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THE GAMBIA

Joint Bank-Fund Debt Sustainability Analysis -2018 Update

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An updated debt sustainability analysis (DSA) indicates that The Gambia is currently in external debt distress and that public debt is unsustainable. Both external and domestic debt are very high, and a significant pipeline of already-contracted loans poses risks to solvency. External debt stock indicators have deteriorated since the March 2018 DSA, and all five external debt burden indicators breach their indicative thresholds by large margins and for an extended period in the passive scenario and in the active (baseline) scenario. The stress test results illustrate the country's high vulnerability to shocks, total public debt is expected to remain elevated throughout the projection period, rollover risks associated with the short maturity of domestic debt are high, and contingent liabilities related to SOE debt pose additional risks. Furthermore, the sustained primary surpluses needed to reduce public debt would be politically and socially challenging given The Gambia's substantial development needs. New borrowing would need to be on highly concessional terms and reserved for the very highest priority projects for which grant-financing is not available. The government should also refrain from offering any guarantees. An illustrative scenario shows how debt relief (comprising a deferral of principal due to plurilateral, bilateral official and private creditors and a softening of the terms of the already contracted loans)—complementing the implementation of a sound medium-term fiscal framework and debt strategy—could be instrumental in restoring debt sustainability.

BACKGROUND

1. **The Gambia's public and publicly guaranteed (PPG) external debt level is very high.** Based on available information, external debt stood at 69 percent of GDP at end-2017 (Text Table 1). The creditor base is dominated by multilateral (35 percent) and so-called 'plurilateral' creditors (35 percent), most notably the Islamic Development Bank. Non-Paris Club creditors (24 percent) are the other major bilateral official creditor category, with a small amount owed to members of the Paris Club and to one external private creditor. Central government domestic debt is also very high, amounting to 60 percent of GDP (Text Table 2), and the large share of T-bills and short- maturity debt means that rollover risks are significant.

Table 1. The Gambia: Structure of PPG External Public Debt at end-2017

	Nominal Value			Present Value[1]		
		Percent of			Percent of	
	US$ millions	GDP	External Debt	US$ millions	GDP	External Debt
Total External	**685.6**	**67.5**	**100.0**	**489.3**	**48.1**	**100.0**
Multilateral creditors	**239.8**	**24.1**	**35.8**	**149.1**	**15.0**	**31.2**
International Development Association	105.1	10.6	15.7	58.3	5.9	12.2
African Development Bank	55.4	5.6	8.3	31.4	3.2	6.6
International Monetary Fund	51.5	5.2	7.7	41.3	4.2	8.6
International Fund for Agricultural Development	27.7	2.8	4.1	18.2	1.8	3.8
Plurilateral creditors	**238.8**	**24.0**	**35.6**	**180.1**	**18.1**	**37.7**
Islamic Development Bank	141.8	14.3	21.2	102.7	10.3	21.5
Arab Bank for Economic Development in Africa	43.4	4.4	6.5	32.5	3.3	6.8
OPEC Fund for International Development	34.6	3.5	5.2	28.9	2.9	6.1
ECOWAS	18.9	1.9	2.8	15.9	1.6	3.3
Bilateral Official creditors	**163.4**	**15.2**	**22.6**	**128.6**	**12.0**	**24.9**
Paris Club	5.6	0.6	0.8	4.6	0.5	1.0
Non-Paris Club	157.7	15.9	23.5	123.9	12.5	26.0
Of which: Kuwait Fund for Arab Economic Development	42.7	4.3	6.4	33.5	3.4	7.0
Of which: Saudi Fund for Development	30.2	3.0	4.5	16.7	1.7	3.5
Of which: Export-Import Bank of India	28.0	2.8	4.2	22.9	2.3	4.8
Private creditors	**43.7**	**4.1**	**6.0**	**31.5**	**2.9**	**6.1**

Sources: The Gambian authorities, major creditors, and IMF staff calculations

[1] Calculated at a discount rate of 5 percent, see IMF (2013) "Unification of Discount Rates Used in External Debt Analysis for Low-Income Countries".

Table 2. The Gambia: Structure of Domestic Debt at end-2017

		Percent of	
	GMD millions	Total Domestic Debt	GDP
Total	**28,388**	**100.0**	**60.0**
Marketable debt	**16,402**	**57.8**	**34.7**
T-bills	14,195	50.0	30.0
held by Banks	10,840	38.2	22.9
held by Non Banks	3,354	11.8	7.1
Bonds	2,208	7.8	4.7
held by Banks	1,551	5.5	3.3
held by Non Banks	657	2.3	1.4
Non-marketable debt	**11,986**	**42.2**	**25.3**
CBG Bond (30-Year)	10,420	36.7	22.0
Restructured NAWEC bond	1,566	5.5	3.3

Sources: The Gambian authorities; and IMF Staff.

2. External debt at end-2017 was substantially higher than forecast at the time of the RCF/SMP request in June 2017 and exceeded the level projected in March 2018. The end-2017 debt stock was 6 percentage points of GDP higher than projected in March 2018 and over 17 percentage points of GDP relative to the June 2017 DSA (Text Table 3). The forecast error was driven by the recognition of a substantial external private debt ($44 million, 4.4 percent of GDP at end-2017) incurred under the previous regime and treated as supplier's arrears but not captured in the government's debt database, even-faster project disbursements (7.9 percentage points of GDP), and the findings from a debt reconciliation exercise with external creditors in the summer of 2017 (4 percentage points of GDP). Higher-than-anticipated revenues compensated in part for the hike in capital spending relative to June 2017 estimates, and the deterioration in the overall fiscal deficit was limited to 4 percentage points of GDP, with the overall deficit increasing to 7.9 percent of GDP.

Text Table 3. Determinants of the forecast-error in the public external debt-to-GDP ratio at end-2017 relative to the June 2017 DSA.

	Percent
Unexpected debt creating flows	
Recognition of an external private debt	4.4
Debt recognition with external creditors	4.0
Faster-than-envisaged project disbursement	7.9
Others (including ex. rate changes)	2.0
Total	**18.3**

Source: IMF staff estimates

3. There is a large pipeline of already-contracted, but not yet disbursed debt, including two newly-signed loans, which may drive debt accumulation in the near-term (Figure 1). Following the signing of two new external loans in recent months (including one short-term trade-credit facility with a grant-element below the required 35 percent minimum),[1] The Gambia's pipeline of already-contracted debt has grown to almost $412 million (41 percent of GDP, Text Table 4) from an estimated $350 million in the previous DSA, just over half of which is concessional on current terms (i.e., with grant element of 35 percent or higher). The authorities expect high project execution to continue in 2018 and 2019, with $168 million (17 percent of GDP or about 40 percent of the pipeline loans) forecast to disburse over this period. Cumulatively, project loan disbursements are expected to be 17.4 percent of GDP higher over 2018–23 than in the June 2017 DSA. Given the risks posed by this large pipeline, it is essential that the authorities carefully review and re-prioritize their existing project pipeline in the context of the National Development Plan (NDP). This exercise should include cancellation of loans where appropriate and seeking improvements in the terms to raise their grant elements (which could be achieved through a combination of replacing loans with grants, reducing interest rates, renewing grace periods, and extending maturities). Furthermore, mechanisms to avoid cost over-runs should be put in place.

[1] As discussed in the Staff Report (¶10) and MEFP (¶5 and ¶19), this resulted in a breach of the zero-limit on contracting of non-concessional debt at end-December 2017.

Table 4. The Gambia: Pipeline of Already-Contracted Debt

	Disbursement Pipeline (USD mn)	
	Total undisbursed at end-2017	Projected disbursements for 2018-19 [1]
IDA	58.1	6.0
AfDB	13.0	3.6
Other Multilaterals/Plurilaterals	169.1	84.4
Non-Paris Club Bilateral	171.7	73.8
Total	**411.9**	**167.9**

Sources: The Gambian authorities; and IMF Staff.

[1] Before re-Prioritization exercise.

4. **The International Conference for The Gambia, held in Brussels on May 22–23, 2018, generated just over $1.5 billion (151 percent of GDP) in pledges of financial support, more than half in the form of grants.** The total new grant financing mobilized exceeded $750 million, all of which is expected to be committed to projects/operations during the period of the NDP (2018–21). Most of the new funding will be directed toward project support, with smaller amounts set aside for budget support, institutional support (including a €150 million grant to support the Commission of Enquiry), technical assistance, and trade financing. A further $700 million in development lending to support the NDP was pledged, at varying levels of concessionality and mostly from The Gambia's current plurilateral creditors.

5. **The Gambia has approached its external creditors regarding a potential debt restructuring**. China agreed to forgive its existing debts in late 2017, while the Saudi Fund for Development agreed to a debt rescheduling[2] in early 2018. Discussions are ongoing with Kuwait Fund and BADEA on possible concessions on their pre-existing loans. Liabilities to private creditors are being serviced but are subject to validation and could be considered for concessions. The authorities also met with their key plurilateral creditors on the sidelines of the International Conference to discuss the possibility of further debt relief.

6. **Economic activity has rebounded since early 2017 and inflation has declined.** The rebound in economic activity was supported by favorable weather conditions and a pickup in tourism (a key sector for the Gambia), yielding an estimated 3.5 percent real GDP growth for 2017 compared to 2.2 percent in 2016. The improved political environment and increased availability of foreign exchange also helped pave the way to a rebound in private activity. Private sector credit

[2] China provided full debt forgiveness on about $14 million in debt contracted in the 1980s. The Saudi Fund restructuring involves a rescheduling by 15 years, on average, of principal payments falling due in 2018–21 (equivalent to providing new financing with a 36 percent grant element). The Saudi operation applies to $24 million in currently outstanding debt (a large share of total Saudi claims), as well as a further $10 million in undisbursed balances; and represents an NPV haircut of 8 percent on the current stock of debt owed to Saudi Arabia.

grew by 13.8 percent (year-on-year) as of end-April 2018 compared to -1.2 percent at end-2017, reflecting banks' switch to private lending as sovereign borrowing slowed and yields on government securities declined. Helped by an abundance of food and a more stable exchange rate, consumer price inflation eased steadily during the year from 8.8 percent (year-on-year) at end-January 2017 to 6.6 percent at end-April 2018.

