June 2011
IMF Country Report No. 11/139

# Senegal: First Review Under the Policy Support Instrument—Staff Report; Staff Supplement; Press Release; and Statement by the Executive Director for Senegal

In the context of the First Review Under the Policy Support Instrument, for Senegal the following documents have been released and are included in this package:

- The Staff Report for the First Review Under the Policy Support Instrument, prepared by a staff team of the IMF, following discussions that ended on April 6, 2011 with officials of Senegal on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on May 20, 2011. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- A supplement on the joint IMF/IDA Debt Sustainability Analysis
- A Press Release on the completion of the review
- A statement by the Executive Director for Senegal

The documents listed below have been or will be separately released:

Letter of Intent sent to the IMF by the authorities of Senegal*
Memorandum of Economic and Financial Policies by the authorities of Senegal*
Technical Memorandum of Understanding*
*Also included in the Staff Report

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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INTERNATIONAL MONETARY FUND

SENEGAL

# Senegal—First Review Under the Policy Support Instrument

Prepared by the African Department
(In consultation with other departments)

Approved by Roger Nord and Thomas Dorsey

May 20, 2011

**Program discussions** were held in Dakar March 23–April 6, 2011, and continued in Washington April 15–18, 2011. The team comprised Mr. Funke (head), Mr. Kireyev, Mr. Vermeulen, Mr. Mpatswe (all AFR), Ms. Shabunina (FAD), Mr. Painchaud (SPR), Ms. Fichera (resident representative), and Mr. Ba (resident representative office). Mr. Sembene (OED) participated in the discussions. The team met with Finance Minister Diop, Deputy Energy Minister Sarr, International Cooperation and Infrastructure Minister Wade, BCEAO National Director Diop, other senior government officials, and representatives of development partners and the private sector.

**Seminars and outreach:** In two half-day seminars, the authorities presented the findings of their study on potential output in Senegal, and the team made presentations on fiscal risks and stress testing. The mission met with representatives of trade unions.

**Fund relations:** The second three-year Policy Support Instrument (PSI) was approved by the Board on December 3, 2010. The last Article IV consultation was concluded in May 2010.

**First PSI review:** Staff recommends completion of the review with one waiver for nonobservance of the quantitative assessment criterion on the fiscal deficit target because of the small margin and the corrective action taken by the authorities. The program target was missed by 0.2 percent of GDP because of lower-than-projected oil-related revenues. Ongoing energy sector reform will be conducive to raising oil-related tax revenues. Structural conditionality was largely observed.

**PSI:** In the attached Letter of Intent and Memorandum of Economic and Financial Policies (MEFP), the authorities review reform progress and describe their objectives and reform plans for 2011 and early 2012.

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## Abbreviations

| | |
|---|---|
| AC | assessment criterion |
| AFD | French development agency |
| AIBD | Airport project company |
| ARMP | Procurement regulatory authority |
| ASTER | expenditure accounting system |
| BCEAO | Central Bank of West African States |
| CIRR | commercial interest reference rate |
| COSEC | Senegalese Shippers Council |
| CPIA | Country Policy and Institutional Assessment |
| CFAF | CFA Franc |
| DCMP | Central public procurement directorate |
| DSA | debt sustainability analysis |
| DGID | Taxes, Land, and Property General Directorate |
| DGD | Customs Directorate |
| DPES | Document of Economic and Social Policies |
| FSE | Energy Sector Support Fund |
| FSIPP | specific surcharge on petroleum products |
| FSAP | Financial Sector Assessment Program |
| GDP | gross domestic product |
| ICS | Phosphoric acid production company |
| IGF | Office of the Inspector General of Finance |
| MCA | Millennium Challenge Account |
| MDG | Millennium Development Goals |
| MDRI | Multilateral Debt Relief Initiative |
| MEFP | Memorandum of Economic and Financial Policies |
| NFA | net foreign assets |
| NPV | net present value |
| NPL | nonperforming loan |
| PEFA | public expenditure and fiscal accountability |
| PFM | public financial management |
| PPP | public-private partnership |
| PRSP | Poverty Reduction Strategy Paper |
| PSI | Policy Support Instrument |
| REER | real effective exchange rate |
| SAR | oil refinery company |
| SDR | Special Drawing Rights |
| SENELEC | Government-owned electricity company |
| SIGFIP | integrated public financial management system |
| SSA | sub-Saharan Africa |
| TMU | Technical Memorandum of Understanding |
| TOFE | government financial operations table |
| VAT | value-added tax |
| WAEMU | West African Economic and Monetary Union |

## Executive Summary

*The economic recovery is continuing. Performance under the current PSI-supported program has been broadly satisfactory, with a somewhat higher-than-programmed fiscal deficit, some continued weaknesses in public financial management, and some minor delays in structural reform implementation. Since the start of the second PSI, two new developments have been affecting economic policies and prospects: (i) a recently completed restructuring plan for the energy sector, which entails additional fiscal costs, and (ii) higher international food and fuel prices.*

**Continuing recovery**: Recent indicators of activity suggest that growth continues to pick up. Real GDP growth is projected to reach 4½ percent in 2011. Because of higher food and fuel prices, consumer price inflation is projected to edge up to an annual average of 3.8 percent in 2011.

**Program performance**: All continuous and end-December 2010 assessment criteria (AC) were met, except for the AC on the basic fiscal deficit, which was missed by a small margin (0.2 percent of GDP) because of lower-than-projected oil-related revenues. By early May, the authorities implemented all six structural benchmarks for the first PSI review, despite small delays with two of them. Expenditure reallocations early in the year point to continued weaknesses in public financial management.

**Difficult policy trade-offs:** Estimated financing needs for short-term emergency measures and medium-term investments in the energy sector are large (more than 10 percent of 2011 GDP during 2011–15). To finance the restructuring plan, the authorities have adopted some new tax measures and reallocated budgetary resources. With little risk of overheating in 2011, a somewhat higher-than-programmed fiscal deficit also appears appropriate to address the energy crisis. A supplementary budget in line with the revised macroeconomic framework will be finalized by late May (prior action). However, to preserve debt sustainability, the fiscal deficit should decline to below 4 percent of GDP in the medium term.

**Structural reforms**: Work on tax policy reform and debt and investment management continues. To increase trend growth, it is important to pursue further broad-based structural reforms leading to an improved business climate, better governance, and effective energy and financial sectors.

**Risks:** Persistent electricity supply problems, increasing food and oil prices, a weak global recovery, opportunistic pre-election changes in economic policies, and a lack of medium-term fiscal consolidation are the main risks.

## I. Maintaining Macroeconomic Stability

1. **The economic recovery is continuing and has been largely unaffected by the political crisis in Côte d'Ivoire** (Table 1, Figure 2).

- *Growth*. The economic recovery gained momentum in 2010, with real GDP growth reaching 4.2 percent. Growth is projected to reach 4.5 percent in 2011, supported by emergency energy sector reform, and the construction and chemical sectors.

- *Inflation*. During 2010 inflation remained subdued. Year-on-year inflation, however, picked up in the second half of the year, driven by higher food and fuel prices. It is projected to reach 3.8 percent (annual average) in 2011, before declining to its long-term trend.

- *Fiscal balance*. Lower-than-projected oil-related revenues, mostly related to the national electricity company's (SENELEC) financial strains, and a shortfall in donor support, led to an overall fiscal deficit of 5.2 percent of GDP, 0.4 percentage points higher than projected.

- *Balance of payments*. The 2010 current account deficit was revised from 8.2 percent of GDP to 5.9 percent of GDP, reflecting strong export performance and lower-than-projected imports of oil and food.

2. **Uncertainties about the short-term outlook persist.** The main risks include the deeply rooted problems in the energy sector, high food and fuel prices, opportunistic pre-election shifts in economic policies, and a lack of medium-term fiscal consolidation. On the upside, a stronger-than-expected global recovery and fast progress with energy sector reforms could accelerate growth.

## II. Program Performance

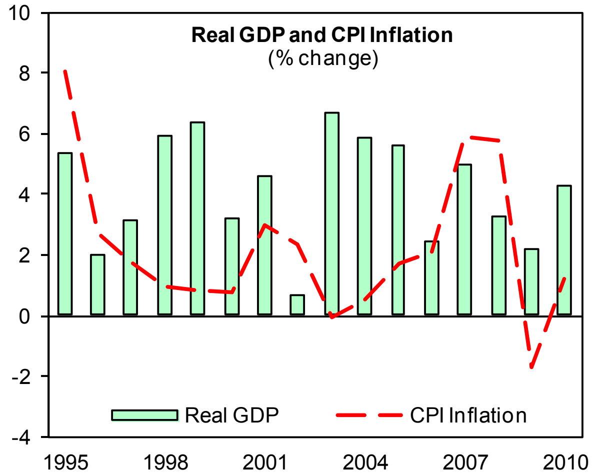
3. **Program performance to date has been broadly satisfactory.** The end-December 2010 program target for the basic fiscal balance was missed by a small margin (0.2 percent of GDP) because of a shortfall in oil-related revenues (Table 7). By early May 2011, the authorities implemented all six measures covered by structural benchmarks for this review, despite small delays with two of them (Text Table 1).

## III. Policy Discussions

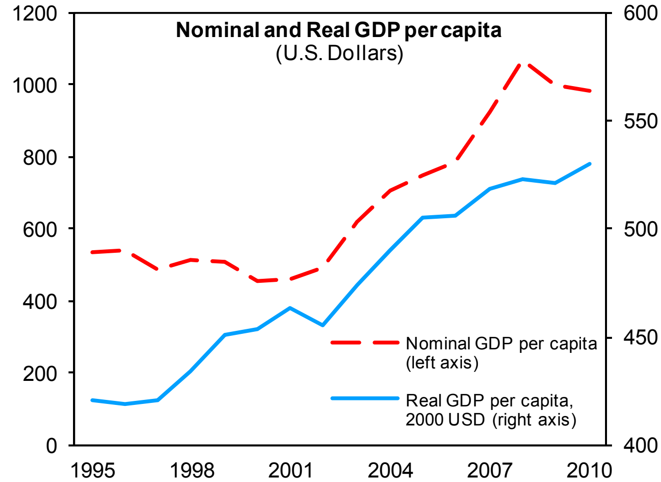
4. **Policy discussions focused on the economic implications of two new developments since the program was approved in December 2010**: (i) the recently completed restructuring plan for the energy sector and (ii) higher international food and fuel prices.

## Figure 1. Senegal: Historical Perspective, 1995–2010

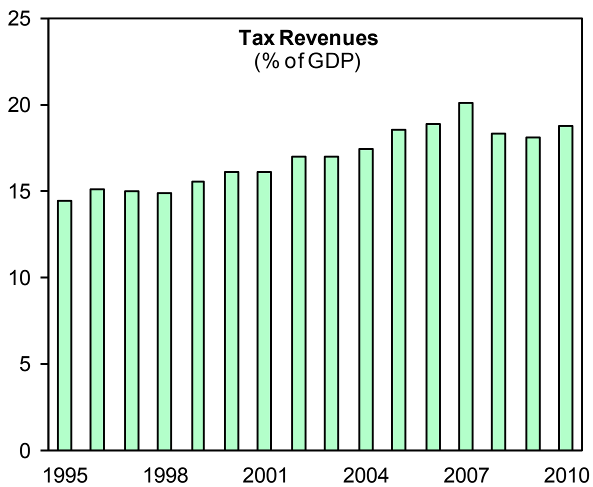
Although growth has been volatile and was affected by the global financial crisis, ...



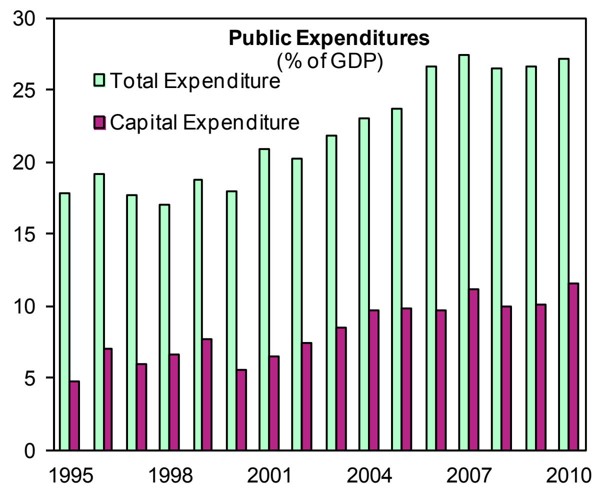

...per capita income has risen steadily.




Revenues are improving again ...




... allowing for higher spending, including capital spending.



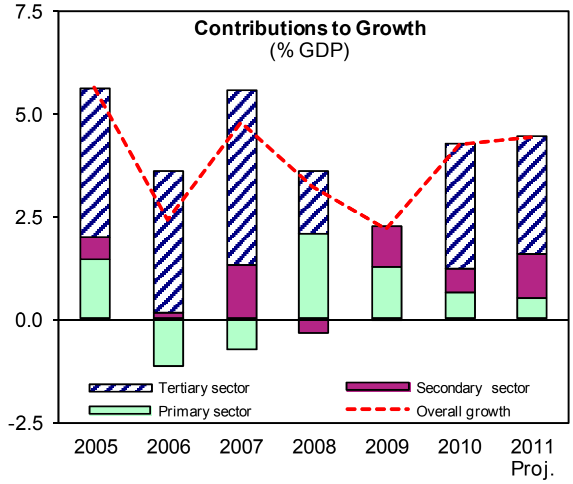

Progress has been made toward the Millennium Development Goals.

| Millenium Development Goal | 1990 | 1995 | 2000 | 2005 | 2009 |
|---|---|---|---|---|---|
| Poverty headcount ratio at $1.25 a day (PPP) (% of population) | 66 | 54 | 44 | 34 | .. |
| Literacy rate, youth female (% of females ages 15-24) | 28 | .. | 41 | 45 | .. |
| Total enrollment, primary (% net) | 45 | 50 | 58 | 72 | 75 |
| Ratio of female to male primary enrollment (%) | 72 | 76 | 86 | 96 | 102 |
| Mortality rate, infant (per 1,000 live births) | 73 | 68 | 61 | 55 | 51 |
| Mortality rate, under-5 (per 1,000) | 151 | 138 | 120 | 104 | 93 |
| Births attended by skilled health staff (% of total) | .. | 47 | 60 | 52 | .. |
| Prevalence of HIV, total (% of population ages 15-49) | 0.1 | 0.2 | 0.4 | 0.8 | 1 |
| Improved water source (% of population with access) | 61 | 63 | 65 | 68 | 69 |

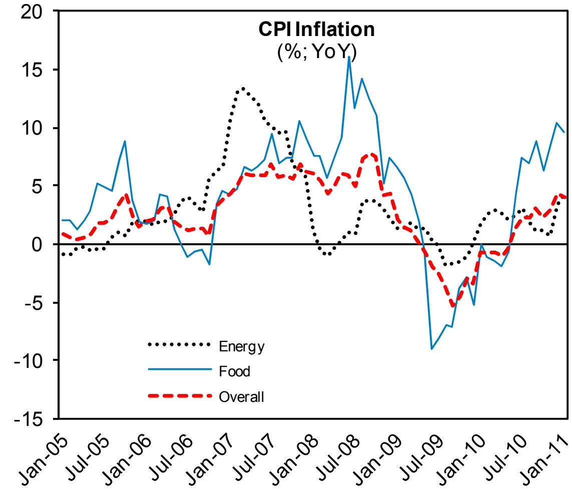
Sources: Senegalese authorities; World Bank; and IMF staff calculations and estimates.

## Figure 2. Senegal: Recent Macroeconomic Developments, 2005–2011

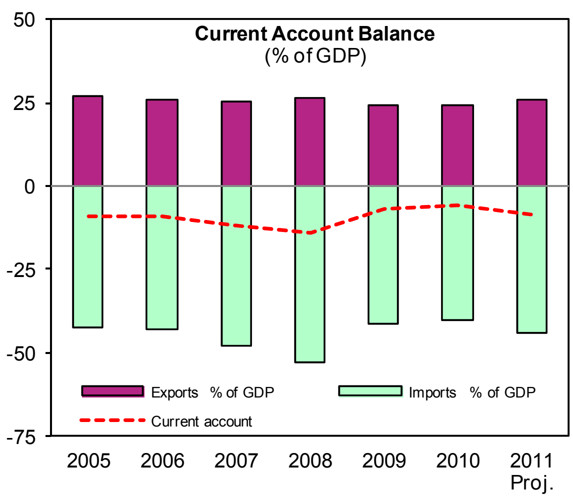
Economic growth has started to recover.



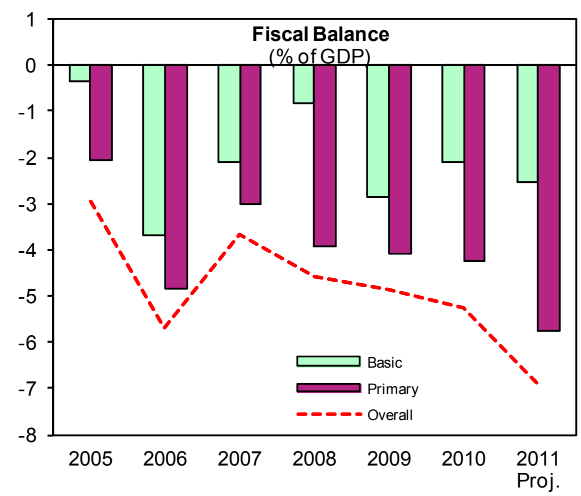

Since late 2010, inflation increased due to higher food and fuel prices.



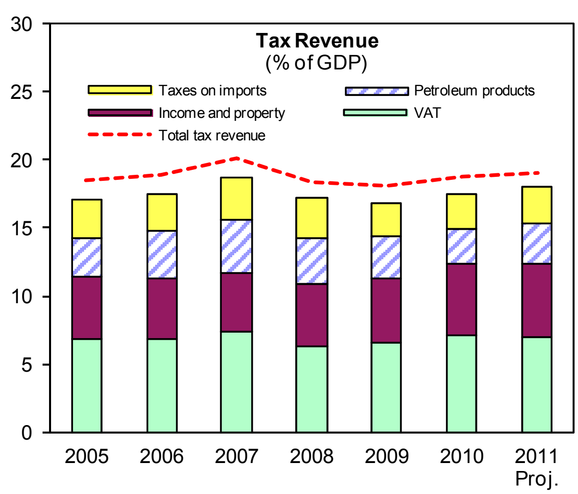

The current account deficit may widen in 2011.



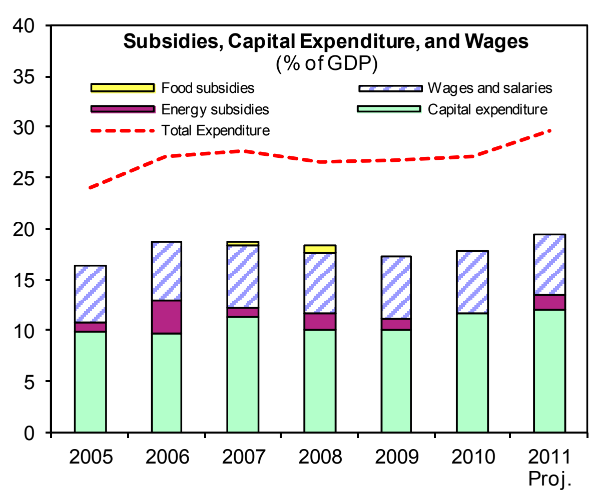

Fiscal policy has been eased to cushion the impact of the global crisis and higher investment spending




Tax collection is recovering...




...supporting more investment spending.




Sources: BCEAO; Senegalese authorities; and IMF staff estimates.

Text Table 1. Structural Measures: First PSI Review

| Measures | MEFP Ctry. Rept. 10/362 § | Implementation Date | Macroeconomic Significance | Status |
|---|---|---|---|---|
| Prepare a restructuring and revitalization plan for the energy sector, taking into account the results of the financial and operational audits. | 25 | January 31, 2011 | Strengthen the efficiency of the energy sector and transparency of public finances. | Met. Emergency plan for electricity adopted. |
| Issue a decree on the powers, composition, and operating procedures of the committee monitoring budget execution. | 14 | January 31, 2011 | Improve cash flow management. | Met |
| Prepare an action plan to achieve realistic budgeting for, and regular payment of, utilities by all ministries. | 20 | February 28, 2011 | Strengthen transparency and credibility of the budget. | Met |
| Submit a tax policy reform strategy to the Council of Ministers. | 15 | March 31, 2011 | Improve tax policy and increase revenues. | Met with delay. Submitted in mid-April. |
| Create a new entity, through regulation, responsible for managing domestic and external debt and market interventions. | 13 | April 15, 2011 | Improve debt management. | Met. |
| Publish monthly on the government's website complete information on the extension of the highway, including (i) project status; (ii) planning and execution; (iii) financing and costs; and (iv) account balance, within two weeks following the end of the month, starting March 2011. | 11 | March 31, 2011 | Increase transparency in infrastructure investment. | Met with delay. First publication in April |

## A. Safeguarding Fiscal Space

MEFP¶¶12, 43-45

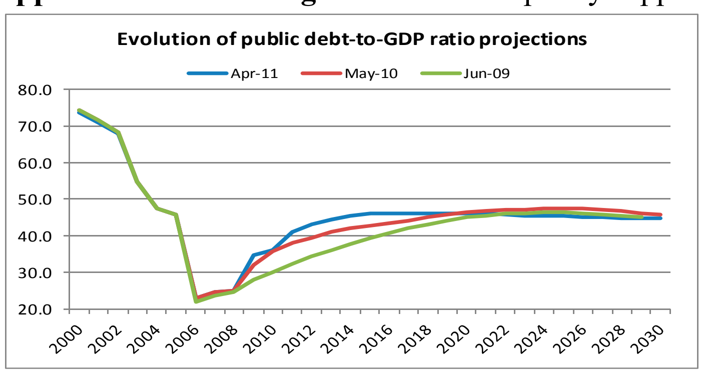
5. **With new investment needs in the energy sector (see Box 1), fiscal policy faces a difficult trade-off between additional priority expenditure and the need to preserve debt sustainability.** To finance the restructuring of the energy sector and new investments (totaling more than 3 percent of GDP in 2011), the authorities established an energy sector support fund (FSE) in February, partly financed by new taxes and levies, and decided to reprioritize less urgent expenditure. With limited risk of overheating and a low risk of debt distress (see updated joint IMF/IDA debt sustainability analysis), the authorities

and staff agreed that there is also some scope for higher fiscal deficits in the short term. At the same time, quickly rising debt levels during the past few years and medium-term debt sustainability considerations call for prudence. The authorities and staff agreed that the 2011 fiscal deficit should stay below 7 percent of GDP (Text Table 2), with an adjustor of up to 1 percent of GDP if additional concessional financing materializes. To preserve debt sustainability, the overall fiscal deficit should be reduced to below 4 percent of GDP in the medium term (Figure 3).

**Text Table 2. Government Financial Operations, 2011-13 (Percent of GDP)**

| | 2011 | 2012 | 2013 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|
| | Prog. proj. Dec. 2010 | | | Revised projections | | |
| Total revenue and grants | 22.2 | 22.4 | 22.6 | 22.8 | 22.7 | 22.7 |
| *of which* FSE | … | … | … | 0.5 | 0.4 | 0.3 |
| Total expenditure and net lending | 28.0 | 27.7 | 26.5 | 29.7 | 28.3 | 27.3 |
| investment in autoroute | 1.4 | 1.6 | 0.2 | 0.4 | 1.0 | 0.2 |
| energy sector projects | 0.0 | 0.0 | 0.0 | 3.1 | 2.0 | 2.0 |
| tariff gap | 0.0 | 0.0 | 0.0 | 0.7 | 0.5 | 0.4 |
| leasing | 0.0 | 0.0 | 0.0 | 0.4 | 0.3 | 0.0 |
| investment by FSE | 0.0 | 0.0 | 0.0 | 0.0 | 0.3 | 0.3 |
| recapitalization of SENELEC | 0.0 | 0.0 | 0.0 | 0.6 | 0.0 | 0.0 |
| other investment | 0.0 | 0.0 | 0.0 | 1.5 | 0.9 | 1.4 |
| other expenditure | 26.6 | 26.1 | 26.3 | 26.1 | 25.2 | 25.1 |
| Overall fiscal balance | -5.8 | -5.3 | -3.9 | -6.9 | -5.6 | -4.6 |
| | | | | | | |
| *Memorandum (in CFA billion)* | | | | | | |
| nonconcessional financing for the autoroute | 92 | 117 | 15 | 30 | 77 | 15 |
| nonconcessional financing for the energy sector | 0 | 0 | 0 | 62 | 40 | 0 |

6. **Staff emphasized that a prudent approach to borrowing is needed.** The policy support instrument (PSI) already includes a ceiling for the contracting or guaranteeing of new nonconcessional external financing of US$500 million over three years, tied to the highway extension. While this ceiling will be maintained, staff and the authorities agreed that part of these resources could be used for profitable investments in the energy sector because of the urgency and high economic profitability of these investments. The authorities plan to rephase the highway extension project and to consider alternative financing options for part of the project, including a public-private partnership, introducing some financing uncertainty. The authorities issued a US$500million Eurobond in early May. Large acceptance of the offer to holders of the existing US$200 million bond maturing in 2014 for an exchange[1] has reduced roll-over risk in the medium-term, while shifting it to 2021, but debt servicing risks remain.




[1] The US$500 million 10-year Eurobond was placed on May 6, 2011 with a 8.75 percent coupon (bi-annual frequency), priced to yield 9.125 percent. Over 75 percent of investors holding some US$155 million of the US$200 million 5-year bond issued in 2009 accepted the offer to exchange the existing bond for the new 10-year bond.

**Box 1. Energy Sector: Challenges and Reforms**

**Energy sector as a bottleneck to growth:** Capacity constraints, frequent electricity outages, high production costs and electricity tariffs, and poor governance of the energy sector have increasingly constrained economic development. The authorities' analysis suggests that energy supply problems have reduced real GDP growth by more than 1 percent per year during the past two years.

**Reform plan:** The authorities' reform plan (TAKKAL), includes (i) short-term emergency measures that complement medium-term investments (including recapitalization of the national electricity company SENELEC and renting of additional generating capacity (partly used to allow for the upgrading of existing power plants)); (ii) increasing the electricity supply by changing the production mix, acquiring mobile power units, and accelerating the construction of a coal power plant; (iii) demand management policies; (iv) restructuring of SENELEC to achieve its financial viability; and (v) creating a communication strategy to ensure transparency and good governance of the reform process.

**Financing needs:** The total cost of energy sector reform for 2011–15 is estimated at some US$ 1.5 billion (more than 10 percent of 2011 GDP). Financing needs in 2011 alone amount to more than 3 percent of GDP. The analysis of a reputable private sector consultancy shows that the investment package is highly profitable.

Plan Takkal: 2011 Financing Needs

| | CFA bn | Percent of GDP |
|---|---|---|
| Compensation for tariff gap | 45 | 0.7 |
| Recapitalization of SENELEC | 43 | 0.6 |
| Renting power-generating capacity | 25 | 0.4 |
| New investment in electricity generation | 102 | 1.5 |
| Total | 215 | 3.1 |

**Financing modalities:** Energy sector reform will be financed by a combination of new revenues, expenditure reallocation, and new borrowing. To finance the short-term emergency measures, in February 2011 the authorities established an Energy Sector Support Fund (FSE). It will be financed by parafiscal levies on domestic sales of petroleum products not used for electricity generation (gas oil, diesel oil, fuel oil); a turnover tax on access to telephone lines; budgetary transfers; donor funds; and other resources allocated to the energy sector. The fund is governed by a board, which includes representatives from the government, the private sector, and consumers. Its accounts will be audited annually.

**Risks:** Any delay in medium-term investments would increase the cost of emergency measures. Higher international oil prices may increase the tariff gap and involve some budgetary risks. Estimates suggest that a 10 percent increase in international oil prices would lead to an (implicit) subsidy of 0.2–0.3 percent of GDP for SENELEC, if electricity tariffs are not adjusted accordingly. However, oil-related revenues would increase in parallel, largely offsetting overall fiscal risks.

