INTERNATIONAL MONETARY FUND

IMF Country Report No. 14/177

SENEGAL

July 2014

SEVENTH REVIEW UNDER THE POLICY SUPPORT INSTRUMENT AND REQUEST FOR MODIFICATION OF ASSESSMENT CRITERIA—STAFF REPORT; AND PRESS RELEASE

In the context of the seventh review under the Policy Support Instrument and request for modification of assessment criteria for Senegal, the following documents have been released and are included in this package:

- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse of time basis, following discussions that ended on April 30, 2014, with the officials of Senegal on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on June 9, 2014.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank
- An **Informational Annex** prepared by the IMF.
- A **Press Release**

The following documents 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 Staff Report

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

Copies of this report are available to the public from
International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Fax: (202) 623-7201
E-mail: publications@imf.org Web: http://www.imf.org
Price: $18.00 per printed copy

International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

SENEGAL

June 9, 2014

SEVENTH REVIEW UNDER THE POLICY SUPPORT INSTRUMENT AND REQUEST FOR MODIFICATION OF ASSESSMENT CRITERIA

KEY ISSUES

Context. GDP growth was lower than expected in 2013 (an estimated 3.5 percent) but would increase to 4.9 percent in 2014 with a rebound in agriculture, mining, and industry. Inflation stood at 0.7 percent on average in 2013 and would remain subdued in 2014. Political tensions have increased, with local elections scheduled for end-June 2014 and the recent return to Senegal of former President Wade.

Plan Sénégal Emergent (PSE). Senegal's new growth strategy offers a good diagnostic and a vision for Senegal. It is more focused than earlier strategies on key projects and reforms. Ownership of the plan at the highest level and strong support from the international community should also facilitate implementation. The authorities' reiterated strong commitment to preserving fiscal sustainability is welcome. In light of the poor total productivity performance in recent years, the focus should be on raising economic efficiency more than increasing the volume of investment. Accelerating reforms to improve the business environment and a deep reform of the state are critical for this purpose. Reforming the state is also required to finance the public investment effort without jeopardizing fiscal sustainability.

Program implementation. All quantitative assessment criteria and indicative targets for end-2013 were met, including on the budget deficit despite a significant revenue shortfall. Structural reform implementation has been slow, with many benchmarks met after their respective deadlines. This partly reflects the focus on designing the PSE since the last review. A significant risk to program performance is insufficient progress in reform implementation combined with strong expenditure pressures.

Fiscal outlook and reforms. Despite challenging prospects for 2014, the authorities intend to continue reducing the deficit. Strong efforts will be needed on the revenue side to offset part of the 2013 revenue shortfalls. The recent review of current and capital expenditures, with a view to identifying less productive spending to be streamlined, is welcome and a step towards increasing the efficiency of public spending and aligning the budget with PSE priorities. Efforts should be made to improve fiscal transparency and make fiscal accounts more meaningful. Accelerating the implementation of the WAEMU directives on public financial management and of the agency reform plan is highly desirable. Transparency also requires being more explicit about the cost of certain transfers and subsidies, including those in favor of the energy sector, and reporting on the implementation of the reform of public agencies.

Staff recommends completion of the seventh PSI review.

Approved By
Roger Nord and Peter Allum

A staff team consisting of Mr. Joly (head), Mr. Kireyev, Ms. Newiak (all AFR), Mr. Mulas-Granados (FAD), Ms. Nkhata (SPR), Mr. Loko (resident representative) and Mr. Ba (local economist) conducted the discussions in Dakar April 16–30, 2014. Mr. Sembene (OED) participated in the discussions. The team met with President Sall, the ministers in charge of economy and finance, energy, and PSE implementation, National Director of the BCEAO Camara, and other senior officials. The team also met with representatives of the private sector, civil society, and donor community.

CONTENTS

RECENT DEVELOPMENTS AND OUTLOOK

1. **Political context.** With local elections scheduled for end-June 2014 and the recent return to Senegal of former President Wade, whose son has been in jail for a year for alleged embezzlement, political tensions have increased. A new growth strategy ("Plan Sénégal Emergent", or PSE) was unveiled in early 2014 and is the government's response to high popular expectations for better living standards. The PSE aims at making Senegal an emerging economy by 2035. It includes a set of critical public and private investments and ambitious reforms, which together are supposed to raise growth to 7–8 percent in the medium term and to make it more inclusive. The authorities received generous pledges of financial support from development partners at a donor meeting held in February 2014. The PSE has been widely advertised and discussed in Senegal in past months, with President Sall himself deeply involved in its promotion (Box 1).

2. **Recent economic developments** (Figure 1). Preliminary estimates by the authorities suggest that GDP growth was weaker than forecast in 2013 (about 3.5 percent compared to the expected 4 percent). This reflected low levels of agricultural production, because of uneven rainfall, as well as temporary problems in the industrial sector and mining. In contrast, activity was particularly buoyant in the telecommunications and construction sectors, and as result nonagriculture GDP growth was in line with program projections (at 3.7 percent). Inflation stood at 0.7 percent on average in 2013 owing to softer agricultural commodity prices in international markets. The external current account deficit decreased less than expected (to about 10 percent of GDP) largely as a result of a significant decline in gold prices and volumes. Financial sector deepening continued, with money supply growing by about 8 percent in 2013.

3. **Outlook and risks**. Growth is projected at 4.9 percent in 2014 (Figure 2). Nonagriculture growth would increase moderately to 4.5 percent, reflecting stronger activity in mining (gold, and a new zircon project coming on stream and industry (reflecting, among others, a resolution of the technical issues affecting fertilizer production) and continued buoyancy in the service sector. Agriculture production is expected to experience a rebound from the very low level recorded in 2013, assuming normal rainfalls. The main domestic risk is insufficient progress in reform implementation combined with strong expenditure pressures; this could affect the growth and fiscal sustainability outlook. The government's active communication on the generous pledges made by donors to finance the PSE has raised expectations of quick results on growth and incomes. The authorities, who face capacity constraints and opposition to reforms from vested interest, could be tempted to make raising public investment a priority, with hard reforms taking a back seat. The main external risk is a possible increase in the cost of international borrowing related to the unwinding of unconventional monetary policies in advanced economies.

Box 1. Plan Sénégal Emergent (PSE)

The plan is based on three pillars: (i) higher and sustainable growth and structural transformation. The ambition here is to make Senegal a regional hub for a number of activities through better infrastructure and private investment and to develop a few sectors (e.g., agriculture, agro-business, mining, tourism); (ii) human development, with a focus on a few social sectors and expanding the social safety net; and (iii) better governance, peace and security. The core of the PSE is the priority action plan, consisting in 17 major reforms and 27 major projects to be implemented over 2014–18, for a total cost of about $19 billion (about 125 percent of the 2013 GDP). While the private sector is expected to contribute to the financing and implementation of the PSE, including through Public-Private Partnerships (PPPs), a large part of the investment effort would be borne by the government budget.

The PSE reaffirms the need to preserve fiscal sustainability, and therefore endeavors to keep the fiscal deficit on a downward trend. The reduction of the fiscal deficit and the additional investment envisaged under the PSE would require revenue mobilization efforts and major expenditure adjustments, with in particular a rapid decline of the ratio of recurrent spending to GDP. The measures envisaged to bring about such a substantial change are not detailed in the PSE. Over 2014–18, the annual deficit in the PSE would be on average 0.8 percent of GDP higher than in the PSI.

The PSE projects real GDP growth to increase quickly and to reach 7–8 percent over the medium term, i.e., double the performance recorded in the past 10 years.

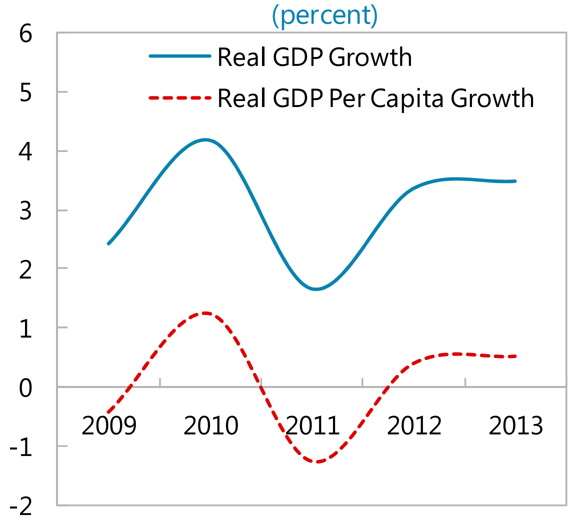
A donor meeting was held in February 2014 to raise the financing needed for the PSE. The authorities sought about $3.7 billion from donors over 2014–18. Total pledges for new financing actually amounted to about twice this amount from traditional donors only, who praised the plan. The main contributors were the multilateral and regional banks (World Bank, African Development Bank, Islamic Development Bank, and West African Development Bank), the EU, France and the U.S. China also expressed strong interest during President Sall's visit there ahead of the meeting. There was also substantial private sector interest during a separate investors' forum held after the donor meeting. Detailed and comprehensive information on these pledges (e.g., timing, additionality compared to the PSI's baseline scenario, terms) is not yet available; some of this financing might be on nonconcessional terms. Pending more firm information on these and other issues, the medium-term macroeconomic projections under the PSI do not fully reflect the higher capital spending and growth envisaged under the PSE (Figure 3).

Figure 1. Recent Developments

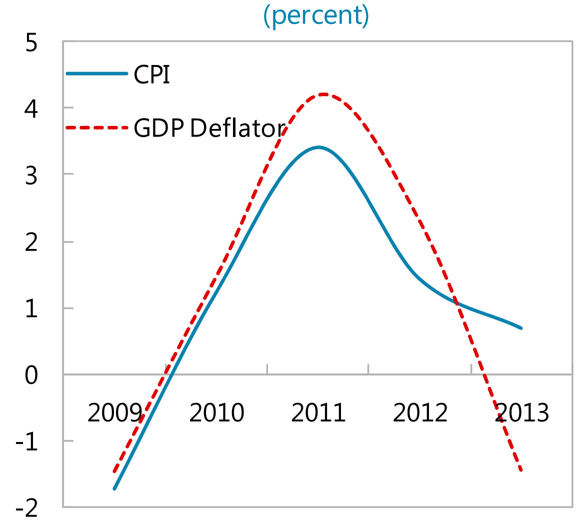
Growth remained moderate in the past few years...

...while inflation has been contained.

GDP Growth
(percent)



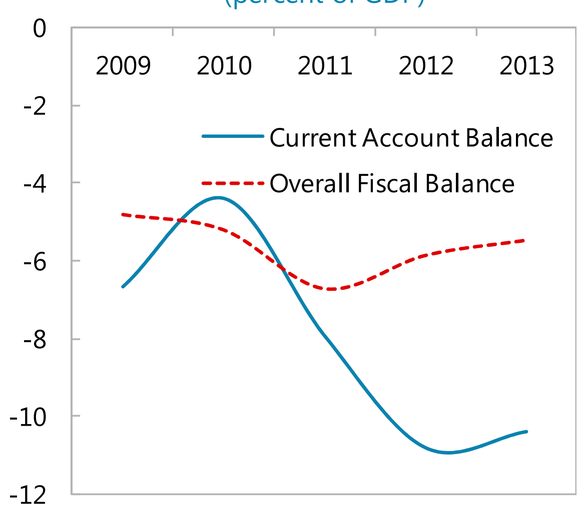
Inflation
(percent)



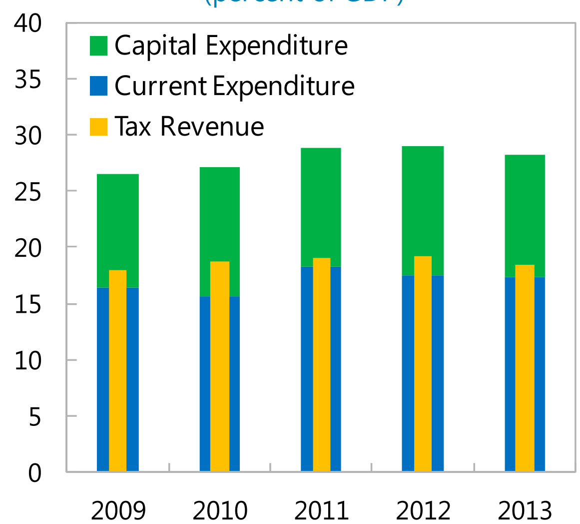
The fiscal situation has weighed on the current account deficit...

...reflecting an increasing expenditure ratio up to 2012.

Twin Deficits
(percent of GDP)



Expenditure and Revenue
(percent of GDP)

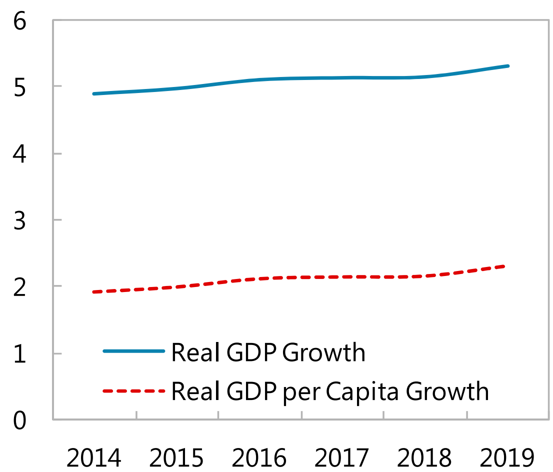


Sources: Senegal authorities; and IMF staff estimates and projections.

Figure 2. Outlook

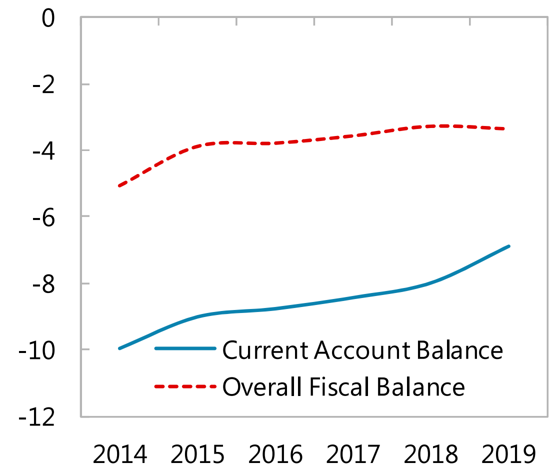
Growth is expected to pick up gradually while inflation would remain moderate.

Growth and Inflation
(percent)



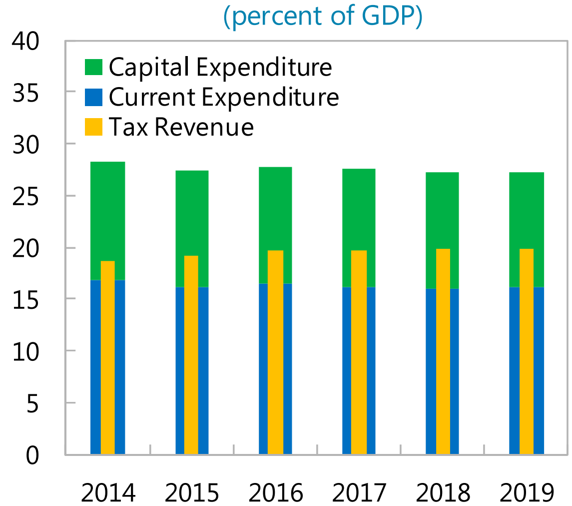
Fiscal consolidation would help reduce external vulnerability.

Twin Deficits
(percent of GDP)



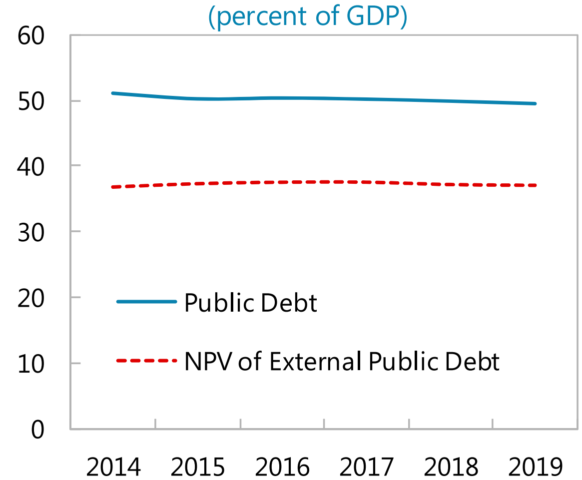
Fiscal consolidation is mostly predicated on expenditure adjustments...

Expenditure and Revenue
(percent of GDP)



...which would stabilize debt ratios

Debt
(percent of GDP)

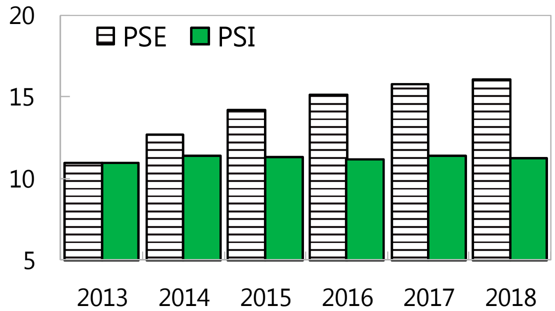


Sources: Senegal authorities; and IMF staff estimates and projections.

Figure 3. Plan Sénégal Emergent

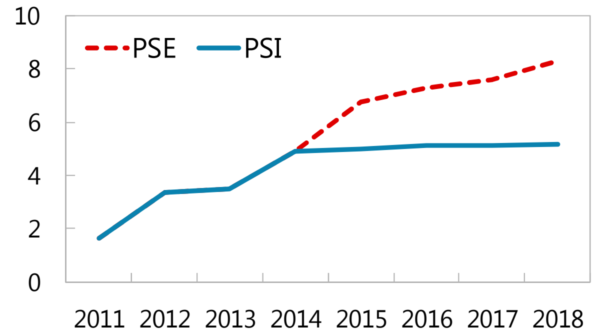
Capital Expenditures
(in Percent of GDP, 2013-2018)

The PSE envisions a massive scaling-up of public investment,...



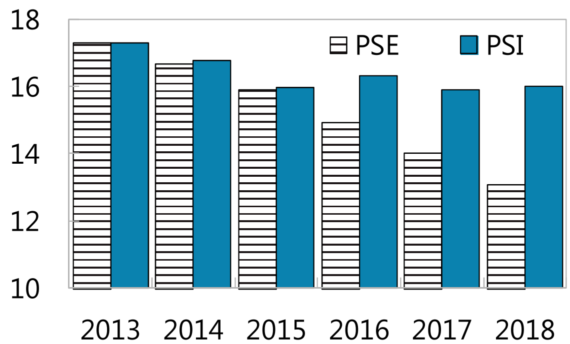
Real GDP Growth
(in Percent, 2011-2018)

...boosting real growth in the medium-term.



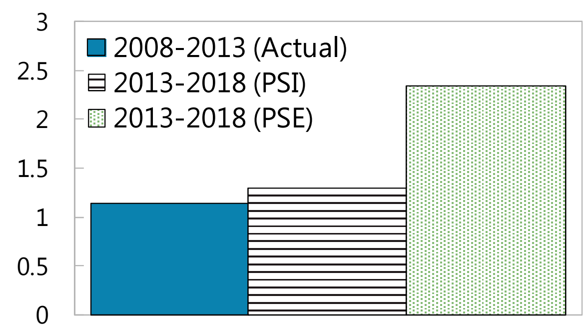
Current Expenditures
(in Percent of GDP, 2013-2018)

To accomodate the addional investment, substantial current expenditure streamlining will be needed...



