THE GAMBIA

Table 1	2019
Population, million	2.4
GDP, current US$ billion	1.8
GDP per capita, current US$	773.8
International poverty rate ($1.9)[a]	10.3
Lower middle-income poverty rate ($3.2)[a]	38.4
Upper middle-income poverty rate ($5.5)[a]	72.7
Gini index[a]	35.9
School enrollment, primary (% gross)[b]	98.0
Life expectancy at birth, years[b]	61.7

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2015), 2011PPPs.
(b) Most recent WDI value (2018).

Growth remained robust in 2019, supported by tourism, trade and construction. Fiscal and external deficits improved, while poverty fell. Due to COVID-19, the economy will contract by 1.8 percent in 2020, driven by a fall in tourism and domestic consumption. Growth and poverty reduction are expected to gradually recover over the medium term. The outlook is subject to downside risks stemming from the speed of global recovery, the magnitude of the domestic COVID-19 outbreak, and the pace of fiscal reforms.

Recent developments

GDP grew by 6.1 percent in 2019 (2.9 percent in per capita terms), supported by tourism and wholesale and retail trade, while agriculture contracted by 1.3 percent due to delayed rainfall. On the demand side, growth was driven by high public and private investment. In H1 2020, however, tourism came to a standstill, while private consumption has been suppressed by COVID-19 containment measures. Nevertheless, construction activities have increased, partially funded by a 48 percent growth in official net remittances. Furthermore, favorable summer rains bode well for agriculture this year.

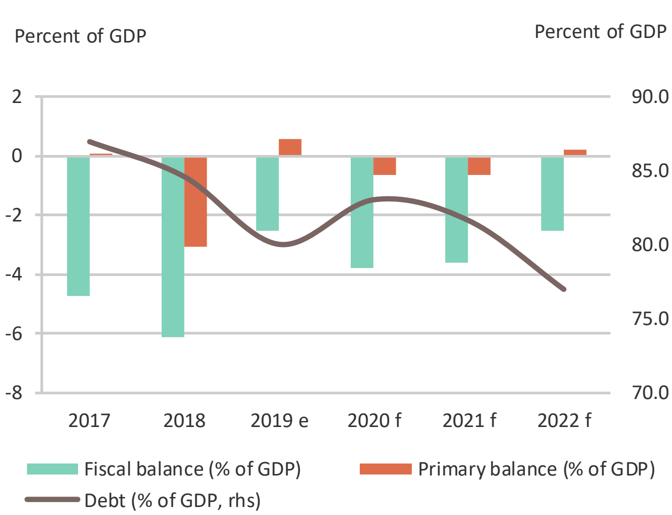
The current account deficit (including grants) declined substantially to 5.3 percent in 2019, driven by strong increases in remittances, tourism and budget grants. FDI (mainly in real estate) financed the deficit, while the exchange rate remained stable and foreign reserves rose. In H1 2020, however, the external sector was hit by the crisis, with the current account deficit already reaching 4.6 percent of GDP, due to falling services exports. However, record high official remittances in H1 2020 have bolstered international reserves.

In 2019 the government registered a primary surplus (including grants) of 0.6 percent of GDP, helping to reduce the fiscal deficit to 2.5 percent of GDP and public debt to 80 percent of GDP. The risk of external debt distress improved from 'in distress' to 'high' following debt service deferrals from external creditors. While the fiscal position remained strong in the first quarter of 2020, it deteriorated in the second, with a 5 percent year-on-year drop in revenues driven entirely by domestic taxes. Nevertheless, the collections for H1 2020 have exceeded revised budget targets. The shortfall in domestic taxes was compensated by higher non-tax revenue due to one-off asset sales authorized by the Janneh Commission. Total expenditure for H1 2020 remained similar to H1 2019. However, the composition of spending was changed to accommodate emergency spending on health (0.5 percent of GDP) and food distribution (0.7 percent of GDP), while capital expenditure lagged.

Inflation increased to 7.1 percent in 2019. Due to a decline in domestic demand following COVID-19, headline inflation decelerated to an annualized rate of 6.5 percent in June 2020, while food inflation was slightly higher at 6.7 percent. Private credit has stagnated throughout H1 2020 since end-2019. To ease liquidity conditions, the central bank cut its policy rate from 12 to 10 percent and the statutory reserve requirement ratio by 200 basis points to 13 percent in May. Broad money continued to grow by 16 percent at end-June 2020, compared to the same period last year.

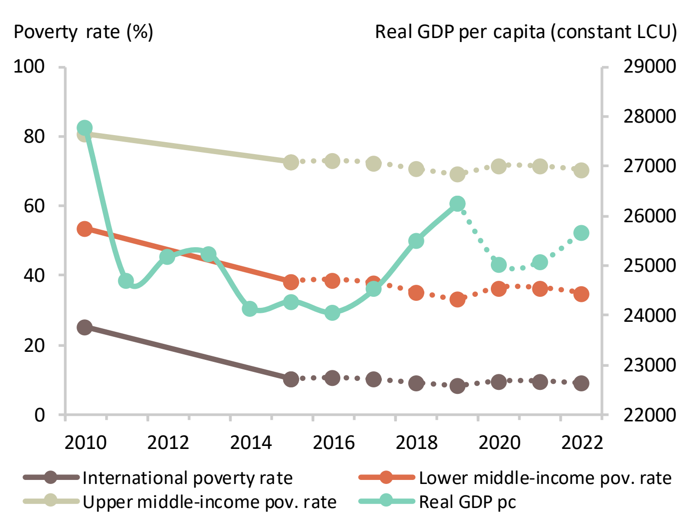
The spread of COVID-19 prompted a health emergency, and social distancing measures reduced economic activities, triggered job losses and decreased labor incomes. In urban areas, declining employment in services and manufacturing and high informality levels have reduced household incomes, and in rural areas, lower private transfers led to an increase

FIGURE 1 The Gambia / Actual and projected fiscal and primary balance



Sources: The Gambian authorities and World Bank estimates.

