stock of external public debt fell

[1] The last joint IMF/IDA DSA was presented to the Fund Executive Board on December 19, 2007 (IMF Country Report No. 08/109, Appendix I) and to the World Bank Executive Board on December 20, 2007 (Enhanced HIPC Completion Point Document and MDRI, Report No. 41413-GM).

to US$299.4 million (46.0 percent of GDP). In January 2008, Paris Club creditors agreed to cancel outstanding claims (US$13 million in PV terms at end-2006) on The Gambia. Bilateral agreements have been signed with Paris Club creditors and Kuwait. Agreements on the delivery of debt relief have also been reached with the EU/EC, Opec Fund for International Development (OFID), the Islamic Development Bank (IsDB), and the International Fund for Agricultural Development (IFAD) but are still pending with the Economic Community of West African States (ECOWAS), Saudi Arabia, Taiwan Province of China, Libya, China, and India.

3. **The current DSA concludes that The Gambia remains at a high risk of debt distress after HIPC and MDRI debt relief due to the high level of debt as well as the country's vulnerability to shocks.** Due to delays in contracting new loans, the level of external borrowing during 2007-08 was lower than projected in the HIPC completion point LIC-DSA. However, the level of debt remains high because of the reliance on external borrowing to finance the country's critical infrastructure projects. Over the 20 year projection horizon, the PV of debt-to-GDP ratio remains below the sustainable threshold while the PV of debt-to-export ratio remains above the debt distress threshold (Figure 1). Compared with the completion point LIC-DSA, the PV of debt-to-GDP ratio has fallen due to the lower level of projected external borrowing, particularly over the medium term. At the same time, the growth rate of exports has been marked down due to the impact of the global financial crisis. Thus, compared with the completion point LIC-DSA, the PV of debt-to-exports is lower over the medium-term (where the lower borrowing dominates) but higher over the long-term (where lower export growth dominates).

Figure 1: PV of Debt Ratios



Source: IMF and World Bank Staff estimates.

II. Underlying Assumptions

4. **The macroeconomic framework takes into account the impact of the global economic and financial crisis in 2008 and 2009 and is consistent with the PRGF-supported program** (Box 1). Recent developments in the global economy are expected to adversely affect economic activity in The Gambia in 2009 mainly through reduced tourist receipts and remittances. Economic activity is expected to return to trend over the medium term as the authorities pursue prudent fiscal and monetary policies and investments in agriculture, infrastructure and tourism increase.

Box 1: Baseline Macroeconomic Assumptions Underlying the DSA

Real GDP growth is expected to decline from 5.9 percent in 2008 to 4.6 percent in 2009 as a result of the global economic slowdown. From 2010 onward, GDP is projected to rebound to about 5 percent of real growth per year, which is still below the previous projections. The main contributors to growth will be tourism, construction, telecommunications, and banking.

Inflation is expected to remain in single digits. Higher commodity prices in 2008 are expected to be passed through to the domestic economy with a delay. Inflation is projected to increase from an annual average of 5 percent in 2008 to 7 percent in 2009 before declining to 4 percent in 2013, and remain at that level over the projection horizon as the authorities maintain tight monetary policy.

Growth of exports of goods and services is expected to slow in 2009 due to the downturn in global economic activity. Export growth is projected to decline by 4 percentage points in 2009 but then recover to 9 percent for 2010-2013, driven by a rebound in tourism. In the long term, export growth is expected to stabilize at about 7 percent per annum. Re-exports are expected to decline as a share of GDP, as tariff harmonization and improvements in neighboring countries erode The Gambia's competitive advantage in this activity. Imports of goods and services are projected to increase by about 5.5 percent on average over the period 2010-2028, mostly due to growing demand for investment imports from both the government and the private sector. Official transfers are projected to decrease gradually and gross borrowing is projected to stabilize at slightly above 3 percent of GDP.

The primary fiscal balance is projected to decline from a surplus of 2.5 percent of GDP in 2008 to an average surplus of 1.3 percent over the next five years and close to balance thereafter. The surplus is expected to drop overtime due to a recovery in capital expenditures. Over the long-term, revenues are projected to rise to about 21½ percent of GDP while poverty reducing expenditures are boosted in line with the fall in debt service payments. Donor support, including program and project assistance is expected to remain robust over the medium-term. Grant financing is expected to remain in the region of 4 percent of GDP over the medium-term before falling to an average of 2 percent over 2013-2028. The grant element of new external borrowing is projected to remain at 45 percent.

5. **The Gambia's program with the IMF includes limits on the amount and terms of new borrowing to prevent a build up of debt to levels that may be unsustainable over the medium term.** Under the PRGF program, the authorities have committed to a minimum grant element of 45 percent in all new external loans contracted or guaranteed by the government. The program also has indicative quarterly limits on the total amount of new borrowing. In addition to the PRGF limits, the risk that non-concessional loans may lead to a rapid re-accumulation of debt, and thus undermine The Gambia's sustainability prospects, is mitigated by IDA's Non-Concessional Borrowing Policy (NCBP), which applies to IDA-only, post-MDRI countries that are grant-eligible and complements the IMF's concessionality requirements.[2]

III. External Debt Sustainability

A. Baseline

6. **The trends in debt indicators under the baseline scenario remain similar to those estimated in the previous DSA**. The World Bank's Country Policy and Institutional Assessment (CPIA), classifies The Gambia as a "poor performer" based on an average of the ratings for the preceding three years and the text table presents the policy-dependent debt burden thresholds. New borrowing associated with increased investment raises the PV of debt-to-GDP through 2017 before it declines as investment levels off and growth is sustained. The PV of debt-to-revenue and the debt service ratios fall considerably below their respective thresholds. While they increase through 2012, they remain at comfortable levels throughout the projection period. Debt service payments remain manageable throughout the projection period, rising no higher than 10 percent of exports and revenue.

7. **The PV of debt-to-exports ratio breaches the debt-burden threshold for a protracted period** (Table 1 and Figure 2). This ratio peaks at about 147 percent in 2011 as new borrowing increases. The PV of debt-to-export ratio gradually declines towards the threshold over the medium term as sustained growth in the tourism, construction, and telecommunication sectors boosts exports.

[2] The minimum grant element required under the NCBP is 35 percent or higher, should a higher minimum level be required under an existing IMF arrangement. The policy is complementary to other policies and tools that the Bank and Fund have in place to help countries maintain debt sustainability, such as the LIC Debt Sustainability Framework, the Debt Management Performance Assessment (DeMPA) tool, and the toolkit for developing Medium-Term Debt Management Strategies (MTDS). See "IDA's Non-Concessional Borrowing Policy: Review and Update", Resource Mobilization Department, (FRM), The World Bank, June 2008.

Text table 1.: Policy Dependent Debt Burden Thresholds under the Debt Sustainability Framework Applying to External Debt

	Indicative Thresholds			The Gambia
	strong performer	moderate performer	weak performer	2008
NPV of External Debt				
In percent of GDP	50	40	30	22
In percent of exports	200	150	100	117
In percent of revenues	300	250	200	117
Debt Service				
In percent of exports	25	20	15	9
In percent of revenues	35	30	25	9

B. Alternative Scenarios and Stress Tests

8. **Alternative scenarios show that external debt indicators would deteriorate substantially under a range of shocks**. The scenarios producing the largest shock to the PV of debt-to-GDP and the PV of debt-to-revenue ratios consists of a combination of shocks or a one time 30 percent nominal depreciation (tests B5 and B6 in Table 2). For the PV of debt–to-exports ratio a shock to the external non debt financing flows in 2009 and 2010 would increase the PV of debt-to-exports by 66 percentage points in 2010. The scenario producing the most extreme shock for the debt service to exports and to revenue ratios is new public sector borrowing at less favorable terms (A2 in Table 2). All the debt indicators would worsen under the less favorable terms scenarios (Figure 2). Debt indicators would converge slowly back to the baseline in the combination scenario while indicators would not converge in the less favorable terms scenario.

9. **The Gambia's debt dynamics would deteriorate sharply if borrowing was less concessional.** The "less favorable terms" scenario (Figure 2 and Table 2), assumes that The Gambia contracts loans with an average grant element of 30 (rather than 45) percent between 2008-2028.[3] All debt indicators deteriorate substantially over the medium term under this scenario. The PV of debt-to-export ratio breaches the 100 percent threshold by a wide margin throughout the projection period. The PV of debt-to-GDP ratio would also breach its threshold of 30 percent from 2014, peaking at 33 percent and only returning to the policy threshold at the end of the projection period. This indicates that The Gambia will have to depend largely on grants and highly concessional borrowing to finance its development efforts. It also emphasizes the need for developing a prudent borrowing plan associated with a medium-term debt management strategy (MTDS).

[3] To be considered concessional in Fund arrangements, loans should have a grant element of at least 35 percent. Concessional financing for the Gambia is defined as loans with a grant element of 45 percent or higher.

10. **A one-time 30 percent depreciation of the exchange rate results in the PV of debt-to-GDP ratio breaching the 30 percent threshold for much of the projection period** (Table 2). Compared with other shocks this scenario results in the second highest ratio of the PV of debt-to-GDP in the medium term and the highest ratio of the PV of debt-to-revenues in 2028.

