MEDIUM-TERM DEBT MANAGEMENT STRATEGY (2020-2024)

Prepared by the Directorate of Loans and Debt Management of the Ministry of Finance and Economic Affairs in fulfillment of Section VI Sub-Section 38 of the Public Finance Act, (2014)

OCTOBER 2020

TABLE OF CONTENTS

List of Table

List of figures

ACRONYMS AND ABBREVIATIONS

LIST OF CREDITORS

ADFD	Abu Dhabi Fund for Development
AfDB	African Development Bank
BADEA	Arab Bank for Economic Development in Africa
EBID	ECOWAS Bank for International Development
EIBI	Export Import Bank of India
EIBC	Export Import Bank of China
IDA	International Development Association
IsDB	Islamic Development Bank
IFAD	International Fund for Agricultural Development
IMF	International Monetary Fund
KFAED	Kuwait Fund for Arab Economic Development
OFID	OPEC Fund for International Development
SFD	Saudi Fund for Development
WB	World Bank

CURRENCIES

CNY	Chinese Yuan
EUR	Euro
GBP	Great Britain Pound
GMD	Gambian Dalasis
JPY	Japanese Yen
KWD	Kuwait Dinar
SAR	Saudi Arabia Riyal
SDR	Special Drawing Rights
USD	United States Dollar

OTHERS

CBG	Central Bank of the Gambia
DLDM	Directorate of Loans and Debt Management
DOD	Disbursed Outstanding Debt
GDP	Gross Domestic Product

MTEFF	Medium Term Economic Fiscal Framework
MoFEA	Ministry of Finance and Economic Affairs
NAWEC	National Water and Electricity Company
NDP	National Development Plan
RCF	Rapid Credit Facility
SAS	Sukuk-Al-Salam
SOE	State Owned Enterprise

Introduction

In accordance with Section VI Sub-Section 38 of the Public Finance Act, (2014) for the Medium Term Debt Management Strategy (MTDS), the Ministry of Finance and Economic Affairs (MoFEA) through the Directorate of Loans and Debt Management (DLDM) updated the MTDS with support of the West African Institute for Financial and Economic Management (WAIFEM).

The exercise brought together the Medium Term Debt Strategy team comprising of all the relevant stakeholders including key directorates within the MoFEA, Central Bank of the Gambia (CBG), Gambia Revenue Authority (GRA), and the Gambia Bureau of Statistics (GBoS), and WAIFEM provided technical support.

The purpose of the MTDS review is to guide the designing and implementation of a debt management strategy that would help government to raise the required financing needs at the lowest possible cost, consistent with a prudent degree of risk and promotes domestic debt market development.

Given the unsustainability of the public debt in recent past which could have persisted for sometimes, the government of the Gambia engaged most of its external creditors to secure a debt restructuring program, which is near completion. The review of the MTDS strategy could not have come at a better time, as it would help in providing a debt strategy that would keep the public debt to be optimally cost effective with a prudent degree of risk.

MTDS (2020-2024) identifies four different financing strategies supported by the latest World Bank/IMF Medium Term Debt Management Strategy (MTDS) Analytical Tool. These alternative strategies were assessed on the basis of cost/risk trade-off and the support they provided to the secondary debt management objectives.

Objective and Scope

The Public Debt Management objective of the Government of the Gambia is outlined in the 2014 Public Finance Act. Its primary objective is to ensure government’s financing needs are met with the least cost possible, consistent with a prudent degree of risk. Its secondary objective is to promote domestic debt market development to spur economic growth and development, and to provide efficient debt management processes to mitigate operational and portfolio risks.

The MTDS (2020-2024) review covers a five-year horizon which is premised on the Medium Term Macroeconomic Fiscal Framework (MTFF) from the year 2020 through 2024.

The scope of debt coverage for the MTDS (2020-2024) includes Public and Publicly Guaranteed Debt of the Government. These include debt of the Central Government from both external and domestic sources, and guarantees provided.

Overview of Macroeconomic Developments

Global Economic Developments and Impact on Domestic Economy

Since the last update of the World Economic Outlook (WEO) from the International Monetary Fund (IMF) in January 2020, a global pandemic has surfaced dampening initially optimistic estimates of global growth to levels far worse than those witnessed during the 2008 global financial crisis. Due to the coronavirus pandemic, global growth for 2020 has been revised from 3.3 percent initially estimated in the January WEO, to -3.0 percent in the April, then further revised downwards to -4.9 percent in June.

As in other regions, Sub-Saharan Africa has also been adversely affected by the COVID-19 pandemic. Growth in the region is estimated to contract by -3.2 percent due to growing uncertainties, rapidly falling commodity prices and tightened fiscal space due to declining revenues and increased expenditure in the health sector. Growth in the region is projected to bounce back to 3.4 percent in 2021.

Global oil prices were also significantly impacted by the coronavirus. Containment measures directly hit the transportation sector which accounts for more than 60 percent of oil demand, which in addition to a breakdown in the OPEC+ coalition, resulted in the worst price drop in the oil market since 1991, from US$57.6 in February to US$32.30 in March. As domestic fuel prices are partly determined by international prices, the global decline has been reflected in a decrease in domestic pump prices. From January – June, domestic pump prices have declined by 25 percent, 23 percent and 44 percent for PMS, AGO and Kero respectively. Lower domestic demand for oil due to travel restrictions has also led to a decline in the imports of oil volumes which has impacted tax revenue collections from oil.

Groundnut prices on the international market project a positive outlook, increasing from US$1410/MT in 2019 to US$1434/MT in 2020, which will translate into an increase in the price of domestic groundnuts, increasing the revenues of rural farmers.

Domestic Economy

Following the transition to a new Government in 2017, The Gambian economy has continued to perform relatively well. However, due to a negative growth rate in the agricultural sector in 2019, which was as a result of delayed rainfall and lower crop productivity, real GDP growth declined to 6.2 percent, from 7 percent in 2018.

Table 1: GDP growth rate

GDP at constant prices	2017	2018	2019
GDP Growth Rate	**4.8%**	**7.0%**	**6.2%**
Agriculture	**-4.4%**	**3.7%**	**-1.3%**
Crops	-18.5%	-2.8%	-16.7%
Livestock	-10.9%	-5.6%	-1.7%
Foresty	-11.6%	-18.2%	-24.3%
Fishing	34.4%	19.6%	18.4%
Industry	**-3.5%**	**2.0%**	**14.3%**
Mining and Quarrying	4.9%	14.9%	22.5%
Manufacturing	-7.9%	-1.2%	0.0%
Electricity	-7.4%	13.4%	23.5%
Water	-2.4%	0.4%	7.9%
Construction	-1.4%	2.0%	19.9%
Services	**11.7%**	**9.8%**	**6.8%**
Wholesale and retail trade	17.0%	12.3%	3.4%
Transport and storage	8.9%	10.3%	7.6%
Hotels and restaurants	-1.1%	18.7%	16.9%
Communication	27.9%	11.1%	10.9%
Finance and Insurance	1.1%	12.9%	7.0%

Source: *GBoS*

The agriculture sector continues to experience hurdles in returning to the good historic performance the sector had enjoyed in the past due to the effects of climate change. The sector contracted by -1.3 percent in 2019 compared to a growth of 3.7 percent in 2018 due to a significant decline in crop productivity. The industry sector was a major force of growth in 2019, registering a growth of 14.3 percent compared to 2.0 percent in the preceding year, driven by the impressive performance in its sub-sectors. Growth in the service sector declined from 9.8 percent in 2018 to 6.8 percent in 2019 due to a lower performance in all its sub-sectors. The sector however, avoided the devastating impact of the Thomas Cook Collapse. In September 2019, the airline which accounted for 40 percent of tourist arrivals in the country went bankrupt. However, the prompt and prudent response from the Government and tour operators within the industry mitigated the worst-case scenario in the sector and resulted in 2019 being the best year for tourist arrivals in the country.

Fiscal Sector

Revenue and grants outturn in 2019 recorded a performance rate of 65.8 percent (D16.6 billion) against the budget (D25.3 billion). The underperformance rate of 34.2 percent during the fiscal year was as a result of the lower than expected disbursement of grants. Domestic revenue mobilization in 2019 reached 99.2 percent of the budgeted D11.89 billion, which was as a result of good performance in most sub-components of tax revenue. Nontax revenues performed better than budgeted due to the increase in Government administrative service fees/rates and the consolidation of government revenue accounts. Grants significantly underperformed, with D4.8 billion received in 2019, against a budgeted amount of D13.4 billion.

Table 2: Revenue Performance 2019 (in millions of GMD)

	Budget	Actual Outturn	Variance	Performance rate
Total Revenue	**25,285**	**16,635**	**8649.40**	**65.79**
Domestic Revenue	11,892	11,802	90.60	99.24
Tax Revenue	10,412	9,954.4	457.60	95.61
Nontax Revenue	1,460	1,847	-387.00	126.51
Grants	**13,392**	**4,833**	**8,559**	**36.09**

Source: *MPAU*

Budget execution for the fiscal year 2019 suggested that all major expenditure items have remained within the approved budget ceilings, signalling the emphasis of MoFEA on fiscal consolidation and ensuring the budget is executed as approved by National Assembly. However, capital expenditure registered the lowest budget execution rate of 56 percent, suggesting a low prioritization in budget expenditure on capital development.