7. Conditions in the domestic debt market have improved. Average T-bill rates have fallen sharply, from a weighted average (across maturities) of 18.9 percent in October 2016 to an average of 8.6 percent in mid-May 2018, as increased donor support, and a pickup in revenues helped the government reduce domestic borrowing. With market conditions more favorable, in 2017 the authorities issued 3-year and 5-year domestic bonds for the first time, an important step in their strategy to extend domestic maturities. However, the government also agreed to assume a substantial share (1.9 percent of GDP) of the domestic liabilities of the National Water and Electricity Company (NAWEC) in the context of the World-Bank-supported Energy Roadmap, which has further added to the domestic debt stock.[3]

8. Debt management, monitoring, and recording capacity is weak. Developing the capacity to monitor project disbursements more reliably and conduct timely and accurate debt recording will be critical if The Gambia is to successfully manage its debt vulnerabilities going forward. Given the authorities' difficulties in accurately recording the external debt stock, the introduction of a bi-annual (June and December) reconciliation exercise with external creditors is now a structural benchmark under the Staff Monitored Program (SMP) and may result in further revisions to the 2017 debt stock. An IMF-World Bank technical assistance mission in 2017 provided the authorities with assistance in developing a Medium-Term Debt Strategy (MTDS). Further TA in this area will focus on updating this MTDS for recent developments and the outcomes of the international conference and integrating it with a Borrowing Plan and Medium-Term Economic and Fiscal Framework that are consistent with restoring and maintaining debt sustainability. Relatedly, US AID will also be providing broader TA in this area based on an assessment of the current regulatory framework, institutional framework, strategies, policies and processes, and staff capacity related to debt management. The authorities have also requested World Bank TA to assist them in formulating a Debt Management Reform Plan.

DEBT COVERAGE

9. The updated DSA includes all known public and publicly guaranteed external debt.[4] SOEs domestic and unguaranteed external debts are not included in the baseline DSA, except where they are already serviced by the government (including the NAWEC debts assumed by the government in 2018, although the full repayment terms for some of these facilities have not yet

[3] Disclosed in a Staff Supplement to the 2017 Article IV (IMF Country Report No. 18/99) on March 19, 2018, but only included as a contingent liability in the March 7, 2018 DSA.

[4] The only exception is a short-term trade finance facility, which is on-lent by the government to SOEs.

(continued)

been agreed).[5] A tailored contingent liability stress test in the public DSA assumes that the government becomes responsible for servicing the entire remaining known stock of SOE debt, estimated at 8.2 percent of 2018 GDP (which is now lower than in March 2018, following the assumption by the central government of the majority of NAWEC's domestic debt). However, deficiencies remain in the government's information on the extent and terms of SOE external debts, including non-guaranteed debts and, as a result, the known stock of these liabilities may be revised upward once the special audits of SOEs are completed.

MACRO-FISCAL ASSUMPTIONS

10. The DSA presents results under two possible scenarios for government policy. The "active" scenario, corresponding to the SMP baseline in the staff report, features substantial grant-financed investment, minimal contracting of new debt (and only on highly-concessional terms), domestic expenditure reform and revenue mobilization, macro-stability, and a step-up in private sector growth. Conversely, in the "passive' scenario", the government undertakes less domestic fiscal effort and continues to contract external debt at a similar pace to recent years, resulting in rapid further debt accumulation, increased domestic interest rates and inflation, and relatively weak growth returns to very high levels of public investment. Comparison of assumptions is presented in Text Tables 5–6.

11. Assumptions under the 'active' scenario include:

- The new grants pledged for project support (estimated at around $580 million) at the international conference are committed over the NDP period (2018–21), although given project timelines and absorption constraints, these grants are not fully disbursed until 2025 Budget support (in the form of grants) comprises €100 million already pledged by the EU for 2018–21 and $7 million from the AfDB in 2018, as well an assumed $80 million from the World Bank's IDA in 2018–20, and is mostly used to reduce recourse to domestic borrowing.[6] In the longer term, grants for budget support are assumed to taper off from 10 percent of GDP in 2023 to 3½ percent of GDP by 2030.

- Disbursements on the substantial pipeline of existing project loans are incorporated, based on the contractual terms; an average grant element of 54 percent from major multilaterals, 29 percent from plurilateral creditors, and 38 percent from bilateral creditors. However, in the context of the authorities' efforts to re-prioritize the pipeline, a more gradual pattern of projects loan disbursements is assumed, and new debt contracting is extremely limited (about 10 percent of the pledges) over the medium term and reserved for critical projects financed on highly concessional terms.

- Government short- and medium-term measures to increase the efficiency of public expenditures are implemented. At the same time, improved governance and tax administration support

[5] As a simplifying assumption, it is assumed the repayment terms on all these debts correspond to those on the restructured NAWEC bond.

[6] The World Bank's IDA contributions include $60 million from IDA18 and $20 million from IDA19.

improved revenue mobilization, with the ratio of domestic revenue-to-GDP progressively rebounding to the levels observed in 2013–15 (about 20 percent of GDP in the medium term).

- Increased (grant-financed) public investment and a pickup in private credit underpin stronger real GDP growth rates in the near term, with longer-term growth expected to stabilize at 4.8 percent. Inflation gradually falls back to just below the Central Bank of The Gambia's 5 percent target and, following the substantial fall in domestic interest rates in 2017, domestic interest rates stabilize at an average of 2 percent in real terms over the projection period. The current account deficit is expected to remain substantial in the medium term, reflecting the high import content of public investment.

Text Table 5. Selected Macroeconomic Indicators (2016–24)

	2016	2017	2018	2019	2020	2021	2022	2023	15-year average[1]
Real GDP Growth (percent)									
Current DSA: 'active' scenario	2.2	3.5	5.4	5.4	5.2	5.0	4.8	4.8	4.6
Current DSA: 'passive' scenario	2.2	3.5	5.4	5.2	4.9	4.8	4.8	4.8	4.8
Previous DSA[2]	2.2	3.5	5.4	5.2	4.9	4.8	4.8	4.8	4.8
CA deficit (percent of GDP)[3]									
Current DSA: 'active' scenario	8.9	19.3	19.0	20.5	21.0	21.4	20.2	17.8	15.7
Current DSA: 'passive' scenario	8.9	19.3	23.0	24.6	24.6	24.4	22.7	20.5	18.6
Previous DSA[2]	8.9	14.3	18.4	16.9	14.4	13.2	14.1	13.6	15.2
Exports of goods and services growth (percent)[4]									
Current DSA: 'active' scenario	5.0	-20.5	28.0	12.8	11.3	8.7	9.8	7.3	5.9
Current DSA: 'passive' scenario	5.0	-20.5	28.0	11.3	9.5	6.8	8.5	6.0	6.1
Previous DSA[2]	5.0	-6.0	16.9	9.3	9.0	8.2	8.0	6.5	6.5
Imports of goods and services growth (percent)[4]									
Current DSA: 'active' scenario	-10.2	28.1	17.4	8.5	6.6	5.1	3.8	2.8	5.3
Current DSA: 'passive' scenario	-10.2	28.1	18.4	9.0	6.1	4.4	3.2	2.5	5.4
Previous DSA[2]	-10.2	23.2	20.5	3.2	0.9	4.0	4.4	6.1	6.2
Public investment (percent of GDP)									
Current DSA: 'active' scenario	6.4	15.6	16.0	16.1	17.7	17.3	17.1	15.4	9.1
Current DSA: 'passive' scenario	6.4	15.8	16.5	17.9	18.5	17.6	16.8	16.0	10.2
Previous DSA[2]	6.4	14.8	17.0	13.3	10.0	8.6	8.3	8.0	7.8
Overall fiscal deficit[5]									
Current DSA: 'active' scenario	9.8	7.9	3.9	0.6	1.9	2.1	1.8	0.9	0.6
Current DSA: 'passive' scenario	9.8	7.9	10.3	9.5	9.9	9.8	9.5	9.6	9.7
Previous DSA[2]	9.8	3.9	0.8	1.7	1.2	-0.3	0.6	0.0	-0.3

[1] Defined as the simple average of the last 15 years of the projection (2024-38).

[2] March 2018 (Debt Sustainability Analysis)

[3] Includes worker's remittances

[4] In current dollar terms, including re-exports.

[5] Includes re-exports and grants.

12. The assumptions underpinning the 'passive' scenario include:

- In addition to disbursements from the existing loan pipeline (as in the "active" scenario), the government maintains a similar pace of new debt contracting as in previous years, resulting in the disbursement of an additional $300 million of new moderately concessional (35 percent grant element) loans in 2018–25.

- As in the "active" scenario, new grants pledged at the donor conference are assumed to disburse over 2018–25, but in the context of weak policy performance, it is assumed that only 70 percent of the new project support is ultimately mobilized (Text Table 6). Given the stronger conditionality on budget support, these grants are assumed to fall by $100 million to around half the level in the "active" scenario over 2018–21.

- Measures to boost revenue mobilization and streamline public expenditures are not implemented, which alongside lower budget support grants and high disbursements on project support loans, result in the fiscal balance worsening by about 9 percentage points of GDP relative to the "active" scenario in the medium-term, of which 4 percentage points is accounted for by higher interest costs, and 2½ percentage points by lower grants.

- Public investment rates are higher than under the baseline scenario, but constraints on absorption capacity and investment efficiency and crowding out of the private sector result in sharply diminished growth returns. High domestic borrowing by the government contributes to a pickup in inflation, an increase in domestic interest rates, and depreciation of the dalasi. The return of macro-instability further deters private investment, resulting in marginally lower growth than in the "active scenario", despite the looser fiscal stance.

- The scenario does not incorporate the likely negative growth effects that the incurrence of external arrears and the deterioration in the overall macroeconomic environment would entail but are difficult to incorporate in a deterministic framework underlying the DSA, given the endogeneity and policy interactions involved. Nevertheless, the budgetary and financial implications of the "passive" scenario already point to a severe fiscal and balance-of-payments crisis, even without incorporating these effects.

