REPUBLIC OF THE GAMBIA

MINISTRY OF FINANCE AND ECONOMICS AFFAIRS

Annual Public Debt Bulletin

2014

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FORWARD

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Minister of Finance and Economic Affairs

Information asymmetry remains a major problem in the development and well-functioning of any financial system and debt management in particular, has many stakeholders requiring continuous and concerted efforts in the sharing of information. Therefore, the provision of sufficient and timely debt and debt-related information leading to the realization of the financial system’s development and sustainability would be second to none.

In the drive to ensure transparency in Public Debt Management and the adequate provision of the necessary information to all the relevant stakeholders, the Ministry of Finance and Economics Affairs has once again produced the annual public debt bulletin for the year 2014 to disclose not only the level of debt in various forms but also the inherent level of risk in the public debt portfolio.

I would thank the Directorate of Loans and Debt Management (DLDM) together with all the stakeholders for making such a publication realizable.

Honourable Abdou Kolley
Minister of Finance and Economics Affairs

INTRODUCTION

The Government of the Gambia through Ministry of Finance and Economic Affairs (MOFEA) in its quest to promote accountability and transparency in public debt management produces annual debt bulletin to represent public debt management practices and debt situation of the country in the year under review. This debt bulletin reviews the Gambia's public debt portfolio and debt management practices as outlined in the debt strategy. It also highlights new developments in public debt management in 2014. It further analysed the cost and risk associated with debt portfolio.

The implementation of the Medium Term Debt Management Strategy (MTDS 2011 – 2014) was also reviewed to establish challenges faced and accomplishment of the strategy objectives. A debt management strategy was built upon certain macroeconomic assumptions and therefore debt management cannot be done in isolation. The macroeconomic development for the year under review was also examined.

The Gambian economy registered recovered growth two years on after the impact of the drought in 2011. However, two exogenous shocks in 2014, the regional Ebola pandemic and the inconsistent rainfall hit the economy. Both of these shocks had multiplier effects on the economy leading to overall sluggish performance in the real sector. Real GDP grew by 0.5 % in 2014 compared to the growth of 4.8 % and 5.9 % in 2013 and 2012 respectively. The implementation of the strategy was faced with huddles as a result of unfavourable macroeconomic development.

This new macroeconomic development has an impact on the budget and called for the review of the debt strategy.

Despite the global economic turbulence, the Gambian economy remains resilient as a result of coordinated policy actions. A high level committee on debt management called Debt Advisory Committee was formed in 2014. The committee chaired by Permanent Secretary, Ministry of Finance and Economic Affairs comprises of members from Central Bank of The Gambia (CBG), Gambia Revenue Authority (GRA) and senior officers of the Ministry. The committee monitor the implementation of the debt strategy with the macroeconomic framework. The composition of the committee allows effective macroeconomic policy coordination.

NEW DEVELOPMENT IN THE GAMBIA'S PUBLIC DEBT MANAGEMENT

2.1 The enactment of the Public Finance Act, 2014.

Due to the different legislations that deal with debt management in the past, the Government has enacted the public Finance Act (2014) with a section on public Debt Management. This section of the Act comprises of all the required laws governing public debt management, thereby reducing the time wastage on consulting the different laws as in the past years. Part VI of the act entirely deals with public debt management and it covers most debt management issues.

2.2 Public Debt Management Advisory Committee (PDMAC)

The Public Debt Management Advisory Committee has been established and fully operational in 2014. The Honourable Minister appoint the committee members and approves the, TOR The committee is responsible for advising on all relevant and related debt management reforms and it is chaired by the PS.

UPDATE OF THE 2011 – 2014 MEDIUM TERM DEBT MANAGEMENT IMPLEMENTATION

The 2011- 2014 Medium Term Debt Management Strategy was designed at a time when government debt portfolio was on the road to high risk of debt distress. The Gambia government with a foresight of mitigating this risk developed a 2011 – 2014 MTDS to bring its debt back to sustainability track in the medium term. With the technical support of WAIFEM, IMF and World

Bank, the Gambia debt management Strategy was updated.