MEFP ¶¶15-16, 45

7. **Staff and the authorities agreed that maintaining fiscal transparency of investment projects is critical for safeguarding the integrity of the financial program**. For program monitoring, the FSE will be integrated in the fiscal accounts, which staff sees as a second best option to a full integration of the FSE in the budget. The nonconcessional financing will be deposited in a special account and

used exclusively for the energy sector and the extension of the autoroute. The government will publish monthly on a dedicated government website full information on the financial activities of the FSE, project status and execution, financial costs, and the special account balance (structural benchmark end-August 2011). Also, the government will conduct an initial audit of the use of the funds earmarked for extension of the highway three months after work starts (structural benchmark end-October 2011).

8. **The authorities took measures to keep food prices under control.** In February 2011, the government froze retail prices for six key food items and temporarily limited price increases for petroleum products at the pump by reducing the VAT base. Drawing on lessons from recent history (Box 2), staff advised against food price controls and generalized tax reductions or subsidies. Staff pointed to the higher efficiency of better-targeted schemes, such as school lunch programs. With limited fiscal space, any measure with budgetary implications will need to be offset by reducing lower-priority spending to maintain the deficit target.

MEFP ¶46

**Box 2. Senegal's Food and Oil Subsidies: Lessons from 2007–2008**

**During the 2007–2008 food and fuel crisis the authorities took several measures to limit food and oil-related price increases**. The fiscal costs of temporary reductions of VAT, excise tax exemptions, and subsidies for butane gas amounted to about 4½ percent of GDP during the 2-year period, with about a third stemming from a loss in revenues. On the other hand, with regard to pump prices**,** the government has traditionally allowed the bulk of the increase in world prices to pass through to consumers.

WAEMU: Regional Comparison of Pump Prices in March 2011
(In CFAF per liter)

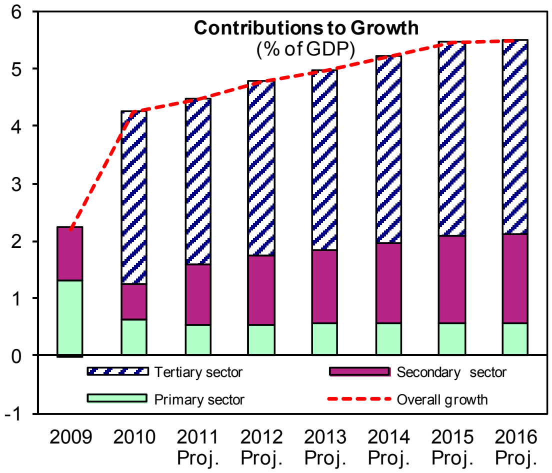
| | Gasoline | | Diesel | Kerosene |
|---|---|---|---|---|
| | Regular | Super | | |
| Benin | 555 | 555 | 555 | 540 |
| Burkina Faso | … | 682 | 606 | 460 |
| Guinea-Bissau | 732 | … | 638 | 563 |
| Mali | 695 | … | 610 | 510 |
| Niger | … | 561 | 580 | 416 |
| Senegal | 748 | 783 | 721 | 583 |
| Togo | … | 540 | 570 | 445 |
| WAEMU average | 683 | 624 | 611 | 502 |

Source: IMF based on authorities' data submissions

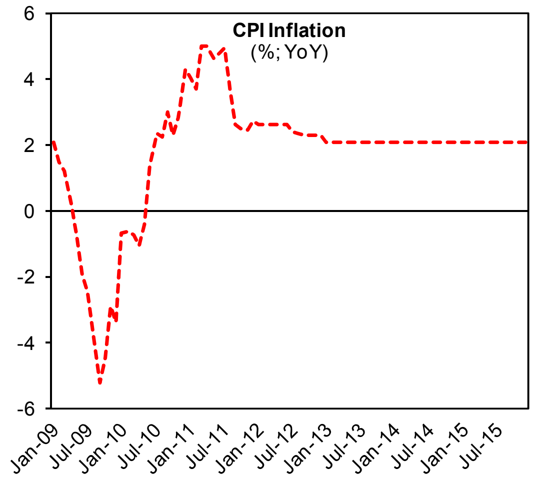
**The 2008 poverty and social impact analysis (PSIA) concluded that these measures were in general poorly targeted**. Almost 55 percent of the benefits accrued to households in the top 40 percent of the welfare distribution. The PSIA also found that poorer households could be protected against price increases at a lower budgetary cost and more effectively by redirecting resources to better-targeted measures, including: (i) reducing taxes only on the low-grade food subgroups consumed by the poor; (ii) targeting poor groups through measures such as school lunches and public works programs; (iii) directly addressing rural poverty by increasing farm productivity and broadening rural job opportunities; and (iv) better-targeted tariffs for small quantities of electricity could help protect some of the urban poor. In the longer term, a means-tested cash transfer system is the best option for social assistance.

## Figure 3. Senegal: Medium-Term Outlook, 2009–16

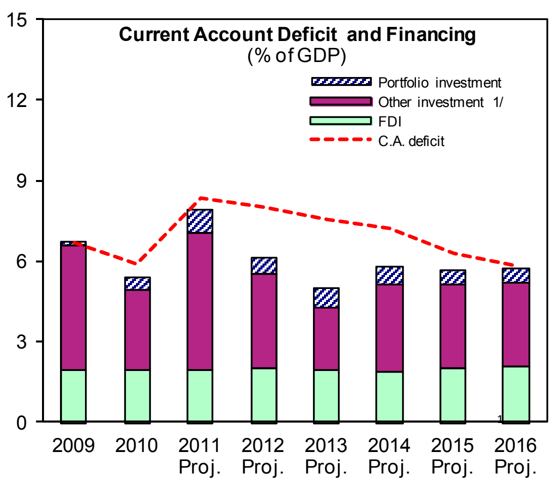
Output growth is projected to be driven by the services sector, and the energy and construction sectors related to large investment projects.



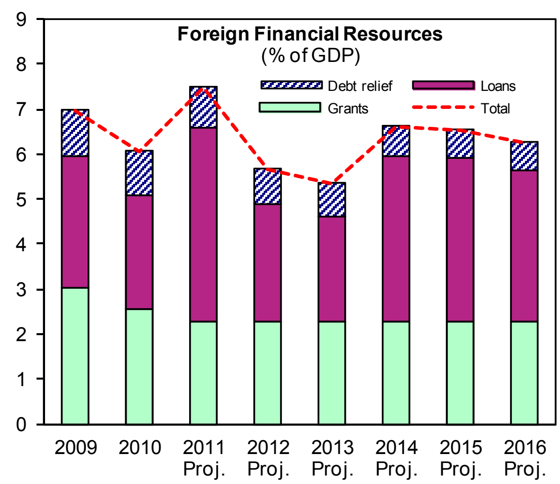

Inflation is projected to return to historical trends in the context of WAEMU membership and in the absence of renewed energy and food price pressures.



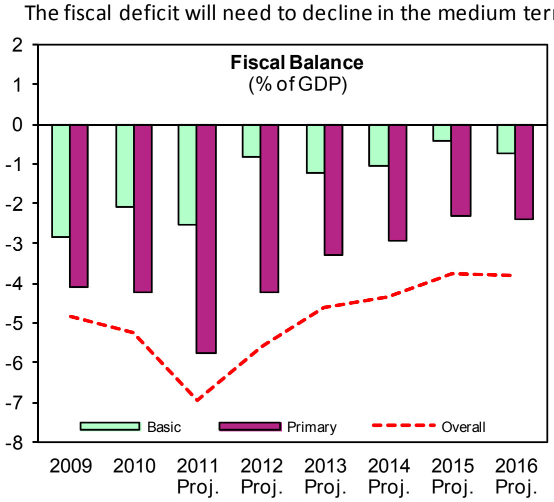

The current account deficit is projected to be financed in part by private flows …



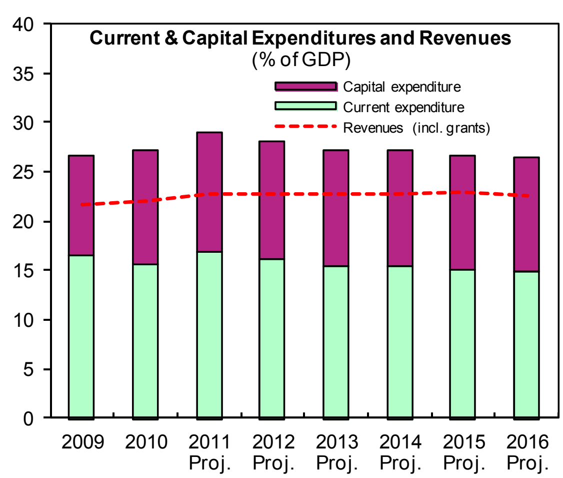

…while the economy will remain dependent on foreign financial resources.




The fiscal deficit will need to decline in the medium term…




…by controlling expenditure and increasing revenues.




Sources: BCEAO; Senegalese authorities; and IMF staff estimates.

[1] Includes only private other investment.

### B. Consolidating Tax Reforms, Public Financial Management, and Debt Management

9. **Reforms in tax policy and tax and customs administration are continuing, aimed at increasing the efficiency of the tax system and raising revenues for more priority spending.**

MEFP ¶¶20-24

- *Tax policy*. Following the submission of the tax policy reform strategy to the Council of Ministers, the authorities now intend to study in more detail the implications of tax policy changes, including the impact of VAT and personal income tax reform (structural benchmark, February 2012) (Text Table 3). The authorities plan to finalize the reform of the General Tax Code by October 2012.

- *Tax and customs administration*. The authorities plan to establish an office in charge of strategy and tax modernization by end-June 2011 and two medium-sized taxpayer offices by end-2011. During 2011, the authorities aim to roll out an updated version of a computerized customs system and enhance anti-tax evasion.

Text Table 3. Structural Measures for Second PSI Review

| Measures | MEFP § | Implementation Date | Macroeconomic Significance |
|---|---|---|---|
| Settle the final amounts of extrabudgetary expenditure, and publish a press release summarizing the results of the process, including the results of the fiscal year 2009 audit. | 28 | June 30, 2011 | Strengthen public financial management and fully normalize financial relations with the private sector. |
| Finalize legislation supporting leasing activities. | 34 | June 30, 2011 | Improve the efficiency of the financial sector. |
| Formulate a strategy and timetable for establishment of a single treasury account. | 19 | September 30, 2011 | Strengthen public financial management. |
| Create the organizational chart and procedures for the entity responsible for managing the domestic and external public debt portfolio and market interventions. | 18 | September 30, 2011 | Improve debt management. |
| Publish monthly on a dedicated government website within two weeks following the end of the month, full information on: (i) the Energy Sector Support Fund (FSE); (ii) project status; (iii) planning and execution; (iv) status of financing and costs; and (v) special account balance. | 16 | August 31, 2011 | Increase transparency in infrastructure investment. |
| Conduct an initial audit of the use of the funds earmarked for extension of the highway three months after work starts, and publish the report on the government's website. | 15 | October 31, 2011 | Improve the transparency of infrastructure-related investments. |

10. **Reforms of public financial management (PFM) continue, but weaknesses persist.**

MEFP ¶¶25-30

- *Settlement of extrabudgetary expenditures*. Regularization of remaining extrabudgetary spending has progressed well. The remaining amounts from 2008 (less than 0.1 percent of GDP) will be cleared by mid-2011. The authorities will publish a press release, summarizing the outcome (structural benchmark, end-June 2011).

- *Investment planning*. The authorities are preparing guidelines for project assessment. To align better the timetable with technical assistance, preparation of the guidelines will take somewhat longer than intended (revised structural benchmark, end-December 2011).

- *Treasury management*. Sizeable budgetary reallocations early in the year point to continued weaknesses in PFM[2]. The establishment of an expenditure execution committee in January 2011 should help address these issues. The authorities plan to formulate a strategy for establishing a single treasury account (structural benchmark, end-September 2011).

11. **The authorities are moving forward with plans to improve debt management.** A new debt management unit should be operating in early 2012. In the meantime, the authorities are working on organizational charts and debt management manuals. The authorities intend to prepare a medium-term debt management strategy (structural benchmark, June 2012). A recent MDTS TA mission provided initial technical assistance in this area, with envisaged follow-up TA.

MEFP ¶18

## C. Promoting the Private Sector and Good Governance

12. **The authorities made some progress in implementing reforms of the financial sector.** The law governing leasing activities is being finalized (structural benchmark, end-June 2011). The government will prepare a study on ways to rationalize supervision in the microfinance sector (structural benchmark, end-January 2012).

MEFP¶¶34- 38

13. **The impact of the crisis in Côte d'Ivoire on the Senegalese financial sector has so far been contained, but nonperforming loans (NPLs) remain high** (Text Table 4, Figure 4).

Text Table 4. Number of Banks Noncompliant with Prudential Standards

| | Dec-02 | Dec-03 | Dec-04 | Dec-05 | Dec-06 | Dec-07 | Dec-08 | Dec-09 | Jan-11 |
|---|---|---|---|---|---|---|---|---|---|
| Minimum capital 1/ | 2 | 1 | 1 | 1 | 1 | 1 | 0 | 2 | 1 |
| Capital adequacy 2/ | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 1 |
| Large exposures and concentration 3/ | 2 | 6 | 6 | 8 | 5 | 6 | 8 | 6 | 3 |
| Liquidity 4/ | 1 | 3 | 1 | 4 | 4 | 4 | 4 | 5 | 4 |
| Transformation (stable resources) 5/ | 5 | 3 | 4 | 3 | 4 | 6 | 6 | 6 | … |
| Number of Banks | 11 | 11 | 12 | 14 | 17 | 17 | 17 | 17 | 18 |

Source: BCEAO and BC-WAMU

1/ Capital equity > CFAF 1 billion up to 2010; Capital equity > CFAF 5 billion as per end-2010.

2/ Regulatory capital/risk-weighted assets >8 percent.

3/ (i) Loans to a single borrower/regulatory capital < 75 percent; (ii) Sum of all risks reaching 25 percent of regulatory capital < 8 times regulatory capital.

4/ Assets with residual term of less than 3 months/liabilities with residual term of less than 3 months > 75 percent.

5/ Resources with residual term of more than 2 years/assets with residual term of more than two years > 75 percent.

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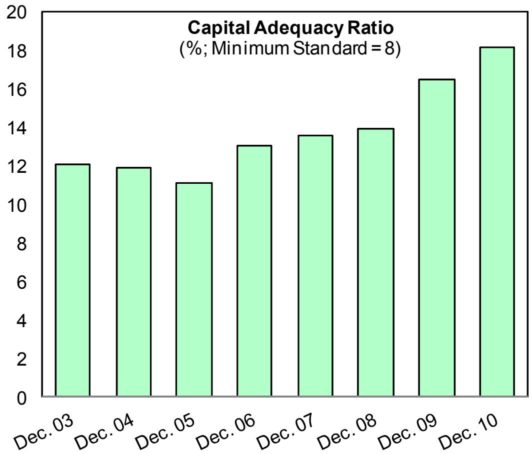
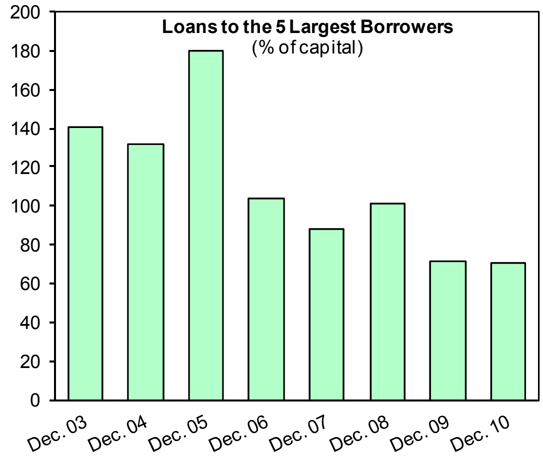
[2] In early 2011, the government had to cancel some 2011 budget-approved expenditures. In late 2010, the government had enabled a special entity (which is not part of the definition of the program deficit target) responsible for a world festival of black arts to access short-term bank loans of 0.3 percent of GDP. The loans ensured a smooth realization of the festival, as part of the funds pledged by other participating countries had not been received. The inclusion of a transfer allocation in the 2011 supplementary budget, financed by a reallocation of expenditure, will provide ex-post transparency to this expenditure by subjecting it to parliamentary scrutiny and including it in the 2011 deficit target.

## Figure 4. Senegal: Financial Sector Issues

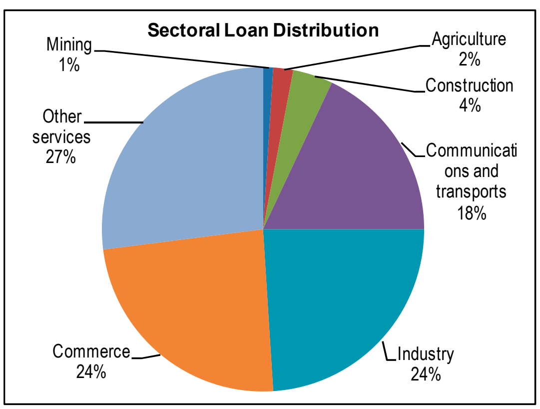
Overall, the banking sector is robustly capitalized…



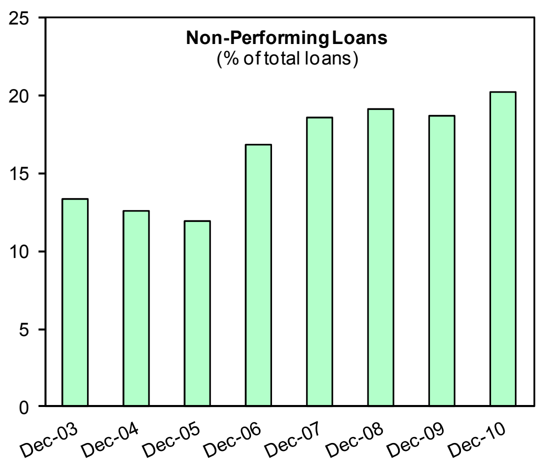

… but loan concentration remains relatively high.



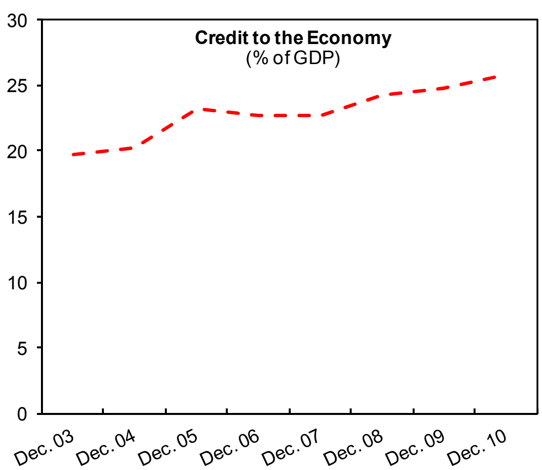

Loans are concentrated in a few sectors.




Non-performing loans have increased.




The gradual deepening of the banking market…




…is held back by obstacles to credit access.

Access to Credit [1]

| | Senegal | Mauritius | Morocco |
|---|---|---|---|
| Rank<br>*(out of 183)* | 152 | 89 | 89 |
| Strength of Legal Rights Index<br>*(0-10)* | 3 | 5 | 3 |
| Credit Information Index<br>*(0-6)* | 1 | 3 | 5 |
| Borrowers Covered by Public Registery<br>*(% of adults)* | 0.4 | 49.8 | 0.0 |
| Borrowers Covered by Private Registery<br>*(% of adults)* | 0.0 | 0.0 | 9.9 |

Source: Senegalese authorities and IMF staff calculations and estimates
[1] Source: Doing Business 2011

Concerns about liquidity and solvency risks were effectively addressed by the decision to roll over maturing government paper of Côte d'Ivoire.

14. **Progress in improving the business climate and economic governance was mixed**. The authorities are working on addressing shortcomings of revisions to the procurement code. Other priority reforms include improving the business climate and further modernization of the legal and operational framework for land and property transactions, where progress has been limited. As the authorities work on improving their anti-money laundering and combating the financing of terrorism (AML/CFT) regime, they are encouraged to implement the recommendations made in the Intergovernmental action group against money laundering in West Africa's (GIABA) 2008 AML/CFT Mutual Evaluation Report, while remaining in compliance with their regional obligations under the UEMOA Directive.

MEFP ¶¶39–40

## IV. Program Monitoring

15. **Because of increasing focus on debt sustainability, staff has proposed to switch to an overall fiscal deficit target from a basic fiscal balance target (**which excludes foreign-financed expenditure), thus proposing a modification of one assessment criterion. For program monitoring purposes, the FSE will be consolidated in the fiscal accounts of the government. To account for uncertainties related to the speed of energy sector reform and the availability of concessional financing, the target on the overall fiscal deficit will be adjusted upward for higher-than-programmed concessional project loans up to a ceiling of CFAF 70 bn (1 percent of GDP) and for a shortfall in program grants up to a ceiling of CFAF 15 bn (0.2 percent of GDP).

MEFP ¶¶45. 47

16. **For program purposes, the definition of external debt is changed from a residency- to a currency-based criterion** to facilitate monitoring and to harmonize definitions across WAEMU countries.[3] For nonconcessional financing the program maintains a three-year envelop of US$500 million, currently tied to the autoroute extension, but which can also be used for investments in the energy sector, consistent with debt sustainability, the profitability of projects, and absorptive capacity.

MEFP ¶47

## V. Staff Appraisal

17. **The recovery continues but downside risks persist.** Growth is projected to increase to 4½ percent. However, the recovery remains fragile, with the main risks stemming from a continuation of electricity supply problems, high food and fuel prices, and potential backtracking on previous achievements in the run-up to elections. On the upside, a faster global recovery, good progress with energy sector reform, and continued structural reforms could support growth.

18. **Fiscal policy needs to strike a delicate balance between priority expenditure and maintaining debt sustainability**. Sizeable investment needs in the energy sector will require

[3] Staff will monitor the contracting of new CFAF denominated debt with entities that have ultimate ownership outside the CFAF zone to ensure that the currency-based definition of external debt does not become an avenue to circumvent other program limits, in particular the program's concessionality limits.

difficult budgetary trade-offs. As the space for higher fiscal deficits to accommodate such spending is limited, a substantial contribution will need to come from additional revenue measures and reprioritizing expenditure. While the creation of an energy fund (FSE) outside the budget does not reflect international best practice, integration in program monitoring will support transparency. To maintain debt sustainability, the fiscal deficit needs to be reduced to below 4 percent of GDP in the medium term. Moreover, the policy response to rising food and fuel prices should focus on well-targeted measures.

19. **A prudent approach to borrowing is needed to finance infrastructure investment**. Accessing international markets should be accompanied by improving debt management, including the setting up of a debt management unit and preparing a medium-term debt management strategy. While the exchange of the US$200 million bond has reduced roll-over risk in the medium term, the pattern of debt service (both in terms of exports and fiscal revenue) points to continued rollover risks, including when the Eurobond will mature in ten years.

20. **Further progress is needed in PFM.** Spending reallocations very early in the year point to continued weaknesses in PFM. To strengthen transparency, budget credibility, and the quality of spending, all energy sector–related revenues, expenditure, and financing should be transparently reported, fully reflected in the macroeconomic framework, and included in the program target for the overall fiscal deficit. The execution of investments, including in energy, should be based on sound profitability assessments.

21. **To sustain the growth momentum, structural reform implementation should be accelerated.** On tax policy, the authorities are encouraged to integrate all relevant measures in a comprehensive reform package and to refrain from a piecemeal approach. Fast implementation of financial sector reform is essential to improving the institutional, legal, and operational environment to increase the sector's contribution to growth. To increase trend growth, the authorities should also pursue other broad-based structural reforms leading to an improved business climate and better governance.

22. **Staff recommends completion of the first review under the PSI and proposes to grant a waiver for nonobservance of the assessment criterion on the basic fiscal balance because of a small margin and a corrective action taken**. The authorities have embarked on a comprehensive reform of the energy sector, which should help avoid further slippages in the collection of oil-related revenue. Staff also recommends modifying the fiscal AC by switching from the basic fiscal balance to an overall fiscal deficit target.

Table 1. Senegal: Selected Economic and Financial Indicators, 2008–16

| | 2008 | 2009 | 2010 | | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Prog. | Est. | Proj. | | | | | |
| | (Annual percentage change) | | | | | | | | | |
| National income and prices | | | | | | | | | | |
| GDP at constant prices | 3.2 | 2.2 | 4.0 | 4.2 | 4.5 | 4.8 | 5.0 | 5.2 | 5.5 | 5.5 |
| *Of which:* nonagriculture GDP | 1.4 | 1.2 | 4.0 | 4.3 | 4.5 | 4.8 | 5.0 | 5.3 | 5.5 | 5.6 |
| GDP deflator | 6.6 | -0.9 | 1.4 | 1.3 | 3.0 | 2.4 | 2.2 | 2.2 | 2.0 | 2.0 |
| Consumer prices | | | | | | | | | | |
| Annual average | 5.8 | -1.7 | 1.2 | 1.2 | 3.8 | 2.5 | 2.1 | 2.1 | 2.1 | 2.1 |
| End of period | 4.3 | -3.4 | 4.3 | 4.3 | 2.7 | 2.3 | 2.1 | 2.1 | 2.1 | 2.1 |
| External sector | | | | | | | | | | |
| Exports, f.o.b. (CFA francs) | 23.0 | 0.2 | 9.9 | 5.7 | 17.6 | 6.3 | 6.5 | 7.3 | 8.0 | 8.2 |
| Imports, f.o.b. (CFA francs) | 25.8 | -22.4 | 6.3 | 2.1 | 21.9 | 5.1 | 3.8 | 5.7 | 6.2 | 7.4 |
| Export volume | -12.0 | 29.2 | 6.3 | 4.3 | 7.4 | 5.8 | 5.8 | 6.2 | 6.2 | 6.2 |
| Import volume | 18.7 | -2.6 | 4.6 | -0.4 | 6.7 | 5.8 | 4.8 | 4.6 | 4.5 | 5.2 |
| Terms of trade ("–" = deterioration) | 16.1 | 9.8 | 2.0 | -0.5 | -7.8 | 1.4 | 2.7 | 0.6 | 0.6 | -0.2 |
| Nominal effective exchange rate | 2.9 | -0.2 | … | … | … | … | … | … | … | … |
| Real effective exchange rate | 4.4 | -1.7 | … | … | … | … | … | … | … | … |
| | (Changes in percent of beginning-of-year broad money, unless otherwise indicated) | | | | | | | | | |
| Money and credit | | | | | | | | | | |
| Net domestic assets | 6.2 | 6.1 | 11.8 | 8.3 | 9.1 | 5.1 | 8.8 | 7.5 | 8.0 | 8.8 |
| Domestic credit | 7.3 | 6.8 | 11.0 | 11.0 | 11.9 | 5.7 | 9.4 | 8.1 | 8.6 | 9.4 |
| Credit to the government (net) | -3.5 | 4.2 | 6.4 | 4.3 | 5.2 | 2.8 | 3.9 | 1.6 | 0.6 | 0.8 |
| Credit to the economy (percentage growth) | 17.2 | 3.6 | 6.9 | 10.0 | 10.3 | 4.7 | 9.3 | 11.0 | 13.6 | 14.2 |
| | (Percent of GDP, unless otherwise indicated) | | | | | | | | | |
| Government financial operations | | | | | | | | | | |
| Revenue | 19.4 | 18.6 | 19.7 | 19.4 | 20.4 | 20.4 | 20.4 | 20.6 | 20.7 | 20.4 |
| Grants | 2.3 | 3.0 | 2.4 | 2.5 | 2.4 | 2.3 | 2.3 | 2.3 | 2.3 | 2.3 |
| Total expenditure and net lending | 26.5 | 26.7 | 26.9 | 27.2 | 29.7 | 28.3 | 27.3 | 27.2 | 26.7 | 26.5 |
| Overall fiscal surplus (+) or deficit (–) | | | | | | | | | | |
| Payment order basis, excluding grants | -6.9 | -7.9 | -7.1 | -7.8 | -9.3 | -7.8 | -6.9 | -6.6 | -6.0 | -6.1 |
| Payment order basis, including grants | -4.6 | -4.8 | -4.8 | -5.2 | -6.9 | -5.6 | -4.6 | -4.4 | -3.7 | -3.8 |
| Primary fiscal balance 1/ | -3.9 | -4.1 | -3.9 | -4.3 | -5.7 | -4.3 | -3.3 | -2.9 | -2.3 | -2.4 |
| Basic fiscal balance 2/ | -0.8 | -2.9 | -1.9 | -2.1 | -2.5 | -0.8 | -1.2 | -1.0 | -0.4 | -0.7 |
| Gross domestic investment | 34.1 | 27.9 | 29.1 | 29.8 | 31.0 | 30.8 | 31.0 | 31.1 | 30.8 | 31.1 |
| Government | 10.0 | 10.1 | 10.8 | 11.6 | 12.0 | 11.9 | 11.8 | 11.7 | 11.7 | 11.5 |
| Nongovernment | 24.1 | 17.8 | 18.2 | 18.2 | 19.0 | 18.9 | 19.2 | 19.4 | 19.1 | 19.6 |
| Gross domestic savings | 7.6 | 10.9 | 9.5 | 14.1 | 12.9 | 13.6 | 14.8 | 15.5 | 15.7 | 16.2 |
| Government | 5.8 | 5.8 | 7.0 | 7.3 | 6.3 | 7.7 | 8.5 | 8.8 | 9.4 | 9.2 |
| Nongovernment | 1.8 | 5.1 | 2.5 | 6.8 | 6.5 | 5.9 | 6.3 | 6.7 | 6.3 | 7.0 |
| Gross national savings | 20.0 | 21.2 | 20.8 | 23.9 | 22.7 | 22.8 | 23.4 | 23.7 | 23.7 | 24.1 |
| External current account balance | | | | | | | | | | |
| Including current official transfers | -14.2 | -6.7 | -8.2 | -5.9 | -8.2 | -8.0 | -7.5 | -7.4 | -7.1 | -7.0 |
| Excluding current official transfers | -15.2 | -7.5 | -9.1 | -6.5 | -9.2 | -8.9 | -8.4 | -8.2 | -8.0 | -7.8 |
| Central government domestic debt 3/ | 5.3 | 7.6 | 8.4 | 8.4 | 10.3 | 10.9 | 12.0 | 12.0 | 11.5 | 11.2 |
| External public debt (nominal) 3/ 4/ | 19.7 | 27.0 | 31.6 | 27.5 | 30.8 | 32.1 | 32.4 | 33.5 | 34.5 | 35.0 |
| External public debt service 4/ | | | | | | | | | | |
| Percent of exports | 4.3 | 5.0 | 4.8 | 5.9 | 10.6 | 7.3 | 7.0 | 7.0 | 6.3 | 6.1 |
| Percent of government revenue | 5.9 | 6.5 | 6.0 | 7.4 | 13.5 | 9.2 | 8.7 | 8.6 | 7.6 | 7.5 |
| Gross domestic product (CFAF billions) | 5,950 | 6,023 | 6,350 | 6,360 | 6,839 | 7,338 | 7,874 | 8,468 | 9,111 | 9,807 |

Sources: Senegalese authorities; and IMF staff estimates and projections.

