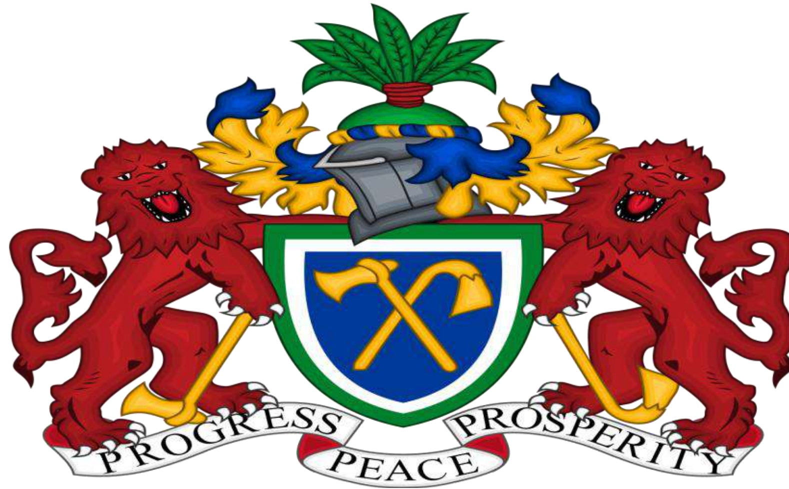

MEDIUM-TERM DEBT MANAGEMENT STRATEGY

(2021-2025)

SEPTEMBER 2021

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ACRONYMS AND ABBREVIATIONS

LIST OF CREDITORS

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

CURRENCIES

CNY	Chinese Yuan
EUR	Euro
GBP	Great Britain Pound Sterling
GMD	Gambian Dalasi
JPY	Japanese Yen
KWD	Kuwait Dinar
SAR	Saudi Arabia Riyal
USD	United States Dollar

OTHERS

BoP	Balance of Payment
CBG	Central Bank of the Gambia
DLDM	Directorate of Loans and Debt Management
DOD	Disbursed Outstanding Debt
DSA	Debt Sustainability Analysis

DMBs	Deposit Money Banks
GBoS	Gambia Bureau of Statistics
GDP	Gross Domestic Product
GRA	Gambia Revenue Authority
MTDS	Medium Term Debt Strategy
MTEFF	Medium Term Economic Fiscal Framework
MoFEA	Ministry of Finance and Economic Affairs
NAWEC	National Water and Electricity Company
NDP	National Development Plan
NDB/NDF	Net Domestic Borrowing/Net Domestic Financing
RCF	Rapid Credit Facility
SAS	Sukuk-Al-Salam
SOE	State Owned Enterprise
SSHFC	Social Security and Housing Finance Corporation

Introduction

Per Section VI Sub-Section 38 of the Public Finance Act, (2014) which dictates for a medium-term debt management strategy to be formulated and updated at least once a year on a rolling basis by the Ministry of Finance and Economic Affairs. In addition, the Hon. Minister would present it to Cabinet for approval. In fulfilment of the aforementioned Act, the Directorate of Loans and Debt Management (DLDM-MoFEA) conducted a review of the previous MTDS in collaboration with stakeholders such as the Directorate of Economic Policy and Research (DEPR-MoFEA), Aid Coordination Directorate (ACD- MoFEA), Central Bank of The Gambia (CBG), and the Gambia Revenue Authority (GRA). The review is geared towards assessing the performance of the 2020-2024 MTDS and to update the strategy with the current macroeconomic developments.

The revised strategy seeks to contribute in achieving the second strategic priority of the National Development Plan (NDP) 2018-2021, and to achieve the debt management objectives as stipulated in the Public Finance Act (2014).

Objective and Scope

As defined in the Public Finance Act (2014), the primary objective of Public Debt Management is to ensure that Government's financing needs are met at the least possible cost, consistent with a prudent degree of risk. The secondary objective is to promote domestic debt market development expected to spur economic growth and to provide efficient, transparent and accountable debt management processes to mitigate operational and portfolio risks.

The MTDS (2021-2025) review covers a five-year horizon, which is premised on the Medium Term Economic Fiscal Framework (MTEFF). The scope of debt coverage includes Public and Publicly Guaranteed (PPG) debt of the Government from both external and domestic sources.

Overview of Macroeconomic Developments

Global Economic Outlook and Impact on Domestic Economy

As of end July 2021, the global economic recovery continues however, with diverging trend across countries. The International Monetary Fund (IMF) projected the global economy to grow by 6.0 per cent in 2021, unchanged compared to the projections in last April. The anticipated recovery, however, is not broad-based resulting to a widening gap between rich and poor nations. In 2022, growth as projected will moderate to 4.9 per cent, an upgrade by 0.5 percentage points from the previous forecast in April 2021. This mirrors largely the additional fiscal spending from the United States (US) and improved health metrics.

In advanced economies, the forecast for 2021 has been revised up by 0.5 percentage points to 5.6 per cent reflecting largely the enhanced access to Covid-19 vaccines and strong fiscal policy support. Similarly, prospects for next year (2022) have been revised upward by 0.8 percentage points to 4.4 per cent predicated on a return to normalcy and additional fiscal support particularly in the US.

Conversely, growth in 2021 for emerging markets and developing economies was scaled down by 0.4 percentage points to 6.3 per cent relative to the April 2021 World Economic Outlook (WEO) on account of growth markdowns for emerging Asia economies. In 2022, the projected growth of 5.2 per cent for this region reflects an upwards revision by 0.2 percentage points relative to the forecast in April this year.

In Sub-Saharan Africa, growth projection for 2021 remains unchanged at 3.4 per cent. However, the growth outlook for the region's second biggest economy, South Africa was upgraded on the back of strong positive surprises in the first quarter of the year offset by downward revisions in other countries in the region. For 2022, growth has been upgraded to 2.6 per cent, representing 0.3 percentage points higher than the 2.3 per cent forecast in April this year.

Domestic Economy

Between 2018 and 2020, the Gambian economy faced challenges that severely affected performance across all sectors. This placed GDP growth on a downward trajectory from 7.2 per cent in 2018, to 6.2 per cent in 2019, and a staggering -0.2 per cent in 2020. The poor performance largely resulted from climate change-induced shocks in the Agriculture Sector, and the Thomas Cook collapse followed by the COVID-19 pandemic over the period. With relatively poor performance in the Agriculture and Services sectors from 2018 to 2019,

performance in the Industry Sector on the other hand improved tremendously, enabling it to be the major growth driver for this period. In 2020, whilst Agriculture rebounded with exceptional performance from improved crop production, it wasn't enough to offset the relatively poor growth in Industry and a contraction in Services sector caused by the pandemic.

GDP Growth

Real Gross Domestic Product (GDP) growth declined significantly from 6.2 per cent in 2019 to -0.2 per cent in 2020. This was mainly due to a contraction in growth in the services sector, emanating primarily from the wholesale and retail trade and tourism sub-sectors. Agriculture and Industry, on the other hand, both registered modest growth during the review period.

Table 1: GDP growth rates 2018-2020

	2018	2019	2020
Gross Domestic Product (GDP) market price	**7.2%**	**6.2%**	**-0.2%**
Agriculture, forestry and fishing	**3.7%**	**-0.1%**	**11.7%**
Crops	-2.8%	-14.1%	16.9%
Livestock	-5.6%	-1.7%	-0.7%
Forestry and logging	-18.2%	-24.3%	-2.2%
Fishing and aquaculture	19.6%	18.4%	11.7%
Industry	**2.0%**	**14.8%**	**9.9%**
Mining and quarrying	14.9%	22.5%	25.4%
Manufacturing	-1.2%	-5.2%	-21.2%
Electricity, gas, steam and air conditioning supply	13.4%	13.5%	14.5%
Water supply, sewerage, waste management and remediation	0.4%	9.2%	1.6%
Construction	2.0%	24.0%	20.0%
Services	**9.8%**	**6.1%**	**-7.2%**
Wholesale and retail trade; repair of motors and motorcycles	12.3%	3.1%	-4.7%
Transport and storage	10.3%	10.6%	-13.6%
Accommodation and food service activities	18.7%	16.9%	-65.4%
Information and Communication	11.1%	13.6%	1.8%
Financial and insurance activities	12.9%	7.5%	4.3%

Source: GBoS

Fiscal Sector

Total Revenue outturn in 2020 recorded a performance rate of 87.8 per cent (D21.5 billion), which is below the budget by D2.9 billion. This underperformance rate of 12.2 per cent during the 2020 fiscal year was largely as a result of the low disbursement of Project grants which recorded an outturn of D2.6 billion against the budgeted D8.1 billion. The low disbursement of Project grants was due to the slowdown in economic activities as a result of the general lockdowns imposed during the COVID-19 Pandemic.

