Ministry of Finance and Economic Affairs

Medium Term Debt Strategy

2015-2017

FORWARD

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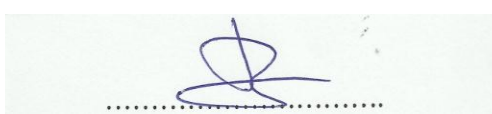
Following the lessons learnt during the recent financial and debt crises, prudent and effective debt management is more than ever very relevant in the realization of sustainable economic growth and development. The most challenging and endemic calamity witnessed in the past two centuries by the global economies and still more pronounce, has been poverty. Governments globally unanimously agreed that, the eradication of poverty is the corner/stone of any meaningful development. Therefore, substantial resources and efforts would be continuously dedicated to poverty eradication programs.

Public Debt Management's objective is to compliment the insufficient financial envelop of government in an effort to intensify poverty eradication programs through the provision of the necessary infrastructure and social amenities for a much prosperous economic growth and development. These funding requirements, to be raised through debt management programs, are supposed to be implemented in an effective and efficient manner with adequate risk management.

In light of this, the Ministry of Finance and Economics Affairs in collaboration with the relevant stakeholders have reviewed the Medium Term Debt Management Strategy (MTDS) to cover the period 2015 to 2017. Experience has thought us that enormous challenges are faced during MTDS implementation. However, if the direction set-out in the reviewed MTDS is implemented successfully, public debt management in the Gambia would be in a significantly better footing in the global competitive business environment.

I thank the stakeholders for the brilliant and tireless effort dedicated to the review of this important strategic document. In particular, I would thank the Directorate of Loans and Debt Management (DLDM) for coordinating and providing the leadership during the entire process. I would thank the Central Bank of the Gambia, Gambia Bureau of Statistics for the support during the exercise. I would also thank the World Bank, IMF and WAIFEM for the technical guidance provided during the process.



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ACRONYMS AND ABREVIATIONS

AfDB	African Development Bank
ATM	Average time Maturity
ATR	Average Time to Re-fixing
BADEA	Arab Bank for Economic Development of African
CBG	Central Bank of the Gambia
CS-DRMS	Commonwealth Secretariat for Data Recording and Management System
DLDM	Directorate of Loans and Debt Management
DSA	Debt Sustainability Analysis
EBID	Ecowas Bank for inter-development
EUR	Euro
EXIM	Export Import Bank of India
GBoS	Gambia Bureau of Statistics
GDP	Gross Domestic Product
GMD	Dalasi
GoTG	Government of The Gambia
GRA	Gambia Revenue Authority
HIPC	Highly Indebted Poor Countries
IDA	International Development Association
IFAD	International Fund for Agricultural Development
IMF	International Monetary Fund
IsDB	Islamic Development Bank
JPY	Japanese Yen
KFEAD	Kuwait Fund for Economic Development
KWD	Kuwait Dinar
LIBOR	London Interbank Offered Rate
MDRI	Multilateral Debt Relief Initiatives
MOFEA	Ministry of Finance and Economic Affaires
MTDS	Medium Term Debt Management Strategy
NDB	Net Domestic Borrowing
NPV	Net Present Value
OPEC	Organization of petroleum Exporting Countries
PRSP	Poverty Reduction Strategy Paper
SAR	Saudi Riyal
SDR	Special Drawing Rights
SFD	Saudi Fund for Development
USD	US Dollars
WAIFEM	West African Institute for Financial and Economic Management
UAE	United Arab Emirate Dinar

EXECUTIVE SUMMARY

The Public Finance law of The Gambia states that debt management objectives are to meet Government's financing needs and payment obligations at the lowest possible cost over the medium to long term, with a prudent degree of risk.

The Government of the Gambia has registered some significant successes in debt management operations and considerable policy related reforms. However, these successes came with challenges such as the surge in domestic debt borrowing.

In light of the above, the current Debt management Strategy has envisaged in helping to resolve this debt phenomenon by reducing Net Domestic Borrowing towards 1% of GDP and substituted with maximizes external borrowings particularly from the concessional window. Reflecting this strategy, the existing debt portfolio is characterized by a high proportion of concessional debt, and a high share of external debt in the total debt stock (61%). While this is favorable from a cost perspective, such a portfolio implies high exposure to exchange rate risk.

In the development of an alternative Medium Term Debt Management Strategy, macroeconomic baseline assumed that economic growth will be sustained at 5.3% at end 2014. However, this was revised down to 0.7% as a result of the poor rains experienced in 2014, and the advent of the Ebola epidemic in the sub-region. This considerably squeezed tourism receipts and re-exports trade. However, the economy is expected to pick a fine tailwind end 2015, registering an economic growth of 4% and 6% on average in the medium term. Similarly, the Government tax reforms policy has broadly improved tax collections. Revenues are expected to grow by 15% in 2015 and 18% in the medium term. This will translate into contraction in fiscal deficit.

The performance of alternative debt management strategies under different exchange rate and interest rate shocks were assessed.

The review of this MTDS [2015-2017] began assessing the risk exposure associated with the existing debt portfolio. The cost and risk tradeoffs from alternative debt management strategies were carried out under baseline assumptions for the macro economic and market environment.

All strategies were tested under three shock scenarios; these are exchange rate shock with a deprecation of the dalasi by additional 30% on baseline, interest rate shock of on domestic debt on baseline and a combined shock of an exchange rate and domestic interest rate. The objective is to apply remedial measures through strategy implementation.

The financing assumptions were based on past trends in commitments and information available on the multilateral and bilateral recourses envelopes for the Gambia over the next few years.

In the process of reviewing this MTDS, four alternative debt management strategies are examined to illustrate the impact of the alternative mix of external and domestic financing sources, as well as alternative mix of short and longer term domestic debt on the Gambia's Public debt portfolio in the future. The four strategies envisage different annual net domestic borrowing. However, all the four strategies aim at reducing net domestic borrowing towards 1% of GDP in the medium term.

Among the four assessed, Strategy three came out to be the most feasible and also the chosen strategy; it is envisage that net domestic borrowing would be target at 2% of GDP and 100% domestic issuance of Treasury bills at the end of the first year of this MTDS implementation and it completely shun away with the Central Bank of the Gambia monetization of Government debt.

1.0 INTRODUCTION

In its broad objective to foster economic growth and enhance financial stability through sound economic policies and standard best practices in debt management, the Government of the Gambia through the Ministry of Finance and Economic Affairs (MOFEA) and supported by WAIFEM and the World Bank conducted a workshop from November 17- 21, 2014 on Medium Term Debt Management Strategy (MTDS). The purpose of the workshop was to review the country's Medium Term Debt Management Strategy. This exercise brought together senior technicians from MOFEA and a range of Government's institutions alike such as the: Central Bank of The Gambia (CBG), Gambia Bureau of Statistics (GBOS), and Gambia Revenue Authority (GRA).

The World Bank/IMF MTDS analytical tool employed provides quantitative analysis of the cost and risk of each strategy under consideration. It also guides policy makers by giving an insight in to the key vulnerabilities embedded in the specific strategies under consideration.

2.0 OBJECTIVES AND SCOPE OF THE MTDS

The objectives of the Gambia's debt management is clearly highlighted in the Public Finance law .The underlying Primary objective of The Gambia Debt Management is to ensure that (i) the Government's financing needs and its payment obligations are met (ii) and at the lowest possible cost over the medium to long term, with a prudent degree of risk. Secondary policy objective (i) is to promote domestic debt market development.

The MTDS review exercise is anchored on the 2013 macroeconomic framework and the fiscal projections in the country's DSA 2014. This formed the baseline data for the analysis of costs and risks of alternative debt strategies for meeting Government's financing needs. The analytical tool considered relevant macroeconomic indicators and variables across the four sectors of the economy (real, fiscal, monetary and external).

The time horizon of the MTDS is three (3) years, from 2015 to 2017. 2013 is the base year for public debt data. The MTDS data analysis covers Public and Publicly Guaranteed External Debt, and Public Domestic Debt.

3.0 EXISTING DEBT MANAGEMENT STRATEGY AND DEBT PORTFOLIO

3.1 Debt Management Strategy

With the Government intention to synchronize its policy objectives at all levels of development planning, the Gambia Government of recent has a good history in the preparation of the medium term debt management strategy papers, namely the 2010-2012 and 2011-2014 debt management strategies.

The 2010-2012 debt management strategy was to maximize domestic borrowing and significantly reduce external borrowing. The total gross borrowing requirement allocated was 90% domestic and 10% external. The external borrowing policy sought to maximize borrowing from Multilateral and Bilateral concessional sources with a grant element of at least 35%.

However, Due to significant domestic borrowing largely by the issuance of treasury bills between the periods 2010 to 2012, domestic debt witnessed a surge thus exposing the domestic debt portfolio to high interest and refinancing risk.