11. **A combination of adverse economic shocks would also result in a significant rise in debt ratios** (Table 2). A combination of shocks to the output base, exports and the non-debt creating flows in the balance of payments would yield a significant deterioration in the debt ratios. Under this scenario, the debt-to-export ratio would peak at 196 percent in 2011.

IV. PUBLIC DEBT SUSTAINABILITY

A. Baseline

12. **Domestic debt is expected to fall from 30.8 percent of GDP at the end of 2008 to 14.8 percent of GDP in 2013 and to 10.4 percent of GDP in 2028, reflecting sustained fiscal discipline.** Between 2005 and 2007, fiscal performance improved as reforms to tax administration boosted revenues by 2½ points of GDP. Unfortunately, a decline in taxes on international trade lowered revenues in 2008. Over the medium-term revenues are expected to rise gradually from 18½ to 21½ percent of GDP. Relatively restrained fiscal policy, as programmed for the medium term, should help lower domestic interest rates. Over the long term, the full delivery of external debt relief and lower domestic interest rates should provide fiscal space to increase basic primary expenditures[4] and offset a decline in externally-financed projects as a percent of GDP.

13. **The PV of total public debt is projected to decline from about 55 percent of GDP in 2008 to 43 percent in 2013 and to 31 percent in 2028** (Table 3 and Figure 2). The biggest factor in the near term decline is a fall in the domestic debt. As a ratio of domestic revenues and grants, the PV of public debt is projected to fall from about 281 percent in 2008 to 138 percent at the end of the projection period.

B. Alternative Scenarios and Stress Tests

14. **Stress tests indicate that public debt ratios are most sensitive to further increases in public debt in the near term and a shock to GDP growth over the long term, but not to most other adverse shocks** (Table 4 and Figure 2).

- With a 10 percent of GDP increase in public debt above the baseline in 2009, the PV of debt-to-GDP ratio would rise from 55 percent in 2008 to 63 percent in 2010 and the PV of debt-to-revenue ratio would gradually fall from its 2008 level of 281

[4] Defined as expenditures excluding interest payments and externally-financed projects.

percent compared with a sharp fall to 221 in 2010 under the baseline. However, the effects would be mitigated over time and an increase in other debt-creating flows is not significantly worse than other shocks by 2028.

- Under a permanently lower output growth rate (4.3 percent instead of 5 percent), the PV of total debt-to-GDP ratio would increase from 55 percent in 2008 to 61 percent in 2028, as opposed to declining to 31 percent under the baseline scenario. Similarly, the PV of debt-to-revenues would be 272 percent in 2028 compared to 138 under the baseline and the debt service-to-revenue ratio would almost triple from 13 to 37 percent.

- A combination of shocks to growth and the primary balance or a one-time 30 percent real depreciation result in a moderate worsening of debt ratios compared to the baseline. Under the former, the PV of debt-to-GDP ratio would be 40 percent in 2028 while under the latter it would be 42 percent. Under the baseline, this ratio would be 31 percent.

- Because the primary balance was in surplus in 2008, the alternative scenario based on the primary balance being unchanged would result in a rapid decline in The Gambia's public debt ratios with all debt eliminated by 2026. For similar reasons, the historical scenario would result in a more rapid decline in debt ratios than the baseline (Figure 3).

V. Conclusion

15. **The Gambia is at high risk of debt distress based on external debt burden indicators.** While The Gambia's level of borrowing during 2007-08 was lower than projected in the HIPC completion point DSA, primarily due to an improvement in the overall fiscal balance and a decline in new borrowing, the PV of external debt-to-exports ratio breaches the policy dependent threshold throughout the projection period. Total public debt is projected to fall by 30 percentage points of GDP over the projection period, driven in large part by a reduction in domestic debt. Given continuing risks, the authorities are urged to prepare a medium-term debt management strategy (to include the debt of public enterprises and contingent liabilities) at the earliest opportunity. Staffs also recommend that the authorities continue to rely on a combination of grants and highly concessional borrowing in external financing and exercise restraint in contracting new loans. The major risks to The Gambia's debt sustainability include lower than expected economic and/or export growth, higher than expected new borrowing, and a deterioration in fiscal performance. In light of these risks, staffs underline the importance of sustained policy reform.

Table 1: External Debt Sustainability Framework, Baseline Scenario, 2005-2028 1/
(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average	Standard Deviation	Projections								
	2005	2006	2007			2008	2009	2010	2011	2012	2013	2008-2013 Average	2028	2014-2028 Average
External debt (nominal) 1/	134.6	133.1	46.0			40.1	41.9	43.4	44.5	45.0	45.2		30.0	
o/w public and publicly guaranteed (PPG)	134.6	133.1	46.0			40.1	41.9	43.4	44.5	45.0	45.2		30.0	
Change in external debt	-11.9	-1.5	-87.2			-5.9	1.8	1.5	1.1	0.5	0.3		-1.7	
Identified net debt-creating flows	-17.4	-15.5	-29.2			3.2	4.2	1.1	-0.2	-1.0	-0.4		-1.5	
Non-interest current account deficit	13.2	9.8	10.9	5.4	4.6	15.2	12.5	11.0	10.5	9.8	9.7		5.4	7.6
Deficit in balance of goods and services	22.7	17.2	16.2			18.8	18.8	18.5	18.3	17.7	17.7		10.0	
Exports	28.4	30.5	23.4			18.8	16.9	17.0	17.2	17.5	17.9		17.7	
Imports	51.1	47.7	39.6			37.6	35.7	35.4	35.4	35.2	35.6		27.6	
Net current transfers (negative = inflow)	-17.1	-15.2	-11.0	-12.3	5.0	-8.5	-10.6	-11.3	-11.1	-10.7	-10.6		-5.5	-7.5
o/w official	-5.1	-3.2	-1.2			-1.1	-4.0	-4.5	-4.2	-4.0	-4.1		-0.8	
Other current account flows (negative = net inflow)	7.6	7.8	5.8			4.9	4.3	3.8	3.3	2.8	2.7		1.0	
Net FDI (negative = inflow)	-13.3	-14.6	-12.4	-7.0	5.8	-10.6	-7.4	-8.7	-9.5	-9.4	-8.8		-6.1	-7.5
Endogenous debt dynamics 2/	-17.4	-10.8	-27.7			-1.4	-1.0	-1.2	-1.3	-1.4	-1.4		-0.9	
Contribution from nominal interest rate	1.8	1.6	1.4			0.8	0.8	0.8	0.8	0.9	0.9		0.6	
Contribution from real GDP growth	-6.5	-8.0	-6.6			-2.2	-1.7	-2.0	-2.1	-2.2	-2.3		-1.5	
Contribution from price and exchange rate changes	-12.7	-4.4	-22.6			…	…	…	…	…	…		…	
Residual (3-4) 3/	5.5	14.0	-57.9			-9.1	-2.3	0.4	1.3	1.5	0.6		0.0	
o/w exceptional financing	0.0	0.0	0.0			-0.8	-0.7	-0.6	-0.5	0.0	0.0		0.0	
PV of external debt 4/	...	...	25.7			21.9	23.3	24.4	25.2	25.7	26.1		20.4	
In percent of exports	...	...	109.6			116.5	137.7	143.8	147.0	147.0	145.5		115.2	
PV of PPG external debt	...	...	25.7			21.9	23.3	24.4	25.2	25.7	26.1		20.4	
In percent of exports	...	...	109.6			116.5	137.7	143.8	147.0	147.0	145.5		115.2	
In percent of government revenues	...	...	119.9			117.8	120.7	123.2	124.4	123.2	121.1		94.7	
Debt service-to-exports ratio (in percent)	17.4	16.3	17.4			9.1	8.9	9.5	10.0	10.3	10.3		6.9	
PPG debt service-to-exports ratio (in percent)	17.4	16.3	17.4			9.1	8.9	9.5	10.0	10.3	10.3		6.9	
PPG debt service-to-revenue ratio (in percent)	25.0	23.4	19.0			9.2	7.8	8.1	8.4	8.6	8.6		5.7	
Total gross financing need (millions of U.S. dollars)	22.7	1.1	16.8			49.9	56.6	35.0	27.0	22.8	31.9		17.8	
Non-interest current account deficit that stabilizes debt ratio	25.1	11.3	98.1			21.1	10.7	9.4	9.5	9.3	9.5		7.1	
Key macroeconomic assumptions														
Real GDP growth (in percent)	5.1	6.5	6.3	5.3	3.1	5.9	4.6	5.0	5.3	5.4	5.4	5.3	5.0	5.0
GDP deflator in US dollar terms (change in percent)	9.5	3.4	20.5	-0.1	9.2	15.5	2.1	1.7	1.9	2.1	2.0	4.2	2.0	2.0
Effective interest rate (percent) 5/	1.4	1.3	1.4	1.2	0.2	2.2	2.0	2.0	2.1	2.1	2.2	2.1	2.1	2.0
Growth of exports of G&S (US dollar terms, in percent)	2.9	18.5	-1.6	3.6	8.9	-1.8	-4.0	7.1	8.4	9.7	10.1	4.9	4.1	7.0
Growth of imports of G&S (US dollar terms, in percent)	11.6	2.9	6.2	8.0	18.0	16.0	1.4	6.0	7.3	6.8	8.8	7.7	3.7	5.3
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	48.1	43.3	45.2	46.2	46.1	46.2	45.9	45.1	45.3
Government revenues (excluding grants, in percent of GDP)	19.7	21.2	21.4			18.6	19.3	19.8	20.3	20.9	21.5		21.5	21.5
Aid flows (in millions of US dollars) 7/	47.5	50.3	31.4			23.6	75.9	84.4	89.2	92.3	95.8		75.6	
o/w Grants	7.7	6.4	7.8			8.7	34.4	41.2	41.0	42.3	45.8		25.6	
o/w Concessional loans	39.8	43.9	23.6			14.9	41.5	43.2	48.2	50.0	50.0		50.0	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			2.4	6.5	7.0	6.6	6.2	6.1		1.5	3.2
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			63.3	67.2	70.2	70.1	70.8	71.9		63.7	67.8
Memorandum items:														
Nominal GDP (millions of US dollars)	461.6	508.3	650.9			795.7	849.9	907.4	972.8	1046.9	1126.1		3132.8	
Nominal dollar GDP growth	15.1	10.1	28.1			22.2	6.8	6.8	7.2	7.6	7.6	9.7	7.1	7.1
PV of PPG external debt (in millions of US dollars)			167.1			174.6	198.0	221.4	245.4	269.2	293.4		638.4	
(PVt-PVt-1)/GDPt-1 (in percent)						1.1	2.9	2.8	2.6	2.4	2.3	2.4	0.5	1.4

Source: Staff simulations.