Budget support outturn however, recorded D5.2 billion against the budgeted amount of D2.7 billion. The increase in budget support was due to additional donor support from the IMF in the wake of the pandemic. This enabled the implementation of the emergency health spending and social programs to help curb the effects of the pandemic on these critical sectors.

Domestic revenue mobilization in 2020 reached 99.6 per cent (D13.5 billion) of the budget, which was as a result of the strong performance in both Tax Revenue (D10.3 billion) and Non-tax Revenue (D3.3 billion).

Non-tax revenue recorded a performance rate of 160.3 per cent of the budget. This over-performance rate of 60.3 per cent in Non-tax revenue against the budget, apart from government services and charges, was as a result of the one-off non-tax receipts from the sales of assets authorized by the Janneh Commission as well as receipts from the Senegambia Toll Bridge.

Table 2: Revenue Performance 2020

	Budget	Actual Outturn	Variance	Performance rate
Total Revenue	**24,472**	**21,494**	**-2,978**	**87.8**
Domestic Revenue	**13,636**	**13,587**	**-49**	**99.6**
Tax Revenue	11,601	10,325	-1,276	89.0
Non-tax Revenue	2,035	3,262	1,227	160.3
Grants	**10,836**	**7,907**	**-2,929**	**73.0**

Budget Support	2,700	5,284	2,584	195.7
Projects	8,136	2,623	-5,513	32.2

Source: *MPAU*

Budget execution for the fiscal year 2020 has a performance rate of 82.9 per cent against the approved budget indicated that most of the expenditure items remained within the approved budget ceilings, signaling prudent budget execution as approved by parliament.

Current Expenditure actual outturn recorded D16.7 billion (118.1 per cent) against the budgeted amount of D14.2 billion. The increase in Current Expenditure was as a result of the increase in spending on Goods and Services, with an expenditure rate of 90.6 per cent of the approved budget, as well as an increase in Transfers with an expenditure rate of 147.3 per cent of the approved budget.

Capital expenditure on the other hand, registered the lowest budget execution rate of 47.2 per cent as at end-2020 (D6.6 billion against the budgeted amount of D13.9 billion), largely as a result of delays in project implementation in the agricultural sector and public works due to the impact of the pandemic and the shift in spending priorities towards combating the pandemic.

Table 3: Expenditure Performance 2020

Budget Class	Approved Budget	Actual Outturn	Variance	% of Approved Budget Spent
Total Expenditure	**28,137**	**23,326**	**-4,811**	**82.9**
Current Expenditure	**14,166**	**16,726**	**2,560**	**118.1**
Personnel Emoluments	4,469	4,048	-421	90.6
Goods & Services	3,358	4,716	1,358	140.4
Transfers	3,391	4,995	1,604	147.3
Interest	2,948	2,967	19	100.6
Capital Expenditure	**13,971**	**6,600**	**-7,371**	**47.2**

Source: *MPAU*

Monetary Sector

Inflation

Inflation stood at 5.7 per cent as of December 2020 from a record of 5.8 per cent in November 2020. When compared to the corresponding period in 2019, inflation subdued by 2.0 percentage points i.e. from 7.7 per cent recorded in December 2019.

Latest inflation developments for 2021 showed that inflationary pressures moderated in August 2021. Headline inflation declined significantly from 8.2 per cent in July 2021 to 6.9 per cent in August 2021. This trend has pushed inflation closer to the medium-term target, breaking the trend of the last quarter. The decline in inflation is consistent with the forecast presented during the September 2021 MPC Meeting. The descending trajectory of inflation was largely driven by the decline in food prices. Monetary policy still remains accommodative geared to support economic recovery from the recession caused by the Covid-19 pandemic. The policy rate was reduced by 200 basis points to 10.0 per cent in May 2020. The Committee also reduced the statutory required reserves by 200 basis points to 13 per cent to create more liquidity in an effort to promote growth through borrowing to increase spending and investment.

Money Market yields

In the first half of 2021, money market interest rates are observed below their neutral levels and real interest rates are negative. As at end August 2021, the weekly average interest rates across all Treasury bill profiles declined reflecting the excess liquidity position of the banking system. The 91-day, 182-day, and 364-day Treasury bills, which stood at 1.93 per cent, 1.94 per cent and 2.71 per cent, respectively, as at end August 2021 declined significantly from 3.57 per cent, 5.50 per cent and 8.52 per cent, respectively, as at end August 2020. Similarly, yields on Sukuk Al Salam (SAS) bills decreased on average for 364-day profile from 7.33 per cent in August 2020 to 3.51 per cent in August 2021. However, yields for the other SAS profiles, the 91-day and 182-day increased to 4.51 per cent and 5.0 per cent, respectively in August 2021 from 3.12 per cent and 4.20 per cent, respectively in August 2020.

Exchange Rates

The foreign exchange market remained stable in 2019-2020 underpinned by adequate foreign currency liquidity, and a stable exchange rate. The supply conditions were supported by large

foreign inflows from official development assistance and private remittances. Private remittance inflows have remained strong, reaching US$ 535 million at end-August 2021 compared to US$ 590 million recorded during the entire 2020. It also improved significantly compared to US$ 330 million realized in 2019.

From January to December 2020, the Dalasi depreciated against the British pound sterling by 2.3 per cent, USD by 1.2 per cent, CFA by 3.6 per cent, and Euro by 7.9 per cent.

The exchange rate of the Dalasi remained relatively stable during the year, supported by stable supply conditions, a solid macroeconomic environment, and market confidence. From January to August 2021, the Dalasi depreciated against the British pound sterling by 3.3 per cent, CFA by 3.7 per cent. While the Dalasi appreciated against the Euro by 2.2 per cent and against the USD by 0.6 per cent.

Monetary aggregates

Money supply growth was strong for the second quarter of 2021. It grew by 27.5 in June 2021 relative to 16.4 per cent a year ago. Narrow and quasi money supported the growth in broad money expanding by 27.3 per cent and 27.8 per cent in June 2021 respectively compared to 18.8 per cent and 13.6 per cent in June 2020.

Net Foreign Assets (NFA) of the banking system increased significantly to D25.74 billion as at end-June 2021 or by 48.9 per cent from D17.28 billion at end-June 2020. Its components; NFA of the central bank and NFA of the commercial banks growth were robust. The NFA of the central bank grew at end-June 2021 by 64.5 per cent to stand at D15.2 billion compared to D9.3 billion in the same period in 2020. Similarly, the NFA of deposit money banks increased to D10.5 billion or by 31.0 per cent at end-June 2021 from D8.02 billion recorded a year ago.

Net domestic asset (NDA) of the banking system at end-June 2021 rose to D30.87 billion, or 13.8 per cent growth relative to 10.4 per cent growth in the same period last year. The banking system’s net claims on government picked up by 11.0 per cent (year-on-year) and accounted for about 89.4 per cent of total domestic credit. Private sector credit grew by 5.7 per cent (year-on-year) as of end-June 2021, lower than 24.5 per cent recorded a year ago reflecting lower economic activities.

End-June 2021 annual reserve money grew significantly by 31.1 per cent compared to 16.8 per cent in the corresponding period a year ago on account of marked increase in reserves of Deposit Money Banks (DMBs). Currency in circulation rose by 27.3 per cent, higher than 22.1 per cent recorded a year ago. Similarly, reserves of DMBs increased significantly by 37.1 per cent compared to 3.9 per cent recorded in the same period last year.

