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SENEGAL

January 2015

2014 ARTICLE IV CONSULTATION AND EIGHTH REVIEW UNDER THE POLICY SUPPORT INSTRUMENT—STAFF REPORT; PRESS RELEASE; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR SENEGAL

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2014 Article IV Consultation and Eighth Review Under the Policy Support Instrument, 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 December 15, following discussions that ended on September 26, 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 December 2, 2014.
- **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- **Informational Annex** prepared by the IMF.
- A **Press Release** including a statement by the Chair of the Executive Board, and summarizing the views of the Executive Board as expressed during its December 15 consideration of the staff report on issues related to the Article IV Consultation and the IMF arrangement.
- A **Statement by the Executive Director** for Senegal.

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

Selected Issues Paper
Letter of Intent sent to the IMF by the authorities of Senegal*
Technical Memorandum of Understanding*

*Also included in Staff Report

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

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SENEGAL

December 2, 2014

STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION AND EIGHTH REVIEW UNDER THE POLICY SUPPORT INSTRUMENT

EXECUTIVE SUMMARY

Article IV issues. The government is committed to implementing the "Plan Sénégal Emergent" (PSE), which contains valid diagnostics and policies to boost growth and accelerate poverty reduction. GDP growth is projected to rise from less than 4 percent in recent years to 4.5 percent in 2014. Inflation remains low. Growth can potentially reach 7 percent by 2019 if PSE-related reforms are consistently and rapidly implemented. The authorities believe this growth rate will be achieved two years earlier. The impact of Ebola on growth will be limited in 2014 but can become substantial in 2015 should the epidemic spread in the region.

Fiscal stance. The fiscal outlook has improved owing to stronger revenue performance and expenditure control, and the overall deficit is expected to fall to about 5 percent of GDP in 2014. The 2015 budget targets a further reduction in the deficit to 4.7 percent of GDP, less ambitious than the 4.0 percent of GDP recommended by staff. However, the authorities expect to limit the deficit close to the level recommended by staff by holding back appropriations for new public investment projects until feasibility studies are ready. Staff and authorities agreed that Ebola-related shocks could add 0.3 percent of GDP to the deficit in 2015. The authorities remain committed to bringing the fiscal deficit in line with the WAEMU target of 3 percent of GDP in the medium term.

Structural reforms. The PSE offers an achievable development strategy, including the right mix of private investment to be crowded in by public investment in both human capital and infrastructure. However, unlocking private investment, including FDI, requires speeding up reforms to the business climate and improving public sector governance. Frontloading public investment without implementing the necessary structural reforms may jeopardize fiscal targets and debt sustainability while failing to raise growth from its sub-par trend.

Program implementation. Performance under the PSI-supported program has been satisfactory with end-June 2014 program targets met except for a minor breach of the non-concessional borrowing ceiling due to weak debt management. This borrowing does not materially affect debt sustainability, and debt management weaknesses are being addressed.

Staff recommends completion of the eighth PSI review and proposes a waiver of nonobservance of the assessment criterion on non-concessional borrowing.

Approved By
Roger Nord and Peter Allum

A staff team consisting of Mr. Mansoor (head), Mr. Kireyev, Mr. Touna Mama (all AFR), Mr. Mulas-Granados (FAD), Ms. Nkhata (SPR), Mr. Loko (resident representative) and Mr. Ba (local economist) conducted the discussions in Dakar September 16–26, 2014. Mr. Diallo and Mr. Sembene (both OED) participated in the discussions. The team met with President Sall, the ministers in charge of economy and finance, energy, and PSE implementation, the National Director of the BCEAO, and other senior officials. The team also met with representatives of the private sector, civil society, and donor community.

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RECENT DEVELOPMENTS, OUTLOOK AND RISKS

1. **Senegal's political situation remains stable.** The new government, formed after the recent local elections, is committed to speed up implementation of the Plan Sénégal Emergent (PSE), the authorities' new development strategy. The PSE responds to chronic underperformance which is reflected in the growing popular impatience at the slow pace of reforms, low growth, widespread poverty, and high unemployment. The next presidential elections are expected to take place in 2017, and there is a sense of urgency to deliver on long-overdue reforms and electoral promises.

2. **Challenges facing the new government remain substantial to push the economy to realize its potential.** The 2013 real GDP growth is estimated at 3.5 percent and may turn even lower once the final data are published. For 2014, growth is expected to reach 4.5 percent, 0.4 percentage points below earlier estimates, reflecting an expected softening in the tourism sector because of the Ebola epidemic compounded by the late start of the rainy season. Inflation remains low. The current account deficit is expected to decline but would stay at about 10 percent of GDP because of depressed exports and high import volumes, mainly of oil. If the projected oil price decline continues, the current account will improve by about one percentage point in 2015 and the medium term relative to the baseline. It is financed by a combination of non-concessional and concessional borrowing.

3. **Successful PSE reforms could lift growth to 7 percent in the medium term driven by FDI generated exports**. FDI would be crowded in by reforms and investment in human capital and public infrastructure. Economic activity would benefit from an expansion of globally competitive production including investment in new sectors and substantial recovery in the mining and tourism sectors. Growth would be anchored by increased electricity generation at lower cost, an improved business climate, better governance, and public financial management.

4. **Risks to the PSE scenario are significant**. The main risks are domestic and, therefore, under the control of the authorities. They relate mainly to weak or slow implementation of the reforms envisaged by the PSE, revenue shortfalls that would not allow sufficient mobilization of resources in support of the PSE, failure to curb unproductive public consumption, and delays in raising expenditure efficiency, in particular of domestically financed capital expenditure. The decline in oil prices may lead to lower fiscal revenue, which will be largely offset by lower electricity subsidies if corresponding policy actions are taken, with a marginal impact on the overall balance. Possible exogenous shocks include spillovers from regional crises, including Ebola and the security situation in neighboring countries and climatic shocks that would affect agriculture. External risks include increases in the cost of public borrowing, should investors lose confidence in Senegal's debt servicing capacity, and the global effects of the unwinding of unconventional monetary policies. Finally, potential spillovers from slower growth in advanced and/or emerging partners may affect Senegal's exports.

5. **The risks from Ebola are real and on the downside**. A single imported case was successfully treated and contained in September 2014. However, apprehensions about the epidemic

are likely to affect the tourism sector during the peak period of November to April. In addition, the closing of the border with Guinea will marginally affect exports. Staff agrees with the authorities' estimate that the impact of Ebola will be relatively small, at about half a percent of GDP provided the epidemic does not spread.

POLICY DISCUSSIONS

6. **Discussions centered on policies to underpin the authorities' development strategy outlined in the PSE.** Accordingly, policy discussions focused on (i) the authorities' strategy to boost growth, inclusiveness, and poverty reduction under the PSE; (ii) fiscal policies through the medium term; (iii) public financial management reforms; (iv) external stability; (v) financial sector development and stability; and (vi) business climate and private sector development.

A. Plan Senegal Emergent: Growth, Inclusiveness, Poverty Reduction

7. **Senegal's growth in recent years has been sluggish, which has hampered inclusive growth and poverty reduction**. A period of relatively strong, although still under-par, growth in 1995–2005 of 4.5 percent led to a substantial decline in poverty from 68 to 48 percent. However, in 2006–2013 growth decelerated to an average of 3.4 percent, reflecting insufficiently broad and rapid reforms to deal with a poor business climate, persistent problems in the energy sector, poor infrastructure, low efficiency of public investment and significant unproductive public consumption spending on subsidies, transfers and administrative overhead. In addition, Senegal was hit by a series of exogenous shocks, such as the spikes in food and fuel prices, the global financial crisis, regional droughts and floods, and more recently, the spillovers from Ebola. As a result, poverty has declined only slightly in recent years and stands at about 47 percent. At the same time, debt ratios have increased with total public debt projected to reach 49 percent of GDP in 2014. The fiscal deficit, which was below 4 percent of GDP in 2007, steadily widened to 6.7 percent of GDP in 2011 before undergoing renewed fiscal consolidation with the deficit falling by 1.6 percentage points over the last three years to reach 5.2 percent of GDP in 2014.