Subsequently, the MTDS covering 2011 to 2014 was developed to address the challenges encountered from the domestic debt portfolio. However, the implementation of the 2011-2014 strategy encountered difficulties. The fiscal dominance together with the shallowness of the domestic debt market coupled with heavy domestic borrowing requirement led to the significant increase in the interest rate. This in turn led to higher refinancing risk due to high cost of lengthening the maturities.

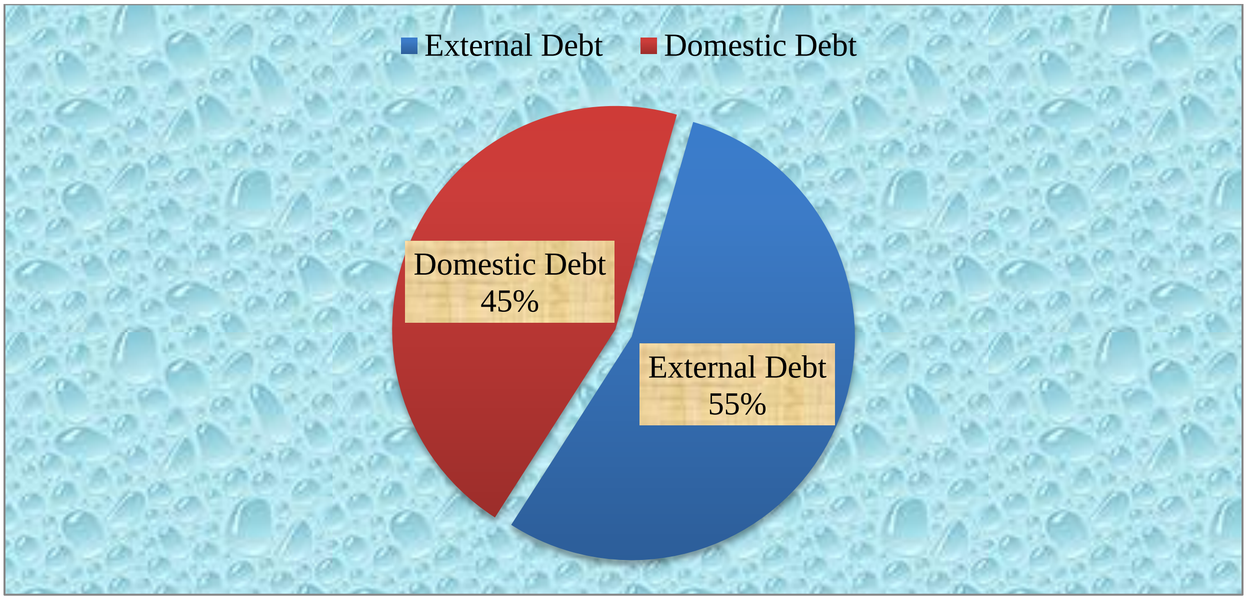
3.2 Structure of the Existing Debt Portfolio

Total debt has been growing over the years since The Gambia received extensive debt relief under the enhanced Heavily Indebted Poor Countries (HIPC) initiatives and the Multilateral Debt Relief Initiatives (MDRI) in 2007. Based on full delivery of HIPC and MDRI debt relief, The Gambia's stock of nominal external public debt was reduced from USD677 million (133.1 percent of GDP) as of end-2006 to USD324 million (49.9 percent of GDP) at end-2007[1]. As at end 2010 total Public debt stood at USD661.8 million.

However, as at end 2013 total Public and Publicly Guaranteed debt surged to USD795.8 million, which is a 20.2% yearly increase. The Present value of Public and Publicly Guaranteed debt as at end 2013 stood at 84.5% of GDP. Out of the total debt, external debt was USD434.7 million constituting 54.62% of total debt, whereas domestic debt stood at USD361.1 million, which is 45.37 %(**Chart: 1**).

[1] IMF DSA Report 2013

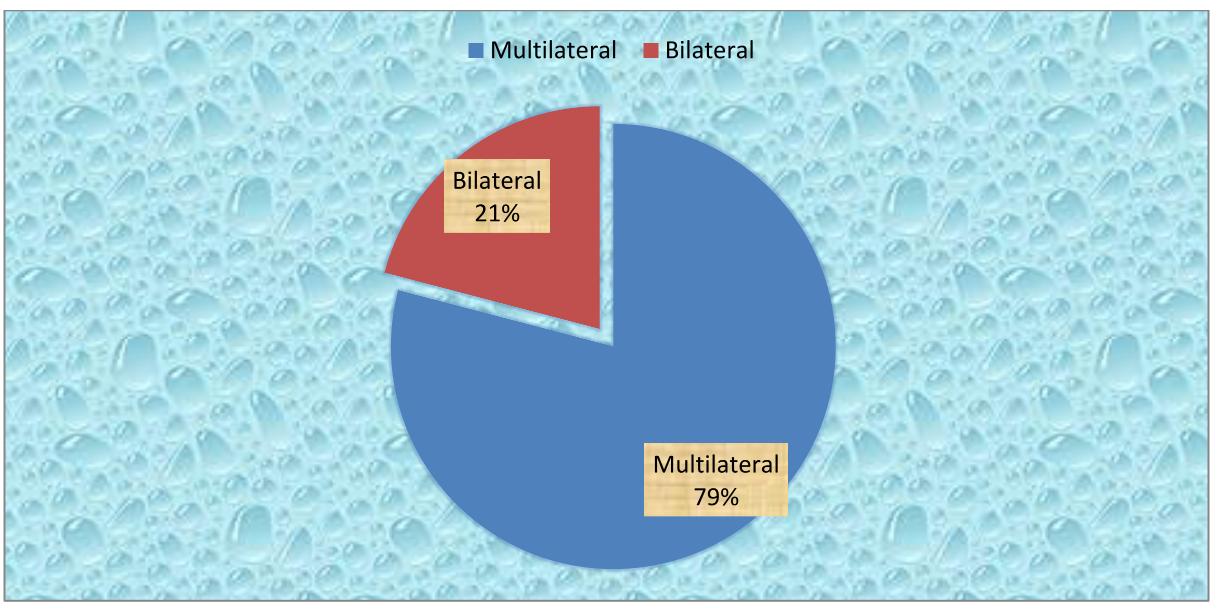
Chart: 1 Total Debt Portfolio by Sources as at end December, 2013



3.2.1 External Debt

The external debt portfolio composed of multilateral and bilateral creditors. Over the years the principal source of financing came from multilateral loans constituting 79.07% of the loans while bilateral loans constituted 20.92% as at end 2013 (Chart 2). Concessional loans with at least a grant element of 35% constituted 93.22% of total external loans compared to 6.77% semi concessional or market rate loans as at end 2013 (**Chart:2**)

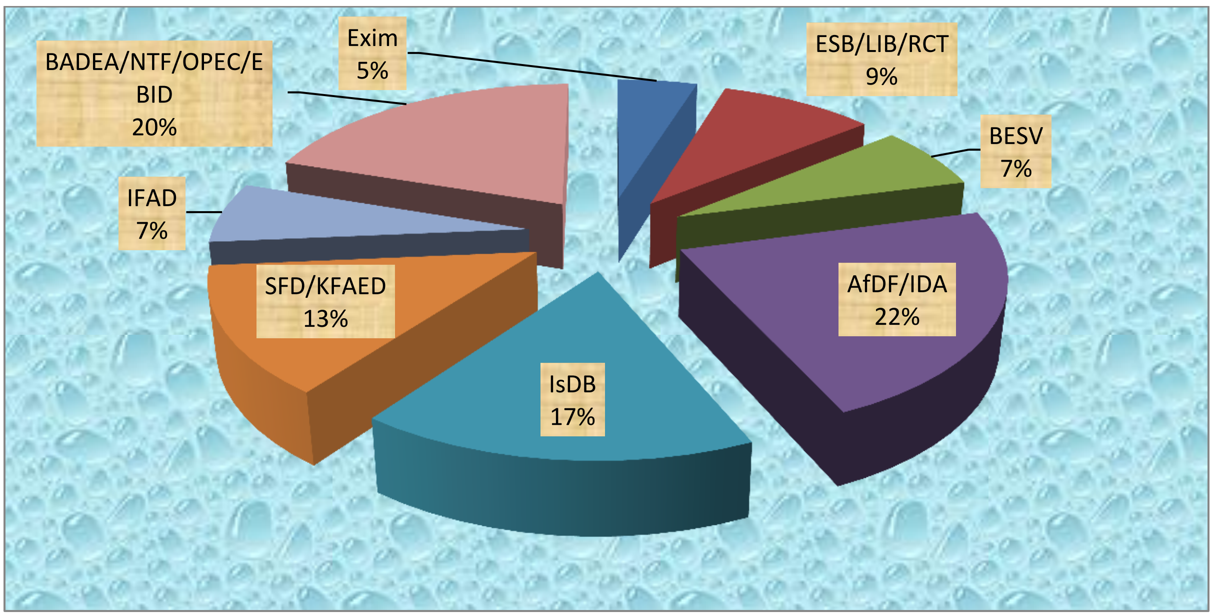
Chart: 2 External Debt Composition by Creditor Category as end December, 2013



The Government of the Gambia has chosen external borrowing to meet their financing requirements since it is more attractive. The sources of fund for external borrowing have been diverse; however, the most significant have been from Multilateral and Bilateral creditors. Highly concessional loans for the period under review, IDA and AfDB accounted for 22.48% of the external debt Portfolio. BADEA/NTF/OPEC/EBID combined accounted for 19.87% of the external debt portfolio. IsDB accounting for 16.47% of the external debt portfolio, whereas SFD/KFAED/ADFAED cumulated accounted for 13.47% of external debt portfolio. EXIM bank of India also witnesses a growth trajectory over the years accounting for 4.8% of the external debt portfolio.