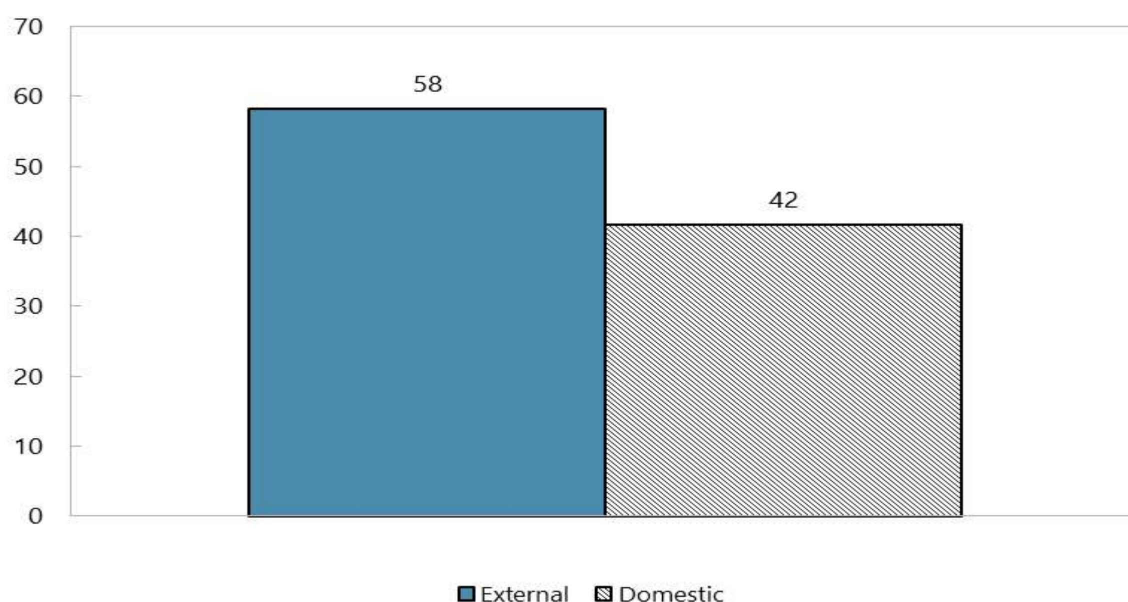
External Sector

Balance of Payments (BoP) estimates indicated that the current account improved from a deficit of US$79.72 million (6.5 per cent of GDP) as at end June 2020, to a deficit of US$10.25 million (0.8 per cent of GDP) in the same period of 2021. This was as a result of the improved position in the goods account (imports) and the strong transfers (remittances). The estimates for the gross official reserves as at end-June 2021 stood at US$418.96 million, equivalent to over 5.3 months of next year's imports of goods.

Public Debt Portfolio Analysis

Total Public and Publicly Guaranteed (PPG) debt stock as at end 2020 stood at US$1.53 billion (equivalent to D79.26 billion) of which external debt constitute 58 per cent and 42 per cent is domestic debt. The nominal debt as percentage of GDP increased from 80.1 per cent as at end 2019 to 84.1 per cent as at end period 2020.

Figure 1: Total Public Debt (external and domestic) as at end of 2020



External Debt Portfolio Analysis

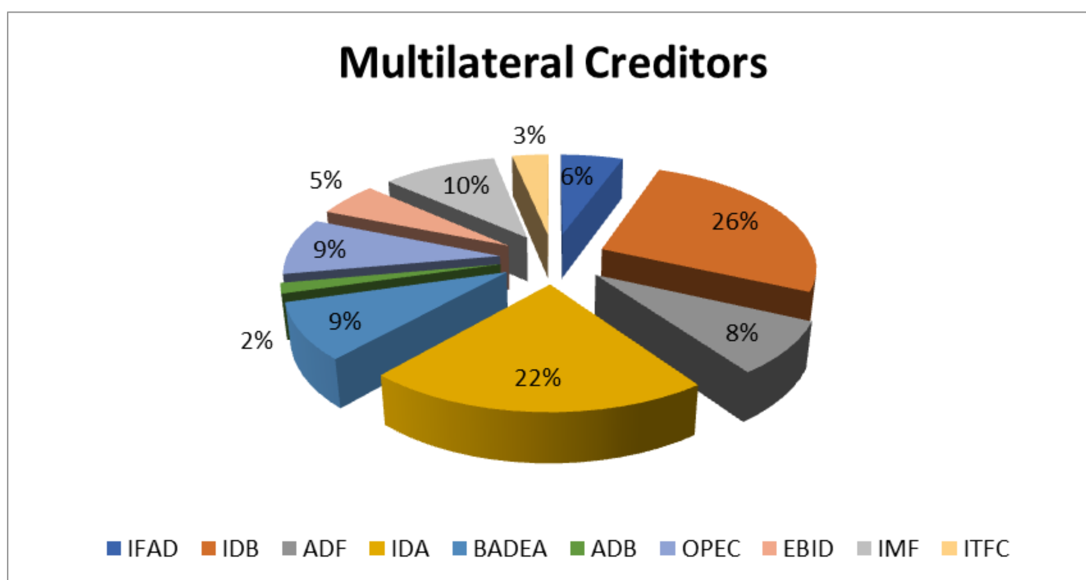
External Debt Stock

The Gambia's outstanding external debt as of end 2020 increased to US$894.86 million (46.2 per cent of GDP) from US$814.8 million (45.4 per cent of GDP) in 2019. Public external debt constituted 58.0 per cent of the total public debt in 2020 compared to 56.7 per cent in 2019.

External Debt Stock by Creditor Category

The external debt stock mainly comprises debt from multilateral creditors, which accounted for 66.40 per cent of the total external debt portfolio (*figure 2*). The Islamic Development Bank is the leading multilateral creditor to The Gambia followed by International Development Association (*figure 2*).

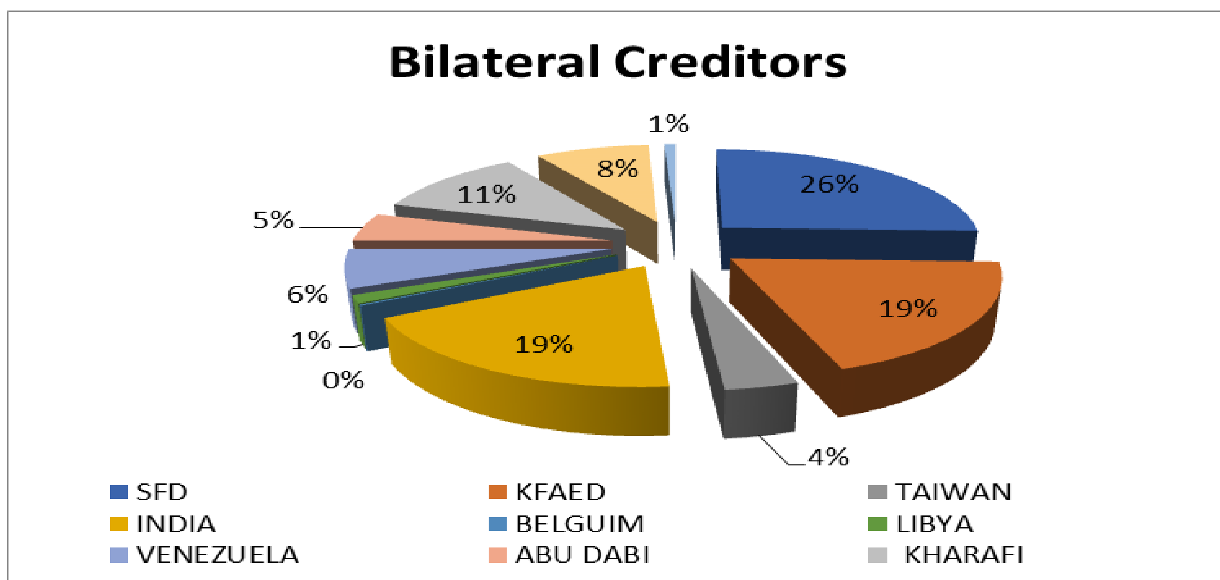
Figure 2: Multilateral Creditors



Source: *DLDM*

Bilateral creditors account for the remaining 33.6 per cent of the portfolio, of which Saudi Fund for Development is the leading creditor followed by Kuwaiti Fund for Arab Economic Development (figure 3).