The strategy key recommendations are to reduce domestic borrowing and to lengthen the maturity profile of the domestic debt by introducing 3-YEAR nominal bond and 5- Year inflation linked bond. The NDB was targeted at -0.9% of the GDP at end 2014 and the actual was 10%. See table 1 below.

Table1: Key Characteristic of 2011 - 2014 MTDS 1

	NDB/ GDP	Gross Domestic versus External Financing	Net Domestic Versus External Financing	Domestic Mix	External Mix
Strategy Targets	-0.9%	72% vs. 28%	-60% Vs 160%	T-Bills 80% T- Bonds 15% Inflation index 5%	Concessional Vs Semi-concessional
2014 Actual	10%	49% vs 50%	83% Vs 17%	T- Bills 89 T-Bonds 11% Inflation index 0%	Concessional Vs Semi-Concessional

The ultimate goal of the strategy was to reduce cost – risk associated with the domestic debt portfolio. A successful implementation of the strategy would therefore minimize the risk. The nominal debt to GDP and PV of Debt to GDP would decrease from 68.3% and 57.5% to 59.8% and 46.1% respectively. However, the actual ATM of both the external and domestic debt fell short of the target likewise, all the other indicators in the MTDS (2011-2014).

Table: 2 Summary risk Indicators of the MTDS VS 2014 Actual

Summary Risk Indicators of the MTDS VS 2014 Actual				
Risk Indicators		**2010 Baseline**	**2014 Targets**	**2014 Actuals**
Nominal Debt as % of GDP		68.3	59.8	105.5
PV of Debt as % of GDP		57.5	46.1	90.0
Implied interest rate		5.3	5.2	6.0
Refinancing risk	ATM External Portfolio (years)	13	15.4	11.1
	ATM Domestic Portfolio (years)	3.8	4.6	2.6
	ATM Total Portfolio (years)	9.1	12.6	7.5
Interest rate risk	ATR (Years)	9.1	12.6	7.3
	Debt Re-fixing in 1 years (% of Total)	34.2	15.4	40
	Fixed rate debt (% of Total)	100	100	97.1
FX Risk	FX debt (as % of Total)	57.0	72.7	57.9
	Short FX (% of Total)	8.9	8.4	15.7

MACROECONOMIC DEVELOPMENT 2014

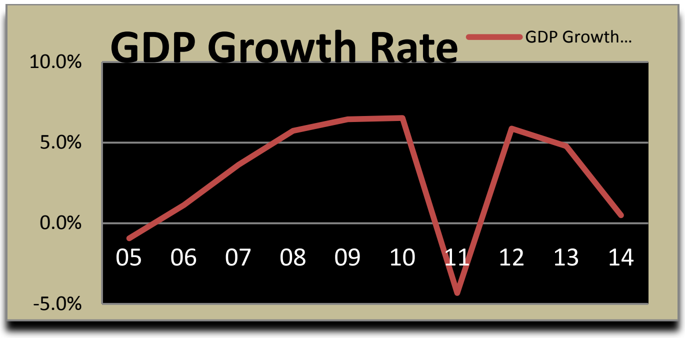
Macroeconomic and Fiscal Trends

The Gambian economy was on course to register yet another impressive growth three years on the trot after the impact of the drought in 2011. A 5.3 % GDP growth was expected in 2014. That was until two exogenous shocks the regional Ebola pandemic and the inconsistent rainfall hits the economy. They impacted on two key areas of the economy namely Services (Tourism) and Agriculture. These two sectors combined contribute approximately 80% of the country's GDP in 2013.

Although not a single case of Ebola was confirmed in The Gambia, the spurious effect of the outbreak in the sub-region restricted movement of people, trade as well as limited travel to the sub-region severely impacted on the economy. The impact was deterring much needed tourist into the country. Total arrivals in 2014 were just 155,592 as compared to 173,200 visitors in 2013 (GTBoard). Overall, the sector was estimated to have grown by 5.3 % in 2014. To put that in context the sector grew at 7.8% and 5.4 % in 2013 and 2012 respectively. The decline attributed to the slowdown in hotels and restaurants activities directly linked with tourist arrivals.

