THE GAMBIA

Table 1	2017
Population, million	2.1
GDP, current US$ billion	1.0
GDP per capita, current US$	473
School enrollment, primary (% gross)[a]	91.6
Life expectancy at birth, years[a]	61.0

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

Gambia's economy recovered to 3.5 percent in 2017 and the fiscal situation improved due to higher revenues, expenditure limits, and lower debt service. But, the public debt increased to 122.6 percent of GDP in 2017 as implementation of externally financed projects accelerated. Higher public investment will boost growth above 5 percent by 2019 while poverty is expected to decline gradually. The economy remains vulnerable to high public debt, weather shocks, and delays in policy reforms.

Recent developments

The economy has started recovering in 2017, with growth estimated at 3.5 percent, slightly above potential, but up from 2.2 percent in 2016. Improved macro-fiscal management, substantial budget support, higher public investment, and a return of investor confidence contributed to better growth performance. Implementation of externally supported projects accelerated in 2017 leading to higher investments. The stabilization of the political situation and measures taken to strengthen governance, rule of law, and fiscal sustainability have improved business' and consumer's confidence. However, the political impasse that followed the presidential election in December 2016 lowered tourism receipts. Agriculture rebounded but not as much as initially expected due to uneven distribution of rainfall in 2017. Headline inflation decreased gradually from 7.9 percent in December 2016 to 6.4 in January 2018.

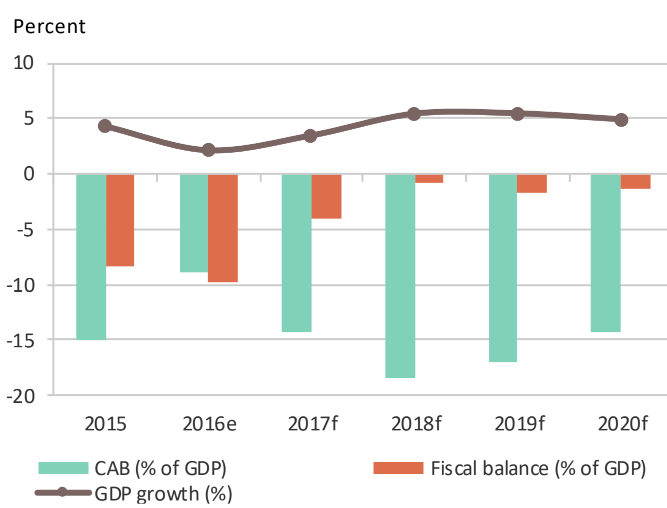
The external current account deficit deteriorated from 8.9 percent of GDP in 2016 to 16 percent in 2017. This was driven by an expansion of imports (23.2 percent) and a contraction of exports (6 percent). Higher FDI and project grants and stable remittances financed the current account deficit in 2017. Gross international reserves increased from 1.4 months of import cover at end-2016 to 2.9 months at end-2017.

The fiscal deficit improved from 9.7 percent of GDP in 2016 to 3.9 percent in 2017, reflecting strengthened fiscal discipline and substantial donor support. Expenditure ceilings have helped control expenditures, and tax collection recovered in 2017, reaching 17.2 percent of GDP or half of percentage point higher than in 2016. A tighter fiscal discipline and budget support inflows have allowed for a sharp decline in net domestic borrowing (NDB) from 11.4 percent of GDP in 2016 to - 2.8 percent of GDP in 2017. The fiscal deficit paired with higher loan disbursement increased the total public debt from 118.5 in 2016 to 122.6 percent in 2017. The Gambia is currently at high risk of external debt distress and debt sustainability is on a "knife edge". Both external and domestic debts are very high, and a significant pipeline of already-contracted loans poses risks to solvency.

Although the effectiveness of monetary policy has long been undermined by recurrent CBG monetization of the deficit, it has recently improved due to the reduction in NDB. Budget support inflows prompted the average T-bill interest rate across all tenors to drop from 17.5 percent in October 2016 to around 6 percent in early 2018. The gradual decline in T-bill interest rate translated into lower debt-service payments, from 42 percent of government revenue in 2016 to an estimated 24.2 percent in 2017, but is yet to translate into an increase in credit to the private sector. 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.