1/ Defined as total revenue and grants minus total expenditure and net lending, excluding interest expenditure.

2/ Defined as total revenue minus total expenditure and net lending, excluding externally financed capital expenditure, on-lending, HIPC and MDRI spending, and 2010 clearing of extrabudgetary spending and agency debt.

3/ Debt outstanding at year-end.

4/ After HIPC and MDRI (from 2006) debt relief.

Table 2. Senegal: Balance of Payments, 2008–16

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|---|
| | Act. | Act. | Act. | Proj. | | | | | |
| | (CFAF billions, unless otherwise indicated) | | | | | | | | |
| Current account | -844 | -403 | -374 | -564 | -589 | -594 | -627 | -649 | -685 |
| Balance on goods | -1,523 | -958 | -941 | -1,192 | -1,239 | -1,251 | -1,300 | -1,353 | -1,440 |
| Exports, f.o.b. | 988 | 990 | 1,047 | 1,231 | 1,308 | 1,394 | 1,496 | 1,616 | 1,748 |
| Imports, f.o.b. | -2,510 | -1,948 | -1,988 | -2,423 | -2,547 | -2,644 | -2,796 | -2,969 | -3,188 |
| Services and incomes (net) | -76 | -141 | -136 | -131 | -118 | -121 | -134 | -143 | -153 |
| Credits | 709 | 563 | 577 | 654 | 691 | 707 | 742 | 784 | 827 |
| Debits | -784 | -704 | -714 | -785 | -809 | -828 | -877 | -927 | -980 |
| *Of which:* interest on public debt | -17 | -27 | -30 | -51 | -62 | -61 | -68 | -72 | -79 |
| Unrequited current transfers (net) | 754 | 695 | 704 | 759 | 769 | 778 | 808 | 847 | 908 |
| Private (net) 1/ | 722 | 672 | 689 | 719 | 731 | 735 | 760 | 795 | 852 |
| Public (net) | 33 | 23 | 15 | 40 | 38 | 43 | 48 | 51 | 55 |
| *Of which:* budgetary grants | 38 | 46 | 22 | 37 | 32 | 34 | 37 | 40 | 43 |
| Capital and financial account | 738 | 554 | 495 | 698 | 675 | 629 | 724 | 693 | 750 |
| Capital account | 111 | 146 | 149 | 154 | 223 | 233 | 234 | 176 | 189 |
| Private capital transfers | 8 | 8 | 8 | 9 | 9 | 9 | 9 | 9 | 10 |
| Project grants | 101 | 136 | 140 | 125 | 134 | 144 | 155 | 167 | 179 |
| Debt cancellation and other transfers 2/ | 2 | 2 | 0 | 20 | 80 | 80 | 70 | 0 | 0 |
| Financial account | 627 | 408 | 346 | 544 | 452 | 396 | 490 | 517 | 561 |
| Direct investment | 122 | 119 | 127 | 135 | 150 | 157 | 161 | 186 | 205 |
| Portfolio investment | 21 | 8 | 33 | 60 | 43 | 61 | 56 | 46 | 52 |
| Other investment | 485 | 281 | 186 | 349 | 258 | 179 | 273 | 286 | 305 |
| Public sector (net) | 208 | 305 | 136 | 343 | 223 | 171 | 271 | 288 | 308 |
| *Of which* : disbursements | 264 | 343 | 190 | 503 | 315 | 265 | 363 | 360 | 377 |
| program loans | 70 | 55 | 30 | 38 | 35 | 37 | 40 | 43 | 47 |
| project loans | 192 | 107 | 160 | 189 | 203 | 227 | 258 | 271 | 282 |
| other | 2 | 181 | 0 | 275 | 76 | 0 | 65 | 46 | 49 |
| *Of which* : SDR allocation | 0 | 95 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| amortization | -44 | -50 | -53 | -160 | -92 | -94 | -91 | -72 | -70 |
| Private sector (net) | 279 | -24 | 50 | 6 | 36 | 8 | 2 | -3 | -3 |
| Errors and omissions | -2 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Overall balance | -105 | 151 | 121 | 133 | 86 | 35 | 97 | 44 | 65 |
| Financing | 105 | -151 | -121 | -133 | -86 | -35 | -97 | -44 | -65 |
| Net foreign assets (BCEAO) | -8 | -147 | -19 | -168 | -122 | -40 | -102 | -48 | -69 |
| Net use of Fund resources | 17 | 47 | 24 | -2 | -3 | -3 | -9 | -19 | -20 |
| Purchases/disbursements | 17 | 47 | 24 | 0 | 0 | 0 | 0 | 0 | 0 |
| Repurchases/repayments | 0 | 0 | 0 | -2 | -3 | -3 | -9 | -19 | -20 |
| Other | -25 | -194 | -43 | -167 | -119 | -38 | -93 | -30 | -49 |
| Deposit money banks | 98 | -24 | -120 | 18 | 18 | -12 | -13 | -14 | -14 |
| Exceptional financing (debt relief) | 16 | 20 | 19 | 17 | 18 | 18 | 18 | 18 | 19 |
| Residual financing gap | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| *Memorandum items:* | | | | | | | | | |
| Current account balance | | | | | | | | | |
| Including current official transfers (percent of GDP) | -14.2 | -6.7 | -5.9 | -8.2 | -8.0 | -7.5 | -7.4 | -7.1 | -7.0 |
| Excluding current official transfers (percent of GDP) | -15.2 | -7.5 | -6.5 | -9.2 | -8.9 | -8.4 | -8.2 | -8.0 | -7.8 |
| Gross official reserves (imputed reserves, billions of US$) | 1.5 | 2.1 | 2.1 | 2.4 | 2.6 | 2.7 | 2.9 | 2.9 | 3.0 |
| (percent of broad money) | 37.1 | 43.2 | 39.7 | 40.3 | 40.5 | 37.8 | 36.6 | 34.2 | 31.9 |
| WAEMU gross official reserves (billions of US$) | 10.5 | 13.9 | 13.0 | … | … | … | … | … | … |
| (percent of broad money) | 48.8 | 58.4 | 51.8 | … | … | … | … | … | … |
| (months of WAEMU imports of GNFS) | 5.6 | 7.1 | 6.7 | … | … | … | … | … | … |
| Gross domestic product | 5,950 | 6,023 | 6,360 | 6,839 | 7,338 | 7,874 | 8,468 | 9,111 | 9,807 |

Sources: Central Bank of West African States (BCEAO); and IMF staff estimates and projections.

1/ Upwardly revised from 2008 based on a new survey of workers' remittances.
2/ Includes receipts from sale of a telecom license in 2007 and MCA grants during 2011–15.

Table 3. Senegal: Government Financial Operations, 2008–16

| | 2008 | 2009 | 2010 | | 2011 | | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Prog. | Act. | EBS/ 10/208 | Prog. | | | Proj. | | |
| | (Billions of CFA francs, unless otherwise indicated) | | | | | | | | | | |
| Total revenue and grants | 1,293 | 1,305 | 1,403 | 1,398 | 1,500 | 1,558 | 1,664 | 1,785 | 1,932 | 2,094 | 2,221 |
| Revenue | 1,153 | 1,123 | 1,253 | 1,237 | 1,345 | 1,396 | 1,498 | 1,607 | 1,740 | 1,888 | 1,999 |
| Tax revenue | 1,088 | 1,086 | 1,210 | 1,195 | 1,299 | 1,318 | 1,422 | 1,528 | 1,657 | 1,799 | 1,935 |
| Income tax | 273 | 288 | 326 | 339 | 347 | 365 | 398 | 436 | 478 | 525 | 568 |
| Taxes on goods and services | 616 | 615 | 705 | 693 | 758 | 753 | 807 | 863 | 931 | 1,007 | 1,084 |
| Taxes on petroleum products | 199 | 182 | 180 | 162 | 194 | 200 | 216 | 229 | 247 | 267 | 283 |
| Nontax revenue | 65 | 37 | 43 | 42 | 45 | 45 | 48 | 52 | 56 | 60 | 64 |
| FSE | | | | | | 33 | 28 | 27 | 28 | 29 | 0 |
| Grants | 140 | 182 | 150 | 162 | 155 | 162 | 166 | 178 | 192 | 206 | 222 |
| Budgetary | 38 | 46 | 33 | 22 | 30 | 37 | 32 | 34 | 37 | 40 | 43 |
| Budgeted development projects | 101 | 136 | 117 | 140 | 125 | 125 | 134 | 144 | 155 | 167 | 179 |
| Total expenditure and net lending | 1,579 | 1,607 | 1,705 | 1,729 | 1,892 | 2,032 | 2,074 | 2,150 | 2,301 | 2,435 | 2,596 |
| Current expenditure | 979 | 997 | 1,011 | 995 | 1,086 | 1,159 | 1,189 | 1,220 | 1,310 | 1,370 | 1,464 |
| Wages and salaries 1/ | 348 | 364 | 397 | 392 | 416 | 416 | 448 | 472 | 508 | 547 | 588 |
| Interest due | 39 | 45 | 61 | 60 | 82 | 85 | 102 | 109 | 125 | 135 | 144 |
| *Of which* : external 2/ | 24 | 23 | 41 | 38 | 48 | 51 | 62 | 61 | 68 | 72 | 79 |
| Other current expenditure | 593 | 587 | 554 | 543 | 588 | 658 | 640 | 640 | 677 | 688 | 731 |
| Transfers and subsidies 3/ | 333 | 286 | 250 | 240 | 238 | 283 | 249 | 247 | 261 | 246 | 263 |
| *Of which* : SAR and butane subsidy | 69 | 33 | 13 | 0 | 15 | 15 | 4 | 0 | 0 | 0 | 0 |
| *Of which:* SENELEC/energy | 30 | 30 | 0 | 0 | 31 | 76 | 40 | 30 | 30 | 0 | 0 |
| *Of which:* Food subsidies | 46 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Goods and services | 239 | 292 | 291 | 290 | 337 | 363 | 379 | 380 | 404 | 430 | 456 |
| HIPC and MDRI current spending | 21 | 9 | 12 | 12 | 12 | 12 | 12 | 12 | 12 | 12 | 12 |
| Capital expenditure 4/ | 595 | 607 | 687 | 736 | 799 | 823 | 870 | 929 | 992 | 1,066 | 1,132 |
| Domestically and nonconcessionally financed | 314 | 369 | 424 | 437 | 518 | 520 | 559 | 571 | 593 | 634 | 687 |
| HIPC and MDRI-financed | 63 | 60 | 49 | 47 | 49 | 49 | 48 | 47 | 48 | 50 | 52 |
| Non-HIPC/MDRI financed | 251 | 309 | 375 | 390 | 470 | 471 | 511 | 524 | 545 | 584 | 635 |
| Externally (concessionally) financed | 281 | 237 | 263 | 299 | 281 | 303 | 311 | 359 | 399 | 432 | 445 |
| Net lending | 5 | 3 | 8 | -2 | 8 | 51 | 14 | 0 | 0 | 0 | 0 |
| *Of which* : On-lending | 12 | 6 | 10 | 1 | 11 | 54 | 26 | 13 | 14 | 15 | 16 |
| Selected public sector entities balance 5/ | 13 | 9 | 0 | -3 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Basic fiscal balance 6/ | -50 | -172 | -119 | -133 | -96 | -173 | -62 | -98 | -89 | -39 | -72 |
| Primary fiscal balance | -235 | -247 | -247 | -270 | -316 | -393 | -312 | -261 | -248 | -211 | -235 |
| Overall fiscal balance (excluding grants) | -413 | -474 | -453 | -495 | -548 | -636 | -576 | -543 | -561 | -548 | -597 |
| Overall fiscal balance (including grants) | -273 | -292 | -303 | -334 | -393 | -474 | -410 | -365 | -369 | -342 | -375 |
| Financing | 273 | 292 | 303 | 334 | 393 | 474 | 410 | 365 | 369 | 342 | 375 |
| External financing | 225 | 224 | 172 | 173 | 277 | 341 | 329 | 241 | 311 | 319 | 342 |
| Drawings | 262 | 163 | 186 | 190 | 200 | 227 | 238 | 265 | 298 | 314 | 328 |
| Program loans | 70 | 55 | 30 | 30 | 34 | 38 | 35 | 37 | 40 | 43 | 47 |
| Project loans | 192 | 107 | 156 | 160 | 167 | 189 | 203 | 227 | 258 | 271 | 282 |
| Nonconcessional loans | 0 | 88 | 0 | 0 | 100 | 206 | 135 | 11 | 65 | 46 | 49 |
| Amortization due | -44 | -50 | -53 | -53 | -89 | -160 | -92 | -94 | -91 | -72 | -70 |
| T-bills and bonds issued in WAEMU (net) | -9 | 4 | 21 | 18 | 48 | 50 | 30 | 42 | 22 | 13 | 16 |
| Debt relief and HIPC Initiative assistance | 16 | 20 | 18 | 19 | 17 | 17 | 18 | 18 | 18 | 18 | 19 |
| Domestic financing | 124 | 157 | 145 | 172 | 121 | 138 | 81 | 124 | 58 | 23 | 33 |
| Banking system 7/ | -46 | 116 | 142 | 172 | 116 | 133 | 81 | 124 | 58 | 23 | 33 |
| *Of which* : T-bills and bonds (net) | -14 | 52 | 63 | 83 | 144 | 149 | 90 | 125 | 65 | 39 | 49 |
| Nonbank financing | 169 | 41 | 3 | 0 | 5 | 5 | 0 | 0 | 0 | 0 | 0 |
| Settlement of payment delays 8/ | -84 | -95 | -14 | -13 | -5 | -5 | 0 | 0 | 0 | 0 | 0 |
| Errors and omissions | 9 | 6 | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Financing gap | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| *Memorandum items:* | | | | | | | | | | | |
| Budgetary float (program definition) | 66 | 45 | 50 | 50 | 50 | 50 | 50 | 50 | 50 | 50 | 50 |
| New issues of government securities | 131 | 147 | 225 | 292 | 323 | 351 | ... | ... | ... | ... | ... |
| Priority expenditure (percent of total expenditure) 9/ | 33 | 36 | 37 | 37 | 36 | 35 | … | … | … | … | … |
| Gross domestic product | 5,950 | 6,023 | 6,350 | 6,360 | 6,765 | 6,839 | 7,338 | 7,874 | 8,468 | 9,111 | 9,807 |

Sources: Senegalese authorities; and IMF staff estimates and projections.

1/ Excludes project-related wages and salaries, which are included in capital spending, and the salaries of autonomous agencies and health and education contractual workers, which are included in transfers and subsidies.
2/ From 2006 on, reflects post-MDRI debt service schedule.
3/ Excludes subsidies aimed at sector development policies, which are included in capital spending.
4/ Includes recapitalization of SENELEC.
5/ Local governments, autonomous public sector entities (e.g., hospitals, universities), and the civil servants pension fund (FNR).
6/ Total revenue minus total expenditure and net lending, excluding externally financed capital expenditure, on-lending, HIPC/MDRI expenditure, 2010 clearing of extrabudgetary spending and agency debt, and spending related to the autoroute extension.
7/ Includes the 10-year CFAF loan from the BCEAO in 2009 equal to the general SDR allocation.
8/ Within the expenditure chain in 2008–09, and extrabudgetary spending and agency debt in 2009–11.
9/ Defined as expenditures on health, education, environment, the judiciary, social safety nets, sanitation, and rural water supply.

Table 4. Senegal: Government Financial Operations, 2008–16

| | 2008 | 2009 | 2010 | | 2011 | | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Prog. | Act. | EBS/ 10/208 | Prog. | | | Proj. | | |
| | | | | | (Percent of GDP) | | | | | | |
| Total revenue and grants | 21.7 | 21.7 | 22.1 | 22.0 | 22.2 | 22.8 | 22.7 | 22.7 | 22.8 | 23.0 | 22.6 |
| Revenue | 19.4 | 18.6 | 19.7 | 19.4 | 19.9 | 20.4 | 20.4 | 20.4 | 20.6 | 20.7 | 20.4 |
| Tax revenue | 18.3 | 18.0 | 19.1 | 18.8 | 19.2 | 19.3 | 19.4 | 19.4 | 19.6 | 19.7 | 19.7 |
| Income tax | 4.6 | 4.8 | 5.1 | 5.3 | 5.1 | 5.3 | 5.4 | 5.5 | 5.6 | 5.8 | 5.8 |
| Taxes on goods and services | 10.3 | 10.2 | 11.1 | 10.9 | 11.2 | 11.0 | 11.0 | 11.0 | 11.0 | 11.1 | 11.1 |
| Taxes on petroleum products | 3.3 | 3.0 | 2.8 | 2.6 | 2.9 | 2.9 | 2.9 | 2.9 | 2.9 | 2.9 | 2.9 |
| Nontax revenue | 1.1 | 0.6 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 |
| FSE | | | | | | 0.5 | 0.4 | 0.3 | 0.3 | 0.3 | 0.0 |
| Grants | 2.3 | 3.0 | 2.4 | 2.5 | 2.3 | 2.4 | 2.3 | 2.3 | 2.3 | 2.3 | 2.3 |
| Total expenditure and net lending | 26.5 | 26.7 | 26.9 | 27.2 | 28.0 | 29.7 | 28.3 | 27.3 | 27.2 | 26.7 | 26.5 |
| Current expenditure | 16.5 | 16.6 | 15.9 | 15.6 | 16.0 | 16.9 | 16.2 | 15.5 | 15.5 | 15.0 | 14.9 |
| Wages and salaries | 5.8 | 6.0 | 6.2 | 6.2 | 6.2 | 6.1 | 6.1 | 6.0 | 6.0 | 6.0 | 6.0 |
| Interest payments 1/ | 0.6 | 0.8 | 1.0 | 0.9 | 1.2 | 1.2 | 1.4 | 1.4 | 1.5 | 1.5 | 1.5 |
| Other current expenditure | 10.0 | 9.7 | 8.7 | 8.5 | 8.7 | 9.6 | 8.7 | 8.1 | 8.0 | 7.6 | 7.5 |
| *Of which:* Goods and services | 4.0 | 4.9 | 4.6 | 4.6 | 5.0 | 5.3 | 5.2 | 4.8 | 4.8 | 4.7 | 4.7 |
| *Of which:* Transfers and subsidies | 5.6 | 4.7 | 3.9 | 3.8 | 3.5 | 4.1 | 3.4 | 3.1 | 3.1 | 2.7 | 2.7 |
| *Of which:* Energy and food subsidies | 2.4 | 1.0 | 0.2 | 0.0 | 0.7 | 1.3 | 0.6 | 0.4 | 0.4 | 0.0 | 0.0 |
| HIPC and MDRI current spending | 0.3 | 0.1 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 |
| Capital expenditure 2/ | 10.0 | 10.1 | 10.8 | 11.6 | 11.8 | 12.0 | 11.9 | 11.8 | 11.7 | 11.7 | 11.5 |
| Domestically and nonconcessionally financed | 5.3 | 6.1 | 6.7 | 6.9 | 7.7 | 7.6 | 7.6 | 7.2 | 7.0 | 7.0 | 7.0 |
| Externally (concessionally) financed | 4.7 | 3.9 | 4.1 | 4.7 | 4.1 | 4.4 | 4.2 | 4.6 | 4.7 | 4.7 | 4.5 |
| Net lending | 0.1 | 0.1 | 0.1 | 0.0 | 0.1 | 0.7 | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 |
| Selected public sector entities balance 3/ | 0.2 | 0.2 | 0.0 | -0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Basic fiscal balance 4/ | -0.8 | -2.9 | -1.9 | -2.1 | -1.4 | -2.5 | -0.8 | -1.2 | -1.0 | -0.4 | -0.7 |
| Primary fiscal balance | -3.9 | -4.1 | -3.9 | -4.3 | -4.7 | -5.7 | -4.3 | -3.3 | -2.9 | -2.3 | -2.4 |
| Overall fiscal balance | | | | | | | | | | | |
| Payment order basis, excluding grants | -6.9 | -7.9 | -7.1 | -7.8 | -8.1 | -9.3 | -7.8 | -6.9 | -6.6 | -6.0 | -6.1 |
| Payment order basis, including grants | -4.6 | -4.8 | -4.8 | -5.2 | -5.8 | -6.9 | -5.6 | -4.6 | -4.4 | -3.7 | -3.8 |
| Financing | 4.6 | 4.8 | 4.8 | 5.2 | 5.8 | 6.9 | 5.6 | 4.6 | 4.4 | 3.7 | 3.8 |
| External financing | 3.8 | 3.7 | 2.7 | 2.7 | 4.1 | 5.0 | 4.5 | 3.1 | 3.7 | 3.5 | 3.5 |
| Domestic financing | 2.1 | 2.6 | 2.3 | 2.7 | 1.8 | 2.0 | 1.1 | 1.6 | 0.7 | 0.3 | 0.3 |
| Settlement of payment delays 5/ | -1.4 | -1.6 | -0.2 | -0.2 | -0.1 | -0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Errors and omissions | 0.2 | 0.1 | -0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Financing gap | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| *Memorandum items:* | | | | | (Percent of GDP, unless otherwise indicated) | | | | | | |
| Priority expenditure 6/ | 8.8 | 9.5 | 10.0 | 10.0 | 9.4 | 9.3 | ... | ... | ... | ... | ... |
| Wages and salaries (percent of revenue) | 30.2 | 32.4 | 31.7 | 31.7 | 30.9 | 29.8 | 29.9 | 29.4 | 29.2 | 29.0 | 29.4 |

Sources: Senegalese authorities; and IMF staff estimates and projections.

1/ From 2006 on, reflects post-MDRI debt service schedule.

2/ Includes SENELEC recapitalization. The government provided CFAF 65 billion in 2007 under domestically financed capital expenditure, while earmarked budget support by the World Bank and France in 2008–10 is being provided under externally financed capital expenditure.

3/ Local governments, autonomous public sector entities (e.g. hospitals, universities), and the civil servants pension fund (FNR).

4/ Defined as total revenue minus total expenditure and net lending, excluding externally financed capital expenditure, on-lending, HIPC/MDRI expenditure, 2010 clearing of extrabudgetary spending and agency debt, and spending related to the autoroute extension.

5/ Within the expenditure chain in 2008–09 and extrabudgetary spending and agency debt in 2009–11.

6/ Defined as expenditures on health, education, environment, the judiciary, social safety nets, sanitation, and rural water supply.

Table 5. Senegal: Monetary Survey, 2007–11

| | 2007 | 2008 | 2009 | 2010 | 2011 Proj. |
|---|---|---|---|---|---|
| | | | (CFAF billions) | | |
| Net foreign assets | 851 | 762 | 859 | 988 | 1,139 |
| Central Bank of West African States (BCEAO) 1/ | 644 | 653 | 725 | 735 | 903 |
| Commercial banks | 207 | 109 | 133 | 253 | 236 |
| Net domestic assets | 1,122 | 1,245 | 1,367 | 1,552 | 1,784 |
| Net domestic credit | 1,324 | 1,467 | 1,604 | 1,848 | 2,149 |
| Net credit to the government | 96 | 28 | 112 | 207 | 340 |
| Central bank | 55 | -14 | 119 | 203 | 193 |
| Commercial banks | 21 | 33 | -9 | 0 | 143 |
| Other institutions | 20 | 9 | 2 | 4 | 4 |
| Credit to the economy | 1,228 | 1,440 | 1,492 | 1,641 | 1,810 |
| Other items (net) | -202 | -223 | -236 | -295 | -365 |
| Broad money (M2) | 1,973 | 2,007 | 2,226 | 2,540 | 2,923 |
| Currency outside banks | 485 | 474 | 495 | 561 | 598 |
| Total deposits | 1,488 | 1,532 | 1,731 | 1,979 | 2,325 |
| Demand deposits | 784 | 779 | 864 | 988 | 1,224 |
| Time deposits | 705 | 754 | 867 | 991 | 1,100 |
| | (Change in percentage of beginning-of-period broad money stock) | | | | |
| Net foreign assets | 4.1 | -4.5 | 4.8 | 5.8 | 5.9 |
| BCEAO | 4.3 | 0.4 | 3.6 | 0.4 | 6.6 |
| Commercial banks | -0.2 | -5.0 | 1.2 | 5.4 | -0.7 |
| Net domestic assets | 8.6 | 6.2 | 6.1 | 8.3 | 9.1 |
| Net credit to the government | 4.9 | -3.5 | 4.2 | 4.3 | 5.2 |
| Credit to the economy | 6.7 | 10.7 | 2.6 | 6.7 | 6.6 |
| Other items (net) | -2.9 | -1.0 | -0.7 | -2.7 | -2.7 |
| Broad money (M2) | 12.7 | 1.7 | 10.9 | 14.1 | 15.1 |
| *Memorandum items:* | | | (Units indicated) | | |
| Velocity (GDP/M2; end of period) | 2.7 | 3.0 | 2.7 | 2.5 | 2.3 |
| Nominal GDP growth (percentage growth) | 10.5 | 10.0 | 1.2 | 5.6 | 7.5 |
| Credit to the economy (percentage growth) | 10.5 | 17.2 | 3.6 | 10.0 | 10.3 |
| Credit to the economy/GDP (percent) | 22.7 | 24.2 | 24.8 | 25.8 | 26.5 |
| Variation of net credit to the government (yoy; CFAF billions) | 85.1 | -68.3 | 83.7 | 94.9 | 133.1 |
| Central bank refinance rate (eop/latest; percent) | 4.25 | 4.75 | 4.25 | 4.25 | 4.25 |

Sources: Senegalese authorities; and IMF staff estimates and projections.

1/ Difference in 2009 between changes in NFA and NIR owing to SDR allocation.

