MINISTRY OF
FINANCE AND ECONOMIC AFFAIRS

DSA

DEBT SUSTAINABILITY ANALYSIS 2015

Directorate of Debt Management and Economic Cooperation

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LIST OF ACRONYMS

AGD	Accountant General Department
CBG	Central Bank of The Gambia
CPIA	Country Policy and Institutional Assessment
DeMPA	Debt Management Performance Assessment methodology
DSA	Debt Sustainability Analysis
DSF	Debt Sustainability Framework
FX	Foreign Exchange
GBoS	Gambia Bureau of Statistics
GDP	Gross Domestic Product
GMD/D	Gambian Dalasi (Local Currency)
GoTG	Government of The Gambia
GRA	Gambia Revenue Authority
HIPC	Heavily Indebted Poor Country
IDA	International Development Association
IMF	International Monetary Fund
LICs-DSF	Low Income Countries Debt Sustainability Framework
MoFEA	Ministry of Finance and Economic Affairs
MTDS	Medium Term Debt Management Strategy
MTEF	Medium Term Expenditure Framework
NDB	Net Domestic Borrowing
NPV	Net Present Value
PAGE	Programme for Accelerated Growth and Employment
PRGT	Poverty Reduction and Growth Trust facility
PV	Present Value
TA	Technical Assistance
WAIFEM	West African Institute for Financial and Economic Management
WB	World Bank
WEO	World Economic Outlook

CHAPTER 1: INTRODUCTION

The IMF/WB Debt Sustainability Framework for Low Income Countries (LICs-DSF) is an analytical framework to assess debt vulnerabilities and was first introduced in 2005. Since then, the Debt Sustainability Framework (DSF) has been reviewed occasionally and the last update was produced in 2015. The LICs-DSF only covers countries that are eligible to Poverty Reduction and Growth Trust (PRGT) facilities and International Development Association (IDA) resources. The Debt Sustainability Analysis (DSA) is produced at least once in every calendar year1 between the country authorities and the IMF and/or in specific situations2.

The IMF and WB use the LICs-DSF for policy advice, and as an input to IMF debt limits policy and WB non-concessional borrowing policy. After each DSA, countries are classified according to their risk of debt distress. This classification will determine the share of loans and grants mix of IDA eligible countries.

The DSA exercise looks at a 10-year historical data and a 20-year forecast horizon of the macroeconomic framework. It has five (5) external debt burden indicators and a (1) public debt burden indicator. The year-2015 is used as the base year and the year-2016 as the first year of projection in the case of The Gambia.

The outcome of the DSA is used as an input for the Medium Term Debt Management Strategy (MTDS) while it serves as guidance on lending and grant-allocation decisions for Creditors. This exercise is in accordance with the Debt Management Performance Assessment (DeMPA) methodology for best practice in debt management, which is required to assess public debt risks.

This report has six (6) chapters. Chapter 1 introduces the document. Chapters 2 and 3 review the recent macroeconomic developments and public debt respectively. The underlying assumptions are outlined in chapter 4 whilst chapter 5 analysis the results obtained. Finally chapter 6 summarizes key findings and recommends few policy action points.

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1 This is usually done during the Article IV consultation, programme review/request.

2 Request for IMF financing; Any modification to/or request for a waiver for non-compliance with a PC related to debt limits; Non-concessional borrowing beyond levels assessed in the most recent DSA.

CHAPTER 2: RECENT MACROECONOMIC DEVELOPMENTS

2.1. External Developments

Growth in emerging market and developing economies accounting for over 70 percent of global growth, declined for the fifth consecutive year, while a modest recovery continued in advanced economies. Three key transitions continue to influence the global economic outlook:

- The gradual slowdown and rebalancing of economic activity in China away from investment and manufacturing toward consumption and services,
- Lower prices for energy and other commodities, and
- A gradual tightening in monetary policy in the United States in the context of a resilient U.S. recovery while several other major advanced economy central banks continue to ease monetary policy.