The inconsistent rainfall led to severe impact on crop production. This sub-sector almost accounts for half of the total production in the agricultural sector annually. Not surprising, agricultural production dropped. The total estimated production for the 2014 cropping decline

by 20 % compared to 2013. Compared to the five year crop production average, it was a drop of 17 % (GBOS).
Both of these shocks on the economy had multiplier effects on the economy leading to overall sluggish performance in the real sector. Total Real GDP growth was 0.5% in 2014 compared to the growth of 4.8 % and 5.9 % in 2012 and 2013 respectively.



Source:GBOS
Consumer price inflation, measured by the National Consumer Price Index (NCPI), accelerated to 6.9 % in December 2014, from 5.6 % in December 2013. Both food and non-food inflation rose to 8.43 % and 4.83 % from 6.72 % and 3.74 % in December 2013 respectively. Similarly, core inflation, which excludes the prices of volatile food items and energy, rose to 6.86 % in December 2014 compared to 5.86 % a year ago (CBG)
Total revenue and grants amounted to D7.6 billion (22.4 % of GDP) in 2014 compared to D6.0 billion (18.5 % of GDP) in 2013. This represents an annual growth of 26.3 % compared to a decline of 19.0 % in 2013 when grant receipts fell below expectations.
Total expenditure and net lending amounted to D11.8 billion (35.1 % of GDP) in 2014, up from D8.8 billion (27.0 % of GDP) in 2013, representing an annual increase of 34.8 %.
The overall budget balance (including grants) recorded a deficit of D4.3 billion (12.6 % of GDP) which was financed by both domestic and external sources.

After registering a strong performance in 2013, growth in the private sector credit declined markedly in 2014. As at end December, 2014 private sector credit contracted by 2.1% compared to a robust growth of 13.5% a year earlier.

The Government continues to tap deeper into the domestic credit market in 2014. Consequently, it accounted for net claims on government to reach 66.5% of total outstanding credit to the economy.
Balance of payments (BOP) estimates for the first nine months of 2014 indicate an overall deficit of USUS$12.80 million, lower than the surplus of USUS$13.84 million in the corresponding period last year. The current account deficit rose to USUS$97.48 million compared to a deficit of USUS$50.38 million during the corresponding period in 2013. The capital and financial account surplus increased to USUS$84.34 million, higher than the surplus of USUS$60.85 million in the corresponding period in 2013.
Volume of transactions in the domestic foreign exchange market increased to USUS$1.42 billion in 2014, or 8.4 % from a year earlier. In the year to end-December 2014, the Dalasi depreciated against the USUS$ by 16.28 %, Euro (4.14 %) and British Pound (12.73 %).

PUBLIC DEBT STRUCTURE 2014

The Gambia's Public Debt stood at USUS$ 804.87 million as at end December 2014. The external debt is slightly higher than domestic (50.01% of the total debt portfolio) stood at USUS$ 403.05 million. The domestic debt stood at USUS$ 401.82 million (GMD 18.7 billion).

4.1 External Debt Structure

4.1.1 External by Creditor and Creditor Category

External sources of funding is used to finance a bigger proportion of our budget 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 investment. The total external debt stock increased from US$394.07 million in 2013 to US$403.05 Million in 2014 (2% increase). Multilateral debt continues to dominate the external portfolio comprising of almost 70% while bilateral debt comprises of about 30%. It is important to note that the bilateral debt is increasing high relative to multilateral, 3% to 2% respectively (See chart below).