8. **To exit the trap of low growth and high poverty, the government has developed an ambitious program ("Plan Sénégal Emergent", PSE).** The PSE intends to make Senegal a hub for West Africa by achieving high rates of equitably shared growth. It is articulated around three pillars: (i) higher and sustainable growth through structural transformation; (ii) human development and social protection; and (iii) improved governance, peace, and security. The PSE envisages structural reforms to attract FDI and increase private investment. It also calls for constraining public consumption and increasing public savings to generate fiscal space for higher public investment in human capital and public infrastructure.

9. **International experience suggests that PSE growth targets are achievable in the long run if appropriate policies are put in place.** Since 1990, many countries have achieved the high and sustained growth envisaged in the PSE by putting in place policy and institutional reforms. In contrast, some countries that tried to grow based largely on increased government spending,

including Senegal in the recent past, ended up with more debt, and on average, worse growth. For the PSE to succeed, the authorities will need to identify and distill the experience of comparator countries to put in place the package of reforms required to attract FDI, increase the role of private investment, and expand exports. The authorities are following up on staff recommendations to identify a few comparator countries to develop an active peer learning effort accelerate the rollout of reforms required for PSE to succeed.

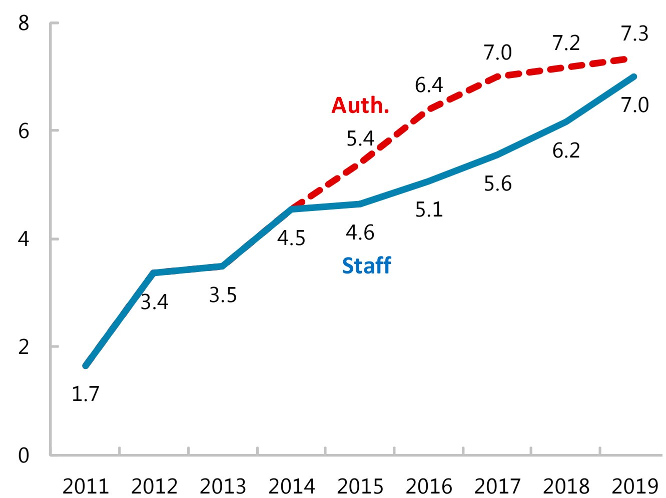
10. The authorities agree with staff that PSE success rests on accelerating reforms to boost FDI and exports. The PSE offers good diagnostics and a sensible development strategy, including the right mix of private investment (two thirds) that should be crowded in by more public investment in both human capital and infrastructure. However, the risk is that required reforms are neglected whilst public spending is increased. The staff encourages broad and speedy regulatory reforms required to attract investors who currently hesitate to invest in Senegal.

11. Growth unlocked by PSE-related reforms should be inclusive and job-rich. This will require continued efforts to expand opportunities and job creation in emerging sectors based on expanded FDI and in agriculture by raising productivity. The authorities are broadly receptive to staff advice to (i) accelerate implementation of business climate reforms; (ii) improve governance to provide certainty to investors; (iii) improve women's access to resources and to property rights;(iv)reform the state to more effectively deliver public services; (v) improve the impact of public spending through PFM reforms including better public investment management; (vi) freeze public consumption in real terms to create space for investment in human capital and public infrastructure; and(vii) strengthen social safety nets based on World Bank advice.

Chart 1. Growth Projections

(Percent)

Higher growth is achievable but at a slower pace than envisaged by the authorities



See SIP, chapter 1 for details.

12. The authorities see 2015 as a break-through year, where Senegal will move from planning to action. The authorities project a spike in growth next year to 5.4 percent after the impact of Ebola. This would be driven by foreign direct investment in the phosphate industry, public investment in infrastructure, domestic private investment in the cement industry and reforms in the agricultural sector. These include development of new farming areas, irrigation, better seed preparation, procurement of fertilizers and rehabilitation of stocking facilities. The authorities project growth would accelerate further in 2016-18 to 6-7 percent and reach 7.3 percent in 2019 (Chart 1).

13. Staff agrees that the PSE, if fully implemented, would unlock high growth. However, opinions differed with respect to how fast it can be achieved. If the authorities can tackle difficult outstanding structural reforms, they may be able to achieve their targeted growth path in the long run. However, this would require accelerating, broadening and deepening reforms that would mobilize FDI for globally competitive production more rapidly than currently planned. Interest groups that favor the status quo remain entrenched and reforms may be implemented at a slower pace than envisaged amid pressure to ramp up public investment. Consequently, the staff considers that in 2015 growth will not exceed 4.6 percent and could reach 7 percent by 2019 if PSE-related reforms are started immediately and implemented consistently. These staff projections are reflected in the baseline.

14. To mitigate the risks, reforms to improve public investment management should be accelerated. The authorities are receptive to staff advice to (i) work with the World Bank, AfDB and other development partners to ensure that only high quality projects are being accommodated; (ii) base the 2015 budget on conservative growth assumptions, rather than on rapid growth dividends; (iii) postpone public investment projects with low rates of return; (iv) include projects in the budget only after rigorous vetting, and (v) launch a PFM reform project with Fund support and EU financing.

B. Fiscal Policy: Preserving Stability and Boosting Development Spending

Fiscal policy for the remainder of 2014

15. For 2014, the authorities agreed with staff that achieving the fiscal deficit target of 5.2 percent of the revised GDP will send a positive signal. Donors and markets will welcome adherence to the PSE principle that fiscal sustainability will not be compromised. This target is within reach owing to a good revenue performance, in line with projections. The shortfall in tax revenue at end-September was marginal and should be reabsorbed by end-December. However, upward pressures persist on current spending, including from higher compensation to the national electricity company (SENELEC). These deviations are offset by a lower wage bill, as the hiring of contractual employees was reduced, and savings in consumption of other goods and services.

16. The authorities intend to continue implementing tax policy and revenue administration measures. They plan to reduce tax arrears and VAT credits. In addition, the revised budget approved in October 2014 envisages an increase in the income and telecommunications taxes effective January 1, 2015. Studies have been launched to assess new financial and environmental taxes.

17. Financing for the rest of the year has been secured. The budget will be financed mainly by external concessional loans and borrowing on the regional market. In addition, for debt management purposes, in July, the authorities issued a 10-year US$500 million Eurobond at 6.25 percent and a CFAF 100 billion Sukuk, its first Islamic bond. The proceeds will substitute for shorter maturity domestic financing and reimburse part of the more expensive syndicated loan issued last year.

18. The Ebola outbreak requires immediate attention. In the wake of the single imported case of Ebola, the authorities provided additional resources to the Ministry of Health in addition to support received from development partners (WHO, UNDP). To mitigate macro-risks related to Ebola, the authorities are also undertaking contingency planning. A team coordinated by the Ministry of Finance (MoF) is preparing requests for additional and exceptional budget support from development partners. Additional support should provide temporary assistance for programs that can be worked out in advance with key operators in each sector in case Ebola has regional spillovers or the impact from perceptions in the rest of the world adversely affects tourism and land, maritime and air transport.

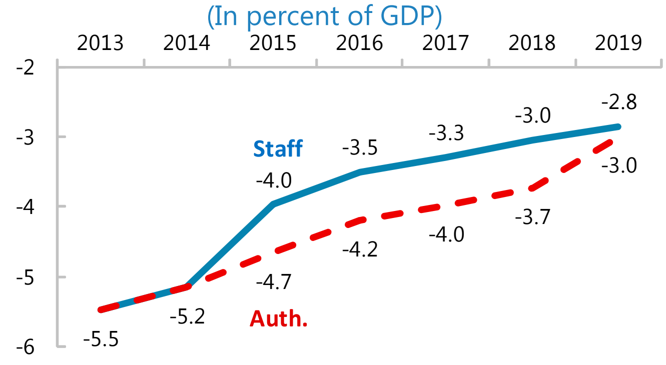
Fiscal policy for 2015 and the medium term

19. The authorities submitted their draft 2015 budget to the National Assembly with a fiscal deficit of 4.7 percent of GDP, reflecting fiscal consolidation of 0.5 percent of GDP. This is slightly less ambitious than originally planned, as the authorities plan to quickly scale up investment on PSE-related projects. On the revenue side, the budget assumes that stronger GDP growth would expand the taxable base, which would allow raising additional revenue. Also, the implementation of the new Tax Code is expected to bear full fruit. In addition, the authorities intend to recover substantial amounts of unpaid taxes from previous years, strengthen tax and customs administration, and rationalize taxation of the financial sector and telecommunication. On the expenditure side, the budget incorporates spending equivalent to 2.1 percent of GDP for 27 key PSE-related projects. To finance PSE-related investment, the authorities are taking policy measures amounting to 1.5 percent of GDP and plan to borrow an additional 0.6 percent of GDP, if needed. To create additional space for PSE-related investment, they also decided to keep public consumption constant in real terms, including freezing the wage bill for all non front-line staff, and reorient lower priority investment toward PSE-related projects.