The International Monetary Fund (IMF) has estimated global growth at 3.1 percent in 2015, and project 3.4 percent and 3.6 percent growth in 2016 and 2017 respectively. The pickup in global activity is projected to be more gradual as oppose to the previously reported in the October 2015 World Economic Outlook (WEO), especially in emerging market and developing economies. Commodity markets pose two-sided risks. On the downside, further declines in commodity prices would worsen the outlook for the already-weaken commodity producers, while increasing yields on energy sector debt threatens a broader tightening of credit conditions. On the upside, the recent decline in oil prices may provide a stronger boost to demand from oil importers than currently envisaged, including through consumers' possible perception that prices will remain lower for a long period.

2.2. Domestic Developments

The recent Gambia Bureau of Statistics (GBoS) estimate of real economic growth is projected at 4.7 percent premised on a strong rebound of the tourism sector and good agricultural produce in 2015. Real GDP growth in 2014 expanded to 0.9 percent compared to the growth of 4.6 percent and 5.9 percent in the preceding two years. The slowdown in economic activities in 2014 was marred by exogenous shocks as well as domestic policy challenges. The decline in agricultural production due to erratic rain pattern did not only slowdown growth but threatened food security. The spillover effects of the Ebola epidemic in the sub-region led to a decline in the international tourism receipts and related activities as well as cross-border trade. The combine effects of the shocks were exacerbated by large fiscal policy slippages and widened balance of payments deficit.

Price developments in 2015 indicated a declining trend in all major indicators. Headline inflation stood at 6.67 percent in December 2015, down slightly from 6.92 percent a year earlier but higher than the yearly target of 5.0 percent. The downward trend in headline inflation was mainly due to subdued food inflation. However, non-food inflation increased to 5.25 percent from 4.83 percent for the same period. Core Inflation stood at 6.68 percent in December 2015 compared to 6.90 percent in December 2014, reflecting moderation.

The exchange rate, based on end period mid-market averages revealed that the Dalasi (GMD/D) remained resilient against all the major trading currencies in the domestic FX market. Furthermore the tight monetary stance of the Central Bank of The Gambia also dampened demand pressures evident by the decline in deposit money banks' net open position.

The 2015 budget was anchored on curtailing NDB to 1.0 percent of GDP. Restraint on government's NDB were underpinned by expenditure cutting measures such as streamlining t he size of the public sector, reforming the official vehicle policy and downsizing diplomatic missions. It was envisaged that such measures would significantly help contain the NDB thus creating much needed fiscal space for other priority expenditures and cope with domestic and external shocks.

The overall budget balance (excluding grants) on commitment basis recorded a substantially lower deficit of D2.8 billion (7.6 percent of GDP) in 2015 compared to a deficit of D3.6 billion (9.7 percent of GDP) in 2014.The overall budget balance (including grants) in 2016, on commitment basis remained unchanged at D2.4 billion (6.3 percent of GDP).

On the Balance of Payment (BOP) accounts, the current account deficit has widened to US$ 98.6 million in 2015 from a deficit of US$ 84.8 million in 2014. The import bill increased to US$ 358.2 million in 2015 compared to US$ 335.0 million in 2014 partly reflecting the increase in food imports. However, Exports declined to US$ 112.3 million in 2015 from US$ 125.3 million in 2014 mainly reflecting the less than expected agricultural output due to late and insufficient rains experienced in 2014. Similarly, re-exports decreased from US$ 88.5 million in 2014 to US$ 73.8 million in 2015. The service improved to US$ 43.7 million in 2015 from US$ 29.2 million in 2014.

CHAPTER 3: PUBLIC DEBT PORTFOLIO REVIEW

3.1. Evolution of Public Debt

Table 1, shows the evolution of public debt for the period 2005 – 2015. Public debt outstanding rose from US$ 567.29 million in 2008; a year after The Gambia reached HIPC3 completion point; to US$ 935.95 million in 2015, representing a 65 percent increment. During the same period external debt registered a 30 percent increment whilst domestic debt increased by 113 percent.