Figure 3: Bilateral Creditors

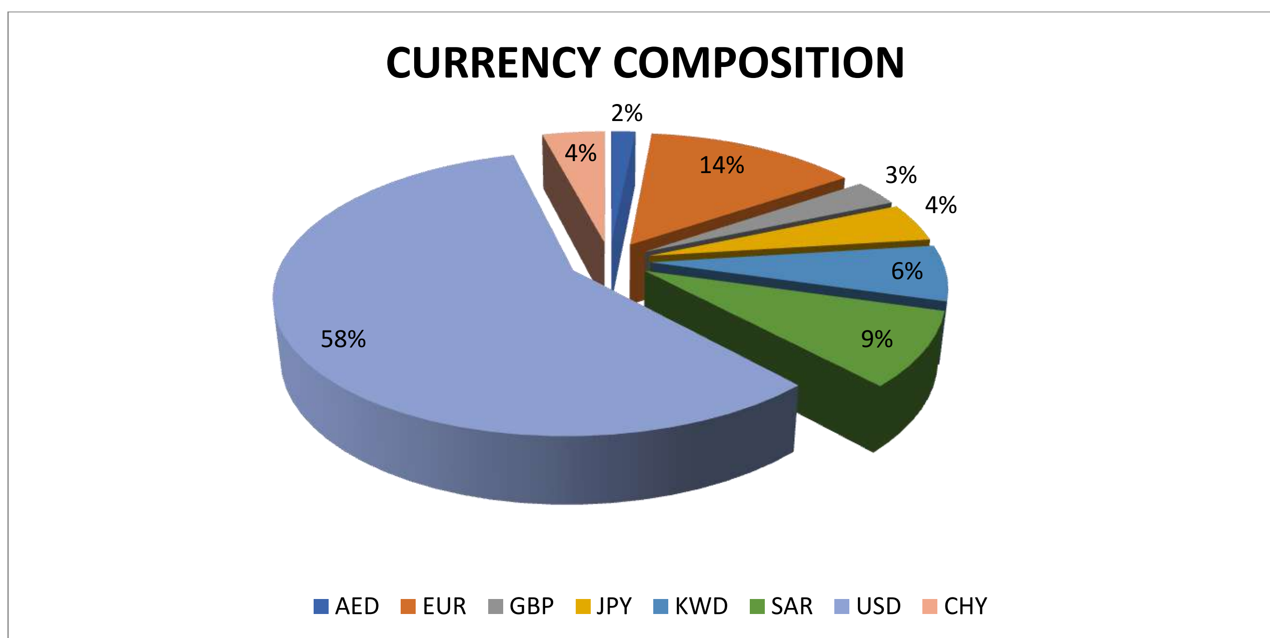


Source: *DLDM*

Currency Composition of External Debt

A great proportion of the external debt portfolio is exposed to the USD accounting for 58 per cent of the currency exposure (*figure 4*).

Figure 4: Currency composition of external debt



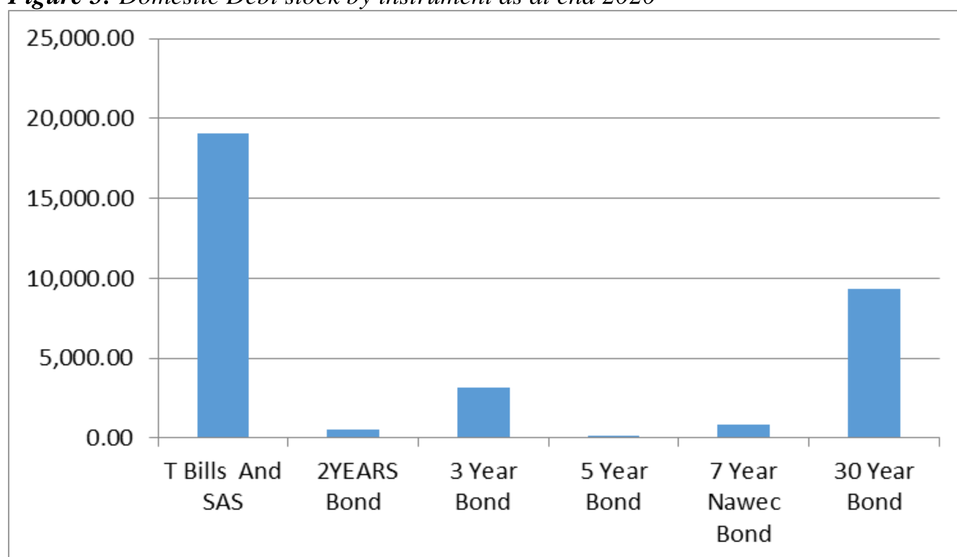
Source: DLDM

Domestic Debt Portfolio Analysis

Domestic Debt Stock

The stock of outstanding domestic debt increased from D31.8 billion (34.7 per cent of GDP) in 2019 to D33.05 billion (35.1 per cent of GDP) in 2020. The marketable debt instruments in the domestic debt portfolio are T-bills, Sukuk-Al Salaam, 2-year, 3-year and 5-year bonds. The T-bills and Sukuk-Al Salaam accounts for 56 per cent and 2 per cent of the domestic debt stock respectively. The 30-year bond and the NAWEC bond are two non-marketable debt instruments in the domestic debt portfolio (*figure 5*).

Figure 5: *Domestic Debt stock by instrument as at end 2020*

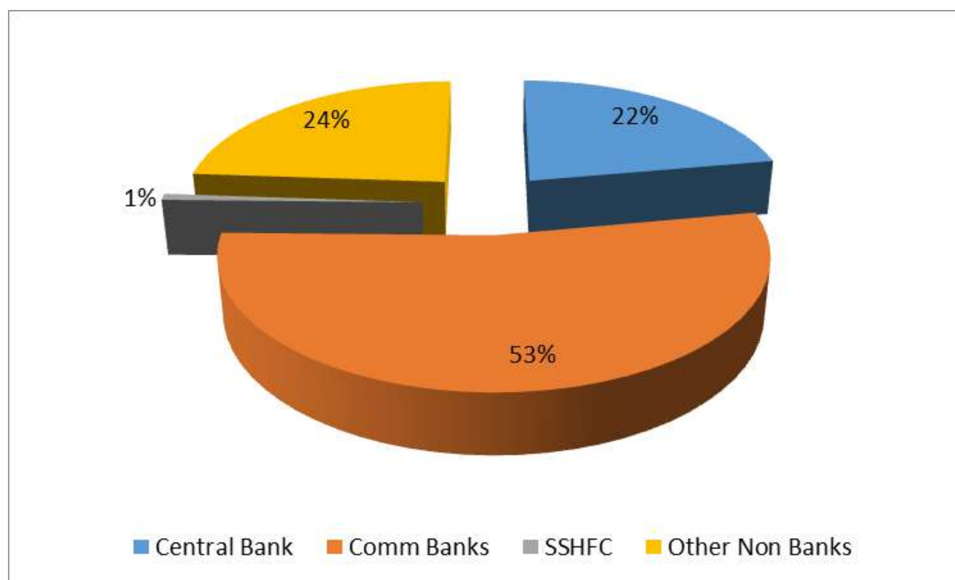


Source: CBG

Domestic Debt by Holder

The holders of Government domestic debt as at end 2020 comprised of commercial banks, SSHFC, other non-banks, and the Central Bank of The Gambia. Commercial Banks hold 53 per cent of the domestic debt portfolio, followed by the Central Bank with 22 per cent share, non-banks and SSHFC holding 24 per cent and 1 per cent respectively (*figure 6*).

Figure 6: *Domestic Debt by Holder*



Source: *CBG*

Cost and Risk of the Existing Debt Portfolio

Cost of Debt

As at end 2020, the total public and publicly guaranteed debt has a weighted average interest rate of 3.4 per cent. The weighted average interest rate for external debt stood at 1.2 per cent, reflecting a mix of debt contracted on concessional and semi concessional terms, with the weighted average interest rate for domestic at 6.6 per cent.

Refinancing Risk

The average time to maturity for the public and publicly guaranteed debt as at end 2020 is 7.5 years, in which the external portfolio has 9.8 years worsen by the continuous presence of the International Islamic Trade Finance Corporation (ITFC) trade facility which matures within a year. On the other hand, the domestic portfolio has 4.1 years ATM improved by the inclusion of the non-marketable debt stock (i.e. 7-year NAWEC bond and 30-year bond).

Interest Rate Risk

The Average Time to Re-fixing (ATR) for the total debt portfolio is 7.4 years as at end 2020 which indicates a high composition of fixed interest denominated debt.

Foreign Exchange Risk

More than half of the total public and publicly guaranteed debt (58.3 per cent) is exposed to exchange rate risk, mainly to the USD (*table 4*).