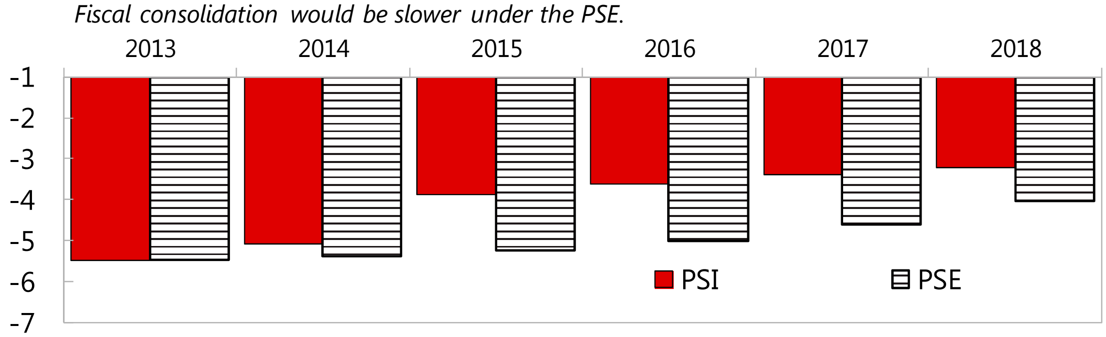
Change of Fiscal Revenues Ratios
(Change within Period, in Percent of GDP)

... and new revenue sources will need to be found.



Fiscal Balances
(in Percent of GDP)

Fiscal consolidation would be slower under the PSE.



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

PROGRAM PERFORMANCE

4. **Program performance has remained mixed.** All quantitative assessment criteria and all but one indicative targets for end-2013 were met, including on the budget deficit despite a significant revenue shortfall (below). Structural reform implementation has remained slow, with many benchmarks met after their respective deadlines. The delays partly reflect the authorities' focus on designing the PSE, which mobilized many key officials. Coordination issues explain why the continuous benchmark on performing cost-benefit analysis before the creation of new agencies was missed, as there was uncertainty within the government about who should perform such analysis. The authorities also noted that the formulation of the benchmark should be changed to be fully consistent with domestic legislation (which refers to opportunity analysis, not cost-benefit analysis). Progress was recorded on implementing critical electricity generation projects, with the authorities focusing on three main projects expected to come on line by 2016.

Text Table 1. Structural Benchmarks for Seventh PSI Review: Status of Implementation

Measures	Deadline	Status	Reason for the delay
Transmission to parliament of a draft law on assets disclosure.	January 1, 2014	Met	In November 2013, ahead of schedule.
Roll out e-filing and e-payment of taxes for all taxpayers in the Dakar area.	January 1, 2014	Met with delay	The finalization of agreements on e-payment with major banks was more complex than expected.
Start using the new payroll management software.	January 1, 2014	Met with delay	The new software was in place in early 2014 but the authorities wanted to test it in parallel with the existing system for several months.
Perform cost-benefits analysis before the creation of new agencies.	Continuous	Missed	3 agencies were created during this period, with analysis performed only ex-post.
The reports of the SENELEC performance contract monitoring committee and the audit on implementation of this performance contract will be covered by a publication. The first publication will include a survey of the electricity sector, including its financial situation, as well as the strategy of the authorities for reform of the sector.	March 31, 2014	Not met, but substantial progress.	First publication issued in May 2014. More time was needed to finalize the assessment of the financial situation of the sector in 2013. The external audit was delayed because of the time needed to comply with World Bank procurement rules.

5. **Large revenue shortfalls required tight expenditure management in 2013**. Total shortfalls–compared to the program target–amounted to close to 1.5 percent of GDP, mostly on account of tax revenue. The latter reflects slower economic activity and lower inflation than expected, excessive optimism on the yield of certain taxes, and larger-than-expected accumulation of tax arrears by SENELEC, the power utility. Only a fraction of the shortfalls seems attributable to the 2013 tax reform, and more precisely to the suppression of VAT withholding by public agencies. The deficit target was met through a compression of current expenditures (about ¾ percent of GDP) and domestically-financed investment projects (0.6 percent of GDP).

POLICY DISCUSSIONS

A. Fiscal Policy for 2014

6. **Despite a more challenging fiscal outlook for 2014, the authorities reaffirmed their objective of continued deficit reduction.** Further reducing the deficit—from 5.5 percent of the revised GDP in 2013 to 5.1 percent in 2014—is important to reduce vulnerabilities, reconstitute margins for fiscal maneuver, and make progress towards the long-standing PSI objective of bringing the deficit to more sustainable levels. It also sends a strong signal to donors and markets that fiscal sustainability will not be compromised, a point clearly made in the PSE. Further deficit reduction is expected in 2015 and the medium term.

MEFP ¶11

7. **Strong revenue mobilization efforts will be needed to recoup part of the lost ground**. In light of recent negative revenue surprises, the authorities agreed on the need to take a more conservative approach to revenue projections and the expected impact of revenue measures. The authorities will increase their efforts to strengthen revenue administration, with in particular increased staffing, a resolution of existing tax arrears, a comprehensive audit of VAT credits, and more intensive use of various sources of information. New tax policy measures will also be implemented, including a higher tax on telecommunications and a modification of the personal income tax to recoup the excess reduction implemented in 2013. As a result, the revenue to GDP ratio is expected to increase by 0.5 percentage point (with about half coming from tax policy measures), but would still be lower than programmed at the time of the 6th review. The authorities are also considering additional measures to be implemented at a later stage to strengthen revenue in 2015 and beyond.

MEFP ¶12-13

8. **Meeting the deficit target while making space for PSE investments will require substantial expenditure streamlining.** Beyond the measures discussed at the last review, which are being implemented (e.g., rationalization of telecommunications and housing expenses), the authorities conducted a review of current and capital expenditures, with a view to identifying less productive spending which could be streamlined. The following savings were identified: 0.1 percent of GDP on wages (resulting from wage suspensions in the wake of the civil service audit, and measures to reduce overtime); 0.4 percent of GDP on goods and services; and 1.3 percent of GDP allocated to low-priority domestically-financed investment projects. These savings will be partly allocated to new PSE-related projects (¾ percent of GDP), with the rest making up for lower revenue.

MEFP ¶14

Text Table 2. Revisions to the 2014 Budget

	2013	2014	
	Act.	6th Review	Rev. Prog.*
	(Percent of GDP)		
Total revenue and grants	**22.7**	**23.6**	**23.2**
Revenue	20.1	20.8	20.4
Grants	2.6	2.8	2.8
Expenditures and net lending	**28.2**	**28.6**	**28.3**
Current expenditure	17.3	16.8	16.8
Capital expenditure	11.0	11.8	11.4
domestic and non-concessional	6.5	7.2	6.8
external concessional	4.4	4.6	4.6
Net lending	-0.1	0.0	0.1
Overall fiscal balance, including grants	**-5.5**	**-4.9**	**-5.1**
Memorandum items:	(Billions of FCFA)		
Fiscal balance, including grants	-400	-396	-396
Current expenditure	1263	1345	1306
Capital expenditure	801	942	888

*Nominal GDP has been revised downward from FCFA 8002 billion to FCFA 7782 billion, explaining part of the difference between the 6th review and revised projections.

9. **The authorities intend to issue a US$500 million Eurobond in mid-2014**. Conditions have been relatively favorable in international markets in the past few months, and the authorities expect to get a much lower interest rate than on their 2011 Eurobond (whose yield is currently about 6 percent). Part of the proceeds would be used to repay the euro tranche of the syndicated loan contracted in 2013, which has a short maturity. The authorities intend to continue resorting to financing on concessional and semi-concessional terms as much as possible. The authorities and staff discussed the options for debt limits made available by Senegal's recent reclassification as a "higher capacity" country under the debt limits policy. In light of the limited time remaining until the end of the program, it was agreed to keep the current design for debt limits, while raising the existing ceilings as needed (below).The latest debt sustainability analysis indicates that Senegal remains at a low risk of debt distress provided fiscal consolidation continues and recourse to nonconcessional borrowing remains prudent.

MEFP ¶17

B. Reforming the State

10. **Efforts will be made to improve fiscal transparency**. Documents on the budget and its execution are now routinely posted on the website of the finance general directorate (www.dgf.finances.gouv.sn). However, more efforts are needed to make fiscal accounts easier to read and interpret. Recent joint work by the authorities and staff shows that many expenditure items are not properly classified; the true wage bill, for instance, would be about 45 percent higher than the headline number, while true capital expenditure would be 45 percent lower. This situation makes it all the more critical to accelerate the

MEFP ¶23, 26

implementation of the WAEMU directives on public financial management, which is behind schedule. The authorities are expected to design a comprehensive implementation plan by end-September 2014. Transparency also requires being more explicit about the cost of certain transfers and subsidies. In this regard, the 2015 finance law will include an annex detailing the direct and indirect budgetary support to energy prices (new structural benchmark).

11. **The reform of agencies will continue**. The authorities have started implementing their reform of agencies, with the ultimate goal of rationalizing the expenditure chain, improving transparency, and achieving budgetary savings in the medium term. The restructuring has started at a moderate pace, with a few agencies closed or merged. It is likely to face strong opposition from powerful vested interests. Agency monitoring has improved, with a first quarterly report produced by the ministry of finance on their financial operations. This and subsequent reports will be published and further developed in the future. To ensure full transparency on agency reform, the 2015 budget law will include an annex listing all agencies and providing an update on the implementation of the reform strategy (new structural benchmark). The authorities are on track with the preparation of performance contracts for remaining agencies, and expect to have them ready for the largest 7 agencies by mid-2014.

MEFP ¶22

C. Implementing the PSE

12. **The PSE offers a good diagnostic and a vision for Senegal.** It is more focused than earlier strategies on key projects and reforms. Ownership of the plan at the highest level and strong support from the international community should also facilitate implementation. The authorities' reiterated strong commitment to preserving fiscal sustainability is also welcome.

13. **Successful implementation of the PSE will require major reforms, some of which still need to be fleshed out.** Growth analysis suggests that insufficient economic efficiency is the main reason behind Senegal's modest growth performance in recent years. Such analysis also suggests that the envisaged investment effort under the PSE would increase growth, but that raising it to 7-8 percent would require major efficiency gains (Box 2). Accelerating reforms to improve the business environment and a deep reform of the state are therefore critical for this purpose. Reforming the state is also required to finance the public investment effort without jeopardizing fiscal sustainability.

14. **The authorities are making progress in some important areas**. Significant efforts have been made to improve the business environment, with a focus on facilitating the creation of new businesses and real estate transactions, accelerating the delivery of building permits, and the adoption of a new legal framework for public-private partnerships. As mentioned earlier, progress is also being made in the electricity sector with the implementation of major generation projects which should improve supply and reduce production costs. The financial situation of SENELEC improved in 2013, thanks to lower-than-expected fuel prices and the coming on stream of renovated plants. However, it remains shaky, as illustrated by the substantial tax and domestic suppliers arrears incurred in 2013. The performance contract between SENELEC and the state has increased transparency in the ongoing reform of the power utility, and some progress seems to have been recorded in this area last year.

MEFP ¶26-31

15. **The authorities and staff initiated discussions on other key reforms underpinning PSE implementation**. Staff flagged that the ongoing reform of the state under the PSI, while welcome, would not suffice to generate the fiscal space needed for additional PSE-related investment. Major revenue mobilization efforts will be required, which could come from a further reduction of tax exemptions and the extension of tax reform to the sector not covered by the 2013 reform (e.g., finance, mining, and telecommunications). On the expenditure side, the envisaged streamlining of current expenditure will require substantial savings on the wage bill and transfers. Staff urged the authorities to communicate on these issues, and more generally on reforms, as communication on the PSE has so far focused on investment projects and support from the international community.

D. Program Monitoring

16. **The following changes are proposed to program monitoring**. The ceiling on non-concessional loans would be raised to US$1006 million to allow the issuance of a new US$500 million Eurobond, part of which will be used to repay the Euro tranche of the syndicated loan obtained in 2013. The ceiling on semi-concessional loans (with a grant element of between 15 and 35 percent), which is expected to be reached very shortly, would be raised to CFAF 224 billion to help finance four additional high-return infrastructural projects in power and sanitation with a combined cost of CFAF 92 billion. The end-June indicative target on tax revenue would be revised downwards to take into account the 2013 revenue shortfall. The continuous structural benchmark calling for a "cost-benefit analysis" before the creation of new agencies would require now "opportunity studies" to align it better with the current legislation.[1]

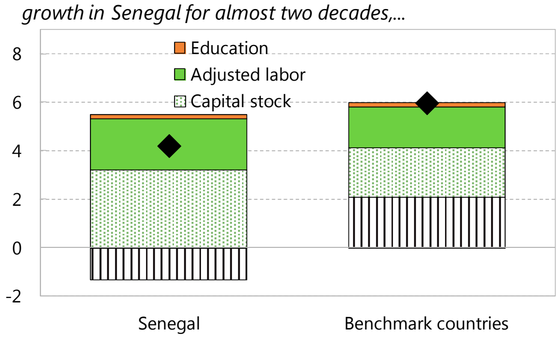
[1] The original intention of the benchmark was to align with the legislation. Opportunity studies require a case to be made before establishing a new agency, but are less quantitative than a cost-benefit analysis.

Box 2. Challenges to Address to Reach Higher Sustainable Growth

In the medium term, the PSE expects growth in Senegal to equal or exceed that of a group of sub-Saharan African (SSA) developing countries that have recorded strong and sustained growth since the mid-1990s (Cape Verde, Ethiopia, Ghana, Mozambique, Uganda, Rwanda, and Tanzania). A growth accounting exercise including these countries shows that growth in Senegal has been impeded by lower efficiency, with total factor productivity declining over 1995-2012, rather than from lower capital accumulation. This suggests that efforts to raise growth should focus on improving efficiency. A simulation of the impact of the additional PSE-related investment using a standard production function leads to the same conclusion. Improving the quality of public investment is therefore critical, with existing indicators suggesting that Senegal is outperformed even by other WAEMU countries in this area. Compared to fast-growing SSA countries, Senegal also suffers from a more unfavorable business environment, making reforms to improve the business environment critical to attract private investment and raise its efficiency.

Average Contribution to Annual Growth
(In Percent, 1995-2012)

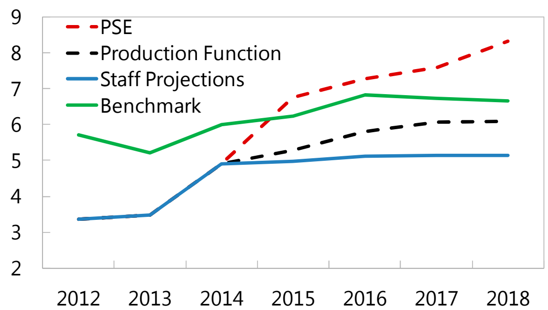
Total factor productivity has been the main impediment to growth in Senegal for almost two decades,...



*Ethiopia, Ghana, Uganda, Tanzania

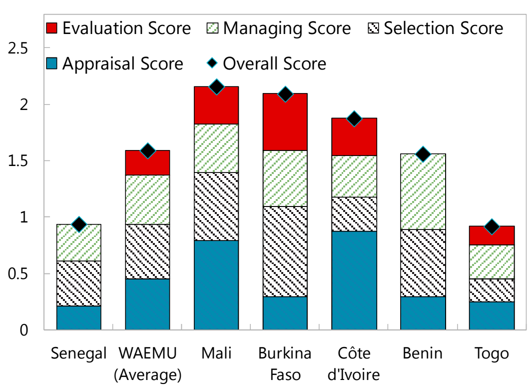
Real GDP Growth
(in Percent, 2012-2018)

..., so that capital accumulation may not be sufficient to achieve the desired boost in growth.



Public Investment Efficiency (PIMI Score)

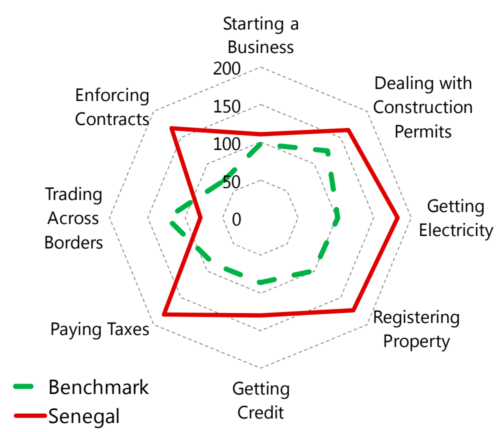
Investment efforts need to be accompanied by a significant improvement in Senegal's public investment efficiency, ...



Source: Dabla-Norris et al. (2011).

Doing Business Indicator
(Lower Score = Better Performance)

... as well as and an substantial enhancement in the business environment.



STAFF APPRAISAL

17. **Program performance has remained mixed**. All quantitative assessment criteria and all but one indicative targets for end-2013 were met, including on the budget deficit despite a significant revenue shortfall. With the focus on the design of the PSE since the last review, structural reform implementation has been slow, with a number of benchmarks met after their respective deadlines.

18. **Staff urges the authorities to increase revenue mobilization efforts and supports their plans to improve the composition and quality of public expenditures**. Staff welcomes the authorities' renewed commitment to continue reducing the fiscal deficit to more sustainable levels. Strong efforts will be needed on the revenue side to offset part of the revenue shortfalls recorded in 2013. The recent review of current and capital expenditures, with a view to identifying less productive spending which could be streamlined, is welcome and a step towards increasing the efficiency of public spending and aligning the budget with the priorities of the PSE.

19. **Efforts should be made to further improve fiscal transparency and make fiscal accounts more meaningful**. Accelerating the implementation of the WAEMU directives on public financial management, which is behind schedule, is desirable. Transparency also requires being more explicit about the cost of certain transfers and subsidies, including those in favor of the energy sector, and reporting on the implementation of the reform of public agencies. The latter needs to accelerate. Staff regrets that the recent creation of new agencies was not preceded by opportunity analyses and welcomes the authorities' commitment to address the coordination issues that led to this outcome.

20. **Reform efforts need to accelerate, including for the success of the PSE.** Reform implementation has been slower than expected, partly because of the focus on the design of the PSE. The PSE offers a good diagnostic and a vision for Senegal. It is more focused than earlier strategies on key projects and reforms. Ownership of the plan at the highest level and strong support from the international community should also facilitate implementation. The authorities' reiterated strong commitment to preserving fiscal sustainability is also welcome. The focus, however, should be more on raising economic efficiency than increasing the volume of investment. Successful implementation of the PSE will require major reforms, some of which still need to be fleshed out. Accelerating reforms to improve the business environment and a deep reform of the state are critical. Reforming the state is also required to finance the public investment effort without jeopardizing fiscal sustainability.

21. **Staff supports the requested modification of the assessment criteria on debt and recommends completion of the seventh PSI review**.