Table 6. Financial Soundness Indicators for the Banking Sector, 2003–10
(Percent, unless otherwise indicated)

| | Jun-05 Dec. | Jun-05 Dec. | Jun-05 Dec. | Jun-05 Dec. | Jul-05 Dec. | Jul-05 Dec. |
|---|---|---|---|---|---|---|
| Capital adequacy | | | | | | |
| Capital to risk-weighted assets | 11.7 | 11.5 | 10.8 | 12.9 | 16.3 | 18.0 |
| Regulatory capital to risk-weighted assets | 12.1 | 11.9 | 11.1 | 13.1 | 16.5 | 18.2 |
| Capital to total assets | 7.8 | 7.7 | 7.6 | 8.3 | 9.3 | 10.0 |
| Asset composition and quality | | | | | | |
| Total loans to total assets | 59.6 | 57.1 | 64.0 | 63.8 | 59.5 | 57.5 |
| Concentration: loans to 5 largest borrowers to capital | 141.0 | 131.4 | 179.9 | 103.7 | 71.7 | 70.6 |
| Sectoral distribution of loans | | | | | | |
| Industrial | 41.1 | 33.6 | 35.5 | 28.9 | 27.5 | 21.0 |
| Retail and wholesale trade | 19.9 | 19.3 | 17.0 | 18.9 | 24.5 | 18.9 |
| Services, transportation and communication | 17.2 | 27.4 | 28.0 | 30.0 | 34.1 | 34.5 |
| Gross NPLs to total loans 1/ | 13.3 | 12.6 | 11.9 | 16.8 | 18.7 | 20.2 |
| *Of which: without ICS* | … | … | … | … | 15.8 | 15.8 |
| Provisions to NPLs 1/ | 75.3 | 75.7 | 75.4 | 52.0 | 53.1 | 54.9 |
| *Of which: without ICS* | … | … | … | … | 64.7 | 65.3 |
| NPLs net of provisions to total loans 1/ | 3.3 | 3.4 | 3.2 | 8.8 | 9.7 | 9.1 |
| *Of which: without ICS* | … | … | … | … | 6.2 | 6.1 |
| NPLs net of provisions to capital 1/ | 27.8 | 25.1 | 27.2 | 67.9 | 62.3 | 52.3 |
| *Of which: without ICS* | … | … | … | … | 38.4 | 41.5 |
| Earnings and profitability | | | | | | |
| Average cost of borrowed funds | 1.8 | 2.0 | 2.0 | 2.2 | 3.4 | … |
| Average interest rate on loans | 8.7 | 11.7 | 11.8 | 11.3 | 15.4 | … |
| Average interest margin 2/ | 6.7 | 9.7 | 9.8 | 9.2 | 12.0 | … |
| After-tax return on average assets | 1.8 | 1.8 | 1.6 | 1.6 | 1.3 | … |
| After-tax return on average equity | 22.1 | 17.6 | 15.8 | 14.6 | 16.0 | … |
| Noninterest expenses/net banking income | 48.9 | 48.7 | 47.9 | 49.4 | 60.3 | … |
| Salaries and wages/net banking income | 21.8 | 21.5 | 21.2 | 21.7 | 23.0 | … |
| Liquidity | | | | | | |
| Liquid assets to total assets | … | … | … | … | 31.7 | 38.3 |
| Liquid assets to total deposits | … | … | … | … | 49.8 | 51.2 |
| Total deposits to total liabilities | 82.0 | 79.6 | 78.3 | 75.8 | 74.9 | 74.9 |

Source: BCEAO.

1/ NPL changes in 2006 owing to ICS. In 2008, ICS was recapitalized and the government guarantee for its bank loans was lifted. However, the loans in question remain classified as nonperforming for the time being, although without the need to provision.

2/ Excluding the tax on banking operations.

Table 7. Quantitative Assessment Criteria and Indicative Targets for 2010-11 1/
(CFAF billions, unless otherwise specified)

| | December 31, 2010 | | | March 31, 2011 | | | June 30, 2011 | September 30, 2011 | December 31, 2011 |
|---|---|---|---|---|---|---|---|---|---|
| | Prog. | Actual | Status | Prog. | Actual | Status | Prog. | Prog. | Prog. |
| Assessment criteria | | | | | | | | | |
| Floor on the basic fiscal balance 2/ 3/ | -119 | -133 | not met | *-24* | *-36* | not met | … | … | … |
| Floor on the overall fiscal balance 4/ | … | … | … | … | … | … | -237 | *-355* | -474 |
| Ceiling on the contracting or guaranteeing of new nonconcessional external debt by the government (in US$ million) 5/ | 0 | 0 | met | 500 | 0 | met | 500 | 500 | 500 |
| Ceiling on spending undertaken outside normal and simplified procedures 5/ | 0 | 0 | met | 0 | 0 | met | 0 | *0* | 0 |
| Ceiling on government external payment arrears (stock) 5/ | 0 | 0 | met | 0 | 0 | met | 0 | *0* | 0 |
| Ceiling on the amount of the budgetary float | 50 | 48 | met | *50* | *24* | met | 50 | 50 | 50 |
| Ceiling on nonconcessional debt with a minimum grant element of 15 percent 2/ 5/ | 0 | 0 | met | 30 | 0 | met | 30 | 30 | 30 |
| Indicative targets | | | | | | | | | |
| Quarterly ceiling on the share of the value of public sector contracts signed by single tender (percent) | *20* | *6* | *met* | *20* | *6* | met | *20* | *20* | *20* |
| Floor on social expenditures (percent of total spending) | *35* | *41* | *met* | … | | | *35* | … | *35* |
| Maximum upward adjustment of the overal deficit ceiling due to: | | | | | | | | | |
| Shortfall in program grants relative to program projections | … | … | … | … | … | … | *15* | *15* | *15* |
| Excess in concessional loans relative to program projections | … | … | … | … | … | … | *70* | *70* | *70* |
| Memorandum items: | | | | | | | | | |
| Program grants | … | … | … | … | … | … | *19* | *28* | *37* |
| Concessional loans | … | … | … | … | … | … | *114* | *170* | *227* |

1/ Indicative targets for March and September 2011, except for the assessment criteria monitored on a continuous basis. See Technical Memorandum of Understanding for definitions. Indicative targets shown in italics.

2/ Cumulative since the beginning of the year.

3/ Assessment of the criteria at end-March 2011 is based on preliminary data.

4/ The ceiling on the overall fiscal deficit will be adjusted in line with the TMU definition.

5/ Monitored on a continuous basis.

APPENDIX I

# LETTER OF INTENT

Dakar, Senegal
May 19, 2011

Mr. John Lipsky
Acting Managing Director
International Monetary Fund
700 19th Street N.W.
Washington, D.C. 20431
U.S.A.

Dear Mr. Lipsky:

The Government of Senegal requests completion of the first review of its 2010–2013 macroeconomic program supported by the Policy Support Instrument (PSI). In support of this request, the attached Memorandum of Economic and Financial Policies (MEFP) reviews the implementation of the program over the past six months and sets out the government's short- and medium-term objectives and policies under the program. These policies are consistent with Senegal's third generation New Economic and Social Policy Paper (DPES-III), which is being finalized and covers 2011–2015. Senegal's new development strategy is expected to be approved by mid-2011 and should be available for information to the Executive Boards of the World Bank and the IMF prior to the second review of the PSI.

All continuous and end-December 2010assessment criteria (ACs) were met, except for the AC on the basic fiscal balance. The end-December 2010 AC on the basic fiscal balance was missed by 0.2 percent of GDP, mainly as a result of the poor performance of oil-related revenues. Going forward, energy sector reform should help generate oil-related revenues and the government will make every effort to more effectively offset any revenue shortfalls that may occur with more prudent management of non-priority expenditures. The government is committed to implementing sound policies and maintaining the budget deficit in line with the objectives of the PSI program, with a view to lowering it to less than 4 percent of GDP in the medium term. The structural reforms, which largely focused on public financial management and the introduction of an energy sector restructuring plan, generally progressed on schedule, despite some delays.

The pressing problems of the energy sector could have major consequences for the Senegalese economy. A strong and urgent response from the government is therefore required. The government has already identified additional revenue that will be allocated to the newly established Special Energy Sector Support Fund (FSE), which will be used to finance fuel supplies for energy production and to lease generation capacity, thereby allowing the rehabilitation of existing power plants and limiting disruptions in power supply. The government has also embarked on budget reallocations to ensure the financing of the FSE. However, it is also necessary to start with new investments to be able to replace expensive leased capacity after 2012. To finance these investments, additional budgetary space of 1.0 percent of GDP must be made available in 2011, for which many partners have expressed their willingness to provide support, mainly with concessional resources. For program monitoring purposes, we request modification of the fiscal deficit target to be changed to an overall fiscal deficit target from a basic balance target (modification of assessment criterion). By May 25, 2011, the government will submit to Parliament a supplementary budget in line with the new macroeconomic framework of the program, which will include the implementation of emergency measures for the energy sector. As indicated in the attached MEFP, the authorities continue to implement an ambitious reform program in government financial management, including improved public debt management.

The government believes that the policies and measures set forth in the attached MEFP are appropriate to achieve the objectives of the PSI-supported program. Given its commitment to macroeconomic stability and debt sustainability, the government will promptly take any additional measures needed to achieve the objectives of the program. The government will consult with the IMF—at its own initiative or whenever the Managing Director of the IMF requests such a consultation—before the adoption of any such measures or in the event of changes to the policies contained in the attached MEFP. Moreover, the government will provide the IMF with information the IMF may request in connection with the progress made in implementing the economic and financial policies and achieving the objectives of the program.

The government authorizes the IMF to publish this letter, the attached MEFP, and the related Staff Report, and the debt sustainability analysis.

Sincerely yours,

/s/
Abdoulaye Diop
Minister of State
Minister of Economy and Finance

Attachments: - Memorandum on Economic and Financial Policies (MEFP)
- Technical Memorandum of Understanding (TMU)

ATTACHMENT I

# MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

## Dakar, May 19, 2011

## I. INTRODUCTION

1. **This memorandum updates Senegal's economic program under the Policy Support Instrument (PSI) for the three-year period 2010–2013.**[4] The main objectives of the PSI-supported program are to: (i) implement a prudent fiscal and debt policy to safeguard macroeconomic stability; (ii) increase revenue with a view to widening the budgetary space for priority expenditures; (iii) continue to strengthen public financial management and governance; and (iv) encourage private sector development by implementing structural reforms, in particular in the energy and financial sectors, as well as other reforms related to the business climate. The memorandum is divided into three sections. The first section reviews recent economic developments and program performance. The second section looks at macroeconomic policy and structural reforms for 2011–2012, while the last section covers macroeconomic objectives for the rest of 2011.

In an uncertain external environment and in the face of major domestic challenges, the government remains committed to safeguarding macroeconomic stability and achieving other objectives of the PSI-supported program. With the recent increase in international food and fuel prices, and in light of the domestic challenges related to the crisis in the energy sector, the government remains vigilant and is committed to taking the necessary measures to avoid disrupting fiscal stability and hindering economic activity.

## II. RECENT ECONOMIC DEVELOPMENTS AND PROGRAM RESULTS

2. **Macroeconomic performance was favorable in 2010**. The Senegalese economy rebounded in 2010 thanks to the recovery of the world economy and continued efforts to regularize past extrabudgetary expenditure with a view to improving the financial situation of private sector enterprises. Overall, in spite of a difficult environment marked by worsening power blackouts, macroeconomic indicators for the Senegalese economy improved in 2010: GDP grew by 4.2 percent and inflation averaged 1.2 percent, in spite of accelerating in the fourth quarter. Significant progress was made in implementing public financial management and other structural reforms.

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[4] The content of this program was set out in the initial MEFP of November 10, 2010.

3. **Program performance for the first review of the new PSI was broadly satisfactory, but the budget deficit was slightly higher than expected** owing to a shortfall in oil-related revenue. There were some minor delays in the implementation of structural reforms.

**Quantitative assessment criteria and indicative targets for the program at end-December 2010, and at end-March 2011**

(a) The basic fiscal balance (excluding HIPC and MDRI resources) amounted to CFAF -133 billion at end-December 2010, below the floor of CFAF -119 billion, and according to preliminary data at CFAF -36 billion at end-March 2011, somewhat below the floor of CFAF -24 billion.

(b) At end-December 2010 and at end-March 2011, the budgetary float stood at CFAF 48 billion and CFAF 24 billion, respectively, against the quarterly program ceiling of CFAF 50 billion.

(c) The government did not contract any nonconcessional debt over the period and all foreign debt service obligations were paid on time. Similarly, no expenditures outside of "normal and simplified procedures" were incurred during the period under review.

(d) On average, about 6 percent of government contracts were awarded non-competitively in the fourth quarter of 2010 and 6 percent in the first quarter of 2011, which is well within the quarterly ceiling of 20 percent set in the program (indicative target).

(e) Finally, expenditure on social services represented 40.6 percent of total expenditure at end-December 2010, exceeding the semi-annual floor of 35 percent set by the program for year-end 2010 (indicative target), which partly reflects increased spending on contractual employees in the education sector.

**Structural benchmarks at end-April 2011**

(f) The decree establishing the functions, composition, and operating rules of the committee to monitor expenditure execution was signed on January 28, 2011, and the committee began to operate (benchmark, January 31, 2011).

(g) In January, the government prepared an emergency plan for the electricity sector covering the period 2010-2014 called "Plan TAKKAL" (benchmark, January 31, 2011).

(h) An action plan for realistic budgeting and regular payment of the current expenditures of each ministry has been prepared in February and is being implemented (benchmark, February 28, 2011).

(i) The Minister of Finance submitted the tax policy reform strategy to the Council of Ministers in April (benchmark, March 31, 2011).

(j) The government website dedicated to the project to extend the Diamniadio highway to AIBD-Thiès-Mbour (benchmark, March 31, 2011) was set up on 11 April 2011, reflecting a slight delay in the launch of the project.

(k) In April, the government created the new public debt directorate by decree. The new directorate is responsible for the management of the domestic and foreign public debt portfolio and for, inter alia, managing market interventions (benchmark, April 15, 2011).

## III. Macroeconomic Policy and Structural Reforms for 2011–2012

4. **The development strategy for Senegal will continue to focus on reducing poverty and improving the living conditions of the general public.** In support of continued strong, sound, and sustainable economic growth that can reduce poverty and turn Senegal into an emerging market economy in the medium term, the government has just finalized the first complete version of the new Economic and Social Policy Paper (DPES) for 2011–2015. The paper sets out the policies that form the basis of Senegal's economic and social development strategy and incorporates the macroeconomic objectives and reforms planned within the framework of the PSI. The DPES, with the related priority action plans, has been submitted to Senegal's development partners for comments on 27 April, with a view to finalize it by the end of June.

5. **The priority action plan of the 2011–2015 DPES** covers the following key sectors: (i) energy; (ii) road infrastructure in the country's interior and regional linkages; (iii) agriculture; and (iv) the social sectors (drinking water and sanitation, education, health). Measures in these sectors account for over 80 percent of the action plan.

6. **Progress and new challenges in the implementation of the key measures included in the program are as follows:**

***Pursue a prudent public financial and debt policy and respond to infrastructure needs.***

7. **The continuation of a prudent fiscal and debt policy is the main domestic instrument for preserving macroeconomic stability based on maintaining low inflation and public debt sustainability.** In this regard, the budget deficit will be reduced to below 4 percent of GDP in the medium term in order to maintain debt sustainability and achieve a fiscal balance consistent with WAEMU criteria.

8. **The government is committed to improving the composition and efficiency of expenditure.** To that end, current expenditure should be reduced by at least one percentage point of GDP between 2009 and 2013. This will free up more budgetary resources for investment.

9. **With the aim of attaining the millennium development goals, the government will continue to focus on social spending,** maintaining it at a minimum of 35 percent of total public expenditure at the end of each six-month period. The social sectors covered are: education, health, environment, justice, social development, and rural water resources. Information to track these

expenditures will be published on the website of the Ministry of Economy and Finance no later than one month after the end of each semester. Lastly, the government will continue its school canteen program to improve the school enrolment rates and the purchasing power of the poorest households. In that context, the government will evaluate the pilot program of conditional cash transfers to the poorest households, in conjunction with the World Bank.

10. **To improve the productivity of the economy and facilitate exports to the region, the government intends to reduce quickly the deficiencies in infrastructure.** To that end, the main investments planned for the period 2011–2015 are in the energy sector, roads, irrigation, and water resources management. The PSI program integrates major investments, including the extension of the Diamniadio toll highway to the Blaise Diagne international airport, Thiès and Mbour.

11. **New and considerable investment needs have surfaced, notably in the energy sector that suffers from a serious crisis in the electricity subsector.** This crisis is manifested in frequent power cuts that may be harmful to economic development, in particular to small and medium-sized enterprises, which constitute a major source of employment for the poor. The current situation, which largely results from the lack of investments for over a decade, requires a rapid and consistent reform strategy for the sector.

12. **During the fourth quarter of 2010, the government started a 360 degree diagnostic study of the energy sector**, with the support of an internationally reputable consulting firm, development partners, and all national experts in the sector under the umbrella of a Restructuring and Recovery Committee. The results of this diagnostic study facilitated the development of an Emergency Plan, a Restructuring and Recovery Plan for the energy sector covering the period 2011-2014, called Plan TAKKAL,[5] which was subsequently adopted by Parliament. For 2011 the plan focuses on emergency measures and investments to close the gap in power production capacity. To ensure that Plan TAKKAL is executed on schedule, a new institutional framework was implemented, including the creation of a Special Energy Sector Support Fund (FSE) designed to mobilize the financial resources needed to fund investments that would facilitate a quick exit from the crisis and to secure fuel supplies. Spending on emergency measures, managed by the FSE amounts to CFAF 113 billion in 2011 (close to 1.5 percent of GDP). For 2011, the FSE intends to close the tariff gap (CFAF 45 billion);[6] recapitalize SENELEC through securing its fuel supplies (some CFAF 40 billion); and contribute to new investments. The government is working in close collaboration with several development partners, including the World Bank and the French Development Agency (AFD), to implement Plan TAKKAL. The government already started reviewing the system for setting energy tariffs to more realistically reflect SENELEC's production costs. The main measures envisaged include reducing the tariff review period from five to three years, and determining and paying, if any, compensation to SENELEC on a quarterly basis.

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[5] See paragraph 32 for a description of the objectives and the strategy of Plan TAKKAL.

[6] Based on current rates and at an average price of US$ 95 for a barrel of oil in 2011.

Discussions of the changes in the tariff structure have also started. Possible changes include the application of a fixed lump-sum fee for all consumers with a provision designed to protect the most vulnerable customers.

13. **The government will finance its investment program by pursuing a sound borrowing policy to preserve public debt sustainability.** The concessional resources mobilized from donors and domestic/regional financing remain its main sources of funding. In general, the government will not contract or guarantee foreign borrowing on nonconcessional terms. Any new non-concessional foreign loan or new guarantee by the government or any public entity is subject to a continuous assessment criterion. However, given the considerable needs, particularly in infrastructure, the government intends to contract nonconcessional loans without compromising its debt sustainability. As envisaged in the program, the government will consider using non-concessional foreign financing only for economically profitable projects (based on an evaluation by an internationally reputable institution) under the PSI program. In such cases, the government will explore options for appropriate financing to limit the overall cost of funds. It will consult with the IMF staff well in advance with regard to possible exceptions.

14. **The government intends to use part of its cumulative nonconcessional funding envelope of US $500 million (over three years) under the PSI to finance profitable investments in the energy sector**. At the start of the program, the government intended to use nonconcessional financing exclusively for the extension of the toll highway from Diamniadio to the Blaise Diagne International Airport, Thiès, and Mbour, but the urgency of investments needed in the energy sector warrants some adjustments. The government has therefore decided to slow down the project to expand the highway and is exploring the possibility of increasing the participation of private partners in the project. In keeping with the timetable for extending the highway, the first audit will be completed in October 2011 (adjusted structural benchmark, October 30, 2011).

15. **The use of nonconcessional financing in the energy sector will be limited to infrastructure investments with ensured economic and social profitability and consistent with Plan TAKKAL.** The investments are made with the view to increase the power generation capacity, and include temporary leasing of capacity to rapidly redress the current situation (stop the power outages) and the rehabilitation of existing power plants whose profitability is confirmed. The diagnostic study estimated that the energy crisis led to a loss of 1 percentage point of GDP growth last year and will have about 2 percentage of GDP of additional costs per year over the medium term if no remedial measures are taken to mitigate the effects of the crisis. The study also showed that without new investments, only 45 to 50 percent of the electricity demand in 2013 would be met. This would have substantial negative consequences for economic activity, the competitiveness of enterprises, the business climate, and poverty. To ensure that the resources are allocated to the intended investments, the procedures for new investments in energy will be the same as those for extending the highway, as agreed upon in the MEFP of November 10, 2010. The nonconcessional financing will be deposited in a special account, which will have an energy subaccount and a highway subaccount. These accounts will be used exclusively to pay for the investments identified

for the energy sector and for the extension of the highway, respectively. With respect to energy sector projects, starting July 30, 2011, the government will publish complete information on a monthly basis on: (i) the financial activity of the FSE; (ii) the projects that will be financed with nonconcessional resources; (iii) the state of progress of projects and their implementation; (iv) the details of financing and updates of project costs; and (v) the balance of the energy subaccount. The information will be posted within two weeks of the end of each month on a dedicated government website (new structural benchmark, August 31, 2011).

16. **As agreed in the Memorandum on Economic and Financial Policies dated November 10, 2010, the government also wishes to tap alternative financing for its investments, even if the degree of concessionality is below 35 percent.** In particular, the government is seeking nonconcessional financing of no more than CFAF 30 billion in 2011, with a grant element of at least 15 percent from donors that do not have highly concessional facilities. Such financing will not increase the assessment criterion concerning the budget deficit. The economic and social returns of the projects so financed must be assured. The government will inform the IMF staff in a timely manner before contracting any debt of this type and will provide all the necessary information to verify the degree of concessionality of the loans beforehand, as well as a brief summary of the projects and their profitability, including an assessment by the government or the lender. The government will incorporate in subsequent MEFPs a description of the use of the funds and a status report on the implementation of the projects in question.

17. **The government's plan to improve public debt management has benefited from a recent assessment and technical assistance missions from the IMF and World Bank.** The new public debt directorate created in April 2011 will be responsible for managing the domestic and foreign public debt portfolio and for market interventions. The organizational chart and a procedures manual are being prepared and will be completed no later than September 2011 (structural benchmark, September 30, 2011). The directorate will be operational in early 2012 (structural benchmark, January 15, 2012). It shall be responsible for debt issuance and repayment, as well as for the management of on-lending and, where applicable, for guarantees extended to public and private enterprises. These risks must be explicitly taken into account in the semi-annual debt sustainability analysis. The new public debt directorate will also maintain regular contacts with potential investors in Senegalese public debt securities. Finally, the government plans to prepare a new medium-term debt management strategy (new structural benchmark, June 2012). This strategy will review the characteristics of the existing debt portfolio, examine the prospects for medium-term financing, identify various possible financing options and risks, perform stress tests, and analyze the modalities of implementing the strategy.

18. **The government continues its efforts to improve cash management**. The Treasury is in the process of reconciling and analyzing the information in the bank accounts of government agencies, which it received from the banking system and from the ministries. Based on the results of this work, it will proceed to close or regularize the accounts that were not properly opened and to streamline other accounts. This measure is part of the strategy for establishing a single treasury

account (TSA). The strategy represents an instrument of government cash flow management by centralizing resources in the Treasury accounts. Such a measure would also help end the practice of holding idle balances in accounts at commercial banks. After this step, the government is determined to continuously improve and strengthen the system with the view to optimize the government's treasury management. The government will formulate a strategy and a timetable for the establishment of a single treasury account (structural benchmark, end-September, 2011).

***Raise Revenue to Create More Fiscal Space for Financing Priority Spending***

19. **The increase in tax revenue as a percentage of GDP remains a key objective for stabilizing government finances.** The government is pursuing this objective through reforms in three main areas: (i) streamlining tax expenditure; (ii) improving tax and customs administration; and (iii) modernizing tax policy with the view to broaden the tax base with a moderate tax burden. In implementing these reforms, the government will follow the recommendations of the IMF technical assistance missions. Moreover, in light of the importance of the VAT in tax revenue, the government will request technical assistance for reforming the VAT, including exemptions and the reimbursement system, by end-December 2011.

20. **The government plans to complete the reform of the general tax code by end-September 2012.** The tax reform is being prepared in consultation with employers and labor unions. This participatory approach should result in greater acceptance of the planned reforms. The main objectives continue to be simplification of the tax system, greater transparency, and increased revenue. Achieving these objectives will contribute to the implementation of a single tax law, coupled with a significant reduction in tax expenditure. The reform will reflect the recommendations of the recent technical assistance mission in the general area of tax policy. To better evaluate the likely results of the reform, the government will conduct a study to assess the likely impact of the VAT and income tax reform proposals. This assessment will evaluate the fiscal and administrative impact of the reform proposals, including the reduction of red tape and the cost of managing these taxes (new structural benchmark, February 2012).

21. **The government aims to reduce tax expenditure, raise revenue, and improve the transparency and efficiency of the tax system**. In consultation with national and international partners, it has analyzed the costs and benefits of a large share of tax expenditures and intends to begin reducing them. Starting in 2011, no new tax incentive agreements will be implemented. To facilitate the introduction of the single law on tax incentives in the context of the currently prepared new tax code, the government plans to repeal all exemptions under preferential tax regimes, while ensuring that the government's commitments will be met, but with the possibility of renegotiating agreements that have already been concluded.

22. **Modernization of the tax administration based on the strategic plan developed by the DGID will continue.** An office in charge of strategy and tax modernization will be created by end-June 2011 to better guide tax administration reform. The pace of progress in computerizing procedures is being stepped up owing to technical assistance from the IMF. Better use of

information technology will increase efficiency in tax collection and monitoring, and will improve tax revenue analysis. The plan to streamline and organize services outside the DGID includes the establishment of a large enterprise directorate and interregional functional directorates in Dakar and in some major towns in the interior of Senegal by end-2012. To improve the classification of taxpayers and risk management, the DGID will establish in the Department of Dakar two centers to monitor medium-sized enterprises with a turnover of CFAF 200 million to CFAF 1 billion and will reorganize the existing Tax Service Centers (CSFs) by end-2011.

23. **The government has made significant progress in implementing the DGD's strategic plan to modernize customs administration**. To that end, it signed a performance contract with DGD and agreed to finance the modernization process under the condition that the DGD would meet a number of objectives in customs administration. The key objectives include: (i) the rollout of the GAINDE 2010 system; (ii) enhancement of the anti-tax evasion mechanisms, including the implementation in June 2011 of an electronic oil tax assessment system; (iii) improvement of risk detection and management with the use of a risk management application in GAINDE by end-2011; and (iv) continuation of the project for paperless administrative and customs procedures with the common goal of completing the computerization of customs preclearance, clearance, and withdrawal procedures by end-September 2011.

***Strengthen Public Financial Management and Governance***

24. **Improvements in public financial management are based on the fiscal and financial reform plan (PRBF) of September 2009 and its regular updates, including the results of the 2011 Public Expenditure and Financial Accountability (PEFA) assessment**. The government is committed to stepping up its efforts to comply with the action plan to implement the new WAEMU directives. As part of its approach, the government will update the PRBF to take account of the results of the PEFA assessment, which should be validated in the coming weeks.

25. **The government will continue its ongoing efforts to compile the annual public accounts and to submit to Parliament the budget execution law for adoption in a timely manner.** To that end, it will continue to support the DGCPT in its reforms aimed at improving the information systems (ASTER, COLLOC, etc.) and increase its operational staff.

26. **The government has made progress toward its goal of improving the planning and execution of operating expenditures and is continuing its efforts in this area.** The compilation of an exhaustive list of contracts for water and telephone service is well advanced, but a similar list of electricity service contracts has been delayed because of difficulties with SENELEC. Based on the initial results covering water and telephone services, the government has terminated the contracts for services that are no longer used or are not used by the administration. At end-March 2011, the list of the government's service contracts with the SDE was brought up to date. With respect to SONATEL, the ministries and other public institutions were asked to cross-check their accounts and the results are being processed. The government is in the process of implementing a computer application to improve the tracking of recurrent expenses. The government has also begun

to use the results of the public expenditure review in the education sector conducted in collaboration with the World Bank and the preliminary results of the IGF audits of scholarships and study grants, as well as the salaries of contractual employees in the education sector. The government will use the results of these analyses to introduce a reliable system of monitoring expenditure execution in 2011 and to define a transparent procedure in determining the budget allocations for these expenses as part of the 2012 budget preparation.

