IMF Executive Board Approves Three-Year, US$28.3 Million Extended Credit Facility Arrangement and US$14.2 Million Disbursement for The Gambia

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The Executive Board of the International Monetary Fund (IMF) today approved a new arrangement for The Gambia under the Extended Credit Facility (ECF) in an amount equivalent to SDR 18.66 million (about US$28.3 million). The Board's decision will enable an immediate disbursement equivalent to SDR 9.33million (about US$14.2 million).

The authorities' program is aimed at meeting an acute balance of payments need arising from the recent crop failure due to drought, and helping to catalyze support from development partners for The Gambia's new poverty reduction strategy, the *Programme for Accelerated Growth and Employment (PAGE)*. Over the medium term, the authorities seek to ease the government's heavy debt burden through fiscal adjustment, while implementing a strong economic reform agenda in support of the *PAGE*.

Following the Board's discussion of The Gambia, Mr. Naoyuki Shinohara, Deputy Managing Director and Acting Chair, issued the following statement:

"The Gambian economy has made good progress in achieving strong growth and making a substantial reduction in poverty. However, major crop failure due to the drought has created hardship and calls for effective and timely delivery of assistance for the most vulnerable households.

"The Gambia's heavy debt burden poses high costs for the government and risks for the economy. To address this problem, the authorities' new ECF-supported program rightly focuses on fiscal adjustment to curb government's domestic borrowing. Limiting external borrowing to concessional loans is also necessary to reduce the risk of debt distress. The authorities' planned fiscal adjustment will require consistent strong implementation to build confidence and achieve fiscal savings. Rebuilding the government's revenue base is key to fiscal adjustment, especially the upcoming introduction of a VAT and reductions in fuel subsidies.

"Progress toward eliminating fiscal dominance has enhanced the independence of the Central Bank of The Gambia and its capacity to conduct sound monetary policy. The central bank will continue to build capacity for effective financial sector supervision, particularly for stress testing.

"Financing the government's new poverty reduction strategy, the Programme for Accelerated Growth and Employment, under tight budget constraints will be a challenge. In this regard, fiscal savings from lower interest on domestic debt and private sector participation in infrastructure investment could be helpful. To ensure that such investments are productive and to guard against potentially large contingent liabilities for the government, robust institutions and regulatory frameworks are critical. To support growth, reforms are needed in key sectors such as energy and telecommunications."

Recent economic developments

The Gambian economy performed well during the previous ECF arrangement, which expired at the end of March 2011. During that period (2007–10), real GDP growth was robust and inflation was low-to-moderate, despite the global financial crisis and sharp food and fuel price shocks. Moreover, growth was inclusive and the incidence of poverty fell considerably. However, the fiscal deficit widened substantially in the latter years of the program, due to a steady erosion of revenues and large extra-budgetary spending, leading to a sharp increase in costly domestic debt.

In the 2011–12 agricultural season, a severe drought resulted in a major crop failure, putting about one-fourth of the population at risk. Initially, the government will bear much of the cost of relief efforts, notably imports of food, seeds, and fertilizer. Despite this severe shock, the authorities have been able to maintain macroeconomic stability, thanks largely to an ample stock of official international reserves.

The crop failure will affect economic growth over the near and medium term. Real GDP is projected to contract by 1½–2 percent in 2012, reflecting effects of the crop failure carrying over into the first half of 2012. With a recovery in agriculture spread over 2–3 years, real GDP is projected at about 8–10 percent a year in 2013–14, provided there is an effective response to the drought by the government, aid agencies, and development partners.

However, this outlook depends on sound macroeconomic policies and is subject to a number of downside risks, mainly the heavy debt burden, a potentially prolonged weakness in the global economy, particularly in Europe, and possible terms of trade shocks, especially on food and fuel prices, and weather-related shocks.

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