Table 1. Senegal: Selected Economic and Financial Indicators, 2012–18

	2012	2013		2014		2015	2016	2017	2018
		6th Review	Prel.	6th Review	Proj.	Projections			
	(Annual percentage change)								
National income and prices									
GDP at constant prices	3.4	4.0	3.5	4.6	4.9	5.0	5.1	5.1	5.1
Of which: nonagriculture GDP	2.5	3.7	3.7	4.3	4.5	4.9	5.0	5.1	5.1
GDP deflator	2.3	0.3	-1.4	2.2	1.5	2.3	2.3	2.3	2.3
Consumer prices									
Annual average	1.4	0.8	0.7	1.4	0.0	1.2	1.2	1.1	1.1
End of period	1.1	1.2	-0.1	1.7	1.2	1.2	1.1	1.1	1.1
External sector									
Exports, f.o.b. (CFA francs)	13.4	8.4	-1.2	3.3	5.5	5.3	8.5	9.0	9.1
Imports, f.o.b. (CFA francs)	18.6	3.2	1.6	3.8	4.8	3.8	8.4	7.9	7.7
Export volume	10.5	7.4	-0.4	5.0	6.6	6.7	6.3	6.3	6.1
Import volume	13.4	6.5	5.8	6.3	7.6	7.1	6.2	6.1	5.6
Terms of trade ("–" = deterioration)	-1.9	4.1	3.3	0.7	1.5	1.8	0.0	0.8	0.8
Nominal effective exchange rate	-2.3	...	4.1	...	...	...	...	...	...
Real effective exchange rate	-3.8	...	2.2	...	...	...	...	...	...
	(Changes in percent of beginning-of-year broad money, unless otherwise indicated)								
Broad money	6.8	4.9	8.0	...	8.9	...	...	...	...
Net domestic assets	8.6	3.7	8.8	...	10.7	...	...	...	...
Domestic credit	4.9	4.2	11.3	...	9.5	...	...	...	...
Credit to the government (net)	-2.1	-0.3	2.0	...	1.1	...	...	...	...
Credit to the economy (net) (percentage growth)	9.6	6.1	12.6	...	8.6	...	...	...	...
	(Percent of GDP, unless otherwise indicated)[1]								
Government financial operations									
Revenue	20.4	20.9	20.1	20.8	20.4	20.6	21.1	21.2	21.3
Grants	2.9	2.8	2.6	2.8	2.8	2.9	2.8	2.8	2.7
Total expenditure and net lending	29.2	29.1	28.2	28.6	28.3	27.3	27.5	27.3	27.2
Overall fiscal balance									
Payment order basis, excluding grants	-8.7	-8.2	-8.0	-7.7	-7.9	-6.7	-6.4	-6.1	-5.9
Payment order basis, including grants	-5.9	-5.4	-5.5	-4.9	-5.1	-3.9	-3.6	-3.4	-3.2
Primary fiscal balance	-4.4	-3.8	-3.9	-3.3	-3.5	-2.3	-1.9	-1.7	-1.5
Savings and investment[1]									
Current account balance (official transfers included)	-10.8	-9.4	-10.4	-8.9	-10.0	-8.9	-8.7	-8.4	-8.0
Current account balance (official transfers excluded)	-11.9	-10.1	-10.9	-9.6	-10.7	-9.6	-9.4	-9.1	-8.7
Gross domestic investment	29.8	26.8	27.4	26.1	27.2	26.1	26.3	26.7	26.9
Government	6.1	6.9	6.4	7.1	6.8	6.8	6.7	6.8	6.7
Nongovernment	23.6	19.9	20.9	19.0	20.3	19.3	19.6	19.9	20.1
Gross national savings	19.0	17.4	17.0	17.2	17.2	17.2	17.6	18.3	18.9
Government	0.3	1.5	0.9	2.2	1.8	2.9	3.1	3.5	3.5
Nongovernment	18.7	9.8	16.0	8.8	15.4	14.2	14.5	14.9	15.4
Total public debt	43.4	45.9	46.8	47.4	50.0	50.3	50.4	50.4	50.4
Domestic public debt[2]	12.4	12.0	14.4	12.0	14.5	14.2	14.1	14.1	14.5
External public debt	31.0	33.9	32.4	35.4	35.6	36.1	36.3	36.3	35.8
External public debt service									
Percent of exports	9.4	7.8	15.1	6.8	9.1	9.5	9.4	9.2	9.2
Percent of government revenue	9.6	10.4	9.2	8.8	12.6	7.0	7.7	7.8	8.3
Memorandum item:									
Gross domestic product (CFAF billions)[2]	7,165	7,485	7,308	8,002	7,782	8,356	8,981	9,664	10,398

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

[1] Some ratios changed because of revisions to GDP.

[2] Domestic debt includes government securities issued in local currency and held by WAEMU residents.

Table 2. Senegal: Balance of Payments, 2012–18

	2012	2013 EBS/ 13/161	2013 Prel.	2014	2015	2016	2017	2018
				Projections				
	(Billions of CFAF, unless otherwise indicated)							
Current account	-775	-703	-760	-777	-744	-783	-812	-828
Balance on goods	-1,469	-1,487	-1,531	-1,595	-1,635	-1,771	-1,894	-2,016
Exports, f.o.b.	1,402	1,449	1,385	1,461	1,539	1,670	1,821	1,986
Imports, f.o.b.	-2,871	-2,936	-2,916	-3,056	-3,173	-3,441	-3,714	-4,002
Services and incomes (net)	-202	-153	-149	-148	-175	-160	-146	-126
Credits	747	776	776	821	869	907	947	1,014
Debits	-950	-930	-925	-970	-1,044	-1,067	-1,093	-1,140
Of which: interest on public debt	-62	-66	-62	-64	-82	-90	-98	-106
Unrequited current transfers (net)	897	938	920	966	1,066	1,149	1,228	1,314
Private (net)	822	897	897	925	1,018	1,099	1,176	1,258
Public (net)	75	41	23	41	48	50	52	56
Of which: budgetary grants	52	38	20	38	45	48	52	56
Capital and financial account	724	738	739	814	783	823	875	889
Capital account	198	185	183	185	199	209	221	232
Private capital transfers	7	5	5	5	5	5	6	6
Project grants	154	169	168	181	194	204	215	227
Debt cancellation and other transfers	38	11	11	0	0	0	0	0
Financial account	525	554	556	628	584	614	654	657
Direct investment	141	163	127	135	154	171	189	210
Portfolio investment (net)	-11	40	26	175	92	94	129	166
Of which: Eurobond issuance	0	0	0	240	0	0	0	0
Other investment	395	350	402	318	338	349	336	281
Public sector (net)	351	428	193	255	287	269	246	213
Of which: disbursements	323	498	273	403	342	349	362	355
program loans	118	53	53	58	61	65	69	74
project loans	205	168	167	177	211	214	222	230
other	0	277	53	168	70	70	70	50
amortization	-89	-70	-80	-149	-55	-82	-119	-145
Private sector (net)	70	-78	101	63	51	80	90	69
Errors and omissions	-26	0	108	0	0	0	0	0
Overall balance	-51	36	-21	36	39	40	63	62
Financing	51	-36	21	-36	-39	-40	-63	-62
Net foreign assets (BCEAO)	-49	-36	11	-36	-39	-40	-63	-62
Net use of IMF resources	-3	-3	-3	-9	-18	-19	-18	-17
Purchases/disbursements	0	0	0	0	0	0	0	0
Repurchases/repayments	-3	-3	-3	-9	-18	-19	-18	-17
Other	-47	-33	14	-28	-22	-21	-46	-44
Deposit money banks	101	0	10	0	0	0	0	0
Residual financing gap	0	0	0	0	0	0	0	0
Memorandum items:								
Current account balance								
Including current official transfers (percent of GDP)	-10.8	-9.4	-10.4	-10.0	-8.9	-8.7	-8.4	-8.0
Excluding current official transfers (percent of GDP)	-11.9	-10.1	-10.9	-10.7	-9.6	-9.4	-9.1	-8.7
Gross official reserves (imputed reserves, billions of US$)	2.1	2.2	2.2	2.3	2.4	2.5	2.7	2.8
(percent of broad money)	36.1	35.6	33.1	31.4	30.4	29.3	28.7	28.0
WAEMU gross official reserves (billions of US$)	13.8	…	…	…	…	…	…	…
(percent of broad money)	51.2	…	…	…	…	…	…	…
(months of WAEMU imports of GNFS)	4.9	…	…	…	…	…	…	…
Gross domestic product	7,165	7,485	7,308	7,782	8,356	8,981	9,664	10,398

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

Table 3. Senegal: Government and FSE Financial Operations, in Billions of CFAF, 2012–18

	2012	2013		2014		2015	2016	2017	2018
		6th Review	Act.[1]	6th Review	Rev. Prog.	Projections			
	(Billions of CFAF, unless otherwise indicated)								
Total revenue and grants	1,670	1,770	1,659	1,891	1,805	1,959	2,146	2,315	2,496
Revenue	1,464	1,563	1,471	1,668	1,587	1,720	1,894	2,047	2,213
Tax revenue	1,379	1,434	1,343	1,561	1,459	1,600	1,765	1,909	2,064
Income tax	405	403	390	450	418	460	503	551	593
Taxes on goods and services	785	815	760	881	829	919	1,024	1,102	1,196
Taxes on petroleum products	189	216	194	231	212	222	238	256	276
Nontax revenue	44	95	90	72	89	78	84	90	97
FSE	41	35	38	35	38	42	45	48	52
Grants	206	207	188	223	219	239	252	267	283
Budget	52	38	20	42	38	45	48	52	56
Projects	154	169	168	181	181	194	204	215	227
Total expenditure and net lending [2]	2,090	2,176	2,059	2,287	2,201	2,282	2,471	2,641	2,831
Current expenditure	1,257	1,317	1,263	1,345	1,306	1,335	1,465	1,538	1,664
Wages and salaries	462	470	465	492	486	510	548	580	624
Interest due	108	118	113	130	126	132	152	166	177
Of which: external	52	60	55	72	58	76	85	93	101
Other current expenditure	687	729	685	724	694	693	765	792	863
Transfers and subsidies	355	348	336	336	336	317	316	319	354
Of which: SAR and butane subsidy	13	16	16	16	16	0	0	0	0
Of which: SENELEC/energy	105	80	80	60	60	40	20	0	0
Of which: Food subsidies	4	4	4	0	0	0	0	0	0
Goods and services	333	382	349	388	358	376	449	474	509
Capital expenditure	814	859	801	942	888	947	1,006	1,103	1,168
Domestically and nonconcessionally financed	492	522	477	577	530	542	588	665	711
Externally (concessionally) financed	322	337	324	365	358	405	418	437	457
Net lending	19	0	-5	0	7	0	0	0	0
Of which: On-lending	37	13	10	13	10	14	15	16	17
Selected public sector entities balance	0	0	0	0	0	0	0	0	0
Primary fiscal balance	-313	-288	-287	-266	-269	-191	-173	-161	-159
Overall fiscal balance (excluding grants)	-626	-613	-588	-619	-614	-562	-577	-593	-618
Overall fiscal balance (including grants)	-420	-406	-400	-396	-396	-323	-325	-326	-335
Financing	420	406	400	396	396	323	325	326	335
External financing	436	436	204	368	396	335	316	330	334
Drawings	501	230	214	258	137	320	329	378	429
Program loans	118	53	53	53	58	61	65	69	74
Project loans	205	168	167	184	177	211	214	222	230
T-bills and T-bonds, WAEMU (net)	178	8	-6	21	-98	49	49	87	124
Nonconcessional loans	0	277	53	200	408	70	70	70	50
Eurobond issuance	0	0	0	150	240	0	0	0	0
Deposit	0	0	0	0	0	0	0	0	0
Other non-concessional borrowing [3]	0	277	53	50	168	70	70	70	50
Amortization due	-65	-70	-63	-91	-149	-55	-82	-119	-145
Domestic financing	-13	-8	181	28	38	-12	8	-4	2
Banking system	-195	-12	163	26	34	-14	6	-6	0
Of which: T-bills and T-bonds, domestic (net)	25	9	11	50	58	20	41	28	34
Nonbank financing	183	4	18	2	4	2	2	2	2
Settlement of payment delays	-3	-23	15	0	-38	0	0	0	0
Errors and omissions	0	0	0	0	0	0	0	0	0
Financing gap	0	0	0	0	0	0	0	0	0
Memorandum items:									
Budgetary float (program definition)	50	50	50	50	50	50	50	50	50
New issues of government securities	492	390	563	...	...	...	...	...	...
Priority expenditure (percent of total expenditure) [4]	44	44	44	...	...	...	...	...	...
Gross domestic product	7,165	7,485	7,308	8,002	7,782	8,356	8,981	9,664	10,398

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

[1] Includes additional non-tax revenue of CFAF 27.1 billion from the settlement of disputes with Dubai Port World and Suneor; 90 percent of this revenue was allocated to new investment projects.

[2] Excludes project-related wages and salaries included in capital spending, the salaries of autonomous agencies and health and education contractual workers included in transfers and subsidies.

[3] Assumes that part of the deficit in 2013 will be financed with a syndicated loan in foreign currency of 245 billion FCFA

[4] Expenditure on health, education, environment, the judiciary, social safety nets, sanitation, and rural water supply.

Table 4. Senegal: Government and FSE Financial Operations, in Percent of GDP, 2012–18

	2012	2013		2014		2015	2016	2017	2018
		6th Review	Act.	6th Review	Proj.	Projections			
	(Percent of GDP, unless otherwise indicated)								
Total revenue and grants	23.3	23.7	22.7	23.6	23.2	23.4	23.9	24.0	24.0
Revenue	20.4	20.9	20.1	20.8	20.4	20.6	21.1	21.2	21.3
Tax revenue	19.3	19.2	18.4	19.5	18.8	19.2	19.7	19.8	19.9
Income tax	5.7	5.4	5.3	5.6	5.4	5.5	5.6	5.7	5.7
Taxes on goods and services	11.0	10.9	10.4	11.0	10.7	11.0	11.4	11.4	11.5
Taxes on petroleum products	2.6	2.9	2.7	2.9	2.7	2.7	2.7	2.7	2.7
Nontax revenue	0.6	1.3	1.2	0.9	1.1	0.9	0.9	0.9	0.9
FSE	0.6	0.5	0.5	0.4	0.5	0.5	0.5	0.5	0.5
Grants	2.9	2.8	2.6	2.8	2.8	2.9	2.8	2.8	2.7
Total expenditure and net lending	29.2	29.1	28.2	28.6	28.3	27.3	27.5	27.3	27.2
Current expenditure	17.5	17.6	17.3	16.8	16.8	16.0	16.3	15.9	16.0
Wages and salaries	6.4	6.3	6.4	6.1	6.2	6.1	6.1	6.0	6.0
Interest payments	1.5	1.6	1.5	1.6	1.6	1.6	1.7	1.7	1.7
Other current expenditure	9.6	9.7	9.4	9.0	8.9	8.3	8.5	8.2	8.3
Transfers and subsidies	5.0	4.6	4.6	4.2	4.3	3.8	3.5	3.3	3.4
Of which: SAR and butane subsidy	0.2	0.2	0.2	0.2	0.2	0.0	0.0	0.0	0.0
Of which: SENELEC/energy	1.5	1.1	1.1	0.7	0.8	0.5	0.2	0.0	0.0
Of which: Food subsidies	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Goods and services	4.6	5.1	4.8	4.8	4.6	4.5	5.0	4.9	4.9
Capital expenditure	11.4	11.5	11.0	11.8	11.4	11.3	11.2	11.4	11.2
Domestically and nonconcessionally financed	6.9	7.0	6.5	7.2	6.8	6.5	6.5	6.9	6.8
Externally (concessionally) financed	4.5	4.5	4.4	4.6	4.6	4.8	4.7	4.5	4.4
Net lending	0.3	0.0	-0.1	0.0	0.1	0.0	0.0	0.0	0.0
Selected public sector entities balance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Primary fiscal balance	-4.4	-3.8	-3.9	-3.3	-3.5	-2.3	-1.9	-1.7	-1.5
Overall fiscal balance									
Payment order basis, excluding grants	-8.7	-8.2	-8.0	-7.7	-7.9	-6.7	-6.4	-6.1	-5.9
Payment order basis, including grants	-5.9	-5.4	-5.5	-4.9	-5.1	-3.9	-3.6	-3.4	-3.2
Financing	5.9	5.4	5.5	4.9	5.1	3.9	3.6	3.4	3.2
External financing	6.1	5.8	2.8	4.6	5.1	4.0	3.5	3.4	3.2
Domestic financing	-0.2	-0.1	2.5	0.3	0.5	-0.1	0.1	0.0	0.0
Settlement of payment delays	0.0	-0.3	0.2	0.0	-0.5	0.0	0.0	0.0	0.0
Errors and omissions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:									
Priority expenditure	12.7	12.7	12.7	...	...	...	...	...	...
Wages and salaries (percent of revenue)	31.5	30.1	31.6	29.5	30.6	29.6	28.9	28.3	28.2
Total cost of energy subsidies	2.5	...	1.6	...	...	...	...	...	...

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

Table 5. Senegal: Monetary Survey, 2011–14

	2010	2011	2012	2013	2014
					Proj.
			(Billions of CFAF)		
Net foreign assets	988	931	879	858	895
BCEAO	735	726	776	764	801
Commercial banks	253	204	104	94	94
Net domestic assets	1,552	1,781	2,016	2,269	2,512
Net domestic credit	1,847	2,106	2,240	2,565	2,809
Net credit to the government[1]	200	150	97	151	186
Central bank	202	103	-38	21	4
Commercial banks	0	46	130	124	182
Other institutions	-2	2	5	4	4
Credit to the economy	1,647	1,956	2,144	2,414	2,623
Other items (net)	-295	-326	-224	-297	-297
Broad money	2,540	2,711	2,896	3,127	3,406
Currency outside banks	561	588	585	620	634
Total deposits	1,979	2,123	2,310	2,507	2,772
Demand deposits	988	1,061	1,192	1,358	1,501
Time deposits	991	1,063	1,118	1,150	1,271
			(Change in percentage of beginning-of-period broad money stock)		
Net foreign assets	5.8	-2.3	-1.9	-0.7	1.2
BCEAO	0.4	-0.3	1.8	-0.4	1.2
Commercial banks	5.4	-1.9	-3.7	-0.3	0.0
Net domestic assets	8.3	9.0	8.7	8.8	7.8
Net credit to the government[1]	4.0	-2.0	-2.0	2.0	1.1
Credit to the economy	7.0	12.2	6.9	9.3	6.7
Other items (net)	-2.6	-1.2	3.7	-2.5	0.0
Broad money	14.1	6.7	6.8	8.0	8.9
Memorandum items:			(Units indicated)		
Velocity (GDP/broad money; end of period)	2.5	2.5	2.5	2.3	2.3
Nominal GDP growth (percentage growth)	5.7	5.9	5.3	2.0	6.5
Credit to the economy (percentage growth)	10.4	18.8	9.6	12.6	8.6
Credit to the economy/GDP (percent)	25.8	28.9	29.8	33.0	33.7
Variation of net credit to the government (yoy; CFAF billions)	88.5	-49.7	-53.7	151.1	34.9
Central bank refinance rate (eop; percent)	4.25	4.25	4.0	3.5	…

Sources: BCEAO; and IMF staff estimates and projections.

[1]Net domestic credit to the government may differ from what appears in the fiscal table, as bonds issued on the WAEMU markets are treated as external financing for the purpose of the monetary survey.

Table 6. Financial Soundness Indicators for the Banking Sector, 2008–13

	2008	2009	2010	2011	2012	2013
	(Percent, unless otherwise indicated)					
Capital Adequacy						
Capital to risk-weighted assets	13.8	16.3	18.0	16.0	16.7	16.4
Regulatory capital to risk-weighted assets	13.9	16.5	18.2	15.9	16.3	15.9
Capital to total assets	9.1	9.3	10.0	9.8	9.6	9.4
Asset Composition and Quality						
Total Loans to Total Assets	62.8	59.5	57.5	60.6	61.4	60.1
Concentration: loans to 5 largest borrowers to capital	100.9	71.7	70.6	69.8	196.7	137.4
Sectoral distribution of loans						
Industrial*	19.5	27.5	26.4	22.2	23.8	19.7
Retail and wholesale trade*	18.5	24.5	23.8	19.2	21.6	17.2
Services, transportation and communication*	31.1	34.1	41.9	34.0	30.6	36.1
Ratio of non-performing loans (NPLs) to total loans	17.4	18.7	20.2	16.2	18.4	19.1
Of which: without ICS	14.2	15.8	15.8	13.2	15.1	14.8
Ratio of provisions for NPLs to total NPLs	51.5	53.1	54.9	54.0	56.1	55.8
Of which: without ICS	65.7	64.7	65.3	68.3	63.0	66.8
NPLs net of provisions to total loans	9.3	9.7	9.1	8.1	8.2	8.6
Of which: without ICS	5.4	6.2	6.1	4.6	6.3	5.6
NPLs net of provisions to capital	63.9	62.3	52.3	50.4	51.4	54.7
Of which: without ICS	35.3	38.4	41.5	35.7	38.8	43.3
Earnings and profitability						
Average cost of borrowed funds	2.8	3.4	2.2	2.0	2.1	1.9
Average interest rate on loans[1]	13.9	15.4	8.1	8.4	8.6	8.1
Average interest margin[2]	11.1	12.0	5.9	6.4	6.6	4.3
After-tax return on average assets	1.4	1.3	1.6	2.2	1.7	1.3
After-tax return on average equity	13.0	16.0	15.4	22.6	17.4	13.7
Noninterest expenses/net banking income	51.3	60.3	56.7	56.0	57.0	57.6
Salaries and wages/net banking income	21.1	23.0	24.8	23.8	24.4	25.2
Liquidity						
Liquid assets to total assets	...	31.7	39.8	36.1	37.0	42.1
Liquid assets to total deposits	...	49.8	52.4	76.7	52.3	62.9
Total deposits to total liabilities	70.3	74.9	76.0	62.8	70.7	67.0

Source: BECAO.