27. **The settlement of extrabudgetary spending in 2008 is on track.** The committee in charge of the verification and payment of extrabudgetary expenditure in 2008 will complete its work at end-April and payments will be completed by end-June 2011.

28. **An IGF audit of 2009 expenditure confirmed that the problems observed in the past had been largely rectified**. However, there was still some extrabudgetary expenditure in 2009 as well as some new debts incurred by public institutions and agencies. The 2009 extrabudgetary expenditures were assessed at CFAF 69.9 million, less than 0.01 percent of GDP. The government, working in cooperation with the government judicial agency, will settle these liabilities upon presentation of evidence of the service provided. At end-June, the government will publish a press release summarizing the results of settling the 2008 extrabudgetary expenditures and will also report the results of the IGF audit of FY 2009 (structural benchmark, June 30, 2011). To avoid a resurgence of extrabudgetary expenditures, a circular from the Prime Minister will be addressed to all government employees reminding them of the sanctions applicable to persons authorizing extrabudgetary spending.

29. **The government has made progress, albeit modest, in improving the process of planning, evaluation, and selection of public investment projects.** The drafting of the "Project Preparation Guide" was slower than expected; its publication and dissemination will not be completed before end-December 2011 (structural benchmark, end-December 2011) because of insufficient funding. Also, the government will receive additional technical assistance from the World Bank for the preparation of the "Project Evaluation Guide." This assistance will be available in the second half of 2011. With respect to the analysis at the technical level of economic and social returns on completed investment projects, the government will complete an ex-post analysis of at least two completed projects by end-October 2011.

***Private Sector Development***

30. **The government is committed to promoting private sector development through structural reforms,** with a particular focus on the energy and financial sectors as well as other reforms affecting the business climate.

**Energy sector**

31. **The energy sector has had problems in recent years, which intensified in the last quarter of 2010 with the rise in blackouts.** To address the situation, the government conducted an in-depth diagnostic study of the sector with the help of local and international firms, and established an emergency plan for recovery and restructuring of the energy sector over the period 2010-2014, called Plan TAKKAL. This plan is based on the following five strategic pillars:

(a) **The rapid upgrade of the production mix**. In the short term, 150 MW of additional capacity must be leased to quickly restore supply (stop the blackouts). By leasing additional capacity, the existing plants could be upgraded and an additional 40 MW of capacity recovered. At the same time, the government will acquire intermediate capacity in the form of two barges, containerized power stations called Power Package Stations (PPS) producing 70 MW, a 6 MW (2 x 3 MW) plant in Tambacounda, the expansion of the existing plants at Bel Air and Kahone, and the repurchase and conversion to gas of the GTI plant. These acquisitions and expansions would significantly reduce energy production costs and strengthen power production capacity. In the medium and long term, this pillar envisages that the project to construct a coal-fired plant will be accelerated, an HFO diesel plant will be put into operation (150-200 MW), the gas supply will be secured, and the transport and power distribution lines will be upgraded.

(b) **Aggressive demand management.** The aggressive demand management plan is based on: (i) a communication and awareness campaign; (ii) new tariffs conducive to energy saving; (iii) the rapid mass distribution of power saving bulbs, and the banning of imports of incandescent bulbs; and (iv) a contract system that includes power-off times for large consumers with their own generators. This pillar of the strategy requires the installation of upgraded meters, prepaid meters, and a communication system that would allow remote meter reading and switching off power.

(c) **The financial support mechanism.** To finance Plan TAKKAL, the government created a Special Energy Sector Support Fund (FSE), which is financed by the state budget, special levies earmarked for that purpose, and contributions from foreign partners. The FSE will support SENELEC in obtaining fuel supplies (in the short term), and in financing its investments. The use of these resources would be subject to regular independent audits by the FSE board of directors, which includes, among others, consumer and management representatives.

(d) **Restructuring of SENELEC.** This pillar of the plan would be based on government support through the FSE for negotiating the terms and conditions of financial restructuring of SENELEC with its suppliers and banks that would put the company on a sound financial footing. SENELEC will also agree to make some internal adjustments to streamline its management.

(e) **Governance and communications**. The implementation of Plan TAKKAL depends on governance and communications. The National Energy Council, under the authority of the President of the Republic, will define the broad guidelines of the Plan and will monitor its implementation with the assistance of a Permanent Secretariat for Energy (SPE) responsible for the operational steering of the Plan under the joint supervision of the Minister of Finance and the Minister of Energy. The SPE includes a communications unit in charge of all communications with households and operators in the energy sector.

**Water and Sanitation Sector**

32. **The government is committed to taking steps to maintain the financial equilibrium of the water and sanitation sector.** A preliminary analysis estimates that, after the netting process of March 9, 2011, the government owes SONES CFAF 4.1 billion, SDE CFAF 1.1 billion, and ONAS CFAF 5.1 billion. A cross-debt settlement agreement was signed on April 21, 2011. The government paid a total of CFAF 4.1 billion (excluding VAT) and agreed that, by end-March 2012, it would define the modalities for settling the rest of the debt to the sector estimated at CFAF 6.3 billion. The government is also committed to paying on the due date all current invoices for water supply to government agencies. CFAF 15 million will be paid on these invoices in line with the budget law. The government is committed to finding the necessary resources to pay any remaining amounts on these invoices, including through changes in water tariffs based on current tariff adjustment simulations. A draft decree adjusting water and sewage tariffs was prepared by the Minister in charge of water resources and submitted to the President of the Republic for approval.

**Financial Sector**

33. **The government continues implementing the action plan of the second national dialogue on credit held in March 2010.** The plan covers a range of reforms of financing mechanisms, the banking sector, the insurance sector, microfinance institutions, and other financial intermediaries, as well as the legal framework and access to financial services. With respect to the implementation of the legal framework for establishing private credit registries and credit rating agencies, a status report on the framework was prepared and discussed during a workshop with the stakeholders. The conclusions point to the need for minimal regulation. A preliminary draft law was submitted by the consultant and the French translation is being validated before its review by the working group in May 2011. The next steps will consist of adapting the draft text to our legal, economic, and financial environment, holding sectoral meetings with the stakeholders, and discussing with the BCEAO its role in the system. The draft will then be submitted to the entities involved for comment, after which it will be passed on for adoption. To that end, a new timetable will be proposed by the working group to make it possible to adopt the draft law before end-December 2012. The targeted date for adopting a law favoring financial leasing by June 30, 2011 (structural benchmark) will be respected and this legislation will be used by the BCEAO, which intends to submit to the Union's Council of Ministers a draft Community text on financial leasing

34. **In 2011, the government continued the institutional process of conversion of the Economic Development Fund (FPE) into a bank.** The capital, amounting to CFAF 6 billion, is totally paid in and available, and the licensing application for the new bank is being finalized. This decision does not comply with the recommendation of the WAEMU Council of Ministers to reduce governments' shareholding in banks. With that in mind, the government contacted some institutions that could acquire interests in the new bank, including the option to take over a portion of the government's shares.

35. **The study assessing the performance of Poste Finance was delayed, but the Ministry of Finance is in the process of identifying the necessary budget appropriations to complete the process of selecting a consultant.** The results of the study will be used by the steering committee in charge of implementing the restructuring of Poste Finance, which should propose to the authorities that it be reintegrated into the postal service or converted into a lending institution.

36. **The BCEAO National Directorate continues to perform stress tests on Senegalese banks to assess their resistance to shocks**. In this context, a preliminary analysis of the information available at the BCEAO estimates the value of Côte d'Ivoire treasury bills held by Senegalese banks at about CFAF 100 billion. It showed that the banking sector was sufficiently well-capitalized to withstand the worst case scenario of a default on these securities, with certain banks more exposed than others. Aware of the main risks in the Senegalese banking sector, the BCEAO will expand its stress test framework by including in its credit risk analysis banks' exposures to sectors and to large borrowers.

37. **To improve supervision of the microfinance sector, the government will streamline its activities in order to use the resources allocated to it more efficiently.** To that end, it will initiate a study to analyze the resources allocated to microfinance with a view to reducing them. The study shall be completed by January 2012 (structural benchmark, January 31, 2012) and will aim to:

- take stock of all resources allocated to microfinance;
- evaluate their impact on the sector;
- eliminate any support that is not considered necessary and, where appropriate, proposing measures to reallocate these resources to more useful activities, in particular, strengthening supervision and control of the microfinance sector by the SFD Supervision and Regulation Directorate.

In addition, an action plan to allow on-site supervision of all microfinance institutions (SFD) at regular fixed intervals will be prepared no later than August 2011. To that end, a working group, comprising all agencies involved in this area, will be formed to discuss and validate the guidelines of the action plan that shall also be submitted to the IMF staff for possible input.

*Other Factors for Improving the Business Climate and Governance*

38. **The government is paying special attention to structural reforms to improve the business climate.** The aim for the upcoming years is to improve the business climate by implementing the decisions adopted in the context of the Presidential Council on Investment. The reforms identified in the Memorandum of November 2010 are being pursued, with particular focus on computerization of procedures. Progress has been made in establishing a one-stop shop for building permit applications within the mayor's office. With support from the World Bank through the private investment promotion project, the Ministry of Justice is modernizing the trade clerk's office by developing an application that would computerize the issuance of documents by the register of real estate credit and commerce (RCCM). This project, currently in the pilot stage, will make it possible to reduce the time for processing cases and file applications for documents electronically online. The nationwide rollout of this program is scheduled for end-September 2011. Additionally, efforts to computerize the Ministry of Justice should also make it possible to prepare in 2012 statistics on the processing time for trade disputes.

39. With regard to economic governance, the government will continue the reforms to achieve transparency in economic and financial operations and good governance in the administration. The main areas targeted in 2011 are the following:

(a) Reform of the Audit Court. Proposals for amending the law on the Audit Court, to improve its functioning and effectiveness in auditing the government's accounts are being analyzed and the government has undertaken to submit the draft law to Parliament by end-2011. Improved functionality will enable the Audit Court to conduct rapidly annual audits of the government's accounts and issue opinions on the draft budget execution laws, as provided in the organic budget law.

(b) Procurement Code. The draft decrees implementing the procurement code to include the concepts of "national security" and "defense of the essential interests of the State" will soon be submitted to the Council of Ministers for adoption. The draft laws incorporate the comments from the development partners. The government reiterates its commitment to limit the share of contracts awarded on a noncompetitive basis to 20 percent of all government contracts and provide the Public Procurement Regulatory Authority (ARMP) with the necessary resources to function autonomously.

(c) Laws against money laundering and the activity of the National Financial Intelligence Processing Unit (CENTIF). The government will authorize CENTIF to publish semi-annual statistics on its website showing the number of suspicious reports received, the number of cases submitted to the Attorney General's Office, the number of judicial prosecutions, and the number of convictions.

(d) Transparency in land transactions and publication of government private domain sales. Work continues on a stocktaking of private domain government property. The report will provide information on the number of cases of final sales of private domain government property in 2011, highlighting the square footage sold, the geographic location of the land, and the revenue received.

## IV. Macroeconomic Objectives for the Remainder of 2011

### Macroeconomic context

40. **The economic recovery in 2010 is expected to continue and strengthen in 2011,** with the continued recovery of the world economy and, domestically, the launching of the third-generation Economic and Social Policy Paper and execution of the Millennium Challenge Account projects, as well as improvements in the power supply through the implementation of Plan TAKKAL. Real GDP growth is projected to reach 4.5 percent in 2011, compared with 4.2 percent in 2010. Inflation is projected to increase to about 3.8 percent due to rising international food and fuel prices. The current account deficit (including official transfers) is expected to widen, but the overall balance of payments is projected to be positive and to contribute to the build-up of the Union's foreign exchange reserves.

41. **These projections are subject to substantial risks.** The continued rise in the prices of raw materials could slow the international economic recovery and negatively affect these projections. Substantial declines in remittances, official aid, available financing on the regional market, exports, or foreign direct investment would have a negative impact on economic growth and the balance of payments. Also, lack of progress in energy sector reform constitutes a downside risk for economic activity and public finances.

### Fiscal Policy

42. **Fiscal policy must balance priority needs, including energy and infrastructure, with macroeconomic stability and debt sustainability.** As the risk of economic overheating is small and the threat of over-indebtedness minimal, there is some fiscal space—albeit temporary and limited—to meet the most pressing needs of the energy sector. The fiscal space available in 2011 was estimated at no more than 6.9 percent of GDP, taking FSE operations into account.

43. **The government will submit a supplementary budget to Parliament in line with the macroeconomic framework agreed with Fund staff (prior action) no later than May 25, 2011.** In order for fiscal policy to reflect properly the new priorities and urgent needs, the 2011 supplementary budget will regularize the budget reallocations made in February 2011 through advance decrees, as well as the orders canceling the corresponding allocations. These operations created fiscal space of CFAF 25 billion allocated to the FSE for emergency spending on the energy sector and space for expenditure, which arose late in the process, for the World Festival of Black Arts, totaling CFAF 20 billion. The 2011 supplementary budget will also incorporate additional investment spending for energy, including the planned reallocation of CFAF 62 billion from the highway extension project to well-identified and highly visible projects

in the energy sector. Other additional investments in the energy sector are covered in the DPES priority action plan.

44. **The government is determined to maintain fiscal transparency and intends in the context of the program to integrate the operations of FSE into the government financial operations table (TOFE) and in the deficit target.** The government will report key financial information on the FSE to the IMF staff on a monthly basis, including detailed data on: (i) FSE's total revenues (including budget transfers); and (ii) FSE's total expenditures, broken down into current expenditures (wages, tariff compensation, capacity leasing, and other current expenses) and capital expenditures (new investments, rehabilitation, recapitalization, etc.). The transactions of the FSE will be consolidated in the TOFE for program purposes and taken into consideration in evaluating the program assessment criteria for the fiscal balance.

45. **The government took administrative measures to limit the impact of the rise in food and energy prices on consumers by introducing price controls.** Keenly aware of the costs in terms of tax revenue and inefficiencies that similar measures entailed in 2007 and 2008, the government is determined to focus its fiscal intervention only on protecting the most vulnerable segments of the population. Furthermore, any eventual measures must be in line with the objective on the budget deficit as defined in the program and supplementary budget. In this context, the government introduced price stabilization measures for petroleum products in March 2011 but removed it in April and fully restored the import pricing mechanism for pump prices.

**Program Monitoring**

46. **The definition of foreign debt for program purposes and the definition of the fiscal balance for program purposes have been revised as described in the attached technical memorandum of understanding.** Foreign debt is defined as foreign currency-denominated debt; therefore any debt denominated in CFAF will be excluded from concessionality requirements. For program purposes, the government will focus on the overall budget deficit objective (including grants) as defined in the TMU.

47. **Quantitative assessment criteria for end-June 2011 and quantitative indicators for end-September 2011 have been set** in order to monitor program implementation in 2011 (see MEFP Table 1 below). The government and Fund staff have also agreed on the prior actions and structural benchmarks, as detailed in MEFP Table 2. The second PSI review should normally be completed by end-December 2011 and the third by end-June 2012.

Table 1. Quantitative Assessment Criteria and Indicative Targets for 2010-11 1/
(CFAF billions, unless otherwise specified)

| | December 31, 2010 | | | March 31, 2011 | | | June 30, 2011 | September 30, 2011 | December 31, 2011 |
|---|---|---|---|---|---|---|---|---|---|
| | Prog. | Actual | Status | Prog. | Actual | Status | Prog. | Prog. | Prog. |
| Assessment criteria | | | | | | | | | |
| Floor on the basic fiscal balance 2/ 3/ | -119 | -133 | not met | *-24* | *-36* | not met | … | … | … |
| Floor on the overall fiscal balance 4/ | … | … | … | … | … | … | -237 | *-355* | -474 |
| Ceiling on the contracting or guaranteeing of new nonconcessional external debt by the government (in US$ million) 5/ | 0 | 0 | met | 500 | 0 | met | 500 | 500 | 500 |
| Ceiling on spending undertaken outside normal and simplified procedures 5/ | 0 | 0 | met | 0 | 0 | met | 0 | *0* | 0 |
| Ceiling on government external payment arrears (stock) 5/ | 0 | 0 | met | 0 | 0 | met | 0 | *0* | 0 |
| Ceiling on the amount of the budgetary float | 50 | 48 | met | *50* | *24* | met | 50 | 50 | 50 |
| Ceiling on nonconcessional debt with a minimum grant element of 15 percent 2/ 5/ | 0 | 0 | met | 30 | 0 | met | 30 | 30 | 30 |
| Indicative targets | | | | | | | | | |
| Quarterly ceiling on the share of the value of public sector contracts signed by single tender (percent) | *20* | *6* | *met* | *20* | *6* | met | *20* | *20* | *20* |
| Floor on social expenditures (percent of total spending) | *35* | *41* | *met* | … | | | *35* | … | *35* |
| Maximum upward adjustment of the overal deficit ceiling due to: | | | | | | | | | |
| Shortfall in program grants relative to program projections | … | … | … | … | … | … | *15* | *15* | *15* |
| Excess in concessional loans relative to program projections | … | … | … | … | … | … | *70* | *70* | *70* |
| Memorandum items: | | | | | | | | | |
| Program grants | … | … | … | … | … | … | *19* | *28* | *37* |
| Concessional loans | … | … | … | … | … | … | *114* | *170* | *227* |

1/ Indicative targets for March and September 2011, except for the assessment criteria monitored on a continuous basis. See Technical Memorandum of Understanding for definitions. Indicative targets shown in italics.

2/ Cumulative since the beginning of the year.

3/ Assessment of the criteria at end-March 2011 is based on preliminary data.

4/ The ceiling on the overall fiscal deficit will be adjusted in line with the TMU definition.

5/ Monitored on a continuous basis.

**Table 2: Structural Benchmarks, 2011-12**

| Measures | MEFP § | Implementation Date | Benchmark for review *(to be discussed)* | Macroeconomic significance |
|---|---|---|---|---|
| **CONTAINING THE BUDGET DEFICIT** | | | | |
| Submit to Parliament a draft supplementary budget for 2011 consistent with the macroeconomic framework agreed with the staff of the IMF. | 44 | May 25, 2011 | Prior action | Macroeconomic stability. |
| **INCREASE TAX REVENUE, IMPROVE THE QUALITY OF EXPENDITURE AND DEBT MANAGEMENT** | | | | |
| Prepare a project evaluation guide. | 30 | December 31, 2011 | 3rd | Improve investment planning. |
| Create the organization chart and procedures for the entity responsible for managing the domestic and external public debt portfolio as well as market interventions. | 18 | September 30, 2011 | 2nd | Improve debt management. |
| Start up the new debt entity. | 18 | January 15, 2012 | 3rd | Improve debt management. |
| Prepare a medium-term debt strategy. | 18 | June 30, 2012 | 4th | Improve debt management. |
| **CONSOLIDATE PROGRESS IN PUBLIC FINANCIAL MANAGEMENT** | | | | |
| Settle the final amounts of extrabudgetary expenditure and publish a press release summarizing the results of the process, including the results of the fiscal year 2009 audit. | 29 | June 30, 2011 | 2nd | Strengthen public financial management and fully normalize financial relations with the private sector. |
| Formulate a strategy and timetable for the establishment of a Treasury Single Account. | 19 | September 30, 2011 | 2nd | Strengthen public financial management. |

| | | | | |
|---|---|---|---|---|
| The government will conduct a study to assess the impact of VAT and income tax reforms (structural benchmark, February 2010). | 21 | February 28, 2012 | 3rd | Strengthen tax system. |
| **PROMOTE PRIVATE SECTOR DEVELOPMENT BY IMPROVING THE BUSINESS CLIMATE, STRENGTHENING GOVERNANCE AND ENHANCING EFFICIENCY IN THE FINANCIAL AND ENERGY SECTORS** | | | | |
| Publish complete information on (i) the energy support fund (FSE); (ii) its projects; (ii) the status of its planning and execution; (iii) the details of financing and updates on the cost of the works; and (iv) the position of the special account, on a monthly basis, within two weeks following the end of the month, on a specialized government website. | 16 | August 31, 2011 | 2nd | Improve the transparency of infrastructure-related investments. |
| Finalize legislation fostering the development of financial leasing. | 34 | June 30, 2011 | 2nd | Improve the efficiency of the financial sector. |
| Conduct an initial audit of the use of the resources allocated to the extension of the highway three months after the start of the project and publish the report on the government's website. | 15 | October 31, 2011 | 2nd | Improve the transparency of infrastructure-related investments. |
| Finalize the study of the resources used in the microfinance sector and their impact with the view to rationalize them. | 38 | January 31, 2012 | 3rd | Strengthen control and supervision of the microfinance sector. |

Attachment II

## Technical Memorandum of Understanding

**Dakar, May 19, 2011**

1. This technical memorandum of understanding (TMU) defines the quantitative assessment criteria, indicative targets, and structural benchmarks on the basis of which the implementation of the Fund-supported program under the Policy Support Instrument (PSI) will be monitored in 2011-2013. The TMU also establishes the terms and time frame for transmitting the data that will enable Fund staff to monitor program implementation.

## I. Program Conditionality

2. The quantitative assessment criteria for end-June 2011 and end-December 2011, and quantitative indicators for end-September 2011, are shown in Table 1 of the MEFP. The prior actions and structural benchmarks established under the program are presented in Table 2.

## II. Definitions, Adjusters, and Data Reporting

### The Government

3. Unless otherwise specified below, the government is defined as the central administration of the Republic of Senegal and does not include any local administration, the central bank, or any government-owned entity with a separate legal personality (e.g., public universities and hospitals).

### Overall Fiscal Balance (Program Definition)

#### Definition

4. The overall fiscal balance including grants (program definition) is the difference between the government's total revenue (revenue and grants) and total expenditure and net lending. The operations of the Energy Sector Support Fund (FSE) will be integrated in the government flow-of-funds table (TOFE). The revenues exclude privatization receipts and sales of mobile phone licenses or of any other state-owned assets. Government expenditure is defined on the basis of payment orders accepted by the Treasury (*dépenses ordonnancées prises en charge par le Trésor*) and expenditures executed with external resources. This assessment criterion is set as a floor on the overall fiscal balance including grants as of the beginning of the year.

**Example**

5. The floor on the overall fiscal balance including grants (program definition) as at December 31, 2011, is CFAF 474 billion. It is calculated as the difference between total government revenue (CFAF 1558 billion) and total expenditure and net lending (CFAF 2032 billion).

**Adjustment**

6. The overall fiscal balance including grants is adjusted downward by the amount that (budget) grants fall short of program projections up to a maximum (of CFAF 15 billion at current exchange rates) indicated in Table 1 of the MEFP. The overall fiscal balance including grants will not be adjusted if grants exceed program projections.

7. The overall fiscal balance including grants is also adjusted downward by the amount that concessional loans exceed its programmed amount up to a maximum of CFAF 70 billion at current exchange rates (see MEFP, Table 1). For the computation of this assessment criterion, concessional loans denominated in CFAF, as well as in foreign currency, are taken into account.

**Reporting requirements**

8. During the program period, the authorities will report provisional data on the overall fiscal balance (program definition) and its components monthly to Fund staff with a lag of no more than 30 days. Data on revenues and expenditure that are included in the calculation of the overall fiscal balance, and on expenditure financed with HIPC- and MDRI- related resources, will be drawn from preliminary Treasury account balances. Final data will be provided as soon as the final balances of the Treasury accounts are available, but not later than two months after the reporting of the provisional data.

## Social Expenditure

**Definition**

9. Social spending is defined as spending on health, education, the environment, the judicial system, social safety nets, sanitation, and rural water supply. This criterion is set as a floor in percent relative to total spending (including the FSE) excluding capital expenditure related to the extension of the autoroute (and in 2011 also excluding interest charges on financing of the autoroute extension).

**Reporting requirements**

10. The authorities will report annual data to Fund staff within two months following the end of the year.

## Budgetary Float

**Definition**

11. The budgetary float (*instances de paiement*) is defined as the outstanding stock of government expenditure for which bills have been received and validated but not yet paid by the Treasury (the difference between *dépenses liquidées* and *dépenses payées)*. The assessment criterion is set as a ceiling on the budgetary float, monitored at the end of the quarter.

**Reporting requirements**

12. The authorities will transmit to Fund staff on a weekly basis (i.e., at the end of each week), and at the end of each month, a table from the expenditure tracking system (SIGFIP) showing all committed expenditures (*dépenses engagées*), all certified expenditures that have not yet been cleared for payment (*dépenses liquidées non encore ordonnancées*), all payment orders (*dépenses ordonnancées*), all payment orders accepted by the Treasury (*dépenses prises en charge par le Trésor*), and all payments made by the Treasury (*dépenses payées*). The SIGFIP table will exclude delegations for regions and embassies. The SIGFIP table will also list any payments that do not have a cash impact on the Treasury accounts.

## Spending Undertaken Outside Simplified and Normal Procedures

13. This assessment criterion is applied on a continuous basis to any procedure other than the normal and simplified procedures to execute spending. It excludes only spending undertaken on the basis of an advance decree in cases of absolute urgency and need in the national interest, in application of Article 12 of the Organic Budget Law. Such spending requires the signatures of the President of the Republic and Prime Minister.

14. The authorities will report any such procedure, together with the SIGFIP table defined in paragraph 10, to Fund staff on a monthly basis with a maximum delay of 30 days.

## Government External Payments Arrears

**Definition**

15. External payments arrears are defined as the sum of payments owed and not paid on the external debt contracted or guaranteed by the government. The definition of external debt

given in paragraph 18 is applicable here. The assessment criterion on external payments arrears will be monitored on a continuous basis.

**Reporting requirements**

16. The authorities will promptly report any accumulation of external payments arrears to Fund staff.

### Contracting or Guaranteeing of New Nonconcessional External Debt by the Government

17. **Government**. Unless otherwise indicated, "government" means the central administration of the Republic of Senegal and does not include any local administration, the central bank, or any other public or government-owned entity with autonomous legal personality not included in the government flow-of-funds table (TOFE).

18. **Definition of debt**. For the purposes of the relevant assessment criteria, the definition of debt is set out in Executive Board Decision No.6230-(79/140), Point 9, as revised on August 31, 2009 (Decision No. 14416-(09/91)).

a) The term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:
   i) loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);
   ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and
   iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title

to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property.

b) Under the definition of debt above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

19. **Debt guarantees**. For the purposes of the relevant assessment criteria, the guarantee of a debt arises from any explicit legal obligation of the government to service a debt in the event of nonpayment by the debtor (involving payments in cash or in kind).

20. **Debt concessionality**. For the purposes of the relevant assessment criteria, a debt is considered concessional if it includes a grant element of at least 35 percent;[1] the grant element is the difference between the present value (PV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The PV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt.[2] The discount rates used for this purpose are the currency specific commercial interest reference rates (CIRRs), published by OECD.[3] For debt with a maturity of at least 15 years, the ten-year-average CIRR is used to calculate the PV of debt and, hence, its grant element. For debt with a maturity of less than 15 years, the six-month average CIRR is used. The margins for differing repayment periods (0.75 percent for repayment periods of less than 15 years, 1 percent for 15 to 19 years, 1.15 percent for 20 to 29 years, and 1.25 percent for 30 years or more) are added to the ten-year and six-month CIRR averages.

21. **External debt**. For the purposes of the relevant assessment criteria, external debt is defined as debt borrowed or serviced in a currency other than the CFA franc. This definition also applies to debt among WAEMU countries.

22. **Debt-related assessment criteria**. The relevant assessment criteria apply to the contracting and guaranteeing of new nonconcessional external debt by the government, SENELEC and the Energy Sector Support Fund (FSE). The criteria apply to debt and commitments contracted or guaranteed for which value has not yet been received. The

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[1] The following reference on the IMF website creates a link to a tool that allows for the calculation of the grant element of a broad range of financing packages: http://www.imf.org/external/np/pdr/conc/calculator.

[2] The calculation of concessionality will take into account all aspects of the debt agreement, including maturity, grace period, payment schedule, upfront commissions, and management fees.

[3] For debts in foreign currencies for which the OECD does not calculate a CIRR, calculation of the grant element should be based on the composite CIRR (weighted average) of the currencies in the SDR basket.

criteria also apply to private debt for which official guarantees have been extended and which, therefore, constitute a contingent liability of the government. The assessment criteria are measured on a cumulative basis from the time of approval of the PSI by the Executive Board. ACs will be monitored on a continuous basis. No adjuster will be applied to these criteria.