Table 3: Expenditure Performance 2019 (in millions of GMD)

Budget Class	Approved Budget	Actual Outturn	Variance	% of Approved Budget Spent
Total Expenditure	**17,099**	**15,129**	**1,969**	**88%**
Personnel Emoluments	4,219	3,957	262	94%

Other Recurrent	4,257	4,213	44	99%
Subventions to Public Corp.	2,422	2,188	234	90%
Debt Service	4,789	3,984	806	83%
Capital Development	1,411	787	625	56%

Source: *MPAU*

Monetary Sector

Inflationary pressures remain soft reflecting weak domestic demand, low global oil prices, and stable exchange rate. Headline inflation declined to 4.8 percent in July 2020 from 7.3 percent in July 2019, driven largely by the deceleration in both food and non-food inflation. However, inflation accelerated in August 2020 to 5.4 percent, above the medium-term objective of 5 percent. Monetary policy remains accommodative in the wake of weak aggregate demand and subdued inflation. In the May 2020 Monetary Policy Committee (MPC) meeting, the policy rate was reduced by 200 basis points to 10.0 percent. The Committee also reduced the statutory required reserves by 200 basis points to 13 percent. These decisions were made to help stimulate economic activities through access to credit by the private sector to enhance spending and investment.

As at end September 2020, the weekly average interest rates across all Treasury bill profiles declined. The 91-day, 182-day, and 364-day Treasury bills, which stood at 2.91 percent, 6.32 percent and 7.96 percent, respectively, as at end September 2019 declined to 1.46 percent, 3.30 percent and 6.34 percent, respectively, as at end September 2020. Similarly, yields on Sukuk Al Salam bills decreased on average across all profiles in September 2020 compared to a year earlier. The interbank lending rate also declined as banks lend to one another at the 3 months Treasury bills rate.

The exchange rate of the Gambian Dalasi remains stable, supported by the higher-than-expected increase in private remittances and the steady inflow of official transfers. From January to August 2020, the dalasi depreciated against the US dollar by 0.8 percent, the Great Britain Pound by 1.2 percent and Euro by 6.5 percent. The volume of foreign currency transactions in the 12-months to end-August 2020 totalled US$ 2.16 billion compared to US$2.10 billion in the same period last year. From January to July 2020, remittances inflows totalled US$307.0 million, higher than US$194.76 million recorded in the same period in 2019.

External Sector

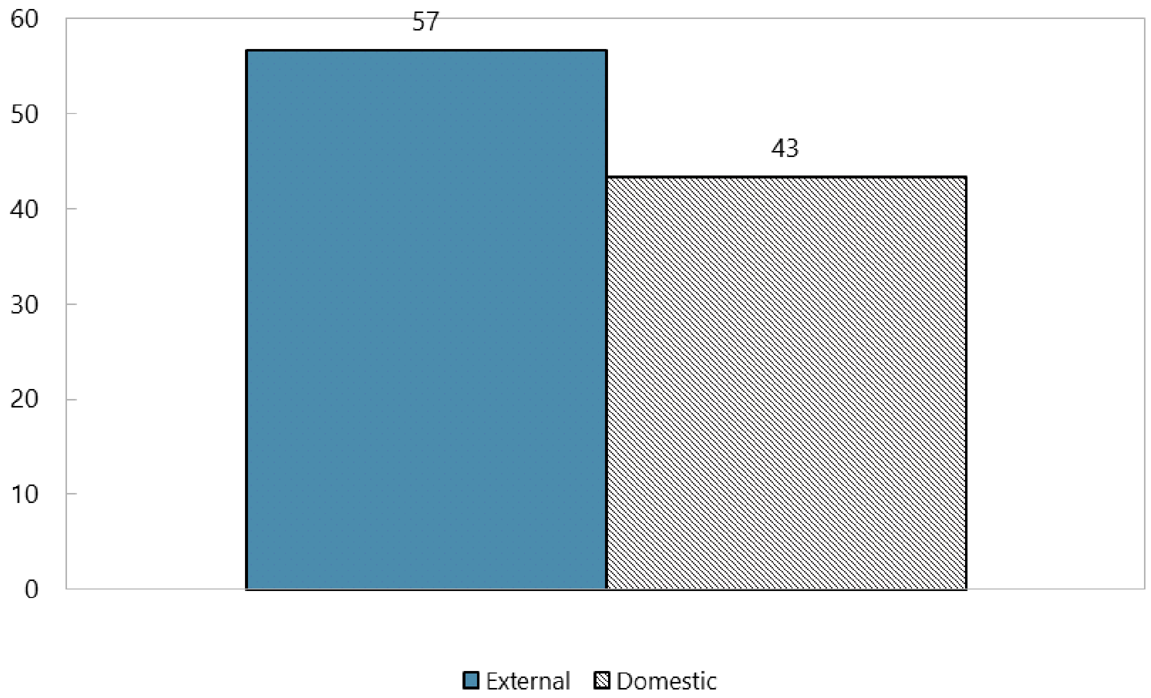
Preliminary Balance of Payments (BoP) estimates indicated that the current account deteriorated from a deficit of US$23.89 million (1.4 percent of GDP) as at end June 2019, to a deficit of US$62.91 million (3.5 percent of GDP) in the same period of 2020. This was as a result of the worsened position in the goods and service accounts. Gross international reserves stood at US$304.3 million as at end-August 2020, equivalent to over 5 months of next year's imports of goods and services.

Review of Debt Performance

Public Debt Portfolio

Total Public and Publicly Guaranteed (PPG) debt stock as at end 2019 stood at US$1.44 billion (equivalent to GMD73.48 billion) of which external debt constitute 56.7 percent and 43.3 percent is domestic debt. The nominal debt as percentage of GDP decreased from 89.1 percent as at end 2018 to 80.1 percent as at end period 2019.

Figure 1: Total Public Debt (external and domestic) as at end of 2019 (percent)



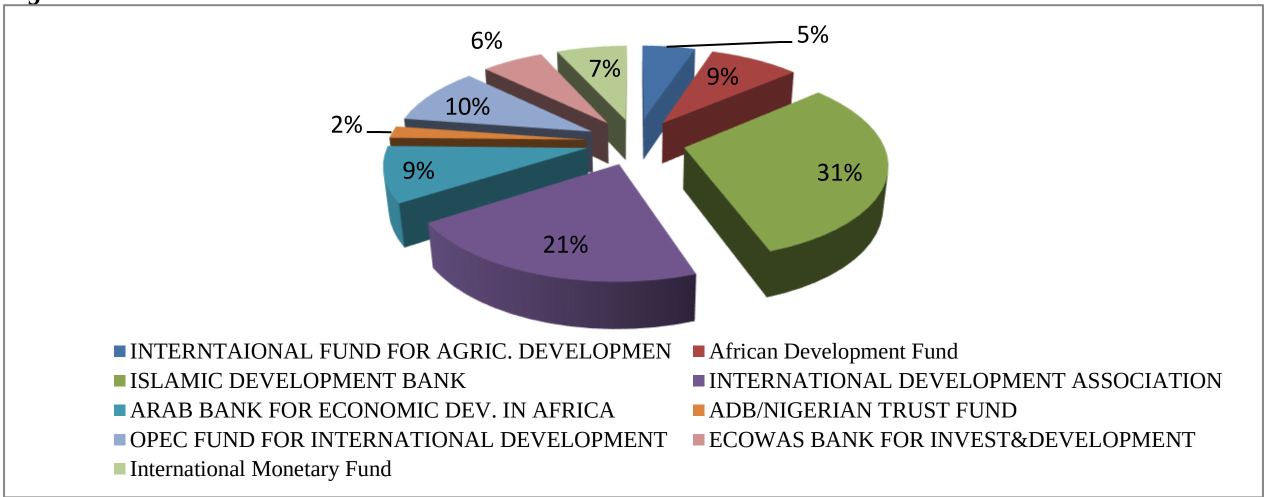
External Debt Stock

The Gambia's outstanding external debt as of end 2019 increased to US$814.8 million (45.4 percent of GDP) from to US$756.1 million (49.4 percent of GDP) in 2018. Public external debt constituted 56.7 percent of the total public debt in 2019 compared to 55 percent in 2018, reflecting the previous debt strategy implemented by the Government. Moving forward, the external debt profile will be driven by an external borrowing plan, which, under The Gambia's current ECF arrangement with the IMF, prevents The Gambia from contracting any non-concessional debt and sets limits on external public debt contracted or guaranteed each year between 2020–23.