Major bilateral creditors were the Republic of China (Taiwan), Libya, and Erster Bank combined accounted for 9.33%, whereas the republic of Venezuela accounted for 6.77% of external debt portfolio (**Chart: 3**).

Chart: 3 External Debt Portfolio by Creditor as at end December, 2013



3.2.2 Domestic Debt

Domestic debt comprises marketable and non-marketable securities. Marketable securities consist of Treasury and Sukuk Al-Salam Bills (91-day, 182- day & 364- day), and are issued for both financing Government fiscal deficit and Monetary policy operations. Non-marketable securities comprise Government Bonds held by Central Bank of The Gambia (CBG) used to finance the deficit and are issued on special arrangements between Government and CBG **(Table:1**)

Table 1 Instruments of the Domestic Debt Market, 2013

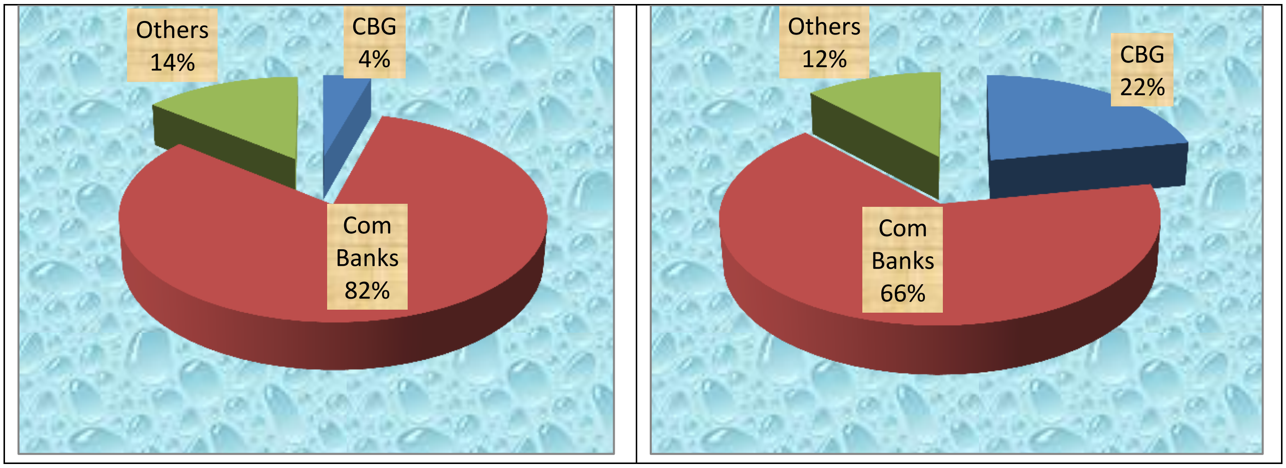
NO	SECURITY TYPE	AMOUNT (D) 2012	AMOUNT (D) 2013	PERCENTAGE (%)
1	Treasury Bills	8,239.62	11,080.68	81.96
2	Sukuk Al-Salaam Bills	352.30	400.26	2.96
3	Government Bond	250.00	250.00	1.85
4	10-Year Govt. Bond	166.77	145.92	1.08
5	30-Year Govt. Bond	1,703.32	1,642.48	12.15
	TOTAL	**10,737.01**	**13,519 .34**	**100.00**

As at December 2013, the total outstanding domestic debt stock grew to D13, 519.34 million from D10, 807.68 million in December 2012 registering 25.09 percent increase year-on- year. This increase was mainly driven by Treasury Bills, which rose by 34.48 percent and the SAS Bills 13.61 percent.

The Gambia domestic market is underdeveloped. The deepening of the domestic market has been partly impeded by market size as well as continued fiscal dominance experienced over the years. Among the few primary market participants are the Commercial banks, and Others. Commercial banks continue to dominate the domestic market accounting for 66.14% of the market share. The proliferation of commercial banks in the Gambia for the past decade has considerably widened the market size, notwithstanding the increase fiscal dominance has resulted to the crowding out of the private sector. The Central Bank of the Gambia is the second biggest holder accounting for 21.94%, resulting from the over use of the overdraft facility whereas, the rest of the individual participants accounted for only 11.92 %(**Chart 4**).

Chart: 4 Domestic Debt by Holder Category

2012		2013



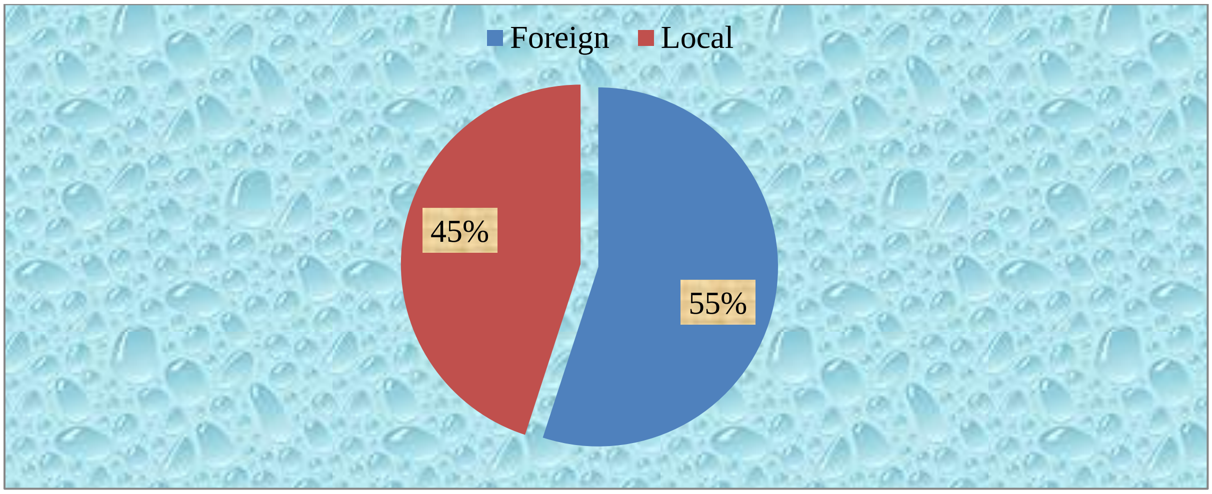
The commercial banks holdings of the domestic debt dropped from 82% in 2012 to 66% in 2013. Non-bank holdings also contracted from 14.03% to 12.40%. However as a result of end of month securitization, Central Bank holdings of Government bills surged to 22.79% in 2013 from 4.33% in 2012.

3.3 Cost and Risk of the Existing Debt Portfolio

The large share of highly concessional borrowing lowered the overall cost and risk of the debt portfolio. The total public debt stood at USD796 Million as at end 2013, out of which USD435 Million is external debt and USD361 million is domestic debt.

The existing debt portfolio for the base year 2013 entails significant exposure to exchange rate fluctuations as 55 % is denominated in foreign currency. This represents potential exchange rate risk giving the historical depreciation trend of the Dalasi (GMD) against major foreign currencies like the USD, EUR and GBP. The debt portfolio is predominantly denominated in USD; therefore the continued unabated weakening of the GMD against the USD posed a potential risk to the entire portfolio **(Chart 5)**

Chart: 5 Currency Composition of Existing Debt Portfolio



The Nominal debt and the Present Value (PV) of debt as percentages of GDP, is on the high side with 98.0% and 84.4% respectively, compared to the ECOWAS threshold of 70%. The implied interest rate on the external debt portfolio is at 1.7%, whereas the implied interest rate on the domestic debt portfolio is at 11.9%.