23. **Special provisions**:

a) The assessment criteria do not apply to: (i) debt rescheduling transactions of debt existing at the time of the approval of the PSI; (ii) debt contracted by the airport project company (AIBD) to finance construction of the new Dakar Airport; and (iii) short-term external debt (maturity of less than one year) contracted by SENELEC to finance the purchase of petroleum products.

b) A total ceiling of US$500 million applies over the period 2011-–13 for nonconcessional external debt financing tied to the highway extension Diamniadio-International Airport Blaise Diagne/Thiès/Mbour or investments in the energy sector. The funds obtained in this way will be deposited in a special account from which only such highway extension payments and energy sector investments will be made. Following the issuance of a US$500 million Eurobond in May 2011, with an exchange offer for the outstanding 2009 Eurobond, the remaining ceiling for non-concessional borrowing for 2011-13 is up to the amount of the actually exchanged or redeemed 2009 bonds (with a limit of US$ 200 million).

c) A separate ceiling equivalent to CFAF 30 billion in 2011 applies for untied nonconcessional external debt financing with a grant element of at least 15 percent. Projects financed in this way would be expected to meet the same economic and social profitability criteria as other capital spending. The government will inform Fund staff in a timely manner before contracting any debt of this type and will provide sufficient information ahead of time to verify the degree of concessionality. It will also provide a brief summary of the projects to be financed and their profitability, including an evaluation by the lender or the government. The government will report the use of funds and project implementation in subsequent MEFPs.

**Reporting requirements**.

24. The government will report any new external borrowing and its terms to Fund staff as soon as external debt is contracted or guaranteed by the government, but no later than within two weeks of such external debt being contracted or guaranteed.

### Public Sector Contracts Signed by Single Tender

**Definition**

25. Public sector contracts are administrative contracts, drawn up and entered into by the government or any entity subject to the procurement code, for the procurement of supplies, delivery of services, or execution of work. Public sector contracts are considered "single-tender" contracts when the contracting agent signs the contract with the chosen contractor without competitive tender. The quarterly indicative target will apply to total public sector contracts.

**Reporting requirements**

26. The government will report quarterly to Fund staff, with a lag of no more than one month from the end of the observation period, the total value of public sector contracts and the total value of all single-tender public sector contracts.

## III. Additional Information for Program Monitoring

27. The authorities will transmit the following to Fund staff, with the maximum time lags indicated:

a) Effective immediately: any decision, circular, edict, decree, ordinance, or law having economic or financial implications for the current program.

b) With a maximum lag of 30 days, preliminary data on:

- Tax receipts and tax and customs assessments by categories, accompanied by the corresponding revenue;
- The monthly amount of expenditures committed, certified, and for which payment orders have been issued;
- The quarterly report of the Debt and Investments Directorate (DDI) on the execution of investment programs;
- The monthly preliminary government financial operations table (TOFE), based on the Treasury accounts;
- The provisional balance of the Treasury accounts; and
- Reconciliation tables between the SIGFIP table and the consolidated Treasury accounts, between the consolidated Treasury accounts and the TOFE for

"budgetary revenues," between the consolidated Treasury accounts and the TOFE for "total expenditure and net lending," and between the TOFE and the net government position (NGP), on a quarterly basis.

c) Final data will be provided as soon as the final balances of the Treasury accounts are available, but not later than one month after the reporting of provisional data.

28. During the program period, the authorities will transmit provisional data on current nonwage noninterest expenditures and domestically financed capital expenditures executed through cash advances to Fund staff on a monthly basis with a lag of no more than 30 days. The data will be drawn from preliminary consolidated Treasury account balances. Final data will be provided as soon as the final balances of the Treasury accounts are available, but no more than one month after the reporting of provisional data.

29. The government will transmit to Fund staff:

- The monthly balance sheet of the central bank, with a maximum lag of one month;

- The consolidated monthly balance sheet of banks with a maximum lag of two months;

- The monetary survey, on a monthly basis, with a maximum lag of two months;

- The lending and deposit interest rates of commercial banks, on a monthly basis; and

- Prudential supervision and financial soundness indicators for bank financial institutions, as reported in the Table entitled *Situation des Etablissements de Crédit vis-à-vis du Dispositif Prudentiel* (Survey of Credit Institution Compliance with the Prudential Framework), on a quarterly basis, within a maximum delay of two months.

30. The government will update monthly on the website used for this purpose the amount of airport tax—*redevance de développement des infrastructures aéroportuaires* (RDIA)—collected, deposited in the escrow account, and used for the repayment of the loan financing the construction of the new airport.

INTERNATIONAL MONETARY FUND

SENEGAL

**Senegal—First Review Under the Policy Support Instrument**
**Informational Annex**

Prepared by the African Department
(In collaboration with other departments)

Approved by Roger Nord and Thomas Dorsey

May 20, 2011

- **Relations with the Fund.** Describes financial and technical assistance by the IMF and provides information on the safeguards assessment and exchange system. Outstanding purchases and loans amounted to SDR 137.99 million (85.28 percent of quota) at end-March 2011.
- **JMAP Implementation.** Describes Bank-Fund collaboration.
- **Statistical Issues.** Data provision has some shortcomings, but is broadly adequate for surveillance and program monitoring. There are weaknesses in data particularly on national accounts, production, and social indicators.

## SENEGAL: RELATIONS WITH THE FUND
(As of March 31, 2011)

**I. Membership Status:** Joined: August 31, 1962; Article VIII

| **II. General Resources Account:** | **SDR Million** | **%Quota** |
|---|---|---|
| Quota | 161.80 | 100.00 |
| Fund holdings of currency | 160.02 | 98.90 |
| Reserve Position | 1.79 | 1.11 |

| **III. SDR Department:** | **SDR Million** | **%Allocation** |
|---|---|---|
| Net cumulative allocation | 154.80 | 100.00 |
| Holdings | 130.30 | 84.17 |

| **IV. Outstanding Purchases and Loans:** | **SDR Million** | **%Quota** |
|---|---|---|
| ESF Arrangements | 121.35 | 75.00 |
| PRGF Arrangements | 16.64 | 10.28 |

**V. Latest Financial Arrangements:**

| Type | Date of Arrangement | Expiration Date | Amount Approved (SDR Million) | Amount Drawn (SDR Million) |
|---|---|---|---|---|
| ESF | Dec 19, 2008 | Jun 18, 2010 | 121.35 | 121.35 |
| PRGF | Apr 28, 2003 | Apr 27, 2006 | 24.27 | 24.27 |
| PRGF | Apr 20, 1998 | Apr 19, 2002 | 107.01 | 96.47 |

**VI. Projected Payments to Fund**
**(SDR Million; based on existing use of resources and present holdings of SDRs):**

| | Forthcoming | | | | |
|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 | 2015 |
| Principal | 1.73 | 3.47 | 3.47 | 11.56 | 24.15 |
| Charges/Interest | 0.09 | 0.45 | 0.44 | 0.43 | 0.39 |
| **Total** | 1.82 | 3.92 | 3.91 | 11.99 | 24.55 |

**VII. Implementation of HIPC Initiative:**

| | Enhanced Framework |
|---|---|
| I. Commitment of HIPC assistance | |
| Decision point date | June 2000 |
| Assistance committed by all creditors (US$ Million) [1] | 488.30 |
| Of which: IMF assistance (US$ million) | 42.30 |
| (SDR equivalent in millions) | 33.80 |
| Completion point date | April 2004 |
| II. Disbursement of IMF assistance (SDR Million) | |
| Assistance disbursed to the member | 33.80 |
| Interim assistance | 14.31 |
| Completion point balance | 19.49 |
| Additional disbursement of interest income [2] | 4.60 |
| **Total disbursements** | 38.40 |

**VIII. Implementation of Multilateral Debt Relief Initiative (MDRI):**

| | | |
|---|---|---|
| I. | MDRI-eligible debt (SDR Million) [3] | 100.32 |
| | Financed by: MDRI Trust | 94.76 |
| | Remaining HIPC resources | 5.56 |

II. Debt Relief by Facility (SDR Million)

| | EligibleDebt | | |
|---|---|---|---|
| **Delivery Date** | **GRA** | **PRGT** | **Total** |
| January 2006 | N/A | 100.32 | 100.32 |

[1] Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence the two amounts cannot be added.

[2] Under the enhanced framework, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim period.

[3] The MDRI provides 100 percent debt relief to eligible member countries that qualified for the assistance. Grant assistance from the MDRI Trust and HIPC resources provide debt relief to cover the full stock of debt owed to the Fund as of end-2004 that remains outstanding at the time the member qualifies for such debt relief.

## IX. Safeguards Assessments:

The Central Bank of West African States (BCEAO) is a common central bank of the countries of the West African Economic and Monetary Union (WAEMU), which includes Senegal. The most recent safeguards assessment of the BCEAO was completed on March 1, 2010. The 2010 update assessment found that the BCEAO continues to have controls in place at the operational level. The overall governance framework needed nonetheless to be strengthened by the addition of an audit committee to ensure that the Board of Directors exercises appropriate oversight over the control structure, including the audit mechanisms and financial statements. The Institutional Reform of the WAMU and the BCEAO completed after the approval of the safeguards report stipulated creation of the Audit Committee, which should now start working. Efforts to implement fully the International Financial Reporting Standards reporting framework should also be pursued.

## X. Exchange System:

Senegal is a member of the West African Economic and Monetary Union (WAEMU). The exchange system, common to all members of the union, is free of restrictions on the making of payments and transfers for current international transactions. The union's common currency, the CFA franc, had been pegged to the French franc at the rate of CFAF 1 = F 0.02. Effective January 12, 1994, the CFA franc was devalued and the new parity set at CFAF 1 = F 0.01. Effective December 31, 1998, the parity was switched to the euro at a rate of CFAF 655.96 = €1.

The authorities confirmed that Senegal had not imposed measures that could give rise to exchange restrictions subject to Fund jurisdiction. They will inform the Fund if any such measure is introduced.

Aspects of the exchange system were also discussed in the February 2010 report on economic developments and regional policy issues of the WAEMU.

## XI. Article IV Consultations:

The latest Article IV consultation was completed by the Executive Board on May 24, 2010 (Country Report No.10/165). In concluding the 2010 Article IV consultation, Executive Directors welcomed the broadly satisfactory implementation of the Senegalese authorities' economic program supported under the PSI and the ESF. While Senegal's risk of debt distress is low, Directors underscored the need to gradually withdraw the temporary fiscal stimulus and reduce the budget deficit to a level consistent with debt sustainability. They welcomed the authorities' plans to further strengthen revenue collection and stressed that spending pressures had to be contained to preserve macroeconomic stability and debt sustainability and meet the WAEMU convergence criteria, while safeguarding priority spending. Directors supported efforts to reform public financial management and emphasized the need to maintain the reform momentum. They encouraged the authorities to improve their liquidity and debt management to complement the increasing integrity of their budget framework and expressed concern about program slippages that indicate that closer attention needs to be paid to spending procedures and control mechanism. Directors saw room for further strengthening the authorities' investment planning and evaluation with a view to ensuring high productivity of government spending. They underscored the need to overcome the weak export performance and to improve competitiveness through a more supportive business climate and better governance that would stimulate private-sector growth. Directors underlined that other complementary policies need to be put in place to regain Senegal's growth momentum and return to previous growth trajectories. Sustained efforts are required to enhance the financial sector's contribution to the economy. Directors also encouraged the authorities to implement their energy sector reform plan to limit supply bottlenecks and fiscal risks.

**XII. Financial Sector Assessment Program (FSAP) and Report on the Observance of Standards and Codes (ROSC) Participation:**

A joint team of the World Bank and the International Monetary Fund conducted a mission under the FSAP program in November 2000 and January 2001. The Financial System Stability Assessment (FSSA) was issued in August 2001 (IMF Country Report No. 01/189). An FSAP update was undertaken in June 2004, focusing on development issues (in particular nationwide supply of basic financial services and access of SMEs to credit), in line with the priorities defined in the PRSP (IMF Country Report No. 05/126). A regional FSAP for the WAEMU was undertaken in the second half of 2007.

A ROSC on the data module, based on a September 2001 mission, was published on December 2, 2002. An FAD mission conducted a ROSC on the fiscal transparency module in January 2005.

**XIII. Technical Assistance:**

**A. AFRITAC West**

| Year | Area | Focus |
|---|---|---|
| 2003 | Debt management and financial markets | Upgrading of information systems; techniques of external debt management |
| | Microfinance | Initiate work with BCEAO and donors |
| 2004 | Public expenditure management | Workshop |
| | Debt management and financial markets | Evaluation of software for improving debt management; workshop on AFL/CFT |
| | Public expenditure management | Decentralization; evaluation of TA needs |
| | Debt management and financial markets | Assessing need for capacity improvement |
| 2005 | Macroeconomic statistics | Making fiscal data conform to WAEMU and other international norms |
| | Microfinance | Inspection and control; workshop on good governance; training of government supervisory personnel |

| Year | Area | Focus |
|---|---|---|
| 2006 | Customs administration | Software risks |
| | Tax administration | Reforms and TA needs |
| | Macroeconomic statistics | Evaluating implementation of prior TA and future needs |
| | National accounts | Work program for improvement and statistical action plan |
| | Microfinance | Supervision |
| 2007 | Customs administration | Risk analysis and control |
| | Tax administration | Modernization |
| | Debt management and financial markets | Assessing TA needs; regional workshop on external debt statistics |
| | Macroeconomic statistics | Public finance statistics |
| | National accounts | Institutional sectors and quarterly national accounts; regional workshop on government accounts |
| | Microfinance | Supervision |
| 2008 | Debt management and financial markets | DSA workshop |
| | National accounts | Institutional sector and quarterly national accounts |
| | Microfinance | Supervision and organization |
| 2009 | National accounts | Quarterly national accounts (QNA) |
| | Tax administration | Status of the reform and scope for further TA |
| | Debt management | Strengthening public debt management |
| | Microfinance | Strengthening microfinance supervision |
| | Macroeconomic and financial statistics | Enhancing production and dissemination of public finances statistics |
| 2010 | Debt management | Strengthening public debt management |
| | National accounts | Quarterly national accounts (QNA) |
| | Customs administration | Follow-up mission |
| | Tax administration | Tax administration modernization |
| | Customs administration | Follow-up mission |
| 2011 | National accounts | Quarterly national accounts (QNA) |

## B. Headquarters

| Department | Date | Form | Purpose |
|---|---|---|---|
| **Fiscal Affairs** | September 2001 | Staff/consultant | Assessment of capacity to track poverty-reducing expenditures |
| | February 2004 | Staff | Fiscal reporting |
| | November 2004 | Staff | PSIA—Poverty and social impact analysis |
| | January 2005 | Staff | ROSC |
| | January 2008 | Staff | Public-Private Partnerships |
| | February 2008 | Staff | PSIA─Poverty and Social Impact Analysis |
| | October 2008 | Staff/AFRITAC | Public financial management |
| | April 2009 | FAD Expert | Public financial management |
| | Nov. 2009 | Staff/AFRITAC | Revenue administration |
| | January 2010 | FAD Expert | Review of the expenditure chain |
| | February 2010 | Staff/AFRITAC | Public financial management |
| | Jul./Aug. 2010 | FAD Expert | PFM (Treasury Single Account and cash forecasts) |
| | October 2010 | Staff/Expert/AFRITAC | Revenue administration |
| | Nov. 2010 | Staff/Expert | Review of tax policy and tax expenditures |
| | Dec. 2010 | Staff | Public financial management and accounting (state, PEs, agencies) |
| | January 2011 | FAD Expert (long-term) | Public financial management and accounting |
| | January 2011 | FAD Expert (long-term) | Tax administration (IT procedures) |
| **Monetary and Capital Markets** | September 2006 | Staff | Bank supervision and regulation |
| | September 2010 | Staff | Needs assessment |
| | Jan.-Feb. 2011 | Staff/ Expert/World Bank | Medium-Term Debt Strategy (MDTS) |
| **Statistics** | September 2001 | Staff | ROSC assessment of data |
| | July 2002 | AFRISTAT | Real sector statistics assessment under GDDS West Africa project |
| | August 2002 | AFRISTAT | National accounts assistance under |

| Department | Date | Form | Purpose |
|---|---|---|---|
| | | | GDDS West Africa project. |
| | August 2002 | Regional advisor | Continued assistance with fiscal sector data under GDDS West Africa project. |
| | December 2002 | AFRISTAT | Continued assistance with national accounts and prices statistics under GDDS West Africa project |
| | February 2003 | Regional advisor | Continued assistance with fiscal sector data under GDDS West Africa project. |
| | March 2006 | Staff | Real sector statistics |
| | March 2006 | Staff | Government finance statistics |
| | November 2008 | Staff | SDDS assessment |
| | April 2009 | Staff | Government finance statistics |

## XIV. Resident Representative

Stationed in Dakar since July 24, 1984. The position has been held by Ms. Valeria Fichera since September 2009.

## XV. Anti Money Laundering / Combating the Financing of Terrorism

The onsite visit for Senegal's AML/CFT evaluation took place in July/August 2007 in the context of ECOWAS's Inter-Governmental Action Group Against Money Laundering in West Africa (GIABA). The report was adopted in early May 2008 by the GIABA Plenary held in Accra, Ghana**.** The report highlighted several areas of weaknesses in the AML/CFT system, confirmed by a score of 12 Non-Compliant and 16 Partially Compliant ratings out of the 40+9 FATF AML/CFT Recommendations. GIABA's First Follow Up Report of 2009 on the implementation of the recommendations contained in the Mutual Evaluation Report mentions that Senegal's adoption of Uniform Law No. 2009-16 of March 2, 2009 against terrorist financing enables the country to broadly comply with all the Recommendations and Special Recommendations concerning the issue, including customer due diligence (especially as regards politically exposed persons - PEPs). It also notes that legal provisions taken by Senegal in order to prevent the abuse of new technologies, namely the adoption of Law No. 2008–11 of January 25, 2008 on cyber criminality, enable the country to adapt its criminal system and subsequent procedures to crimes related to new information and communication technologies. The GIABA Secretariat concludes that Senegal deserves encouragement for its endeavor to reinforce its AML/CFT scheme and recommends, at this juncture, to maintain Senegal within the regular follow-up process, pending the results of measures taken and the adoption of new measures aimed at amending the above-mentioned scheme. The discussion of Senegal's 2011 Follow-Up Report was postponed until November 2011 to give the authorities the opportunity to provide more detailed information on the progress made in addressing the remaining deficiencies.

**JOINT MANAGEMENT ACTION PLAN IMPLEMENTATION**
**World Bank and International Monetary Fund Collaboration**

**(Update)**

| **Title** | **Products** | **Provisional timing of missions** | **Expected delivery date** |
|---|---|---|---|
| **A. Mutual information on relevant work programs** | | | |
| World Bank | Public Expenditure Review | Continuous | |
| International Monetary Fund | **IMF-supported program**<br>Second Review of PSI | September 2011 | December 2011 (Board) |
| | **Technical Assistance**<br>Revenue administration<br>Tax policy review<br>Public fin. management | July 2011<br>October 2011<br>May, July, Sept., 2011, January 2012 | |
| **B. Requests for work program inputs** | | | |
| Fund request to Bank (with summary justification) | Updates on progress with PRSC (if implications for the IMF-supported program)<br>Energy sector reform | ... | May 2011 |
| Bank request to Fund (with summary justification) | ... | ... | ... |
| **C. Agreement on joint products and missions** | | | |
| Joint products | DSA | September 2011 | December 2011 |

**STATISTICAL ISSUES**

| **Senegal – Statistical Issues Appendix**<br>As of May 15, 2011 |
|---|
| **I. Assessment of Data Adequacy for Surveillance** |
| **General:** Data provision has some shortcomings, but is broadly adequate for surveillance and program monitoring. There are weaknesses in data on national accounts, production, and social indicators. The authorities are committed to improving the quality and availability of economic, financial and social indicators, partially relying on technical assistance from the Fund and other international organizations and donors. |
| **National accounts:** The compilation of the national accounts generally follows the *System of National Accounts, 1993*. Despite staff's professionalism, the lack of adequate financial resources has constrained efforts to collect and process data. Data sources are deficient in some areas, particularly the informal sector. Owing to financial constraints, surveys of business and households are not conducted regularly. However, efforts are being made to improve data collection procedures, strengthen the coordination among statistical agencies, and reduce delays in data dissemination. The Regional Technical Assistance Center for West Africa (West AFRITAC) has been assisting member countries, including Senegal, with the improvement of their real sector statistics, in particular annual and quarterly national accounts (QNA). Progress reported by the advisor includes: i) completion of national accounts for 1980–2004 with 1999 as the base year; ii) dissemination of the 1980–2003 series in hard copy and on the internet; iii) production of accounts by institutional sector (first series covers 2004 institutional sector accounts); and iv) production of national accounts in accordance with the dissemination schedule. The authorities plan to start production of quarterly national accounts in view of the country's intention to subscribe to the SDDS. The recent West AFRITAC missions have assisted with training to support compilation of the QNA and initiating their compilation for the period 1990-2007. The West AFRITAC and the authorities agreed on a detailed work program initially aimed at starting regular dissemination of the QNA in March 2010. A stock-taking mission took place in April 2010. |
| **Government finance statistics (GFS):** GFS are compiled by the Ministry of Economy and Finance from customs, tax, and treasury directorate sources. Data last reported to STA for electronic redissemination and publication in the 2007 *Government Finance Statistics Yearbook* were for fiscal year 2001. Higher frequency data are not provided for redissemination in *IFS*, but the ministry compiles and disseminates quarterly government financial operations tables (TOFE) in their own publications. An AFR team worked with the authorities in February 2004 to improve fiscal reporting in the context of the last PRGF-supported program. The team focused on (i) public accounts that are outside of the direct purview of the treasury; (ii) the treatment of correspondents' accounts in the TOFE; and (iii) ensuring consistency between treasury and banking system information concerning government transactions. The proposed changes are now being implemented. They have improved the presentation of government financial operations and are the first step toward bringing the TOFE more in line with the extended WAEMU TOFE. Other steps will include implementing the WAEMU fiscal directives that are being revised. A regional advisor in GFS has been conducting technical assistance missions aimed at improving the consistency of fiscal reporting and migrating to the methodologies of the *Government Finance Statistics Manual 2001*. The regional advisor also supported efforts to resume reporting of annual and higher frequency data for publication in *International Financial Statistics (IFS)* and electronic dissemination of the *GFS Yearbook.* |

| | |
|---|---|
| **Monetary and financial statistics:** Preliminary monetary data are compiled by the national agency of the Central Bank of West African States (BCEAO) and officially released (including to the IMF) by BCEAO headquarters. The authorities are now reporting monetary data to STA on a regular basis, with a reduction in the lag from about six months to about three to four months. There has also been an improvement in the timeliness of reporting interest rate and main depository corporation data (central bank, commercial banks and postal checks center). An area-wide page for the WAEMU zone was introduced in the January 2003 issue of *IFS*. In 2005, the BCEAO made substantial revisions to the estimates of banknotes in circulation in member states resulting from cross-border banknote movement. These revisions were due to changes in the method to estimate currency in circulation in the WAEMU countries. The revised method, based on updated sorting coefficients ("coefficients de tri"), has been applied retroactively from December 2003. In August 2006, as part of the authorities' continuing efforts to implement the statistical methodology recommended in the *Monetary and Financial Statistics Manual*, the BCEAO reported to STA test monetary data for June 2006 for all member countries using the Standardized Report Forms (SRF). In response to STA's comments, the BCEAO has provided a revised central bank report form (1SR) as well as test data on other depository corporations (2SR) for review by STA. | |
| **External sector statistics:** Balance of payments statistics are compiled by the Senegalese national agency of the BCEAO. With STA support over the past few years, several steps have been taken to address certain shortcomings, including: (i) implementation of the *Balance of Payments Manual, fifth edition*; (ii) modification and simplification of related surveys for companies and banks; (iii) improvement in the computerization of procedures; and (iv) significant strengthening of staff training. Nevertheless, further steps could be taken to enhance the quality and coverage of the balance of payments statistics. Although definitive balance of payments statistics can now be provided with a delay of less than one year, there are significant delays in reporting the data to STA. | |
| **II. Data Standards and Quality** | |
| The country has begun the process of regional harmonization of statistical methodologies within the framework of the WAEMU. It participates in the General Data Dissemination System (GDDS), and its metadata were posted on the Fund's Dissemination Standards Bulletin Board on September 10, 2001. In September 2006, the authorities expressed their commitment to work toward subscription to the Special Data Dissemination Standard (SDDS) and have appointed a national SDDS coordinator. The November 2008 SDDS assessment mission evaluated dissemination practices against SDDS requirements for coverage, periodicity and timeliness and, in cooperation with the authorities, developed an action plan to address identified gaps. | A Data ROSC was published on the IMF website on December 2, 2002. |

## Senegal: Table of Common Indicators Required for Surveillance

(As of May 15, 2011)

| | Latest observation | Date received | Frequency of data[7] | Frequency of reporting[7] | Frequency of publication[7] | Memo Items: Data Quality – Methodological soundness[8] | Memo Items: Data Quality Accuracy and reliability[9] |
|---|---|---|---|---|---|---|---|
| Exchange Rates | Current | Current | D | D | D | | |
| International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1] | 2/2011 | 4/2011 | M | M | M | | |
| Reserve/Base Money | 1/2011 | 4/2011 | M | M | M | LO, LO, O, O | LO, O, O, LO |
| Broad Money | 1/2011 | 4/2011 | M | M | M | | |
| Central Bank Balance Sheet | 2/2011 | 4/2011 | M | M | M | | |
| Consolidated Balance Sheet of the Banking System | 1/2011 | 4/2011 | M | M | M | | |
| Interest Rates[2] | 2/2011 | 4/2011 | M | M | M | | |
| Consumer Price Index | 3/2011 | 4/2011 | M | M | M | O, LO, O, O | LO, O, O, NA |
| Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4] | NA | NA | | | | O, LNO, LO, O | LO, LO, O, LO |
| Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government | 12/2010 | 3/2011 | M | M | M | | |
| Stocks of Central Government and Central Government-Guaranteed Debt[5/11] | 2010 | 3/2011 | | | | | |
| External Current Account Balance [10/11] | 2010 | 3/2011 | A | A | A | O, O, O, O | O, O, O, O |
| Exports and Imports of Goods and Services [10/11] | 2010 | 3/2011 | A | A | A | | |
| GDP/GNP [10/11] | 2010 | 3/2011 | A | I | A | LO, LO, LO, LNO | LNO, LNO, LNO, LNO |
| Gross External Debt [11] | 2010 | 3/2011 | A | I | A | | |
| International Investment Position [6/] | 2010 | 3/2011 | A | A | A | | |

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Includes external gross financial asset and liability positions vis-à-vis nonresidents.
[7] Daily (D); Weekly (W); Monthly (M); Quarterly (Q); Annually (A); Irregular (I); Not Available (NA).
[8] Reflects the assessment provided in the data ROSC published in November 2002 and based on the findings of the mission that took place in September 2001 for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning (respectively) concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O), largely observed (LO), largely not observed (LNO), not observed (NO), or not available (NA).
[9] Same as footnote 8, except referring to international standards concerning (respectively) source data, statistical techniques, assessment and validation of source data, and revision studies.
[10] Estimate.
[11] Reported to staff during mission.

INTERNATIONAL MONETARY FUND

AND

INTERNATIONAL DEVELOPMENT ASSOCIATION

SENEGAL

**Joint IMF/IDA Debt Sustainability Analysis**

Prepared by the Staffs of the International Monetary Fund and the International Development Association

Approved by Roger Nord and Thomas Dorsey (IMF) and Marcelo Giugale and Jeffrey Lewis (World Bank)

May 20, 2011

*Senegal remains at low risk of debt distress.*[1] *This debt sustainability analysis (DSA) updates the joint IMF/IDA DSA from November 12, 2010, to integrate the authorities' recently completed restructuring plan for the energy sector, which entails additional fiscal costs. Under the baseline scenario, which includes the issuance of the US$500 million eurobond in early May, all the debt burden indicators remain below their policy-dependent indicative thresholds. However, debt vulnerabilities may increase as suggested by the high level of debt service in the longer term associated with the repayment of nonconcessional borrowing and as evidenced by standardized stress tests. This calls for a cautious approach to such borrowing and stresses the importance of improving debt management. The inclusion of domestic debt does not alter the overall assessment of Senegal's risk of debt distress*

## I. Underlying Assumptions

1. **This DSA is consistent with the macroeconomic framework outlined in the IMF's First Review Under the Policy Support Instrument**. Compared to the previous DSA[2], this analysis includes:

a. Additional government spending related to emergency measures in the energy sector. Part of this additional spending is expected to be financed by nonconcessional

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[1] The DSA presented in this document is based on the standard low-income countries (LIC) DSA framework. See "Debt Sustainability in Low-Income Countries: Proposal for an Operational Framework and Policy implications" and "Debt Sustainability in Low-Income Countries: Further Considerations on an Operational Framework, Policy Implications".