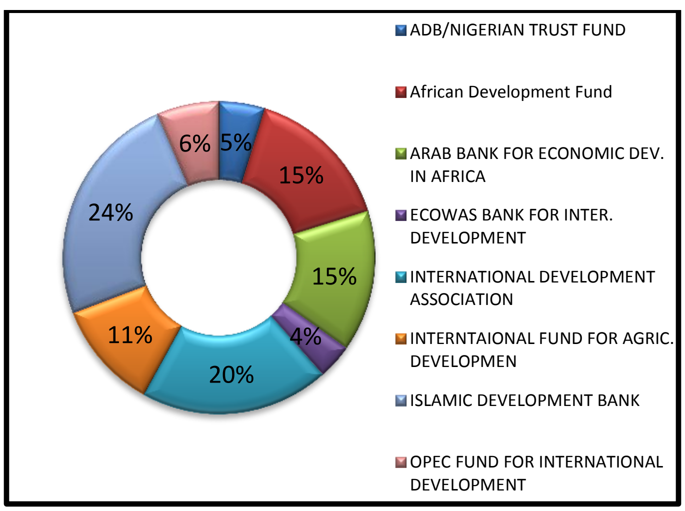
Table 3: External Debt by Creditor and Creditor Category in US$Million 2013/2014

CREDITOR	Dec-13	% of Total	Dec-14	% of Total	% change
BILATERAL					
ABU DABI FUND FOR ARAB ECON. DEVELOPMENT	6.36	2%	7.16	1.78%	13%
BANCO DE DES. ECON. Y SOCIAL VENEZUELA	21.01	5%	22.00	5.46%	5%
ERSTE BANK (GIROCREDIT)	0.88	0%	0.78	0.19%	-11%
EXPORT - IMPORT BANK OF INDIA	20.16	5%	24.57	6.10%	22%
KUWAIT FUND FOR ARB ECONOMIC DEVELOPMENT	23.66	6%	23.12	5.74%	-2%
LIBYAN ARAB JAMAHIRIY	3.95	1%	3.95	0.98%	0%
REPUBLIC OF CHINA (TAIWAN)	27.82	7%	25.89	6.42%	-7%
SAUDI FUND FOR DEVELOPMENT	13.97	4%	14.34	3.56%	3%
SUB TOTAL BILATERAL	117.81	30%	121.81	30.22%	3%
MULTILATERAL					
ADB/NIGERIAN TRUST FUND	14.02	4%	13.42	3.33%	-4%
AFRICAN DEVELOPMENT FUND	47.48	12%	43.25	10.73%	-9%
ARAB BANK FOR ECONOMIC DEV. IN AFRICA	38.98	10%	41.22	10.23%	6%
ECOWAS BANK FOR INTER. DEVELOPMENT	5.91	1%	10.21	2.53%	73%
INTERNATIONAL DEVELOPMENT ASSOCIATION	58.11	15%	55.12	13.68%	-5%
INTERNTAIONAL FUND FOR AGRIC. DEVELOPMENT	32.04	8%	31.50	7.82%	-2%
ISLAMIC DEVELOPMENT BANK	63.12	16%	68.40	16.97%	8%
OPEC FUND FOR INTERNATIONAL DEVELOPMENT	16.6	4%	18.12	4.50%	9%
SUB TOTAL MULTILATERAL	276.26	70%	281.24	69.78%	2%
GRAND TOTAL	394.07	100%	403.05	100.00%	2%

4.1.1.1Multilateral Debt by creditor 2014

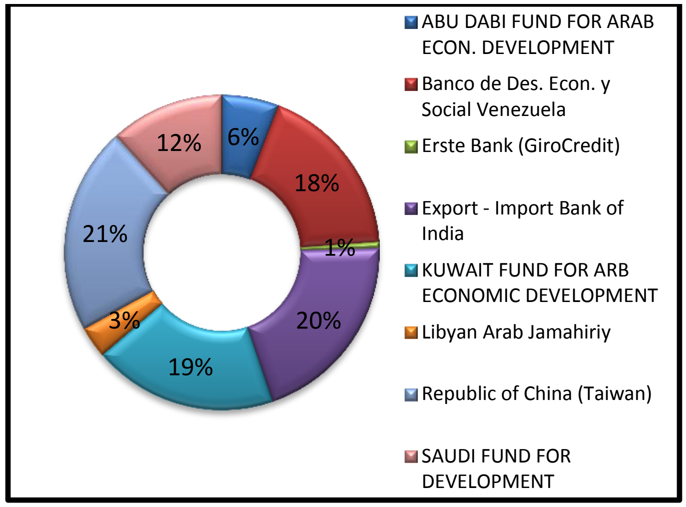
The major creditors to the Gambia are multilateral creditors. Islamic Development Bank and International Development Association dominate the multilateral debt portfolio consisting of 24% and 20% respectively.