The Average Time to Maturity (ATM) of the external debt portfolio is 11.1 years, whereas that of the domestic debt portfolio is 2.6 years and this number includes the 30-year bonds with the CBG. The enhancement in the ATM of the external debt is largely due to sources of financing limited to only Multilateral and bilateral concessional loans. This shows that the external debt portfolio is less risky compared to the domestic debt portfolio in terms of re-financing. On the other hand, the domestic debt portfolio poses a serious re-financing risk with an ATM of only 2.6 years. This is due to the fact that most domestic debt instruments have a year tenor or less.

Average time to re-fixing (ATR) which indicates the interest rate risk is the same compared to the ATM for the domestic debt portfolio which is 2.6 years. This is as a result of the non-presence of variable rated debt in the domestic debt portfolio. However, interest rate risk is still high as most of the domestic debt is short term, i.e. the Government is highly exposed to changes in the interest rate because 81.1% of the domestic debt will have to be refinanced within a year. On the other hand, the average time to re-fixing (ATR) in the external debt portfolio is 10.7 years.

3.4 The Current Redemption Profile

The current debt portfolio has a redemption profile through the years. The redemption profile of the external debt component has uniform maturities within the years. However, the redemption profile of the domestic debt component is non-uniform as the most of it would be due to be redeemed or rolled over in the first year. This shows the limited rollover risk associated with the external debt whereas, the domestic debt is associated with high rollover risk. See Chart 6 and Table 2 below:

Chart: 6 Redemption Profile of the Debt Portfolio as at end 2013

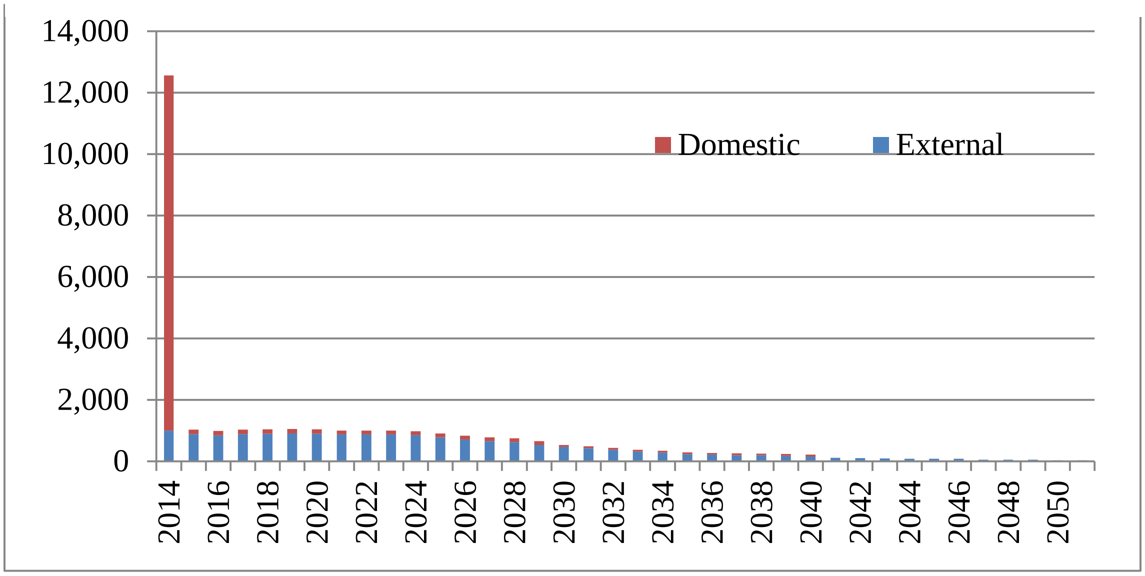


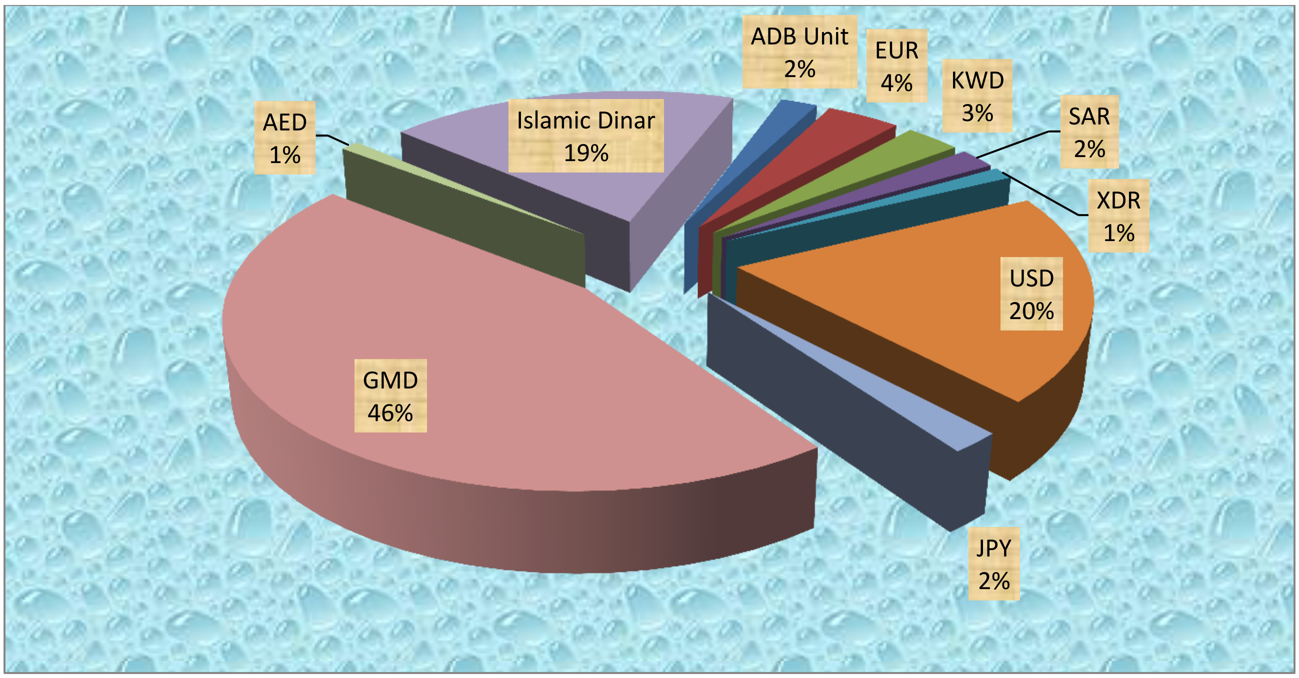
Table 2: Cost and Risk Indicators Analysis, 2013

Risk Indicators		External debt	Domestic debt	Total debt
Amount (in millions of USD)		434.7	361.1	795.8
Nominal debt as % GDP		53.5	44.5	98.0
PV as % of GDP		40.0	44.4	84.4
Cost of debt	Weighted Av. IR (%)	1.7	11.9	6.3
Refinancing risk	ATM (years)	11.1	2.6	7.2
	Debt maturing in 1yr (% of total)	5.8	81.1	40.0
Interest rate risk	ATR (years)	10.7	2.6	7.0
	Debt re-fixing in 1yr (% of total)	10.7	81.1	42.7
	Fixed rate debt (% of total)	94.9	100.0	97.2
FX risk	FX debt (% of total debt)			54.6
	ST FX debt (% of reserves)			15.7

3.5 The Currency Composition of the Debt Portfolio

The public debt, in terms of the current currency composition, could be broadly categorized into two: (i) the domestic debt portfolio, within its totality, is denominated in the local currency whereas, (ii) the external debt even though constitutes more than one foreign currency, is usually dollarized. The units of accounts or currencies that constitute the external debt portfolio are: United States Dollar (USD), Special Drawing Rights (SDR), Islamic Dinar (XID), Euro (EUR), Kuwaiti Dinar (KWD), ADB Units of Account, Saudi Riyal (SAR), Japanese Yen (JPK), and UAE Dirhams. See **(Chart: 7)** below:

Chart: 7 Currency Composition of Debt Portfolio as at end, 2013



3.6 Contingent Liabilities

In the Gambia, loans are contracted either from bilateral or multilateral creditors. The Government of The Gambia contracts loans and on-lend it to State Owned Enterprises (SOEs). It is a policy of the Government to guarantee SOEs in contracting loans as well as facilitating the private sector endeavors in financing their businesses.

The external debt is largely fixed rate debt. However, there is a proportion of 5% which has a floating interest rate. So far, there is no established database for loan guarantees. Therefore, this has the great potentials of underestimating the total public and publicly guaranteed debt.