Table 1: Evolution of Public Debt Outstanding (US$' Million)

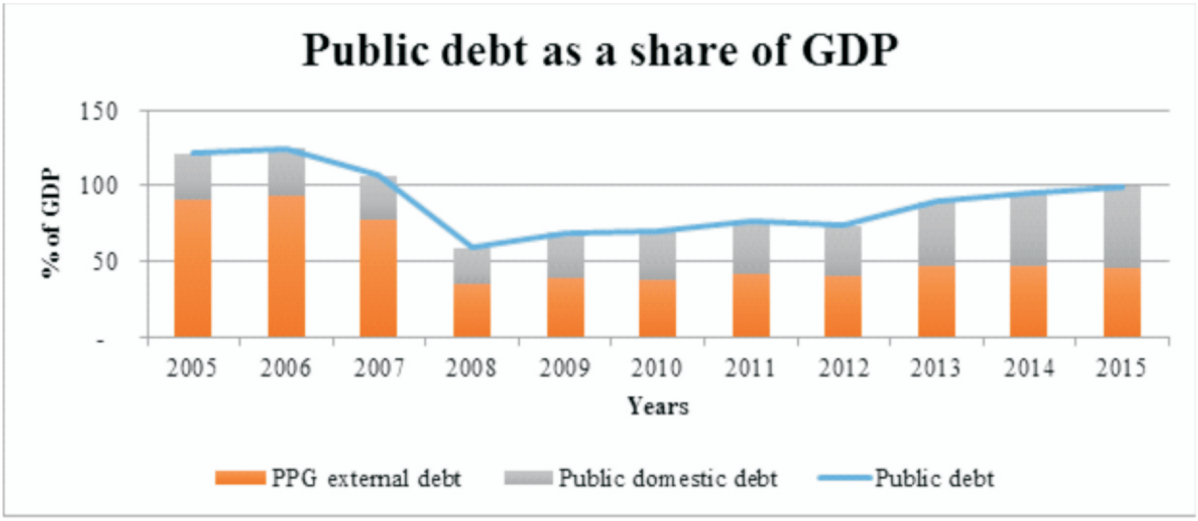
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Public debt	757.70	815.62	861.22	567.29	619.50	665.29	683.36	694.49	750.69	817.21	935.95
(% of GDP)	*121*	125	107	*59*	*69*	*70*	*76*	*74*	*90*	*96*	100
PPG external debt	566.25	611.12	619.90	329.60	346.44	356.87	370.72	377.95	394.07	403.05	430.00
(% of GDP)	*91*	*93*	*77*	*34*	*38*	*37*	*41*	*40*	*47*	*47*	*46*
(% of total)	*75*	*75*	*72*	*58*	*56*	*54*	*54*	*54*	*52*	*49*	*46*
Public domestic debt	191.46	204.51	241.32	237.69	273.05	308.42	312.64	316.54	356.62	414.16	*505.95*
(% of GDP)	*31*	31	30	*25*	*30*	*32*	*35*	*34*	*43*	*49*	*54*
(% of total)	*25*	25	28	*42*	*44*	*46*	*46*	*46*	*48*	*51*	*54*
Other series											
GDP nominal	625.16	654.89	806.22	958.90	900.79	952.50	898.81	942.76	836.01	853.31	938.80
Exchange rate (end period)	28.14	27.97	23.05	26.71	26.82	28.23	30.24	33.92	37.91	45.28	39.77

Source: MoFEA

Between 2005 and 2015, public debt has grown faster than real economic growth at 4 percent and 3 percent growth rates respectively. Public debt as a percentage of GDP continues to rise from 2008 at 59 percent to 100 percent in 2015 (see figure 1).

3 HIPC: Debt relief for Heavily Indebted Poor Countries was initiated in 1996 by the group of 8 (G8). The Gambia reached its decision point in 2000 and reached its completion point in 2007.

Figure 1: Public Debt as a Share of GDP



Source: MoFEA

In 2005, the public debt composition was 75 percent and 25 percent for external and domestic debt respectively. Furthermore, external debt continued to be more significant in the public debt mix of The Gambia until 2014. As at end-December 2014, the public debt ratio stood at 51 percent domestic and 49 percent external. External debt as at end-December 2015 stood at 46 percent of public debt composition, while domestic debt represented 54 percent (see figure 2)