Chart 1: Multilateral debt by Creditor 2014



4.1.1.2 Bilateral Debt by Creditor 2014

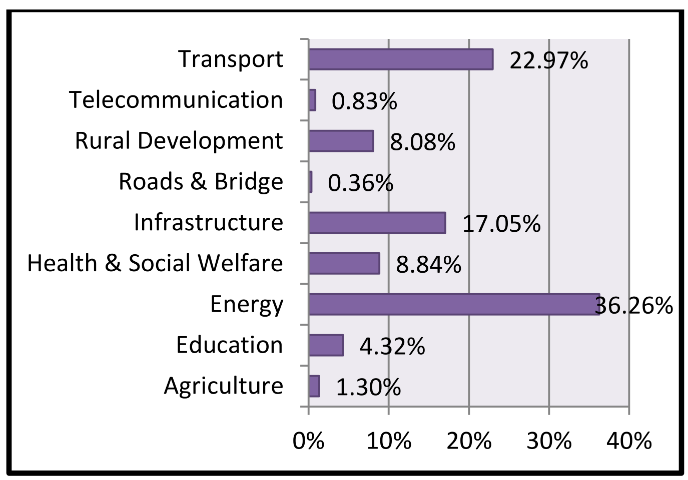
Bilateral creditors consist of about 30% of the total debt portfolio in 2014. The Republic of China on Taiwan holds the largest share of bilateral debt with 21 % followed by Export- Import Bank of India with a share of 20% and Kuwait fund for Arab Economic Development with a share of 19%.



4.1.2 External Debt by Economic Sector

Projects and programs are mainly financed by external debt.

Table 4: External debt by Economic sector

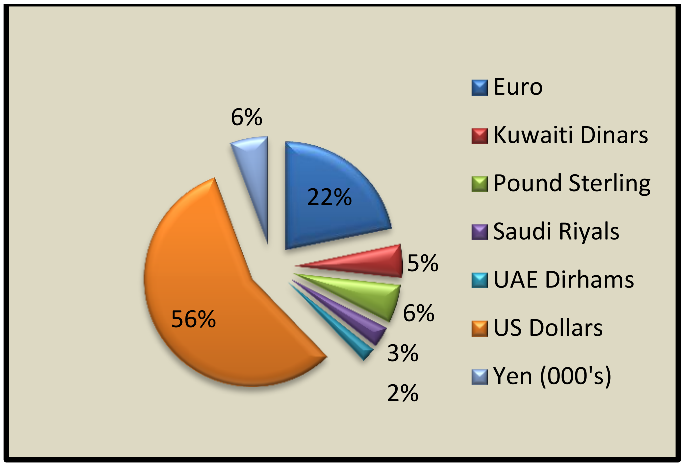


Energy sector constitutes the largest share of the external debt with 36.26 % followed by Transport with 22.97 % and Agriculture with 17.05 % reflecting the objectives of the national blue print (PAGE).

4.1.3 Currency Composition of External Debt

The external debt portfolio composed of baskets of currencies such as Special Drawing Rights, Islamic Dinar and ADB Units of Accounts. The baskets are decomposed in individual currencies in order to show the exposures of each currency in the external debt portfolio as at end 2014.See chart below.