20. While fully sharing PSE priorities, staff recommended a less ambitious scaling up of public investment in 2015, which would allow reducing the deficit to 4 percent of GDP (Chart 2). Staff urged the authorities to maintain the original fiscal consolidation path projected under the PSI until there is firm evidence that the growth dividends of PSE reforms are kicking in. A higher deficit without stronger growth would increase fiscal and debt vulnerabilities. Moreover, the absorptive capacity in Senegal remains low, and additional investment may not be used efficiently.

Chart 2. Fiscal Deficit Projections

(In percent of GDP)



See SIP, chapter 2 for details.

21. The authorities responded that they would take a cautious approach to the scaling up of public investment and introduce a Precautionary Reserve Envelope (PRE). For 2015, the PRE involves freezing expenditure allocations for projects without feasibility studies. In the draft 2015 budget, the authorities included 10 PSE-related investment projects in the amount of CFAF 52 bn (0.7 percent of GDP) that would be put in the reserve. The Ministry of Finance would release funding for these projects only after line ministries complete acceptable feasibility studies. In the authorities' view, this measure would provide a valuable safeguard against a too-rapid increase in public investment spending. A more comprehensive version of the PRE would be introduced starting from the 2016 budget.

22. The authorities expressed concerns regarding possible revenue shortfalls related to the Ebola epidemic in the region. They estimated the overall impact from the epidemic on the fiscal deficit in 2015 could reach about 0.3 percent of GDP, mainly in the form of lost revenue related to tourism. The impact may be larger if the epidemic is not contained, with an impact on public spending. The authorities intend to reflect the impact of Ebola on the public finances in a supplementary budget later in 2015 once they have more clarity. Staff agreed that a fiscal shock stemming from Ebola should be accommodated.

23. In view of the risks to the 2015 fiscal outlook, staff encouraged the authorities to consider additional fiscals measures (Box 1). For the medium term, the authorities intend to maintain the envisaged fiscal consolidation path. By 2019, the authorities plan to bring the fiscal deficit to the WAEMU target of 3 percent of GDP.

Box 1. Possible Additional Fiscal Measures for 2015

Revenue measures

- Start using from January 2015 the Single Taxpayer Identification number (NINEA) for enforcement and cross checking of various taxes, in particular in the customs.
- Assign a team to monitor the impact of tax policy reforms already approved on revenue collection and to recommend corrective measures in case of underperformance.
- Give consideration to a bonus/malus system to reward/penalize taxpayers who chose to use the NINEA.
- Recover at least 50 percent of unpaid taxes in 2015.

Expenditure measures

- Include in the performance contract with SENELEC a provision to link the pay of the board and senior management to the implementation of electricity sector reforms and the level of the required subsidy.
- Implement a review of wage supplements and subject increases to performance-based rules. The objective would be to put in place a new policy on allowances which could be bundled and linked to performance contracts.
- Rationalize current expenditures in agencies by limiting spending to wages pending closure of agencies which are to be shut down. Eliminate redundant agencies and merge those identified in the agency reform plan published by the government in 2013.
- Implement the new policy on scholarships within a ceiling determined on the basis of availability of budgetary resources whilst encouraging banks to provide student loans.
- Better target subsidies in agriculture.

24. To maintain long-run fiscal sustainability, the authorities are considering to anchor fiscal policy on a debt path consistent with debt sustainability. In particular, staff welcomes the authorities' decision to keep the debt-to-GDP ratio below 52 percent, lower than the WAEMU convergence criterion (70 percent). This level is consistent with the authorities declared intention in the PSE that new investments should be accommodated with corresponding cuts in public consumption or additional revenues, without any recourse to additional debt. Staff recommends that this debt path be announced in the budget with a commitment that in case of a deviation, the following budget would include a list of actions aimed at putting the debt back on the original path within four years. The Minister of Finance would also be required to explain to the National Assembly the reasons for the initial deviation. In the course of 2015 these provisions could be enshrined into law. The authorities have broadly agreed with these recommendations.

25. To improve traction for key PSE-related reforms, staff suggests that the authorities map each critical reform to the personal responsibility of an official. For this purpose, a team could be set up within the Ministry of Finance with the mandate to lead the reform effort. The team could consist of public officials who in addition to their normal duties would take on specific tasks to monitor the implementation of reforms. The team would develop timelines with key milestones for each reform, and in case of slippages recommend corrective action. The team could also be asked to identify comparator countries with which to develop an active collaboration program. Practitioners with experience in the reforms would share their experience and provide advice on how Senegal might approach the reforms. These proposals would then be passed on to the Minister of Finance who would seek approval from government. The authorities are beginning to move in this direction as part of the reflection on how best to mobilize support from the Fund and other development partners for the PSE.

26. Finally, the authorities intend to continue improving fiscal transparency. Quarterly budget appropriations and their execution will be published on the website of the Ministry of Finance in a form accessible to the public and the finance commission of the National Assembly.

C. Public Financial Management Structural Reforms

27. Implementation of the PSE would benefit from efforts on budget institutions. Staff welcomes the authorities' interest to reform their institutional framework and strengthen transparency and fiscal discipline. The reallocation of resources required by the PSE entails stronger budget institutions with regard to fiscal policy design, public investment management, and budget implementation.

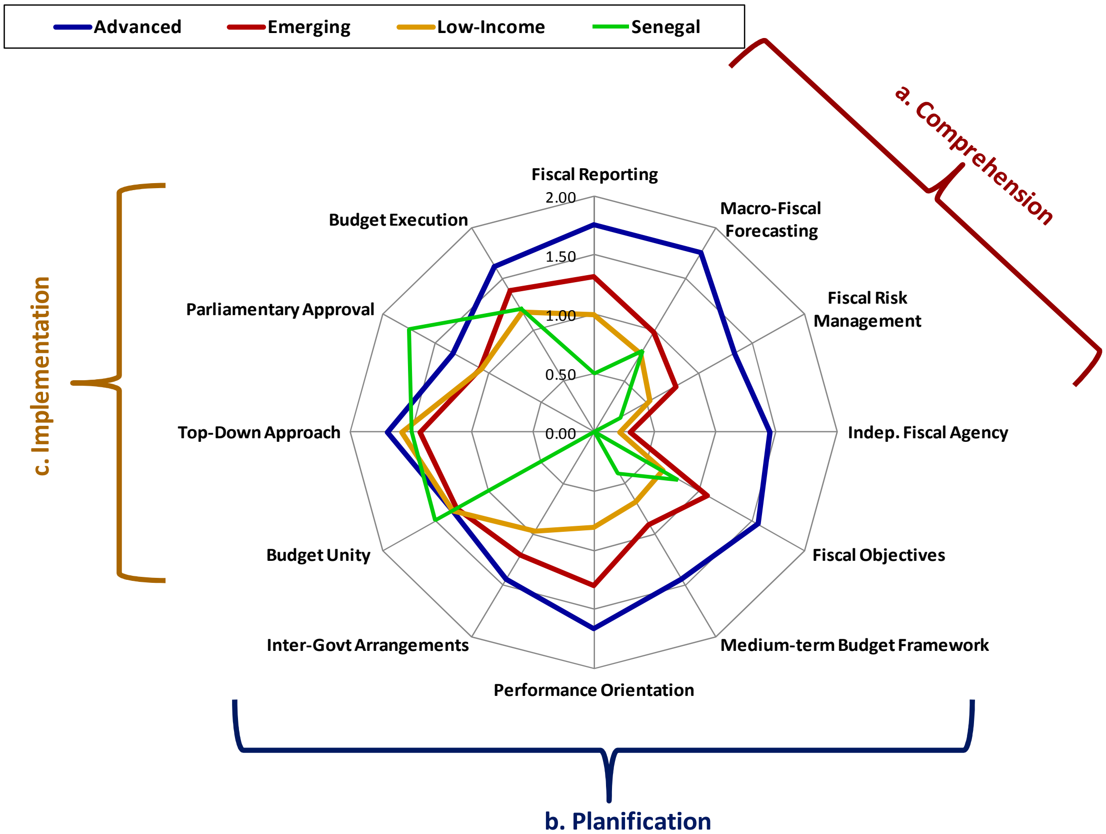
28. Fiscal policy design should be anchored in a medium-term budget framework (MTBF). Senegal has been working on an MTBF for the past year in compliance with the 2011 PFM law. The publication of a first MTBF could be targeted during the course of 2015. This document should present the aforementioned debt path and explain the macro-fiscal policy strategy over the next three years consistent with it. In particular, the MTBF should discuss the sustainability of the wage bill and large public investment projects. Subsequent versions of the MTBF should clearly explain deviations from the previous document and, if necessary, state corrective measures to meet the macro-fiscal targets. To support these efforts, spending reviews could be conducted in specific sectors. The authorities are working towards introducing MTBF, including with technical assistance from development partners.