DSA RESULTS

13. External debt stock indicators have deteriorated further since the March 2018 DSA, with all five external debt burden ratios breaching their indicative thresholds in the "active" (baseline) scenario for an extended period (Figure 1 and Table 1). With the addition of payments on the newly incorporated external private debt, external public debt service-to-exports and debt service-to-revenue ratios breach their respective thresholds by large margins (about 50 percent in 2018), and stay above them until 2025 and 2028, respectively (with the exception of 2022).[7] The PV of PPG external debt-to-GDP reached 49 percent in 2017, 3 percentage points higher than in the March 2018 DSA, and 19 percentage points above the threshold, although an upcoming GDP-rebasing is likely to reduce the size and duration of the breach. The PV of debt-to-exports and PV of debt-to-revenue ratios (271 percent, and 296 percent in 2017, respectively) are also well above their indicative thresholds (100 percent and 200 percent, respectively.

[7] The hump in the profile of debt service ratios in 2023–24 is spread among several creditors.

Table 6. External financing assumptions, (2018–38)
(Percent of GDP)

	2018	2019	2020	2021	2022	2023	2024	2025-30	2031-38
Active Scenario									
Budget Support loans	0.0	0.0	0.0	0.3	0.3	0.3	0.3	0.0	0.0
Project loans	7.1	4.2	4.9	4.4	4.3	3.6	2.8	2.5	2.3
Already-signed	*7.1*	*3.4*	*3.9*	*3.5*	*3.5*	*2.8*	*2.2*	*0.6*	*0.0*
New Projects	*0.0*	*0.8*	*1.0*	*0.9*	*0.9*	*0.8*	*0.6*	*1.9*	*2.3*
Total loans	**7.1**	**4.2**	**4.9**	**4.8**	**4.7**	**3.9**	**3.1**	**2.5**	**2.3**
Budget Support grants	6.3	4.8	3.7	2.5	2.1	2.0	1.9	1.6	1.1
Pledged	*6.3*	*4.8*	*3.3*	*2.2*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Unpledged	*0.0*	*0.0*	*0.4*	*0.4*	*2.1*	*2.0*	*1.9*	*1.6*	*1.1*
Project grants	*6.3*	*8.9*	*9.4*	*9.2*	*9.1*	*8.1*	*6.6*	*2.4*	*1.7*
Already-signed	*3.2*	*1.6*	*1.0*	*0.9*	*0.9*	*0.8*	*0.0*	*0.0*	*0.0*
Pledged	*3.1*	*7.3*	*7.7*	*6.8*	*6.5*	*5.3*	*4.7*	*0.5*	*0.0*
Unpledged	*0.0*	*0.0*	*0.8*	*1.5*	*1.7*	*2.0*	*1.9*	*1.9*	*1.7*
Total grants	**12.6**	**13.7**	**13.1**	**11.7**	**11.2**	**10.1**	**8.5**	**4.0**	**2.8**
Passive Scenario									
Budget Support loans	0.0	0.0	0.0	0.3	0.3	0.3	0.3	0.0	0.0
Project loans	9.4	5.6	4.2	3.5	3.2	2.5	6.0	4.0	3.3
Already-signed	*9.4*	*5.6*	*4.2*	*3.5*	*3.2*	*2.5*	*1.7*	*0.4*	*0.0*
New Projects	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*4.3*	*3.6*	*3.3*
Total loans	**9.4**	**5.6**	**4.2**	**3.8**	**3.5**	**2.8**	**6.3**	**4.0**	**3.3**
Budget Support grants	3.4	2.6	2.8	2.7	2.2	2.1	2.0	1.7	1.2
Pledged	*3.4*	*2.6*	*2.4*	*2.3*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Unpledged	*0.0*	*0.0*	*0.4*	*0.4*	*2.2*	*2.1*	*2.0*	*1.7*	*1.2*
Project grants	*5.2*	*7.3*	*7.9*	*6.7*	*6.4*	*5.4*	*4.3*	*2.3*	*1.8*
Already-signed	*3.4*	*1.7*	*1.0*	*1.0*	*0.9*	*0.9*	*0.0*	*0.0*	*0.0*
Pledged	*1.8*	*5.6*	*6.9*	*5.0*	*4.7*	*3.8*	*3.6*	*0.4*	*0.0*
Unpledged	*0.0*	*0.0*	*0.0*	*0.8*	*0.7*	*0.7*	*0.7*	*1.9*	*1.8*
Total grants	**8.5**	**9.8**	**10.7**	**9.4**	**8.6**	**7.5**	**6.3**	**4.0**	**2.9**
memo: March 2018 DSA Budget Support loans	*0.0*	*0.0*	*0.1*	*0.3*	*0.3*	*0.3*	*0.3*	*0.1*	*0.0*
memo: March 2018 DSA Project loans	*7.1*	*5.1*	*3.5*	*2.9*	*2.6*	*2.4*	*1.7*	*1.1*	*1.7*
memo: March 2018 DSA Budget Support grants	*5.2*	*4.3*	*3.6*	*3.7*	*1.9*	*1.8*	*1.8*	*1.7*	*1.5*
memo: March 2018 DSA Project grants	*8.0*	*5.7*	*3.3*	*2.6*	*2.4*	*2.4*	*2.3*	*2.1*	*1.8*

Source: The Gambian authorities, World Bank, AfDB, EU, and IMF calculations

14. **The stress test results underscore The Gambia's high vulnerability to external shocks (Figure 2).** All five indicators show very large breaches under the stress tests and remain above threshold levels for most (or all) of the projection period. The shock with the biggest effect across all five indicators is the combination shock, reflecting The Gambia's multiple sources of vulnerability, and the frequent occurrence of large shocks in recent years.

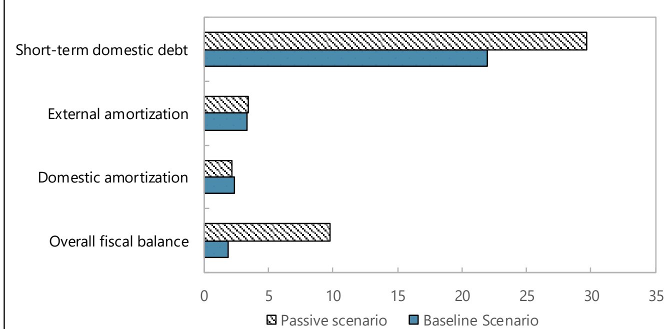
15. **The public DSA underscores vulnerabilities arising from the high level and short maturity of domestic debt in the "active" (baseline) scenario (Figure 2 and Table 2).** The PV of total public debt increased further to 109 percent-of-GDP in 2017, and despite higher grant inflows, is now expected to remain above the benchmark until 2036. Higher external debt service and increased fiscal deficits have resulted in greater public gross financing needs (by about 2.3 percentage points of GDP relative to the previous DSA). They amount to 29 percent of GDP in the medium term and are mostly driven by rollover of the large short-term domestic debt stock. While the GDP-rebasing is likely to reduce the PV of debt-to-GDP ratio somewhat, debt service will remain extremely high relative to revenues, with debt-service to revenue, excluding

grants expected to average 53 percent over 2018–20 (against 31 percent when grants are included).

16. **Given the high level of public debt ratios, they are sensitive to all stress tests, but particularly to a depreciation of the exchange rate.** Under a one-time depreciation of the exchange rate by 30 percent in 2019, the PV of debt-to-GDP would deteriorate by more than 20 percent, to reach 116 percent against 95 percent in the baseline scenario. Debt service would increase by 3 percentage points of revenues relative to the baseline scenario. Furthermore, risks from the contingent liabilities of SOEs remain substantial, and their materialization would result in a further deterioration in the debt burden indicators.

17. **With continued new debt contracting and more limited availability of budget support grants in the "passive" scenario, The Gambia might rapidly fall into arrears on its external debt obligations (Figures 3 and 4 and Tables 3–4).** In the "passive" scenario, the PV of external debt-to-GDP continues to increase until 2023, peaking at 55 percent. With large fiscal deficits, increased recourse to domestic borrowing means that total public debt only marginally declines, and gross financing needs increase (averaging 45 percent in the medium term), as the composition of public debt shifts further toward short-term domestic debt (Text Figure 1). The debt service indicators breach their thresholds for most of the projected horizon, and the reduced availability of budget support grants in this scenario would increase the likelihood of difficulties in meeting these needs. While not incorporated in the scenario, the incurrence of external arrears could rapidly lead to a marked reduction of capital (particularly debt) inflows, depreciation of the exchange rate and a sharp and severe growth slow-down.

Text Figure 1. Average Gross Financing Needs, 2018–23
(Percent GDP)



18. **Based on the external debt burden indicators, the current DSA finds that The Gambia is in external debt distress.** All external debt burden indicators breach their thresholds by large margins and for an extended period, indicating protracted difficulties in meeting debt servicing obligations.

19. **There are also significant risks stemming from domestic debt, and overall public debt is unsustainable.** The overall level of public debt is expected to remain high throughout the projection period, and rollover risks associated with the short-term maturity of domestic debt are significant. As a result, in the near-term even minor shocks could push domestic interest rates into double-digit levels and leave Gambia unable to meet its financing requirements. Furthermore, the decline in the PV of total public debt in the "active" scenario is dependent on

the government running substantial primary surpluses in the medium term, which would likely prove extremely socially and politically challenging given The Gambia's substantial development needs. Space for any new borrowing is very limited, and new borrowing would need to be on highly concessional terms and reserved for the very highest priority projects for which grant-financing is not available. The government should avoid compounding fiscal risks, and refrain from contracting any guarantees that would add to the already high level of public and publicly guaranteed debt.

20. The authorities ongoing actions to address the existing debt burden are needed to restore debt sustainability. The government has approached its creditors to request debt relief, which would immediately reduce debt servicing requirements and the present value of debt. In this regard, the recent examples set by China (debt forgiveness) and the Saudi Fund (extension of the grace period and debt maturity) could serve as precedents. Estimated debt service due to plurilateral, and bilateral official and private creditors over the next five years is substantial (altogether $180 million, Text Table 7), and restructuring or rescheduling[8] these claims could immediately mitigate near-term vulnerabilities. It is of equal importance that the authorities re-prioritize their existing project pipeline in the context of the NDP, including cancelling lower-priority projects where appropriate, and seek improvements in the terms of the already-contracted loans to raise their grant element (which could be achieved through a combination of replacing loans with grants, reducing interest rates, renewing grace periods, and extending maturities).