Table 4: Cost and risk of the existing debt portfolio

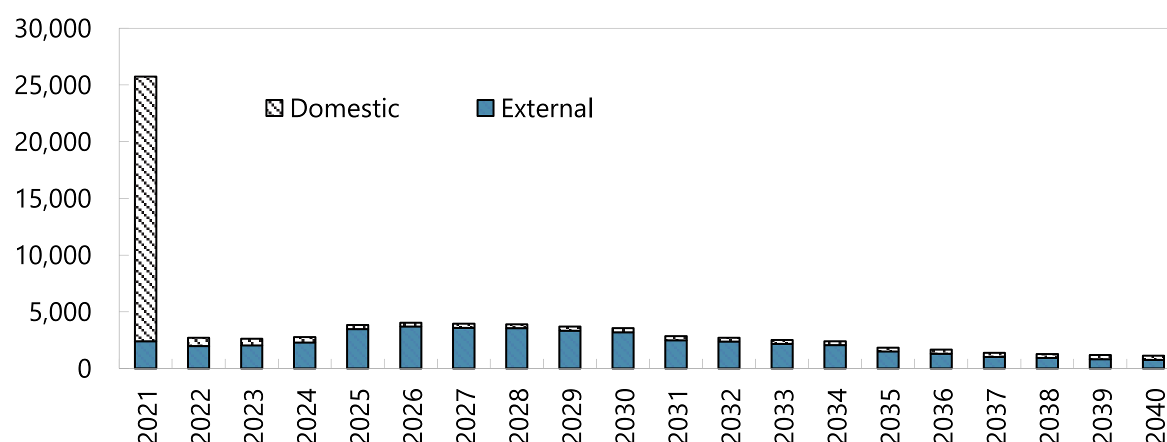
Risk Indicators		External debt	Domestic debt	Total debt
Amount (in millions of GMD)		46,203.7	33,059.6	79,263.3
Amount (in millions of USD)		894.6	640.1	1,534.6
Nominal debt as percent of GDP		49.0	35.1	84.1
PV as percent of GDP[1]		35.0	35.1	70.1
Cost of debt[2]	Interest payment as percent of GDP[3]	0.6	2.3	2.9
	Weighted Av. IR (percent)	1.2	6.6	3.4
Refinancing risk[2]	ATM (years)	9.8	4.1	7.5
	Debt maturing in 1yr (percent of total)	4.9	70.6	31.3
	Debt maturing in 1yr (percent of GDP)	2.5	24.8	27.3
Interest rate risk[2]	ATR (years)	9.6	4.1	7.4
	Debt refixing in 1yr (percent of total)	9.5	70.6	34.1
	Fixed rate debt incl T-bills (percent of total)	93.3	100.0	96.0
	T-bills (percent of total)	0.0	57.7	23.2
FX risk	FX debt (percent of total debt)			58.3
	ST FX debt (percent of reserves)			13.0

Source: DLDM

Redemption Profile of the Public Debt Portfolio

The redemption profile shows a significant concentration of maturities in year one, with 70.6 per cent of the domestic debt. This is as a result of a significant share of the T-bills and SAS, which is about 57 per cent of the domestic debt portfolio and the 2-year bond maturing in the fourth quarter of 2021, posing a high refinancing risk (*figure 7*).

Figure 7*: Redemption Profile as at end-2020 (in millions of GMD)*



Source*: DLDM*

Performance Review of the 2020-2024 MTDS

In operationalizing the MTDS (2020-2024), the Ministry (DLDM) has prepared an Annual Borrowing Plan for 2021 consistent with the strategy.

As per Section VI Sub-Section 39 of the Public Finance Act (2014), which emphasizes the preparation of an Annual Borrowing Plan to meet the aggregate borrowing requirement of the State, hence the Debt Management Department has prepared and published the Annual Borrowing Plan, and subsequently provides a detailed monthly Issuance Calendar for the year 2021 for publication.

Furthermore, the Debt Management Directorate of the Ministry of Finance and Economic Affairs has issued GMD 2.3 billion 3-year Government Bond from January to June and GMD 2 billion 5-year Bond in September 2021. This is an effort toward the implementation of current Debt Management Strategy (2020-2024) which is geared toward gradually increasing the share of longer-dated debt instruments in the domestic debt portfolio to mitigate refinancing risk, provide for infrastructure financing, and ensure a sustainable path for the public and publicly debt in the medium to long-term.

Medium-Term Macroeconomic Outlook

Domestic Economy

Recovery and growth prospects over the medium term will be premised on sustained growth in key sub-sectors and a strong commitment to medium-term policy reforms. With economies across the world being hit by a third wave of the pandemic and vaccine access and/or uptake still a challenge for many especially in the global south, conditions are still precarious. As much as there are positive expectations of tourist arrivals for the 2021-22 tourist season and a marked improvement in economic activities, the country still faces challenges—COVID-19 cases have been on the rise over the past month, signaling persistence in the third wave. Due to volatility in the prospects for tourism and trade, the economy will rely heavily on the other productive sectors to perform as projected in the medium term. See table 6 for breakdown on the GDP growth in the medium term.

Table 5: Macro projections 2021-2025

Industry	**2021**	**2022**	**2023**	**2024**	**2025**
Gross Domestic Product (GDP) market price	**4.80%**	**6.80%**	**6.10%**	**5.30%**	**5.20%**
Agriculture, forestry and fishing	**3.80%**	**4.80%**	**4.00%**	**4.00%**	**4.10%**
Crops	-3.50%	0.60%	1.80%	2.20%	2.40%
Livestock	4.20%	1.90%	0.40%	0.70%	0.80%
Forestry and logging	-4.60%	-1.50%	0.90%	1.40%	3.40%
Fishing and aquaculture	10.50%	9.00%	6.50%	6.00%	6.00%
Industry	**3.40%**	**5.50%**	**9.50%**	**8.40%**	**8.10%**
Mining and quarrying	10.30%	9.90%	6.20%	4.20%	2.80%
Manufacturing	-1.70%	0.90%	1.90%	1.40%	1.40%
Electricity, gas, steam and air conditioning supply	12.60%	12.90%	5.10%	4.00%	4.50%
Water supply, sewerage, waste management and remediation activities	0.30%	5.10%	5.40%	5.90%	5.90%
Construction	3.50%	5.50%	12.00%	10.50%	10.00%
Services	**5.90%**	**7.70%**	**5.70%**	**4.50%**	**4.50%**
Wholesale and retail trade; repair of motors and motorcycles	4.60%	8.20%	3.80%	3.30%	3.10%
Transport and storage	10.20%	3.80%	4.00%	3.00%	2.80%
Accommodation and food service activities	29.80%	64.40%	47.80%	5.40%	4.20%
Information and Communication	5.60%	8.00%	3.10%	5.10%	5.30%
Financial and insurance activities	12.30%	10.20%	11.30%	11.80%	13.50%

Source: *MPAU*

Fiscal Sector

On the fiscal front, the domestic revenue collection is projected to increase from D14.9 billion (14.3 per cent of GDP) in 2021 to D17.0 billion (14.5 per cent of GDP) in 2022. This positive growth trend is expected to remain consistent over the medium term. This reflects robust revenue mobilization efforts and the implementation of the GRA reform agenda geared towards improving compliance and expanding the tax-base. MoFEA in collaboration with GRA conducted a review pertaining to tax exemption policies, mainly the guiding framework for application and granting of duty waivers and related tax exemptions. This was followed by a Cabinet Paper with recommendations to limit and account for these exemptions. The reform implementation process has begun in earnest after the approval from Cabinet and the impact is expected to reflect an increase in revenues over the medium term.

Total grants are anticipated to increase from D8.5 billion in 2021 to D9.0 billion in 2022. This projected increase is largely attributed to the anticipated increase in project grants, but is dampened by the projected gradual decline in budget support, which continues to decline after the huge upsurge during the pandemic in 2020. Whilst project grants are estimated to continue on a positive trend over the medium-term, budget support is expected to remain on a declining trend.

Total government expenditure is projected to increase moderately from D26.9 billion in 2021 to D27.0 billion in 2022, and over the medium-term, it is expected to increase gradually to the tune of D34.7 billion by 2025. This increase in total expenditure is largely attributed to an anticipated increase in current expenses.

In light of the forecast made on revenue and expenditure, the primary balance is estimated to increase moderately from a deficit of -0.7 per cent of GDP in 2021 to a surplus of 1.4 per cent of GDP in 2022. The fiscal balance is anticipated to increase from a deficit of -3.3 per cent of GDP in 2021 to a deficit of -0.9 per cent of GDP in 2020. Over the medium term, both balances are expected to continue increasing on a positive trend.

As economic conditions remain fragile and vulnerable to shocks, the most recent Debt Sustainability Analysis shows that the country remains at high risk of debt distress with limited borrowing space. The government has however recently invested a lot of efforts toward strengthening debt management, reducing borrowing costs and rollover risks, and enhancing transparency through the publication of quarterly debt bulletin, the annual borrowing plan, and the issuance calendar.