Chart 2: Currency Composition by external debt



The decomposition of the baskets of currencies magnifies that USUS$ which composed of the highest external debt portfolio of 56 % followed by Euro 22 %, Pound sterling 6 %, Yen 6 % Kuwaiti Dinars 5 %, Saudi Riyals 3 %, and UAE Dirham 2 % as indicated in the chart above.

This justified that, more than half of the external debt is denominated in USUS$ followed by the Euro, pound and the yen.

4.2 Domestic Debt Structure

Government policy on domestic debt management is to borrow consistently at the lowest possible cost and a prudent degree of risk from domestic financial markets without causing undue effects on monetary policy and financial sector development. The Government is planning to issue a 2-year bond in a bid to elongate further, the domestic debt maturity.

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; and smoothening redemption profile.

It is also government strategic aim of reducing NDB target to around 1% of GDP and to halt continued monetization of deficit by the CBG. If the growth of the NDB is curbed to 1% of GDP, this will significantly reduce, in the future, the cost of borrowing, which is a prime objective of debt management. Subsequently, the crowding-out effect of the private sector would be significantly minimized, as resources in the economy would be freed for private sector investment.

4.2.1 Domestic Debt by Holder

Table 5: Domestic Debt by Holder

HOLDER	31/12/13		31/12/2014	
	Face Value GMD (000)	% of Total	Face Value GMD	% of Total
Central Bank	4,655,515.76	34.44%	6,986,945,191.78	37.25%
Commercial Bank	7,441,090.00	55.04%	8,803,770,000.00	46.95%
Total Non-Bank	1,422,730.00	10.52%	2,962,425,000.00	15.80%
Grand Total	**13,519,335.76**	**100%**	**18,753,140,191.78**	**100%**

The total domestic debt stock stood at GMD 18.7 Billion as at end 2014. Commercial bank holdings equated to GMD 8.8 Billion of the total stock representing the highest holder with 46.95%, followed by Central Bank with 37.3% and then Non-Banks with 15.8%.

Commercial Bank holdings of T-Bills in %age of the total has decreased from 55% in 2013 to 47% in 2014, whereas Central Bank share of the total holdings have increased from 34% in 2013 to 37% in 2014. The %age of Non-Bank holding has also increased from 11% in 2013 to 16% in 2014. It is important to note that an increase in Central Bank Holdings of T-Bills reflects the magnitude of Central Bank financing of government deficit. This trend could be inflationary.

4.2.2 Domestic Debt Stock By Instrument

The domestic instruments comprise of Treasury Bills, Islamic Instruments (Suku Al- Salam) and government non-market bonds.

The total domestic debt outstanding as at end 2014 stood at GMD 18.7 Billion out of which 81% is marketable and 19% is Non-Marketable instruments. The bulk of the debt composed of Treasury Bills which constitutes 78% of the total domestic debt followed by the 30 Year Government Bond with 8.43%, Special advance to

Government with 8.27%, Sukuk Al-Salam with 3% and finally the perpectual 5% Government Bond with 1%.

Table 6: DEBT STOCK BY INSTRUMENT

INSTRUMENTS	31/12/2013		31/12/2014	
	GMD (000)	% of Domestic Debt	GMD (000)	% of Domestic Debt
Marketable				
Treasury Bills	11,080,680.00	81.96%	14,651,765.00	78.13%
Sukuk Al-Salaam	400,255.00	2.96%	594,430,.00	3.17%
Total Marketable	**11,480,935.00**	**84.92%**	**15,246,195.00**	**81.30%**
Non Marketable				
6.5% 30 Year Gov't Bond	1,642,480.00	12.15%	1,581,640.00	8.43%
6% 10 Year Gov't Bond	145,920.76	1.08%	125,074.93	0.67%
5% Gov't Bond	250,000.00	1.85%	250,000.00	1.33%
Special Advance to Gov't	-		1,550,230.26	8.27%
Total Non Marketable	**2,038,400.76**	**15.08%**	**3,506,945.19**	**18.30%**
Total Domestic Debt	**13,519,335.76**	**100%**	**18,753,140.19**	**100%**

Comparatively, Treasury Bills have increased in amount from GMD 11.1 Billion in 2013 to GMD 14.6 Billion in 2014. However the treasury bills have decreased in %age of total domestic debt from 81.9% in 2013 to 78.1% in 2014.

