THE GAMBIA

Table 1	2017
Population, million	2.1
GDP, current US$ billion	1.5
GDP per capita, current US$	709
International poverty rate ($1.9)[a]	10.1
Lower middle-income poverty rate ($3.2)[a]	37.8
Gini index[a]	35.9
School enrollment, primary (% gross)[b]	93.6
Life expectancy at birth, years[b]	61.2

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2015), 2011 PPPs.
(b) Most recent WDI value (2016)

Growth recovered in 2017 supported by a pick-up of tourism, higher capital expenditures, and the improved political environment. The current account deficit deteriorated while the fiscal balance improved in 2017. Moreover, private investment and consumption also increased in 2017. However, public debt is high and unsustainable, and Gambia is in external debt distress. Continued public investment and private credit will support medium term growth. Delayed debt restructuring and weather shocks remain the biggest risks to the outlook.

Recent developments

The economy recovered strongly in 2017, with growth estimated at 4.6 percent (below potential), up from 0.4 percent in 2016. A recent national account rebasing boosted nominal GDP with a substantial effect on the growth rates for 2013-2017. Robust growth in the service sector (10.6 percent), mainly in commerce, drove this recovery. Tourist arrivals turned around in the second half of 2017. However, agriculture contracted by 8.1 percent due to uneven distribution of rainfall. Headline inflation increased from 7.2 percent in 2016 to 8 percent in 2017, however, year-on-year inflation decreased gradually from 8.8 percent at end-December 2016 to 6.9 percent at end-December 2017 due to a more stable exchange rate. Signaling a stronger private sector activity, credit to the private sector grew at 13.8 percent (year-on-year) by end-April 2018, compared to a decline of 1.2 percent at end-2017. Implementation of externally supported projects accelerated in 2017 leading to higher public investments.

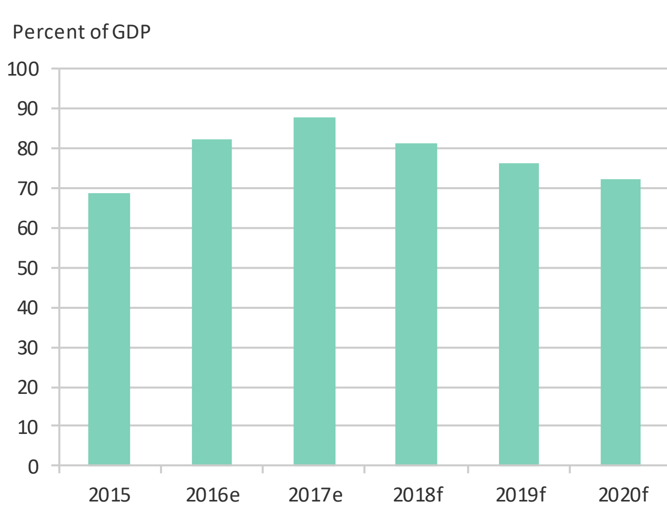
The external current account deficit increased from 5.9 percent of GDP in 2016 to 13.1 percent in 2017. This was driven by an expansion of imports (28.1 percent) due to higher tourist activity and a contraction of goods exports (20.5 percent). Higher FDI and project grants and stable remittances financed the deficit. Gross international reserves increased from 1.4 months of import cover at end-2016 to 2.8 months at end-2017.

Strengthened fiscal discipline and substantial donor support reduced the fiscal deficit from 6.5 percent of GDP in 2016 to 5.4 percent in 2017. These led to a sharp decline in net domestic borrowing from 8.4 percent of GDP in 2016 to –0.5 percent in 2017. Expenditure ceilings have helped, but tax collection declined from 11.1 percent of GDP in 2016 to 10.2 percent of GDP in 2017. Public debt increased from 82.3 percent of GDP in 2016 to 88 percent in 2017 due to the low growth, the fiscal deficit, higher loan disbursement, recognition of external private debt, and debt reconciliation with creditors. As a result, The Gambia is currently in external debt distress and public debt is unsustainable. Both external and domestic debts are very high. A significant pipeline of already-contracted loans, including two recently signed external loans, poses risks to debt accumulation and solvency.

The reduction in net domestic borrowing contributed to a decline of the average T-bill interest rate across all tenors from 17.5 percent in October 2016 to around 6.8 percent in May 2018. However, interest rate payments remained at 42 percent of government revenue (excluding grants) in 2017. The authorities introduced a de jure floating exchange rate regime in May 2017, and since then the dalasi has stabilized at around 47 dalasi per U.S. dollar.

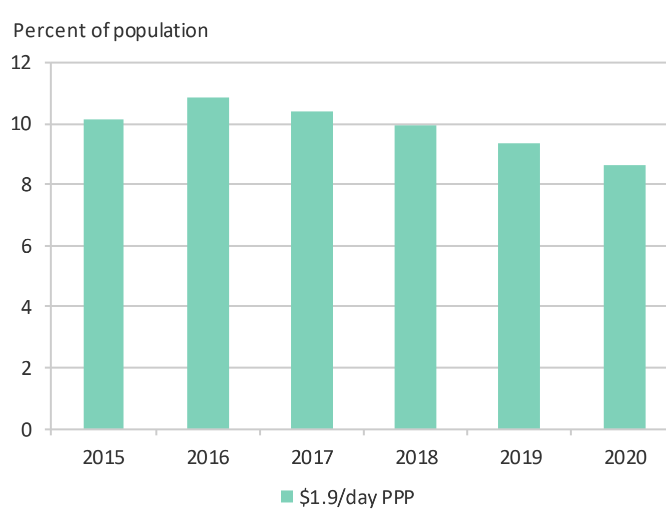
While the peaceful transition and higher activity in the service sector supported income growth in 2017 and 2018, adverse weather conditions negatively impacted agricultural output and poverty reduction in rural areas. The absolute poverty rate (measured at the 2011 PPP-adjusted

FIGURE 1 The Gambia / Actual and project public debt



Sources: World Bank and IMF estimates.