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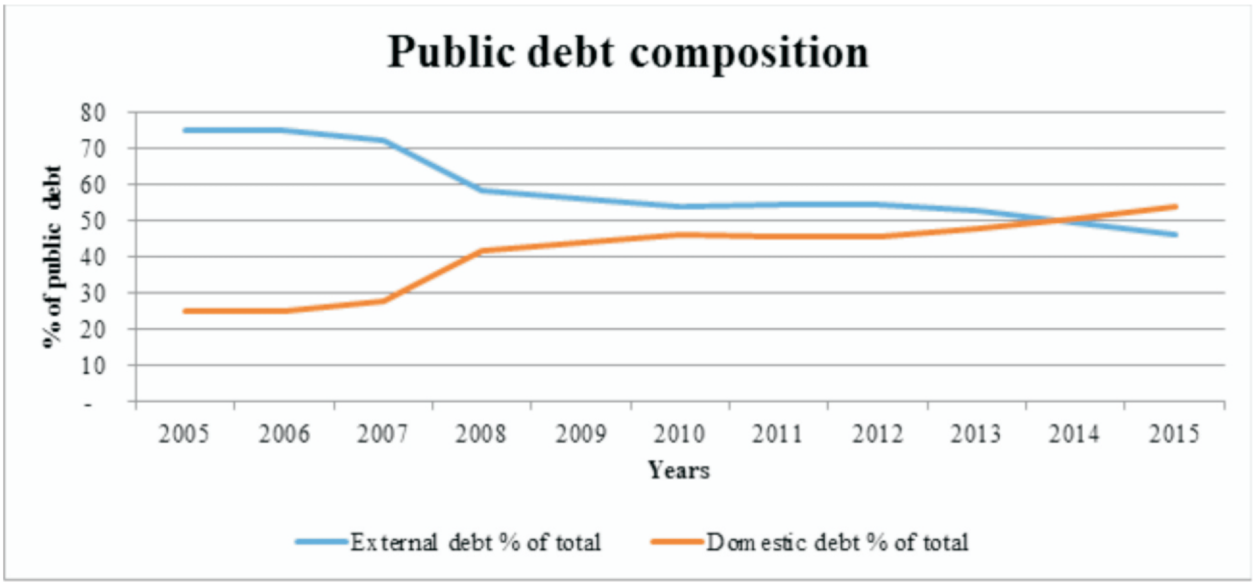
Figure 2: Public Debt Composition