External Debt Stock by Creditor Category

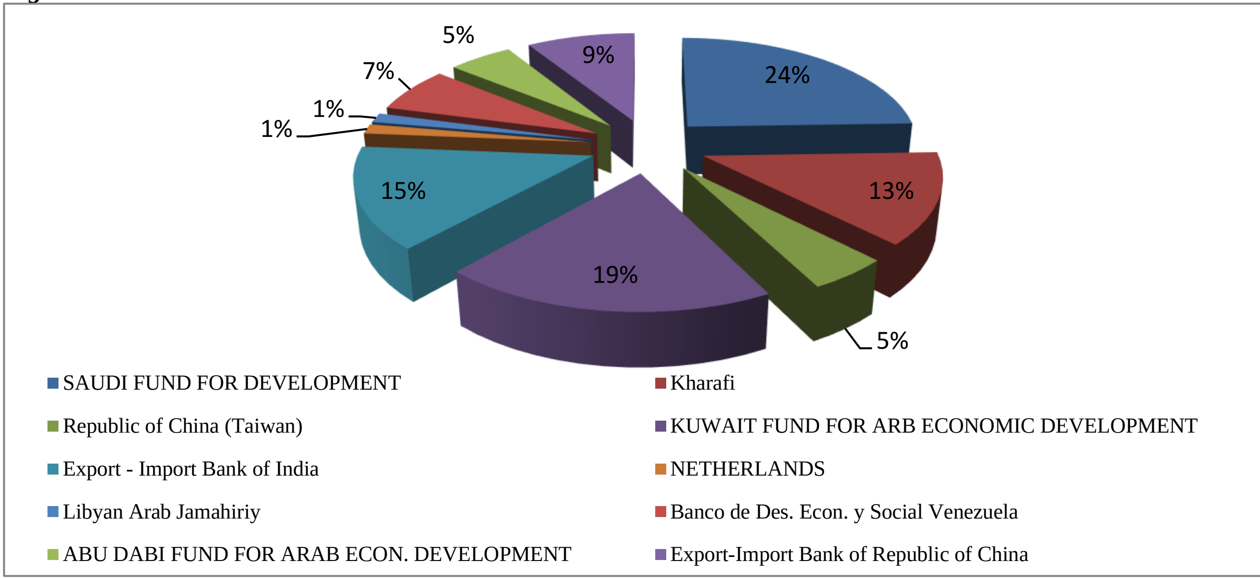
The external debt stock mainly comprises debt from multilateral creditors, which accounted for 65.3 percent of the total external debt portfolio (*figure 2*). The Islamic Development Bank is the leading multilateral creditor to The Gambia followed by International Development Association. Bilateral creditors account for the remaining 34.7 percent of the portfolio, of which Saudi Fund for Development is the leading creditor followed by Kuwaiti Fund for Arab Economic Development (*figure 3*).

Figure 2: Multilateral Creditors



Source: DLDM

Figure 3: Bilateral Creditors

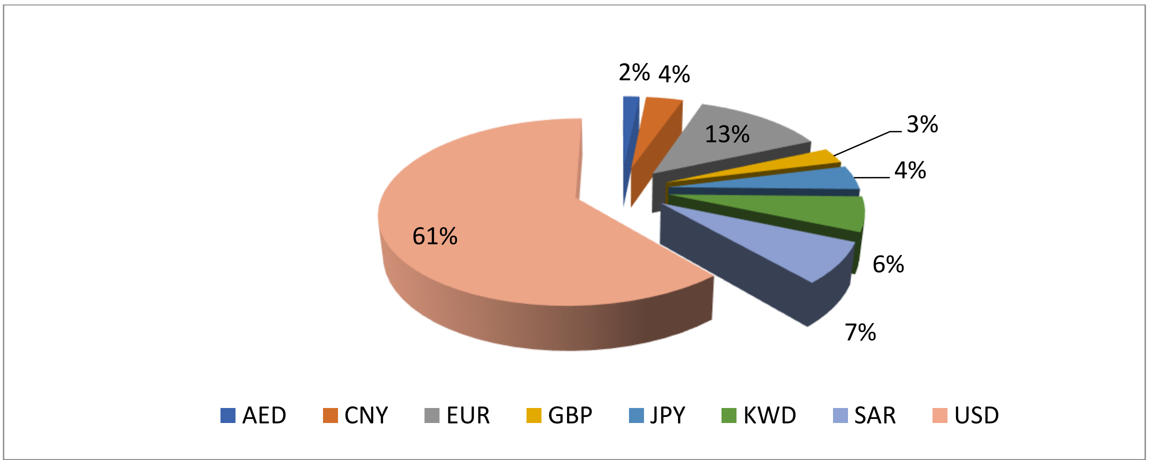


Source: DLDM

Currency Composition of External Debt

Most of the external debt stock is exposed to the USD, which accounts for 61 percent of the currency exposure. (*figure 4*).

Figure 4: Currency composition of external debt

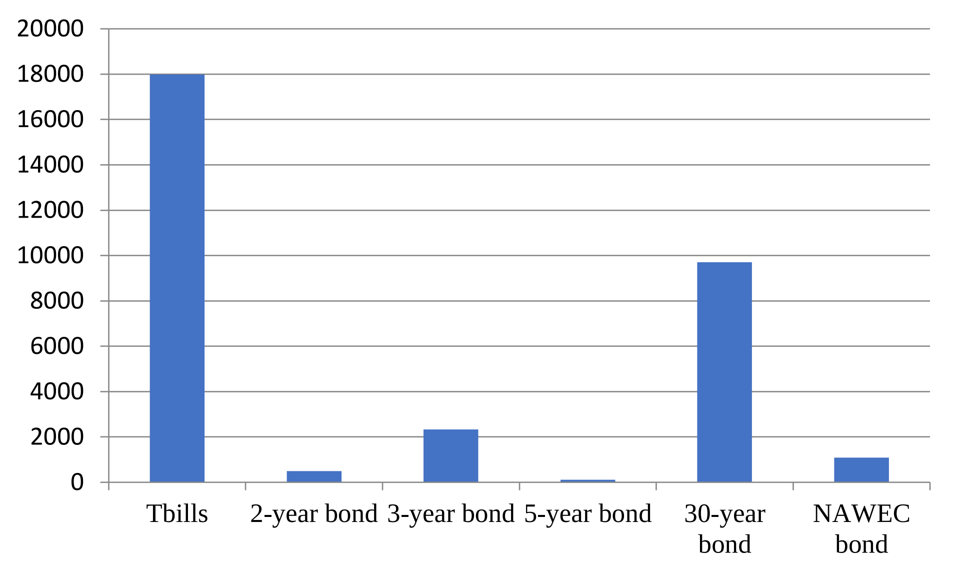


Source: *DLDM*

Domestic Debt Stock

The stock of outstanding domestic debt increased from GMD29.9 billion (39.7 percent of GDP) in 2018 to GMD31.8 billion (34.7 percent of GDP) in 2019. The marketable debt instruments in the domestic debt portfolio are Treasury bills, Sukuk-Al Salaam, 2-year, 3-year and 5-year bonds. The T-bills and Sukuk-Al Salaam accounts for 56.1 percent and 2.4 percent of the domestic debt stock, respectively. The 30-year bond and the NAWEC bond are two non-marketable debt instruments in the domestic debt portfolio (*figure 5*).

Figure 5: Domestic Debt stock by instrument as at end 2019 (in millions of GMD)

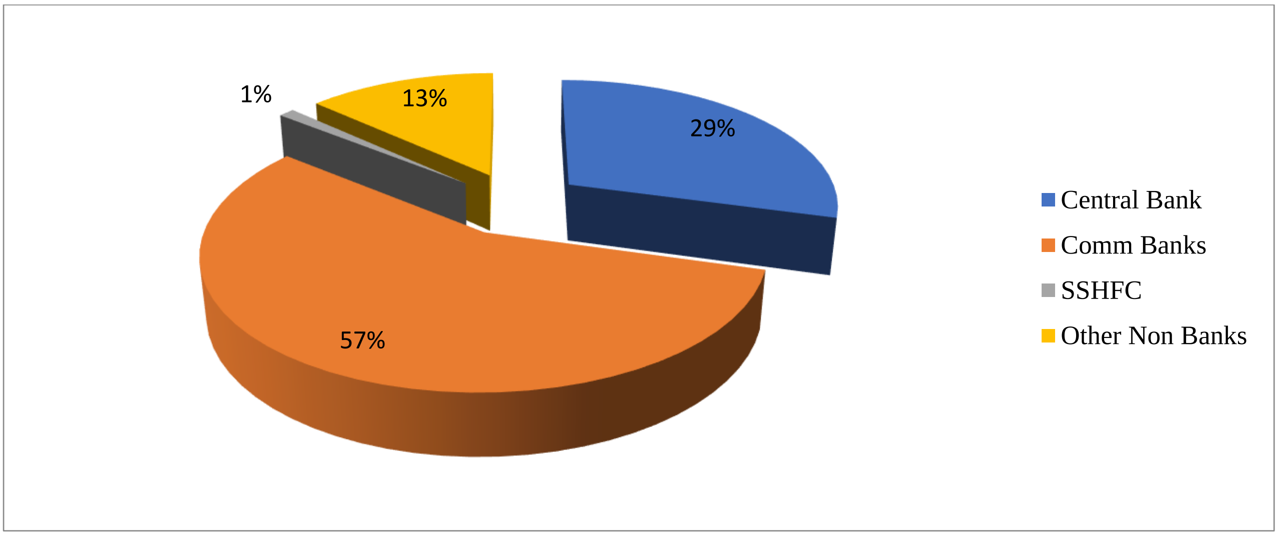


Source: CBG

Domestic Debt by Holder

The holders of Government domestic debt as at end 2019 comprised of commercial banks, SSHFC, other non-banks, and the Central Bank. Commercial Banks held 56.4 percent of the domestic debt portfolio, the Central Bank 29.3 percent, with non-banks and SSHFC holding 13.3 percent and 1.1 percent, respectively (*figure 6*).