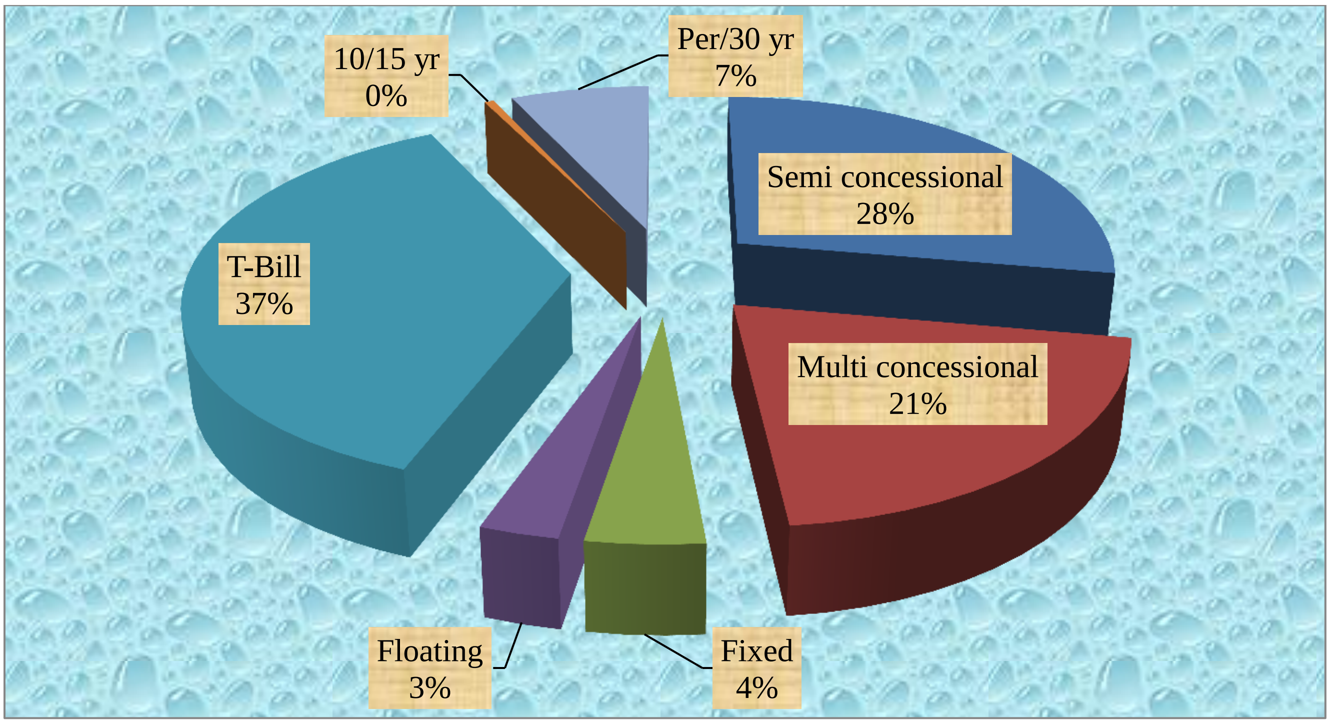
In addition, the arrears are not systematically monitored and remained largely under reported. In 2013, D36.5 million of arrears was settled, putting a serious strain on the budget. However, due to the absence of a system to monitor outstanding payments in Ministries, Departments and Agencies (MDAs), new arrears were accumulated, but the total stock remains unknown.

The large amount of contingent liabilities, both outstanding and those in the pipeline, represent a significant risk to the Government budget.

4.0 SOURCES OF FINANCING

The Government intends to continue tapping from both multilaterals and bilateral donors. Given the fact that the financial and debt crisis recently witnessed has significantly dried up the funding source, the Government intends to explore new bilateral donors, especially from the BRICS community, to complement the source of funding from the traditional donors.

Chart: 8 Aggregated Debt Portfolio by Instrument as at end 2013



4.1.1 External Financing and Trend

The Government has been contracting debt from mainly concessional windows, such as the World Bank and the African Development Bank Groups. Evidence of their dominance could be traced back in the debt database prior to the country reaching HIPC completion point, where they were in-charge of the greatest proportion of the debt portfolio. However, the post HIPC completion era is marked with the greater proportion of the debt portfolio gradually shifting to the semi concessional windows mainly the Islamic development Bank (IsDB), Kuwaiti Fund for Economic Development in Africa (KFEAD) and Arab Bank for Economic Development in Africa (BADEA).

Potential sources of external financing available to the country may be categorized into multilateral, bilateral and commercial. The multilateral loans are classified into concessional and semi-concessional. The concessionals loans are the IDA type of loans, including the ADF loans, which have minimum characteristic of low fixed interest rate (0.75 per cent), long maturity (40 years or more) with grace period (10 years). The semi-concessional loans are from the IsDB, BADEA, etc which are characterized with an average fixed interest rate of 2%, and maturity (25 years) with grace period between 5-7 years.

The bilateral loans, usually from Kuwaiti Fund, Saudi Fund for Development, Abu Dhabi Fund For Development, Export-Import Bank of India , are generally semi-concessional in nature, with average fixed interest rates of 2%, and average maturity between 20-25 years including grace period between 5-7 years.
It is however worth noting that the Government has not contracted debt from the commercial creditors in the past, but as the economy grows, concessional windows are expected to dry-up gradually, hence compelling the Government to tap possible funding from the commercial creditors.

Presently the Government of The Gambia's major creditors are; World Bank (WB), Africa Development Bank (ADF), Islamic Development Bank (IDB), OPEC Fund for International Development (OFID), etc.

The Islamic Development Bank is the leading creditor to the country as it is holding the largest share of the external debt portfolio as at end 2013.

Table 3: Potential Sources of Financing

CREDITORS	GRACE PERIOD	MATURITY	INTEREST RATE	COST	PRINCIPAL RISK EXPOSURE	EXPECTED DISBURSEMENT AMOUNT
IDA	10	40	Fixed	0.75%	FX	$18 Million
ADF	10	40	Fixed	0.75%	FX	$15 Million
IDB	7	25	Fixed	2.5%	FX	$10 Million
KUWAIT/SAUDI FUND	5	25	Fixed	1%	FX	$5 Million
OFID	5	25	Fixed	1.75%	FX	$5 Million
EXIM	5	20	Fixed	1.75	FX	$10 Million
OTHERS					FX	$2 Million
TOTAL						$65 Million

4.2 Domestic Financing

In addition to domestic debt market development, the Government's policy on domestic debt management, as expected, is to borrow consistently at the lowest possible cost and a prudent degree of risk from the domestic debt market without causing undue effects on monetary policy and financial sector development.

Domestic debt management policies includes among others: rolling over maturing principal, while paying interest through domestic revenue; financing of the budget deficit through marketable instruments; domestic debt market development and smoothening the redemption profile.

4.3 Medium Term Financing Assumption

Going forward, the Government will continue to contract concessional loans from both multilateral and bilateral sources. Notwithstanding, the Government would continue to pursue more semi-concessional loans in order to meet the national development goals.

Over the years, exclusive concessional borrowing might be less costly, however, its level of unpredictability in disbursement coupled with too many financial conditionality and limitations, has made it less ideal for profitable venture to meet Government infrastructural development goals.

In view of the former, the Government will consider semi concessional borrowing and joint financing from among the potential creditors or from new bilateral creditors. In the domestic market, the Gambia is planning to issue a 2 year bond in a bid to lengthen further, the domestic debt maturity.

External sources will continue to finance a bigger proportion of budget deficit in the medium term given the relatively low level of development in the domestic financial market and the policy to minimize crowding out of the private sector.

5.0 BASELINE MACROECONOMIC ASSUMPTIONS AND ASSOCIATED RISKS

The MTDS is consistent with the overall macroeconomic framework. Further, it incorporates additional strategies that slightly cater for the risk associated with fiscal slippages, should they occur. This section describes the basic assumptions on the economy in the medium term.

Based on the preliminary macroeconomic assumptions at the beginning of the 2014 budget cycle, iterations were carried out to come up with initial set of macroeconomic forecasts and targets to be incorporated in the MTDS. It is expected that this process will be repeated in each year's budget cycle to ensure that the MTDS is consistent with the latest medium term macroeconomic assumptions.

5.1 Baseline Macroeconomic Assumptions

Real GDP growth for 2014 was estimated at the start of the year to be 5.3% lower than the 5.6% and 6.1% recorded in 2013 and 2012 respectively. Similarly the Ebola epidemic in the West African states has greatly impacted on tourism receipts, thereby further starving off economic growth. Notwithstanding economic growth is projected to hover around 4% in 2015 and 6% in the medium term.

Consumer price inflation, measured by the National Consumer Price Index (NCPI), increased to 6.3% in September 2014, from 6.1% in September 2013. Food inflation remained unchanged at 7.3% whilst non-food inflation rose slightly to 4.8% from 4.2% in September 2013. Core inflation, which excludes the prices of volatile food items and energy, rose to 6.9% in September 2014 from 6.1% in the corresponding period in 2013. Inflation is expected to remain single digit in the medium term.