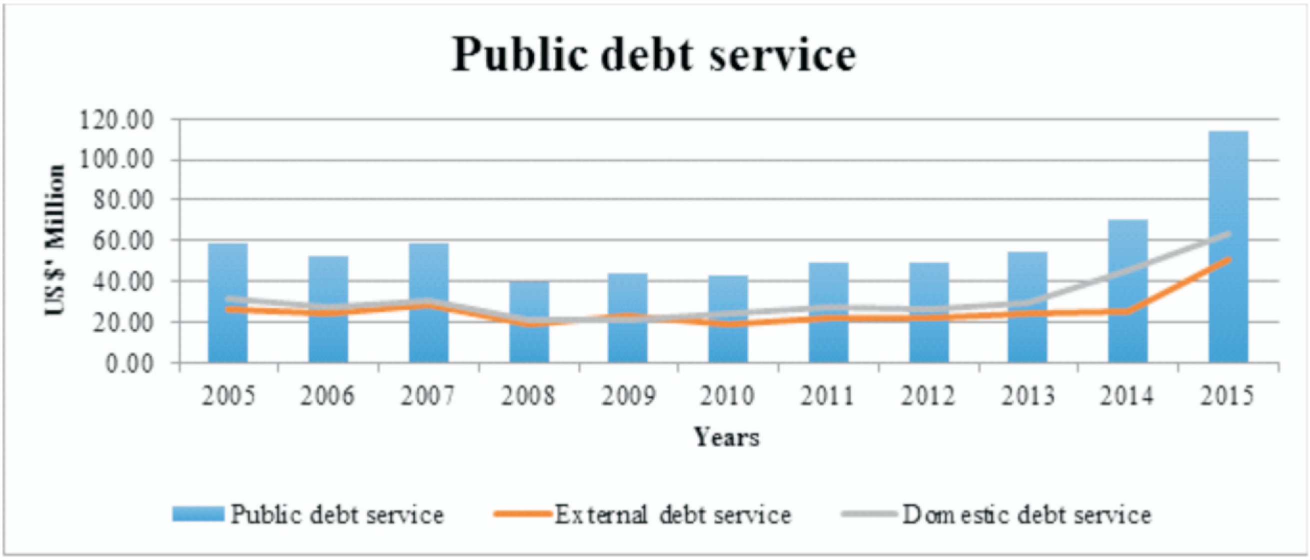


Source: MoFEA

3.2. Public Debt Service

Figure 3 shows a significant drop in public debt service in 2008 to US$ 39.74 million but continued to rise thereafter. Domestic debt service continued to be more significant throughout the period under review except in 2009. Furthermore, the gap between domestic debt service and external debt service started to widen from 2014. As at end-December 2015, public debt service stood at US$ 113.94 million representing 187 percent increment from 2008. The public debt service composition stood at US$ 63.2 million and US$ 50.74 million for domestic and external debt service respectively as at end-December 2015.

Figure 3: Public Debt Services (US$' Million)



Source: MoFEA

3.3. Public Debt Indicators in The Gambia

Table 2 shows the external debt burden performance of The Gambia with their indicative thresholds in the external Debt Sustainability Analysis for Low Income Countries (LICs-DSA). The first three indicators are solvency indicators while the last two indicators are liquidity indicators.

The Gambia is classified under a Medium policy performance category (CPIA4). Thus, with the exception of debt-service-to-revenue, the 2015 external debt performance for The Gambia are all

4 CPIA: Country Policy and Institutional Assessment. The index is categorized into four (4) groups of sixteen (16) indicators: economic management, structural policies, policies for social inclusion and equity, and public sector management and institutions.

below their respective indicative thresholds (see table 2). However, in 2015, the PV of public sector debt to GDP for The Gambia is 82 percent against an indicative threshold of 56 percent.

Table 2: External Debt Indicators as at 2015

	Threshold	2015 actuals
PV of PPG external debt to GDP	40	32
PV of PPG external debt to exports	150	105
PV of PPG external debt to revenue	250	169
PPG debt service-to-exports	20	18
PPG debt service-to-revenue	20	29

Source: LICs-DSA template

CHAPTER 4: UNDERLYING ASSUMPTIONS

Key underlining macroeconomic assumptions that were considered during the projections of the macroeconomic variables includes the following:

- **Real GDP growth rate.** The baseline projections assume that the fiscal year 2016 would be a period of rebound in Real GDP Growth to its long-term average range of about 5 percent. The main driving factors to this growth will be a rebound in agriculture as well as tourism and re-export trade which were severely affected by the spill over effect of the outbreak of the Ebola diseases in the sub-region is expected to improve the economic performance from 2016.

- **Inflation.** Inflation is projected at a single digit of 5 percent over the period 2017 to 2020 from the 6.6 percent as at September 2015

- **Revenue.** The successful implementation of the current GRA Strategic Plan (2015 – 2019) is anticipated to yield significant dividend in terms of higher revenues. The reduction in the company tax rate to 30 percent from 2016 onwards is expected to attract more investment into the country and bring in additional revenue.

- **Fiscal deficit.** On the fiscal front, it is assumed that after the 2016 budget where NDB is forecasted to be 8 percent of GDP is expected to decline as we strive to reduce fiscal deficit in the medium term. This will assume a deep budget restructuring to keep expenditures on a sustainable path.

- **Monetary policy.** The monetary policy intervention in recent years due to fiscal slippages will be limited in the period under consideration as the fiscal accounts are expected to improve. This will help improve the crowding-out effect on domestic credit of the banking sector to the private sector to boost growth amongst other objectives.

- **Nominal exchange rate.** The exchange rate forecast is based on an optimistic scenario of about 4 percent depreciation from 2016 to 2028. Furthermore, the exchange rate depreciation is expected to fall to 3 percent and then 2 percent in the long run.

- **Current account balance.** Projections in the current account balance remains conservative on improvements in the current account deficit, mainly due to the persistent merchandise trade deficit. With stability slowly being established in the other accounts the deficit will still be increasing but at a manageable rate.

CHAPTER 5: RESULTS ANALYSIS

5.1. External DSA

Baseline scenario. The external debt indicators are all projected to be below their respective indicative thresholds throughout the forecasting period. In addition all the indicators are expected to moderate further over the forecast horizon (see table 3).