[1]Break in the series in 2010 due to a methodological change.

[2]Excluding the tax on banking operations.

*Latest: September 2013.

Appendix I. Letter of Intent

Washington D.C., USA
June 6, 2014

Madame Christine Lagarde
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, D.C., 20431
USA

Madame Managing Director,

1. The government of Senegal requests completion of the seventh review under the Policy Support Instrument (PSI) of its macroeconomic program. The details of this program were set forth in the initial Memorandum of Economic and Financial Policies (MEFP) of November 10, 2010, and in the MEFPs pertaining to subsequent program reviews. The attached MEFP takes stock of program performance at end-2013, defines the macroeconomic objectives for 2014, and updates the structural reforms monitored under the program.

2. Program implementation has remained satisfactory. All quantitative criteria and indicative targets under the program at end-2013 were met, including the budget deficit target despite significant tax revenue shortfalls. Progress was also made in structural reforms, even though the implementation of a number of measures took somewhat longer than expected. Opportunity studies were not conducted prior to the recent creation of two public agencies because of a lack of coordination between the various administrations concerned. Nonetheless, we reiterate our commitment to having such studies conducted beforehand in the future by the concerned ministries.

3. The government intends to launch the implementation of is new growth strategy, the *Plan Sénégal Emergent* (PSE) in 2014, while pursuing its efforts to reduce the fiscal deficit. The PSE calls for significant scaling up and increased efficiency of public investment. If it is to be implemented without affecting fiscal sustainability, ample fiscal space will need to be created starting in 2014. This will require strong revenue mobilization efforts and even more vigorous efforts to streamline the government's operating costs. In other words, the efforts that have been made over the past two years to reform the government will need to be stepped up and broadened to new areas. The government will also need to focus on improving the quality of public spending, including investment spending. Many reforms supported under the PSI contribute to this agenda.

4. A number of changes in program monitoring mechanisms are desirable. Two new structural benchmarks improving fiscal transparency are proposed in the attached memorandum. We request that the ceiling on nonconcessional borrowing be raised to $1006 million to allow for the issuance of a US$500 million Eurobond, which will be used in part to repay the euro-denominated tranche of the

syndicated loan contracted in 2013. We also request that the semi-concessional borrowing (financing having a grant element of 15–35 percent) be increased from CFAF 132 billion to CFAF 224 billion to facilitate the financing of high-return investment projects in the electricity and sanitation sectors. This requires a modification of the corresponding assessment criteria.

5. 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 and in advance of revisions to the policies contained in the attached MEFP, in accordance with the Fund's policies on such consultation.. Moreover, the government will provide the IMF with such information as the IMF may request in connection with the progress made in implementing the economic and financial policies and achieving the objectives of the program.

6. The government authorizes the IMF to publish this letter, the attached MEFP, and the Staff Report relating to the current review.

Sincerely yours,

/s/

Amadou Ba
Minister of Economy and Finance

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

Attachment I. Memorandum of Economic and Financial Policies
Washington, June 6, 2014

Introduction

1. **Senegal has adopted a new development strategy aimed at accelerating the pace of progress toward emerging country status**. This strategy, known as the *Plan Senegal Émergent* (PSE), is the national medium- and long-term economic and social policy framework document. It focuses on (i) achieving structural transformation of the economy by consolidating today's growth engines and developing new wealth-creating, job-rich sectors conducive to promoting social inclusion; (ii) strengthening well-being by protecting the vulnerable and improving access to basic social services; and (iii) enhancing governance, promoting peace and security, and consolidating the rule of law.

2. **The reforms under the program supported by the Policy Support Instrument (PSI) are fully in line with those under the PSE** and are aimed at increasing fiscal space and improving the business environment. These reforms are needed to ensure that the macroeconomic framework remains stable and to enhance growth potential. The government is, therefore, committed to further strengthening public financial management and governance as well as to fostering private sector development, in particular by increasing the competitiveness of the factors of production and promoting investments with high growth and employment potential.

3. **This Memorandum updates the program supported by the the PSI, which expires in December 2014.**[1] The MEFP includes three sections. The first section covers recent economic developments and the results of program implementation. The second section focuses on the macroeconomic outlook for 2014 and the medium term, as well as on macroeconomic policy and structural reforms. The last section is devoted to the desired changes in program monitoring.

Recent Economic Developments and Program Implementation

4. **Recent macroeconomic developments have been broadly in line with projections, although GDP growth was lower than expected.** In 2013, Senegal's economic performance was weaker than initially anticipated, owing to low levels of production in the agricultural sector as well as to worsening difficulties in the industrial sector during the second half of the year. Real GDP is estimated to have grown by 3.5 percent, buoyed by strong activity in the telecommunications and construction sectors, compared to an initial projection of 4 percent and actual performance of 3.4 percent in 2012. Inflation stood at 0.7 percent on average in 2013 amid softer agricultural

[1] The content of this program was set out in the initial MEFP of November 10, 2010, as well as in the MEFP of May 19, 2011, of December 2, 2011, of June 22, 2012, of November 22, 2012, of June 3, 2013, and of December 5, 2013.

commodity prices in the international market. With regard to foreign trade, the current account deficit improved a bit as a share of GDP (10.4 percent). The overall balance of payments deficit fell from CFAF 53 billion in 2012 to 21 CFAF billion in 2013. Credit to the economy rose significantly, up 12.6 percent, while the money supply increased by 8 percent.

5. **Program implementation has remained satisfactory**. All quantitative assessment criteria and indicative targets for the program at end-2013 were met. The budget deficit target was met (actual deficit figure of 5.5 percent of revised GDP) despite significant revenue shortfalls. These losses were primarily attributable to weak economic activity, the large reduction in the personal income tax, changes to the VAT withholding regime, and the difficulties experienced by SENELEC, which has been unable to meet all of its tax obligations. On the expenditure side, savings were recorded with respect to interest on public debt and the wage bill, and the rate of implementation of other current expenditure and of certain capital expenditures slowed down.

6. **Implementation of the budgetary and structural reforms has also progressed at a varying pace across sectors**:

(i) The electronic tax filing and payment system is ready for use by all taxpayers in the Dakar region, but remains optional for the moment. A subscription form detailing the obligations of the parties (taxpayers and the Tax Administration Office) has also been designed and published on the website to enable taxpayers to request an access code for the electronic tax platform.

(ii) Processing of the findings of the civil service audit has been completed for civilian personnel, resulting in suspension of the salaries of 1,136 civil servants at end-March 2014, with an annual saving of CFAF 4.4 billion. The final results of the audit will be published by June 15, 2014. The new payroll management software has been brought on stream in parallel with the old system. The new software became fully operational in May 2014.

(iii) The monitoring committee for the SENELEC performance contract has produced its first report. However, the external audit had to be postponed for reasons related to the tendering procedures of the World Bank, which is financing the audit. The main findings of the report as well as a survey of the electricity sector, including the financial situation and the authorities' reform strategy for the sector, were published on May 21, 2014.

(iv) Work on finalization of the Treasury single account is progressing although there have been some delays in the closing of bank accounts. There have also been improvements in cash management as the Treasurer now has access to all of the accounts held by direct accountants of the Treasury opened on the books of the Central Bank of West African States (BCEAO).

(v) Three new agencies have been established since the conclusion of the sixth review. The National Youth Employment Promotion Agency (ANPEJ) was formed from the merger of four agencies in the context of the agency reform plan. The Senegalese Tourism Promotion Agency (ASPT) was created in response to strong demand from sector professionals for a structure staffed with qualified, resourceful personnel capable of devising an ambitious communication and marketing strategy to promote Senegal as a destination. Such an agency would have the capacity to keep abreast of the very fast pace of change in the highly-competitive environment of the professional tourism sector. The National Rail Agency (ANCF) was established in line with the decision taken to develop rail transportation in the context of the PSE. Implementation of this program requires the setting up of a light, autonomous structure with the capacity to act faster than the central government. Opportunity studies were not conducted prior to the creation of the ASPT and the ANCF because of a lack of coordination between the various administrations concerned. Nonetheless, we reiterate our commitment to having such studies conducted beforehand in the future by the concerned ministries.

Macroeconomic Policy and Structural Reforms for 2014 and the Medium Term

A. Macroeconomic Context for 2014

7. **Global activity has strengthened overall and is expected to continue to improve in 2014, driven largely by the advanced economies**. The Senegalese economy should benefit from the more buoyant environment in 2014, in particular enhanced growth prospects in Mali could feed through to higher exports, especially of cement.

8. **The authorities' commitment to implementing the reforms and the initial priority projects under the PSE constitutes a decisive factor in the acceleration of growth**. Real GDP growth is projected to reach 4.9 percent in 2014, driven by higher agricultural production, a recovery in the industrial sector, and continued buoyancy in the services sector. Inflation is expected to remain moderate in 2014 in the context of stable global commodity markets. The current account deficit as a percentage of GDP is expected to improve with rising exports of goods and the overall balance is expected to show a surplus.

9. **Overall, the downside risks initially forecast have subsided somewhat**. Nonetheless, a sharper-than-expected growth slowdown in emerging countries, deflation risks in the euro area, and the tightening of financial conditions in the international capital markets with the tapering of unconventional monetary policies are all factors that could potentially affect the national economy. Domestically, the main risks continue to be associated with possible delays in the implementation of government and energy sector reforms, which could weigh on growth prospects and fiscal developments.

10. The progress made and new challenges faced in implementing the main measures under the program are presented in the remainder of this section, grouped in accordance with the four main objectives of the program.

B. Pursue Prudent Public Finance and Debt Policies to Safeguard Macroeconomic Stability

11. **The government intends to launch the implementation of the PSE in 2014, while pursuing its efforts to reduce the fiscal deficit.** The PSE calls for significant scaling up and increased efficiency of public investment. If it is to be implemented without affecting fiscal sustainability, ample fiscal space will need to be created starting in 2014. This will require strong revenue mobilization efforts and even more vigorous efforts to streamline the government's operating costs. In other words, the efforts that have been made over the past two years to reform the government will need to be stepped up and broadened to new areas. The government will also need to focus on improving the quality of public spending, including investment spending.

12. **To safeguard fiscal revenue, a number of tax administration measures are currently being taken as a vital complement to the recent reform of the General Tax Code**. For the tax directorate (DGID) the measures involve (i) structural reform through the setting up of functional directorates (responsible for the preparation of strategies) and operational directorates (responsible for measures to secure tax revenues and broaden the tax base); (ii) reform of the system to assess staff performance; (iii) increased staffing; (iv) efforts to conduct tax audits and collect tax arrears; (v) an audit of VAT credits followed by action to deal with cases of fraud; (vi) efforts to expand the tax base through more active use of available information and closer cooperation with customs services based on the NINEA national identification numbers.

13. **Tax policy measures will also be needed over the short term to support effective implementation of the PSE.** In addition to the measures envisaged during the previous review (in particular, raising the ceiling for the minimum flat tax rate to CFAF 20 million and setting a uniform rate of 45 percent for the special tax on cigarettes), measures with high revenue-generating potential will be needed to finance the investment effort. The personal income tax will need to be reviewed to offset the revenue shortfall observed in 2013, which missed the initial target set by around CFAF 10 billion, with the corrections mainly affecting the highest income brackets. A levy of 1 percent of turnover will be introduced for telecommunication companies and paid to the government budget.

14. **The government intends to accelerate the streamlining of government spending.** Implementation of the PSE requires a substantial decrease in the ratio of current expenditure to GDP over the next five years. As a result of efforts to reduce the cost of running the government, large savings are already being made under several expenditure headings, including miscellaneous supplies, telephone bills, and housing for government officials. The exercise of greater vigilance with regard to the transfer of funds to the agencies also resulted in substantial savings in 2014, while a thorough review of the investment budget was conducted with a view to eliminating unproductive spending. Regarding the wage bill, savings have been achieved following the suspension of 1,136 salaries on the basis of the audit of the civil service. A nominal wage freeze was also imposed on civil service salaries in 2014 and the use of overtime will be strictly reduced. These temporary measures will be followed, over time, by a more in-depth civil service reform aimed at better aligning the resources of the various administrations with their missions. The compensation system is also slated for in-depth reform in the interest of fairness, efficiency, and predictability. In turn, implementation

of the electricity sector reform plan will, over time, make it possible to reduce, or even eliminate, the fiscal burden, which amounted to over CFAF 130 billion in 2013.

15. **The fiscal space thus created will also make it possible to expand social protection, while at the same time making it more targeted and more efficient.** Senegal has taken the innovative step in the African context of establishing a national household allowance program—*le Programme National de Bourse de Sécurité familiale (PNBSF)*—and developing Universal Medical Coverage (UMC). Over the year, the program will provide households living in extreme poverty with quarterly allowances of CFAF 25,000. The pilot phase covered some 48,000 households and, starting in 2014, the program will be scaled up to reach 250,000 vulnerable households in 2017. Through the household allowance program, a fresh thrust is being launched to achieve universal schooling, improve child healthcare and, thus, reduce child mortality. In the context of UMC, the government has set itself the objective of reaching a minimum of 75 percent coverage by 2017. The main focus of the UMC strategic plan is to (i) develop universal basic health care coverage through mutual health insurance schemes; (ii) reform the provident institutions; (iii) strengthen the existing free care policies; and (iv) implement the new free health care initiative for children under five. Today, close to 51,000 new members have been covered by mutual health insurance schemes.

16. **The observance of fiscal targets in 2014 will be strengthened by more prudent budget projections and execution.** To limit recourse to spending adjustments at year end, in particular investment spending adjustments, revenue projections for 2014 have been revised downward, despite the measures envisaged for improvement, and are deliberately more prudent to avoid risks. Further, contrary to the practice in previous years, the fiscal contingency reserve will be drawn down only in the case of extreme urgency. In the event of a recurrence of tax revenue shortfalls, the remaining reserves will not be spent. Where necessary, spending with the lowest priority and smallest impact on growth will be executed at a slower pace.

17. **Medium-term debt management will continue to focus primarily on lowering debt vulnerabilities with respect to both the structure and cost of debt**. The main objectives remain a gradual lengthening of average debt maturities and greater flexibility in borrowing rates. With that in mind, in 2014, the government intends to finance infrastructure investment by mobilizing semi-concessional debt, the ceiling of which will be increased to CFAF 224 billion, and by issuing international sovereign bonds (Eurobonds) in the amount of $500 million. Part of the proceeds of this issuance will be used by the end of 2014 to buy back the euro-denominated tranche of the syndicated financing mobilized in 2013. Gross recourse to local capital markets is expected to remain significant. Risk of debt distress is, therefore, expected to remain low, albeit with signs of vulnerability, hence the need for concerted efforts to drive up economic growth, rein in public sector deficits, and manage financing conditions.

18. **Efforts will be made to continue improving public investment management**. They will be centered around six areas: (i) strengthening linkages between the PSE, the three-year public investment program (PTIP), the macroeconomic framework, and the sectoral objectives; (ii) strengthening ex-ante project evaluation; (iii) more rigorous project selection using mainly the criteria in the PSE as a good basis; (iv) classification of capital transfers by expenditure category;

(v) systematic preparation of project execution reports; (vi) development of a comprehensive database and shared management system for capital projects.

C. Increase Revenue to Create more Fiscal Space to Finance Priority Spending

19. **Implementation of the new general tax code is ongoing.** The new regime for VAT refunds will take effect 30 days after the passage of the 2014 supplementary budget law. Consideration is being given to broad based taxes in the financial sector and on telecommunications as well as to taxation issues related to the environment, mining, the business license tax (*la patente*), and e-commerce. This work is expected to lead to proposals for the formalization of appropriate arrangements.

20. **The modernization of tax and customs administration is also ongoing**. The modernization objectives are related in the main to reducing the time it takes to settle tax disputes and transitioning to paperless procedures. Other actions are underway to modernize land taxation and are expected to be completed by end-2014. They include: (a) simplification of the procedures governing leases; (b) finalization of the process of harmonization of land documentation on the Dakar Plateau, Ngor - Almadies, Grand Dakar, and Mbour sites; (c) conversion of occupancy permits and similar titles in the Dakar region to title deeds; and (d) preparation of a general table of government property holdings. The Directorate General of Customs (DGD) has prepared a new Strategic Plan for 2014-2017. The main objectives of this strategy document are : (a) to support the competitiveness of enterprises ; (b) to improve the mobilization of customs revenue; (c) the fight against fraud and participation in the implementation of the national security policy; (d) the streamlining of resources; and (e) DGD influence at the national et international level.

D. Strengthen Public Financial Management and Governance

21. **The Directorate General of Government Accounting and the Treasury (DGCPT) has launched a process aimed at modernizing its management methods and procedures**, notably by creating a Modernization and Strategy Division that reports directly to the Director General. In that context, a Strategic Development Plan of the Treasury Administration (PDSAT 2014-2018) has been prepared. Implementation of the plan, which is backed by a performance contract, is intended to lead to the modernization of cash management, through the strengthening of the Treasury Single Account and reorganization of the deposit account management procedures as well as improving the public expenditure management system. The reorganization of the Office of the Paymaster General of the Treasury into three separate accounting offices, by end-2014, is part and parcel of this reform process. The establishment of an electronic banking platform is also envisaged, with plans to introduce paperless handling of financial and accounting documents over the medium term.

22. **The agency reform plan is being implemented and will be completed by the end of 2014**. Of the around fifty executing agencies covered by the plan, 16 will be closed and eight merged (into three agencies). Most of those that will be maintained will need to be reorganized. Four entities dealing with youth affairs have been dissolved. In 2014, the savings resulting from this

process will be limited by the social costs (retrenchment indemnities) that could be quite high. The government expects to sign performance contracts by end-June 2014 with seven agencies (ASER, ANSD, ADIE, AGEROUTE, ANAM, FERA, and ADS). An initial report on the monitoring of budget execution by the agencies has been implemented; the report was published on the website of Directorate for forecasting and economic studies of the Ministry of Economy and Finance in May 2014, and subsequent reports will also be published. This exercise has clearly highlighted the need to strengthen financial monitoring and oversight of these entities. Further, in the interest of transparency, the 2015 draft budget law will include an annex with the complete list of agencies and funds as well as an update on the implementation of the agency reform plan.

23. **Implementation of the WAEMU directives on public financial management, a long-term undertaking, has fallen somewhat behind schedule**. At this stage, it seems unlikely that Senegal will be ready to apply these fiscal innovations by as early as 2017. FY2019 would be a more realistic, though less ambitious, timeframe. To speed up the implementation process, the structures created in 2013 to steer and monitor the process will be made operational. A new unit will be put in place within the DGF to spearhead the fiscal reforms that fall within the purview of the DGF. A reform implementation strategy through 2019 will be prepared by end-September 2014. Particular attention will be paid to the functional changes needed to the information system (ASTER et SIGFIP). A fiscal framework unit will be created at the DGF to produce the medium-term public expenditure framework. The DGCPT has already begun the phased implementation of the new government chart of accounts. The functional configuration has been completed, but practical difficulties associated, in particular, with developments in ASTER have delayed the startup, which is now scheduled to take place within this year or in early 2015. A mini opening balance sheet comprising the government's equity holdings and financial debt will be incorporated at that stage.

24. **Efforts to improve accounting, fiscal, and financial information are being pursued.** In the context of the implementation of the Single Treasury Account, a report showed that most of the accounts opened by the Ministry of Finance were opened on the basis of agreements signed with economic and financial partners; 14 accounts have already been closed and six others are to be closed. In the specific case of public institutions and agencies, a provisional report on the closure of accounts was produced and published in May 2014 on the website of DPEE. With regard to ministries and other institutions, a circular reminder letter from the MEF set a final deadline for response (June 30, 2014) after which precautionary measures will be taken by the Minister of Finance suspending the execution of transactions through the accounts. Some banks are now already regularly reporting information to the DGCPT on the balances of the bank accounts opened in the name of direct accountants of the Treasury (CDT) and this process is currently being extended to all banks. The balance sheet to be produced for this single account limited to direct accountants of the Treasury will make it possible to consider its extension to accounting personnel in agencies and public institutions. Regarding the interface between the ASTER and SIGFIP applications, the "outgoing" component is operational and makes it possible to send information from SIGFIP to ASTER as well as automatically generate accounting entries for recording fiscal operations. The "incoming" component of the interface (ASTER to SIGFIP) is in the test phase for the senior accounting units (*postes comptables supérieurs*), which will facilitate automatic signature generation in SIGFIP. In the

context of efforts undertaken to meet accounting quality standards, the "clean-up" of the general balance of accounts (clearing of various accounts for which the balances prior to 2011 could not be confirmed by supporting documents) has been launched and is expected to be completed by end-2014.