1/ Includes both public and private sector external debt.
2/ Derived as [r - g - r(1+g)]/(1+g+r+gr) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and r = growth rate of GDP deflator in U.S. dollar terms.
3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.
4/ Assumes that PV of private sector debt is equivalent to its face value.
5/ Current-year interest payments divided by previous period debt stock.
6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.
7/ Defined as grants, concessional loans, and debt relief.
8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

Table 2. The Gambia: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2008-28 including HIPC and MDRI
(In percent)

	Projections											
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	**2018**	2028
PV of debt-to GDP ratio												
Baseline	22	23	24	25	26	26	26	26	27	27	**27**	20
A. Alternative Scenarios												
A1. Key variables at their historical averages in 2008-2028 1/	22	20	19	18	18	17	17	16	15	14	**13**	8
A2. New public sector loans on less favorable terms in 2008-2028 2	22	24	26	28	29	30	31	31	32	32	**33**	28
B. Bound Tests												
B1. Real GDP growth at historical average minus one standard deviation in 2009-2010	22	24	26	26	27	27	28	28	28	28	**28**	21
B2. Export value growth at historical average minus one standard deviation in 2009-2010 3/	22	23	26	26	27	27	27	27	28	28	**28**	21
B3. US dollar GDP deflator at historical average minus one standard deviation in 2009-2010	22	26	31	32	32	33	33	33	33	34	**34**	26
B4. Net non-debt creating flows at historical average minus one standard deviation in 2009-2010 4/	22	28	36	36	36	36	36	36	36	36	**36**	23
B5. Combination of B1-B4 using one-half standard deviation shocks	22	28	37	38	38	38	38	38	38	38	**38**	26
B6. One-time 30 percent nominal depreciation relative to the baseline in 2009 5/	22	33	35	36	36	37	37	37	38	38	**38**	29
PV of debt-to-exports ratio												
Baseline	117	138	144	147	147	146	146	146	147	147	**147**	115
A. Alternative Scenarios												
A1. Key variables at their historical averages in 2008-2028 1/	117	116	111	107	104	97	93	88	84	78	**73**	47
A2. New public sector loans on less favorable terms in 2008-2028 2	117	142	153	162	166	168	171	174	177	180	**181**	159
B. Bound Tests												
B1. Real GDP growth at historical average minus one standard deviation in 2009-2010	117	138	144	147	147	145	145	146	147	147	**147**	115
B2. Export value growth at historical average minus one standard deviation in 2009-2010 3/	117	140	173	177	176	174	174	174	175	175	**175**	134
B3. US dollar GDP deflator at historical average minus one standard deviation in 2009-2010	117	138	144	147	147	145	145	146	147	147	**147**	115
B4. Net non-debt creating flows at historical average minus one standard deviation in 2009-2010 4/	117	168	210	211	207	203	201	200	199	198	**197**	130
B5. Combination of B1-B4 using one-half standard deviation shocks	117	147	194	196	194	190	189	189	189	188	**187**	131
B6. One-time 30 percent nominal depreciation relative to the baseline in 2009 5/	117	138	144	147	147	145	145	146	147	147	**147**	115
PV of debt-to-revenue ratio												
Baseline	118	121	123	124	123	121	122	123	123	124	**124**	95
A. Alternative Scenarios												
A1. Key variables at their historical averages in 2008-2028 1/	118	102	95	91	87	81	78	74	70	66	**62**	39
A2. New public sector loans on less favorable terms in 2008-2028 2	118	124	131	137	139	140	143	146	149	151	**152**	131
B. Bound Tests												
B1. Real GDP growth at historical average minus one standard deviation in 2009-2010	118	123	129	131	129	127	128	129	130	130	**130**	99
B2. Export value growth at historical average minus one standard deviation in 2009-2010 3/	118	121	130	130	129	126	127	128	128	128	**128**	96
B3. US dollar GDP deflator at historical average minus one standard deviation in 2009-2010	118	136	155	157	155	153	154	155	156	156	**156**	119
B4. Net non-debt creating flows at historical average minus one standard deviation in 2009-2010 4/	118	147	180	178	174	169	169	168	167	167	**165**	107
B5. Combination of B1-B4 using one-half standard deviation shocks	118	144	186	185	181	177	177	177	177	176	**175**	120
B6. One-time 30 percent nominal depreciation relative to the baseline in 2009 5/	118	171	174	176	174	171	173	174	174	175	**175**	134

Table 2. The Gambia: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2008-28 including HIPC and MDRI (continued)
(In percent)

Debt service-to-exports ratio

Baseline	9	9	9	10	10	10	10	10	10	9	**9**	7
A. Alternative Scenarios												
A1. Key variables at their historical averages in 2008-2028 1/	9	9	9	9	8	8	8	8	7	7	**7**	4
A2. New public sector loans on less favorable terms in 2008-2028 2	9	8	9	10	11	11	11	11	11	11	**11**	9
B. Bound Tests												
B1. Real GDP growth at historical average minus one standard deviation in 2009-2010	9	8	9	9	8	8	8	8	7	7	**7**	8
B2. Export value growth at historical average minus one standard deviation in 2009-2010 3/	9	8	10	10	10	9	10	10	9	8	**8**	10
B3. US dollar GDP deflator at historical average minus one standard deviation in 2009-2010	9	8	9	9	8	8	8	8	7	7	**7**	8
B4. Net non-debt creating flows at historical average minus one standard deviation in 2009-2010 4/	9	8	9	10	9	9	9	9	8	8	**7**	11
B5. Combination of B1-B4 using one-half standard deviation shocks	9	8	9	10	9	9	9	9	8	8	**8**	10
B6. One-time 30 percent nominal depreciation relative to the baseline in 2009 5/	9	8	9	9	8	8	8	8	7	7	**7**	8

Debt service-to-revenue ratio

Baseline	9	8	8	8	9	9	8	8	8	8	**8**	6
A. Alternative Scenarios												
A1. Key variables at their historical averages in 2008-2028 1/	9	7	7	7	7	7	7	7	6	6	**6**	3
A2. New public sector loans on less favorable terms in 2008-2028 2	9	7	8	9	9	9	10	10	9	9	**9**	8
B. Bound Tests												
B1. Real GDP growth at historical average minus one standard deviation in 2009-2010	9	8	8	8	7	7	7	7	6	6	**6**	7
B2. Export value growth at historical average minus one standard deviation in 2009-2010 3/	9	7	7	8	7	7	7	7	6	6	**6**	7
B3. US dollar GDP deflator at historical average minus one standard deviation in 2009-2010	9	8	9	9	9	8	9	9	8	7	**7**	8
B4. Net non-debt creating flows at historical average minus one standard deviation in 2009-2010 4/	9	7	8	8	8	7	8	8	7	6	**6**	9
B5. Combination of B1-B4 using one-half standard deviation shocks	9	8	9	9	9	8	9	9	8	7	**7**	9
B6. One-time 30 percent nominal depreciation relative to the baseline in 2009 5/	9	10	11	10	10	9	10	10	9	8	**8**	9
Memorandum item:												
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	45	45	45	45	45	45	45	45	45	45	**45**	45

Source: Staff projections and simulations.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Table 3. The Gambia: Public Sector Debt Sustainability Framework, Baseline Scenario, 2002-2028
(In percent of GDP, unless otherwise indicated)