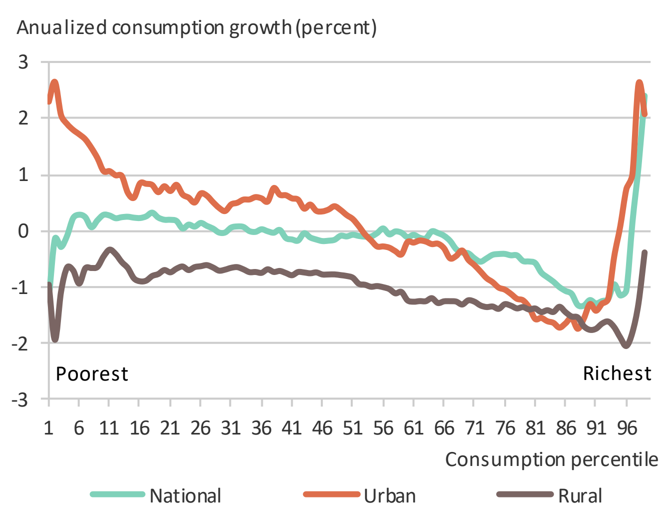
Poverty is widespread and remained stagnant at 48.6 percent in 2015, compared to

FIGURE 1 The Gambia / Actual and projected current account, fiscal balance, and GDP growth



Source: IMF estimates.

FIGURE 2 The Gambia / Growth incidence curve



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

48.1 percent in 2010. Unlike urban areas, poverty remains a rural phenomenon and has not experienced a corresponding decline. A similar trend is observed on extreme poverty incidence––21.3 percent in 2010 and 20.8 percent in 2015. Rapid population growth rate of 3.1 percent and declining agricultural production have contributed to the 18 percent increase in the number of poor population between 2010 and 2015. Poverty is deep and a high proportion of the population is vulnerable to falling into poverty. Consumption inequality measured by the Gini coefficient is moderate because of the diverging growth performances between the rural and urban areas. The poor rely heavily on subsistence agriculture for income generation and on informal jobs in urban areas.

Outlook

Economic growth is projected to pick up, accelerating to 5.2 percent by 2019, and declining to 4.9 percent by 2020, but above potential GDP growth. This assumes a strong recovery in tourism and trade, normal agricultural season, and improvements in electricity provision. Political stability, combined with improved macroeconomic conditions, would help strengthen investment activity. Economic activity would also be underpinned by the implementation of structural reforms and key infrastructure developments, notably energy supply, as well as improved trade and re-export trade. The external current account deficit is projected to decline to 14.4 percent of GDP by 2020. The fiscal deficit is expected to decline to around 2 percent of GDP due to better fiscal controls and the implementation of SOE reforms. The Government delayed the implementation of measures to recapture previously diverted revenues and divest some state assets to 2018. As a result, non-tax revenue is expected to increase in 2018. Inflation is expected to decline to the Central Bank target of 5 percent by 2020.

Without robust growth in the agricultural sector and a lower population growth, poverty reduction will remain a challenging task. Poverty rate forecasts suggest a decline in the medium-term, albeit at a slow rate. The decline in poverty is constrained by the projected demographic growth that most people will still live in poor rural areas. And secondly, growth translating to poverty reduction means that a diversification of the economy from heavy reliance on tourism and remittances is critical.

Risks and challenges

The outlook is subject to a range of significant downside risks. Delays in policy reforms could derail ongoing efforts to restore fiscal and debt sustainability, and could affect service delivery for the poor. Higher debt from SOE-related contingency, financial sector stability and exogenous shocks (including adverse weather and slower global growth) would also pose significant risks. On the upside, the authorities' strong commitment to restoring sound economic management and debt sustainability will help support economic growth. Strengthen governance and anti-corruption measures, and mobilization of highly concessional financing would stimulate economic activity. Poverty reduction remains affected by output and price fluctuations in agriculture, which employs a large share of the workforce. The diversification of the economy and job creation are key to poverty reduction.

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

	2015	2016	2017 e	2018 f	2019 f	2020 f
Real GDP growth, at constant market prices	4.3	2.2	3.5	5.4	5.2	4.9
Private Consumption	11.1	-4.4	8.2	8.6	6.3	4.7
Government Consumption	23.0	-4.0	3.4	5.2	1.5	2.9
Gross Fixed Capital Investment	1.8	-3.3	46.3	14.7	-4.7	-6.8
Exports, Goods and Services	-9.5	5.0	-6.0	16.9	9.3	9.0
Imports, Goods and Services	11.3	-10.2	23.2	20.5	3.2	0.9
Real GDP growth, at constant factor prices	4.3	2.2	3.5	5.4	5.4	4.9
Agriculture	3.8	0.5	2.6	3.5	4.5	4.4
Industry	8.3	-3.1	-0.8	2.5	4.9	5.0
Services	3.6	3.8	4.6	6.4	5.7	5.0
Inflation (Consumer Price Index)	6.8	7.2	8.0	5.8	5.0	4.8
Current Account Balance (% of GDP)	-15.0	-8.9	-14.3	-18.4	-16.9	-14.4
Fiscal Balance (% of GDP)	-8.1	-9.8	-3.9	-0.8	-1.7	-1.2
Debt (% of GDP)	105.3	118.5	122.6	111.5	105.2	99.5
Primary Balance (% of GDP)	-0.9	-2.0	0.9	3.1	1.8	2.6

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.