[2] See Senegal—Sixth Review Under the Policy Support Instrument, Request for a Three-Year Policy Support Instrument and Cancellation of Current Policy Support Instrument—Debt Sustainability Analysis.

resources. This DSA includes the US$ 500 million 10-year Eurobond, which was placed on May 6, 2011 with an 8.75 percent coupon (bi-annual frequency), priced to yield 9.125 percent. Over 75 percent of investors holding some US$155 million of the US$200 million 5-year bond issued in 2009 accepted the offer to exchange the existing bond for the new 10-year bond. Notwithstanding the exchange, the program ceiling on new non concessional external financing (USD 500 million) is expected to be used entirely during 2011-13, and the DSA assumes that the actual exchanged or redeemed amount will be borrowed in 2012 at similar conditions [3,4,5]

b. A revised macroeconomic framework, including slightly higher real GDP growth, larger fiscal deficits and lower current account deficits over the medium term. Larger fiscal deficits over the medium term (compared to the previous DSA) reflect a temporarily high level of energy-related expenditures. Over the long term, the resolution of the energy sector problems is expected to eliminate a serious binding constraint to growth in Senegal, leading to an upward revision to potential GDP growth. The current account deficit is expected to be lower than in the previous DSA reflecting historical revisions and the recent strength of exports – the long-term non-interest current account deficit is expected to be in line with the historical average (excluding the years 2007–08, which were affected by the food and fuel crisis).

**Evolution of selected macroeconomic indicators**

| | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|
| Real GDP growth | | | | | |
| Previous DSA | 2.2 | 4.0 | 4.4 | 4.7 | 4.8 |
| Current DSA | 2.2 | 4.2 | 4.5 | 4.8 | 5.0 |
| Primary fiscal deficit (percent of GDP) | | | | | |
| Previous DSA | 4.1 | 3.9 | 4.7 | 3.9 | 2.5 |
| Current DSA | 4.1 | 4.3 | 5.7 | 4.3 | 3.3 |
| Overall fiscal deficit (percent of GDP) | | | | | |
| Previous DSA | 4.9 | 4.8 | 5.8 | 5.3 | 3.9 |
| Current DSA | 4.8 | 5.2 | 6.9 | 5.6 | 4.6 |
| Current account deficit (percent of GDP) | | | | | |
| Previous DSA | 7.7 | 8.2 | 9.0 | 9.5 | 9.1 |
| Current DSA | 6.7 | 5.9 | 8.4 | 8.0 | 7.5 |

[3] The borrowing profile is somewhat more frontloaded than the one assumed in the previous DSA, where infrastructure spending to be financed with nonconcessional resources (extension of the toll road to the new Blaise-Diagne airport, Mbour, and Thies) was expected to amount to 1.4 percent of GDP in 2011, 1.6 percent of GDP in 2012, and 0.2 percent of GDP in 2013.

[4] In addition, Senegal is considering contracting in 2011 a maximum of CFAF30 billion in nonconcessional loans with a grant element of between 15 percent and 35 percent, which is included in this DSA.

[5] In line with the Fund's revised Debt Limits Policy, this DSA includes additional realistic assumptions for nonconcessional financing beyond the period for which a nonzero limit is proposed. In particular, beyond the program period, Senegal is expected to borrow 0.5 percent of GDP per year on nonconcessional terms. In addition, the net USD500 million in nonconcessional borrowing in 2011 and 2012 are assumed to be rolled-over at maturity.

c. Revised debt data. The authorities have recently undertaken a major review of their debt database following the recent joint IMF-World Bank mission on designing a Medium-Term Debt Strategy (MTDS).[6]

## II. External DSA

**External PPG debt burden indicators under the baseline scenario remain well below their policy-dependent thresholds** (Figure 1, Table 1).[7] However, while issuance of the 10-year Eurobond with large acceptance of the exchange offer for the outstanding bond maturing in 2014 has reduced roll-over risk in the medium-term, large increases in debt service associated with the roll-over of nonconcessional debt in the longer term highlight the need for Senegal to be cautious about this type of financing and improve its debt management capacity. Stress tests reveal that Senegal's external debt sustainability is vulnerable to an unlikely one-time depreciation of the exchange rate and a worsening of its borrowing terms (Figure 1, Table 2). In stress tests, the npv of debt-to-export ratio temporarily and marginally exceeds its threshold.

## III. Public DSA

2. **Indicators of overall public debt (external plus domestic debt) and debt service follow a similar pattern as those for external public debt alone** (Table 3, Figure 3). Public debt sustainability hinges on containing the fiscal deficit in the medium and long term. The public debt position is also vulnerable to shocks to real GDP growth, highlighting the need for the authorities to continue pursuing their goal of raising potential output growth.

## IV. Conclusion

3. **Senegal's external debt burden is subject to a low risk of debt distress even after the inclusion of nonconcessional debt.** The sustainability of Senegal's external PPG debt appears vulnerable to roll-over risks. This highlights the need for prudent debt management by Senegal, especially as it seeks to gain greater access to external resources on nonconcessional terms. Adding domestic debt, while raising the debt burden indicators, does not change the overall assessment of Senegal's debt vulnerabilities but highlights the need for fiscal consolidation.

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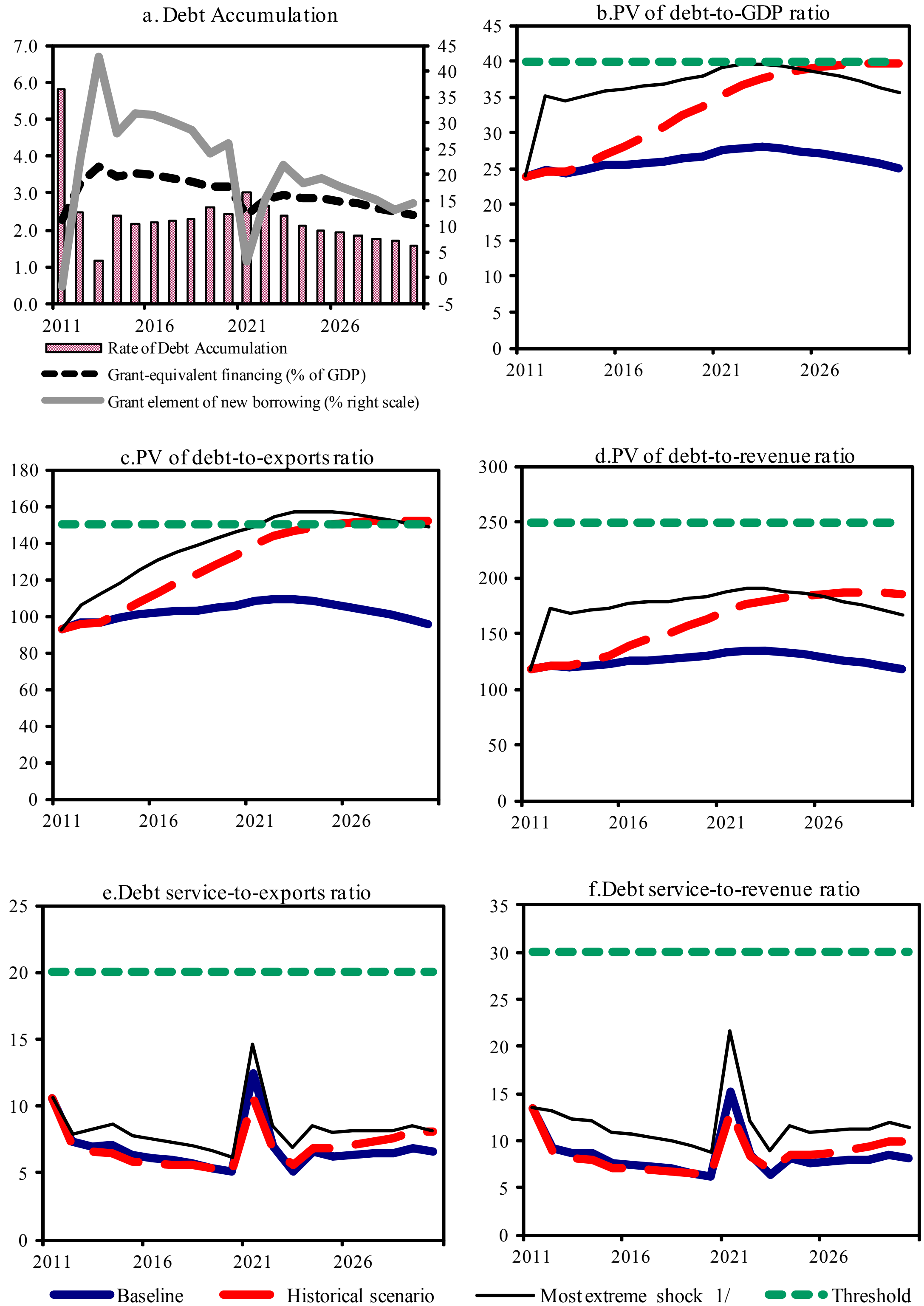
[6] Revisions to the database also include the elimination of some passive debts that were included in past DSAs.

[7] The indicative external debt burden thresholds for Senegal are shown in Figure 1. They are based on Senegal's classification as a "medium" performer given its (three-year average) score of 3.67 on the World Bank's Country Policy and Institutional Assessment index (CPIA). The CPIA measures the quality of policies and institutions; weak performers score below 3.25, strong performers above 3.75.

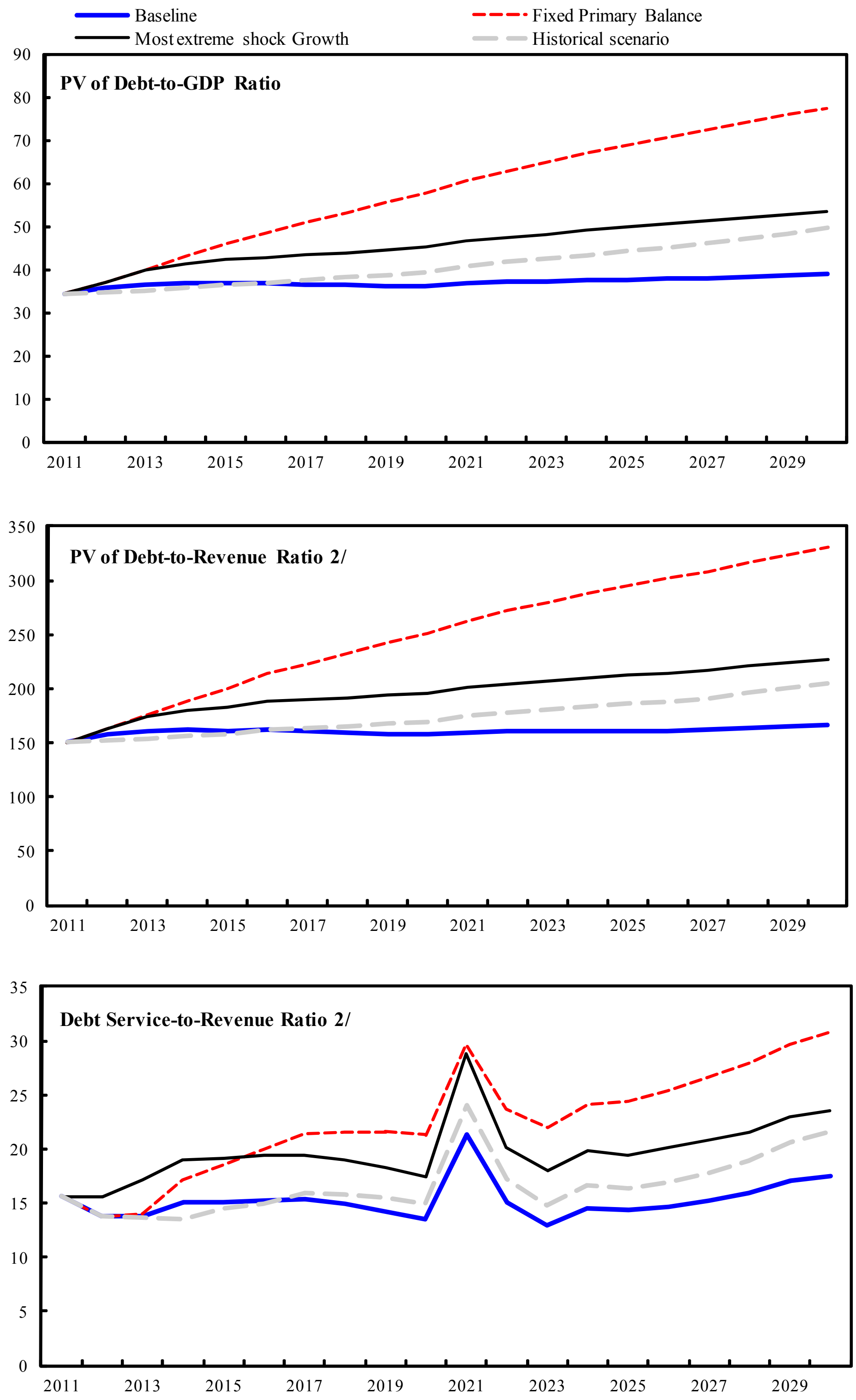
Figure 1. Senegal: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2011-2030 1/




Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2021. In figure b. it corresponds to a One-time depreciation shock; in c. to a Terms shock; in d. to a One-time depreciation shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

Figure 2.Senegal: Indicators of Public Debt Under Alternative Scenarios, 2011-2030 1/




Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2021.

2/ Revenues are defined inclusive of grants.

Table 1a.: External Debt Sustainability Framework, Baseline Scenario, 2008-2030 1/
(In percent of GDP, unless otherwise indicated)

| | Actual | | | Historical 0 Average | 0 Standard Deviation | Projections | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | | | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2011-2016 Average | 2017 | 2018 | 2019 | 2020 | 2021 | 2030 | 2017-2030 Average |
| **External debt (nominal) 1/** | **43.1** | **48.5** | **52.1** | | | **52.6** | **53.4** | **52.9** | **53.4** | **53.7** | **53.4** | | **53.4** | **53.2** | **53.2** | **52.9** | **52.5** | **44.1** | |
| o/w public and publicly guaranteed (PPG) | 19.7 | 27.0 | 27.5 | | | 30.8 | 32.1 | 32.4 | 33.5 | 34.5 | 35.0 | | 35.5 | 35.8 | 36.4 | 36.7 | 36.7 | 31.4 | |
| Change in external debt | 5.7 | 5.4 | 3.6 | | | 0.5 | 0.8 | -0.5 | 0.5 | 0.4 | -0.3 | | 0.0 | -0.2 | 0.0 | -0.2 | -0.5 | -1.2 | |
| Identified net debt-creating flows | 6.4 | 6.6 | 3.5 | | | 4.1 | 3.6 | 3.1 | 2.9 | 2.4 | 2.2 | | 2.1 | 2.2 | 2.1 | 2.0 | 2.0 | 2.0 | |
| **Non-interest current account deficit** | **14.0** | **6.5** | **5.5** | **7.7** | **3.0** | **7.8** | **7.4** | **6.9** | **6.8** | **6.5** | **6.3** | | **6.4** | **6.4** | **6.4** | **6.4** | **6.4** | **6.4** | 6.4 |
| Deficit in balance of goods and services | 26.5 | 16.9 | 15.7 | | | 18.1 | 17.2 | 16.1 | 15.6 | 15.1 | 14.9 | | 14.9 | 14.9 | 14.8 | 14.8 | 14.8 | 14.7 | |
| Exports | 26.3 | 24.4 | 24.2 | | | 26.0 | 25.8 | 25.3 | 25.1 | 25.1 | 25.0 | | 25.1 | 25.2 | 25.3 | 25.4 | 25.5 | 26.1 | |
| Imports | 52.8 | 41.3 | 39.9 | | | 44.1 | 43.0 | 41.5 | 40.7 | 40.1 | 39.9 | | 39.9 | 40.1 | 40.1 | 40.2 | 40.3 | 40.8 | |
| Net current transfers (negative = inflow) | -12.7 | -11.5 | -11.1 | -9.1 | 2.3 | -11.1 | -10.5 | -9.9 | -9.5 | -9.3 | -9.3 | | -9.2 | -9.2 | -9.1 | -9.1 | -9.1 | -8.9 | -9.0 |
| o/w official | -0.5 | -0.4 | -0.2 | | | -0.6 | -0.5 | -0.5 | -0.6 | -0.6 | -0.6 | | -0.6 | -0.6 | -0.6 | -0.6 | -0.6 | -0.6 | |
| Other current account flows (negative = net inflow) | 0.2 | 1.2 | 0.8 | | | 0.8 | 0.6 | 0.7 | 0.7 | 0.7 | 0.7 | | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | |
| **Net FDI (negative = inflow)** | **-2.0** | **-2.0** | **-2.0** | **-1.4** | **0.7** | **-2.0** | **-2.0** | **-2.0** | **-1.9** | **-2.0** | **-2.1** | | **-2.1** | **-2.2** | **-2.2** | **-2.3** | **-2.3** | **-2.5** | -2.3 |
| **Endogenous debt dynamics 2/** | **-5.5** | **2.1** | **0.1** | | | **-1.7** | **-1.7** | **-1.9** | **-1.9** | **-2.1** | **-2.1** | | **-2.1** | **-2.1** | **-2.0** | **-2.1** | **-2.1** | **-1.9** | |
| Contribution from nominal interest rate | 0.2 | 0.2 | 0.4 | | | 0.4 | 0.6 | 0.6 | 0.6 | 0.6 | 0.7 | | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | |
| Contribution from real GDP growth | -1.0 | -1.0 | -2.0 | | | -2.1 | -2.4 | -2.5 | -2.6 | -2.7 | -2.7 | | -2.7 | -2.7 | -2.8 | -2.8 | -2.8 | -2.6 | |
| Contribution from price and exchange rate changes | -4.7 | 2.9 | 1.7 | | | … | … | … | … | … | … | | … | … | … | … | … | … | |
| **Residual (3-4) 3/** | **-0.7** | **-1.2** | **0.1** | | | **-3.6** | **-2.8** | **-3.6** | **-2.4** | **-2.0** | **-2.5** | | **-2.2** | **-2.3** | **-2.1** | **-2.3** | **-2.5** | **-3.2** | |
| o/w exceptional financing | -1.9 | 0.1 | 1.6 | | | -0.5 | -0.5 | -0.1 | -0.1 | -0.1 | 0.0 | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| PV of external debt 4/ | ... | ... | 44.6 | | | 45.7 | 46.1 | 44.8 | 44.8 | 44.6 | 43.9 | | 43.6 | 43.3 | 43.2 | 43.0 | 43.3 | 37.7 | |
| In percent of exports | ... | ... | 184.3 | | | 176.1 | 179.0 | 177.0 | 178.3 | 177.9 | 175.6 | | 174.1 | 171.9 | 171.2 | 169.6 | 170.0 | 144.3 | |
| **PV of PPG external debt** | **...** | **...** | **20.0** | | | **24.0** | **24.8** | **24.3** | **24.9** | **25.4** | **25.5** | | **25.7** | **25.9** | **26.5** | **26.8** | **27.5** | **25.1** | |
| **In percent of exports** | **...** | **...** | **82.6** | | | **92.4** | **96.3** | **95.9** | **99.2** | **101.3** | **102.0** | | **102.6** | **103.1** | **104.8** | **105.5** | **108.0** | **95.9** | |
| **In percent of government revenues** | **...** | **...** | **102.8** | | | **117.6** | **121.4** | **119.1** | **121.3** | **122.6** | **125.2** | | **125.5** | **126.2** | **128.3** | **129.3** | **132.5** | **117.2** | |
| **Debt service-to-exports ratio (in percent)** | **13.8** | **19.1** | **18.7** | | | **23.5** | **20.2** | **19.8** | **19.1** | **17.8** | **17.7** | | **17.5** | **17.2** | **16.9** | **16.5** | **23.8** | **17.7** | |
| **PPG debt service-to-exports ratio (in percent)** | **4.3** | **5.0** | **5.9** | | | **10.6** | **7.3** | **7.0** | **7.0** | **6.3** | **6.1** | | **5.9** | **5.8** | **5.4** | **5.0** | **12.4** | **6.6** | |
| **PPG debt service-to-revenue ratio (in percent)** | **5.9** | **6.5** | **7.4** | | | **13.5** | **9.2** | **8.7** | **8.6** | **7.6** | **7.5** | | **7.3** | **7.0** | **6.6** | **6.2** | **15.2** | **8.1** | |
| Total gross financing need (Billions of U.S. dollars) | 2.1 | 1.2 | 1.0 | | | 1.7 | 1.6 | 1.6 | 1.6 | 1.6 | 1.7 | | 1.8 | 2.0 | 2.1 | 2.2 | 2.9 | 5.1 | |
| Non-interest current account deficit that stabilizes debt ratio | 8.3 | 1.1 | 1.8 | | | 7.3 | 6.6 | 7.4 | 6.3 | 6.1 | 6.7 | | 6.4 | 6.6 | 6.4 | 6.6 | 6.9 | 7.6 | |
| **Key macroeconomic assumptions** | | | | | | | | | | | | | | | | | | | |
| Real GDP growth (in percent) | 3.2 | 2.2 | 4.2 | 4.0 | 1.9 | 4.5 | 4.8 | 5.0 | 5.2 | 5.5 | 5.5 | 5.1 | 5.5 | 5.5 | 5.6 | 5.6 | 5.7 | 6.2 | 5.8 |
| GDP deflator in US dollar terms (change in percent) | 14.4 | -6.3 | -3.4 | 6.6 | 8.7 | 3.6 | 1.9 | 1.7 | 1.7 | 1.5 | 2.0 | 2.1 | 2.2 | 2.2 | 2.2 | 2.3 | 2.3 | 2.4 | 2.3 |
| Effective interest rate (percent) 5/ | 0.6 | 0.4 | 0.9 | 0.7 | 0.2 | 0.9 | 1.3 | 1.2 | 1.3 | 1.3 | 1.3 | 1.2 | 1.3 | 1.4 | 1.4 | 1.5 | 1.5 | 1.6 | 1.5 |
| Growth of exports of G&S (US dollar terms, in percent) | 22.1 | -11.1 | -0.3 | 9.5 | 10.8 | 16.2 | 5.8 | 5.0 | 6.2 | 6.8 | 7.4 | 7.9 | 8.1 | 8.3 | 8.4 | 8.5 | 8.5 | 9.0 | 8.6 |
| Growth of imports of G&S (US dollar terms, in percent) | 30.4 | -25.0 | -2.9 | 12.8 | 17.6 | 19.7 | 4.0 | 3.0 | 5.1 | 5.6 | 7.0 | 7.4 | 8.0 | 8.2 | 8.1 | 8.2 | 8.4 | 9.0 | 8.5 |
| Grant element of new public sector borrowing (in percent) | ... | ... | ... | ... | ... | -1.5 | 23.2 | 42.7 | 28.0 | 32.0 | 31.4 | 25.9 | 30.1 | 28.7 | 24.1 | 25.9 | 3.0 | 14.6 | 18.8 |
| Government revenues (excluding grants, in percent of GDP) | 19.4 | 18.6 | 19.4 | | | 20.4 | 20.4 | 20.4 | 20.6 | 20.7 | 20.4 | | 20.5 | 20.6 | 20.6 | 20.7 | 20.8 | 21.4 | 20.9 |
| Aid flows (in Billions of US dollars) 6/ | 0.7 | 0.9 | 0.7 | | | 0.6 | 0.6 | 0.7 | 0.8 | 0.8 | 0.8 | | 0.9 | 0.9 | 0.9 | 0.9 | 0.9 | 1.2 | |
| o/w Grants | 0.3 | 0.4 | 0.3 | | | 0.3 | 0.3 | 0.4 | 0.4 | 0.4 | 0.4 | | 0.5 | 0.5 | 0.6 | 0.6 | 0.7 | 1.2 | |
| o/w Concessional loans | 0.3 | 0.5 | 0.4 | | | 0.3 | 0.3 | 0.3 | 0.4 | 0.4 | 0.4 | | 0.4 | 0.4 | 0.3 | 0.3 | 0.3 | 0.0 | |
| Grant-equivalent financing (in percent of GDP) 7/ | ... | ... | ... | | | 2.3 | 3.3 | 3.7 | 3.5 | 3.5 | 3.5 | | 3.4 | 3.3 | 3.2 | 3.2 | 2.4 | 2.4 | 2.9 |
| Grant-equivalent financing (in percent of external financing) 7/ | ... | ... | ... | | | 23.3 | 49.7 | 65.7 | 52.9 | 56.8 | 56.8 | | 56.4 | 56.0 | 52.7 | 55.3 | 32.8 | 52.1 | 51.7 |
| *Memorandum items:* | | | | | | | | | | | | | | | | | | | |
| Nominal GDP (Billions of US dollars) | 13.3 | 12.8 | 12.9 | | | 13.9 | 14.9 | 15.9 | 17.0 | 18.2 | 19.6 | | 21.1 | 22.8 | 24.6 | 26.6 | 28.7 | 59.6 | |
| Nominal dollar GDP growth | 18.1 | -4.2 | 0.7 | | | 8.2 | 6.7 | 6.8 | 7.0 | 7.1 | 7.6 | 7.2 | 7.9 | 7.9 | 8.0 | 8.0 | 8.1 | 8.8 | 8.3 |
| PV of PPG external debt (in Billions of US dollars) | | | 2.6 | | | 3.3 | 3.7 | 3.8 | 4.2 | 4.6 | 5.0 | | 5.4 | 5.9 | 6.5 | 7.1 | 7.9 | 14.9 | |
| (PVt-PVt-1)/GDPt-1 (in percent) | | | | | | 5.8 | 2.5 | 1.1 | 2.4 | 2.2 | 2.2 | 2.7 | 2.2 | 2.3 | 2.6 | 2.4 | 3.0 | 1.6 | 2.2 |
| Gross workers' remittances (Billions of US dollars) | 1.9 | 1.7 | 1.6 | | | 1.7 | 1.7 | 1.7 | 1.7 | 1.8 | 1.9 | | 2.1 | 2.2 | 2.4 | 2.6 | 2.8 | 5.7 | |
| PV of PPG external debt (in percent of GDP + remittances) | ... | ... | 17.8 | | | 21.4 | 22.3 | 22.0 | 22.6 | 23.1 | 23.2 | | 23.4 | 23.6 | 24.1 | 24.4 | 25.1 | 22.9 | |
| PV of PPG external debt (in percent of exports + remittances) | ... | ... | 54.6 | | | 63.3 | 66.9 | 67.6 | 70.6 | 72.6 | 73.1 | | 73.7 | 74.2 | 75.5 | 76.2 | 78.2 | 70.2 | |
| Debt service of PPG external debt (in percent of exports + remittances) | ... | ... | 3.9 | | | 7.3 | 5.1 | 4.9 | 5.0 | 4.5 | 4.4 | | 4.3 | 4.1 | 3.9 | 3.6 | 9.0 | 4.8 | |

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Assumes that PV of private sector debt is equivalent to its face value.

5/ Current-year interest payments divided by previous period debt stock.

6/ Defined as grants, concessional loans, and debt relief.