25. **The government is determined to continue improving governance.** The 2013 ranking of the Mo Ibrahim index puts Senegal in 10th place in Africa as a whole and in 3rd place among the 16 countries of West Africa—its biggest progression since 2000. The actions included in the national good governance strategy (SNBG) are related to: (i) strengthening the rule of law and democracy; (ii) strengthening the effectiveness of public administration; (iii) promoting public integrity, transparency, and accountability; (iv) strengthening local governance; (v) strengthening the governance of strategic sectors (mines, lands, education, health, etc.); and (vi) developing social communication to foster citizen ownership of good governance. The specific goals in the short-term are to complete and streamline the legal and organizational framework for oversight of government actions with a view to increasing transparency and efficiency in public governance as well as in the implementation of the transparency code (law on the declaration of assets adopted by the National Assembly on March 21, 2014). Further, it should be noted that during the 2013 fiscal year, the number of decrees on advances (5) was markedly lower compared to 2012 (36). With regard to CENTIF (national financial intelligence unit) 112 suspicious transaction reports were received in 2013; the unit analyzed and examined 123 suspicious transaction reports and following the processing of these cases, 24 reports signaling money laundering were forwarded to the Public Prosecutor's Office. CENTIF is actively working, in conjunction with all stakeholders, to implement the national anti-money laundering and combating the financing of terrorism (AML-CFT) strategy for the period 2013 to 2017. In that regard, it is important to note that an update of the community legal framework is underway, coordinated by the BCEAO. This will make it possible both to address the shortcomings identified during the evaluation of the national provisions in 2007 and to ensure conformity of the legal and regulatory texts with the international standards issued by the Financial Action Task Force (FATF) and revised in 2012. This means that Senegal will be prepared for the next round of evaluations tentatively scheduled to start in 2015.

Private sector development

Energy sector

26. **In the electricity sector, there has been a marked improvement in the quality of service** since the rollout of the first measures under the restructuring plan. The aim of making power available consistently and in sufficient quantity was indeed achieved through the rental of generators, the coming on stream of new capacity, and the rehabilitation of existing generating sets. SENELEC's financial situation has also improved. Nevertheless, direct and indirect support for energy prices cost Senegalese taxpayers over CFAF 130 billion (80 billion in tariff compensation for SENELEC, nonpayment of taxes and duties by SENELEC of 55 billion) compared to around CFAF 160 billion in 2012 (105 billion in tariff compensation for SENELEC, nonpayment of taxes and duties by SENELEC of 37 billion, and 18 billion in foregone tax revenue to stabilize prices at the pump). In the interest of

transparency, going forward, estimates and an analysis of direct and indirect support for energy prices will be included in the draft budget laws submitted to Parliament.

27. **The production plan for 2013-2017 validated by the government in January 2014 is based on an energy mix policy.** Implementation is ongoing with the development of production capacities as follows: 125MW coal-fired power plant in Sendou in October 2015; coming on stream of the 70MW dual fuel power plant in Taïba Ndiaye at end-2015; import from Mauritania of 20MW of power produced from fuel oil in October 2014; the amount will be increased to 80MW from April 2015, with the transition to gas generation starting in July 2016. These three priority projects will be supplemented over the medium term by the gradual entry into service of the 270MW coal-fired power plant in Mboro, starting in January 2017, and 150MW from renewable sources of energy. The advent of these new units will be accompanied by the phaseout of the electricity subsidy and, beyond, lower costs for consumers. It should also be noted than an emergency rural electrification plan has been adopted with a view to reaching the objective of 60 percent rural electrification in 2016.

28. **The report of the monitoring committee for the SENELEC performance contract** notes that the government met its commitments, except with respect to the easements and the improvement of SENELEC's cash flow. However, the actions planned, in particular, signing of the addendum to the agreement on cross-debts and the increase in resources needed to protect energy supplies, must be implemented as expeditiously as possible. As far as SENELEC is concerned, of the 28 objectives set, nine were met, more specifically those related to generator availability rates, variable unit production costs, specific fuel consumption, a plan to control nontechnical losses, and collection of fresh electricity bills from private customers. The objectives that were not met include those related to compliances with standards and obligations to customers, as well as overall performance.

29. **The government intends, over the short and medium term, to maintain its industrial oil refining activities**, given the important role the SAR currently plays in ensuring the security of supply of petroleum products to the country. With this in mind, an emergency program is to be implemented to address the refinery's technical problems that present a major incident risk and could compromise the functioning of its installations. However, payment of the margin of support grant should cease once the debt is paid, by 2016 at the latest. Further, the government intends to reduce its holding, through the state-owned enterprise Petrosen, in the capital of the SAR by selling a portion of its shares to private partners.

Financial sector

30. **The government would like to develop factoring in Senegal and facilitate the resolution of banking disputes.** The second national dialogue on credit—among other recommendations aimed at improving access to financing for the private sector in general and for SMEs in particular—advocated the promotion of innovative financing instruments and the diversification of financial products and services as well as the putting in place of a framework for consultation bringing together banks, judges, and the government to discuss banking disputes and

court rulings. In that context, two studies will be conducted by end-March 2015. The first will put forward a plan of action for the promotion and development of factoring in Senegal. The aim of the second study is to conduct an inventory of banking disputes and court rulings, analyze the decisions and duration of the proceedings, and make recommendations for improvement.

Other factors to improve the business climate, governance, and competitiveness

31. **Substantial progress has been made with regard to the business climate**. The three-year reform program for the business climate and competitiveness for the period 2013–2015 has made it possible to achieve significant advances. The formalities for setting up enterprises have been reduced to a two-step process. The status of entrepreneur has been recognized in the legislation making it possible to list and provide support to enterprises in the informal sector. For construction permits, one-stop windows for filing and technical advice were set up at the end of 2013. The procedure for electronic filing has been up and running since March 31, 2014 and is expected to make it possible to obtain construction permits within 40 days. The single procedure for connections to water, electricity, sanitation, and telecommunications services has been in place since January 2014. Enterprises can complete all the formalities for requesting connection in one step and in one place through APIX and are connected within a maximum of 40 days for all four connections. The rates, procedures, and timeframes for transfer of ownership have been significantly reduced, to ten percent, three stages, and 30 days, respectively. Full use of the automated procedure for cross-border trade, with respect to customs clearance procedures, has meant that the average period for completing administrative import and export formalities is now 10 days. The coming on stream of commercial courts and the updating of the code of civil procedures has reduced the timeframe for contract execution to around 550 days from 770 days. As a result of this reform, costs related to the pledging of collateral have been capped at CFAF 50 million, the power of pre-trial judges has been strengthened, delaying tactics have been curtailed, and direct dialogue between parties is now allowed. Lastly, the new legal and institutional framework for PPP projects was adopted in early 2014.

32. **This progress is expected to continue in 2014 and 2015** The electronic trade register entered into force at end-April 2014, thus facilitating and improving access to information on enterprises as well as investor protection and insolvency resolution. Electronic procedures for starting a business will be fully operational in the course of the first half of 2014. As a result of all of these actions, we expect to see a significant improvement in Senegal’s ranking in the Doing Business Survey.

Medium-term outlook

33. Over the medium term, full and resolute implementation of the *Plan Senegal Emergent* will require sweeping changes that will put Senegal on a new development path. These changes will be brought about by bold action to raise growth potential on a sustainable basis as well as encourage creativity and private initiative to meet the strong aspirations of the people for better prospects. Implementation of the Plan should make it possible for Senegal to show average GDP growth of 7.1 percent a year over the period 2014-18, compared to the trend scenario that puts average GDP growth at around 5 percent.

Program Monitoring

34. In view of the discussion in the preceding sections, a number of changes should be made in the program monitoring arrangements. The ceiling on non-concessional borrowing would be increased to US$1006 million to allow for the issuance of a US$500 million Eurobond, which will be used in part to repay the euro-denominated tranche of the syndicated loan contracted in 2013. Consequently, in net terms, there will be no increase in nonconcessional debt. The ceiling on semi-concessional borrowing (financing having a grant element in the range of 15–35 percent) would be increased to CFAF 224 billion to facilitate infrastructure financing (electricity and sanitation). The indicative target for tax revenue at end-June 2014 will be revised downward to take account of the shortfalls recorded in 2013. The continuous criterion on the creation of new agencies will be reworded to replace "cost-benefit analysis" by "opportunity study" for consistency with the prevailing legislation.

Table 1. Quantitative Assessment Criteria and Indicative Targets for 2013–14

	2013										2014			
	Jun.		Sep.				Dec.				Mar.	Jun.	Sep.	Dec.
	Act.	Status	Prog.	Adj.	Act.	Status	Prog.	Adj.	Act.	Status	Prog.	Prog.	Prog.	Proj.
	(CFAF billions, unless otherwise specified)													
Assessment criteria[1]														
Floor on the overall fiscal balance[2]	-155	met	-304	-319	-297	met	-406	-420	-400	met	-100	-198	-297	-396
Ceiling on the contracting or guaranteeing of new nonconcessional external debt by the government (US$ millions)[3]	300	met	800	…	300	met	800	…	506	met	800	1006	1006	1006
Ceiling on spending undertaken outside normal and simplified procedures [3]	0	met	0	…	0	met	0	…	0	met	0	0	0	0
Ceiling on government external payment arrears (stock)[3]	0	met	0	…	0	met	0	…	0	met	0	0	0	0
Ceiling on the amount of the budgetary float	46	met	50	…	47	met	50	…	30	met	50	50	50	50
Ceiling on nonconcessional debt with a minimum grant element of 15 percent[3]	0	met	67	…	0	met	132	…	53	met	132	224	224	224
Indicative targets														
Quarterly ceiling on the share of the value of public sector contracts signed by single tender (percent)	14	met	20	…	14	met	20	…	8	met	20	20	20	20
Floor on social expenditures (percent of total spending)	35	met	35	…	n.a.	n.a.	35	…	38	met	35	35	35	35
Floor on tax revenue	…	…	…	…	994	…	1,434	…	1,343	not met	374	730	1,095	1,459
Maximum upward adjustment of the overall deficit ceiling owing to														
Shortfall in program grants relative to program projections	-9	…	15	…	16	…	15	…	18	…	15	15	15	15
Excess in concessional loans relative to program projections	-22	…	50	…	0	…	50	…	-1	…	50	50	50	50
Memorandum items:														
Program grants	10	…	29	…	13	…	38	…	20	…	10	19	28	38
Concessional loans	89	…	156	…	155	…	221	…	220	…	65	118	176	235

Source: Senegal authorities and IMF Staff estimates.

[1]Indicative targets for March and September, except for the assessment criteria monitored on a continuous basis. See Technical Memorandum of Understanding for definitions.

[2]Cumulative since the beginning of the year. The floor on the overall deficit is adjusted in line with the TMU definition.

[3]Monitored on a continuous basis.

Table 2: Structural Benchmarks

Measures	MEFP	Implementation date	Benchmark for review	Macroeconomic Significance	Status
CONSOLIDATE PROGRESS IN PUBLIC FINANCIAL MANAGEMENT					
Submit to the Assembly a draft law on the declaration of assets		January 1, 2014	7th	Strengthen fiscal transparency	Met (November 2013)
Implementation of the new payroll management software		January 1, 2014	7th	Strengthen public financial management	Met with delay (May 2014)
The creation of any new agencies is subject to an opportunity study		Continuous	Continuous	Strengthen the quality of public spending and transparency	Not met
Submission by the five largest agencies of strategies and implementation of performance contracts		June 30, 2014	8th	Strengthen the quality of public spending and transparency	Ongoing
The cost/benefit analyses of the five largest investment projects included in the 2015 budget will be submitted to the National Assembly at the same time as the draft budget law		October 15, 2014	8th	Strengthen the quality of public spending and transparency	Ongoing
The 2015 draft budget law will include an annex with the full list of agencies and funds and an update on the implementation of the agency reform plan		October 15, 2014	8th	Strengthen the quality of public spending and transparency	New

The 2015 draft budget law will include in an annex an estimate and analysis of direct and indirect budget support for energy prices.		October 15, 2014	8th	Strengthen the quality of public spending and transparency.	New
PROMOTE PRIVATE SECTOR DEVELOPMENT BY IMPROVING THE BUSINESS CLIMATE, STRENGTHENING GOVERNANCE , AND ENHANCING EFFICIENCY OF THE ENERGY SECTOR					
Roll out on-line filing and on-line payment of taxes for all taxpayers in the Dakar region.		January 1, 2014	7th	Enhance the efficiency of government and improve the business climate.	Met, with a delay. Remains optional for the moment.
The report of the monitoring committee for the performance contract of Senelec and the audit on the implementation of the performance contract will be published. The first publication will entail a survey of the electricity sector, including the financial situation, and the authorities' reform strategy for the sector. This assessment and strategy will be subject to consultation with the key players in the sector.		March 31, 2014 (for the 1st report)	7th	Promote private sector development.	The first publication was issued on May 21, 2014. The audit was delayed, because of the time needed to comply with the World Bank's procurement

Attachment II. Technical Memorandum of Understanding

Washington, June 6, 2014

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 2011-2014. The TMU also establishes the terms and time frame for transmitting the data that will enable Fund staff to monitor program implementation.

Program Conditionality

2. The assessment criteria for end-June 2014, and the indicative targets for end-March and end-September 2014, are shown in Table 1 of the MEFP. The prior actions and structural benchmarks established under the program are presented in Table 2.

Definitions, Adjusters, and Data Reporting

A. The Government

3. 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).

B. 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) are 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 of December 31, 2012, is minus CFAF 420 billion. It is calculated as the difference between total government revenue (CFAF 1,670 billion) and total expenditure and net lending (CFAF 2,090 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 (see MEFP Tables 1and 2).

7. The overall fiscal balance including grants is adjusted downward/upward by the amount that concessional loans exceed/fall short of their programmed amount, up to a maximum of CFAF 50 billion at current exchange rates (see MEFP, Table 1). For the purposes of this assessment criterion, concessional loans denominated in CFAF and 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.

C. 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 highway and the investment projects of the power sector reform plan.

Reporting requirements

10. The authorities will report semiannual data to Fund staff within two months following the end of each period.

D. 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.

E. 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 a supplemental appropriation order (décret d'avance) 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 12, to Fund staff on a monthly basis with a maximum delay of 30 days.

F. 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 paragraphs 17 and 20 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.

G. Contracting or Guaranteeing of New Nonconcessional External Debt by the Government

17. 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 direct, i.e., non-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, according to a given repayment schedule; 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.

18. **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).

19. **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 rate used for this purpose is 5 percent.

20. **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.

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

22. **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 and the FSE to finance the purchase of petroleum products.

b) A total ceiling of US$1006 million applies over the period 2011–14 for nonconcessional external debt financing to be used for investment projects, including in road infrastructure, the energy sector, and urban water and sanitation, and to reduce the recourse to regional market financing.

c) A separate ceiling equivalent to CFAF 224 billion in 2011–14 applies for nonconcessional 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

[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.

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

23. 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.

H. Public Sector Contracts Signed by Single Tender

Definition

24. 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 entered into by the government or any entity subject to the procurement code. The ceiling on contracts executed by single tender will exclude fuel purchases by SENELEC for electricity production. This exclusion reflects new regulation, which requires SENELEC to buy fuel directly from SAR based on the existing price structure.

Reporting requirements

25. 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.

I. Tax Revenue

Definition

26. Tax revenue is the sum of revenue from taxes on income, goods and services, and petroleum products. The indicative target will be assessed on the basis of the data for such revenue provided in the quarterly TOFE.

Additional Information for Program Monitoring

27. The authorities will transmit the following to Fund staff, in electronic format if possible, with the maximum time lags indicated:

(a) 3 days after adoption: any decision, circular, edict, supplemental appropriation order, ordinance, or law having economic or financial implications for the current program. This includes in particular all acts that change budget allocations included in the budget law being executed (for instance: supplemental appropriation orders (*décrets d'avance*), cancellation of budget appropriations (*arrêtés d'annulation de crédit budgétaires*) and orders or decisions creating supplemental budget appropriations (*décrets ou arrêtés d'ouverture de crédit budgétaire supplémentaire*).

(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 on a monthly basis;

The monthly amount of expenditures committed, certified, and for which payment orders have been issued;

The monthly situation of checks issued by agencies from their deposit accounts at the Treasury but not paid to beneficiaries, with the dates of issuance of the checks.

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 monthly 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 to Fund staff provisional data on current nonwage noninterest expenditures and domestically financed capital expenditures executed through cash advances 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 central bank 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 on a monthly basis on the website established for this purpose the following information:

a) Preliminary TOFE and transition tables with the delay of 2 months.

b) SIGFIP execution table, the table for the central government and a summary table including regions, with the delay of 2 weeks

c) The amount of the airport tax collected, deposited in the escrow account, and used for the repayment of the loan financing the construction of the new airport, with the delay of 1 month.

d) Full information on: (i) the operations of Energy Sector Support Fund (FSE); (ii) investment projects in the power sector; (iii) planning and execution of these projects; (iv) details of financing and updated costs.

INTERNATIONAL MONETARY FUND

SENEGAL

SEVENTH REVIEW UNDER THE POLICY SUPPORT INSTRUMENT AND REQUEST FOR MODIFICATION OF ASSESSMENT CRITERIA—DEBT SUSTAINABILITY ANALYSIS

June 9, 2014

Approved By
Roger Nord and Peter Allum (IMF), and Jeffrey D. Lewis and Marcelo Giugale (IDA)

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

Senegal remains at a low risk of debt distress. Under the baseline scenario, which is consistent with higher program ceilings for nonconcessional and semi-concessional borrowing, all the debt burden indicators remain way below their policy-dependent indicative thresholds, and debt ratios in present value terms are lower than in the previous debt sustainability analysis (DSA) reflecting the use of a higher discount rate. There are in stress tests small and temporary breaches of the threshold on the debt to GDP ratio and on the debt service to revenue ratio, the latter corresponding to the repayment of two Eurobonds. In addition, the probability approach shows a favorable outlook, reflecting Senegal's high CPIA score.[1] The DSA, however, suggests that there is not much space for higher fiscal deficits if the low risk rating is to be preserved. It also indicates a need for caution in the recourse to nonconcessional borrowing.[2]

[1] Senegal's CPIA score was 3.82 in 2012, and on average 3.76 over 2010–12. Under the debt sustainability framework rules, this corresponds to a "moderate" performance. Maintenance of an average CPIA score above 3.75 would ultimately lead to a reclassification to "high" performance.

[2] The DSA presented in this document is based on the LIC DSF Guidance note (2013).

BACKGROUND

1. **Senegal's total public debt and external debt ratios have both increased substantially over the past five years.** The ratio of total public debt to GDP amounted to about 47 percent in 2013, up from around 25 percent in 2008. At the same time, the stock of total external public and publicly guaranteed debt has increased from around 20 percent of GDP in 2008 to around 32 percent at end-2013. These levels are close to those that prevailed before Senegal benefited from debt relief under the Multilateral Debt Relief Initiative (MDRI) in 2006. Debt-servicing costs have also increased, reflecting higher recourse to market financing. External public debt service has increased from 4.3 percent of exports in 2008 to about 9 percent in 2013.