Figure 6: Domestic Debt by Holder



Source: *CBG*

Cost and Risk of the Existing Debt Portfolio

Cost of Debt

As at end 2019, the total public and publicly guaranteed debt has a weighted average interest rate of 3.9 percent. The weighted average interest rate for external debt stood at 1.5 percent, reflecting a mix of debt contracted on concessional and semi concessional terms, while the weighted average interest rate for domestic debt stood at 7.1 percent. Over the course of 2020, the interest rates have been on a declining trend due to fiscal consolidation and inflows in the form of budget support.

Refinancing Risk

The average time to maturity for the entire public and publicly guaranteed debt as at end 2019 is 8.2 years, in which the external portfolio has an average maturity of 10.4 years, which is worsened by the inclusion of the International Islamic Trade Finance Corporation (ITFC) trade facility, and the domestic portfolio has an average maturity of 4.6 years, which is improved by the inclusion of the non-marketable debt stock.

Interest Rate Risk

The Average Time to Re-fixing (ATR) for the total debt portfolio is 8 years as at end 2019 which indicates a high composition of fixed interest denominated debt.

Foreign Exchange Risk

More than half of the total public and publicly guaranteed debt (56.7 percent) is exposed to exchange rate risk, mainly to the USD (*table 4*).

Table 4: Cost and risk of the existing debt portfolio

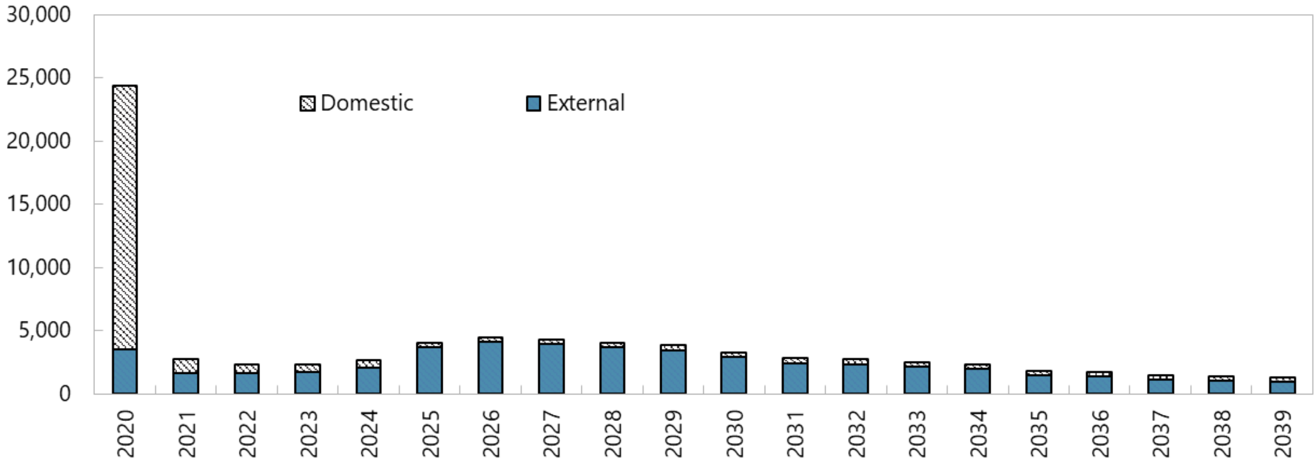
Risk Indicators		External debt	Domestic debt	Total debt
Amount (in millions of GMD)		41,634.2	31,840.9	73,475.1
Amount (in millions of USD)		814.8	623.1	1,437.9
Nominal debt as percent of GDP		45.4	34.7	80.1
PV as percent of GDP[1]		33.4	34.7	68.1
Cost of debt[2]	Interest payment as percent of GDP[3]	0.7	2.4	3.1
	Weighted Av. IR (percent)	1.5	7.1	3.9
Refinancing risk[2]	ATM (years)	10.4	4.6	8.2
	Debt maturing in 1yr (percent of total)	6.6	65.7	28.8
	Debt maturing in 1yr (percent of GDP)	3.8	22.8	26.6
Interest rate risk[2]	ATR (years)	10.1	4.6	8.0
	Debt refixing in 1yr (percent of total)	11.2	65.7	31.7
	Fixed rate debt incl T-bills (percent of t	91.9	100.0	94.9
	T-bills (percent of total)	0.0	56.5	21.2
FX risk	FX debt (percent of total debt)			56.7
	ST FX debt (percent of reserves)			29.3

Source: *DLDM*

Redemption Profile of the Public Debt Portfolio

The redemption profile shows a significant concentration of maturities in year one, 65.7 percent of the domestic debt, as a result of the greater proportion of the short-term bills in the domestic debt, posing a high refinancing risk (*figure 7*). This is as a result of a significant share of the T-bills and SAS, which is about 57 percent of the domestic debt portfolio and the 3-year bond of GMD2.2 billion, maturing in the third quarter of the 2020.

Figure 7: Redemption Profile as at end-2019 (in millions of GMD)



***Source**: DLDM*

Performance Review of the 2019-2022 MTDS

The MTDS (2019-2022) strategy was designed to maximize concessional financing from the external creditors and at the same time deepen the maturities of the domestic debt portfolio. The interest cost of debt has improved from 3.4 percent of GDP as at end 2018 to 3.1 percent of GDP as at end 2019, showing significant progress in the overall debt management processes. The weighted average interest cost on the external debt portfolio stands at 1.5 percent as at end 2019, reflecting a domination of concessional debt. On the other hand, there has been an increase in the weighted average interest cost on the domestic debt portfolio from 6.8 percent in 2018 to 7.1 percent in 2019, due to the introduction of a medium-term (2 year) bond requiring a higher premium.

Overall, the Average Time to Maturity (ATM) has improved on the total debt portfolio from 7.6 years in 2018 to 8.2 years in 2019 due to the highly concessional debt. However, the domestic debt maturing within 1 year as a percentage of the total domestic debt increased from 55 percent as at end 2018 to 65.7 percent as at end 2019, requiring concerted efforts for improvements. The ATR of the debt portfolio as at end 2019 was 8 years, which could have worsened without the non-marketable domestic bonds (30-year and 7-year).

Medium-Term Macroeconomic Outlook

2020 Developments

The 2020 fiscal year will be a difficult one for The Gambia due to the outbreak of the coronavirus pandemic. As a result, budget execution as approved by National Assembly, planned programs and policy implementations for the fiscal year 2020 were greatly thrown off track. The Gambia recorded its first case on 17th March 2020, and as at 1st October 2020, has recorded a total of 3,585 confirmed cases with 115 fatalities from the virus. Given the rapidly increasing number of cases in recent months and the prediction of a second wave of the outbreak, coupled with the upcoming reopening of schools and the economy to tourists, the pace of the virus and its impact on the domestic economy over the coming months cannot be underestimated. However, the Government is putting in place effective measures and would ensure their enforcement to limit the risk of further spread.

Preliminary analysis of the macro-economic impact of the pandemic on the Gambian economy indicates that there is a significant slowdown in GDP, decline in tax revenues, increased unbudgeted expenditures in health, relief support for vulnerable individuals and economic stimulus packages for businesses. Initial growth estimates for 2020 have been revised downwards from 6.5 percent, to -1.5 percent following the outbreak of the pandemic. The new growth estimates are based on the shocks associated with the closure of airports, land borders and lack of tourism activities. Due to travel restrictions, the COVID-19 has severely crippled the tourism sector and dampened economic activities throughout the entire country. The tourism sector immediately felt the shock of the virus when it was declared a global pandemic, even before a single case was registered within the country. The tourism sector has been at a standstill as all tourists have been repatriated, with hotels and all tourism service-related businesses forced to shut down. Since April, The Gambia has been in a declared state of emergency with businesses and staff on a scale down, schools and markets has been closed, as well as restaurants and night clubs, along with a number of other restrictive measures put in place.

Medium-Term Forecasts

Domestic Economy

The slowdown in global growth remains a concern for The Gambia. Travel restrictions and containment measures that have been put in place to reduce the spread of the virus are the major variables to consider in assessing the real impact of the pandemic on growth. It is estimated that the effects will be temporary as restrictions on mobility are being relaxed, the world economy would recover momentum and domestic GDP would return to the accelerated growth path it was on prior to the outbreak of the Coronavirus. With the domestic economy reopening to tourists just in time for the upcoming tourism season, and businesses and markets resuming normal operations, it is hopeful that the remainder of the year will improve the economic situation of the country.