Table 6: Medium-term Forecast

GMD (MM)	2020	2021	2022	2023	2024	2025
Total Revenue	**18,582**	**23,438**	**25,992**	**28,144**	**31,374**	**34,693**
Domestic Revenue (Tax + Non-Tax)	**10,464**	**14,937**	**16,976**	**18,794**	**21,346**	**23,766**
Total Grants	**8,118**	**8,501**	**9,016**	**9,351**	**10,028**	**10,926**
Budget support	4,826	2,701	2,636	2,524	2,314	2,441
Projects	3,292	5,800	6,380	6,827	7,714	8,485
Total Expenditure	**22,092**	**26,906**	**27,041**	**28,568**	**30,761**	**33,023**
Current	**14,710**	**16,682**	**16,927**	**18,228**	**19,851**	**21,420**
Compensation of employees	**4,101**	**4,416**	**4,637**	**4,868**	**5,537**	**6,064**
Basic Salaries	2,121	2,319	2,375	2,472	2,798	3,042
Allowances	1,769	1,879	1,974	2,068	2,324	2,478
ECA	211	218	287	328	414	544
Gross Fixed Capital formation	**7,382**	**10,224**	**10,114**	**10,341**	**10,909**	**11,603**
Primary Balance	**-626**	**-707**	**1,648**	**2,480**	**3,534**	**4,803**
Primary Balance (%GDP)	-0.70%	-0.70%	1.40%	2.00%	2.60%	3.20%
Fiscal Balance	**-3,510**	**-3,468**	**-1,049**	**-424**	**613**	**1,670**
Fiscal Balance (% GDP)	-3.70%	-3.30%	-0.90%	-0.30%	0.40%	1.10%

Source: *MPAU*

Monetary Sector

Inflation

There are significant risks to inflation outlook as a result the presence of the Covid-19 pandemic which still poses a huge risk in the global economic outlook and could continue to affect supply chain disruptions of essential commodities. On the domestic front, the key risk to the inflation outlook is the vulnerability of the agricultural sector to unpredictable rains and crop harvest which could potentially lower food production, thus, creating upward pressure on food prices. Additionally, the structural bottlenecks around the Sea Port can generate costs pass-through to consumer prices. Without any unforeseen shocks, CBG Staff forecasts show that inflation is expected to remain steady at the end of the 3rd quarter of 2021 at 6.9 per cent and further moderate at the end of the 4th quarter of 2021 to 6.6 per cent. Despite the expected moderation in inflation, it is likely to remain above the medium-term target rate of 5.0 per cent over the medium to longer term depending on the prevailing macroeconomic conditions.

Exchange rates

The exchange rate will remain flexible (managed float), to be allowed to adjust to market fundamentals with limited intervention. It is projected to depreciate in accordance with macroeconomic fundamentals including projected current account dynamics over the forecast horizon. Gradual recovery of the domestic economy is anchored on the successful vaccination campaign targeted to the majority of the population and positive demand due to fiscal stimulus and expected expenditure for the OIC related projects and the up-coming elections. Moreover, the monetary accommodation and strong private remittance inflows are also expected to support consumption and investment spending thereby stimulating aggregate demand.

Exchange rates are expected to remain stable aided by anticipated budget support receipts, gradual recovery in the tourist activity, private remittance inflows and as well as stable macroeconomic conditions.

Medium-Term Policy Reforms and Priorities

Over the medium-term, the Government is committed to prioritizing and implementing the following reforms some of which are already in progress:

- Civil service and security sector reform
- Rationalization of subvented agencies
- Rationalization of foreign service missions
- Implementing reforms in the State-Owned Enterprises
- Restructuring of the Gambia Groundnut Corporation and NAWEC
- Program for Accelerated Community Development
- Social protection Reform
- Increase the leverage on regional trade – port expansion and Senegambia Toll Bridge
- Improve tax revenue administration and trade facilitation
    - Development of a tax expenditure policy
    - Reconstruction of the taxpayer ledger
    - Cleaning of the taxpayer register
    - Post clearance audit
    - Increase the formalization of the taxpayer base

- Commercial Banks to work with their clients to start using mobile app platforms to make tax payments during the COVID-19 pandemic
- Rollout of the enhanced GAXTAXNET system to all branch offices for effective and efficient revenue mobilization
- Migration to ASYCUDA World project
- Road Cargo Tracking System (RCTS) and Electronic Cargo Tracking System) implementation

G20 DSSI Debt Relief Impact

The Gambia has benefitted from the Debt Service Suspension Initiative (DSSI) which offers relief to low income countries on debt service payments (principal and interest) from May to December 2020. Additionally, the Saudi Fund for Development (SFD) has granted approval to the Government for the extension of the DSSI from January to June 2021 to be rescheduled and repaid over 6 years including a one-year grace period which would be paid in 10 semi-annual Instalments beginning from July 2022 onwards.

This initiative is intended to increase fiscal space to accommodate higher spending geared toward helping the country to mitigate the impact of the covid-19 pandemic. The additional DSSI provided by SFD amounts to two hundred and fifty nine thousand Dollars (USD 259,000.00) equivalent to thirteen million three hundred thousand Dalasi (D13,300,000.00) in debt service payments for the 2021 fiscal year.

2021 Debt Sustainability Analysis (DSA)

External DSA

The 2021 DSA has been evaluated using the existing macroeconomic assumptions and policy framework under the IMF extended credit facility (ECF) programme with the Government of The Gambia. The result of the DSA classified the country at a high risk of external debt distress similar to the 2020 DSA outcome as a result of a sustained breach in the liquidity indicators.

Public DSA

Public debt sustainability examines the level of exposure of the total debt portfolio - domestic and external debt combined. With a CI score of 2.71, The Gambia is classified as a medium policy performing country. The threshold for assessing its public debt sustainability is therefore 55.0 per cent on PV of Public Debt-to-GDP. The results of the DSA indicate that

the PV of Public Debt-to-GDP has breached the indicative threshold from the projection period of 2021 through 2023. Owing to improved macroeconomic projection, the indicator is expected to drop below the threshold of 55.0 per cent from 2024 to the rest of the projection period. The planned fiscal adjustment underpinning the macro projections will support in bringing down the country's public debt sustainable level from high risk of debt distress.

The Medium Term Debt Strategy (2021-2025) is anchored on the above-mentioned DSA results. The MTDS is designed to help in achieving the core debt management objectives and by extension help in retracting the current debt situation i.e. **high risk of debt distress.**

Description and Analysis of Strategies

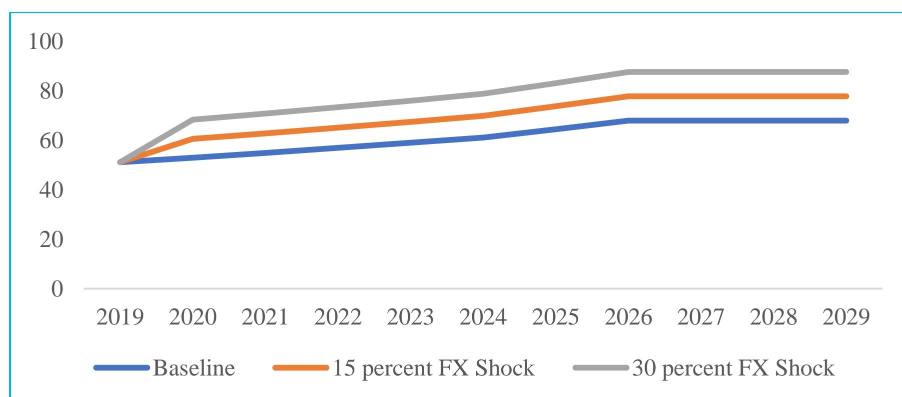
Baseline Pricing Assumption and Description of Shock Scenarios

The MTDS was assessed under four alternative scenarios and the magnitudes of the shocks were informed by the historical trend of domestic interest and exchange rates over the years. For the purpose of this analysis, three typical shocks stemming from exchange rate, interest rates and a combination of both are considered. It is assumed that the shocks are applied in 2021 and sustained throughout the remainder of the simulation horizon.

Exchange Rate Shock

The Gambian Dalasi is estimated to depreciate by 0.80 per cent against USD in 2021 and would be sustained for the remainder of the projection period. In an extreme stand-alone shock scenario, the Dalasi is estimated to depreciate against the USD by 30 per cent in 2021 (*figure 8*).