29. Public investment management (PIM) needs further improvement. Senegal has already implemented several good practices in PIM even if some arrangements, such as feasibility studies and socio-economic assessments, need significant improvement. Staff welcomes recent efforts to reclassify non-capital spending from the investment to the recurrent budget and encourages the authorities to finalize this initiative. Next steps could focus on improving information on both financial and physical execution of investment with respect to coverage, timeliness, and accuracy. This should cover internally and externally funded projects, as well as those implemented by agencies and would require IT management improvements. The public investment plan could be strengthened and anchored to the MTBF, to ensure availability of resources for the life of each project. Ex-ante and ex-post assessments of projects should also be developed, with a focus on large or risky projects. The authorities are aware of the problems related to PIM and plan to address them as part of the ongoing PFM reforms.

30. Budget execution management needs to progress alongside other reforms. PSE success depends on re-composition of the budget, for which strong budget institutions are critical (Chart 3). In turn, PFM reforms should improve both budget preparation and execution. In Senegal, public agencies represent a significant challenge to fiscal discipline and sustainability as their decision can have medium to long term impact on public finances (payroll, multi-year commitments). The execution process should provide sufficient room to face contingencies including an adverse macroeconomic environment. A mid-year review of budget execution, including projections for the remainder of the year, could help manage strategic execution. The authorities agreed with staff recommendations and requested technical assistance from the Fund on fiscal policy design, efficient public investment management, and fiscal discipline in budget execution.

Chart 3. Budget Institutions

Budget institutions in Senegal rank below comparators



See SIP, chapter 2 for details.

31. In particular, the staff welcomes first steps for the introduction of a "Precautionary Reserve Envelope" (PRE) process in 2015, which should be developed further in the medium term. The fully-fledged PRE would be a strengthened version of the regulations already put in place by the Ministry of Finance to face in-year contingencies (5% of current and capital expenditure). To be credible, the PRE must identify specific measures subject to a freeze. For instance, the PRE could cover all net creation of positions, excluding front line staff in health and education (nurses, doctors and teachers) and in the security services, as well as budget lines for equipment. The staff advises on a minimum envelope of some 0.5 percent of GDP to be included in the PRE process in 2015 and beyond, to cover potential adverse macroeconomic developments. Funds from the reserves should be released taking into consideration positive cost-benefit calculations, environmental factors, access to concessional financing, overall revenue performance, or other relevant factors.

32. The agency reform plan should be consistently implemented with regular updates presented to the National Assembly. In line with earlier commitments, the authorities are strongly encouraged to close, as rapidly as possible, the 16 agencies identified in the reform plan and merge eight other agencies into three agencies. Pending dissolution of agencies identified for closure, only the wage bill should be financed for such entities. Reports on the monitoring of budget execution by the agencies should be produced and published on the website of the Ministry of Finance. The 2015 budget law includes an annex with the complete list of agencies and funds and an update on the implementation of the agency reform plan. The authorities are encouraged to prepare performance contracts for all agencies and monitor closely their reform process. New agencies should not be created without a prior cost-benefit analysis of their feasibility. The authorities are working on the implementation of the agency reform plan.

33. The efforts to implement the single treasury account have been insufficient and should be pursued with determination. To help accelerate movement to a single treasury account, the staff encourages the authorities to introduce a procedure whereby the appropriations to any department or agency will be released only at the level of spending in 2014 until they have closed their accounts and integrated them into the single Treasury account system. The authorities took note of these recommendations.

D. External Stability Assessment

34. The external stability assessment suggests that the main external risk is the large current account deficit. Although Senegal's exchange rate shows no significant signs of misalignment, Senegal's current account deficit remains high, at about 10 percent of GDP but may improve by about one percentage point if the projected oil price decline continues (Table 3).[1] Improvements registered since 2012 are likely to be wiped out in 2014 by the impact of Ebola, as well as the tardy onset of the rainy season. The positive impacts of the PSE including fiscal consolidation should reduce the deficit in the long-term. However, it will remain above 8 percent in the medium term. Until recently, current account deficits were financed mainly by grants and concessional borrowing. However, the country is increasingly exposed to shifting market sentiment as a result of increased non-concessional borrowing, including Eurobonds.

35. Senegal is showing signs of eroding competitiveness, with lagging export and FDI growth compared to peers. Senegal's global market share has barely increased over the past decade, and the contribution of exports to GDP has remained around 25 percent. The country also lags behind its peers in attracting FDI, whilst remittances, at 11 percent of GDP, have remained an important and stable source of foreign exchange. For the last few years, Senegal has received about 2 percent of GDP in FDI, compared to an average of over 7 percent for other lower middle-income

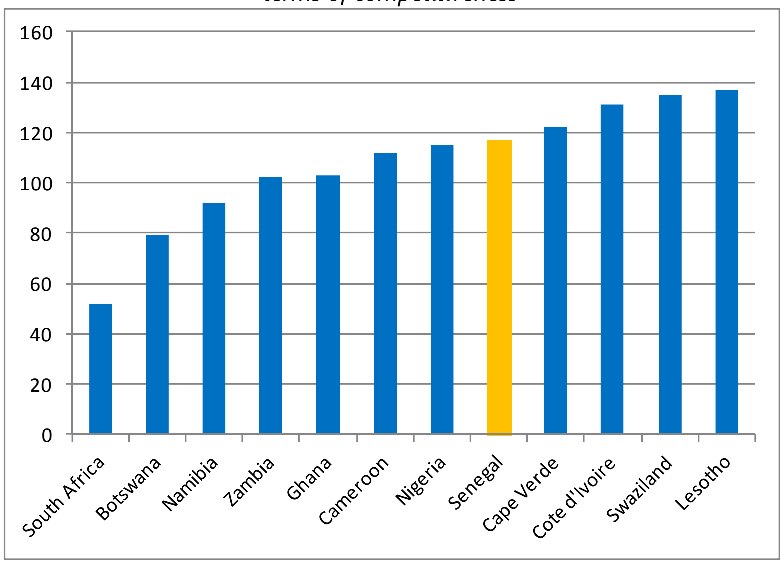
[1] Senegal, a member of the West African Economic and Monetary Union (WAEMU), accepted the obligations under Article VIII, Sections 2(a), 3 and 4 of the Fund's Articles of Agreement, and maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions. The WAEMU's exchange regime is a conventional peg to the euro.

SSA countries. Other weak areas include access to credit, enforcement of contract and property rights. Irrespective of recent improvement, the overall ranking of Senegal on competitiveness remains low (Chart 4).