Table 5: Macro projections 2020-2025

	2020	2021	2022	2023	2024	2025
GDP Growth Rate	**-1.5%**	**5.9%**	**6.5%**	**6.1%**	**5.8%**	**5.6%**
Agriculture	**3.1%**	**2.8%**	**2.5%**	**2.5%**	**2.9%**	**3.1%**
Crops	1.3%	1.3%	1.8%	2.2%	2.4%	2.8%
Livestock	0.5%	1.0%	0.2%	0.4%	0.5%	0.7%
Forestry	0.7%	1.9%	0.9%	1.4%	3.4%	3.8%
Fishing	5.4%	4.6%	3.8%	3.3%	3.8%	3.8%
Industry	**5.8%**	**17.6%**	**12.4%**	**8.9%**	**7.8%**	**6.6%**
Mining & Quarrying	9.3%	4.1%	6.2%	3.6%	2.8%	2.2%
Manufacturing	0.7%	0.9%	1.9%	1.4%	1.4%	1.4%
Electricity	4.6%	5.7%	5.1%	4.0%	2.4%	5.1%
Water	4.6%	4.9%	5.4%	5.9%	5.9%	5.9%
Construction	8.2%	28.0%	17.4%	12.0%	10.4%	8.2%
Services	**-6.8%**	**3.2%**	**5.4%**	**6.5%**	**6.0%**	**6.3%**
Wholesale & retail trade	-10.1%	0.3%	3.8%	3.3%	2.4%	2.4%
Transport & storage	2.1%	2.8%	1.9%	3.0%	2.8%	2.4%
Hotels & restaurants	-48.3%	33.6%	11.2%	27.9%	10.7%	8.1%
Communication	6.1%	3.5%	3.1%	4.7%	2.9%	2.3%
Finance & Insurance	3.3%	6.3%	11.3%	11.3%	13.0%	12.9%

Source: *MPAU*

Growth in the agricultural sector is estimated to decline from 3.1 percent projected for 2020 to 2.8 percent in 2021. Without taking into account any future impact of climate change on the sector, it is projected that sectoral growth will return to a trend line of around 2.7 percent over the medium-term. The industry sector is projected to have a significant economic recovery, from 5.8 percent in 2020 and 17.6 percent in 2021. Growth in the sector would be boosted by the energy and construction sectors. Planned investments in new generation capacity, the restructuring of NAWEC and diversification in the energy mix will promote growth in the energy sub-sector over the medium-term. Addressing the country's infrastructure needs such as hotels, bridges and roads along with the upcoming OIC conference will attract much needed private and public sector investments in the construction sub-sector and facilitate economic activities such as transport and trade.

As the sector hardest hit by the COVID-19 pandemic, with a growth rate of -6.8 percent in 2020, the service sector is projected to experience significant economy recovery. Hotels and restaurants which were forced to shut down for most of the year recorded a negative growth rate of -48 percent. Growth in the wholesale and retail trade was also subdued in 2020 due to the slowdown in shipping activities, closure of most businesses and restricted opening times for other businesses. Given the recent easing of restrictions and reopening of the economy just in time of the tourist season, in 2021, both subsectors are projected to improve their performance with hotels and restaurants growing by 33.6 percent in 2021 and 0.3 percent for wholesale and retail. Our tourism sector is anticipated to experience a steady and robust growth over the medium-term on the assumption that there will be a consistent increase in tourist arrivals during the off-season as The Gambia continues to pursue its agenda of an all year tourist season. Additionally, the post COVID-19 recovery support package from the Government will give the sector a much-needed boost to recover from the impact of the pandemic.

Fiscal Sector

On the fiscal front, domestic revenue collection is projected to gradually increase from GMD12.8 billion (13.4 percent of GDP) in 2020 to GMD14.5 billion (13.6 percent of GDP) in 2021. Over the medium-term, domestic revenue is projected to increase consistently reflecting strong revenue mobilization efforts and the implementation of reforms that will result in the enhancement of tax administration. Additionally, MoFEA and GRA has conducted a review of the current tax expenditure policies and framework guiding the application and granting of duty waiver and tax exemptions with the funding from the IMF and World Bank. A Cabinet Paper will be submitted with recommendations to limit and rationalize these expenditures for consideration. A moderate estimate has been made on the taxes on international trade and transactions on the expectation that these recommendations would be approved and implementation would begin in 2021 and the impact would be seen in increasing revenues over the medium term.

Total grants are projected to decline from a total of GMD8.1 billion expected in 2020 to GMD6.6 billion in 2021. This is mainly due to the projected 44 percent decline in budget support, as the significant amount that was received in 2020 from development partners due to the COVID-19 pandemic is not expected to continue in 2021. Over the medium-term, project grants will continue to rise while budget support grants follow a declining trend.

Table 6: Medium-term Forecast

GMD (MM)	2020	2021	2022	2023	2024	2025
Total Rev	**20,922**	**21,115**	**23,693**	**26,729**	**29,863**	**33,162**
Domestic Revenue	**12,804**	**14,529**	**16,784**	**19,633**	**22,383**	**25,233**
Tax	10,075	11,451	13,511	16,007	18,394	20,821
Non-Tax	2,729	3,078	3,273	3,626	3,989	4,412
Total Grants	**8,118**	**6,586**	**6,909**	**7,096**	**7,480**	**7,929**
Budget support	4,826	2,701	2,636	2,524	2,314	2,246
Projects	3,292	3,884	4,273	4,572	5,166	5,683
Total Expenditure	**22,092**	**22,810**	**23,918**	**25,152**	**27,037**	**27,861**
Current	14,710	15,869	16,218	17,305	18,639	19,166
Capital	7,382	6,941	7,700	7,847	8,398	8,695
Primary Balance	**1,714**	**1,066**	**2,473**	**4,481**	**5,747**	**8,433**
Primary Balance (%GDP)	1.8%	1.0%	2.1%	3.4%	4.0%	5.3%
Fiscal Balance	**-1,170**	**-1,695**	**-225**	**1,577**	**2,826**	**5,300**
Fiscal Balance (% GDP)	-1.2%	-1.6%	-0.2%	1.2%	2.0%	3.3%

Source: *MPAU*

Total expenditure is expected to increase slightly from GMD22.1 billion in 2020 to GMD22.8 billion in 2021. In the 2021 budget, subvention to agencies will be capped below the 2020 approved amount. The cap of the transfers for next year is as a result of the agency reform that MoFEA is currently working on, and their savings (decline in expenditure on agencies) will be reflected in the 2022 budget and over the medium term.

As per the revenue and expenditure forecasts made, the primary balance is projected to deterroriate slightly from a surplus of 1.8 percent of GDP in 2020 to 1 percent of GDP in 2021. The fiscal balance is also expected to worsen from a deficit of 1.2 percent to a deficit of 1.6 percent of GDP. Over the medium-term, both balances are projected to be in surplus and continiously improve annually.

Monetary Sector

Over the medium-term, inflation is projected to moderate towards the CBG target of 5.0 percent. The soft inflation outlook is anchored on stable exchange rate of the Dalasi, increased domestic food supply supported by Government intervention to promote agriculture and sound monetary and fiscal policy implementation. However, there are significant threats to achieving the outlook in the wake of geopolitical tensions, trade wars and the outbreak of COVID-19, in addition to possible disruptions in oil supplies causing energy prices to rise and food supply shortages.

The exchange rate will remain flexible, adjusting to market forces with limited intervention. The GMD is projected to depreciate in accordance with macroeconomic fundamentals including projected persistent current account deficits over the medium-term. Overall, exchange rates will remain stable supported by expected budget support receipts, tourist arrivals, remittances inflow as well as prudent monetary policy.

Medium-Term Policy Reforms and Priorities

Given that the IMF predicts global recovery in 2021, economic recovery will be critical and form the basis of the Budget and Government reform policy priorities for the upcoming year. Economic growth remains one of the main objectives of the Government, and the medium-term Budget and policy priorities will be anchored on achieving and sustaining an inclusive growth to improve the living standards of all citizens, in addition to creating a favorable environment for the private sector to thrive. The coronavirus pandemic has impacted revenue collections and increased expenditures in the health sector and relief packages for citizens and businesses. It has also highlighted the weaknesses in our social protection policies and the extreme vulnerability of the tourism sector to external shocks. Over the medium-term, Government will ensure the implementation of reforms to improve tax administration, practice fiscal consolidation and prioritize budget allocations to the social sectors of our economy. Reforms in project management will also form part of our medium-term priorities as the Government will set a high criterion to ensure that resources are dedicated to projects that yield the highest economic and social returns. We understand that the implementation of reforms and their success depends on the understanding and commitment of those involved. Therefore, a strong foundation of sound fiscal policy and reforms will be put in place to ensure that we reap the benefits and transform the economy to realize its full economic potential and achieve a better quality of life for every single Gambian.