[8] Or alternatively by providing new highly concessional financing to cover this debt service.

Table 7. External Debt Service Needs (2019–2023)

	Nominal value of debt outstanding (US$ millions)	Principal coming due (2019-23) US$ millions	Principal coming due (2019-23) Percent of Revenue	Principal coming due (2019-23) Percent of Exports	Total debt service (2019-23) US$ millions	Total debt service (2019-23) Percent of Revenue	Total debt service (2019-23) Percent of Exports
Total External	**685.6**	**207.1**	**15.6**	**12.8**	**242.1**	**18.3**	**15.0**
Multilateral creditors	**239.8**	**54.7**	**4.1**	**3.4**	**61.6**	**4.6**	**3.8**
International Development Association	105.1	10.7	0.8	0.7	14.3	1.1	0.9
African Development Bank	55.4	8.4	0.6	0.5	10.7	0.8	0.7
International Monetary Fund	51.5	29.3	2.2	1.8	29.3	2.2	1.8
International Fund for Agricultural Development	27.7	6.2	0.5	0.4	7.2	0.5	0.4
Plurilateral creditors	**238.8**	**81.2**	**6.1**	**5.0**	**92.9**	**7.0**	**5.8**
Islamic Development Bank	141.8	47.4	3.6	2.9	51.8	3.9	3.2
Arab Bank for Economic Development in Africa	43.4	14.2	1.1	0.9	16.7	1.3	1.0
OPEC Fund for International Development	34.6	14.4	1.1	0.9	16.9	1.3	1.0
ECOWAS	18.9	5.2	0.4	0.3	7.5	0.6	0.5
Bilateral Official creditors	**163.4**	**54.3**	**4.1**	**3.4**	**70.8**	**5.3**	**4.4**
Kuwait	42.7	11.7	0.9	0.7	15.4	1.2	1.0
Saudi	30.2	2.7	0.2	0.2	4.0	0.3	0.3
India	28.0	10.7	0.8	0.7	12.5	0.9	0.8
Venezuela	18.0	6.9	0.5	0.4	9.1	0.7	0.6
Taiwan	17.3	9.1	0.7	0.6	11.3	0.8	0.7
UAE	17.2	5.9	0.4	0.4	7.3	0.6	0.5
Netherlands	4.3	4.3	0.3	0.3	8.2	0.6	0.5
Libya	4.0	2.0	0.2	0.1	2.0	0.2	0.1
Austria	1.7	1.0	0.1	0.1	1.0	0.1	0.1
Private creditors	**43.7**	**16.8**	**1.3**	**1.0**	**16.8**	**1.3**	**1.0**

Sources: The Gambian authorities, major creditors, and IMF staff calculations

21. **A simple simulation suggests that The Gambia's debt can be put on a sustainable path within the scope of the measures outlined in ¶20 above (Box 1).** An illustrative scenario, featuring a five-year deferral of all principal due to plurilateral, official bilateral, and private creditors and softening of the terms of the already contracted but undisbursed project loans from these creditors—complementing the implementation of a sound medium-term fiscal framework and debt strategy—delivers a substantial debt relief that could restore debt sustainability. This is evident in an improvement in the critical debt service-to-revenue and debt service-to-exports indicators, and a significant reduction in the PV of the overall public debt and gross financing needs. This flow relief would achieve a significant reduction in domestic borrowing requirement and maintain much needed space for critically important social and development spending. Separately, the PV of external and total public and publicly guaranteed debt to GDP will likely be substantially reduced as a result of the GDP rebase. This, together with the improvement in debt service-to-revenue and debt service-to-exports indicators, would imply a markedly lower probability of The Gambia's falling into external debt arrears. Additional improvement could be realized from interest reduction. For example, a reduction of interest rates, on all debt subject to this deferral, to an average of 1 percent would generate, in the near term, about 0.3 percent of GDP in interest savings per year.

Box 1. Restoring Debt Sustainability in The Gambia: "Active Plus" Scenario

This illustrative "active plus" scenario shows how debt relief in the context of an active scenario (underpinned by the implementation of a sound medium-term fiscal framework and debt strategy) could contribute to restoring debt sustainability. The key assumptions are:

- A five-year deferral on principal repayments to plurilateral, bilateral official and private creditors during 2019–23. This is assumed to be delivered by adding five years to the grace and maturity period of all loans, in a manner similar to the Saudi Fund's debt restructuring operation earlier in 2018. This reduces the need for domestic borrowing and allows the government to pay down (expensive) domestic debt.
- The terms on the undisbursed pipeline of loans signed under the previous regime ($343 million) are improved (by extending grace periods and maturity and reducing interest rates) to achieve an average grant element of 50 percent.

In this scenario, the external debt service indicators would fall well-below their thresholds during the deferral period and, while they rise thereafter, they remain below the thresholds throughout the projection period. The PV of the external debt would remain broadly unaffected, but the outlook for overall public debt would improve, through a significant reduction in the stock of short-term domestic debt during the deferral of external debt repayment, translating into permanent savings on the interest bill.

Debt Burden Indicators in the Restructuring Scenario

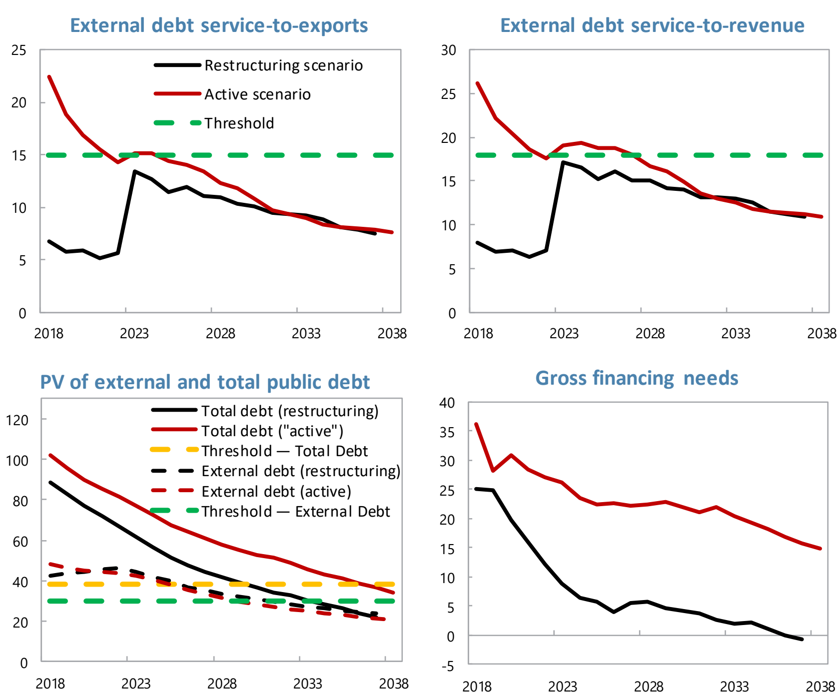
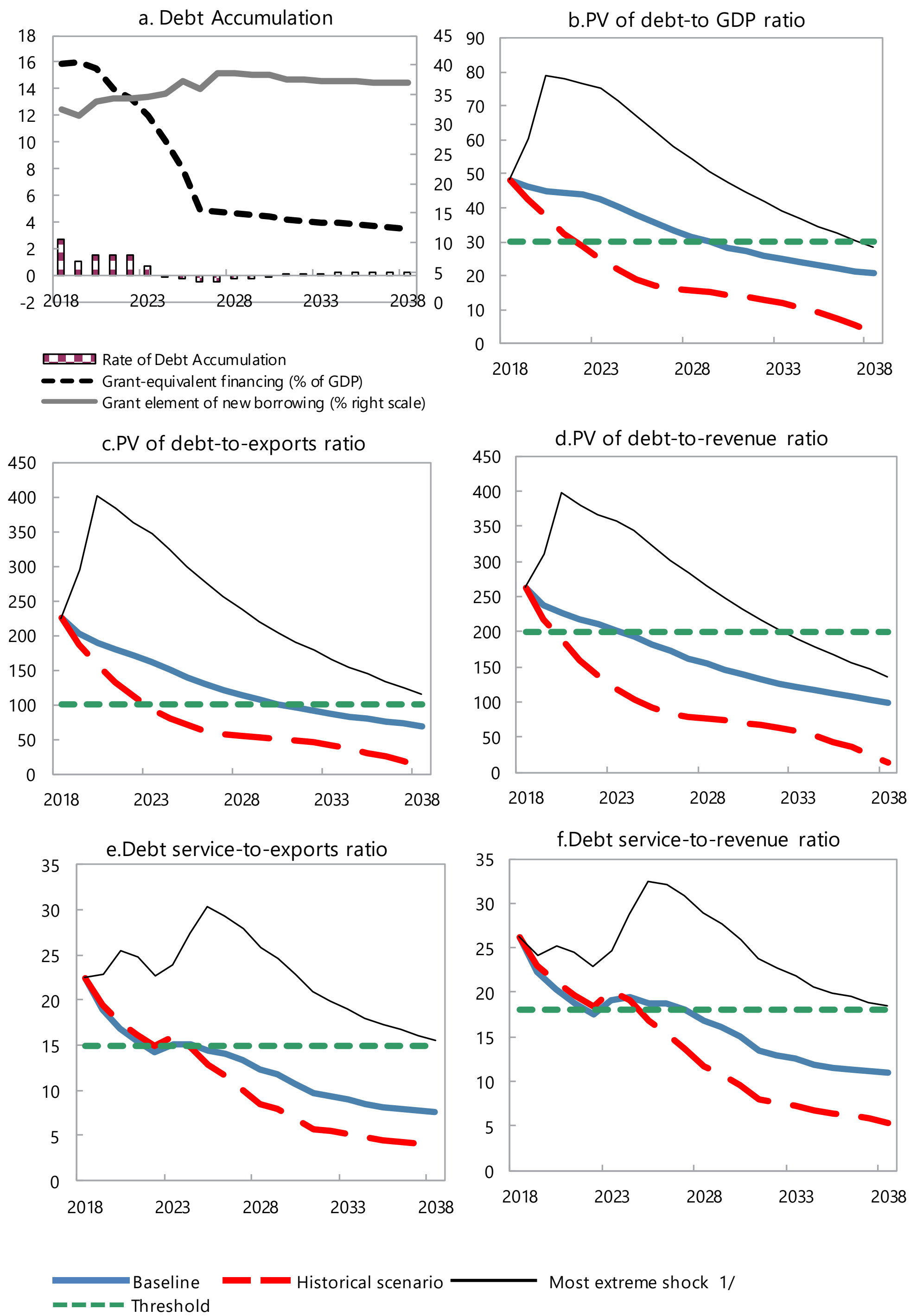