Total External Debt, Central Government

	(Percent of GDP, as of end of year)						% of total
	2008	**2009**	**2010**	**2011**	**2012**	**2013**	**2013**
Total	19.6	26.8	27.3	27.4	31.0	32.4	100.0
Multilateral creditors	12.0	17.5	18.1	16.5	19.0	20.7	63.7
IDA/IBRD	7.0	8.0	8.0	8.8	9.2	9.6	29.6
AfDB/AfDF	1.5	2.2	2.5	2.9	3.0	3.6	11.0
IMF	0.5	1.8	2.9	0.0	1.9	2.4	7.4
OFID/BADEA/IsDB	1.7	3.2	2.7	2.8	2.6	2.6	8.0
EIB	0.2	0.3	0.3	0.3	0.2	0.3	0.8
Others	1.2	2.0	1.8	1.7	2.1	2.2	6.8
Bilateral creditors	7.6	7.9	7.6	7.2	8.1	0.1	26.2
OECD countries	2.2	2.7	2.6	2.1	3.2	3.3	10.1
Arab countries	4.1	3.8	2.8	2.2	2.1	2.0	6.1
Others	1.2	1.3	2.1	2.3	2.8	2.8	8.8
Commercial creditors	0.0	1.5	1.6	3.7	3.5	3.3	10.1
Memorandum Item							
Nominal GDP (CFAF billions)	5994	6050	6395	6775	7165	7308	

Sources: Senegalese authorities and IMF staff estimates

2. **In terms of composition, the bulk of Senegal's debt remains largely external, and provided on concessional terms, but the use of financial market instruments is increasing.**[3] Most of the public debt is external (i.e., owed to non-residents of the West African Economic and Monetary Union, WAEMU), although the share of domestic debt to GDP has increased from 5.3 percent in 2008 to around 16 percent in 2013.[4] Almost two thirds of Senegal's external debt is owed to multilateral creditors—primarily the World

[3] Public debt refers to the debt of the central government.

[4] Domestic debt includes debt issued in the WAEMU financial market.

Bank and the African Development Bank. The largest groups of bilateral creditors are the OECD and the Arab countries. The share of market debt is still relatively small, although it has grown rapidly over the past few years, with the issuance of two Eurobonds in 2009 and 2011, and the contracting of a syndicated loan

in 2013, which includes a tranche in euro targeting nonresidents. This is expected to be followed by a US$500 million Eurobond in mid-2014. Private external debt has averaged about 20 percent of GDP over the last decade and was estimated at about 36 percent of GDP at end-2013.[5] About half of this debt was in the form of trade credits and bank deposits; the rest consisted of debt securities, loans, and other liabilities. This exposure was partly offset by private external assets amounting to 8 percent of GDP.

BORROWING PLAN AND UNDERLYING ASSUMPTIONS

3. The authorities have continued to strengthen their capacity to manage debt and assess project loans. Senegal has continued to record improvement in its sub-CPIA score, showing marked progress in debt management. A new public debt directorate has been created, combining units that previously managed domestic debt and external debt separately. In addition, Senegal's first medium-term debt strategy was completed in the fall of 2012 and a second one is being finalized. Progress is underway to improve project appraisal and selection, in particular by developing capacity to conduct cost-benefit analysis. In light of these favorable developments, Senegal was upgraded to the "higher capacity" category during the 2013 assessment of macroeconomic and public financial management capacity (see Classification of Low-Income Countries for the Purpose of Debt Limits in Fund-Supported Programs).

4. This DSA is consistent with the macroeconomic framework outlined in the staff report. As in the June 2013 DSA, the baseline scenario assumes the implementation of sound macroeconomic and structural policies, leading to an increase in economic growth and a narrowing of fiscal deficits over the long term. Other notable features include:

- **Real GDP growth** is expected to increase to slightly above 5 percent, as in the previous DSA. This assumes efficiency gains from reform implementation, which would allow total factor productivity (TFP) to resume growing. TFP declined in recent years, which affected growth performance.

- **Fiscal deficit.** The overall fiscal deficit projections are broadly unchanged beyond 2014 and in line with the authorities' commitment to meet the key WAEMU convergence criterion on the fiscal deficit.[6]

[5] Estimates of private sector external debt are based on BCEAO data on the international investment position.

[6] The convergence criterion calls for the basic fiscal balance, in percent of GDP, to be greater than or equal to zero. The basic fiscal balance is defined as total revenue, plus budget support grants, plus the counterpart of HIPC/MDRI-related spending, minus current expenditures and domestically-financed capital expenditure.

- **Current account deficit**: The current account deficit is projected to narrow gradually from 10.8 percent in 2013 to 8 percent of GDP in 2018 and slightly further down in the long term. This would be driven by projected fiscal consolidation and by the strong dynamism of exports (mining in particular). Remittances are projected to remain significant as a share of GDP.

- **Inflation:** it is expected to remain moderate, on average close to 2.0 percent.

- **Financing:** The authorities are increasingly relying on external nonconcessional or semi-concessional borrowing to finance infrastructure projects, and this trend is expected to continue. They postponed a planned Eurobond issuance to 2014, following a sharp tightening of financial conditions on international markets in the course of 2013. The authorities now intend to issue a US$500 million Eurobond in mid-2014. Conditions have been relatively favorable in international markets in the past few months, and the authorities expect to get a much lower interest rate than on their 2011 Eurobond (whose yield is currently about 6 percent). Part of the proceeds would be used to repay the euro tranche of the syndicated loan contracted in 2013, which has a short maturity. The projections assume a rollover of the 2011 and 2014 bonds at maturity, as well as a moderate annual amount nonconcessional borrowing in the medium and long term. The authorities intend to continue relying on semi-concessional project financing (i.e. with a grant element above 15 percent) for infrastructure. As a result, the average grant element of new external borrowing is projected to decrease from about 20 percent to below 10 percent over the projection period, as Senegal gradually moves away from concessional borrowing toward nonconcessional borrowing.

- **Discount rate:** A discount rate of 5 percent has been used for this DSA.[7]

Evolution of Selected Macroeconomic Indicators

	2012	2013	2014	2015	Long term 1/
Real GDP growth					
Current DSA	3.4	3.5	4.9	5.0	5.4
Previous DSA	3.5	4.0	4.6	4.7	5.3
Overall fiscal deficit (percent of GDP)					
Current DSA	5.9	5.5	5.1	3.9	2.6
Previous DSA	5.9	5.3	4.6	3.9	2.8
Current account deficit (percent of GDP)					
Current DSA	10.8	10.4	10.0	8.9	7.6
Previous DSA	10.3	9.3	8.7	8.3	7.6

1/ Defined as the last 15 years of the projection period. For the current DSA, the long term covers the years 2020-2034; for the previous DSA, it covers 2019-2033.

[7] In line with the IMF Executive Board decision to reform the system of discount rates used in the analysis of debt in low-income countries, a single uniform discount rate of 5 percent is used to calculate the present value (PV) of external debt and in calculating the grant element of loans under the program. The discount rate used in the 2013 DSA was 3 percent.

EXTERNAL DSA

5. **In Senegal, remittances are both high as a percentage of GDP and stable.** Since 2000, they have grown every year with the exception of 2009, when they fell 6 percent. Over the period 2010–2012, remittances in Senegal averaged 52 percent of exports of goods and services and 13 percent of GDP. They have become an important and reliable source of foreign exchange in Senegal, a pattern that is expected to continue.[8]

6. **Taking remittances into account, debt burden indicators remain well below their thresholds in the baseline scenario.** The external PPG debt ratios remain below their respective thresholds even under the most extreme stress tests, with two exceptions. Two spikes in debt service reflect the assumption of the repayment of the Eurobonds at maturity, and lead to one-year breaches under the most extreme stress test (a 30 percent depreciation of the currency). There is also a small temporary breach of the threshold on the debt to GDP ratio under the most extreme stress test. These breaches disappear using the probability approach, which incorporates more country specific features for Senegal.[9]

PUBLIC DSA

7. **Under the PSI baseline scenario, indicators of overall public debt (external plus domestic) do not show significant vulnerabilities.** The PV of total public debt to GDP and the PV of total public debt to revenue remain gradually decrease over the projection period. The PV of public debt to GDP remains well below the benchmark level of 56 percent associated with heightened public debt vulnerabilities for medium performers. The authorities' effort to increase maturities (from slightly over one year at the time of the previous DSA) should reduce exposure to rollover and interest rate risks in the context of financing from the regional market.

8. **The public debt outlook would be much less favorable in the absence of fiscal consolidation (Table 2b).** In a scenario that assumes an unchanged primary deficit (as a percent of GDP) over the entire projection period, the PV of public debt to GDP grows rapidly, quickly breaching the 56 percent benchmark level. The benchmark level is also breached in the "historical" scenario (holding real GDP growth and the primary deficit constant at their historical levels). While overall the risks remain low, these stress tests highlight the importance of continuing the fiscal effort and raising output growth.

OTHER ISSUES

9. **Views of the authorities and assessment of Plan Sénégal Emergent (PSE).** The authorities broadly agreed with the staff's assessment of debt sustainability using the PSI baseline scenario. They

[8] Both ratios are measured on a backward-looking, three-year average basis.

[9] According to the debt sustainability framework policy, the probability approach can be used in borderline cases, when breaches are short-lived and within plus-or-minus 10 percent of the indicative threshold.

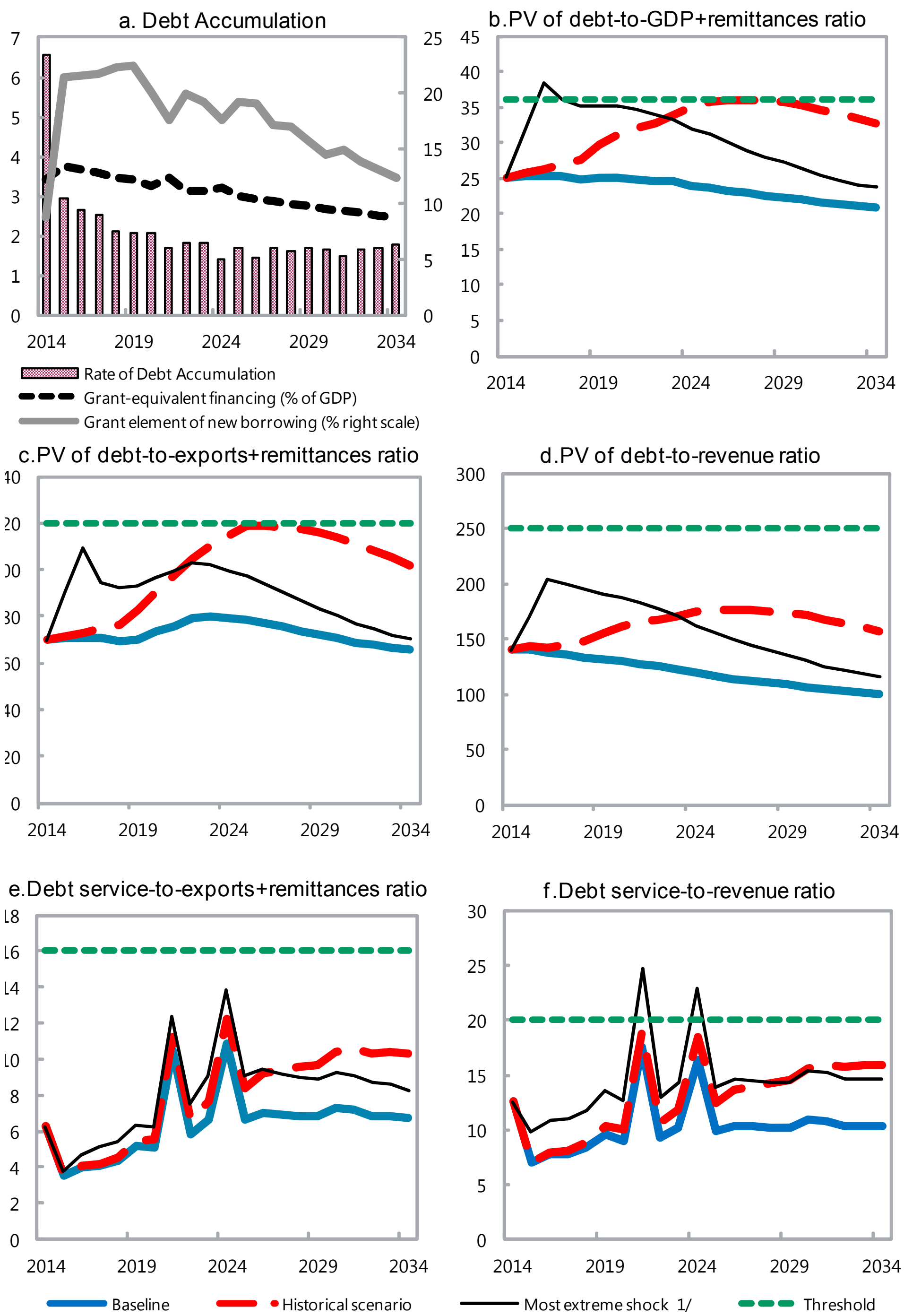
highlighted their recent fiscal consolidation efforts, pointing to actions taken to reduce the fiscal deficit in 2012–13 and further in 2014. Most of the discussion focused on the implications of the PSE for debt dynamics. Under the macroeconomic framework developed by the authorities for the PSE, the expected growth dividend from implementing the PSE is assumed to eventually offset the impact on debt ratios of higher fiscal deficits in the next few years (Figure 3). The authorities nevertheless acknowledged that fiscal consolidation and a cautious approach to nonconcessional borrowing were critical for safeguarding debt sustainability. Staff stressed that preserving debt sustainability under the PSE would depend on achieving a high growth dividend and implementing a comprehensive and ambitious reform of the state (to make room for investment and improve the efficiency of spending). In the absence of balance of payments projections consistent with the authorities' PSE framework, the external debt impact of the PSE is not considered in this DSA.

10. Revised debt limits. The authorities and staff discussed the options for debt limits made available by Senegal's recent reclassification as a "higher capacity" country under the debt limits policy. In light of the limited time remaining until the end of the current Fund-supported program, it was agreed to keep the current design for debt limits, while raising the existing ceilings as needed, in particular the one on semi-concessional borrowing to facilitate the financing of four high-return infrastructure projects (electricity and sanitation). These higher ceilings are taken into account in the present DSA.

CONCLUSION

11. In staff's view, Senegal continues to face a low risk of debt distress. This assessment, however, hinges critically on a continued reduction of the fiscal deficit and a prudent shift towards less concessional financing.

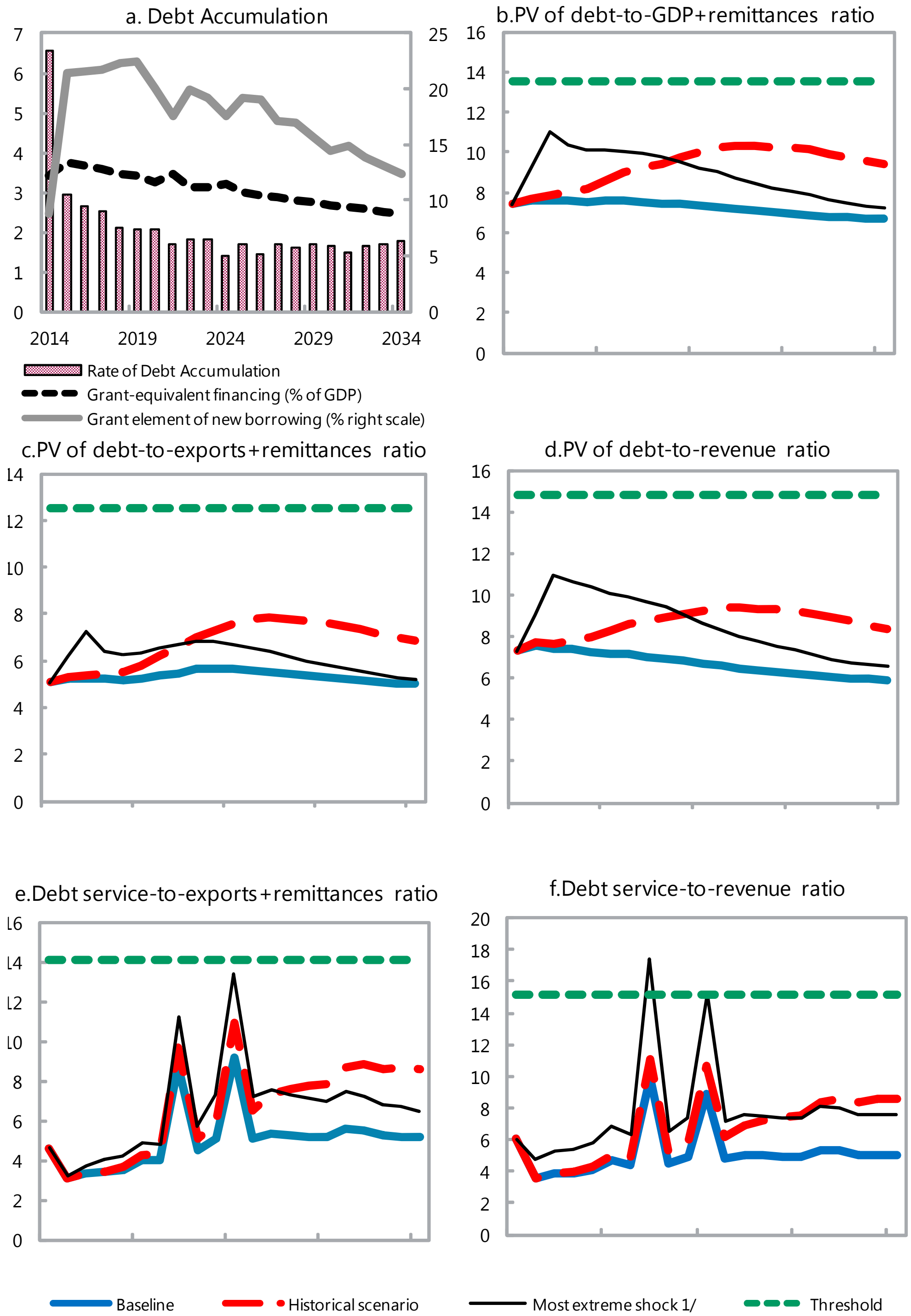
Figure 1. Senegal: Indicators of Public and Publicly Guaranteed External Debt under Alternative Scenarios, 2014-2034 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2024. In figure b. it corresponds to a Combination shock; in c. to a Combination shock; in d. to a Combination shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

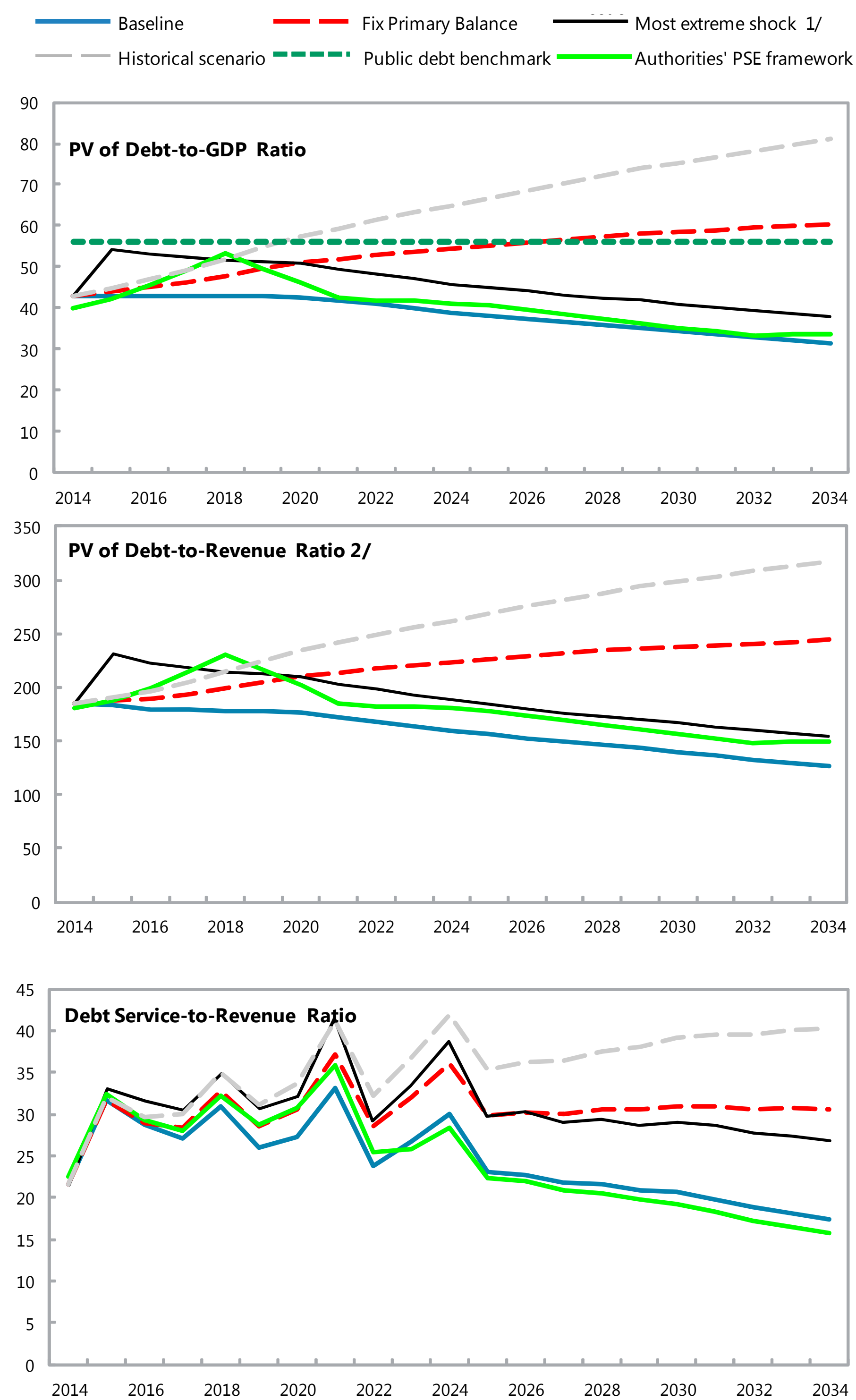
Figure 2. Senegal: Probability of Debt Distress of Public and Publicly Guarantees External Debt under Alternative Scenarios, 2014-2034 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2024. In figure b. it corresponds to a Combination shock; in c. to a Combination shock; in d. to a Combination shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

Figure 3. Senegal: Indicators of Public Debt under Alternative Scenarios, 2014-2034



Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio on or before 2024.
2/ Authorities' estimates before revisions to 2014 fiscal indicators based on PSI discussions.