FIGURE 2 The Gambia / Poverty rate



Source: Poverty and Equity Global Practice's.calculations based on the 2010 and 2015 Integrated Household Surveys.

US$1.9/day poverty line) is estimated to have fallen marginally from 10.1 percent in 2015 to 9.9 percent in 2018. Over this period, poverty reduction was concentrated in coastal areas. In rural areas low agricultural productivity and missing backward-linkages to coastal areas constrain higher income growth.

Outlook

Economic growth is projected to accelerate to 5.4 percent in 2018 and 2019 and 5.2 percent in 2020 but will remain slightly below potential. This assumes a strong recovery in tourism and trade, a normal agricultural season, and improvements in electricity provision. Favorable rains in mid-2018 have allowed for a normal start of the 2018 planting season. Tourist arrivals increased by 43 percent in the first half of 2018. Political stability, combined with improved macroeconomic conditions, would help strengthen investment activity. Economic activity would also be underpinned by key infrastructure developments, notably energy supply, as well as improved trade and re-export trade.

The external current account deficit is projected to reach 17 percent of GDP by 2020, driven by a continued faster growth in net imports. The fiscal deficit is expected to decline to around 1.3 percent of GDP in 2020 due to better fiscal controls and the implementation of SOE reforms. Private investment and consumption are expected to increase. Non-tax revenue is expected to increase in 2018 with the implementation of measures to recapture previously diverted revenues and divest some state assets to 2018. Inflation is expected to decline to the Central Bank target of 5 percent by 2020.

Without robust productivity growth in the agricultural sector, poverty reduction will remain a challenging task. Forecasts of poverty trends suggest a decline in the medium-term, albeit at a slow rate. Progress in poverty reduction is hampered by the projected demographic growth in rural areas where majority of the poor live.

Risks and challenges

Both domestic and external factors present downside risks. Delays in implementing structural reforms to improve the business climate, reemergence of political instability, and an uncontrollable rise in public debt could derail ongoing efforts to restore debt sustainability. Higher debt from SOE-related contingency, financial sector instability and exogenous shocks (including adverse weather and slower global growth) would also pose significant risks for growth. The upside potential depends on public investments and continuous commitment to restore sound economic management and debt sustainability. The Gambia mobilized US$1.5 billion in donor pledges to support the National Development Plan (2018-2019) at the Brussels conference in May 2018, which could help the country meet some of its financing needs. But, The Gambia would need debt restructuring to create space for investments in infrastructure and human capital.

Future poverty reduction will benefit from planned investments into better physical infrastructure and access to education and health which support human development and enhance capacity to generate higher incomes. Yet, vulnerability to droughts and natural disasters associated with risks of food insecurity remain a barrier to a further decline of poverty.

TABLE 2 The Gambia / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2015	2016	2017	2018 e	2019 f	2020 f
Real GDP growth, at constant market prices	5.9	0.4	4.6	5.3	5.4	5.2
Private Consumption	11.0	-5.5	9.1	5.8	5.3	4.1
Government Consumption	22.8	-5.5	9.1	7.2	9.5	1.8
Gross Fixed Capital Investment	-8.8	11.8	47.8	7.4	8.3	14.2
Exports, Goods and Services	-13.5	1.9	-19.5	26.4	17.0	15.8
Imports, Goods and Services	6.4	-12.8	29.7	15.9	12.6	10.9
Real GDP growth, at constant factor prices	5.5	0.0	4.1	5.4	5.4	5.2
Agriculture	10.8	4.2	-8.1	4.0	4.0	7.0
Industry	23.5	-6.1	0.2	3.9	5.0	6.0
Services	-0.6	-0.2	10.6	6.3	6.0	4.4
Inflation (Consumer Price Index)	6.8	7.2	8.0	6.1	5.1	4.8
Current Account Balance (% of GDP)	-9.6	-5.9	-13.1	-14.0	-15.8	-17.0
Fiscal Balance (% of GDP)	-5.3	-6.5	-5.4	-2.1	-0.7	-1.3
Debt (% of GDP)	68.6	82.3	88.0	81.3	76.2	72.1
Primary Balance (% of GDP)	-0.6	-1.4	-0.5	1.2	2.3	1.5
International poverty rate ($1.9 in 2011 PPP)[a,b]	10.1	10.8	10.4	9.9	9.4	8.7
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	37.8	39.5	38.5	36.9	35.7	34.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Calculations based on 2015-IHS. Actual data: 2015. Nowcast: 2016 - 2017. Forecast are from 2018 to 2020.
(b) Projection using neutral distribution (2015) with pass-through = 0.87 based on GDP per capita in constant LCU.