Figure 1. The Gambia: Indicators of Public- and Publicly-Guaranteed External Debt under 'Active' Scenario and Stress Tests, 2018–38[1]



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2028. In figure b. it corresponds to a Combination shock; in c. to a Combination shock; in d. to a Combination shock; in e. to a Combination shock; and in figure f. to a Combination shock

Table 1. The Gambia: External Debt Sustainability Framework, 'Active' Scenario, 2015–38[1]

(Percent of GDP, unless otherwise indicated)

	Actual			Historical 6/ Average	Standard 6/ Deviation	Projections									
	2015	2016	2017			2018	2019	2020	2021	2022	2023	2018-2023 Average	2028	2038	2024-2038 Average
External debt (nominal) 1/	**55.5**	**65.3**	**71.9**			**71.0**	**68.7**	**68.8**	**69.0**	**69.5**	**68.4**		**56.5**	**39.3**	
of which: public and publicly guaranteed (PPG)	51.4	61.5	69.2			67.5	64.0	62.3	61.0	60.2	58.0		43.4	28.8	
Change in external debt	-6.0	9.8	6.6			-0.9	-2.3	0.0	0.2	0.5	-1.1		-2.2	-1.5	
Identified net debt-creating flows	2.8	-2.9	8.1			6.7	7.7	7.9	8.1	6.5	4.1		1.0	6.3	
Non-interest current account deficit	**14.1**	**8.1**	**18.5**	**11.6**	**3.6**	**18.3**	**19.8**	**20.2**	**20.6**	**19.4**	**17.0**		**13.1**	**17.3**	15.1
Deficit in balance of goods and services	25.7	17.9	33.1			34.0	33.9	33.0	32.1	30.2	28.5		23.7	26.9	
Exports	24.7	24.0	18.2			21.5	22.9	24.0	24.7	25.8	26.4		28.0	29.9	
Imports	50.4	41.9	51.3			55.4	56.8	57.0	56.8	56.0	54.9		51.7	56.8	
Net current transfers (negative = inflow)	-13.9	-11.9	-16.6	-9.2	4.1	-17.6	-16.0	-14.6	-13.2	-12.7	-12.9		-12.1	-11.3	-11.9
of which: official	-1.9	-0.8	-5.5			-6.7	-5.1	-3.9	-2.7	-2.2	-2.6		-2.1	-1.6	
Other current account flows (negative = net inflow)	2.2	2.1	2.1			1.9	1.8	1.7	1.7	1.8	1.4		1.5	1.7	
Net FDI (negative = inflow)	**-8.2**	**-7.5**	**-8.3**	**-8.5**	**1.3**	**-8.8**	**-9.3**	**-9.7**	**-10.1**	**-10.5**	**-10.5**		**-10.1**	**-9.6**	-9.9
Endogenous debt dynamics 2/	**-3.0**	**-3.4**	**-2.2**			**-2.8**	**-2.8**	**-2.6**	**-2.5**	**-2.4**	**-2.4**		**-2.0**	**-1.5**	
Contribution from nominal interest rate	1.0	0.7	0.8			0.8	0.8	0.8	0.8	0.8	0.8		0.6	0.3	
Contribution from real GDP growth	-2.5	-1.1	-2.2			-3.6	-3.6	-3.4	-3.3	-3.2	-3.2		-2.6	-1.8	
Contribution from price and exchange rate changes	-1.6	-3.0	-0.7			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**-8.8**	**12.7**	**-1.5**			**-7.6**	**-10.0**	**-7.9**	**-7.8**	**-6.0**	**-5.2**		**-3.2**	**-7.8**	
of which: exceptional financing	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	52.1			51.8	50.8	51.4	52.2	53.1	52.7		44.6	31.1	
In percent of exports	...	...	285.7			241.1	222.0	214.3	211.1	205.9	199.7		159.4	103.9	
PV of PPG external debt	**...**	**...**	**49.3**			**48.2**	**46.1**	**45.0**	**44.2**	**43.8**	**42.3**		**31.6**	**20.6**	
In percent of exports	**...**	**...**	**270.7**			**224.6**	**201.5**	**187.6**	**178.9**	**170.1**	**160.4**		**112.9**	**68.8**	
In percent of government revenues	**...**	**...**	**295.6**			**262.0**	**236.9**	**226.2**	**216.1**	**209.3**	**201.6**		**153.7**	**99.0**	
Debt service-to-exports ratio (in percent)	**14.7**	**10.7**	**22.5**			**22.4**	**18.9**	**16.9**	**15.4**	**14.2**	**15.1**		**12.3**	**7.6**	
PPG debt service-to-exports ratio (in percent)	**14.7**	**10.7**	**22.5**			**22.4**	**18.9**	**16.9**	**15.4**	**14.2**	**15.1**		**12.3**	**7.6**	
PPG debt service-to-revenue ratio (in percent)	**18.5**	**14.0**	**24.6**			**26.2**	**22.2**	**20.3**	**18.7**	**17.5**	**19.0**		**16.7**	**11.0**	
Total gross financing need (Millions of U.S. dollars)	110.0	66.1	181.8			184.7	211.1	234.1	266.0	275.5	277.2		343.7	611.6	
Non-interest current account deficit that stabilizes debt ratio	20.1	-1.7	11.9			19.2	22.1	20.2	20.4	18.9	18.1		15.4	18.8	
Key macroeconomic assumptions															
Real GDP growth (in percent)	4.3	2.2	3.5	3.6	3.3	5.4	5.4	5.2	5.0	4.8	4.8	5.1	4.6	4.5	4.6
GDP deflator in US dollar terms (change in percent)	2.7	5.8	1.1	-0.9	7.5	3.1	0.5	0.9	0.5	0.4	0.0	0.9	0.4	0.5	0.5
Effective interest rate (percent) 5/	1.8	1.4	1.2	1.7	0.3	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.0	0.8	0.9
Growth of exports of G&S (US dollar terms, in percent)	-9.5	5.0	-20.5	-1.8	10.3	28.0	12.8	11.3	8.7	9.8	7.3	13.0	5.7	5.7	5.9
Growth of imports of G&S (US dollar terms, in percent)	11.3	-10.2	28.1	5.1	12.2	17.4	8.5	6.6	5.1	3.8	2.8	7.4	4.0	6.1	5.3
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	32.6	31.5	33.7	34.4	34.4	34.5	33.5	38.5	37.0	37.4
Government revenues (excluding grants, in percent of GDP)	19.7	18.4	16.7			18.4	19.4	19.9	20.5	20.9	21.0		20.6	20.8	20.7
Aid flows (in Millions of US dollars) 7/	79.9	31.6	227.0			161.6	178.8	186.1	176.6	176.9	167.4		116.4	151.4	
of which: Grants	16.7	16.2	115.4			146.8	169.3	170.3	160.3	160.5	152.5		67.8	78.4	
of which: Concessional loans	63.2	15.4	111.6			14.8	9.5	15.8	16.3	16.4	14.9		48.6	72.9	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			15.8	16.0	15.5	14.0	13.3	12.0		4.7	3.5	4.8
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			75.8	84.0	82.0	81.5	81.2	82.2		74.3	69.7	73.9
Memorandum items:															
Nominal GDP (Millions of US dollars)	892.2	964.6	1009.5			1097.2	1161.8	1233.3	1301.1	1369.9	1436.0		1840.4	3011.4	
Nominal dollar GDP growth	7.1	8.1	4.7			8.7	5.9	6.1	5.5	5.3	4.8	6.1	5.0	5.0	5.1
PV of PPG external debt (in Millions of US dollars)			489.9			517.6	528.7	547.2	566.2	586.5	595.6		569.8	606.9	
(PVt-PVt-1)/GDPt-1 (in percent)						2.7	1.0	1.6	1.5	1.6	0.7	1.5	-0.3	0.3	0.0
Gross workers' remittances (Millions of US dollars)	93.6	93.5	98.3			106.9	113.2	119.1	125.7	132.2	136.0		170.2	276.4	
PV of PPG external debt (in percent of GDP + remittances)	...	...	45.0			43.9	42.0	41.0	40.3	40.0	38.7		28.9	18.8	
PV of PPG external debt (in percent of exports + remittances)	...	...	176.4			154.5	141.3	133.7	128.6	123.7	118.0		84.8	52.6	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	14.7			15.4	13.2	12.0	11.1	10.4	11.1		9.2	5.8	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt. Debt values may vary marginally from those in the accompanying staff report due to exchange rate conventions.

2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = 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. Large residuals over projection period are mainly accounted for by project support grants (which are not not included in the current account).

4/ Assumes that PV of private sector debt is equivalent to its face value.