	Actual										Estimate	Projections					
	1997	1998	2002	2003	2004	2005	2006	2007	Average	Standard Deviation	2008	2009	2010	2011	2012	2013	2008-13 Average	201
Public sector debt 1/	125.2	128.1	181.4	183.7	176.2	164.6	167.6	76.3			70.9	70.1	69.1	67.1	64.3	60.0		5
o/w foreign-currency denominated	101.7	102.5	141.6	150.4	146.5	134.6	133.1	46.0			40.1	41.9	43.4	44.5	45.0	45.2		4
Change in public sector debt	...	2.9	22.6	2.3	-7.5	-11.7	3.0	-91.3			-5.4	-0.8	-1.0	-1.9	-2.8	-4.4		-
Identified debt-creating flows		-2.5	11.5	-5.5	-13.3	-13.9	-7.6	-37.9			-11.5	-5.3	-4.8	-4.7	-5.2	-5.6		-
Primary deficit	1.3	-2.9	-0.6	-1.3	-1.5	0.1	0.6	-5.2	-0.8	4.1	-2.5	-0.8	-0.5	-0.7	-1.3	-1.9	-1.3	
Revenue and grants	20.4	20.5	20.8	18.2	25.5	21.4	22.5	22.6			19.7	23.3	24.3	24.5	24.9	25.6		2
of which: grants	1.3	2.0	4.4	2.5	4.5	1.7	1.3	1.2			1.1	4.0	4.5	4.2	4.0	4.1		
Primary (noninterest) expenditure	21.7	17.7	20.1	16.8	23.9	21.5	23.1	17.4			17.2	22.5	23.8	23.8	23.6	23.7		2
Automatic debt dynamics		1.1	14.6	-2.9	-10.3	-13.2	-8.2	-28.2			-6.4	-1.9	-2.0	-2.2	-2.3	-2.2		-
Contribution from interest rate/growth differential	...	-3.6	2.2	-16.5	-12.2	-5.4	-7.9	-9.8			-2.1	-1.7	-1.9	-2.0	-2.1	-2.1		-
of which: contribution from average real interest rate	...	4.0	-3.1	-4.9	-0.1	3.2	2.2	0.1			2.1	1.5	1.4	1.5	1.4	1.2		
of which: contribution from real GDP growth	...	-7.6	5.3	-11.7	-12.1	-8.6	-10.1	-9.9			-4.2	-3.1	-3.3	-3.4	-3.5	-3.3		-
Contribution from real exchange rate depreciation		4.7	12.4	13.7	1.9	-7.8	-0.2	-18.4			-4.3	-0.2	-0.1	-0.2	-0.2	0.0		
Other identified debt-creating flows		-0.7	-2.5	-1.3	-1.5	-0.8	0.0	-4.5			-2.6	-2.6	-2.3	-1.8	-1.7	-1.5		-
Privatization receipts (negative)		0.0	0.0	0.0	0.0	-0.4	0.0	-3.9			0.0	-0.2	0.0	0.0	0.0	0.0		
Recognition of implicit or contingent liabilities		0.0	0.0	0.0	0.0	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)		0.0	-2.0	-1.1	-1.3	-0.1	0.0	-0.6			-2.6	-2.4	-2.3	-1.8	-1.7	-1.5		-
Other (specify, e.g. bank recapitalization)		-0.7	-0.4	-0.2	-0.2	-0.2	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		
Residual, including asset changes		5.4	11.1	7.8	5.8	2.3	10.6	-53.4			6.1	4.4	3.8	2.7	2.5	1.2		
Other Sustainability Indicators																		
PV of public sector debt			39.9	33.3	29.7	29.9	34.5	55.3			55.3	54.8	53.9	51.4	48.0	43.1		3
o/w foreign-currency denominated			0.0	0.0	0.0	0.0	0.0	25.0			24.5	26.7	28.3	28.8	28.6	28.4		2
o/w external		...	...	...	...	...	...	25.0			24.5	26.7	28.3	28.8	28.6	28.4		2
PV of contingent liabilities (not included in public sector debt)		...	...	...	...	...	...	...			...	...	...	...	...	...		
Gross financing need 2/	10.3	5.7	10.4	6.5	9.3	11.7	10.4	2.5			3.2	4.7	4.6	4.3	3.5	2.6		
PV of public sector debt-to-revenue and grants ratio (in percent)	0.0	0.0	192.0	183.5	116.8	139.8	153.6	244.7			280.6	234.9	221.3	209.9	192.7	168.5		15
PV of public sector debt-to-revenue ratio (in percent)	0.0	0.0	244.2	212.2	142.1	151.6	162.7	258.4			297.1	284.2	272.0	253.5	229.9	200.3		17
o/w external 3/		…	…	…	…	…	…	116.8			131.6	138.3	142.6	142.1	137.2	132.0		11
Debt service-to-revenue and grants ratio (in percent) 4/		41.6	53.0	43.0	42.4	54.6	43.6	33.9			28.8	23.7	21.1	20.5	19.3	17.7		1
Debt service-to-revenue ratio (in percent) 4/		46.0	67.4	49.7	51.6	59.2	46.2	35.8			30.5	28.7	25.9	24.7	23.0	21.0		1
Primary deficit that stabilizes the debt-to-GDP ratio						11.7	-2.4	86.1			2.9	0.0	0.5	1.2	1.5	2.5		
Key macroeconomic and fiscal assumptions																		
Real GDP growth (in percent)	1.4	6.5	-3.2	6.9	7.0	5.1	6.5	6.3	5.3	3.1	5.9	4.6	5.0	5.3	5.4	5.4	5.3	
Average nominal interest rate on forex debt (in percent)		1.3	0.9	1.1	1.4	1.4	1.3	1.4	1.2	0.2	2.2	2.0	2.0	2.1	2.1	2.2	2.1	
Average real interest rate on domestic debt (in percent)		17.7	-4.8	-9.6	6.0	19.9	15.7	4.8	7.1	10.0	6.4	4.8	5.1	5.6	5.8	5.8	5.6	
Real exchange rate depreciation (in percent, + indicates depreciation)		4.9	10.3	10.4	1.4	-5.7	-0.2	-14.9	2.6	9.3	-9.9	...	...	...	...	...	...	
Inflation rate (GDP deflator, in percent)	...	0.6	16.1	27.4	12.2	4.2	1.6	6.8	9.1	8.5	4.8	6.8	5.4	4.7	4.3	4.0	5.0	
Growth of real primary spending (deflated by GDP deflator, in percent)		-0.1	-0.3	-0.1	0.5	-0.1	0.1	-0.2	0.1	0.3	0.0	0.4	0.1	0.1	0.0	0.1	0.1	
Grant element of new external borrowing (in percent)		...	...	...	...	...	...	...	…	…	48.1	43.3	45.2	46.2	46.1	46.2	45.9	4

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

1/ [Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.]

2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

3/ Revenues excluding grants.

4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.

5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 4. The Gambia: Sensitivity Analysis for Key Indicators of Public Debt 2008-2028