Figure 8: *Baseline Exchange Rate Projection and shock*

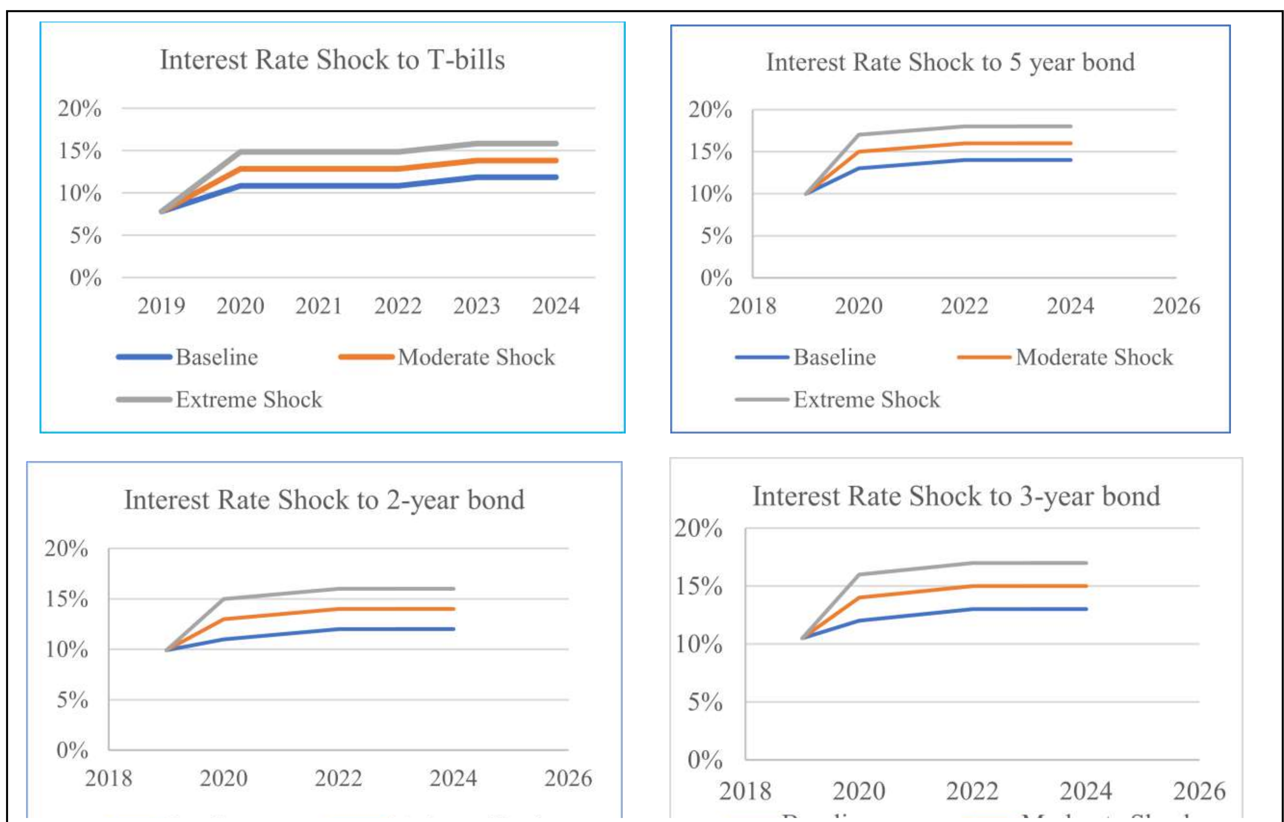


Source*: DLDM*

Interest Rate Shock

In this scenario, a 1 per cent moderate shock to IsDB-floating (Istisna) external financing instrument and an extreme stand-alone shock of 2 per cent are applied to the baseline interest rates in 2021. Similarly, a moderate shock of 2 per cent was applied to domestic debt instruments (T-bills, 2-year, 3-year and 5-year bonds) and an extreme stand-alone shock of 4 per cent was also applied to the 3,5,7, and 30-year debt instruments in 2021.

Figure 9: *Shock to Interest Rates*



Source: *DLDM*

Combined Exchange and Interest Rate Shock

In this case, the Gambian Dalasi is expected to depreciate by 15% against the US dollar in 2021, with a 1% and 2% interest rate shock on T-bills and bonds respectively, whilst a 1% shock was applied on the IsDB-floating (Istisna).

Description and Analysis of Alternative Strategies

Four strategies were developed and simulated, all of which are based on the approved medium-term macroeconomic framework and are in line with the published budget approved by the National Assembly for fiscal year 2021. Three of the strategies are meant to demonstrate the costs and risks of different approaches to the baseline. The assumption of Net Domestic Financing (NDF) of 3.1% of GDP in 2021, which is intended to be decreased to zero over the strategy period is adopted in all of the four strategies. On the external front, all of the strategies are premised on tapping funds from multilateral and bilateral creditors, mainly on concessional and semi-concessional terms. The various strategies are explained in detail below.

Strategy One (S1) - Baseline (Retain the existing debt structure)

S1 is the baseline scenario and it aims to mirror the existing debt portfolio structure which is in accordance with the current policies aligned to the approved medium-term macroeconomic framework. S1 envisions a combination of highly concessional and semi-concessional financing from the external window predominantly from existing multilateral and bilateral creditors. S1 assumes to maintain the existing debt structure (proportion of external and domestic) whilst continue to lengthen the maturity profiles in the domestic debt portfolio by continuing the issuance of medium to long-term bonds (3-year, and 5-year bonds).

Strategy Two (S2) – T-bills Issuance for Domestic Financing at the end of the strategic period (Extreme Case Scenario 1)

Strategy 2 is a simulation of an extreme case scenario that envisages a 100 per cent issuance of T-Bills to meet the net domestic financing requirement during the strategy period. This strategy seeks to establish the impact of T-bills dominant financing on the domestic and public debt portfolio.

Strategy three (S3) –Medium to Long-term Bond Issuance for Domestic Financing at the end of the strategic period (Extreme Case Scenario 2)

A complete reversal of S2, S3 is deliberately premised on completely substituting T-Bills domestic financing with medium to long-term bonds during the strategy period.

Strategy Four (S4) - Increase the proportion of concessional foreign currency debt: lengthen the maturity of domestic currency debt

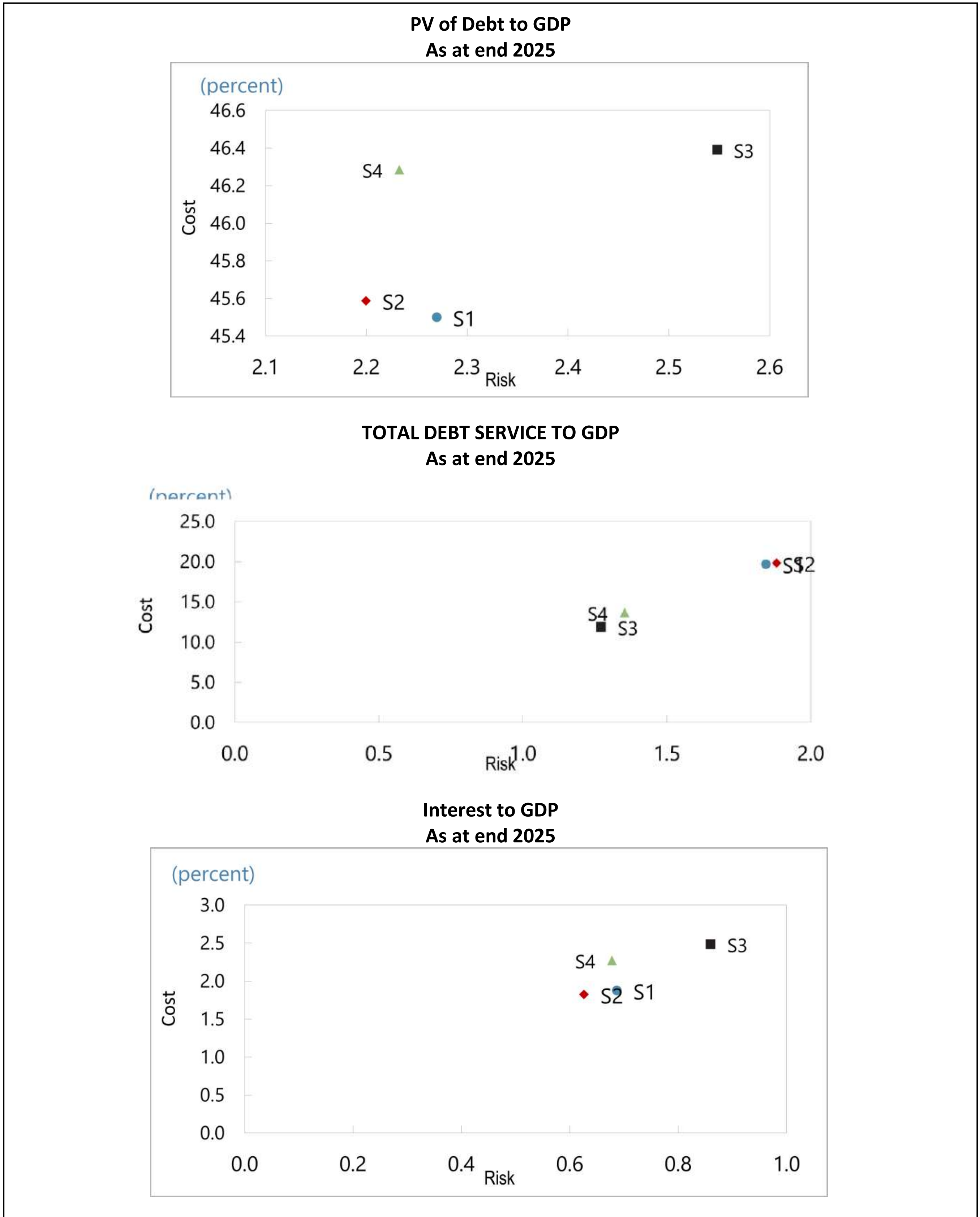
S4 is largely similar to S1 as both strategies seek to tap funds from the external concession and semi concessional financing window with a minimum grant element of 35% as per the ECF program benchmark. S4 also anticipates increasing the share of external financing which is predominantly expected to be from the multilateral and bilateral creditors with highly concessional terms.