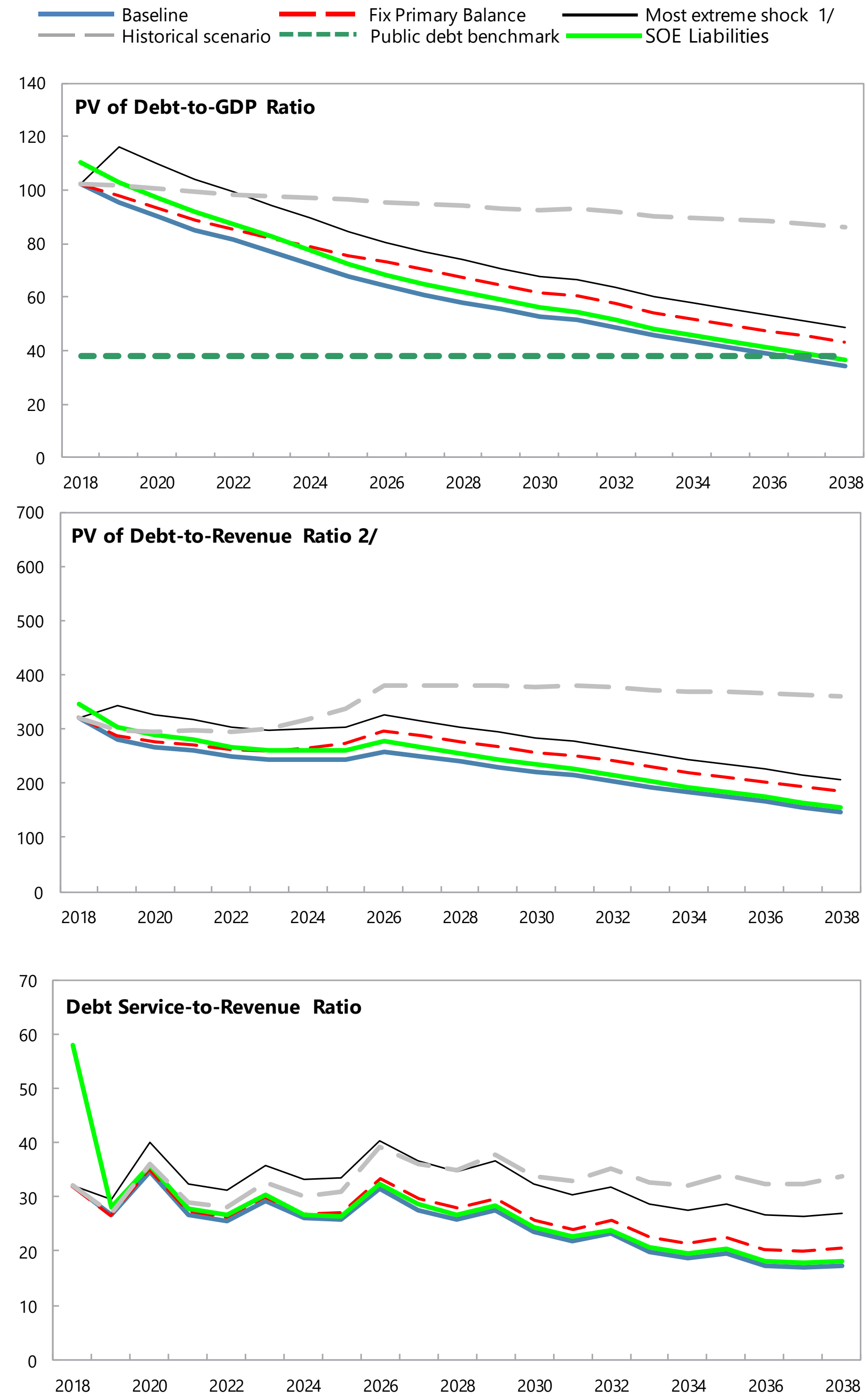
5/ Current-year interest payments divided by previous period debt stock.

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).

Figure 2. The Gambia: Indicators of Public Debt Under 'Active' Scenario and Stress Tests, 2018–38[1]



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2028.

2/ Revenues are defined inclusive of grants.

Table 2. The Gambia: Public Sector Debt Sustainability Framework, 'Active' Scenario, 2015–38[1]

	Actual			Average[5/]	Standard Deviation[5/]	Estimate	Projections								
	2015	2016	2017			2018	2019	2020	2021	2022	2023	2018-23 Average	2028	2038	2024-38 Average
Public sector debt 1/	105.3	123.4	129.2			121.3	113.4	107.4	102.0	97.7	92.6		69.9	42.6	
of which: foreign-currency denominated	51.4	61.5	69.2			67.5	64.0	62.3	61.0	60.2	58.0		43.4	28.8	
Change in public sector debt	0.4	18.0	5.9			-7.9	-7.9	-6.0	-5.4	-4.3	-5.1		-3.5	-2.5	
Identified debt-creating flows	-8.7	5.5	-0.5			-9.1	-8.9	-6.2	-5.2	-4.4	-5.4		-3.4	-2.5	
Primary deficit	1.3	2.3	0.6	1.5	1.9	-0.9	-3.7	-2.1	-1.6	-1.5	-2.3	-2.0	-1.4	-1.1	-1.6
Revenue and grants	21.6	20.0	28.1			31.8	34.0	33.7	32.8	32.7	31.6		24.2	23.4	
of which: grants	1.9	1.7	11.4			13.4	14.6	13.8	12.3	11.7	10.6		3.7	2.6	
Primary (noninterest) expenditure	22.8	22.4	28.7			30.9	30.4	31.6	31.2	31.1	29.3		22.9	22.2	
Automatic debt dynamics	-9.9	3.1	-1.1			-6.5	-5.2	-4.2	-3.6	-2.8	-3.0		-2.0	-1.3	
Contribution from interest rate/growth differential	0.0	1.0	-2.5			-6.4	-6.1	-5.1	-3.6	-3.9	-3.8		-2.5	-1.6	
of which: contribution from average real interest rate	4.3	3.2	1.7			0.2	0.1	0.5	1.6	0.8	0.7		0.8	0.4	
of which: contribution from real GDP growth	-4.3	-2.3	-4.2			-6.6	-6.2	-5.7	-5.1	-4.7	-4.5		-3.3	-2.0	
Contribution from real exchange rate depreciation	-9.9	2.2	1.4			-0.1	0.8	1.0	-0.1	1.0	0.7		...	...	
Other identified debt-creating flows	0.0	0.0	0.0			-1.7	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0			-1.7	0.0	0.0	0.0	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	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	9.1	12.6	6.4			1.2	1.0	0.2	-0.2	0.0	0.3		-0.1	0.0	
Other Sustainability Indicators															
PV of public sector debt	...	...	109.4			102.0	95.5	90.1	85.2	81.3	76.9		58.1	34.4	
of which: foreign-currency denominated	...	...	49.3			48.2	46.1	45.0	44.2	43.8	42.3		31.6	20.6	
of which: external	...	...	49.3			48.2	46.1	45.0	44.2	43.8	42.3		31.6	20.6	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	52.7	60.8	66.6			36.2	28.1	30.8	28.3	27.0	26.3		22.4	14.9	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	389.0			320.9	280.6	267.3	260.0	248.9	243.2		239.5	147.1	
PV of public sector debt-to-revenue ratio (in percent)	...	...	655.5			554.2	490.9	452.7	416.6	388.1	366.2		282.4	165.5	
of which: external 3/	...	...	295.6			262.0	236.9	226.2	216.1	209.3	201.6		153.7	99.0	
Debt service-to-revenue and grants ratio (in percent) 4/	44.5	46.0	38.2			31.9	26.6	34.6	26.7	25.5	29.2		25.7	17.2	
Debt service-to-revenue ratio (in percent) 4/	48.7	50.2	64.4			55.1	46.5	58.5	42.7	39.7	44.0		30.3	19.4	
Primary deficit that stabilizes the debt-to-GDP ratio	0.8	-15.7	-5.3			7.0	4.2	3.9	3.8	2.8	2.8		2.1	1.3	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	4.3	2.2	3.5	3.6	3.3	5.4	5.4	5.2	5.0	4.8	4.8	5.1	4.6	4.5	4.6
Average nominal interest rate on forex debt (in percent)	1.9	1.5	1.3	1.8	0.3	1.2	1.2	1.3	1.3	1.4	1.4	1.3	1.3	1.1	1.2
Average real interest rate on domestic debt (in percent)	7.4	5.9	3.6	6.4	1.3	1.7	2.2	2.4	2.1	2.3	2.4	2.2	3.1	3.2	3.0
Real exchange rate depreciation (in percent, + indicates depreciation)	-17.3	4.3	2.4	4.5	10.1	...	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	6.4	7.1	8.1	5.4	1.8	5.7	4.9	4.6	4.7	4.6	4.6	4.8	4.6	4.7	4.7
Growth of real primary spending (deflated by GDP deflator, in percent)	-10.2	0.3	32.7	2.4	11.1	13.4	3.7	9.6	3.7	4.5	-1.3	5.6	5.1	4.3	2.7
Grant element of new external borrowing (in percent)	...	...	...	...	...	32.6	31.5	33.7	34.4	34.4	34.5	33.5	38.5	37.0	...

Sources: Country authorities; and staff estimates and projections.

1/ Comprises domestically denominated central government debt, and general government external debt, gross.