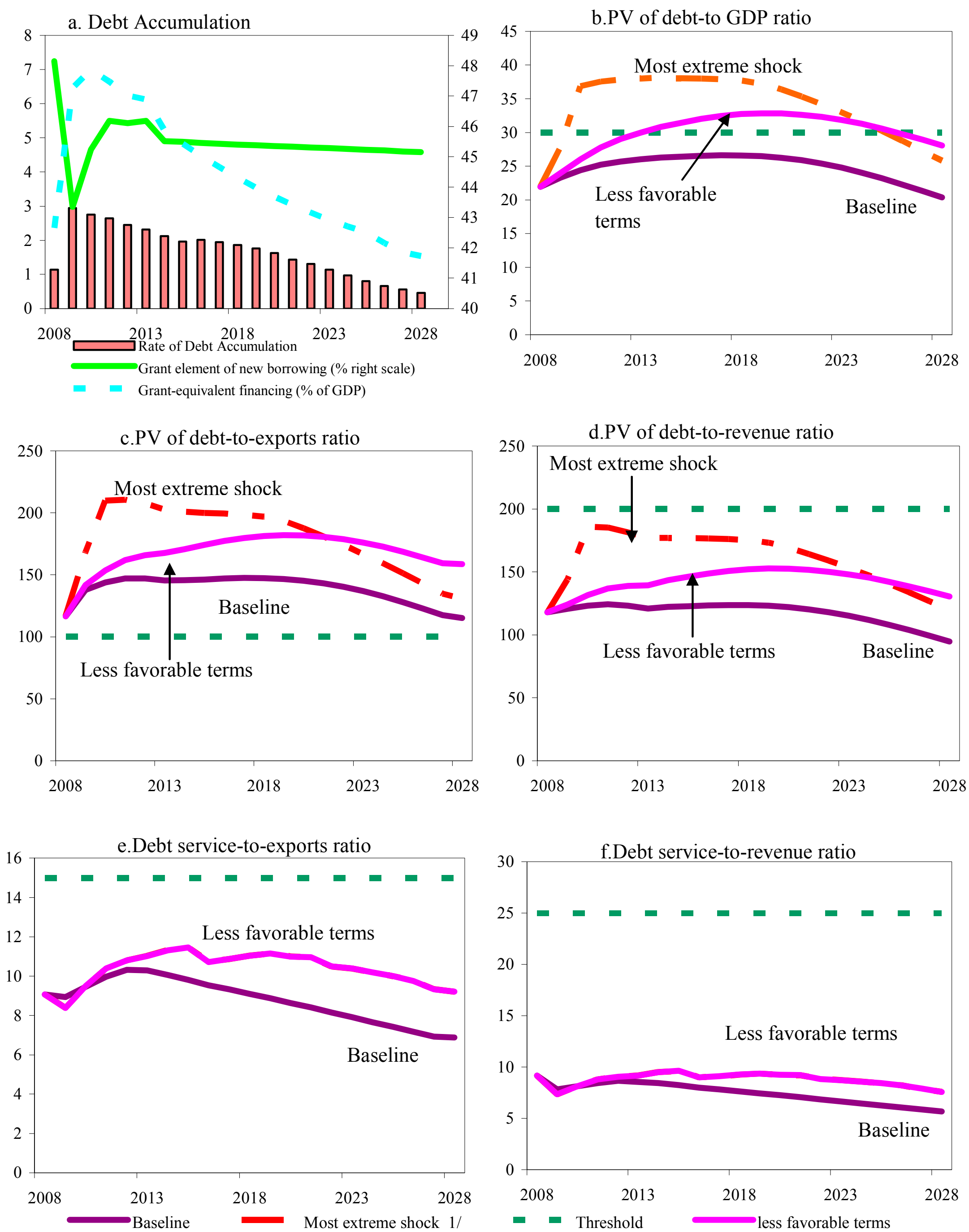
		Projections						
	2008	2009	2010	2011	2012	2013	2018	2028
PV of Debt-to-GDP Ratio								
Baseline	55	55	54	51	48	43	37	31
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	55	54	53	51	48	44	32	21
A2. Primary balance is unchanged from 2008	55	53	50	46	42	37	19	-3
A3. Permanently lower GDP growth 1/	55	55	55	53	50	46	47	61
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2009-2010	55	57	58	56	54	50	48	49
B2. Primary balance is at historical average minus one standard deviations in 2009-2010	55	59	61	59	55	50	44	36
B3. Combination of B1-B2 using one half standard deviation shocks	55	57	59	56	53	49	44	40
B4. One-time 30 percent real depreciation in 2009	55	65	64	60	56	51	44	42
B5. 10 percent of GDP increase in other debt-creating flows in 2009	55	64	63	61	57	52	45	37
PV of Debt-to-Revenue Ratio 2/								
Baseline	281	235	221	210	193	168	157	138
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	281	234	218	207	191	172	135	96
A2. Primary balance is unchanged from 2008	281	228	207	189	168	143	78	-15
A3. Permanently lower GDP growth 1/	281	237	225	216	202	180	195	272
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2009-2010	281	241	236	228	214	192	200	219
B2. Primary balance is at historical average minus one standard deviations in 2009-2010	281	252	252	240	221	196	182	160
B3. Combination of B1-B2 using one half standard deviation shocks	281	245	240	229	213	189	185	179
B4. One-time 30 percent real depreciation in 2009	281	281	262	246	225	198	183	188
B5. 10 percent of GDP increase in other debt-creating flows in 2009	281	276	260	247	228	202	189	166
Debt Service-to-Revenue Ratio 2/								
Baseline	29	24	21	20	19	18	15	13
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	29	24	21	20	18	17	10	7
A2. Primary balance is unchanged from 2008	29	24	21	16	14	11	-1	-14
A3. Permanently lower GDP growth 1/	29	24	21	21	20	19	22	37
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2009-2010	29	24	22	23	23	22	23	28
B2. Primary balance is at historical average minus one standard deviations in 2009-2010	29	24	22	31	29	24	19	18
B3. Combination of B1-B2 using one half standard deviation shocks	29	24	22	26	24	22	20	21
B4. One-time 30 percent real depreciation in 2009	29	26	26	27	27	26	28	30
B5. 10 percent of GDP increase in other debt-creating flows in 2009	29	24	24	43	23	31	19	19

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

1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the length of the projection period.

2/ Revenues are defined inclusive of grants.

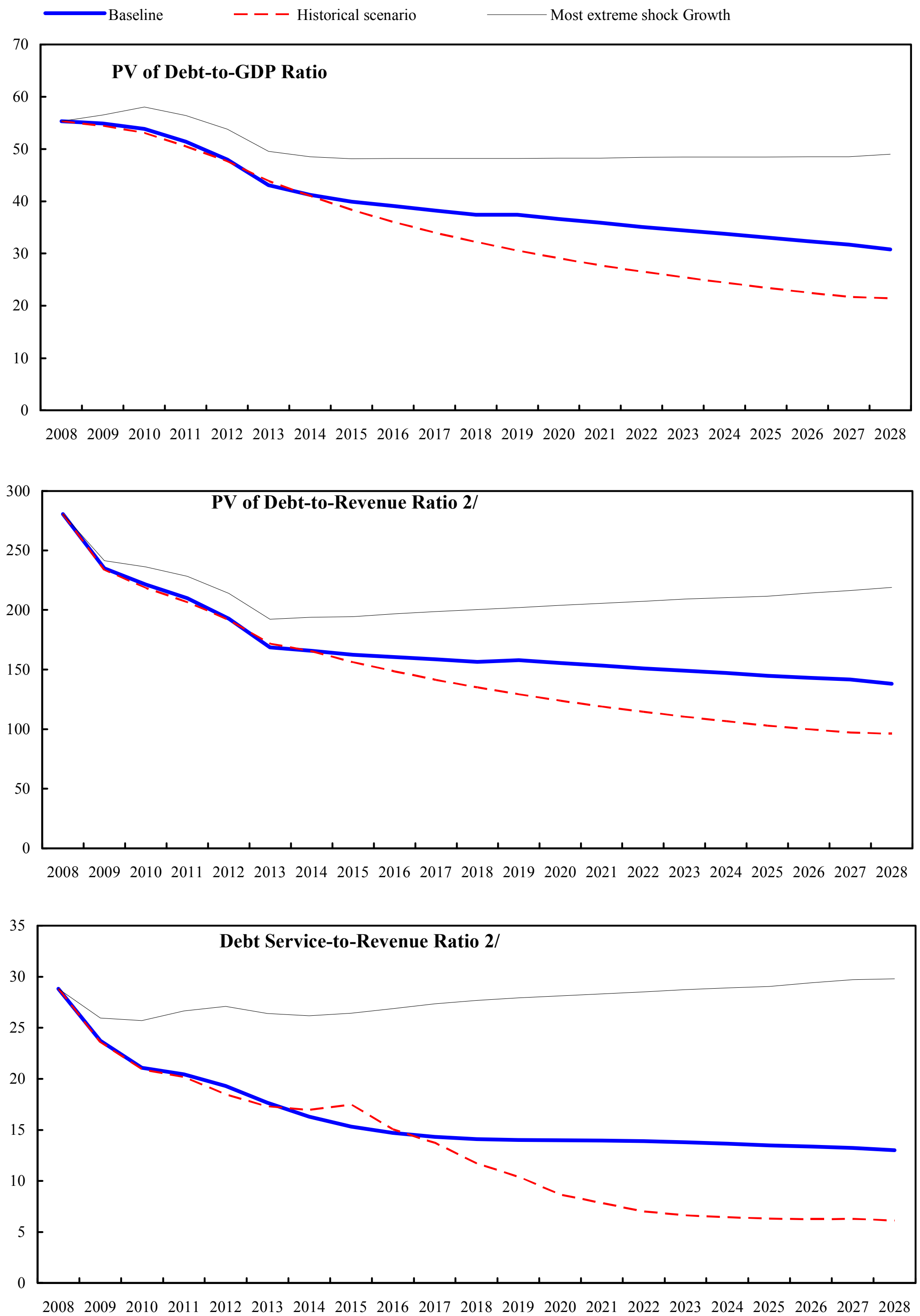
Figure 2. The Gambia: Indicators of Public and Publicly Guaranteed External Debt under Alternative Scenarios, 2008-2028/



Source: Staff projections and simulations.

1/ The most extreme stress test is the test that yields the highest ratio in 2018. In figure b. it corresponds to a Combination shock; in c. to a Non-debt flows shock; in d. to a Combination shock; in e. to a Terms shock and in picture f. to a Terms shock

Figure 3. The Gambia: Indicators of Public Debt Under Alternative Scenario, 2008-2028



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

1/ The most extreme stress test is the test that yields the highest ratio in 2018.

2/ Revenues are defined inclusive of grants.

INTERNATIONAL MONETARY FUND

THE GAMBIA

Fourth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, and Request for a Waiver of Performance Criterion—Informational Annex

Prepared by the African Department
(In consultation with other departments)

Approved by Emilio Sacerdoti and Dominique Desruelle

February 3, 2008

- **Relations with the Fund**. Describes financial and technical assistance from the Fund and provides information on the safeguards assessment and exchange rate system. Outstanding purchases and loans amounted to SDR 6.00 million (19.29 percent of quota) at end-July 2008.
- **Joint Bank-Fund Work Program.** Lists the work program of the Bank and the Fund on The Gambia during August 2008–July 2009.
- **Relations with the African Development Bank**. Describes the African Development Bank Group program and portfolio.
- **Statistical Issues**. Assesses the quality of statistical data. The authorities have made progress in improving the compilation of economic and financial statistics. However, weaknesses in a broad range of economic statistics are hampering the analyses of economic developments in the country.