Over the medium-term the Government is committed to prioritizing and implementing the following reforms:

- Civil and security sector reform
- Rationalization of sub-vented agencies
- Rationalization of foreign service missions
- Implementing reforms in the State-Owned Enterprises
- Restructuring of the Gambia Groundnut Corporation and NAWEC
- Program for Accelerated Community Development
- Social protection
- Increase the leverage on regional trade – port expansion and Senegambia Bridge
- Improve tax revenue administration and trade facilitation
    - Development of a tax expenditure policy
    - Reconstruction of the taxpayer ledger
    - Cleaning of the taxpayer register
    - Post clearance audit
    - Increase the formalization of the taxpayer base
    - Commercial Banks to work with their clients to to start using mobile app platforms to make tax payments during the COVID-19 pandemic
    - Rollout of the enhanced GAXTAXNET system to all branch offices for effective and efficient revenue mobilization
    - Migration to ASYCUDA World project
    - Road Cargo Tracking System (RCTS) and Electronic Cargo Tracking System) implementation

2019 External Debt Restructuring

In 2018/19, The Gambia had to engage most of its external creditors for debt deferral for at-least five years to restore back debt sustainability in an effort to secure an Extended Credit Facility with the International Monetary Fund. The request to the creditors was to obtain deferral for both principal repayment and interest payment for at least five years. However, most of the creditors responded positively by providing only principal repayment deferral. The only creditor that provided both principal repayment and interest payment deferral was the Exim Bank of India while the OPEC fund for International Development did not participate in providing the debt deferral to the Gambia. The debt deferral is expected to yield a savings estimated at US$93.3 million (GMD4.8 billion) on principal repayments and interest payment between 2020 and 2024 (*table 7*).

The expected savings from the five years debt service deferral is expected to be productively invested in the economy thereby creating the necessary growth to shoulder the exorbitant debt obligations beyond the five years.

Table 7: Debt Restructuring Program (in GMD)

Creditors	2020	2021	2022	2023	2024
SFD	25,126,041.41	158,349,560.00	158,349,560.00	158,349,560.00	158,349,560.00
EIBI	78,125,604.24	220,900,274.49	258,511,230.49	258,511,230.49	258,511,230.49
BADEA	100,871,570.00	138,566,680.00	139,914,000.00	142,712,280.00	59,903,920.00
ADFD	69,607,157.00	69,033,600.00	69,033,600.00	69,033,600.00	69,033,600.00
KFEAD	33,853,749.00	69,944,592.00	69,944,592.00	68,394,760.00	69,944,592.00
EBID	46,751,989.00	12,061,864.16	12,431,480.96	12,812,448.48	13,179,550.88
IsDB	353,615,758.00	355,675,713.24	351,619,754.41	313,679,513.24	313,679,513.24
Total	707,951,868.65	1,024,532,283.89	1,059,804,217.86	1,023,493,392.21	942,601,966.61
Grand Total	**4,758,383,729.22**				

***Source**: DLDM*

G20 DSSI Debt Relief Impact

The G20 Debt Service Suspension Initiative (DSSI) offers relief to eligible low-income countries on official bilateral debt-service payments (principal and interest) due between May and December 2020. The payments covered are suspended, not forgiven, with a repayment period of three years, a one-year grace period and a neutral net present value structure. The DSSI is intended to increase fiscal space to accommodate higher spending on coronavirus pandemic relief. The Gambia secured the DSSI relief from four of its creditors namely; ECOWAS Bank for Investment and Development (EBID), Saudi Fund for Development (SFD), Kuwaiti Fund for Arab Economic Development (KFAED), and the People's Republic of China. The DSSI provided a relief of GMD287.24 million in debt service payments for the 2020 fiscal year (*table 8*).

Table 8: 2020 Debt Service Relief under G20 DSSI

Creditor	Currency	Total debt service due between May 1 – Dec 31 2020	Rates	Total amount relief in 2020 (in GMD)
EBID	USD	1,603,876.96	51.65	82,840,244.98
SFD	SAR	1,467,798.09	13.17	19,330,900.85
KFAED	KWD	590,335.75	167.76	99,034,725.42
PRC	CNY	1,686,666.67	7.35	12,394,812.70
TOTAL				**213,600,683.95**

***Source**: DLDM*

Description and Analysis of Strategies

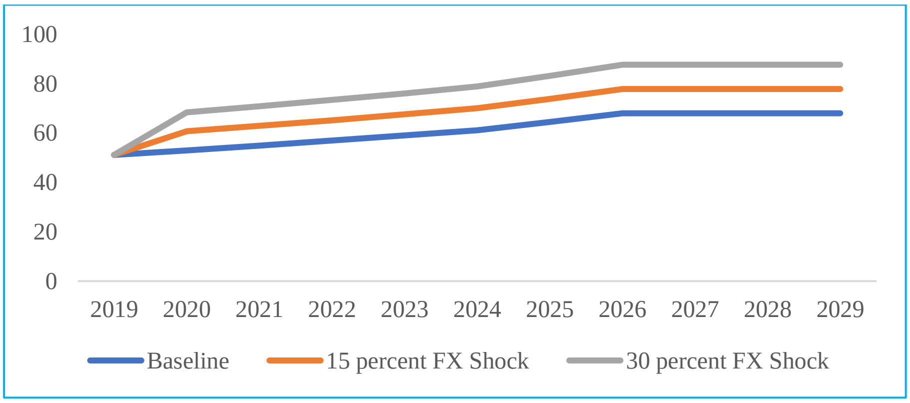
Baseline Pricing Assumption and Description of Shock Scenarios

The MTDS was assessed under four alternative stress scenarios. The magnitudes of the shocks were informed by the historical trend of domestic interest and exchange rates over the years in and the medium-term macroeconomic outlook. For the purpose of this analysis, three typical shocks stemming from exchange rate, interest rates and a combination of both are considered. It is assumed that which shocks materialize in 2020 are sustained through the remainder of the simulation horizon.

Exchange Rate Shock

The Gambian Dalasi is estimated to depreciate by 3.64 percent against USD in 2020 and would be sustained for the remainder of the projection period. In an extreme stand-alone shock scenario, the Dalasi is estimated to depreciate against the USD by 30 percent in 2020 (*figure 8*).

Figure 8: Baseline Exchange Rate Projection and shock



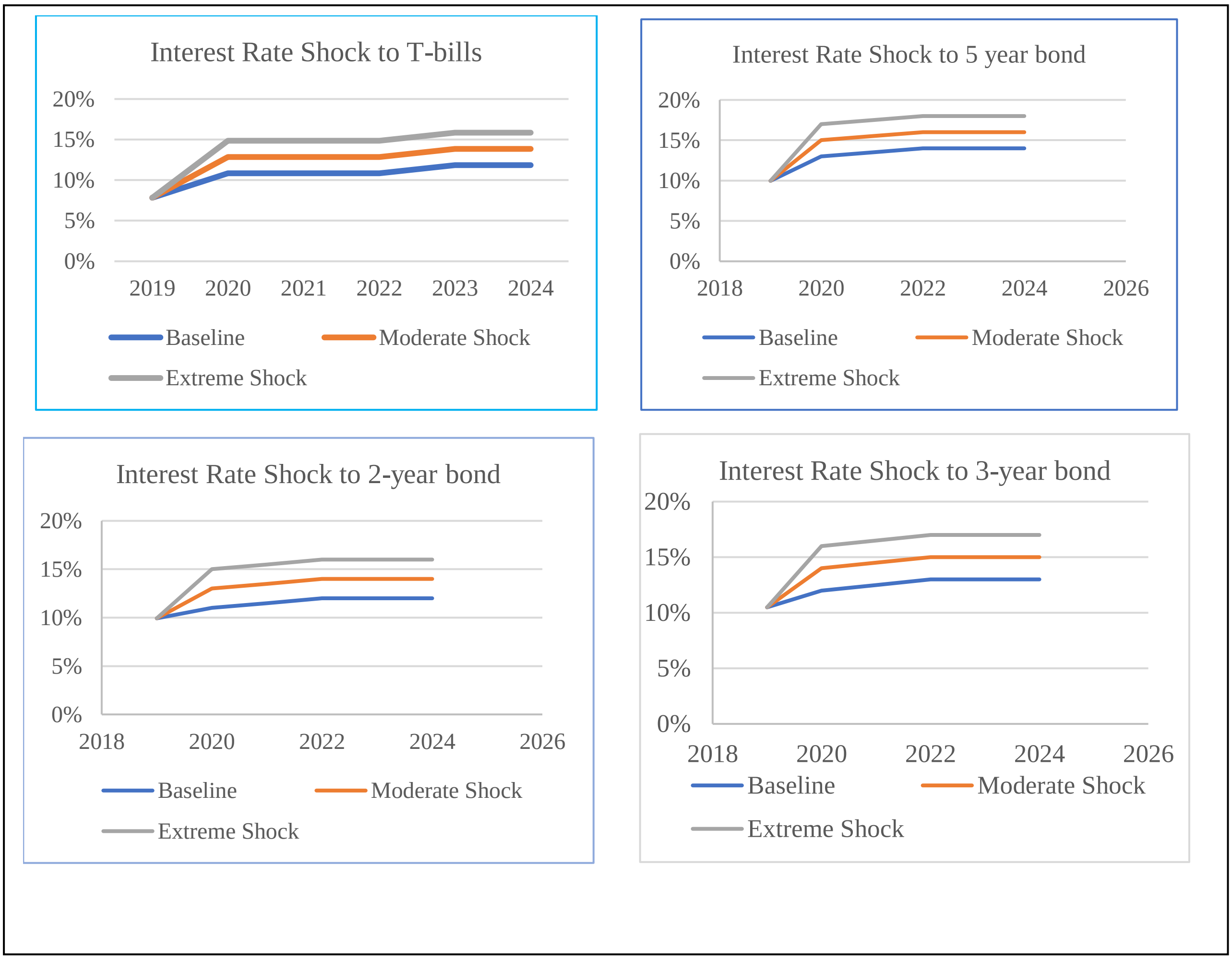
Source: *DLDM*

Interest Rate Shock

In this scenario, a 1 percent moderate shock to IsDB-floating external financing instrument and an extreme stand-alone shock of 2 percent is applied to the baseline interest rates in 2020. Similarly, a moderate shock of 2 percent was applied to domestic debt instruments (T-bills, 2-year, 3-year and 5-year bonds) and an extreme stand-alone shock of 4 percent was also applied to the debt instruments in 2020. The cost of domestic market-based borrowing will increase in all the years. In the face of increasing inflation rate, investors will demand higher interest rates to ensure they have a positive real return on their investments. It is, however, expected that these rates will gradually decline in the medium-term. Figure 9 illustrates the shocks to the various financing instruments.