Table 3: Baseline Scenario under External DSA (excerpt)

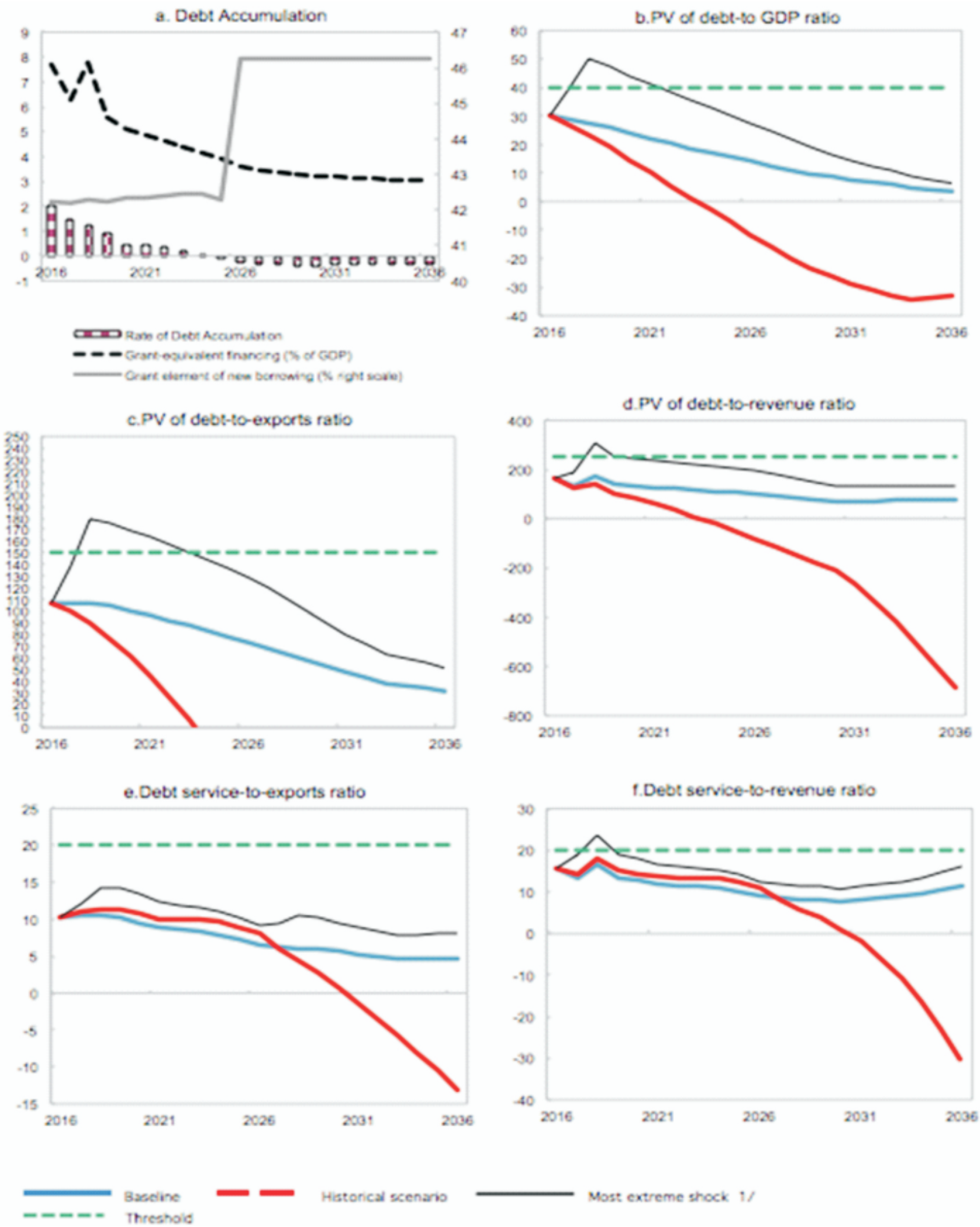
	Threshold	2016	2017	2018	2019	2020	2021
PV of PPG external debt to GDP	**40**	30	29	28	26	24	22
PV of PPG external debt to exports	**150**	106	107	106	104	100	96
PV of PPG external debt to revenue	**250**	164	137	169	138	133	129
PPG debt service-to-exports	**20**	10	11	11	10	10	9
PPG debt service-to-revenue	**20**	16	14	17	14	13	12

Source: LICs-DSA template

Alternative scenario. Figure 4 shows that the historical scenario remained more optimistic than the baseline under all the debt burden indicators throughout the forecast horizon, except for two indicators. Nonetheless all the indicators remained below their respective indicative thresholds.