Chart 4. Global Competitiveness Index

(2013-14 world ranking)

The World Economic Forum ranked Senegal 112th out of 142 countries in terms of competitiveness

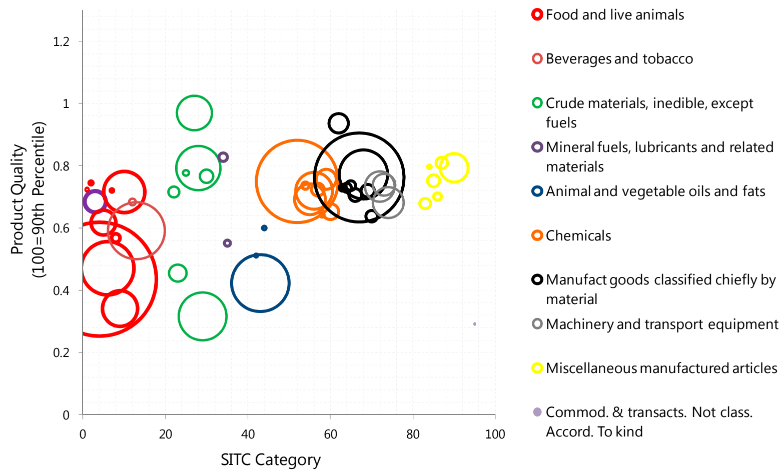


See SIP, chapter 3 for details.

36. While Senegal's export base is relatively well diversified, high-quality exports bear a comparatively low weight. Senegal faces difficulties in quality upgrading compared to three benchmark countries. Sectors for which the quality of exported products is comparatively low, such as food and live animals, constitute a large share of exported products (Chart 5). With Senegal's labor force concentrated in agriculture, policies fostering agricultural product quality may be useful to supplement FDI driven export diversification.

Chart 5. Export Diversification

Export concentration appears to be highest in low-quality sectors



(Size of bubbles is proportional to share of industry in total exports)

See SIP chapter 4 f for details.

37. The probability of debt distress remains low in the baseline scenario. In this scenario, all the debt burden indicators remain below their policy-dependent indicative thresholds, and debt ratios in present value (PV) terms are lower than in the previous debt sustainability analysis (Figure 6). These improvements reflect institutional reforms that have raised Senegal's CPIA rating. The external PPG debt ratios remain below their respective thresholds in the baseline scenarios. Two spikes in debt service reflect the assumption of the repayment of the Eurobonds at maturity, which would lead to two small and temporary breaches under the most extreme stress test (a 30 percent depreciation of the currency).

38. Under an alternative scenario with higher spending and higher debt accumulation, there is some deterioration in debt burden indicators[2] (Figure 7). The indicators remain below their policy-dependent thresholds, but the PV of debt to GDP ratio and the PV of debt-to-exports ratio deteriorate somewhat, even assuming faster growth than in the baseline. This suggests that with higher capital spending and debt accumulation, Senegal could be at risk of losing its "low risk" rating, if growth dividends do not materialize,

39. Measures to unlock FDI-driven exports, fiscal restraint and prudent debt management will be critical to averting external stability risks. The external position will be helped by achieving the PSE targets for export diversification driven by FDI and continued efforts in fiscal consolidation, supported by the proposed PSE debt anchor. However, the authorities will need to continue exercising caution in resorting to non-concessional borrowing. The authorities reiterated their commitment to vigilant debt management, noting that they are monitoring closely not only

[2] This scenario assumes that higher capital spending boosts the fiscal deficit by about 0.7 percentage point of GDP in 2015-19, growth is assumed to increase by 1 percentage point over the same period.

debt sustainability risks, but also rollover risks. Staff and the authorities agreed on the need to intensify efforts to boost Senegal's competitiveness, drawing on the experience of peers.

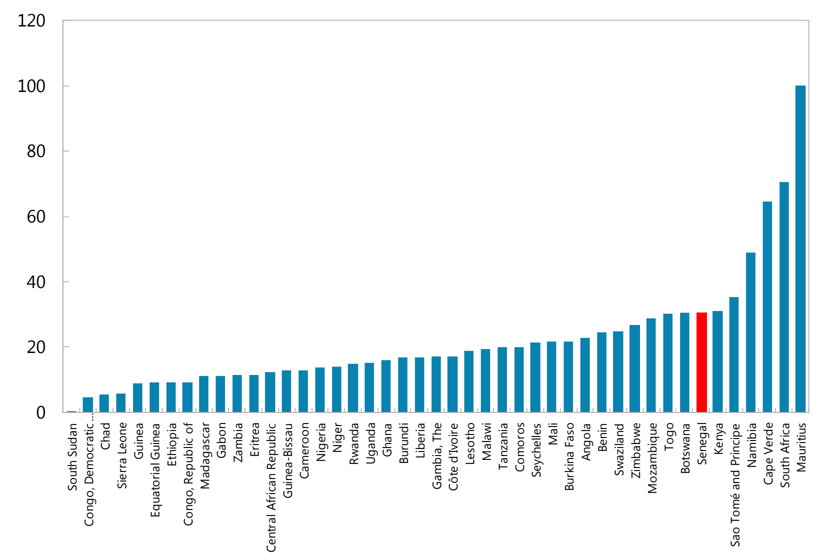
E. Financial Sector Development and Stability

40. Senegal's banking sector shares the vulnerabilities identified at the WAEMU level and financial depth remains limited (Chart 6). The financial system is relatively well capitalized. Apart from concentration risks, there do not seem to be significant risks to financial stability at this point. Senegal's financial sector remains dominated by a few banks (four of them international), with a rapidly rising microfinance sector. As in the rest of WAEMU, asset quality is an issue, underscored by relatively high nonperforming loans, as well as high concentration risks. Staff encourages the authorities to liaise with the banking commission and WAEMU authorities in case potential stability risks occur. The authorities plan to take steps in this direction.

Chart 6. Financial Sector Depth in Sub-Saharan Africa
(Average 2011–13)

Low development of the financial sector in Senegal is an important impediment for growth

(Credit to the private sector, percent of GDP)



41. The financial sector is broadly sound but the high level of non-performing loans needs to be kept under review in close coordination with the BCEAO and WAEMU Banking Commission. The relatively high level of NPLs (20 percent) is attributable to a few enterprises, one of which in the chemical sector has been recently recapitalized, with the new owner promising to repay its debt. The main risks in the financial sector could come from a failure to implement the reforms that would raise growth to levels envisaged in the PSE and achieved by comparator countries. The authorities have welcomed staff suggestions that they pick four to five of the comparator countries which could provide useful insight for Senegal and review the institutional arrangements and policy actions they have taken to safeguard their financial sector. Based on this review, which should be completed during the course of 2015, actions which require collective decisions at the WAEMU level could be identified.

42. The authorities are implementing a strategy to improve access to financing. In 2013, three financial institutions were established: the *Fonds de Garantie des Investissements Prioritaires* (FONGIP) aimed at lowering lending rates for small and medium-sized enterprises (SME) by providing a system of mutual guarantee, the *Fonds Souverain d'Investissements Stratégiques* (FONSIS) for direct assistance to SMEs through the provision of funding and the *Banque Nationale pour le Développement Economique* (BNDE). All three institutions only have few months of activity as they are still establishing themselves in the financial system and seeking additional funding preferably at concessional terms.

43. The authorities are also working to strengthen the banking system resilience, including the issue of NPLs. More specifically, the authorities are working on: (i) a strategy to improve financial information through the development of credit bureaus; (ii) increasing the role of collateral and reducing informational asymmetries; (iii) improving banking crisis resolution mechanisms in line with IMF recommendations at the WAEMU level, as potential costs coming from bank resolutions could translate into fiscal costs for Senegal. Staff welcomes this course of action and encourages the authorities to accelerate these reforms and work with regional authorities to strengthen banking system resilience.

F. Business Climate and Private Sector Development

44. For the PSE to succeed, Senegal will need to improve its business climate. Senegal has few legal impediments to trade and investment, but it continues to rank among the lowest in the World Bank ease of doing business survey. In the 2015 Doing Business report, Senegal ranks 161th, up from 171th in 2014. Senegal is among the top 10 countries that have made significant progress in improving their business environment. However much remains to be done to put in place a sound business environment and promote private investment, as Senegal still ranks behind its peers in the regions, such as Mali, Côte d'Ivoire, Togo and Benin. The efforts to improve the business climate would need to be accelerated along the lines, inter alia, of Rwanda and Mauritius, which experienced rapid improvements. Staff welcomes reforms to improve access to credit, streamline regulations, and strengthen investor protection and property rights. Additional measures to improve the business environment are still needed (Box 2). The authorities plan to follow up on these recommendations in cooperation with the World Bank.