Figure 9: Shock to Interest Rates

Source: DLDM



Combined Exchange and Interest Rate Shock

In this scenario, a 15 percent depreciation of the Gambian Dalasi is assumed against the USD in 2020, in combination with interest rate shock of 2 percent on domestic debt instruments and 1 percent shock to IsDB-floating external financing instrument.

Description and Analysis of Alternative Strategies

Four strategies were formulated and analysed, all of which are anchored on the medium-term macroeconomic framework agreed with the IMF to be implemented and in-line with the published budget framework approved by the National Assembly in respect of fiscal year 2020. Three of the strategies are intended to illustrate the costs and risks of alternative approaches to the baseline which is the status quo. Common to all 4 strategies is the assumption of Net Domestic Financing (NDF) of 1.9 percent of GDP in 2020 and with the budget surplus after 2023. On the external front, all the strategies explore financing mainly from concessional and semi-concessional loans from bilateral and multilateral lenders. Details of the various strategies are described below.

Strategy One (S1) - Baseline (Likely Scenario)

S1 is the baseline scenario and seeks to mimic the current financing strategy and existing policies in line with medium term macroeconomic framework agreed with the IMF. S1 assumes a mixed of highly concessional and semi-concessional external financing and these would be provided by mainly existing multilateral and bilateral creditors. In 2020, S1 assumes heavy reliance on Treasury Bills and less on the medium-term domestic bonds (2-Year, 3-Year, and 5-Year) in proportions broadly in line with those realized over the preceding year of 2019. S1 is proposed to secure 35 percent of the external financing requirement from the concessional window and much of the domestic financing requirement from short term domestic financing instruments (T-bills).

Strategy Two (S2) – (Highly concessional external financing (at least 35 percent grant element requirement) and longer dated domestic borrowing)

S2 largely assumes concessional financing with minimum grant element of 35 percent consistent with current program arrangement under the ECF. S2 relies on significant grants financing from multilateral donors in the form of budget support and project grants. S2 assumes 50 percent of the external financing requirement to be secured from highly concessional financing windows.

Furthermore, given the high refinancing risk associated with the current debt portfolio as a result of the significant proportion of the domestic debt in T-bills, this strategy assumes aggressive issuance of longer dated domestic debt instruments i.e. mainly 2-year, 3-year and 5-year bonds. Some of the bond issuances would be used to finance infrastructure related expenditure including road constructions. After the implementation of S2 through 2024, it would improve the refinancing risk of the portfolio as the debt maturing in one year would reduce to 20.8 percent better than the other strategies. In the same vein, average time to maturity would also improve to 8.4 years ahead of the other strategies.

Strategy 3 (S3) – (Less concessional external financing and short-term domestic borrowing)

S3 deliberately assumes the significant use of less concessional financing with grant element of even less than 35 percent combine with total reliance on short term domestic debt financing i.e. T-bills. S3 assumes only about 20 percent of the external financing requirement to be secured from the concessional windows and rely totally on short term domestic debt financing to provide for the domestic financing needs.

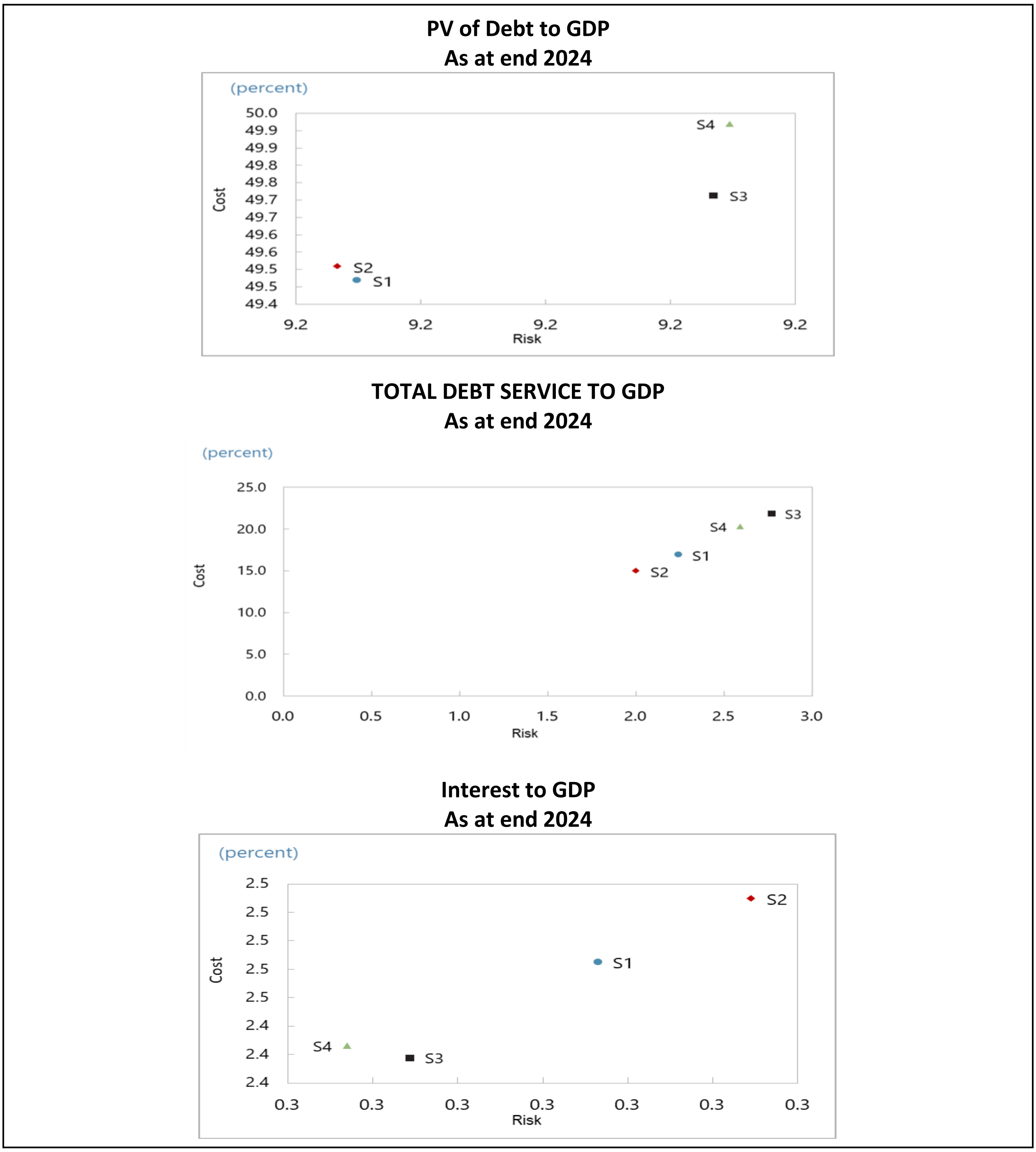
Strategy Four (S4) - Semi-concessional external financing

S4 assumes a significant proportion of the financing requirement to be obtained from semi-concessional financing windows and mainly from short term domestic financing instruments. S4 assumes only about 14 percent of the external financing requirement to be source from concessional windows while relying more on T-bills to fund the domestic financing requirement.

Analysis of Results

The performance of the selected four strategies was assessed under both the baseline and shock scenarios. Several key cost and risk indicators were computed and analysed to determine how the strategies respond to a set of shocks. The debt/GDP ratio allows analysis of changes in the size of the outstanding debt due to exchange rate changes. External debt-to-GDP provides a useful indicator of external debt risk and exposure to exchange rate shocks. Interest payments, expressed as a proportion of GDP, assess each strategy's potential impact on the government's budget. For a given financing strategy, the difference is between its cost outcome under a risk scenario (i.e. one with a shock to the baseline) and under the baseline. The maximum risk outcome across the three stress scenarios described above is used to compare the risk[1] associated with each of the strategies. For the purpose of comparison, the focus is on the outcome at the end of the time horizon, 2024. The results of the analysis as at end 2024 are illustrated in *Figure 10*.