The Gambia: Relations with the Fund
(As of December 31, 2008)

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	29.62	95.23
Reserve position in Fund	1.48	4.77

SDR Department	SDR Million	% Allocation
Net cumulative allocation	5.12	100.00
Holdings	0.07	1.27

Outstanding Purchases and Loans	SDR Million	% Quota
Poverty Reduction and Growth Facility (PRGF) arrangements	8.00	25.72

Latest Financial Arrangements

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
PRGF	Feb. 21, 2007	Feb. 20, 2010	14.00	8.00
PRGF	Jul. 18, 2002	Jul. 17, 2005	20.22	2.89
PRGF	Jun. 29, 1998	Dec. 31, 2001	20.61	20.61
PRGF	Nov. 23, 1988	Nov. 25, 1991	20.52	18.02

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

	Forthcoming				
	2009	2010	2011	2012	2013
Principal	0	0	0	0.20	1.00
Charges/interest	0.08	0.08	0.08	0.08	0.08
Total	0.08	0.08	0.08	0.28	1.08

[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 (yearend 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	December 19, 2007
Disbursement of IMF assistance (SDR million)	2.29
Assistance disbursed	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	PRGF	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

An update Safeguards Assessment of the Central Bank of The Gambia (CBG) was conducted in November 2006. This update assessment was performed against the backdrop of previous safeguards findings, which identified significant vulnerabilities in the CBG's safeguards framework. While the CBG has instituted a series of control reforms since that assessment, a key challenge looking forward is to build on existing progress to strengthen remaining vulnerabilities in the CBG's safeguards framework, including controls over international reserves and procedures for extending credit to the government. The update assessment, completed in February 10, 2007, recommended certain priority actions to be taken, including semi-annual audits of monetary program data, the implementation of segregation of duties in the reserves management function, a phased implementation of International Financial Reporting Standards, and an action plan to ensure that government borrowing from the CBG is brought within the statutory limits. The CBG is progressively implementing these recommendations.

Exchange rate arrangement

Until January 20, 1986, the Gambian currency, the dalasi, was pegged to the pound sterling at a rate of D5 = £1. On January 20, 1986, an interbank market for foreign exchange was introduced, and since then the exchange rate has been determined by market forces. Effective June 30, 2002, the exchange rate arrangement of The Gambia was reclassified from independently floating to managed float with no preannounced path. As of end–June 2008, the midpoint exchange rate in the interbank market was D20.651 per U.S. dollar. The Gambia has accepted the obligations of Article VIII, Sections 2(a), 3, and 4 and maintains an exchange system that is free of restrictions on the making of payments and transfers for current international transactions. The Gambia maintains exchange restrictions for security reasons, based on UN Security Council Resolutions, that have been notified to the Fund for approval under the procedures set forth in Executive Board Decision No. 144-(52/51).

The Gambia has been part of the exchange rate mechanism of the West African Monetary Zone (WAMZ) since April 2002.

Last Article IV consultation

The Executive Board concluded the 2006 Article IV consultation (Country report 06/444) on October 13, 2006.

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 are the following:

Fiscal Affairs Department

Jul. 2008	Peripatetic regional advisor followed up on the work of the Aug./Sep. 2007 FAD mission.
Aug./Sep. 2007	TA mission assessed all areas of public financial management and provided an action plan to secure the actual implementation of reforms initiated in the recent past.
Sep. 2004–May 2006	Peripatetic regional advisor assisted the authorities in putting the new organic budget law into effect, strengthening public expenditure management, and improving the reporting of budget execution.
Feb./Mar. 2004	Mission worked jointly with the World Bank on the Assessment and Action Plan (AAP).
Apr. 2003	TA advisor reviewed reforms in public expenditure management.
Mar. 2003–Oct. 2003	Long-term resident budget expert helped the authorities to strengthen budgetary expenditure reporting and control.
Dec. 2002	TA advisor advised the authorities on drafting an organic budget bill.
Oct. 2002	TA advisor reviewed reforms in public expenditure management.
Mar. 2002–Oct. 2003	Long-term resident budget expert helped the authorities to strengthen budgetary expenditure reporting and control, initially for a year beginning from March 2002. The assignment was later extended until October 2003.
Nov. 2001–Oct. 2003	Peripatetic advisor assisted the DoSFEA in revenue administration reforms, including customs, implementing a large-taxpayer unit, and establishing a central revenue authority.
Jul. 2001	TA mission assessed the authorities' capacity to track poverty-related spending.
Aug. 2000–Aug. 2001	Long-term resident budget expert assisted the authorities in strengthening budgetary expenditure reporting and control.
Sep. 1999	TA mission assisted the authorities in expenditure management, budget execution issues, cash and debt management, short-term financial planning, fiscal reporting, and information systems.
Jan./Feb. 1996	Joint FAD/United Nations Development Program (UNDP) TA mission helped set up a system for monitoring the financial operations of public enterprises.

Monetary and Capital Markets Department/ Monetary and Financial Systems Department /Monetary and Exchange Affairs Department

Sept. 2007	Mission advised on improving the monetary policy framework and enhancing the effectiveness of monetary, foreign exchange, and debt management operations for the CBG.
Mar./May 2007	Technical expert advised the CBG on banking supervision.
Mar./Apr 2007	Technical expert advised the CBG in strengthening its capacity in internal auditing.
Jan./Feb. 2007	Technical expert advised the CBG on improving monetary operations.
Jul./Aug. 2006	Technical expert advised the CBG on banking supervision.
Jul./Aug. 2006	Mission reviewed progress made in strengthening the CBG's capacity in monetary operations and liquidity forecasting, foreign exchange operations, and foreign reserves management.
Apr./May 2006	Technical expert advised the CBG on banking supervision.
Apr./May 2006	Technical expert advised the CBG on improving monetary operations.
Nov. 2005	Technical expert advised the CBG on improving monetary operations.
Mar. 2005	Follow-up to the October 2004 mission.
Oct. 2004	Advisory mission made recommendations for improving monetary and foreign exchange operations and for reorganizing the central bank.
Jul. 2002	TA diagnostic mission focused on financial supervision and the insurance sector; and helped review the Central Bank Act and draft the Financial Institutions and Insurance Act.
Dec. 2001	TA diagnostic mission focused on strengthening CBG ability to , formulate and implement monetary policy and manage its foreign exchange operations and the financial system.
May 2001	Short-term expert helped the authorities to design operational, prudential, and policy safeguards (including assessing the adequacy of legislation) for introducing foreign-currency-denominated accounts.
Apr. 2001	Short-term expert helped the authorities to set up a book-entry system.

May 2000	Short-term expert helped the authorities to set up a short-term liquidity forecasting system.
Nov. 1999	Short-term expert helped the authorities design operational, prudential, and policy safeguards (including assessing the adequacy of legislation) for introducing foreign-currency-denominated accounts in the banking system.
Aug. 1998	TA mission helped the CBG draft market-based monetary policy instruments and review its program for strengthening banking supervision.
Dec. 1996	Technical expert helped the CBG in foreign exchange operations.
Jan./Feb. 1994	TA mission worked on monetary management and bank supervision.

Statistics Department

Jun. 2008	Fourth visit of the U.K. Department of International Development (DfID)-funded TA mission helped the authorities improve the compilation of national accounts statistics, particularly in rebasing the GDP series and calculation of GDP by expenditure approach, with results from the 2004 Economic Census.
Apr./May 2008	Follow-up of the 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.
Mar. 2008	Third visit of the DfID-funded TA mission helped the authorities improve the compilation of national accounts statistics, particularly in rebasing the GDP series and calculation of GDP by expenditure approach, with results from the 2004 Economic Census.
Oct./Nov. 2007	Second visit of the DfID-funded TA mission helped the authorities improve the compilation of national accounts statistics, particularly in rebasing the GDP series with results from the 2004 Economic Census.
Sep. 2007	The DfID-funded TA mission helped to improve the compilation of balance of payments statistics.
Aug. 2007	The DfID-funded TA mission advised in improving the compilation of national accounts statistics, particularly in rebasing the GDP series with results from the 2004 Economic Census.
Apr./May 2006	TA mission helped to improve the compilation and analytical soundness of monetary and financial statistics.

Feb. 2006	TA mission advised on compilation of balance of payments statistics.
Feb. 2005	Report on the Observance of Standards and Codes (ROSC)—Data Module—mission assessed data quality in four main areas of macroeconomic statistics (national accounts, government finance, monetary, and balance of payments) based on the Fund's Data Quality Assessment Framework (DQAF, July 2003) and The Gambia's dissemination practices against the recommendations of the General Data Dissemination System (GDDS).
2002–04	Peripatetic statistical advisor helped the Central Statistics Department update CPI data and improve the compilation of national accounts statistics.
May 2003	Mission advised on building an integrated database to report monetary statistics for all IMF data submissions.
Aug. 2001	TA mission advised on compilation of monetary and financial statistics.
Sep. 2000	TA mission advised on compilation of balance of payments statistics.
Nov. 1999	Mission reviewed collection of statistics to develop GDDS metadata for The Gambia.
Jun./Jul. 1999	TA mission advised on compilation of balance of payments statistics.
Nov./Dec. 1998	TA mission advised on national accounts statistics.
Others	
Mar./Apr. 2007	A Poverty and Social Impact Analysis (PSIA) mission analyzed the planned reform of the groundnut sector and discussed with the authorities the implications of these reforms.
Apr. 2002–Apr. 2004	A long-term resident macroeconomic advisor was assigned initially for a year beginning from April 2002, and later the assignment was extended by one more year through April 2004.

Resident Representative

Mr. Alex Segura-Ubiergo was appointed the Fund's first Resident Representative to The Gambia in September 2006. He is also the Resident Representative to Senegal.