Box 2. Measures to Improve the Business Climate

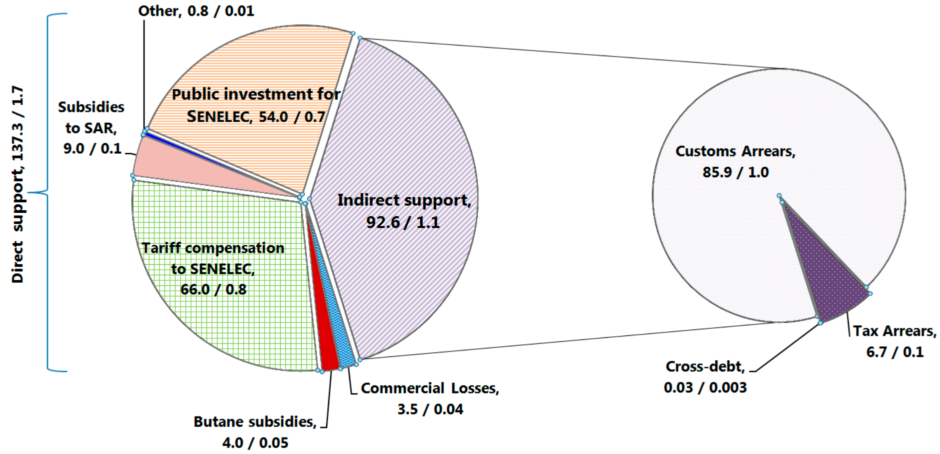
- Reduce the minimum capital requirement to make it easier to start a business.
- Reduce the time for obtaining construction permits.
- Replace the requirement for authorization from the tax authority with a notification requirement, and create a single step for the property transfer at the land registry.
- Introduce WAEMU regulations on licensing and operation of credit bureaus to improve the credit information system.
- Strengthen minority investor protections by introducing greater requirements for disclosure of related-party transactions to the board of directors; making it possible to inspect the documents on related-party transactions and appoint auditors to conduct inspections and for shareholder plaintiffs to request documents relevant to the subject of the claim during the trial.
- Abolish the vehicle tax.
- Make it possible to download the declaration forms for VAT online to simplify tax payments.

45. Senegal should also continue promoting the removal of barriers to the movement of trade and factors in the context of regional agreements. The free flow of labor and capital is critical to complement the free flow of goods and services. It is particularly important to open the labor market for productive employment in Senegal and to ensure that the skills required to sustain growth are readily available to investors. Skill mismatches that may exclude some Senegalese workers should be addressed directly by retraining rather than by restricting the hiring of needed skills from elsewhere in the region. The authorities were receptive to these recommendations and plan to work with other WAEMU members on their implementation.

46. Reforms in the energy sector are underway but recurrent delays hamper private sector development and add pressures on the budget. The authorities' estimate in their 2015 budget that the direct costs (tariff compensation to SENELEC, investment, etc.) and indirect costs (mainly customs and tax arrears by SENELEC) may amount to CFAF 230 billion (2.8 percent of GDP) (Chart 7). These subsidies tend to benefit the suppliers of inputs to SENELEC and the better-off who consume the bulk of electricity. At the same time, the expansion of power generation lags dismally behind and unreliable electricity provision hampers economic and social development. The 2015 level of subsidies to SENELEC may be substantially lower if the projected drop in oil prices materializes.

Chart 7. Total Support to the Energy Sector
(in CFAF billion / Percent of GDP)

The energy sector weighs heavily on public financing with the total annual support exceeding 2.8 percent of GDP



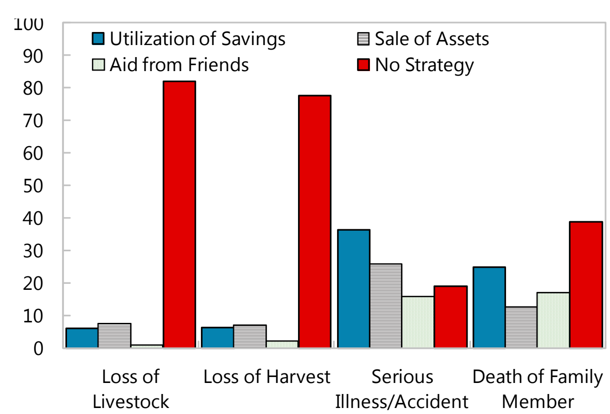
See SIP, chapter 5 for details.

47. The authorities are implementing a comprehensive electricity sector reform program with support from development partners. The authorities' strategy is to invest in lower-cost electricity generation, which would lower electricity prices and eliminate subsidies whilst increasing production to a level commensurate with Senegal's development needs. But repeated revisions of the investment plan have delayed the introduction of lower-cost generation capacity, and budgetary subsidies remain high. Staff encourages the authorities to accelerate reforms in the energy sector and to continue to improve transparency. The World Bank and the African Development Bank will have the lead on this issue. Staff reiterates the importance of contingency planning at the investment plan and budget level to avoid unexpected fiscal costs from delays. Further action on lowering electricity costs is critical as the decline in oil prices, even if sustained, would not eliminate subsidies.

48. Reforms should ensure that new jobs are created and the social safety nets are effective with benefits shared equitably. The overall spending on social safety nets in Senegal is substantially below many other SSA countries. Action is particularly important in Senegal as most people are vulnerable to shocks (Chart 8). Some of the growth dividends of the PSE would need to be invested to gradually expand the social

Chart 8. Strategy to Cope with Shocks
(In Percent of Households)

Social safety nets are a critical as most households in Senegal have no strategy to cope with shocks.



See SIP, chapter 6 for details.

safety net whilst promoting empowerment and emphasizing conditional cash transfers. To promote social welfare and ensure that the benefits of growth are fairly shared, the staff urges the authorities to create space for expanding the private formal sector through simplified regulations, especially for start-ups and SMEs, and through a labor market reform that would protect workers rather than jobs. This would require making it relatively easy, inexpensive and fast for firms to lay off staff (together with some provisions for legal action by Government in the case of unfair dismissals). However, to protect workers, Government would need to provide support during a reasonable period of job search and may need to subsidize on the job training where skills may need to be improved.

PROGRAM ISSUES

49. **Program performance has been satisfactory except for a minor breach in non-concessional borrowing due to debt management weaknesses.** The authorities have met the end-June quantitative criteria and indicative targets. The end-June fiscal deficit amounted to 170 billion, much lower than programmed 198 billion. Revenue was slightly above the indicative target, reflecting measures to reinforce tax administration. Expenditure execution, particularly investment spending, was slower than programmed because of continuous weak planning and implementation capacity, The ceiling on non-concessional borrowing, a continuous AC under the PSI program, was breached at end-September 2014 by $65 million (0.4 percent of GDP) due to a failure to properly classify as non-concessional a Turkish Ex-Im Bank loan with 11 percent concessionality. Initially the loan was expected to be semi-concessional thanks to an expected grant that failed to materialize. The ceiling was breached in September 2014 after the $500 million euro bond was issued in July. The breach is not material for debt sustainability. All structural benchmarks were met (Text Table 1). Program performance remained in line with projections through September but, based on preliminary information, the indicative revenue target may have been missed by a small amount (0.1 percent of GDP).

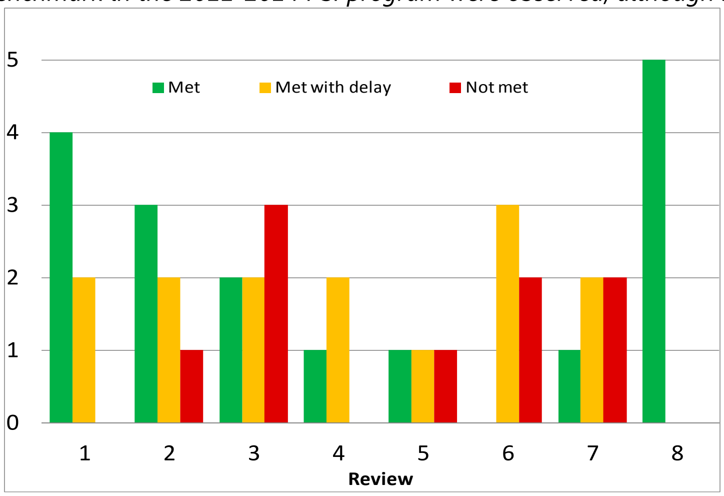
Text Table 1. Structural Benchmarks for Eighth PSI Review

Measures	Test Date	Status	Macroeconomic Significance
Perform cost-benefits analysis before the creation of new agencies	Continuous	Met	Improve the quality of public expenditure
Approve strategies forthe 5 largest agencies and related performance contracts	June 30, 2014	Met	Improve the quality of public expenditure
Share the cost-benefits analyses of 5 largest investment projects in the 2015 budget with the National Assembly	October 15, 2014	Met	Improve the quality of public expenditure
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	Met	Strengthen the quality of public spending and transparency
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	Met	Strengthen the quality of public spending and transparency

50. Overall, performance under the 2011-14 PSI program has been satisfactory. Most quantitative assessment criteria were observed but some important structural reforms were delayed (Chart 9).