Table 1. Senegal: External Debt Sustainability Framework, Baseline Scenario, 2011-2034 1/

(In percent of GDP, unless otherwise indicated

	Actual			Historical 6/ Average	Standard 6/ Deviation	Projections									
	2011	2012	2013			2014	2015	2016	2017	2018	2019	2014-2019 Average	2024	2034	2020-2034 Average
External debt (nominal) 1/	**54.5**	**62.7**	**68.3**			**73.0**	**75.5**	**77.3**	**78.3**	**77.9**	**76.8**		**69.7**	**73.2**	
of which: public and publicly guaranteed (PPG)	29.4	31.0	32.4			35.6	36.1	36.3	36.3	35.8	35.6		32.6	27.4	
Change in external debt	3.8	8.1	5.7			4.7	2.5	1.9	0.9	-0.3	-1.1		-2.7	0.8	
Identified net debt-creating flows	0.8	10.1	5.5			5.2	3.7	3.3	2.8	2.2	0.9		1.3	2.8	
Non-interest current account deficit	**6.9**	**9.9**	**9.6**	**8.2**	**2.9**	**9.0**	**7.9**	**7.7**	**7.4**	**7.0**	**5.8**		**6.0**	**7.6**	6.9
Deficit in balance of goods and services	18.3	21.3	21.8			21.3	20.6	20.5	20.2	19.6	17.8		14.7	15.9	
Exports	26.4	28.3	27.5			27.3	26.8	26.7	26.6	26.9	27.3		23.8	25.8	
Imports	44.7	49.5	49.3			48.6	47.3	47.1	46.8	46.6	45.0		38.5	41.8	
Net current transfers (negative = inflow)	-12.3	-12.5	-12.6	-10.9	2.1	-12.4	-12.8	-12.8	-12.7	-12.6	-11.9		-8.7	-8.3	-8.7
of which: official	-0.9	-1.0	-0.3			-0.5	-0.6	-0.6	-0.5	-0.5	-0.5		-0.5	-0.5	
Other current account flows (negative = net inflow)	0.9	1.2	0.3			0.1	0.1	0.0	0.0	0.0	-0.1		-0.1	0.0	
Net FDI (negative = inflow)	**-2.0**	**-2.0**	**-1.7**	**-1.8**	**0.6**	**-1.7**	**-1.8**	**-1.9**	**-2.0**	**-2.0**	**-2.1**		**-2.1**	**-2.1**	-2.1
Endogenous debt dynamics 2/	**-4.1**	**2.2**	**-2.4**			**-2.1**	**-2.3**	**-2.5**	**-2.6**	**-2.7**	**-2.8**		**-2.7**	**-2.7**	
Contribution from nominal interest rate	1.0	0.9	0.8			1.0	1.0	1.0	1.0	1.0	1.0		0.9	0.9	
Contribution from real GDP growth	-0.8	-1.9	-2.1			-3.1	-3.3	-3.5	-3.6	-3.7	-3.8		-3.6	-3.7	
Contribution from price and exchange rate changes	-4.3	3.2	-1.1			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**3.0**	**-2.0**	**0.2**			**-0.5**	**-1.3**	**-1.4**	**-1.9**	**-2.6**	**-2.0**		**-3.9**	**-2.0**	-2.4
of which: exceptional financing	-0.9	-1.4	-0.1			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	60.2			66.1	68.2	69.9	70.7	70.4	69.5		63.4	68.7	
In percent of exports	...	...	219.0			242.4	255.0	262.3	265.4	261.3	255.1		266.3	265.8	
PV of PPG external debt	**...**	**...**	**24.3**			**28.6**	**28.9**	**28.9**	**28.8**	**28.3**	**28.3**		**26.2**	**22.8**	
In percent of exports	**...**	**...**	**88.3**			**104.9**	**107.9**	**108.5**	**107.9**	**105.1**	**103.9**		**110.2**	**88.3**	
In percent of government revenues	**...**	**...**	**120.6**			**140.2**	**140.2**	**137.2**	**135.7**	**132.9**	**131.4**		**119.3**	**100.4**	
Debt service-to-exports ratio (in percent)	**17.8**	**9.7**	**8.9**			**11.6**	**7.1**	**7.3**	**7.1**	**7.4**	**8.4**		**15.7**	**8.0**	
PPG debt service-to-exports ratio (in percent)	**13.2**	**7.0**	**6.7**			**9.4**	**5.4**	**6.1**	**6.2**	**6.6**	**7.6**		**15.1**	**9.1**	
PPG debt service-to-revenue ratio (in percent)	**17.2**	**9.6**	**9.2**			**12.6**	**7.0**	**7.7**	**7.8**	**8.3**	**9.7**		**16.3**	**10.4**	
Total gross financing need (Billions of U.S. dollars)	1.4	1.5	1.5			1.7	1.4	1.5	1.5	1.6	1.5		2.8	6.1	
Non-interest current account deficit that stabilizes debt ratio	3.1	1.8	3.9			4.3	5.5	5.9	6.5	7.3	6.9		8.7	6.8	
Key macroeconomic assumptions															
Real GDP growth (in percent)	1.7	3.4	3.5	3.8	1.4	4.9	5.0	5.1	5.1	5.1	5.3	5.1	5.4	5.5	5.4
GDP deflator in US dollar terms (change in percent)	9.3	-5.5	1.8	4.3	8.0	4.6	4.1	3.5	3.9	3.8	2.3	3.7	2.6	2.7	2.6
Effective interest rate (percent) 5/	2.2	1.6	1.4	1.8	0.4	1.5	1.5	1.4	1.4	1.4	1.4	1.4	1.3	1.4	1.4
Growth of exports of G&S (US dollar terms, in percent)	17.7	4.7	2.5	8.8	10.7	8.8	7.3	8.4	9.2	10.3	9.1	8.8	8.9	9.5	7.8
Growth of imports of G&S (US dollar terms, in percent)	23.2	8.2	4.9	11.9	17.2	8.1	6.5	8.4	8.5	8.6	4.2	7.4	6.2	9.3	7.6
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	8.8	21.5	21.6	21.7	22.3	22.5	19.7	17.6	12.3	16.7
Government revenues (excluding grants, in percent of GDP)	20.3	20.4	20.1			20.4	20.6	21.1	21.2	21.3	21.6		22.0	22.7	22.2
Aid flows (in Billions of US dollars) 7/	0.7	1.0	0.8			0.9	1.1	1.1	1.2	1.3	1.4		1.8	3.1	
of which: Grants	0.3	0.4	0.4			0.5	0.5	0.5	0.6	0.6	0.7		0.9	1.7	
of which: Concessional loans	0.4	0.6	0.4			0.5	0.6	0.6	0.6	0.7	0.7		0.9	1.5	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			3.4	3.7	3.7	3.6	3.5	3.4		3.2	2.5	2.9
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			34.8	53.8	54.5	54.9	56.7	57.2		46.9	45.8	50.7
Memorandum items:															
Nominal GDP (Billions of US dollars)	14.4	14.0	14.8			16.2	17.7	19.3	21.1	23.0	24.8		36.5	80.4	
Nominal dollar GDP growth	11.1	-2.3	5.4			9.8	9.3	8.8	9.3	9.1	7.8	9.0	8.1	8.3	8.1
PV of PPG external debt (in Billions of US dollars)			3.7			4.7	5.2	5.6	6.1	6.6	7.0		9.6	18.3	
(PVt-PVt-1)/GDPt-1 (in percent)						6.6	2.9	2.7	2.5	2.1	2.0	3.1	1.4	1.8	1.7
Gross workers' remittances (Billions of US dollars)	1.9	1.9	2.1			2.2	2.5	2.7	3.0	3.2	3.3		3.4	7.2	
PV of PPG external debt (in percent of GDP + remittances)	...	...	21.3			25.1	25.3	25.3	25.2	24.8	25.0		24.0	20.9	
PV of PPG external debt (in percent of exports + remittances)	...	...	58.2			69.7	70.6	70.9	70.6	69.1	70.1		79.0	65.4	
Debt service of PPG external debt (in percent of exports + remittanc	...	...	4.4			6.2	3.5	4.0	4.1	4.3	5.2		10.8	6.8	

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/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

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

8/ 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 2. Senegal: Public Sector Sustainability Framework, Baseline Scenario, 2011-2034
(In percent of GDP, unless otherwise indicated)

	Actual			Average 5/	Standard Deviation 5/	Estimate	Projections								
	2011	2012	2013			2014	2015	2016	2017	2018	2019	2014-19 Average	2024	2034	2020-34 Average
Public sector debt 1/	40.7	43.4	46.8			50.0	50.3	50.4	50.4	50.4	50.3		45.4	36.1	
of which: foreign-currency denominated	29.4	31.0	32.4			35.6	36.1	36.3	36.3	35.8	35.6		32.6	27.4	
Change in public sector debt	5.2	2.7	3.4			3.2	0.3	0.1	0.0	0.0	0.0		-1.1	-0.7	
Identified debt-creating flows	4.9	3.2	3.3			2.0	-0.1	-0.3	-0.7	-0.8	-0.5		-1.2	-0.7	
Primary deficit	5.2	4.4	3.9	3.9	1.1	3.3	2.3	1.9	1.7	1.5	1.1	2.0	0.8	0.7	0.8
Revenue and grants	22.5	23.3	22.7			23.2	23.4	23.9	24.0	24.0	24.2		24.4	24.8	
of which: grants	2.2	2.9	2.6			2.8	2.9	2.8	2.8	2.7	2.7		2.4	2.1	
Primary (noninterest) expenditure	27.7	27.7	26.6			26.5	25.7	25.8	25.6	25.5	25.4		25.2	25.5	
Automatic debt dynamics	-0.3	-0.6	-0.6			-1.3	-2.4	-2.3	-2.4	-2.3	-1.7		-1.9	-1.5	
Contribution from interest rate/growth differential	-0.4	-0.7	0.7			-1.1	-1.8	-1.8	-1.9	-1.9	-1.9		-1.9	-1.5	
of which: contribution from average real interest rate	0.2	0.6	2.2			1.1	0.5	0.6	0.6	0.6	0.6		0.4	0.5	
of which: contribution from real GDP growth	-0.6	-1.3	-1.5			-2.2	-2.4	-2.4	-2.5	-2.5	-2.5		-2.4	-1.9	
Contribution from real exchange rate depreciation	0.1	0.1	-1.3			-0.2	-0.5	-0.5	-0.5	-0.5	0.2		...	...	
Other identified debt-creating flows	0.0	-0.6	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	-0.6	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)	0.0	0.0	0.0			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	0.3	-0.5	0.1			1.2	0.4	0.5	0.7	0.8	0.5		0.1	0.0	
Of which: asset changes	1.9	1.6	0.1			0.3	0.3	0.3	0.3	0.3	0.2		0.0	0.0	
Other Sustainability Indicators															
PV of public sector debt	...	...	38.7			43.0	43.0	43.0	42.9	42.8	43.0		39.0	31.5	
of which: foreign-currency denominated	...	...	24.3			28.6	28.9	28.9	28.8	28.3	28.3		26.2	22.8	
of which: external	...	...	24.3			28.6	28.9	28.9	28.8	28.3	28.3		26.2	22.8	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	12.3	12.2	12.2			14.6	13.0	11.0	10.3	10.9	9.2		9.3	5.6	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	170.5			185.5	183.5	179.9	179.1	178.4	177.6		159.6	127.2	
PV of public sector debt-to-revenue ratio (in percent)	...	...	192.2			211.1	209.0	203.8	202.4	201.2	199.6		177.3	138.7	
of which: external 3/	...	...	120.6			140.2	140.2	137.2	135.7	132.9	131.4		119.3	100.4	
Debt service-to-revenue and grants ratio (in percent) 4/	19.9	16.4	17.0			21.6	31.7	28.7	27.1	30.9	25.9		30.1	17.4	
Debt service-to-revenue ratio (in percent) 4/	22.1	18.7	19.2			24.6	36.1	32.5	30.7	34.8	29.2		33.4	19.0	
Primary deficit that stabilizes the debt-to-GDP ratio	0.0	1.7	0.5			0.1	2.0	1.8	1.7	1.6	1.2		1.8	1.4	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	1.7	3.4	3.5	3.8	1.4	4.9	5.0	5.1	5.1	5.1	5.3	5.1	5.4	5.5	5.4
Average nominal interest rate on forex debt (in percent)	3.7	2.5	2.5	2.4	0.6	2.9	2.8	2.8	2.8	2.8	2.8	2.8	2.8	3.6	3.0
Average real interest rate on domestic debt (in percent)	3.7	4.8	8.1	3.2	3.7	4.9	2.7	3.3	3.3	3.2	3.4	3.5	3.1	2.7	3.0
Real exchange rate depreciation (in percent, + indicates depreciation	0.3	0.5	-4.3	-0.8	8.5	-0.7	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	4.2	2.3	-1.4	2.4	2.8	1.5	2.3	2.3	2.3	2.3	2.3	2.2	2.6	2.7	2.6
Growth of real primary spending (deflated by GDP deflator, in percer	7.9	3.2	-0.4	1.1	2.6	4.4	1.9	5.5	4.3	4.8	4.6	4.3	5.0	5.6	5.4
Grant element of new external borrowing (in percent)	...	...	...	...	...	8.8	21.5	21.6	21.7	22.3	22.5	19.7	17.6	12.3	...

Sources: Country authorities; and staff estimates and projections.

1/ [Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.]

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.

5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 3A. Senegal: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2014-2034 (In Percent)

	Projections							
	2014	2015	2016	2017	2018	2019	**2024**	2034
PV of debt-to-GDP+remittances ratio								
Baseline	25	25	25	25	25	25	**24**	21
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	25	26	26	27	28	30	**35**	33
A2. New public sector loans on less favorable terms in 2014-2034 2	25	27	27	28	28	28	**30**	31
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	25	26	27	27	26	26	**25**	22
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	25	27	31	30	30	30	**27**	21
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	25	27	29	29	28	29	**27**	24
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	25	30	34	32	31	31	**28**	22
B5. Combination of B1-B4 using one-half standard deviation shocks	25	31	38	36	35	35	**32**	24
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	25	34	34	34	33	34	**33**	28
PV of debt-to-exports+remittances ratio								
Baseline	70	71	71	71	69	70	**79**	65
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	70	72	73	75	76	82	**115**	102
A2. New public sector loans on less favorable terms in 2014-2034 2	70	74	76	77	77	79	**99**	96
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	70	71	71	71	70	70	**79**	65
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	70	80	96	95	93	94	**102**	77
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	70	71	71	71	70	70	**79**	65
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	70	90	101	89	87	87	**93**	67
B5. Combination of B1-B4 using one-half standard deviation shocks	70	90	109	95	92	93	**99**	70
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	70	71	71	71	70	70	**79**	65
PV of debt-to-revenue ratio								
Baseline	140	140	137	136	133	131	**119**	100
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	140	143	142	145	148	156	**174**	157
A2. New public sector loans on less favorable terms in 2014-2034 2	140	147	147	149	149	149	**149**	147
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	140	145	145	144	141	138	**126**	106
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	140	150	165	162	158	155	**136**	103
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	140	152	160	159	155	153	**138**	117
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	140	160	175	172	167	163	**141**	104
B5. Combination of B1-B4 using one-half standard deviation shocks	140	170	204	200	194	190	**162**	116
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	140	198	194	192	188	185	**168**	141

Table 3B. Senegal: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2014-2034 (continued) (In Percent)

	Debt service-to-exports+remittances ratio							
Baseline	6	4	4	4	4	5	**11**	7
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	6	4	4	4	5	5	**12**	10
A2. New public sector loans on less favorable terms in 2014-2034 2	6	4	3	3	4	5	**8**	9
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	6	4	4	4	4	5	**11**	7
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	6	4	5	5	5	6	**14**	8
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	6	4	4	4	4	5	**11**	7
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	6	4	5	5	5	6	**13**	7
B5. Combination of B1-B4 using one-half standard deviation shocks	6	4	5	5	5	6	**13**	8
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	6	4	4	4	4	5	**11**	7
	Debt service-to-revenue ratio							
Baseline	13	7	8	8	8	10	**16**	10
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	13	7	8	8	9	10	**18**	16
A2. New public sector loans on less favorable terms in 2014-2034 2	13	7	7	7	7	9	**11**	13
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	13	7	8	8	9	10	**17**	11
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	13	7	8	9	9	11	**18**	11
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	13	8	9	9	10	11	**19**	12
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	13	7	8	9	10	11	**19**	11
B5. Combination of B1-B4 using one-half standard deviation shocks	13	7	9	10	11	12	**22**	13
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	13	10	11	11	12	14	**23**	15
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	16	16	16	16	16	16	**16**	16

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 assu 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 4. Senegal: Sensitivity Analysis for Key Indicators of Public Debt, 2014-2034

	Projections							
	2014	2015	2016	2017	2018	2019	2024	2034
PV of Debt-to-GDP Ratio								
Baseline	43	43	43	43	43	43	39	31
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	43	45	47	49	52	55	65	81
A2. Primary balance is unchanged from 2014	43	44	45	46	48	50	54	60
A3. Permanently lower GDP growth 1/	43	43	43	44	44	44	43	43
Authorities' PSE framework 3/	40	42	46	49	53	50	41	34
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2015-2016	43	45	47	48	48	49	49	47
B2. Primary balance is at historical average minus one standard deviations in 2015-2016	43	45	48	48	47	47	43	34
B3. Combination of B1-B2 using one half standard deviation shocks	43	46	49	49	50	50	49	44
B4. One-time 30 percent real depreciation in 2015	43	54	53	52	52	51	46	38
B5. 10 percent of GDP increase in other debt-creating flows in 2015	43	52	52	51	51	50	45	35
PV of Debt-to-Revenue Ratio 2/								
Baseline	186	183	180	179	178	178	160	127
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	186	191	196	205	214	225	262	318
A2. Primary balance is unchanged from 2014	186	187	189	194	199	205	223	244
A3. Permanently lower GDP growth 1/	186	184	181	182	182	183	175	174
Authorities' PSE framework 3/	180	187	199	214	231	216	180	150
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2015-2016	186	190	194	197	200	203	200	190
B2. Primary balance is at historical average minus one standard deviations in 2015-2016	186	194	201	199	197	196	174	136
B3. Combination of B1-B2 using one half standard deviation shocks	186	194	203	204	205	207	198	179
B4. One-time 30 percent real depreciation in 2015	186	231	223	218	215	212	188	154
B5. 10 percent of GDP increase in other debt-creating flows in 2015	186	222	216	213	210	208	185	143
Debt Service-to-Revenue Ratio 2/								
Baseline	22	32	29	27	31	26	30	17
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	22	32	30	30	35	31	42	40
A2. Primary balance is unchanged from 2014	22	32	29	28	33	29	36	31
A3. Permanently lower GDP growth 1/	22	32	29	27	31	27	32	22
Authorities' PSE framework 3/	23	32	29	28	32	29	28	16
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2015-2016	22	32	30	29	34	29	35	25
B2. Primary balance is at historical average minus one standard deviations in 2015-2016	22	32	29	30	35	27	32	19
B3. Combination of B1-B2 using one half standard deviation shocks	22	32	30	31	35	29	34	24
B4. One-time 30 percent real depreciation in 2015	22	33	32	30	35	31	39	27
B5. 10 percent of GDP increase in other debt-creating flows in 2015	22	32	30	38	33	29	33	20

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.
3/ Authorities' estimates before revisions to 2014 fiscal indicators based on PSI discussions.