Shock scenario. With the exception of debt sevice-to-exports, all the other indicators have their respective thresholds under the shock scenario with a 30 percent depreciation rate. The PV of debt-to-GDP ratio indicates a sustained breached from 2017 to 2021 while the PV of debt-to-export ratio indicated a sustained breached from 2017 to 2023.

Figure 4: Alternative scenario under External DSA



Source: LICs-DSA template

5.2. Public DSA

Baseline scenario. As at end-December 2015, the public sector debt to GDP ratio stood at 100 percent in nominal value terms (NV) and 82 percent in net present value term (NPV), about 26 percent above the indicative threshold for public debt distress. However, the public debt distress condition is expected to improve gradually in the medium to long term and become sustainable from the year 2020 (see table 4). The current public debt distress is largely explained by the significantly larger-than-expected domestic borrowing from 2013[5] to date.

Table 4: Baseline Scenario under Public Debt DSA (excerpt)

	Threshold	2016	2017	2018	2019	2020	2021
PV public sector debt to GDP	**56**	87	76	69	60	52	46

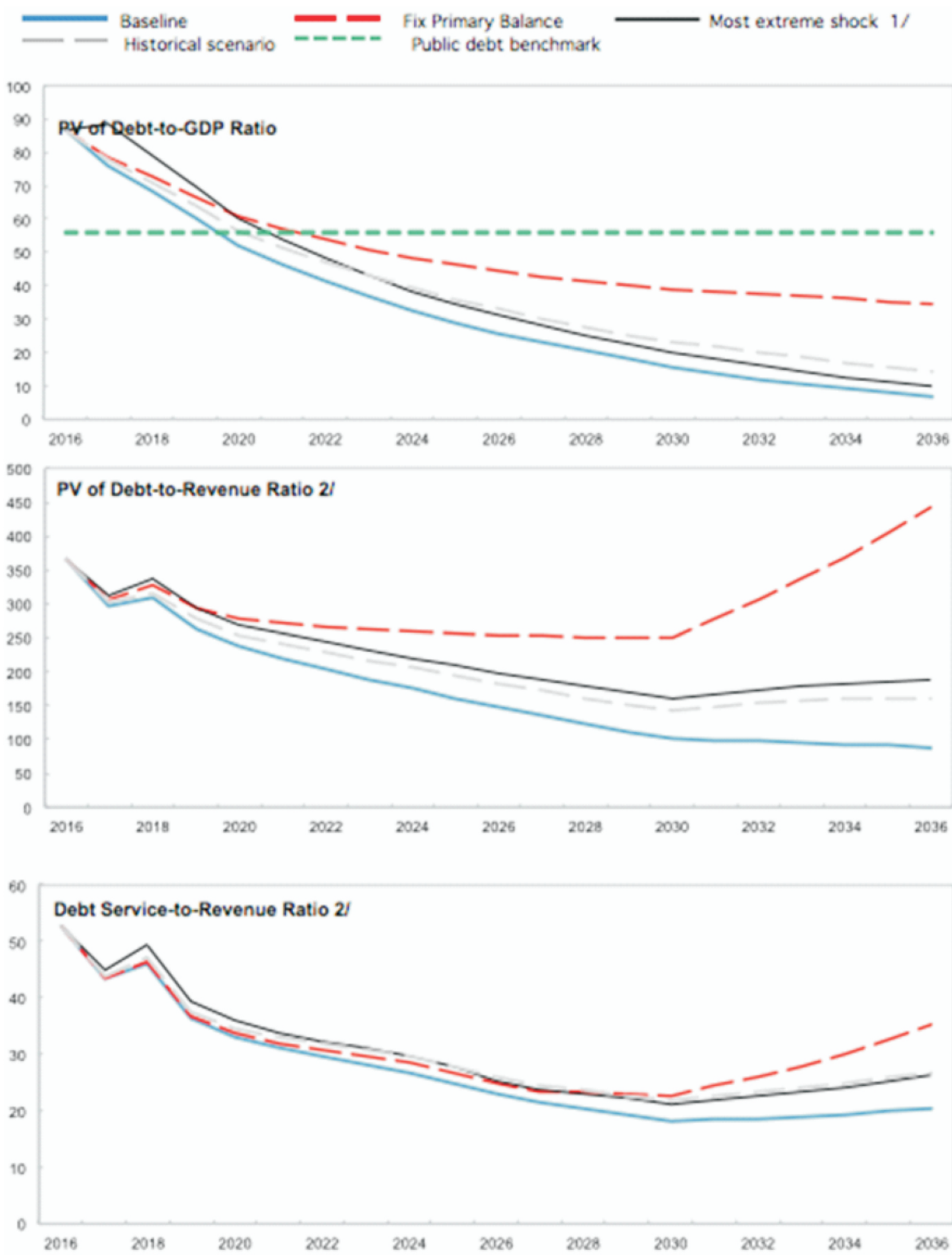
Source: LICs-DSA template

Alternative scenario. Figure 5 shows a slightly more pessimistic historical scenario than the baseline with an average primary surplus of 1.1 percent of GDP. However, the historical scenario is expected to fall below its debt burden indicative threshold from year 2020 and continue on a declining trend throughout the forecast horizon. Fixing the primary deficit at its forecast level in 2016 (2.6 percent of GDP) will be expected to follow a similar trend with the historical scenario. Nonetheless, the fix-primary balance is more pessimistic than the historical scenario and falls below the threshold from year 2022.

Shock scenario. The shock scenario of 30 percent depreciation remained closer to the baseline forecast than to the alternative fix-primary balance scenario throughout the forecast horizon. Nonetheless, there was a slight divergence in the first two years of the forecast period concerning the most extreme shock from the other scenarios under the PV of debt-to-GDP ratio (see figure 5).

5 Public domestic debt to GDP has increased by 9 percentage points between 2012 and 2013, and it currently stands at 63 percent registering a 20 percentage points increase from 2013.

Figure 5. Alternative Scenario under Public Debt DSA



Source: LICs-DSA template

CHAPTER 6: SUMMARY OF KEY FINDINGS AND RECOMMENDATIONS

6.1. Summary of Findings