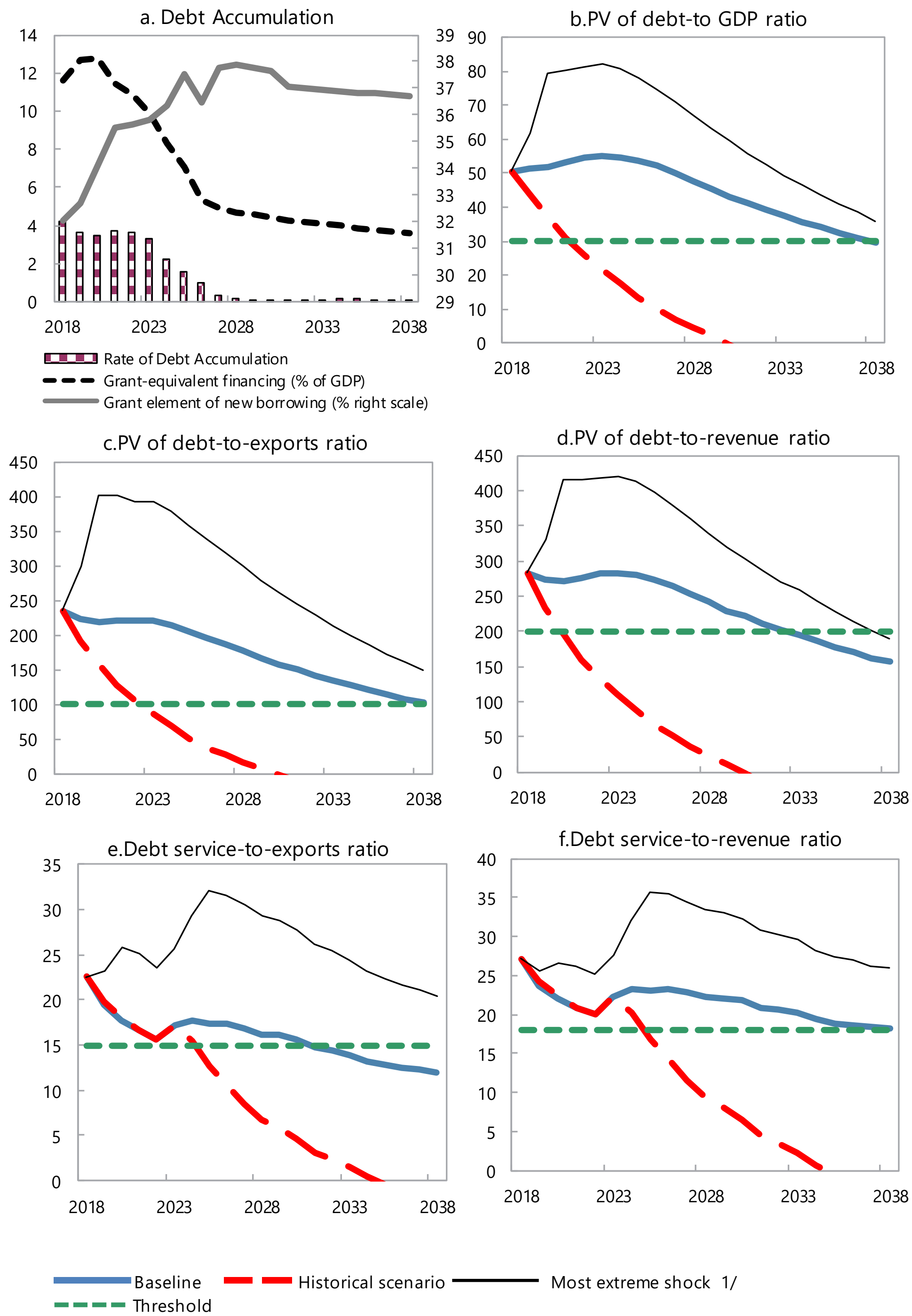
2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

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.

Figure 3. The Gambia: Indicators of Public- and Publicly-Guaranteed External Debt Under 'Passive' Scenario and Stress Tests, 2018–38[1]



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2028. In figure b. it corresponds to a Combination shock; in c. to a Combination shock; in d. to a Combination shock; in e. to a Combination shock; and in figure f. to a Combination shock

Table 3. The Gambia: 'Passive' Scenario: External Debt Sustainability Framework, 2015–38[1]

(Percent of GDP, unless otherwise indicated)

	Actual			Historical [6/]	Standard [6/]	Projections									
				Average	Deviation							2018-2023			2024-2038
	2015	2016	2017			2018	2019	2020	2021	2022	2023	Average	2028	2038	Average
External debt (nominal) 1/	**55.5**	**65.3**	**71.9**			**74.3**	**76.2**	**78.8**	**82.2**	**85.2**	**87.4**		**78.8**	**51.5**	
of which: public and publicly guaranteed (PPG)	51.4	61.5	69.2			70.7	71.4	72.3	74.0	75.8	76.8		65.5	40.8	
Change in external debt	-6.0	9.8	6.6			2.4	1.9	2.6	3.4	3.1	2.2		-3.1	-2.3	
Identified net debt-creating flows	2.8	-2.9	8.1			11.1	12.7	12.9	12.2	10.1	7.6		4.3	9.9	
Non-interest current account deficit	**14.1**	**8.1**	**18.5**	**11.6**	**3.6**	**22.2**	**23.8**	**23.8**	**23.5**	**21.7**	**19.6**		**15.9**	**20.0**	17.8
Deficit in balance of goods and services	25.7	17.9	33.1			34.5	35.4	34.8	34.1	32.1	30.7		26.3	29.4	
Exports	24.7	24.0	18.2			21.5	22.8	23.7	24.1	24.8	25.2		26.9	29.0	
Imports	50.4	41.9	51.3			56.1	58.2	58.5	58.2	57.0	55.9		53.2	58.4	
Net current transfers (negative = inflow)	-13.9	-11.9	-16.6	-9.2	4.1	-14.2	-13.4	-12.8	-12.2	-12.1	-12.4		-11.8	-11.1	-11.6
of which: official	-1.9	-0.8	-5.5			-3.4	-2.6	-2.1	-1.7	-1.6	-2.1		-1.8	-1.4	
Other current account flows (negative = net inflow)	2.2	2.1	2.1			1.9	1.8	1.7	1.6	1.7	1.3		1.3	1.6	
Net FDI (negative = inflow)	**-8.2**	**-7.5**	**-8.3**	**-8.5**	**1.3**	**-8.4**	**-8.3**	**-8.2**	**-8.6**	**-8.8**	**-9.0**		**-8.6**	**-8.0**	-8.4
Endogenous debt dynamics 2/	**-3.0**	**-3.4**	**-2.2**			**-2.8**	**-2.8**	**-2.7**	**-2.7**	**-2.8**	**-3.0**		**-3.0**	**-2.1**	
Contribution from nominal interest rate	1.0	0.7	0.8			0.8	0.9	0.9	0.9	1.0	1.0		0.8	0.4	
Contribution from real GDP growth	-2.5	-1.1	-2.2			-3.6	-3.7	-3.6	-3.6	-3.8	-3.9		-3.8	-2.5	
Contribution from price and exchange rate changes	-1.6	-3.0	-0.7			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**-8.8**	**12.7**	**-1.5**			**-8.7**	**-10.7**	**-10.3**	**-8.8**	**-7.1**	**-5.4**		**-7.5**	**-12.1**	
of which: exceptional financing	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	52.1			54.0	55.9	58.4	61.3	64.0	65.9		61.0	40.3	
In percent of exports	...	...	285.7			250.7	244.6	246.1	254.1	257.6	261.9		226.4	139.1	
PV of PPG external debt	**...**	**...**	**49.3**			**50.5**	**51.1**	**51.8**	**53.1**	**54.5**	**55.3**		**47.6**	**29.6**	
In percent of exports	**...**	**...**	**270.7**			**234.3**	**223.8**	**218.5**	**220.3**	**219.6**	**219.5**		**176.8**	**102.0**	
In percent of government revenues	**...**	**...**	**295.3**			**282.7**	**273.0**	**271.6**	**274.5**	**281.0**	**282.5**		**241.6**	**156.0**	
Debt service-to-exports ratio (in percent)	**14.7**	**10.7**	**22.5**			**22.5**	**19.4**	**17.8**	**16.7**	**15.7**	**17.2**		**16.2**	**11.9**	
PPG debt service-to-exports ratio (in percent)	**14.7**	**10.7**	**22.5**			**22.5**	**19.4**	**17.8**	**16.7**	**15.7**	**17.2**		**16.2**	**11.9**	
PPG debt service-to-revenue ratio (in percent)	**18.5**	**14.0**	**24.6**			**27.2**	**23.6**	**22.1**	**20.8**	**20.0**	**22.2**		**22.2**	**18.3**	
Total gross financing need (Millions of U.S. dollars)	110.0	66.1	181.8			232.3	267.0	294.0	319.2	329.3	335.3		433.6	761.8	
Non-interest current account deficit that stabilizes debt ratio	20.1	-1.7	11.9			19.9	21.8	21.1	20.1	18.7	17.4		19.0	22.2	
Key macroeconomic assumptions															
Real GDP growth (in percent)	4.3	2.2	3.5	3.6	3.3	5.4	5.2	4.9	4.8	4.8	4.8	5.0	4.8	4.8	4.8
GDP deflator in US dollar terms (change in percent)	2.7	5.8	1.1	-0.9	7.5	2.7	-0.2	0.6	0.1	0.6	-0.3	0.6	0.2	0.2	0.2
Effective interest rate (percent) 5/	1.8	1.4	1.2	1.7	0.3	1.2	1.2	1.3	1.2	1.2	1.2	1.2	1.0	0.8	1.0
Growth of exports of G&S (US dollar terms, in percent)	-9.5	5.0	-20.5	-1.8	10.3	28.0	11.3	9.5	6.8	8.5	6.0	11.7	5.8	5.8	6.1
Growth of imports of G&S (US dollar terms, in percent)	11.3	-10.2	28.1	5.1	12.2	18.4	9.0	6.1	4.4	3.2	2.5	7.3	4.3	6.1	5.4
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	32.1	32.7	34.1	35.5	35.6	35.8	34.3	37.9	36.7	37.1
Government revenues (excluding grants, in percent of GDP)	19.7	18.4	16.7			17.9	18.7	19.1	19.4	19.4	19.6		19.7	18.9	19.4
Aid flows (in Millions of US dollars) 7/	79.9	31.6	229.1			111.6	153.8	166.4	167.4	167.5	170.9		123.4	167.8	
of which: Grants	16.7	16.2	117.5			93.8	114.3	122.5	109.5	109.5	99.5		59.8	70.4	
of which: Concessional loans	63.2	15.4	111.6			17.8	39.5	43.9	57.9	58.0	71.4		63.6	97.4	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			11.6	12.6	12.8	11.5	10.8	9.9		4.7	3.6	4.7
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			64.4	69.5	71.3	68.8	69.1	66.5		68.0	63.3	65.8
Memorandum items:															
Nominal GDP (Millions of US dollars)	892.2	964.6	1009.5			1093.3	1148.0	1211.4	1271.4	1340.3	1401.2		1793.9	2940.1	
Nominal dollar GDP growth	7.1	8.1	4.7			8.3	5.0	5.5	5.0	5.4	4.5	5.6	5.1	5.1	5.1
PV of PPG external debt (in Millions of US dollars)			489.8			532.2	571.7	611.5	657.0	702.6	746.5		823.5	838.0	
(PVt-PVt-1)/GDPt-1 (in percent)						4.2	3.6	3.5	3.8	3.6	3.3	3.6	0.1	0.1	0.4
Gross workers' remittances (Millions of US dollars)	93.6	93.5	98.3			106.5	111.8	117.0	122.8	129.3	133.1		166.5	270.5	
PV of PPG external debt (in percent of GDP + remittances)	...	...	44.9			46.0	46.6	47.3	48.4	49.7	50.5		43.6	27.1	
PV of PPG external debt (in percent of exports + remittances)	...	...	176.4			161.4	156.9	155.3	157.3	158.2	159.4		131.5	77.4	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	14.7			15.5	13.6	12.6	11.9	11.3	12.5		12.1	9.1	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt. Debt values may vary marginally from those in the accompanying staff report due to exchange rate conventions.