Chart 9. Structural Benchmarks per Review

Most structural benchmark in the 2011-2014 PSI program were observed, although some with delays



See SIP, chapter 7 for details.

51. Data provision is broadly adequate for surveillance and program monitoring, although problems remain. There are still weaknesses in data on national accounts, social indicators and government financial statistics. The authorities are reforming the national statistical agency to improve the quality of data, partially relying on technical assistance from the Fund, other international organizations, and donors. As part of these reforms, the authorities intend to formulate a roadmap towards adhering to the Fund's Special Data Dissemination Standard (SDDS).

STAFF APPRAISAL

52. Continued prudent policies have helped preserve macroeconomic stability but slow implementation of structural reforms continues to weigh down growth. Growth remains too low to make a dent in the high poverty and unemployment levels. Efforts to increase revenue collection and rationalize public expenditure have helped to control budget deficits and debt accumulation. However, structural reforms, in particular in the macro-critical energy sector have been slow, with distortive energy subsidies weighing heavily on the budget and electricity blackouts hampering growth. In view of these challenges, the authorities have developed a new growth strategy, the Plan Senegal Emergent (PSE).

53. The PSE presents a unique opportunity to unlock a broad-based and inclusive growth that will make Senegal a regional hub and an emerging economy. Economic policies and structural reforms included in the PSE should allow Senegal to achieve and sustain high and inclusive growth. Staff agrees with the authorities that economic and social emergence requires the maintenance of a sound economic framework and the acceleration of reforms to enhance productivity and improve the business environment. The goal of a 7 to 8 percent annual growth is feasible in the medium term but would require a broadening, deepening, and speeding up of structural reforms, as well as constraining public consumption to create the fiscal space for implementation of PSE-related projects. Growth acceleration can be achieved only gradually as it would require substantial improvements in the regulatory framework and governance, as well as in the quality and efficiency of public investment together with actions to rein in public consumption. Staff encourages the authorities to instill realism in their growth projections, which will improve credibility and strengthen support for their plans.

54. Fiscal reforms should continue to preserve fiscal and debt sustainability. Staff would have preferred a more cautious scaling up of public investment in 2015, maintaining the original fiscal consolidation path. Staff welcomes the initiative to establish a precautionary reserve envelope and the commitment to release funding only for projects with proper feasibility studies. If well-implemented, this should raise the efficiency of public investment. Staff agreed that the impact of Ebola on public finances should be accommodated.

55. Additional fiscal space for PSE-related and social spending should be secured through increasing revenue—particularly collecting tax arrears, freezing public consumption in real terms, and improving the composition of spending. The authorities are encouraged to reallocate spending from low priority items, such as electricity subsidies, untargeted tertiary education scholarships, and administrative overhead (including the wage bill), to investment in human capital and public infrastructure. In particular, staff urges the authorities to change the accountability framework to ensure implementation of their energy sector investment plan to expand low cost production and reduce subsidies to the electricity company. Staff also encourages the authorities to work closely with development partners to strengthen project design, preparation and execution while ensuring the overall quality and efficiency of public investment.

56. Staff encourages the authorities to anchor their fiscal policy on long-term debt sustainability within a medium-term budget framework. The sustainable debt path should be announced in the budget with a commitment that in case of a deviation, the next budget would include a list of actions aimed at putting the debt back on the original path within four years. Medium-term fiscal consolidation remains critical to ensure that Senegal's public debt burden is sustainable and the risk of debt distress remains low. Staff urges the authorities to reach the WAEMU convergence criteria on the fiscal deficit of 3 percent of GDP by 2019.

57. Continued efforts will be needed to improve further public financial management, budget institutions, and economic governance. Reform efforts should focus on key areas that can support the implementation of the PSE. These areas include macro-fiscal policy design leading to a gradual development of a medium-term expenditure framework, better focus of PFM reforms on reporting and the assessment of the socio-economic impact of investment, and improved fiscal discipline in budget execution including policies implemented by public agencies.

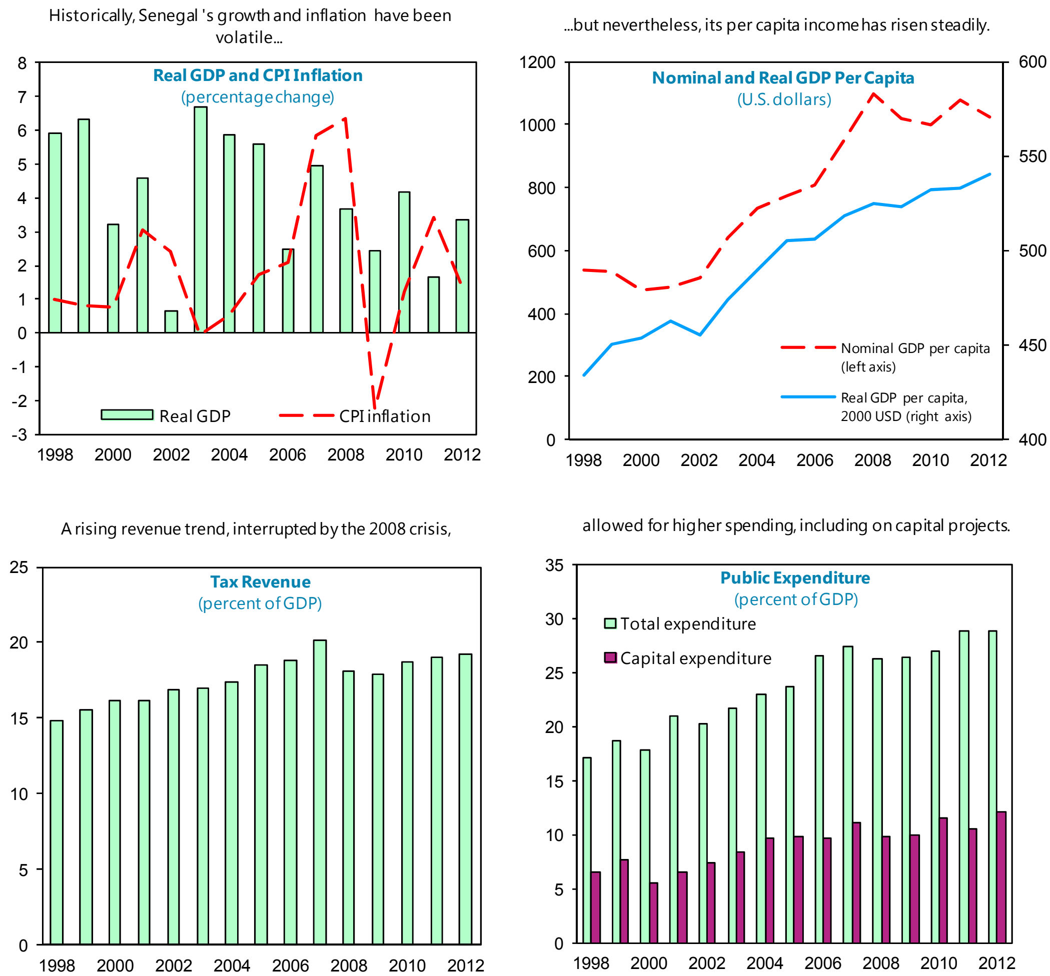
58. Strong resolve is needed to move ahead with macro-critical structural reforms, which are essential for the success of the PSE. Staff commends the authorities for recent progress in improving the business environment and promoting private sector development, as well as courageous steps in reforming university scholarships. Staff welcomes broadening and speeding efforts to alleviate the burden of doing business and identify regulatory changes required to attract private investors. Staff also urges the authorities to accelerate the reform of the energy sector to boost electricity generation while achieving a lower cost. Reform implementation could be facilitated by peer learning arrangements with successful comparator countries.