Going forward, the Government of the Gambia has devised policies to diversify the economy. These measures are enshrined in the Vision 2016 to achieve food self-sufficiency. In addition, through public private partnership, the Government is expecting the realization of a cashew production, processing plant in the medium term. This is expected to improve balance of payment in the medium to long term.

The monetary policy stance of the Central Bank of the Gambia continues to be restrictive in 2014 mainly to contain the exchange rate and inflationary pressures emanating from the weak external sector and the expansionary fiscal policy.

The reserve requirement was raised from 10 percent to 12 percent in May 2013, and then to 15 percent in August 2013. The foreign exchange exposure to be maintained by deposit money banks was as well lowered to 15 percent from 25 percent. This was in a bid to stabilize supply conditions in the foreign exchange market. These are blunt measures not used often but needed to help stem the tide of the sharp depreciation of the Dalasi.

Given the increase widening of the fiscal deficit, the Government is considering fiscal consolidation as high priority. This policy is expected to be effected through a cut in energy related cost from postpaid to pre-paid power meters, restriction on postpaid telephone bills, virements of fund, rationalization of diplomatic missions abroad and organizations' membership etc.

The global financial crisis has stalled economic growth in advanced countries therefore curtailing grants in least developed countries. Government grants over the past years since the financial crisis has considerable dwindled. However, the overhaul in tax collection policies by the Government has registered significant improvement in revenue collection since the introduction of VAT in 2013. Similarly, in order to boost revenue collection, reforms have been under taken in some sectors such as liberalization of fuel prices and increase the levy on telecommunication companies. These reforms are expected to increase revenue growth by 15% in 2015 and 18% in the medium term.

The Gambia has been experiencing persistent current account deficit attributed largely to the low export base and the heavy reliance on import of goods and services. The balance of payment statistics for the first half of 2014 indicated an overall deficit of USD 2.15 million, lower than the deficit of USD 5.6 million in the first half of 2013. The slight improvement in the overall balance was due to the increased in the capital and financial account balance. The current account on the other hand, registered a wider deficit of USD 58.06 million from USD 38.25 million in the first half of 2013. The deterioration in the current account was attributable to increased net payments in the income and services account and the widening deficit in the trade balance. The agricultural output gap coupled with a surged in energy prices caused a hike in imports bills in 2014. The increase in imports and low re-export trade receipts exerted pressure on the international foreign reserves.

5.2 Risks to Baseline Macroeconomic Assumptions

5.2.1 Output Risks

The economy is susceptible to drought and late rains. The occurrence of this natural factors have great ramification on agricultural output in particular and economic growth in general. Agricultural output constitutes 22% of Gross Domestic Production (GDP) in 2012. The 2011 drought which led to a 60% drop in crop production resulted to growth contracting by 4.3%. The Government has been engaged in efforts to diversify the economy and shift from traditional methods of farming to mechanized agriculture is expected to mitigate the underlying risk in exports receipts.

5.2.2 Inflation and Exchange rate Risk

Inflation has been within tolerable margin of a single digit over the years. However, the volatility of commodity prices in the international market poses an imminent risk on inflation in the domestic market through the pass through effect of exchange rate fluctuation. In addition, the continued fiscal dominance would invariably increase money supply and thus triggers inflationary pressures in the domestic market.

5.2.3 Balance of Payments Risks:

The volatility in global food and oil prices poses risk to Gambia’s balance of payment deficit. Further, the risk to a drop in agricultural output (a major foreign exchange earner) and the poor performance of the tourism sector would invariably impact the current account deficit.

Another critical risk to balance of payment is the benignant economic growth in the advanced economies. This is expected to limit the level of inflows in the form of grants and budget support. Setbacks in the tourism sector has caused undue constrain on the supply of foreign currency in the domestic market. This is expected to exacerbate pressure on the local currency (**Dalasi**). Finally, an unprecedented increase in contingent liabilities related to Government guarantees of public enterprises will considerably put pressure on the reserves.

5.2.4 Monetary Risk

The fluctuations in world oil and food prices pose risks to inflation. In addition, if the balance of payments risks materialize, a sharp depreciation of the exchange rate would lead to an increase in inflation. The occurrence of drought and/or floods in the country may lead to high inflation that cannot be contained by monetary policy.

The continued monetization of the fiscal deficit is poised to spike inflation, hence warranting the central bank further tightening monetary policy through interest rate hikes. A spike in domestic interest rates would invariably stall economic growth and increase cost to Government borrowing. This will wane Governments capacity to meet their obligation and poses a threat to debt sustainability.

The robustness of the analysis is based on the resilience of the macro fundamentals and typically the baseline assumptions for the economic growth, external and fiscal balance, and the monetary sector. The overall budget balance assumption is anchored on a strong GDP growth, propelled by the strong fiscal stance which is enhanced by the revenue coming from tax sources.

6.0 COST-RISK ANALYSIS OF ALTERNATIVE DEBT MANAGEMENT STRATEGIES

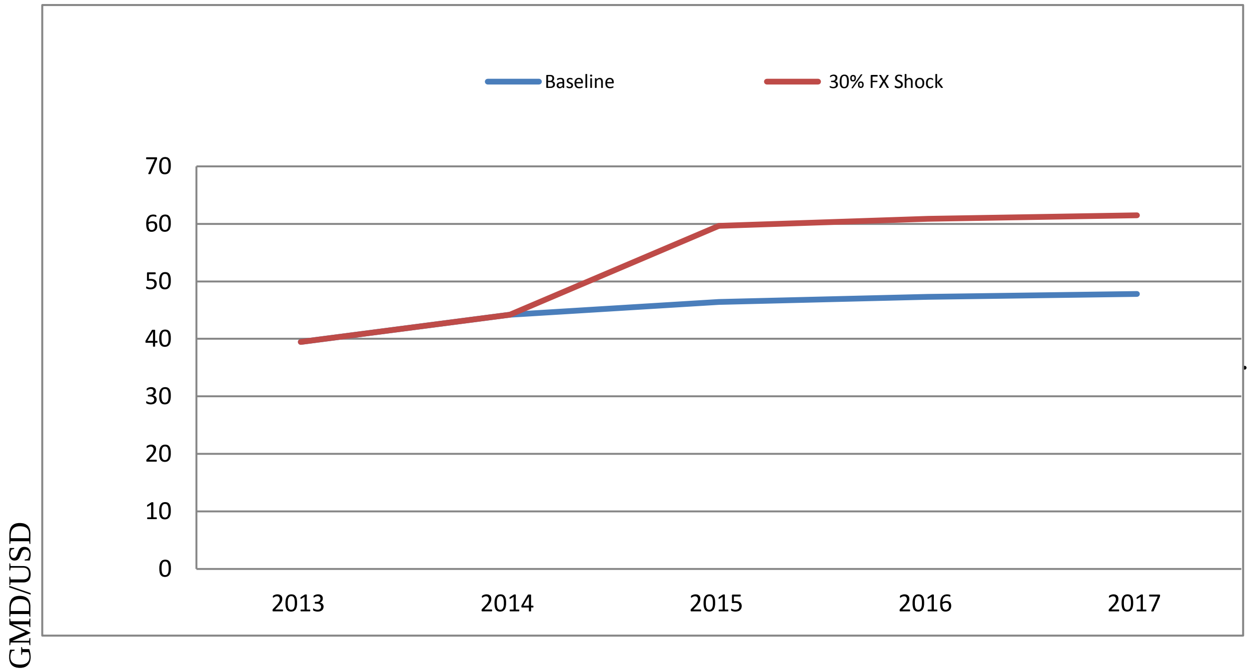
6.1 Baseline Pricing Assumptions

The baseline exchange rate projection assumes 5% depreciation per annum over the next three years. The robustness of the alternative debt management strategies was assessed under three scenarios based on interest and exchange rate shocks. It was assumed that shocks materialize in the year 2015/16, and that all shocks are sustained through FY2016/17. The cost of all market-based borrowing increases in all years. For the purpose of this analysis, three typical shocks stemming from exchange rate, short term interest rates and a combination of these are considered.

Scenario1: 30%Depreciation of the GMD against US Dollar

It is expected that 30% depreciation of the domestic currency against the USD in FY2015/16 over the baseline projection may materialize. As a result, the Gambian Dalasi is expected to depreciate by 30% to the US Dollar. (**Chart: 9**). The shock is assumed to be sustained throughout the projection period. The cost of borrowing at all tenors is assumed to remain the same as the baseline scenarios.