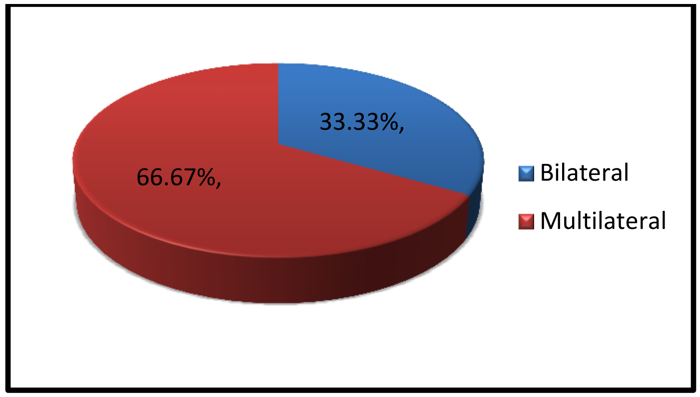
5. DEBT FLOWS

5.1 Disbursements

5.1.1 Disbursements by Creditor Category

Total external loans disbursement for the year 2014 stood at 24.22 million USUS$ with mutilateral disbursement constituting 66.67 % while bilateral disbursement constitutes 33.33 %.

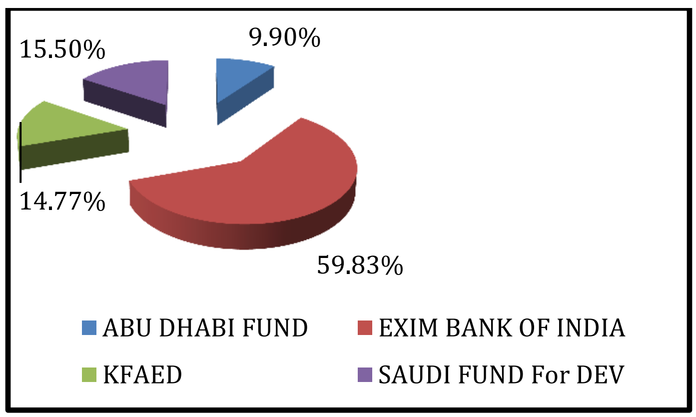
Chart 3: Disbursement by Creditor Category



5.1.2 Bilateral Disbursement

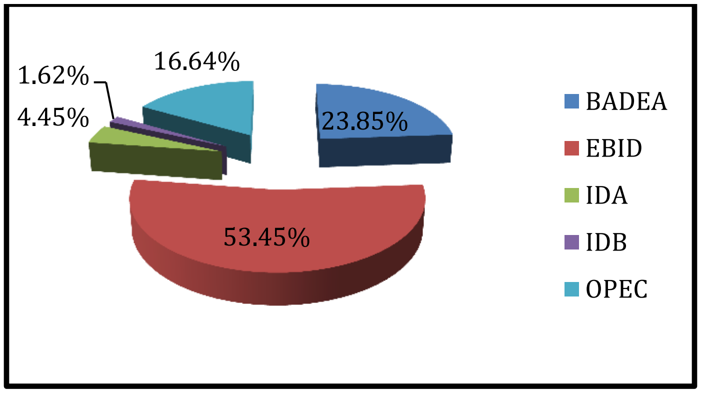
The bilateral creditors disbursement in 2014 as shown by the chart below, Export-Import Bank of India made the highest disbursement, which constitutes 59.83 % of the entire bilateral disbursement followed by Saudi Fund for Development and Kuwait Fund for Economic Development and Abu Dabi Fund with 15.50 %, 14.77 % and 17 % respectively

Chart 4: Bilerteral Disbursement



5.1.3 Multilateral Disbursement

Chart 5: Multilerteral Disbursement



As shown in the chart above, the Ecowas Bank for Investment and Development constitutes the largest shares with 53.45 % of the multilateral disbursement in 2014 followed by Arab Bank for Economic Development in Africa(BADEA) with 23.85 % and OPEC Fund for International Development with 16.64%.