The Gambia: Joint Bank-Fund Work Program, August 2008-July 2009

Title	Products	Timing of Missions	Expected Delivery Date
A. Mutual Information on Relevant Work Program			
Bank work program in next 12 months	**Economic Management and Public Service Delivery** 1. Capacity Building for Economic Management project (including Integrated Financial Management Information System) 2. Development Policy Operation (budget support) 3. Poverty Assessment (including impact of food/oil price increases) 4. Country Financial Accountability Assessment (CFAA) **Growth and Competitiveness** 1. Investment Climate Assessment	1. Oct./Nov. 2008 2. Oct./Nov. 2008 3. Oct./Nov. 2008	1. Project closes end-2008 2. Target Board date – Dec. 2008/Jan. 2009 3. Draft report – Feb. 2009 4. Final report – Nov. 2008 1. Final report – Nov. 2008
Fund work program in next 12 months	**Policy Advice** 1. Article IV consultation, 3rd PRGF review 2. Fourth PRGF review 3. Fifth PRGF review **Technical Assistance** 1. Public financial management (regional PFM Adviser) 2. Public financial management (expert visits) 3. Balance of payments statistics 4. National accounts statistics	1. May 2008 2. Oct./Nov. 2008 3. May 2009 1. Oct. 2008 and Dec. 2008 2. Nov. 2008 and Mar. 2009 3. Oct. 2008 4. Sep./Oct. 2008	1. Sep. 8, 2008 2. Jan. 2009 3. Jul. 2009 1. Oct. 2008 and Dec. 2008 2. Nov. 2008 and Mar. 2009 3. Oct. 2008 4. Oct. 2008
B. Requests for Work Program Inputs			
Fund request to Bank	Periodic updates on DPO, poverty assessment, CFAA, and ICA		
Bank request to Fund	Periodic updates on macroeconomic framework		
C. Agreement on Joint Products and Missions			
Joint products in next 12 months	1. Debt Sustainability Analysis 2. JSAN (First APR on PRSP II)	1. Oct./Nov. 2008	1. Jan. 2009 2. Jan. 2009

The Gambia: Relations with the African Development Bank

(As of November 10, 2008)

The African Development Bank (AfDB) Group began lending to The Gambia in 1974. As of November 10, 2008, it had approved 54 operations with total commitments (net of cancellations) of UA205.8 million (US$326.4 million) in the following sectors: transport (25 percent); agriculture (21.7 percent); social (24.6 percent); public utilities (12.1 percent); multi-sector (8.8 percent); environment (5.8 percent); and industry (2.0 percent).[3] About 84.8 percent of the Bank Group's net commitments were made from the resources of the African Development Fund (ADF), 8.6 percent from the ADB non-concessional window, and 6.6 percent from the Nigeria Trust Fund (NTF).

As of November 10, 2008, 41 operations had been completed, 2 were cancelled at the government's request, and 11 others continue, including 3 multinational projects, all in agriculture. Implementation of the portfolio is generally satisfactory; it achieved a rating score of 2.01 (on a scale from 0 to 3) during the Bank Group's 2006 portfolio review. The portfolio has a relatively low project-at-risk (PAR) rate of 33.3 percent, which compares well with the Bank-wide average of 45 percent as indicated in the AfDB's 2007 Annual Portfolio Performance Review (APPR). Total disbursement rates for the portfolio are also satisfactory. By November 10, 2008, they were 90 percent (overall), 100 percent (AfDB-financed projects), 91 percent (ADF), and 71 percent (NTF). The disbursement rate for the ongoing portfolio was 62.7 percent as of November 10 2008.

The AfDB is also a major participant in The Gambia's enhanced Heavily Indebted Poor Countries (HIPC) Initiative program, under which it is due to grant debt relief of US$15.8 million in net present value (NPV) terms (23.6 percent of total debt relief under the program). Of this, $6.3 million in end-1999 NPV has been paid as interim relief. Additionally, MDRI relief from the AfDB will yield annual debt service savings (net of HIPC assistance) averaging US$1.6 million over the next 5 years and US$3.9 million over the following 39 years.

The AfDB prepared a Joint Assistance Strategy (JAS) with the World Bank in early 2008 to cover 2008–11. The JAS is based on two main pillars—(1) strengthening the institutional framework for economic management and public service delivery, and (2) enhancing growth and competitiveness and the productive capacity of the economy. The JAS will help support the Government's national priorities through the main channels of budget and project support in the context of growth poles and enhanced service delivery. The strategy was approved at the World Bank in February 2008 and at the AfDB in March 2008. The JAS is anchored to the Gambia's Poverty Reduction Strategy Paper PRSP II (2007–2011) and will be supported

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[3] UA stands for unit of account = 1 SDR (equivalent to about $1.6445 as of March 31, 2008).

by new lending and by the ongoing portfolio, which is summarized in Table 2. Table 1 below describes some of the recent projects in the portfolio:

Table 1. Some Recent Projects in the Portfolio

Objective	Instrument and Amount	Focus
Meet the MDGs	Basic Education Project, UA10.0 million	Increase access to quality education and skills development, particularly for girls and pupils in the poorest areas of the country.
Reduce poverty	Entrepreneurship promotion and microfinance development project UA8.0 million	Enhance entrepreneurial skills and improve capacity and income generation ability by providing microfinance. Focus is poverty reduction.
Implement multi-sector Institutional Support (Approved November 2007; articulated in the JAS)	Institutional Support Project for Economic Management and Financial Governance, grant of UA1.4 million	Strengthen capacity of departments and institutions involved in preparing and implementing the PRSP. Extend support to institutions dealing in economic governance, including the new Directorate of Central Project Management and Aid Coordination in the Department of State for Finance and Economic Affairs (DOSFEA), National Audit Office (NAO), and SPACO.

Under ADF–10 and ADF–11, The Gambia is a grants-only recipient. Additional resources can be made available if there is improvement in both performance under the Country Policy Institutional Assessment (CPIA) and portfolio performance.

The AfDB's strategy is implemented through both lending and non-lending activities. Lending activities will comprise project finance and budget support. Non-lending intervention is designed to strengthen policy dialogue between the government and stakeholders and focuses mainly on studies, funded through grants, to improve governance, mainstream gender, enhance efficiency of infrastructure, and improve the energy supply. The AfDB prepared a Governance Profile for The Gambia in 2007 and has recently collaborated with the World Bank and the U.K. Department for International Development (DfID) in the preparation of a study on Civil Service Reform. A Gender Profile is planned for 2009.

Table 2. Ongoing Portfolio as of November 10, 2008

Sector/Project	Approval Date	Completion Date	Remarks	Financing Source	Amount Approved (UA million)	Disbursements (UA million)	%
Agriculture							
1. Participatory. Integrated Watershed Management.	09/06/04	31/12/11		NTF Loan	4.95	3.39	68
2. Artisanal Fisheries Development	17/05/00	30/06/09		NTF Loan	2.90	1.90	65.5
3. NERICA Rice Dissemination- Gambia (multinational)	26/09/03	31/12/10		ADF Loan	1.56	0.79	50.3
4. Farmer Managed Rice Irrigation Project	26/04/05	30/04/11		ADF Loan	5.00	2.24	44.8
				ADF Grant	0.50	0.25	50
5. Invasive Aquatic Weeds-Gambia (multinational)	22/09/04	31/12/11		ADF Loan	0.31	0.092	29.6
Total Agriculture					15.22	**8.66**	**56.9**
Social Sector							
6. Basic Education III	11/09/02	30/06/09		ADF Loan	10.00	8.54	85.4
7. Health Services Development Project	10/12/97	31/12/08		ADF Loan	7.00	6.46	92.2
8. Community Skills Development Project	16/02/00	31/12/08		ADF Loan	4.44	3.94	88.7
				ADF Grant	1.45	1.27	87.7
9. Entrepreneurship Promotion and Microfinance Development Project	15/11/06	31/12/12		ADF Grant	8.0	0.67	8.4
Total Social Sector					**30.89**	**20.88**	**67.6**
Multi-sector							
10. Institutional Support Project for Economic and Financial Governance	21/11/07	31/12/10		ADF Grant	1.4	0.23	16.5
Total Multi-sector					**1.4**	**0.23**	**16.5**
Total Ongoing Portfolio					**47.51**	**29.77**	**62.7**

Sector	Net Amount Approved (UA Million)	Percentage Share (%)
Agriculture	15.22	32.0
Social Sector	30.89	65.0
Multi-sector	1.40	03.0
Total	**47.51**	**100%**

The Gambia: Statistical Issues

Data provision has some shortcomings, but is broadly adequate for surveillance. While the authorities have made some progress in improving the compilation of economic and financial statistics, substantial shortcomings remain in national accounts, balance of payments, and external debt statistics. Data reporting to the Fund is somewhat irregular. The country participates in the General Data Dissemination System (GDDS), with its metadata last updated in the second half of 2003.

The National Assembly passed a new Statistics Act in December 2005 and work began in June 2006 to implement the plan for transforming the Central Statistics Department (CSD) into The Gambia Bureau of Statistics (GBoS). A Statistics Council and a Statistician General have already been appointed and efforts are ongoing to fully staff the GBoS. A mission visited Banjul in February 2005 to prepare a data ROSC, which was published by the Fund in November 2005.

Real sector

The main constraints to improving national accounts include inadequate source data due to low response rates of surveys (manufacturing, trade, and business services industries), as well as poor quality of external data and inattention to other important sources (such as the household budget survey, livestock census, and census of industrial production). The GBoS continues to face human and financial constraints to undertake such surveys and process the data.