Chart: 9 Exchange Rate Projections: Baseline and 30% Depreciation



Scenario 2: This scenario assumes an upward parallel shift of the short term yield curve by 3% for all the domestic instruments. This shock is consistent with the macroeconomic target of raising real interest rates from the current level to zero, given the inflation target of 5%. Under this stress scenario, there is a combined shock of Interest and exchange rate shock of 15 percent depreciation of the domestic currency against the US Dollar. The combine shock shows on average a 4 percent raise in shock from the baseline to the year 2015 and thereafter it shows a slide drop in 2016 and 2017.

Scenario 3: In this scenario, the Gambian Dalasi depreciates vis-à-vis USD, while all domestic interest rates increase by reasonable margin at all maturities. This reflects the likelihood that interest rates would likely react to an external shock that affects the exchange rate. A combined shock of exchange rate depreciation and an increased of domestic debt yield curve are assumed in this scenario.

6.1.1 External Sources

This MTDS assumed both concessional and semi-concessional external financing. All multilateral loans are assumed to be concessional with average interest rate of 1%, a 25 years maturity and with 7 years grace period.

All bilateral loans are considered to be semi-concessional with a mix of both fixed and floating rate.

Fixed interest rates are priced on average 1.8% while floating is LIBOR plus 300 basis points. Semi-concessional loans have maturity of 20 years and a grace period of 6 years. The pricing reflects the current composition with no access to international markets.

6.1.2 Domestic Sources

The future pricing of domestic financing is a reflection of the historical interest rates. This is as a result of the narrowness of the domestic debt market which makes it almost impossible to predict the domestic interest rates.

6.2 Description of shock scenarios

The robustness of each of the alternative debt management strategies were assessed under three indicators; Debt Stock to GDP, Interest Payments to GDP and PV of Debt to GDP ratio as at end 2017. The magnitude of the shocks was informed by the historical performance of the Gambia's interest and exchange rates shocks. Thus, the shocks are expected to be sustainable in the preceding years.

6.3 Description of Alternative Debt Management Strategies

In due consideration of the cost risk analysis of the existing debt portfolio and the nature of macroeconomic variables, it is apparent that the most potent threat to debt sustainability is the increasing level of domestic debt due to fiscal policy. This is manifested by the net domestic borrowing remaining pretty high at 10% of GDP as at end 2014. It is evident that short tenor Government bills are not only extremely vulnerable to re-fixing but also to roll over risk. This kind of situation calls for diversifying sources of funding in order to minimize cost associated to obtaining those funds.

Taking into account the constrained enunciated above, four alternative debt management strategies were outlined. However, despite their difference in NDB target; these strategies have a common underlying goal to maximize external borrowing and reduce net domestic borrowing towards 1%.

Strtegy1 is a slight improvement on the status quo but largely continuing high net domestic borrowing including heavy reliance on central bank financing at very low interest rate. Under this scenario, the net domestic borrowing as end 2014 of 10% GDP was reduced to 2.5%, 2.00% and 1.5% for 2015, 2016 and 2017 respectively. Domestic borrowing is going to finance 86% of financing needs of the Government through monetization of the fiscal deficit.

Strategy2 completely discontinue central bank monetization of the fiscal deficit; reduce NDB to 1% of GDP in 2015 and thereafter to zero in 2016 and 2017. Domestic debt market development is also considered under this strategy by introducing 2 year bond in 2015.

Strategy3 There is no central bank financing and no domestic debt market development. There is 100% treasury bills domestic borrowing and a mixture of semi and concessional external borrowing. The NDB target of the strategy is 2% of GDP in 2015, 1% of GDP in 2016 and zero percent of GDP in 2017.

Strategy4 is similar to S3 in terms of NDB limits but under S4 more concessional external borrowing is considered and a bit of domestic debt market development (**Table: 4**).

Table 4 Description of Alternative Strategies

Strategy	S1	S2	S3	S4
Multi-Concessional	11%	17%	12%	15%
Semi-Concessional	3%	2%	3%	2%
Total External	**14%**	**19%**	**15%**	**17%**
T-bill	70%	67%	81%	65%
2yr Bond	0%	12%	0%	14%
10/15yr Bond	5%	0%	0%	0%
Per/30yr Bond	11%	4%	3%	3%
Total Domestic	**86%**	**82%**	**85%**	**83%**

6.4 Cost and Risk Analysis of Alternative Debt Management Strategies

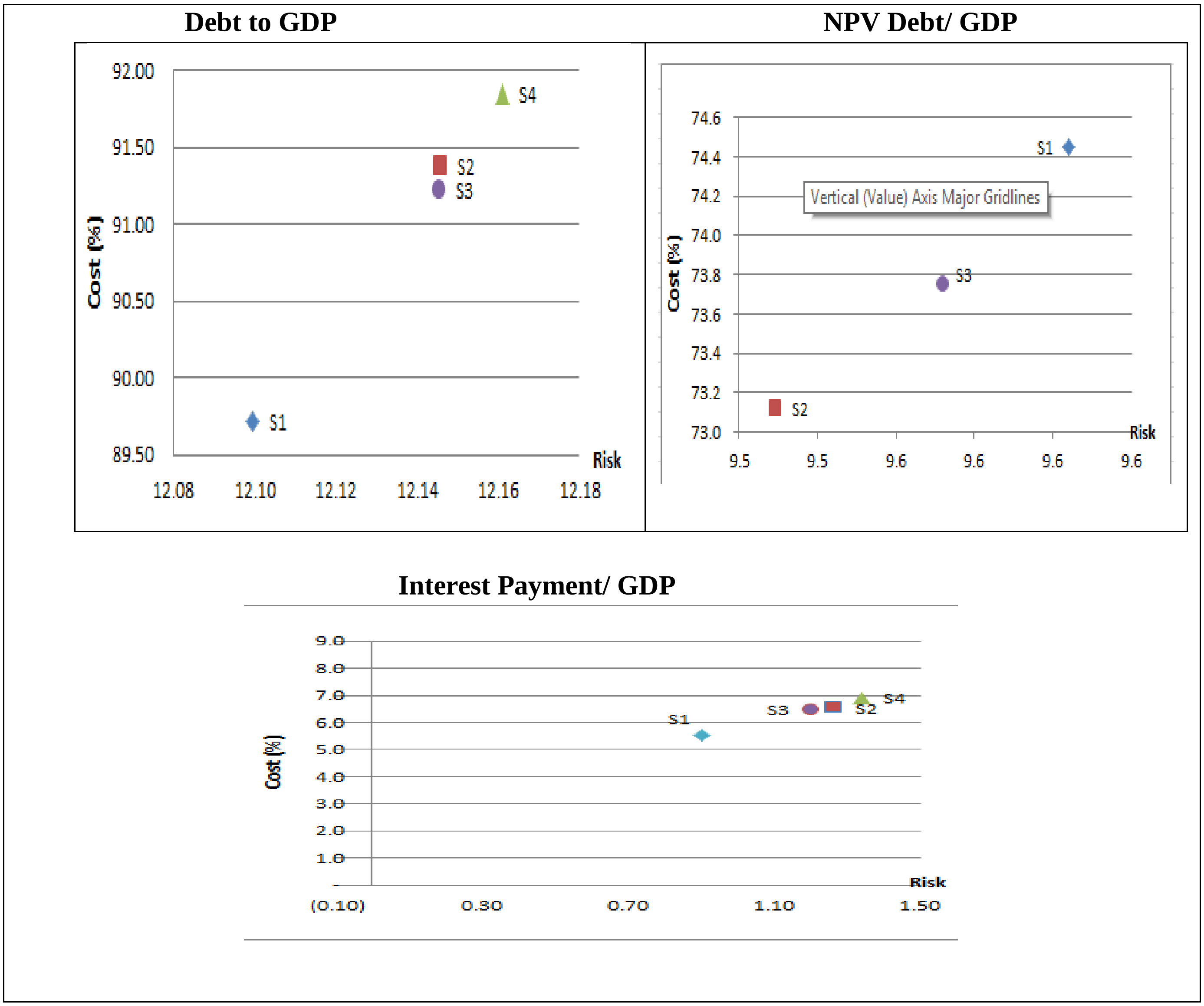
The cost and risk associated with each of the four strategies were assessed under the baseline macroeconomic assumption and risk scenarios. **Table: 5** below show the performances of the fours strategies using risk indicators such as debt to GDP, NPV of debt to GDP and Interest payment to GDP.