Figure 10: Costs and Risks Outcomes



Source: DLDM

[1] Risk is defined as the difference between the outcome under the shock scenario and under the baseline scenario for a given strategy.

Cost and Risk of Alternative Debt Management Strategies

Debt as a percentage of GDP

In terms of nominal debt as a percentage of GDP, all of the strategies realized a reduction from the 2019 level of 80.1 percent of GDP and are within 57.6 percent and 57.9 percent by end of the projection period 2024. This is consistent with the macro-framework geared towards fiscal consolidation aimed at reducing the risk of debt unsustainability in the medium term. Similarly, the PV of debt to GDP will improve from the base period of 2019 at 68.1 percent to between 49.6 percent and 49.9 percent by end 2024 for all the strategies.

Refinancing Risks

Based on the cost-risk outcomes as shown in figure 10 above, the share of debt maturing in one year as a percentage of total public and publicly guaranteed debt would significantly improve under S2 to 23.2 percent, from 28.7 percent as at end 2019. Amongst all the strategies S2 has the lowest proportion of debt maturing in one year followed by S1 with 27.1 percent. However, S3 and S4 show higher proportion of debt maturing in one year i.e. 36.0 percent and 33.8 percent, respectively. Generally, S2 has the highest ATM of 7.3 years followed by S1 with 7.0 years and the remaining strategies have ATM between 6.4 and 6.6 years. This is to show that in term of refinancing risk S2 stands out. On the external front, S2 has the highest ATM with 9.5 years followed by S1 with 9.2 years and the remaining other strategies have ATM below 9 years. In the same vein on the domestic debt portfolio, S2 has the highest ATM of 3.6 years and follow by S1 with 3.4 years.

Interest Rate Risks

S2 is superior to the other strategies in terms of ATR at 7.2 years compared to 6.9 years, 6.5 years and 6.0 years for S1, S3, and S4 respectively. Similarly, S2 shows less interest rate risks in terms of debts to be re-fixed in one year as a percentage of totals at 24.9 percent, compared to the other strategies, all of which indicate higher outcome above 25 percent each. Details of the costs and risks indicators of the various strategies are provided in the *Table 10* below.

Table 9: Cost and Risks Indicators (2020-2024)

COST-RISK INDICATORS - Baseline Scenario						
Risk Indicators		2019	As at end 2024			
		Current	S1	S2	S3	S4
Nominal debt as percent of GDP		80.1	57.8	57.9	57.6	57.7
Present value debt as percent of GDP		68.1	49.5	49.5	49.7	49.9
Interest payment as percent of GDP		3.0	2.5	2.5	2.4	2.4
Implied interest rate (percent)		3.7	4.3	4.4	4.2	4.2
Refinancing risk2	Debt maturing in 1yr (percent of total)	28.7	27.0	23.2	36.0	33.8
	Debt maturing in 1yr (% of GDP)	26.6	15.6	13.4	20.7	19.5
	ATM External Portfolio (years)	10.4	9.2	9.5	8.8	8.4
	ATM Domestic Portfolio (years)	4.6	3.4	3.6	3.0	3.0
	ATM Total Portfolio (years)	8.2	7.0	7.3	6.6	6.4
Interest rate risk2	ATR (years)	8.0	6.9	7.2	6.5	6.0
	Debt refixing in 1yr (percent of total)	31.6	28.8	24.9	38.3	38.6
	Fixed rate debt incl T-bills (percent of total)	94.9	97.9	98.0	97.4	94.8
	T-bills (percent of total)	21.2	18.4	13.4	31.1	26.4
FX risk	FX debt as % of total	56.7	59.5	59.6	59.4	59.4
	ST FX debt as % of reserves	28.9	14.9	14.9	14.9	15.0

Source*: DLDM*

Additionally, S2 has the least share of T- bills as a percentage of total domestic debt with 13.9 percent compared to S1 with 18.9 percent which is next lowest T-bill share of total domestic debt. S2 promotes domestic debt market development in which longer dated domestic debt instruments' issuances are vigorously pursued and this is in-line with government policy.

Exchange Rate Risk

The foreign exchange debt as a percentage for all the strategies is within the range of 59.4 percent and 59.6 percent. S2 seeks to promote concessional external financing and fiscal consolidation drive which would generate primary surplus throughout the projection period. With regards to short-term foreign exchange debt as percentage of reserve, S1, S2 and S3 have the same outcomes with the percentage of 14.9 percent each while S4 have 15.0 per.

With the cost risk tradeoff of the different strategies, taking into account government policy to promote domestic debt market development and to keep the public debt sustainable in the medium term, S2 is recommended for implementation. Similar strategies would be recommended to further deepen the domestic debt market and at the same time maintain sustainable debt levels by ensuring the non-breach of the liquidity thresholds in the debt sustainability framework.

The recommended strategy for implementation prioritizes grant financing where possible and concessional financing with minimum grant element of 35 percent to cover the infrastructure gap necessary to boost economic growth and development. The issuance of longer dated domestic debt instruments is also promoted in this strategy to finance infrastructure needs, in addition to further developing and deepening the domestic debt market and mitigate the refinancing risk in the domestic debt portfolio.

Financing Strategy

The 2020 debt management strategy is in line with the debt management objectives of borrowing at minimal cost, subject to a prudent degree of risk. The Strategy aims to leverage on the current low domestic interest rate environment to support fiscal consolidation. The financing strategy proposes a shift towards an increase in the share of longer maturity bonds — particularly the 2-year, 3-year and 5-year bonds — in the domestic debt portfolio. This is designed to develop and deepen the domestic debt market and lengthen the maturity of domestic debt to mitigate the rollover risk that arises from a concentration of short-term debt in the debt portfolio.

Debt Monitoring

The Gambia has recently migrated its debt database to the Commonwealth Meridian debt management system. This state-of-the-art debt recording system will enable more effective debt monitoring and facilitate in the publication of the quarterly debt bulletins with data that meet reporting standards. Under the debt management strategy, the debt data will be regularly reconciled to ensure data credibility and timely debt service payments.

Risk Benchmarks/Target

Foreign Currency Risk Benchmark

In order to manage currency risk in the external debt portfolio, a strategic benchmark of 65 percent (+/- 5 percent) exposure to the USD will be pursued, as significant portions of the country's international reserves and export receipts are denominated in USD.

Interest Rate Risk Benchmark

The current structure of interest rate reveals some eminent interest rate risk for the debt portfolio. Over the medium-term, the share of the variable rate debt in total external debt is expected to be within the range of 11-15 percent. The share of the entire debt portfolio facing interest rate resetting in a year is not expected to be more than 35 percent.

Refinancing Risk Benchmark

The management of refinancing risk is pursued to avoid bunching of debt service obligations and/or rollover risk, which may lead to liquidity crisis and/or excessive increase in the cost of debt servicing. With this strategy, bullet repayment structure and accumulation of debt servicing in one period (especially the short-dated domestic debt) will be smoothened to ensure that it is aligned with the structure of revenue flows to avoid liquidity crisis and high re-financing costs. The share of Treasury Bills in the total debt stock is expected to be within 25-35 percent for prudent treasury management purposes. To be able to reduce tap-ins or reopens in the domestic debt portfolio, debt maturing in one year (netting off Treasury Bills) is expected to be 30±5 percent of the total domestic debt stock. The ATM of the debt portfolio is expected to be not less than 8.2 years (*table 10*).

Table 10: Cost and Risks Target for 2020

Goal	Indicator	Target
Manage FX risk	FX debt (as % debt)	≤ 62%
Manage refinancing risk	Overall ATM (years)	≥ 8.2
	Debts maturing in 1 year (as % of GDP)	≤ 22.12%
Manage interest rate risk	Fixed rate debt (% of debt)	≥ 62%
Manage cost of debt	Overall WAIR (%)	≤ 4.1 %

***Source**: DLDM*

Conclusion

The MTDS 2020–2024 was designed using the World Bank/IMF analytical tool to determine an appropriate medium-term financing path anchored on cost and risk management. The preferred strategy being recommended for implementation is the prioritization of grant financings and concessional external financing while gradually increasing the share of longer dated domestic debt instruments in the domestic debt portfolio in an effort to improve refinancing risk, provide for infrastructure financing and to ensure that The Gambia’s debt is sustainable in the medium to long-term. Following the strategy, the three bond which was maturing on August 29, 2020, was also successfully rolled over. The medium-term macroeconomic framework upon which the MTDS was designed is consistent with the MTEFF. A significant shift from the assumed baseline macro projections would warrant the strategy revision. Government should closely monitor the external environment and augment relationship with donors and multilateral financial institutions to ensure that projected grants disbursements materialize.

The medium-term costs and risks targets identified will be monitored over the life of the MTDS to ensure they are achieved and a domestic borrowing plan would be developed to aid its implementation. Explanations would be provided when there are significant deviations from the costs and risks targets identified in the Strategy. The MTDS complements the debt sustainability framework which is concerned with long-term debt sustainability. While current level of public debt is at a high risk of debt distress, long term debt sustainability depends on a number of factors including real GDP growth, external sector performance, and sound fiscal and monetary policy mix supported by prudent debt management.