Given that the refinancing risk still persist in the domestic debt portfolio as a result of the high proportion of domestic debt maturing within 12 months which is largely made of the T-bills, S4 seeks to continue the aggressive issuance of medium to longer-dated domestic debt instruments (3-year and 5-year bonds) and the introduction of 7-year diaspora bond (Dalasi denominated) and a 10-year bond. This is expected to complement the gains registered in the previous strategies so as to drastically mitigate the refinancing risk, reduce crowding out effect, and at the same time help improve debt sustainability.

Analysis of Results

The effectiveness of the designed strategies was evaluated in both the baseline and under the shock scenarios. To determine how the strategies respond to a set of shocks, several key cost and risk indicators were computed and analysed. The debt/GDP ratio provides for the examination of variations in the magnitude of outstanding debt. The external debt-to-GDP ratio is a good indication of external debt risk and exchange rate exposure. Interest payments as a percentage of GDP are used to evaluate each strategy's prospective impact on the government's budget. The differences between these financing strategies are their cost and risk outcomes throughout the strategy period. The strategy with the most optimal cost and risk outcomes that seeks to address the pressing issues on the public debt and at the same time help in achieving the core debt management objectives is chosen for implementation. *Figure 10* shows the cost and risk outcomes of the individual strategies.

Figure10: *Costs and Risks Outcomes*



Source: DLDM

Cost and Risk of Alternative Debt Management Strategies

Debt as a percentage of GDP

With respect to the PV of debt as a percentage of GDP, all of the four strategies designed registered a massive reduction from 70.1 per cent of GDP in 2020 to between 45.5 per cent and 46.4 per cent. These improvements are a reflection of the Medium Term Macroeconomic Framework which seeks to improve public debt sustainability by embarking on fiscal consolidation over the medium term.

Refinancing Risks

One of the key indicators of a refinancing risk is the share of debt that matures within one year as a percentage of total public and publicly guaranteed debt. Under this cost risk indicator, S3 stands out against all the other strategies with 13.5 per cent of the public debt maturing within 12 months at the end of the strategic period followed by S4 with 19.1 per cent. However, S3 represents a simulation of an extreme case scenario which is near impossible for implementation as it recommends domestic financing from only medium to long term bonds. Additionally, S4 has a better Average Time to Maturity (ATM) with 6.4 years on the public debt portfolio compared to all the strategies. This is as a result of the elongation of the maturity profiles of the domestic debt by intensifying the issuance of more medium to longer term domestic debt. Externally, S4 and S3 both have the highest ATM of 8.3 years, followed by S1 and S2 both with 7.9 years. Similarly S4 has the greatest ATM of 4.3 years in the domestic debt portfolio, followed by S3 with 4.1 years.

Interest Rate Risks

In terms of Average Time to Refixing (ATR), S4 outperforms all the other strategies with 6.4 years versus 6.3 years, 5.4 years, and 5.3 years for S3, S1, and S2, respectively. Similarly, when compared to the other strategies, aside from S3, S4 depicts the improved interest rate risk in terms of debt to be refixed in one year as a percentage of totals at 20.7 per cent. The cost and risk indicators for the various strategies are detailed in *table 7*.

Table 7: Cost and Risks Indicators (2021-2025)

Risk Indicators		2020	As at end 2025			
		Current	S1	S2	S3	S4
Nominal debt as percent of GDP		84.1	51.7	51.9	53.1	52.7
Present value debt as percent of GDP		70.1	45.5	45.6	46.4	46.3
Interest payment as percent of GDP		2.9	1.9	1.8	2.5	2.3
Implied interest rate (percent)		3.4	3.9	3.6	4.9	4.6
Refinancing risk2	Debt maturing in 1yr (percent of total)	31.3	35.0	39.5	13.5	19.1
	Debt maturing in 1yr (% of GDP)	27.3	18.1	20.5	7.2	10.1
	ATM External Portfolio (years)	9.8	7.9	7.9	8.3	8.3
	ATM Domestic Portfolio (years)	4.1	2.8	2.7	4.1	4.3
	ATM Total Portfolio (years)	7.5	5.4	5.4	6.3	6.4
Interest rate risk2	ATR (years)	7.4	5.4	5.3	6.3	6.4
	Debt refixing in 1yr (percent of total)	34.1	36.4	40.9	15.1	20.7
	Fixed rate debt incl T-bills (percent of total)	96.0	98.2	98.2	98.1	98.1
	T-bills (percent of total)	23.2	25.4	30.3	0.0	8.6
FX risk	FX debt as % of total	58.3	51.0	51.1	52.4	52.0
	ST FX debt as % of reserves	13.0	14.5	14.5	14.5	14.5

***Source**: DLDM*

Furthermore, aside from S3, extreme case scenario, S4 has the lowest proportion of T-bills as a percentage of total domestic debt (8.6%), compared to S1 (25.4%). S4 encourages the development of the domestic debt market by promoting the issuance of medium to longer-term domestic debt instruments and mitigate crowding out effect which is in line with the government policy.

Exchange Rate Risk

The foreign currency debt as a percentage of total debt for all strategies is between 59.4% and 59.6%. S4 seeks to enhance concessional external financing and a fiscal consolidation drive that will result in a primary surplus over the projection period. All the four strategies have 14.5 per cent short-term foreign currency debt as a percentage of reserve.

Chosen Strategy

As consistent with previous strategies, S4 is recommended for implementation based on the cost-risk trade-off of the various strategies, as well as government's policy to support domestic debt market development and improve public debt sustainability in the medium term. Subsequently, similar strategies will be proposed to further deepen the domestic debt market while also improving debt sustainability by ensuring that the solvency and liquidity thresholds are not breached.

Financing Strategy

The debt management strategy for 2021-2025 is consistent with the debt management objectives and goals as stipulated in the Public Finance Act (2014) which requires the

Government to borrow at the lowest possible cost within a prudent degree of risks. The strategy aims to develop and deepen the domestic debt market, as well as provide infrastructure financing.

Risk Benchmarks/Target

Interest Rate Risk Benchmark

The prevailing interest rate structure indicates that there is some substantial interest rate risk in the debt portfolio. The current debt refixing in one year as percentage of total is 34.1 per cent which is expected not to exceed 21.0 per cent over the strategy period.

Refinancing Risk Benchmark

The goal of refinancing risk management is to prevent bunching of debt service obligations, which could result in a liquidity crisis and higher debt servicing costs. Bullet repayment structures and the bunching of debt payments in one period (particularly for short-term domestic debt) will be smoothed out using this method to guarantee that they are matched with the structure of revenue flows, thus, avoiding liquidity crises and expensive re-financing costs. For a better treasury management, the share of T-bills as a percentage of total debt is expected to be between 23.2 and 8.6 per cent. (See *table 8*).

Table 8: Cost and Risks Target for 2020

Goal	Indicator	Target
Manage refinancing risk	Overall ATM (years)	≥ 8.2
	Debts maturing in 1 year (as % of total)	≤ 19.1%
Manage interest rate risk	Fixed rate debt (% of debt)	≥ 62%
Manage cost of debt	Overall WAIR (%)	≤ 4.1 %

Source*: DLDM*

Conclusion

As previously stated, the objective of the MTDS review is consistent with the Public Finance Act (2014) seeking to address the current debt challenges in the country. The chosen strategy seeks to maximize concessional external financing, while also lengthening the maturity profile of domestic debt to lower the rollover risk. Adhering to the projected net domestic borrowing targets is critical to this plan as it will relieve yield pressure and allow for a progressive extension of the maturity profile.

The 2021–2025 MTDS review uses the World Bank/IMF analytical tool to help establish an optimal medium-term financing strategy based on cost and risk management. Based on the analysis, the results of the simulation for all the four strategies shows that S4 best fits in terms of the cost-risk indicators and it also provides a smoother redemption profile. It prioritizes concessional external financing while gradually increasing the share of longer-dated domestic debt instruments in the domestic debt portfolio in order to reduce refinancing risk and provide for infrastructure financing.