Table 5: Cost Risk Analysis under Different Strategies

Risk Indicators		2013	As at end FY2017			
		Current	S1	S2	S3	S4
Nominal debt as % of GDP		98.0	89.7	91.4	91.2	91.9
PV as % of GDP		84.4	74.4	73.1	73.7	74.2
Implied interest rate (%)		6.3	6.6	7.7	7.6	8.1
Refinancing risk	ATM External Portfolio (years)	11.1	12.0	13.8	12.4	13.7
	ATM Domestic Portfolio (years)	2.6	7.4	3.7	3.4	3.6
	ATM Total Portfolio (years)	7.2	9.9	9.8	8.7	9.5
Interest rate risk	ATR (years)	7.0	9.8	9.7	8.6	9.5
	Debt re-fixing in 1yr (% of total)	42.7	24.5	29.4	36.4	29.0
	Fixed rate debt (% of total)	97.2	98.2	98.3	98.2	98.3
FX risk	FX debt as % of total	54.6	54.9	60.6	58.7	59.0
	ST FX debt as % of reserves	15.7	8.5	8.5	8.5	8.5

Analysis of medium term debt indicators suggests that **Strategy 1** dominates all other strategies in terms of Nominal debt to GDP and interest payment to GDP. Similarly, maximum[2] risk generated by combined shocks on interest rate and exchange rate measured in terms of debt-to-GDP is the same across all strategies, interest payments risk indicators also favors Strategy 1.This is consistent with the fact that central bank continue to monetize Government debt through securitization of treasury bills. Strategy 1 is not desirable due to its grave implication on monetary policy. See (**Chart 10**)

Chart: 10 Cost Risk Analysis under Different Financing Scenarios



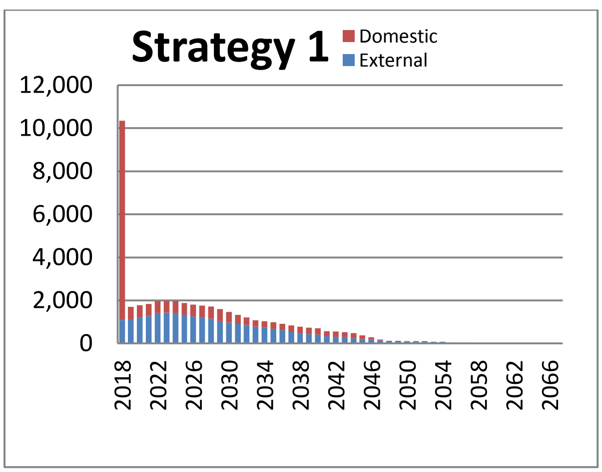
[2] Maximum risk is the difference between maximum cost indicator under different scenarios and baselines

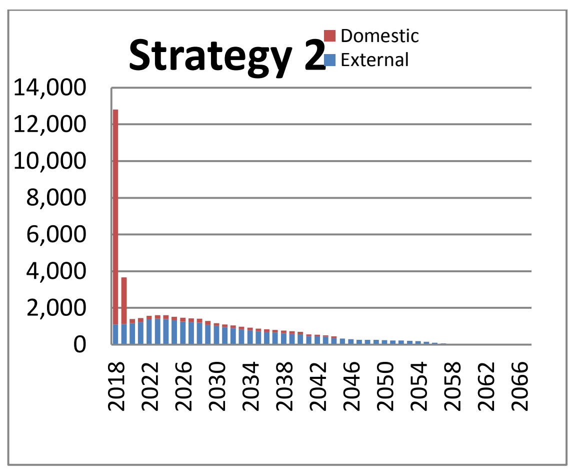
Strategy 2 stood out to be the dominating strategy in terms of PV of debt to GDP. Despite Strategy 1 dominance in both Nominal debt to GDP and Interest payment to GDP, Strategy 2 is the strategy that maximizes concessional external borrowing and therefore, the most desirable – ceteris paribus. In addition, the strategy reduces the refinancing risk as it lengthen average time to maturity of the domestic portfolio and reduces exposure to interest rate risk by raising the proportion of debt that has a fixed interest rate. It also deepens the domestic debt market through the introduction of a two year bond.

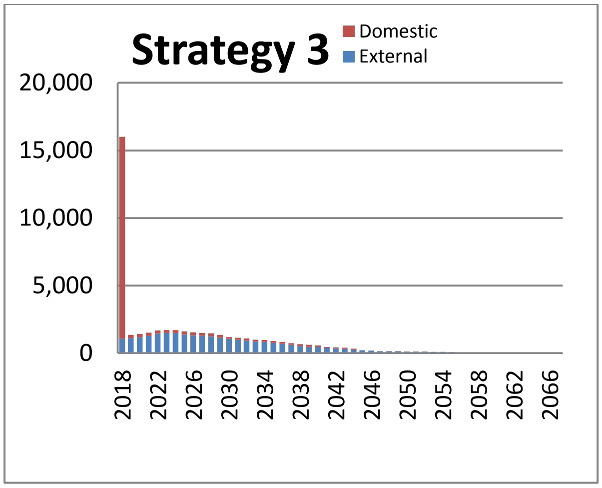
Strategy 3 stood out to be the second best strategy in terms of cost and risk analysis indicators- debt to GDP, NPV to GDP and interest payment to GDP. Strategy 3, although not in conformity with the NDB target of 1% of GDP; has to some extend been systematically narrowed towards progressive reduction of the NDB to 2% 2015, 1% 2016 and zero thereafter.

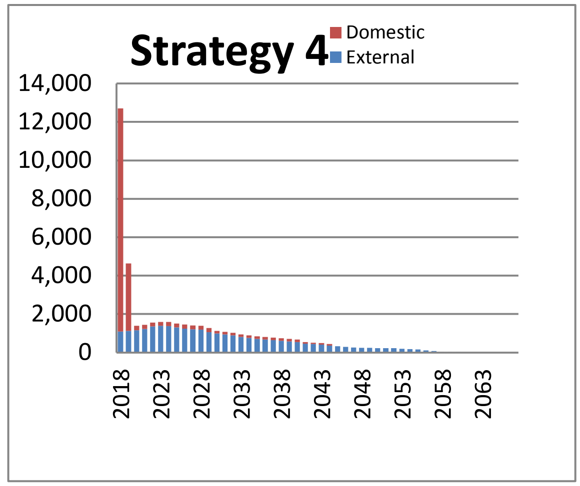
Strategy 4 is the least desirable among all the alternative strategies. In the risk analysis indicators Strategy 4 ranked last for both Debt to GDP and interest payment to GDP. In addition, it stood second to last in NPV of debt to GDP. However, in terms of ATM in external portfolio, Strategy 4 has the longest years of maturity owing to its goal of only contracting concessional loans.

Chart: 11 Redemption Profile under different Strategies as at end 2017









7.0 INSTITUTIONAL ARRANGEMENTS

The Government of the Gambia recently has enacted a comprehensive Public Finance Law (2014) where all the necessary and required standard legislation provisions for Public Debt Management are provided. The law provided adequate protection for the investor community and strengthens further the institutional arrangement of overall debt management processes and practices.

The Minister of Finance and Economic Affairs is the only Government official entitled to borrow and/or on-lend money from any legal entity or person and to enter into a guarantee or indemnity with third parties. In addition, the Act determines that the Minister of Finance chooses the form, the terms and conditions and instruments of borrowing, subject to the condition that, in matters relating to monetary policy shall consult the CBG. The National Assembly ratifies external loans and guarantees[3].

The Central Bank of The Gambia is entrusted with the issue and management of domestic debt issued on the terms and conditions that are agreed upon between the Government and the Bank[4]. However, as the Loan and Debt Management Unit of MoFEA enhances its capacity, MoFEA will take a more proactive role on the reporting, recording and management of domestic debt[5].

The Directorate of Loans and Debt Management (DLDM), at MoFEA, have the principal responsibility for the management and implementation of public debt operations in The Gambia. DLDM comprises: Front Office, responsible for resource mobilization (external loans and credits negotiation); Middle Office, responsible for the preparation of MTDS and coordinating the Debt

[3] Section 35 – GBMA Act 2004
[4] CBG Act 2005
[5] MOU – DoSFEA (re-named MoFEA) and CBG

Sustainability Analysis (DSA); and Back Office, responsible for recording and reporting of debt statistics. The arrangements for debt servicing involve DLDM (Back Office), Accountant General's Department (ACCOUNTANT GENERAL'S DEPARTMENT), and CBG. The new public finance law made provisions for the management of sub-national and SOEs Debt and the roles of the internal and external Audit and also the National Assembly.

8.0 CONCLUSION

This MTDS is a robust framework for prudent debt management. It provides a systematic approach to decision making on the appropriate composition of external and domestic borrowing to finance the budget in the medium term, taking into account both cost and risk. The cost-risk trade-off of this MTDS has been evaluated within the medium term context.

Given that Central Bank borrowings result to inflationary pressure in the economy, this MTDS completely discourages it as the authorities being fully aware of its consequences, there is no further appetite towards borrowing from the central bank, going forward into the future. This MTDS would address some of the major challenges in the economy leading to a more robust economic growth and development.