7/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

Table 1b.Senegal: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2011-2030
(In percent)

| | Projections | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | **2021** | 2026 | 2030 |
| **PV of debt-to-GDP ratio** | | | | | | | | | |
| **Baseline** | 24 | 25 | 24 | 25 | 25 | 26 | **28** | 27 | 25 |
| **A. Alternative Scenarios** | | | | | | | | | |
| A1. Key variables at their historical averages in 2011-2031 1/ | 24 | 25 | 25 | 26 | 27 | 28 | **35** | 39 | 40 |
| A2. New public sector loans on less favorable terms in 2011-2031 2 | 24 | 27 | 28 | 30 | 31 | 33 | **38** | 40 | 39 |
| **B. Bound Tests** | | | | | | | | | |
| B1. Real GDP growth at historical average minus one standard deviation in 2012-2013 | 24 | 25 | 26 | 26 | 27 | 27 | **29** | 29 | 26 |
| B2. Export value growth at historical average minus one standard deviation in 2012-2013 3/ | 24 | 26 | 28 | 29 | 29 | 29 | **31** | 29 | 26 |
| B3. US dollar GDP deflator at historical average minus one standard deviation in 2012-2013 | 24 | 26 | 26 | 27 | 27 | 28 | **30** | 29 | 27 |
| B4. Net non-debt creating flows at historical average minus one standard deviation in 2012-2013 4/ | 24 | 29 | 32 | 33 | 33 | 33 | **33** | 31 | 27 |
| B5. Combination of B1-B4 using one-half standard deviation shocks | 24 | 29 | 31 | 32 | 32 | 32 | **33** | 31 | 27 |
| B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/ | 24 | 35 | 34 | 35 | 36 | 36 | **39** | 38 | 36 |
| **PV of debt-to-exports ratio** | | | | | | | | | |
| **Baseline** | 92 | 96 | 96 | 99 | 101 | 102 | **108** | 105 | 96 |
| **A. Alternative Scenarios** | | | | | | | | | |
| A1. Key variables at their historical averages in 2011-2031 1/ | 92 | 96 | 97 | 102 | 107 | 113 | **139** | 151 | 152 |
| A2. New public sector loans on less favorable terms in 2011-2031 2 | 92 | 106 | 112 | 118 | 125 | 131 | **148** | 156 | 148 |
| **B. Bound Tests** | | | | | | | | | |
| B1. Real GDP growth at historical average minus one standard deviation in 2012-2013 | 92 | 96 | 96 | 99 | 101 | 102 | **108** | 105 | 96 |
| B2. Export value growth at historical average minus one standard deviation in 2012-2013 3/ | 92 | 109 | 128 | 131 | 133 | 133 | **137** | 128 | 114 |
| B3. US dollar GDP deflator at historical average minus one standard deviation in 2012-2013 | 92 | 96 | 96 | 99 | 101 | 102 | **108** | 105 | 96 |
| B4. Net non-debt creating flows at historical average minus one standard deviation in 2012-2013 4/ | 92 | 113 | 127 | 129 | 130 | 130 | **131** | 118 | 103 |
| B5. Combination of B1-B4 using one-half standard deviation shocks | 92 | 111 | 124 | 127 | 128 | 129 | **130** | 118 | 105 |
| B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/ | 92 | 96 | 96 | 99 | 101 | 102 | **108** | 105 | 96 |
| **PV of debt-to-revenue ratio** | | | | | | | | | |
| **Baseline** | 118 | 121 | 119 | 121 | 123 | 125 | **133** | 129 | 117 |
| **A. Alternative Scenarios** | | | | | | | | | |
| A1. Key variables at their historical averages in 2011-2031 1/ | 118 | 121 | 120 | 125 | 130 | 138 | **170** | 185 | 185 |
| A2. New public sector loans on less favorable terms in 2011-2031 2 | 118 | 133 | 139 | 144 | 151 | 160 | **182** | 191 | 181 |
| **B. Bound Tests** | | | | | | | | | |
| B1. Real GDP growth at historical average minus one standard deviation in 2012-2013 | 118 | 124 | 125 | 128 | 128 | 132 | **140** | 135 | 124 |
| B2. Export value growth at historical average minus one standard deviation in 2012-2013 3/ | 118 | 128 | 139 | 141 | 141 | 143 | **147** | 137 | 122 |
| B3. US dollar GDP deflator at historical average minus one standard deviation in 2012-2013 | 118 | 126 | 128 | 131 | 132 | 135 | **143** | 139 | 127 |
| B4. Net non-debt creating flows at historical average minus one standard deviation in 2012-2013 4/ | 118 | 142 | 158 | 158 | 158 | 160 | **160** | 145 | 126 |
| B5. Combination of B1-B4 using one-half standard deviation shocks | 118 | 140 | 154 | 155 | 155 | 157 | **159** | 145 | 128 |
| B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/ | 118 | 172 | 168 | 172 | 173 | 177 | **188** | 182 | 166 |

Table 1b.Senegal: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2011-2030 (continued)
(In percent)

| | Projections | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2021 | 2026 | 2030 |
| **Debt service-to-exports ratio** | | | | | | | | | |
| **Baseline** | 11 | 7 | 7 | 7 | 6 | 6 | **12** | 6 | 7 |
| **A. Alternative Scenarios** | | | | | | | | | |
| A1. Key variables at their historical averages in 2011-2031 1/ | 11 | 7 | 7 | 7 | 6 | 6 | **11** | 7 | 8 |
| A2. New public sector loans on less favorable terms in 2011-2031 2 | 11 | 7 | 6 | 7 | 6 | 6 | **7** | 8 | 9 |
| **B. Bound Tests** | | | | | | | | | |
| B1. Real GDP growth at historical average minus one standard deviation in 2012-2013 | 11 | 7 | 7 | 7 | 6 | 6 | **12** | 6 | 7 |
| B2. Export value growth at historical average minus one standard deviation in 2012-2013 3/ | 11 | 8 | 8 | 9 | 8 | 8 | **15** | 8 | 8 |
| B3. US dollar GDP deflator at historical average minus one standard deviation in 2012-2013 | 11 | 7 | 7 | 7 | 6 | 6 | **12** | 6 | 7 |
| B4. Net non-debt creating flows at historical average minus one standard deviation in 2012-2013 4/ | 11 | 7 | 8 | 8 | 7 | 7 | **13** | 8 | 8 |
| B5. Combination of B1-B4 using one-half standard deviation shocks | 11 | 7 | 8 | 8 | 7 | 7 | **13** | 8 | 8 |
| B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/ | 11 | 7 | 7 | 7 | 6 | 6 | **12** | 6 | 7 |
| **Debt service-to-revenue ratio** | | | | | | | | | |
| **Baseline** | 13 | 9 | 9 | 9 | 8 | 8 | **15** | 8 | 8 |
| **A. Alternative Scenarios** | | | | | | | | | |
| A1. Key variables at their historical averages in 2011-2031 1/ | 13 | 9 | 8 | 8 | 7 | 7 | **13** | 9 | 10 |
| A2. New public sector loans on less favorable terms in 2011-2031 2 | 13 | 9 | 8 | 8 | 7 | 8 | **8** | 10 | 11 |
| **B. Bound Tests** | | | | | | | | | |
| B1. Real GDP growth at historical average minus one standard deviation in 2012-2013 | 13 | 9 | 9 | 9 | 8 | 8 | **16** | 8 | 9 |
| B2. Export value growth at historical average minus one standard deviation in 2012-2013 3/ | 13 | 9 | 9 | 9 | 8 | 8 | **16** | 9 | 9 |
| B3. US dollar GDP deflator at historical average minus one standard deviation in 2012-2013 | 13 | 10 | 9 | 9 | 8 | 8 | **16** | 8 | 9 |
| B4. Net non-debt creating flows at historical average minus one standard deviation in 2012-2013 4/ | 13 | 9 | 9 | 10 | 9 | 9 | **16** | 10 | 9 |
| B5. Combination of B1-B4 using one-half standard deviation shocks | 13 | 9 | 9 | 10 | 9 | 9 | **16** | 9 | 9 |
| B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/ | 13 | 13 | 12 | 12 | 11 | 11 | **22** | 11 | 11 |
| *Memorandum item:* | | | | | | | | | |
| Grant element assumed on residual financing (i.e., financing required above baseline) 6/ | 14 | 14 | 14 | 14 | 14 | 14 | **14** | 14 | 14 |

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assumin
an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Table 2a.Senegal: Public Sector Debt Sustainability Framework, Baseline Scenario, 2008-2030
(In percent of GDP, unless otherwise indicated)

| | Actual | | | Average | Standard Deviation | Estimate | Projections | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | | | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2011-16 Average | 2021 | 2030 | 2017-30 Average |
| **Public sector debt 1/** | 25.0 | 34.6 | 35.9 | | | 41.1 | 43.0 | 44.4 | 45.5 | 46.1 | 46.2 | | 46.0 | 45.3 | |
| o/w foreign-currency denominated | 19.7 | 27.0 | 27.5 | | | 30.8 | 32.1 | 32.4 | 33.5 | 34.5 | 35.0 | | 36.7 | 31.4 | |
| Change in public sector debt | 0.5 | 9.6 | 1.3 | | | 5.2 | 1.8 | 1.4 | 1.1 | 0.5 | 0.1 | | -0.1 | -0.1 | |
| Identified debt-creating flows | 3.2 | 3.0 | 5.4 | | | 4.5 | 2.9 | 1.9 | 1.4 | 0.8 | 0.4 | | 0.2 | 0.0 | |
| Primary deficit | 4.2 | 4.3 | 4.3 | 2.7 | 1.9 | 5.8 | 4.3 | 3.3 | 2.9 | 2.3 | 2.4 | 3.5 | 2.3 | 2.2 | 2.3 |
| Revenue and grants | 21.7 | 21.7 | 22.0 | | | 22.8 | 22.7 | 22.7 | 22.8 | 23.0 | 22.6 | | 23.0 | 23.4 | |
| *of which: grants* | 2.3 | 3.0 | 2.5 | | | 2.4 | 2.3 | 2.3 | 2.3 | 2.3 | 2.3 | | 2.3 | 2.0 | |
| Primary (noninterest) expenditure | 25.9 | 25.9 | 26.2 | | | 28.6 | 26.9 | 26.0 | 25.8 | 25.3 | 25.0 | | 25.3 | 25.6 | |
| Automatic debt dynamics | -0.4 | -0.9 | 1.4 | | | -1.3 | -1.3 | -1.5 | -1.5 | -1.5 | -2.0 | | -2.1 | -2.2 | |
| Contribution from interest rate/growth differential | -0.9 | 0.2 | -0.9 | | | -1.1 | -1.2 | -1.4 | -1.6 | -1.7 | -1.8 | | -2.1 | -2.2 | |
| *of which: contribution from average real interest rate* | -0.1 | 0.7 | 0.5 | | | 0.5 | 0.7 | 0.6 | 0.6 | 0.6 | 0.6 | | 0.4 | 0.5 | |
| *of which: contribution from real GDP growth* | -0.8 | -0.5 | -1.4 | | | -1.5 | -1.9 | -2.0 | -2.2 | -2.4 | -2.4 | | -2.5 | -2.7 | |
| Contribution from real exchange rate depreciation | 0.5 | -1.0 | 2.3 | | | -0.3 | -0.1 | 0.0 | 0.0 | 0.2 | -0.2 | | ... | ... | |
| Other identified debt-creating flows | -0.6 | -0.3 | -0.3 | | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | 0.0 | 0.0 | |
| Privatization receipts (negative) | -0.3 | 0.0 | 0.0 | | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | 0.0 | 0.0 | |
| Recognition of implicit or contingent liabilities | 0.0 | 0.0 | 0.0 | | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | 0.0 | 0.0 | |
| Debt relief (HIPC and other) | -0.3 | -0.3 | -0.3 | | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | 0.0 | 0.0 | |
| Other (specify, e.g. bank recapitalization) | 0.0 | 0.0 | 0.0 | | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | 0.0 | 0.0 | |
| Residual, including asset changes | -2.7 | 6.5 | -4.1 | | | 0.7 | -1.1 | -0.4 | -0.3 | -0.3 | -0.3 | | -0.3 | -0.2 | |
| **Other Sustainability Indicators** | | | | | | | | | | | | | | | |
| **PV of public sector debt** | ... | ... | 28.4 | | | 34.3 | 35.7 | 36.3 | 36.9 | 36.9 | 36.7 | | 36.8 | 38.9 | |
| o/w foreign-currency denominated | ... | ... | 20.0 | | | 24.0 | 24.8 | 24.3 | 24.9 | 25.4 | 25.5 | | 27.5 | 25.1 | |
| o/w external | ... | ... | 20.0 | | | 24.0 | 24.8 | 24.3 | 24.9 | 25.4 | 25.5 | | 27.5 | 25.1 | |
| PV of contingent liabilities (not included in public sector debt) | ... | ... | ... | | | ... | ... | ... | ... | ... | ... | | ... | ... | |
| Gross financing need 2/ | 7.8 | 8.0 | 8.2 | | | 12.1 | 10.9 | 10.3 | 10.5 | 9.6 | 9.3 | | 9.7 | 9.3 | |
| PV of public sector debt-to-revenue and grants ratio (in percent) | … | … | 129.2 | | | 150.5 | 157.3 | 160.3 | 161.9 | 160.7 | 162.2 | | 159.9 | 166.2 | |
| PV of public sector debt-to-revenue ratio (in percent) | … | … | 146.1 | | | 168.0 | 174.7 | 178.1 | 179.7 | 178.3 | 180.1 | | 177.4 | 182.1 | |
| o/w external 3/ | … | … | 102.8 | | | 117.6 | 121.4 | 119.1 | 121.3 | 122.6 | 125.2 | | 132.5 | 117.2 | |
| Debt service-to-revenue and grants ratio (in percent) 4/ | 8.2 | 9.1 | 9.8 | | | 15.6 | 13.8 | 13.8 | 15.0 | 15.1 | 15.2 | | 21.4 | 17.5 | |
| Debt service-to-revenue ratio (in percent) 4/ | 9.1 | 10.6 | 11.1 | | | 17.5 | 15.3 | 15.3 | 16.7 | 16.7 | 16.9 | | 23.7 | 19.1 | |
| Primary deficit that stabilizes the debt-to-GDP ratio | 3.6 | -5.3 | 2.9 | | | 0.6 | 2.4 | 1.9 | 1.8 | 1.8 | 2.3 | | 2.4 | 2.3 | |
| **Key macroeconomic and fiscal assumptions** | | | | | | | | | | | | | | | |
| Real GDP growth (in percent) | 3.2 | 2.2 | 4.2 | 4.0 | 1.9 | 4.5 | 4.8 | 5.0 | 5.2 | 5.5 | 5.5 | 5.1 | 5.7 | 6.2 | 5.8 |
| Average nominal interest rate on forex debt (in percent) | 2.5 | 2.0 | 2.1 | 2.0 | 0.5 | 2.3 | 2.7 | 2.4 | 2.5 | 2.4 | 2.4 | 2.4 | 2.4 | 2.6 | 2.5 |
| Average real interest rate on domestic debt (in percent) | -2.2 | 8.1 | 3.5 | 1.2 | 3.1 | 3.4 | 3.3 | 3.6 | 3.7 | 4.0 | 4.1 | 3.7 | 4.1 | 3.6 | 3.9 |
| Real exchange rate depreciation (in percent, + indicates depreciation) | 2.7 | -5.2 | 8.9 | -4.1 | 9.8 | -1.0 | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| Inflation rate (GDP deflator, in percent) | 6.6 | -0.9 | 1.3 | 2.6 | 2.3 | 3.0 | 2.4 | 2.2 | 2.2 | 2.0 | 2.0 | 2.3 | 2.3 | 2.4 | 2.3 |
| Growth of real primary spending (deflated by GDP deflator, in percent) | 0.0 | 0.0 | 0.1 | 0.1 | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.1 | 0.1 |
| Grant element of new external borrowing (in percent) | ... | ... | ... | … | … | -1.5 | 23.2 | 42.7 | 28.0 | 32.0 | 31.4 | 25.9 | 3.0 | 14.6 | ... |

Sources: Country authorities; and staff estimates and projections.

1/ The public sector refers to the central governemnt.

2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

3/ Revenues excluding grants.

4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.

Table 2b.Senegal: Sensitivity Analysis for Key Indicators of Public Debt 2011-2030

| | Projections | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2021 | 2030 |
| **PV of Debt-to-GDP Ratio** | | | | | | | | |
| **Baseline** | 34 | 36 | 36 | 37 | 37 | 37 | 37 | 39 |
| **A. Alternative scenarios** | | | | | | | | |
| A1. Real GDP growth and primary balance are at historical averages | 34 | 34 | 35 | 36 | 36 | 37 | 41 | 50 |
| A2. Primary balance is unchanged from 2011 | 34 | 37 | 40 | 43 | 46 | 48 | 61 | 77 |
| A3. Permanently lower GDP growth 1/ | 34 | 36 | 37 | 38 | 38 | 38 | 42 | 53 |
| **B. Bound tests** | | | | | | | | |
| B1. Real GDP growth is at historical average minus one standard deviations in 2012-2013 | 34 | 37 | 40 | 41 | 42 | 43 | 47 | 53 |
| B2. Primary balance is at historical average minus one standard deviations in 2012-2013 | 34 | 36 | 38 | 38 | 38 | 38 | 38 | 40 |
| B3. Combination of B1-B2 using one half standard deviation shocks | 34 | 36 | 37 | 38 | 39 | 39 | 42 | 48 |
| B4. One-time 30 percent real depreciation in 2012 | 34 | 46 | 45 | 45 | 44 | 44 | 42 | 44 |
| B5. 10 percent of GDP increase in other debt-creating flows in 2012 | 34 | 45 | 45 | 45 | 45 | 44 | 43 | 43 |
| **PV of Debt-to-Revenue Ratio 2/** | | | | | | | | |
| **Baseline** | 150 | 157 | 160 | 162 | 161 | 162 | 160 | 166 |
| **A. Alternative scenarios** | | | | | | | | |
| A1. Real GDP growth and primary balance are at historical averages | 150 | 152 | 154 | 156 | 158 | 162 | 175 | 206 |
| A2. Primary balance is unchanged from 2011 | 150 | 164 | 176 | 189 | 200 | 214 | 263 | 330 |
| A3. Permanently lower GDP growth 1/ | 150 | 158 | 162 | 165 | 166 | 170 | 181 | 225 |
| **B. Bound tests** | | | | | | | | |
| B1. Real GDP growth is at historical average minus one standard deviations in 2012-2013 | 150 | 163 | 174 | 180 | 183 | 188 | 201 | 227 |
| B2. Primary balance is at historical average minus one standard deviations in 2012-2013 | 150 | 158 | 166 | 167 | 166 | 167 | 164 | 169 |
| B3. Combination of B1-B2 using one half standard deviation shocks | 150 | 157 | 163 | 168 | 169 | 173 | 182 | 203 |
| B4. One-time 30 percent real depreciation in 2012 | 150 | 201 | 200 | 198 | 194 | 192 | 182 | 186 |
| B5. 10 percent of GDP increase in other debt-creating flows in 2012 | 150 | 197 | 199 | 198 | 195 | 196 | 187 | 183 |
| **Debt Service-to-Revenue Ratio 2/** | | | | | | | | |
| **Baseline** | 16 | 14 | 14 | 15 | 15 | 15 | 21 | 17 |
| **A. Alternative scenarios** | | | | | | | | |
| A1. Real GDP growth and primary balance are at historical averages | 16 | 14 | 14 | 13 | 14 | 15 | 24 | 22 |
| A2. Primary balance is unchanged from 2011 | 16 | 14 | 14 | 17 | 19 | 20 | 30 | 31 |
| A3. Permanently lower GDP growth 1/ | 16 | 14 | 14 | 15 | 16 | 16 | 23 | 22 |
| **B. Bound tests** | | | | | | | | |
| B1. Real GDP growth is at historical average minus one standard deviations in 2012-2013 | 16 | 14 | 14 | 17 | 17 | 18 | 25 | 23 |
| B2. Primary balance is at historical average minus one standard deviations in 2012-2013 | 16 | 14 | 14 | 16 | 16 | 16 | 22 | 18 |
| B3. Combination of B1-B2 using one half standard deviation shocks | 16 | 14 | 14 | 15 | 16 | 16 | 24 | 20 |
| B4. One-time 30 percent real depreciation in 2012 | 16 | 16 | 17 | 19 | 19 | 19 | 29 | 23 |
| B5. 10 percent of GDP increase in other debt-creating flows in 2012 | 16 | 14 | 15 | 26 | 17 | 19 | 23 | 19 |

Sources: Country authorities; and staff estimates and projections.
1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.
2/ Revenues are defined inclusive of grants.

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FOR IMMEDIATE RELEASE
June 6, 2011

International Monetary Fund
Washington, D.C. 20431 USA

**IMF Executive Board Completes First Review Under Policy Support Instrument for Senegal**

The Executive Board of the International Monetary Fund (IMF) today completed the first review of Senegal's economic performance under the Policy Support Instrument (PSI). In completing the review, the Board approved a waiver for the nonobservance of the quantitative assessment criterion related to the fiscal deficit target.

Senegal's second three-year Policy Support Instrument (PSI) was approved by the Board on December 3, 2010 (see Press Release No. 10/469). The IMF's framework for PSIs is designed for low-income countries that may not need, or want, IMF financial assistance, but still seek IMF advice, monitoring, and endorsement of their policies (see Public Information Notice No. 05/145).

Following the Executive Board's discussion on Senegal, Ms. Nemat Shafik, Deputy Managing Director and Acting Chair, stated:

"Senegal's economic recovery continues, and performance under its PSI-supported program is satisfactory. There are however downside risks stemming mainly from continued electricity supply problems and increasing food and fuel prices, which pose some inflationary risks.

"With the emergence of critical investment needs in the energy sector, fiscal policy faces the challenge of accommodating additional priority expenditure while maintaining debt sustainability. Although there is some space for temporarily higher fiscal deficits, a substantial contribution will need to come from additional revenue measures and reprioritizing expenditure. In the medium term, fiscal consolidation, supported by a prudent approach to borrowing, will be critical to bring down the deficit to levels consistent with preserving debt sustainability. The recent issuance of the Eurobond to finance infrastructure projects should be accompanied by strengthening investment planning and debt management.

“To sustain the growth momentum and increase Senegal’s growth potential, the pace of structural reforms should be accelerated. This includes tax policy reforms aimed at broadening the tax base and increasing the revenue effort, energy sector reforms, financial sector reforms, and other reforms geared towards removing bottlenecks to growth and promoting an improved business climate and governance,” she added.

**Statement by Kossi Assimaidou Executive Director for Senegal**

**June 6, 2011**

On behalf of our Senegalese authorities, we would like to thank the Board, Management and Staff for their continued support. They are appreciative of the candid policy dialogue with staff and remain strongly determined to advance their reform agenda in line with the new PSI-supported program. The implementation of this new program is serving the country well, notably by meeting expectations in terms of contribution to fiscal and debt management, public financial management, macroeconomic and financial stability, and private sector development.

Recent economic developments in Senegal were broadly positive, with preliminary estimates for 2010 pointing out to a strengthening of economic recovery, an improvement in the external position, and a slightly higher-than-projected overall fiscal deficit. As with previous reviews, implementation of structural conditionality was broadly satisfactory, reflecting the authorities' commitment to further advancing their ambitious structural reform agenda. As a result, noticeable progress was made toward devising an emergency plan for restructuring the energy sector, further improving cash flow and debt management, and strengthening transparency of the budget and the execution of large infrastructure projects.

Program performance was also satisfactory on the quantitative front with all end-December 2010 assessment criteria being met except for the one related to the fiscal deficit target. As noted in the staff report, the program target was missed by a small margin due to weaker-than-projected oil-related revenue performance. And it is authorities' expectation that the ongoing energy sector reform along with more efficient non-priority expenditure management will help avoid recurrence of similar under-performance going forward. The broadly satisfactory quantitative performance under the review period reflects the authorities' continuous efforts to maintain good macroeconomic management, notably by limiting the budgetary float, managing public debt prudently, abiding by good practices in the area of public procurement, and preserving sizable budgetary allocations to the social sectors. Going forward, these reform efforts will be consolidated along with those that encompass the energy sector, the financial system, and private sector development.

**Sustaining Fiscal Reforms and Improving Public Financial Management**

The authorities will continue to adhere to prudent fiscal policies with a view to maintaining macroeconomic stability. While still committed to prudent fiscal policy, they have decided to revise upward their original fiscal deficit targets in the short term. This revision helps to accommodate financing needs emanating from the energy sector while leaving unchanged the country's current low risk of debt distress.

Steps to further strengthen revenue mobilization will continue to be taken notwithstanding the country's relative good performance in this area by regional standards. In particular, the objective will be served *inter alia* by the ongoing reform of the general tax code which will be finalized in 2012 in consultation with social partners. In addition, the implementation of the comprehensive tax reform strategy that was recently finalized and submitted to the Council of Ministers is also expected to be revenue-enhancing. Going forward, a study will be conducted to assess the impact of value-added and income tax reforms. Moreover, customs administration will continue to be modernized, thereby further optimizing its significant contribution to revenue collection.

As part of their previously agreed structural agenda, the authorities remain committed to formulating a strategy for establishing a single Treasury account by the end of the third quarter of 2011. In this connection, efforts are underway at the Treasury to process information received in relation with government agencies' bank accounts with the ultimate goal of streamlining them. The ongoing work aimed at regularizing the remaining extrabudgetary expenditures is on track and expected to be finalized by end-June.

**Improving the Efficiency of the Energy Sector**

Over recent years, shortages in electricity production and distribution caused major disruptions in economic activity and sporadic episodes of social unrest. In this connection, available impact analyses conducted in relation with the energy crisis in Senegal point to significant costs, particularly in terms of losses of growth potential and social welfare. In particular, a diagnostic study commissioned by the authorities estimates that, in the absence of new investments, these costs could reach annually about 2 points of percentage of GDP and leave up to 50 percent of electricity demand unmet over the medium term. Against this background, the authorities developed an emergency plan for the recovery and restructuring of the energy sector over the period 2010-2014 following a comprehensive and inclusive diagnostic of the sector. Key aspects of the plan include increasing power generation capacities, managing the demand of electricity, and strengthening the financial situation of SENELEC.

With the aim of executing and financing their energy restructuring plan, the authorities put in place an energy sector support fund (FSE) in February. In order to fulfill its role of financing investments needed to foster recovery of the energy sector, the FSE is endowed with resources that are notably mobilized through budget reallocations and transfers, specific tax revenues and levies, and contributions from the country's partners. It is the authorities' intention to ensure full transparency in the process of carrying out the energy sector restructuring plan. To this end, the decision has been taken to make public on a 3 monthly basis information on the financial transactions and projects of the FSE. In addition, audits of the FSE;s accounts will be conducted on an annual basis.

**Further Strengthening Debt Management**

In view of the country's increasing access to international markets, the authorities recognize the need to further strengthen debt management. Key reforms in this area include the recent establishment of a new debt management unit and the preparation of a medium term debt management strategy. The new debt management unit is scheduled to start operating by end-

January 2012 and is expected to manage the issuance and repayment of domestic debt and debt guarantees.

As previously scheduled and consistent with program commitments, a US$500 million 10-year Eurobond was successfully issued early last month. In addition to freeing some resources for the financing of the highway extension project as originally intended, part of these proceeds will likely be directed toward the financing of highly profitable energy projects. This transaction will also contribute to reducing medium-term rollover risks, as most holders of the US$200 million international bond issued in 2009 consented to exchanging their bond holdings with the newly issued bond.

In addition to their revealed attachment to prudent borrowing practices in the process of mobilizing resources needed to finance infrastructure investments, the authorities remain committed to continued transparency in the execution of large infrastructure projects. In this area, it is expected that an audit of the use of resources allocated to the highway extension project will be conducted a few months after its execution begins. At the same time, the preparation of the guidelines for project evaluation continues and is expected to be finalized by end-December 2011.

**Advancing Financial Sector Reform**

The financial sector was successfully weathered from the recent crisis in Cote d'Ivoire, partly because of banks' adequate level of capitalization. Still, the authorities are mindful of the need to address some existing weaknesses, including the relatively high level of nonperforming loans, impediments to credit access, and loan concentration. The BCEAO will thus continue to conduct stress tests, broadening credit risk analysis to capture vulnerabilities from sectors and large borrowers. Steps to promote financial sector development are being taken, guided by the action plan developed last year in the context of the second national dialogue on credit. In particular, legislation aimed at facilitating financial leasing activities is expected to be finalized by end-June 2011. Better supervision of the microfinance institutions will remain in the authorities' reform agenda in the financial sector.

Based on my Senegalese authorities' commitment to pursue their reform agenda and prudent policies as reflected by the satisfactory program performance under the PSI review, I would appreciate Directors'support for the conclusion of the first review under the Policy Support Instrument.