2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = 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. Large residuals over projection period are mainly accounted for by project support grants (which are not not included in the current account).

4/ Assumes that PV of private sector debt is equivalent to its face value.

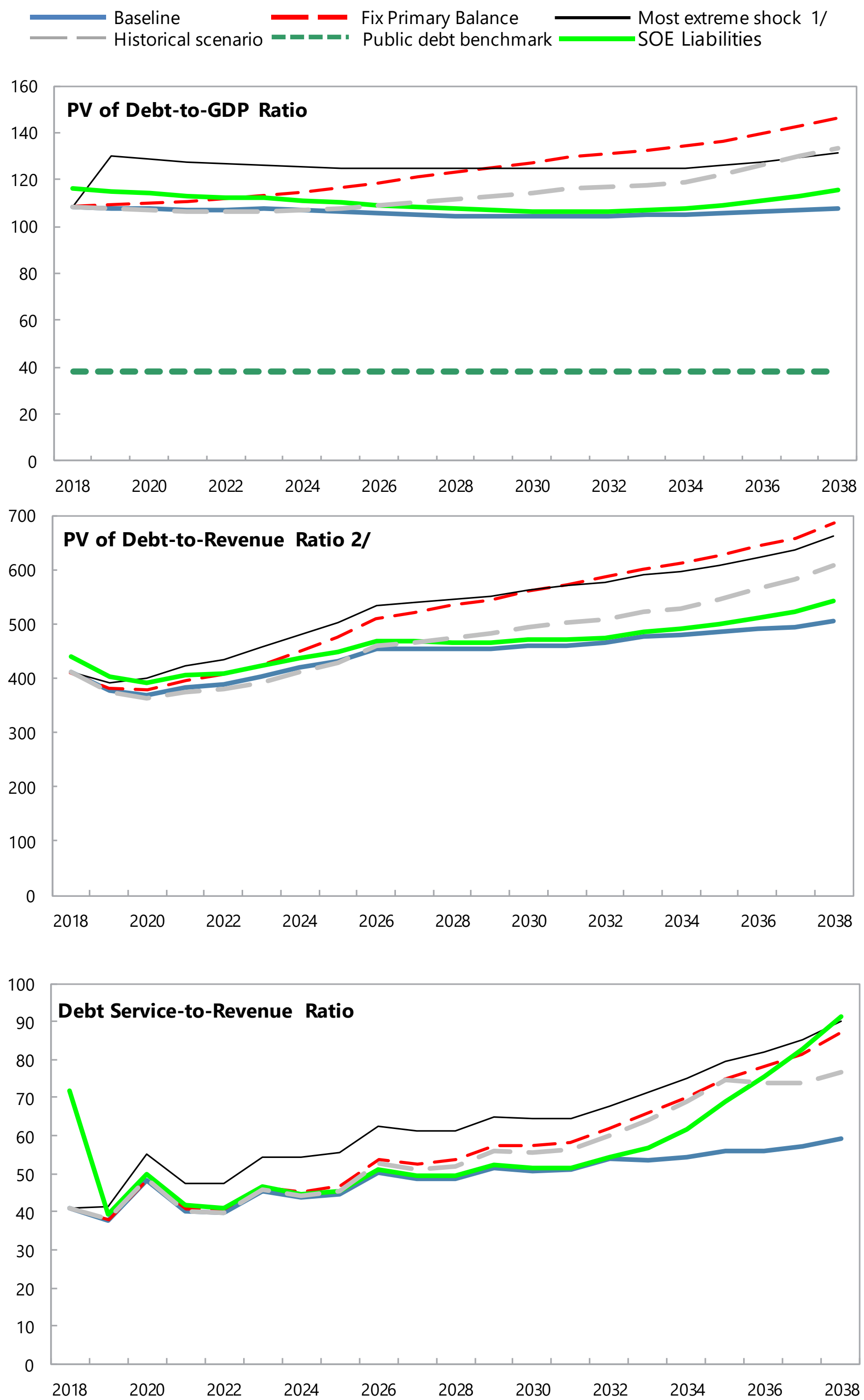
5/ Current-year interest payments divided by previous period debt stock.

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).

Figure 4. The Gambia: Indicators of Public Debt Under ‘Passive’ Scenario and Stress Tests, 2018–38[1]



Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio on or before 2028.
2/ Revenues are defined inclusive of grants.

Table 4. The Gambia: Public Sector Debt Sustainability Framework, ‘Passive’ Scenario, 2015–38[1]

	Actual					Estimate				Projections					
	2015	2016	2017	Average[5/]	Standard Deviation[5/]	2018	2019	2020	2021	2022	2023	2018-23 Average	2028	2038	2024-38 Average
Public sector debt 1/	105.3	123.4	129.2			128.6	128.1	127.9	127.9	128.4	128.9		122.5	119.0	
of which: foreign-currency denominated	51.4	61.5	69.2			70.7	71.4	72.3	74.0	75.8	76.8		65.5	40.8	
Change in public sector debt	0.4	18.0	5.9			-0.7	-0.5	-0.2	0.0	0.5	0.5		-1.6	0.4	
Identified debt-creating flows	-8.7	5.5	-0.5			-2.0	-1.6	-0.5	0.1	0.3	0.1		-1.8	0.3	
Primary deficit	1.3	2.3	0.6	1.5	1.9	4.9	3.4	3.2	3.6	3.3	3.4	3.6	0.9	1.9	1.4
Revenue and grants	21.6	20.0	28.3			26.4	28.7	29.2	28.0	27.6	26.7		23.0	21.3	
of which: grants	1.9	1.7	11.6			8.6	10.0	10.1	8.6	8.2	7.1		3.3	2.4	
Primary (noninterest) expenditure	22.8	22.4	28.9			31.3	32.1	32.4	31.6	30.9	30.0		23.9	23.2	
Automatic debt dynamics	-9.9	3.1	-1.1			-5.2	-5.0	-3.7	-3.5	-3.0	-3.3		-2.7	-1.6	
Contribution from interest rate/growth differential	0.0	1.0	-2.5			-6.2	-6.3	-4.9	-3.6	-4.4	-4.4		-3.5	-2.0	
of which: contribution from average real interest rate	4.3	3.2	1.7			0.4	0.0	1.1	2.2	1.5	1.5		2.3	3.5	
of which: contribution from real GDP growth	-4.3	-2.3	-4.2			-6.7	-6.3	-6.0	-5.9	-5.9	-5.9		-5.7	-5.5	
Contribution from real exchange rate depreciation	-9.9	2.2	1.4			1.1	1.3	1.2	0.1	1.5	1.1		...	...	
Other identified debt-creating flows	0.0	0.0	0.0			-1.7	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0			-1.7	0.0	0.0	0.0	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	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	9.1	12.6	6.4			1.3	1.1	0.3	-0.1	0.2	0.4		0.2	0.1	
Other Sustainability Indicators															
PV of public sector debt	...	...	109.4			108.3	107.8	107.4	107.0	107.1	107.4		104.6	107.8	
of which: foreign-currency denominated	...	...	49.3			50.5	51.1	51.8	53.1	54.5	55.3		47.6	29.6	
of which: external	...	...	49.3			50.5	51.1	51.8	53.1	54.5	55.3		47.6	29.6	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	52.7	60.8	66.6			42.4	40.1	45.3	46.0	46.8	49.3		55.5	80.7	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	385.9			409.8	375.8	368.0	382.6	388.5	402.8		454.1	505.0	
PV of public sector debt-to-revenue ratio (in percent)	...	...	655.0			606.6	575.5	563.1	552.8	552.0	549.0		530.9	568.8	
of which: external 3/	...	...	295.3			282.7	273.0	271.6	274.5	281.0	282.5		241.6	156.0	
Debt service-to-revenue and grants ratio (in percent) 4/	44.5	46.0	37.9			40.8	37.8	48.2	40.1	39.7	45.2		48.7	59.4	
Debt service-to-revenue ratio (in percent) 4/	48.7	50.2	64.3			60.3	57.9	73.8	58.0	56.4	61.7		56.9	66.9	
Primary deficit that stabilizes the debt-to-GDP ratio	0.8	-15.7	-5.3			5.6	3.9	3.4	3.6	2.8	2.8		2.5	1.5	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	4.3	2.2	3.5	3.6	3.3	5.4	5.2	4.9	4.8	4.8	4.8	5.0	4.8	4.8	4.8
Average nominal interest rate on forex debt (in percent)	1.9	1.5	1.3	1.8	0.3	1.2	1.3	1.3	1.4	1.4	1.4	1.3	1.2	1.0	1.2
Average real interest rate on domestic debt (in percent)	7.4	5.9	3.6	6.4	1.3	2.0	1.9	3.2	2.7	3.0	3.4	2.7	4.5	4.9	4.6
Real exchange rate depreciation (in percent, + indicates depreciation)	-17.3	4.3	2.4	4.5	10.1	...	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	6.4	7.1	8.1	5.4	1.8	6.5	8.3	8.0	7.9	7.7	7.7	7.7	7.9	7.9	7.9
Growth of real primary spending (deflated by GDP deflator, in percent)	-10.2	0.3	33.6	2.5	11.4	14.3	7.9	5.9	2.0	2.5	2.0	5.8	3.3	4.6	3.1
Grant element of new external borrowing (in percent)	...	...	...	...	...	32.1	32.7	34.1	35.5	35.6	35.8	34.3	37.9	36.7	...

Sources: Country authorities; and staff estimates and projections.

1/ Comprises domestically denominated central government debt, and general government external debt, gross.

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.