FIGURE 2 The Gambia / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see Table 2.

of poverty. Despite emergency government support, and stable market prices, households have experienced a rapid decline of their incomes and the poverty rate is expected to have increased from 8.4 percent in 2019 to 9.6 percent in 2020.

Outlook

The impact of COVID-19 has worsened the economic outlook. Externally, the impact will continue to come from trade disruptions including tourism. Domestically, private consumption will remain suppressed. GDP is projected to contract by 1.8 percent in 2020, compared to the pre-COVID projection of 6.3 percent. As the global economy starts to recover, growth could gradually rise to 5.3 percent by 2022. Inflation is forecast to steadily drop, reaching 5.5 percent in 2022, close to the Central Bank's target of 5 percent.

The current account deficit is expected to widen, initially due to lower tourism receipts and trade disruptions, and over time due to reduced budget support. The deficit is expected to be financed by FDI. Foreign exchange reserves would remain around 4.7 months of imports, supported by remittances.

For 2020, the fiscal deficit will increase to 3.8 percent of GDP, increasing public debt to 83.1 percent of GDP. Tax revenues will decline due to lower economic activity, while health and social transfers will increase to respond to the crisis. However, participation in the debt service suspension initiative (DSSI) is expected to yield debt relief of US$ 4.14 million (0.23 percent of GDP). As the economy recovers and taxable activity rejuvenates, tax revenues are projected to increase supported by improved revenue administration and a tight tax expenditure monitoring framework. Expenditures will shift towards externally-financed project execution. Subsidies to SOEs and transfers to subvented agencies are expected to fall as government strengthens corporate governance and improves balance sheets of SOEs and rationalizes the agencies. Thus, starting 2021, the deficit will decline, putting public debt-to-GDP back on a downward path.

The COVID-19 crisis has pushed almost 40 thousand people into extreme poverty and will undermine poverty reduction in the near future. In the absence of social safety nets, households will reduce consumption, while labor demand is likely to decline in response to a slow tourist season and insolvencies. The international poverty rate is expected to decline marginally to 9.0 percent in 2022, with significant downside risks associated with an uncertain recovery.

Risks and challenges

The Gambia has limited fiscal policy buffers to respond to a downturn, given the high risk of debt distress. A key risk factor is the duration of the COVID-19 pandemic both locally and globally, particularly in Europe. Erratic rainfall could also impact agricultural output. Slow progress on fiscal reforms, along with shocks from SOEs, could undermine the macroeconomic framework. Limited upside risks originate mainly from a faster recovery from the pandemic and a stronger-than-expected tourism rebound.

COVID-19 threatens livelihoods and undermines drivers of poverty reduction, including job creation and human capital accumulation. Schools and universities are closed, and online learning is not accessible to all or effective, leading to a learning crisis that weakens the productivity of future generations, especially among the poor in remote areas. Furthermore, capacity constraints in the health sector could derail the fight against non-COVID diseases.

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

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	4.8	7.2	6.1	-1.8	3.1	5.3
Private Consumption	9.5	9.7	4.1	0.8	2.6	5.1
Government Consumption	-6.1	3.7	14.6	14.8	2.5	1.2
Gross Fixed Capital Investment	-1.2	2.0	25.3	14.8	4.6	9.9
Exports, Goods and Services	9.6	44.2	-1.2	-21.7	16.6	6.1
Imports, Goods and Services	19.1	17.6	3.1	7.0	8.7	8.0
Real GDP growth, at constant factor prices	4.8	7.2	6.1	-1.8	3.1	5.3
Agriculture	-4.4	3.7	-1.3	1.2	2.6	3.3
Industry	-3.5	2.0	14.3	2.1	4.6	5.2
Services	11.7	10.1	6.5	-3.9	2.7	6.0
Inflation (Consumer Price Index)	8.0	6.5	7.1	6.1	6.0	5.5
Current Account Balance (% of GDP)	-7.4	-9.5	-5.3	-8.6	-12.3	-11.7
Fiscal Balance (% of GDP)	-4.8	-6.1	-2.5	-3.8	-3.6	-2.5
Debt (% of GDP)	87.0	84.6	80.0	83.1	81.6	77.0
Primary Balance (% of GDP)	0.1	-3.1	0.6	-0.7	-0.7	0.2
International poverty rate ($1.9 in 2011 PPP)[a,b]	10.1	9.2	8.4	9.6	9.6	9.0
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	37.7	35.2	33.3	36.5	36.4	34.9
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	72.4	70.6	69.2	71.5	71.4	70.3

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: 2016-2019. Forecast are from 2020 to 2022.
(b) Projection using neutral distribution (2015) with pass-through = 0.87 based on GDP per capita in constant LCU.