INTERNATIONAL MONETARY FUND

SENEGAL

June 9, 2014

SEVENTH REVIEW UNDER THE POLICY SUPPORT INSTRUMENT AND REQUEST FOR MODIFICATION OF ASSESSMENT CRITERIA—INFORMATIONAL ANNEX

Prepared By

The Staff of the International Monetary Fund in Consultation with the World Bank.

CONTENTS

RELATIONS WITH THE FUND

(As of April 30, 2014)

Membership Status: Joined: August 31, 1962; Article VIII

General Resources Account:	**SDR Million**	**%Quota**
Quota	161.80	100.00
Fund holdings of currency (Exchange Rate)	159.93	98.84
Reserve Tranche Position	1.88	1.16

SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	154.80	100.00
Holdings	130.16	84.08

Outstanding Purchases and Loans:	**SDR Million**	**%Quota**
ESF Arrangements	121.35	75.00
ECF Arrangements	6.24	3.86

Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ESF	Dec 19, 2008	Jun 10, 2010	121.35	121.35
ECF 1/	Apr 28, 2003	Apr 27, 2006	24.27	24.27
ECF 1/	Apr 20, 1998	Apr 19, 2002	107.01	96.47

1/ Formerly PRGF.

Projected Payments to Fund 2/

(SDR Million; based on existing use of resources and present holdings of SDRs):

		Forthcoming			
	2014	**2015**	**2016**	**2017**	**2018**
Principal	9.82	24.15	25.66	24.27	24.27
Charges/Interest	0.02	0.31	0.25	0.19	0.13
Total	9.85	24.46	25.90	24.46	24.40

2/ When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Implementation of HIPC Initiative:

	Enhanced Framework
I. Commitment of HIPC assistance	
Decision point date	Jun 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	Apr 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

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 these 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.

Implementation of Multilateral Debt Relief Initiative (MDRI):

I.	MDRI-eligible debt (SDR Million)1/	100.32
	Financed by: MDRI Trust	94.76
	Remaining HIPC resources	5.56
II.	Debt Relief by Facility (SDR Million)	

	Eligible Debt		
Delivery Date	**GRA**	**PRGT**	**Total**
January 2006	N/A	100.32	100.32

1/ 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.

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 (WAMU). The latest assessment of the BCEAO was completed on December 13, 2013. The assessment found that the bank continued to have a strong control environment and has, with the implementation of the 2010 Institutional Reform of the WAMU, enhanced its governance framework. Specifically, an audit committee was established to oversee the audit and financial reporting processes, transparency has increased with more timely publication of the audited financial statements, and the BCEAO is committed to IFRS implementation by end-2014. The assessment also identified some limitations in the external audit process and recommended that steps be taken to ensure the adequacy of the mechanism through selection of a second experienced audit firm to conduct joint audits.

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 report "WAEMU: Common Policies for Member Countries" (Country Report No. 14/84).

Article IV Consultations:

The latest Article IV consultation was completed by the Executive Board on December 10, 2012 (Country Report No. 12/337). In concluding the 2012 Article IV consultation, Executive Directors commended Senegal's satisfactory program implementation despite the challenging internal and external environments. They stressed that although a moderate pickup in growth is expected in the near term, the economy remains exposed to substantial risks.

Directors welcomed the authorities' continued commitment to their program to ensure macroeconomic stability, strengthen the economy's resilience to shocks, foster higher and sustainable growth, and reduce poverty. Directors noted that, while Senegal still faces a low risk of debt distress, high fiscal deficits and rising debt ratios need to be addressed. They welcomed the authorities' commitment to keep the deficit under 6 percent in 2012 and their determination to reduce the deficit further in the medium term to levels that are consistent with fiscal and debt sustainability. Directors also highlighted the importance of stronger debt management. They welcomed the recently finalized medium-term debt strategy, and encouraged the authorities to rely primarily on concessional financing.

Directors underscored the need to improve public financial management and government spending efficiency and transparency. They commended ongoing efforts to reduce the cost of running government, streamline public agencies, and rationalize expenditure in key sectors. Directors stressed that phasing out the costly and poorly targeted energy price subsidies while strengthening social safety nets is a priority. Sustained progress in all these areas will be necessary to meet the country's fiscal objectives and make room for critical social and development needs.

Directors noted that the financial sector is generally robust. However, the rising level of NPLs and concentration of lending need to be closely monitored. To move Senegal to a path of higher, sustainable, and inclusive growth, Directors stressed the need to address infrastructure gaps, remove inefficiencies in government operations, and improve the business climate. They welcomed the tax and customs reforms that are underway and called for timely implementation of the new energy investments and restructuring of SENELEC, the national power utility. Directors also encouraged the authorities to deepen and strengthen the financial system to support their growth strategy.

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 2000 and 2001. The Financial System Stability Assessment (FSSA) was issued in 2001 (IMF Country Report No. 01/189). An FSAP update was undertaken in 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 2007 and the FSSA was issued in May 2008 (SM/08/139).. A ROSC on the data module was published in 2002. An FAD mission conducted a ROSC on the fiscal transparency module in 2005.

Technical Assistance (2008–14):

A. AFRITAC West

Year	Area	Focus
2008	Debt management and financial markets National accounts Microfinance	DSA workshop Institutional sector and quarterly national accounts Supervision and organization
2009	National accounts Tax administration Debt management Microfinance Macroeconomic and financial statistics	Quarterly national accounts (QNA) Status of the reform and scope for further TA Strengthening public debt management Strengthening microfinance supervision Enhancing production and dissemination of public finances statistics
2010	Debt management National accounts Customs administration Tax administration Customs administration	Strengthening public debt management Quarterly national accounts (QNA) Risk analysis and audit Tax administration modernization Follow-up mission
2011	National accounts Customs administration Public expenditure management Debt management Tax administration	Quarterly national accounts (QNA) Risk analysis and audit Strengthening of PFM information systems Strengthening public debt management Establishment of medium-sized enterprise tax center
2012	Tax administration National accounts Customs administration Public expenditure management	Identification and registration of tax payers Quarterly national accounts (QNA) Risk analysis and audit Public accounting system
2013	Public expenditure management Public debt analysis Public debt management	Central government accounting Financial regime of autonomous agencies DSA workshop Help the authorities produce a national borrowing policy document.

Year	Area	Focus
2014	Tax administration Public financial management Customs administration	Identification and registration of tax payers Risk analysis and audit

B. Headquarters

Department	Date	Form	Purpose
Fiscal Affairs	Jan. 2010	FAD Expert	Review of the expenditure chain
	Feb. 2010	Staff/AFRITAC	Public financial management
	July 2010	FAD Expert	PFM (Treasury Single Account and cash forecasts)
	Oct. 2010	Staff/Expert/AFRITAC	Revenue administration
	Nov. 2010	Staff/Expert	Review of tax policy and tax expenditures
Fiscal Affairs	Dec. 2010	Staff	Public financial management and accounting (state, PEs, agencies)
	May 2011	FAD Expert	Public financial management
	Sept. 2011	Staff /Expert	Revenue administration
	Nov. 2011	FAD expert	Decentralization of budget authority
	Dec. 2011	FAD expert	Consolidation of accounts
	Jan. 2012	FAD Experts	VAT Credit Reimbursement System, Tax Exemptions and Reform Process
	May & Sept. 2012, and Feb. 2013	FAD Staff/Experts	TPA multi-Module Missions on tax reform and revenue administration
	Mar. 2012	FAD Experts	PIT and Taxation of the Banking and Telecoms Sectors

Department	Date	Form	Purpose
	Jul. 2012	FAD Experts	Budget Execution, Fiscal Reporting, and Cash Management
	Jan. 2013	FAD Expert	Strengthening Cash Management and Treasury Single Account
	Feb. 2013	FAD Expert	Decentralization of budget authority
	Feb. 2013	FAD Expert	VAT Credit Reimbursement System, Tax Exemptions and Reform Process
	Mar. 2013	FAD Experts	Wage Bill Budgeting and Execution Capital expenditure forecasting
	Mar. 2013	FAD experts	Mining and tax exemptions VAT documents and exemptions
	Apr. 2013	FAD experts	Customs diagnostics and administration
	Jun. 2013	FAD experts	External grants budgeting
	Jul. 2013	FAD experts	Government accounting, cash management
Fiscal Affairs	Aug. 2013	FAD experts	Tax policy administration
	Sept. 2013	FAD Staff/Experts	Tax policy administration
	Oct. 2013	FAD experts	Public financial management
	Nov. 2013	FAD experts	Customs administration
	Dec. 2013	FAD experts	Government accounting, cash management
	Feb. 2014	FAD experts	Implementing WAEMU directives
	Feb. 2014	FAD experts	Expenditure rationalization
	Mar. 2014	FAD experts	Tax administration
	Mar. 2014	FAD experts	Public financial management
	Apr. 2014	FAD experts	Tax administration, develop IT

Department	Date	Form	Purpose
			system to improve tax administration
	Apr. 2014	FAD experts	Tax administration, tax arrears management
Monetary and Capital Markets	Sept. 2010	Staff	Needs assessment
	Jan.-Feb. 2011	Staff/World Bank	Medium-Term Debt Strategy (MDTS)
	Jan. 2013	Staff	Regional bank supervision
	Apr. 2013	Staff	Public debt
	Nov. 2013	Staff	Public debt management
	Nov. 2013	Staff	Bank restructuring
	Jan. 2014	Staff	Bank Supervision
	Feb. 2014	Staff	BCEAO mission on Basel II implementation
	Apr. 2014	Staff	Government securities policy issuance
Statistics	Nov. 2008	Staff	SDDS assessment
	Apr. 2009	Staff	Government finance statistics
	Jun. 2013	Staff	Government finance statistics
Legal	Jan-Feb 2012	LEG Staff/Expert	Tax law (general, VAT)
	Jan-Feb 2012	LEG Expert	VAT
	May 2012	LEG Staff/Expert	Tax law (general, tax procedures)
	June 2012	LEG Expert	Tax procedures
	Sept. 2013	LEG Expert	Tax policy administration

Resident Representative

Stationed in Dakar since July 24, 1984; the position has been held by Mr. Boileau Loko since September 2013.

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. In May 2009 Senegal joined the Egmont Group of Financial Intelligence Units (FIUs). The FIU publishes on its website statistics on suspicious transaction reports received, the number of cases transmitted to the judiciary, and the number of convictions. Senegal's sixth follow-up report was discussed at GIABA's May 2014 Plenary. It acknowledged the progress achieved, including the efforts to revise the AML/CFT legal framework in line with the 2012 FATF standard, and encouraged Senegal to continue making improvements. At the same time, it was agreed that Senegal will submit its seventh follow-up report to the GIABA Plenary in May 2015.

JOINT MANAGEMENT ACTION PLAN IMPLEMENTATION WORLD BANK AND IMF COLLABORATION

Title	Products	Topic	Expected delivery date
A. Mutual information on relevant work programs			
World Bank			
	Public finance management technical assistance project	Budget management information systems, internal and external audit, debt management, agency and SOE supervision	On-going with additional financing planned for July 2014
	Development policy operation	Reforms in governance, education, health, agriculture subsidies, energy, and investment climate	October 2014 (Board)
	Energy sector dialogue	Financial and operational management of Senelec, investment planning	Ongoing
	Mining sector TA	EITI and regulatory framework	Ongoing
	Higher education project	Includes performance contracts for universities and scholarship reforms	Ongoing
	Social protection project	Support to cash transfer program	April 2014 (Board)
	Health project	Support to universal health coverage	Signed April 2014
	Poverty and gender policy notes	Trends, profile, gender, regional, employment, social sectors	September 2014
	Statistics for Results project	Labor market, services, construction data and capacity-building	Approved May 2014
	Monitoring and evaluation	Establishment of a monitoring and evaluation system for the PSE	On-going

<table>
<tr><td rowspan="5">IMF</td><td colspan="2">IMF-supported program</td></tr>
<tr><td>Seventh PSI Review mission (April 2014)</td><td>June 23, 2014 (Board)</td></tr>
<tr><td>Eighth PSI Review and Article IV mission (September 20143)</td><td>December 2014 (Board)</td></tr>
<tr><td colspan="2">Technical assistance</td></tr>
<tr><td colspan="2">
AFR | AFW : Regional workshop in SEN on NA | 8/31/2014 | 9/3/2014
FAD | Program budgeting - subject to approval | 9/1/2014 | 9/14/2014
STA | AFW: Government Finance Statistics | 9/1/2014 | 9/5/2014
STA | AFW: National Accounts | 10/6/2014 | 10/17/2014
FAD | Follow-up mission in tax administration | 10/6/2014 | 10/19/2014
FAD | Fiscal reporting and budget execution | 10/20/2014 | 11/4/2014
FAD | AFW: Customs Administration | 10/27/2014 | 11/7/2014
MCM | AFW: Public Debt Management | 11/3/2014 | 11/14/2014
FAD | Cash management | 11/10/2014 | 11/23/2014
FAD | AFW: Public Financial Management | 11/10/2014 | 11/21/2014
FAD | AFW : Tax Administration | 11/17/2014 | 11/28/2014
FAD | PFM Advisor (pending approval from EC) | 12/1/2014 | 11/30/2015
FAD | AFW: Customs administration | 12/1/2014 | 12/12/2014
STA | AFW: Government Finance Statistics | 12/1/2014 | 12/11/2014
FAD | Budget process | 12/1/2014 | 12/14/2014
FAD | AFW: Public Financial Mgt TA mission to Senegal | 12/8/2014 | 12/19/2014
FAD | Installation of LTX (pending approval of EC) | 12/12/2014 | 12/14/2014
FAD | AFW: PFM TA | 1/12/2015 | 1/23/2015
FAD | Fiscal reporting (pending approval of EC project) | 1/12/2015 | 1/25/2015
FAD | Cash management | 2/1/2015 | 2/14/2015
FAD | Budget process (pending approval of EC project) | 3/2/2015 | 3/15/2015
</td></tr>
<tr><td colspan="4" align="center">B. Requests for work program inputs</td></tr>
<tr><td rowspan="3">Fund request to Bank</td><td>Update on the implementation of prior actions for budget support</td><td>Note</td><td>December 2014</td></tr>
<tr><td>WB programs in the social sector and education</td><td>Information sharing</td><td>Continuous</td></tr>
<tr><td>Energy sector reforms</td><td>Information sharing, estimation of the tariff gap, expertise of the investment plan</td><td>Continuous</td></tr>
</table>

Bank request to Fund	Set of macro tables	Updates on macro developments	Continuous
C. Agreement on joint products and missions			
Joint products	Debt sustainability analysis	Debt management	2014

Senegal: Table of Common Indicators Required for Surveillance
(As of May 2014)

	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]	03/2014	04/2014	M	M	M		
Reserve/Base Money	03/2014	04/2014	M	M	M		
Broad Money	03/2014	04/2014	M	M	M	LO, LO, O, O	LO, O, O, LO
Central Bank Balance Sheet	03/2014	04/2014	M	M	M		
Consolidated Balance Sheet of the Banking System	03/2014	04/2014	M	M	M		
Interest Rates[2]	03/2014	04/2014	M	M	M		
Consumer Price Index	04/2014	05/2014	M	M	M	O, LO, O, O	LO, O, O, NA
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	NA	NA					
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	12/2013	04/2014	Q	Q	Q	O, LNO, LO, O	LO, LO, O, LO
Stocks of Central Government and Central Government-Guaranteed Debt[5/11]	2013	03/2014					
External Current Account Balance[10/11]	12/2013	04/2014	A	A	A	O, O, O, O	O, O, O, O
Exports and Imports of Goods and Services[10/11]	12/2013	04/2014	A	A	A		
GDP/GNP[10/11]	2013	04/2014	A	I	A	LO, LO, LO, LNO	LNO, LNO, LNO, LNO
Gross External Debt[11]	2013	04/2014	A	I	A		
International Investment Position[6/]	2013	04/2014	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 2002 and based on the findings of the mission that took place in 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.

Press Release No. 14/300
FOR IMMEDIATE RELEASE
June 24, 2014

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Seventh PSI Review for Senegal

The Executive Board of the International Monetary Fund (IMF) completed today the seventh review of Senegal's economic performance under the program supported by the Policy Support Instrument (PSI). The Board's decision was taken on a lapse of time basis.[1]

The PSI was approved by the Executive 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. PSIs are voluntary and demand driven (see Public Information Notice No. 05/145).

GDP growth was lower than expected in 2013, with a preliminary estimate by the authorities of 3.5 percent, reflecting lower agricultural production and temporary problems in the industrial sector and mining. In contrast, activity in the telecommunications and construction sectors was buoyant. Inflation declined to 0.7 percent on average owing to softer agricultural commodity prices in international markets. Growth is projected to increase to 4.9 percent in 2014, because of stronger activity in agriculture, mining, and industry. Inflation would remain subdued.

Program implementation has been mixed. All quantitative assessment criteria and all but one indicative targets for end-2013 were met, including on the budget deficit despite a significant revenue shortfall. However, structural reform implementation has been slow, with a number of benchmarks met after their respective deadlines.

The authorities' intention to continue reducing the fiscal deficit from 5.5 percent of GDP in 2013 to 5.1 percent in 2014 is welcome. Strong efforts will be needed on the revenue side to offset part of the 2013 revenue shortfalls. The recent review of current and capital expenditures, with a view to identifying less productive spending to be streamlined, is

[1] The Executive Board takes decisions under its lapse of time procedure when it is agreed by the Board that a proposal can be considered without convening formal discussions.

welcome and a step towards increasing the efficiency of public spending and aligning the budget with the priorities of the new growth strategy. Efforts should be made to improve fiscal transparency and make fiscal accounts more meaningful. From this perspective, it is highly desirable to accelerate the implementation of the WAEMU directives on public financial management and of the plan to reform public agencies, which was approved in late 2013. The authorities' commitment to improve transparency by being more explicit about the cost of certain transfers and subsidies, including those in favor of the energy sector, and by reporting on the implementation of the reform of public agencies is welcome.

The authorities' new growth strategy—the *Plan Sénégal Emergent*— offers a good diagnostic and a vision for Senegal. Ownership of the plan at the highest level and strong support from the international community should facilitate implementation. The renewed strong commitment to preserving fiscal sustainability is welcome. In light of the poor productivity performance in recent years, the focus should be on raising economic efficiency more than increasing the volume of investment. Accelerating reforms to improve the business environment and a deep reform of the state are critical for this purpose. Reforming the state would also help create the fiscal space needed to raise public investment without jeopardizing debt sustainability.