STA missions on national accounts in 2007 and March 2008 assisted the GBoS to implement the *1993 System of National Accounts* methodology and rebase the national accounts to properly reflect the country's output levels, economic structure and relative prices. In this context, STA missions have helped the authorities: (1) process the data collected for the 2004 Economic Census; (2) rebase the GDP series using the results of the 2004 Economic Census; and (3) improve the GDP estimates by the production approach and begin compiling GDP series by the expenditure approach. The authorities now have a preliminary revised nominal GDP series compiled by the production approach for the period 2000–07 (with a base year of 2004). GDP series by the expenditure approach are still under review. In May 2007, the country began participating in the second phase of the GDDG Project for Anglophone Africa on national accounts, which is funded by the U.K. Department for International Development (DfID).

The World Bank has been providing technical assistance to the GBoS to update the consumer price index (CPI) using the 2003 household expenditure survey to better reflect current consumption patterns. The GBoS began to publish in early 2007 a new national CPI with representative expenditure basket as of August 2004.

Government finance

The authorities release data on central government transactions with a lag of about four weeks for both revenue and expenditure. The central government accounts for 1991–99 were not audited until 2005. Inadequacies persist in compiling data on an economic basis and in tracking foreign-financed expenditure. Monthly data on domestic government financing are available with a delay of six to eight weeks. At a meeting with STA in October 2007, the authorities expressed interest in technical assistance to facilitate the migration to *GFSM2001*. No data are being reported for publication in the *Government Finance Statistics Yearbook* or in the *IFS*.

Monetary data

The Central Bank of The Gambia (CBG) has improved data reporting to the Fund, but sometimes the reports are delayed. An April–May 2006 STA mission recommended: expanding the coverage of depository corporations to include credit unions; including accrued interest in the value of financial instruments; and compiling a financial survey given the significant influence of the Social Security and Housing Finance Corporation in monetary developments. To improve the accuracy and classification of government accounts, the mission designed a supplementary form for reporting government positions at the CBG, to be reported to the IMF monthly. It also assisted the CBG in the introduction of standardized report forms (SRFs). A follow-up mission in April/May 2008 made further progress on the SRFs for reporting data on the central bank and other depository corporations to STA and establishing an integrated monetary database, which would generate alternative outputs for use by the CBG, STA, and AFR. The authorities have now prepared a preliminary set of SRFs.

External sector statistics

Despite recent improvements, balance of payments statistics continue to be affected by shortcomings. These include long delays in the collection of trade, customs, and tourist arrival data; crude methods of estimating 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 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.

The CBG produces balance of payments statistics according to the *Balance of Payments Manual*, 5th edition *(BPM5)*. These statistics are published in *International Financial Statistics (IFS)* and in the 2007 IMF *Balance of Payments Statistics Yearbook (BOPSY 2007*). 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 first quarter of 2008.

With DfID assistance the CBG conducted an enterprise survey in March 2006 to collect data for the international investment position. In April 2006, the CBG also initiated a survey funded by the World Bank to collect data on selected components of the current account.

The Gambia: Table of Common Indicators Required for Surveillance

(As of February 3, 2009)

	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of Publication[6]	Memo Items: Data Quality Methodological Soundness[7]	Memo Items: Data Quality Accuracy and Reliability[8]
Exchange rates	12/31/08	01/12/09	M	M	M		
International reserve assets and reserve liabilities of the monetary authorities[1]	12/31/08	01/12/09	M	M	A		
Reserve/base money	12/31/08	01/12/09	M	M	M	LO, LO, LO, LO	LNO, LO, O, LO, LNO
Broad money	Nov. 2008	12/30/08	M	M	M		
Central Bank balance sheet	Dec. 2008	01/12/09	M	M	M		
Consolidated balance sheet of the banking system	Nov. 2008	12/30/08	M	M	M		
Interest rates[2]	12/31/08	01/12/09	W	W	W		
Consumer Price Index	Nov. 2008	12/31/08	M	M	M		
Revenue, expenditure, balance, and composition of financing[3] – general government[4]						LO, LO, O, O	LNO, LO, LO, LNO, NO
Revenue, expenditure, balance, and composition of financing[3] – central government	Nov. 2008	01/22/09	M	M	A		
Central government and central government–guaranteed debt[5]							
External current account balance	Sept. 2008	12/18/08	A	A	A	LNO, LNO, LNO, LO	LNO, LNO, LNO, LO, NO
Exports and imports of goods and services	Sept. 2008	12/18/08	A	A	A		
GDP/GNP	2007	05/11/08	A	A	A	LNO, LNO, O, LO	LNO, O, LNO, LO, NO
Gross external debt	Dec. 2007	05/18/08	M	Q	A		

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[2] Both market-based and officially determined, including discount rates, money market rates, and 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, extrabudgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Daily (D), weekly (W), monthly (M), quarterly (Q), annually (A); irregular (I); not available (NA).
[7] Reflects the assessment provided in the data ROSC published on November 8, 2005, and based on the findings of the mission in February 2005. For the dataset corresponding to the variable in each row, the assessment indicates whether international standards concerning (respectively) concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O), largely observed (LO), largely not observed (LNO), or not observed (NO).
[8] Same as footnote 7, except referring to international standards concerning (respectively) source data, assessment and validation of source data, statistical techniques, assessment and validation of intermediate data and statistical outputs, and revision studies..

INTERNATIONAL MONETARY FUND
EXTERNAL RELATIONS DEPARTMENT

Press Release No. 09/42
FOR IMMEDIATE RELEASE
February 18, 2009

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Fourth Review Under PRGF Arrangement for The Gambia and Approves US$9.2 Million Augmentation and US$7.5 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) has completed the fourth review of The Gambia's economic performance under a three-year Poverty Reduction and Growth Facility (PRGF) arrangement, and approved an increase in financial assistance under the arrangement in an amount equivalent to SDR 6.215 million (about US$ 9.2 million) to help mitigate the impact of the global slowdown.

The completion of the review allows for the immediate disbursement of an amount equivalent to SDR 5.11 million (about US$7.5 million)—including SDR 3.11 million (about US$4.6 million) from the augmented amount, bringing total disbursements under the arrangement to SDR 13.11 million (about US$19.3 million).

The Executive Board also approved the authorities' request to waive the nonobservance of the fiscal basic balance performance criterion, and to modify quantitative performance criteria for end-March 2009.

The PRGF arrangement for The Gambia was approved on February 21, 2007 (see Press Release No. 07/28) for an amount of SDR 14 million (about US$20.7 million).

Following the Executive Board's discussion, Mr. Murilo Portugal, Deputy Managing Director and Acting Chair, said:

"The Gambian authorities are to be commended for the satisfactory implementation of their PRGF-supported program and their commitment to prudent economic policies, which have contributed to robust growth and moderate inflation. Nevertheless, The Gambia has not been spared from the effects of the global economic crisis, with international reserves declining and the current account deficit widening as a result primarily of reduced income from tourism and remittances.

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

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

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

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

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

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

Introduction

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

Recent economic developments

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

Program performance

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

Objectives and policies going forward

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

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

Fiscal policy

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

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

Monetary policy and financial sector reform

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

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

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

Exchange rate policy

10. The exchange rate of the dalasi remains market-determined. However, interventions in the foreign exchange market will continue, mainly to prevent undue exchange rate volatility.

Structural reforms

11. The authorities recognize and remain committed to resolving a number of challenges to sustain high growth. These challenges include restoring The Gambia's competitive advantage as a regional hub through continued modernization of the port, customs, and river and road transport; diversifying the economy; and improving the business and investment climate. In this regard, the authorities are committed to implementing the recent recommendations of *"A Diagnostic Trade Integration Study (DTIS)"* to make The Gambia an attractive regional hub.

12. The authorities remain committed to reducing poverty significantly. In this regard, they have designed and are implementing a second Poverty Reduction Strategy Paper (PRSP II) spanning the period 2007-2011. The PRSP II provides the framework for poverty reduction and a path for meeting MDGs by 2015 by focusing on five pillars: (i) creating an enabling environment for rapid and sustainable economic growth; (ii) enhancing the capacity and output of productive sectors; (iii) improving the coverage of basic social services and social protection for the poor and vulnerable; (iv) enhancing governance systems and building the capacity of local communities and civil society organizations to play an active role in economic growth and poverty reduction; and (v) mainstreaming cross-cutting development issues, including gender and the environment. In addition, the authorities are reviewing the existing Investment Promotion Act and related tax legislations to boost business and investor confidence in the economy. Furthermore, they are intensifying economic diversification into the areas of tourism, agriculture, fishing, and agro-industry, and facilitating private sector-led growth of new high-value agricultural exports.

Conclusion

13. The Gambian authorities are committed to maintaining macroeconomic and financial stability, sustaining high real GDP growth, and attaining MDGs by implementing the PRSP II. Because The Gambian economy has been hit by an exogenous revenue shock, the authorities request for a waiver of the nonobservance of the fiscal basic balance target. Reflecting the impact of the global economic slowdown and financial crisis, they are requesting for modification of three performance criteria for end-March 2009. Because the Gambian economy has been buffeted by the current sharp global economic slowdown and financial crisis, there exists a balance of payments financing gap for which the authorities request augmentation of access under the PRGF.