5.2 Debt Service

Table 7: Debt Service

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total in $ Millions
Principal	6.7	4	6.1	12.7	29.5
Interest	1.6	0.62	2	1	5.2
Total Debt Service	8.3	4.7	8.1	13.7	**34.7**

Debt service comprises amortization (principal repayment), interest and other charges, including commitment and commission fees levied by creditors.

In 2014, total debt service payments for both external and domestic debt amounted to US$34.7 Million, Principal repayments holding 85% of the total debt service whilst the Interest component carries the remaining 15%.

5.3 Net Flows and Transfers 2014

Table 8: Net flows and Transfer

	2014
Disbursements (A)	24.2
Principal Repayments (B)	29.5
Net Flows On Debt(C)=(A-B)	-5.3
Interest Payments (D)	5.2
Net Transfers On Debt (E)= (C-D)	**-0.1**

6. COST AND RISK ANALYSIS

The Nominal debt and the PV of debt as %ages of GDP as at end 2014, has surged considerably. The nominal debt to GDP and PV of debt to GDP as at end 2014, reached a record high of 105% and 90% respectively. Relative to end 2013, both nominal debt and PV of debt increase by 7 and 6 %age respectively. The end 2014 PV of debt to GDP is above the IMF/World Bank threshold of 40%.The implied interest rate on the external debt portfolio is at 1.7%, whereas the domestic money market rate 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. The enhancement in the ATM of the external debt is largely due to sources of financing from limited to only Multilateral and bilateral creditors. This shows that the external debt portfolio is less risky compared to the domestic debt portfolio. On the other hand, the domestic debt portfolio poses a grave rollover risk having ATM of only 2.6 years. This is due to fact that most domestic instruments are one year tenure.

Average time to re-fixing (ATR) which is indicating the interest rate exposure is the same compared to the ATM for the domestic debt portfolio of 2.6 years. This is as a result of the insignificant presence of variable rates in the Domestic Debt market. However, for the external debt portfolio the ATR was 10.7 years.

In 2014, net flows was negative indicating that disbursement of USUS$ 24.2 Million was lower than external principal payments of USUS$ 29.5 Million by USUS$ 5.3 Million. The net transfers showed a negative balance of US$ -0.1 Million.

Table 9: Cost and Risk Analysis

Risk Indicators		External	Domestic	Total
Amount (Millions USUS$)		434.7	316.5	751.1
Nominal Debt as % of GDP		61.1	44.5	105.5
PV as % of GDP		45.6	44.4	90.0
Cost of Debt	Weighted Av . IR %	1.7	11.9	6.0
Refinancing Risk	ATM (years)	11.1	2.6	7.5
	Debt Maturing in 1yr as % of Total Debt	5.8	81.1	37.6
Interest Rate Risk	ATR (years)	10.7	2.6	7.3
	Debt Refixing in 1yr (% of Total Debt)	10.7	81.1	40.4
	Fixed Rate Debt (% of Total Debt)	94.9	100	97.1
FX Risk	FX Debt (% of Total Debt)			57.9
	ST FX Debt (% of reserves)			15.7

7 SUMMARY

The 2014 has been a challenging year for debt management as well as the macroeconomic management. Consequently the economy grew by 0.5%.

The 2011-2014 MTDS implementations have not been successful in terms cost reduction and risk mitigation. The challenges faced during the implication of 2011-2014 MTDS, is address in the new MTDS. The Net Domestic Borrowing targets 1% of GDP and limiting central bank financing of government deficit.

The formation of high level debt management committee is expected redirect government debt practices using the new strategy to a sustainable part. A well-coordinated and concerted effort is needed to bring the debt back to its sustainability track.