The LICs-DSA exercise indicates a moderate risk rating[6] of external debt distress in The Gambia. The projections have all remained below their respective debt burden indicative thresholds under the historical scenario and the baseline scenario. However, the shock scenario, the 30 percent depreciation has sustained breaches in the medium term in both the PV of debt-to-GDP ratio and the PV of debt-to-exports ratio.

On the other hand, the public DSA suggests a high risk of debt distress in The Gambia. The public sector debt burden indicators have breached the established threshold under the PV of public debt-to-GDP ratio in the medium term.

The difference in risk rating between external DSA and public DSA is largely attributed to the recent hike in domestic borrowing. However, the status quo is expected to change from year-2021 under the forecast horizon.

6.2. Recommendations

Given the results from the DSA exercise, the technical team has come up with the following policy action points so as to bring the high risk of public debt distress below established thresholds of acceptable risk:

- In addition to the existing efforts to diversify the export base of the economy, the government of The Gambia (GoTG) should continue to consolidate efforts in improving receipts from re-exports.

- The GoTG should continue to strengthen its fiscal consolidation efforts through its commitment to curtail down the NDB to a sustainable level. Among other plans the government should fast track its initiative to restructure the domestic debt by introducing longer term instruments and develop its domestic market.

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6 Mechanical classification on risk rating: This depends on the number of debt-burden indicators that are above their respective thresholds – Low risk (where there is no breach in the baseline scenario and in the stress tests), Moderate risk (where there is no breach in the baseline scenario but at least there exist one breach in the stress tests), High risk (where there exists at least one breach in both the baseline scenario and in the stress tests) and Debt distress (where the country is already experiencing difficulties in servicing debt, example, where the country is in arrears).

- The GoTG is encouraged to produce and established MTEF. This medium term policy instrument should serve as the basis for the DSA exercise. Furthermore, the production of the post-PAGE medium term strategic plan should equally be fast tracked in order to tailor the DSA policy actions accordingly.

Finally, it is the resolve of the GoTG to attain a low risk debt level within the immediate medium term from this exercise.

THE DSA TECHNICAL TEAM

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AGD

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