59. The outlook for the Senegalese economy is positive, but risks are significant although manageable. PSE success depends on defining and rapidly implementing a critical mass of reforms, some of which rest in the public area but most aim at unlocking the potential of the private sector through investment and export. Risks are mainly domestic and regional, and relate to weak implementation of the reforms envisaged by the PSE, possible revenue shortfalls, and the impact of the regional Ebola epidemic. External risks include possible increases in the cost of public borrowing, global effects of the unwinding of unconventional monetary policies. Finally, potential spillovers from a protracted period of slower growth in partner countries may hurt growth.

60. Staff proposes a waiver for nonobservance of the assessment criterion and recommends completion of the eighth PSI review. All quantitative assessment criteria and indicative targets for end-June 2014 were met, with the exception of the ceiling on nonconcessional borrowing missed at end-September.

61. It is proposed that the next Article IV consultation take place within 24–months subject to the decision on consultation cycles for program countries.

Figure 1. Senegal: Historical Perspective, 1998–2012



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

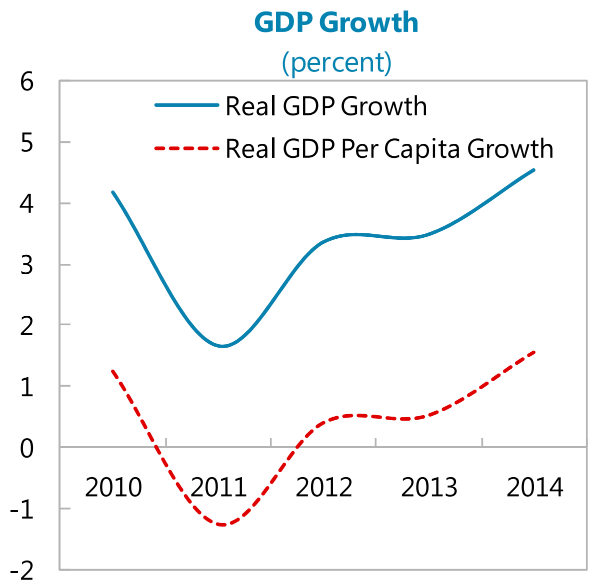
Progress has been made toward the Millennium Development Goals.

Millenium Development Goal	1990	1995	2000	2005	2011
Poverty headcount ratio at $1.25 a day (PPP) (% of population)	66	54	44	34	30
Literacy rate, youth female (% of females ages 15-24)	28	..	41	45	56
Adjusted net enrollment rate, primary (% of primary school age children)	46	52	60	76	79
Ratio of female to male primary enrollment (%)	73	76	87	97	107
Mortality rate, infant (per 1,000 live births)	69	71	67	57	47
Mortality rate, under-5 (per 1,000 live births)	136	142	130	97	65
Births attended by skilled health staff (% of total)	..	47	58	52	65
Prevalence of HIV, total (% of population ages 15-49)	0.1	0.2	0.4	0.6	0.7
Improved water source (% of population with access)	61	63	66	68	72

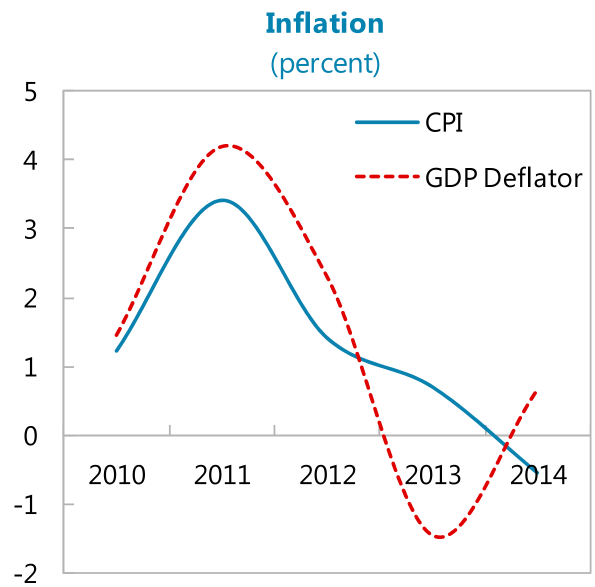
Source: Millennium Development Goals Database, World Bank, 2013.

Figure 2. Senegal: Recent Developments and Short Term Projections

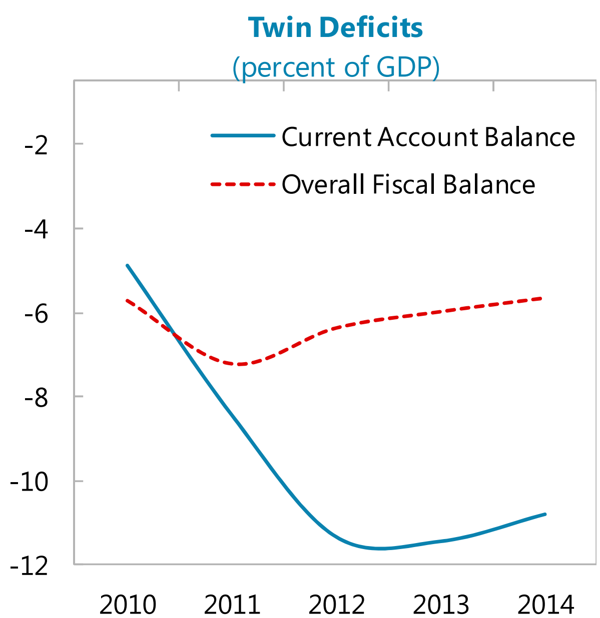
Growth remained moderate in the past few years…



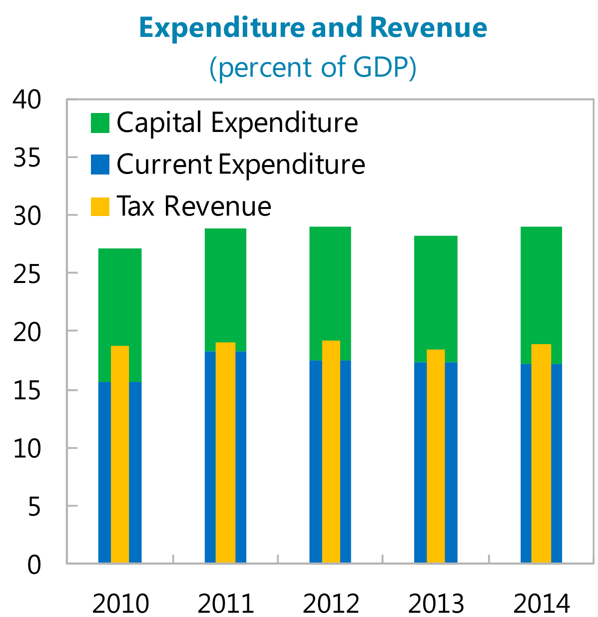
…while inflation has been contained.



The fiscal situation has weighed on the current account deficit…



…reflecting pressures on government expenditures.

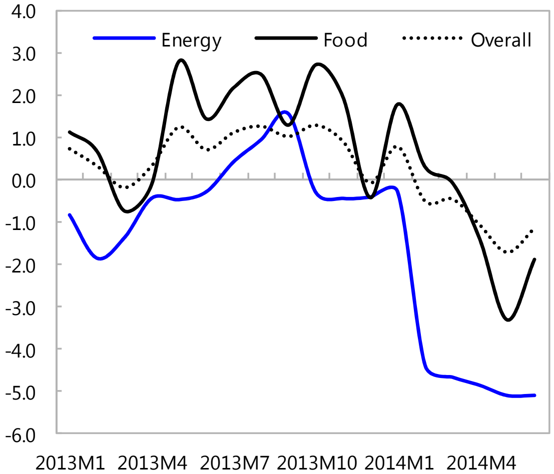


Sources: Senegal authorities; and IMF staff calculations.

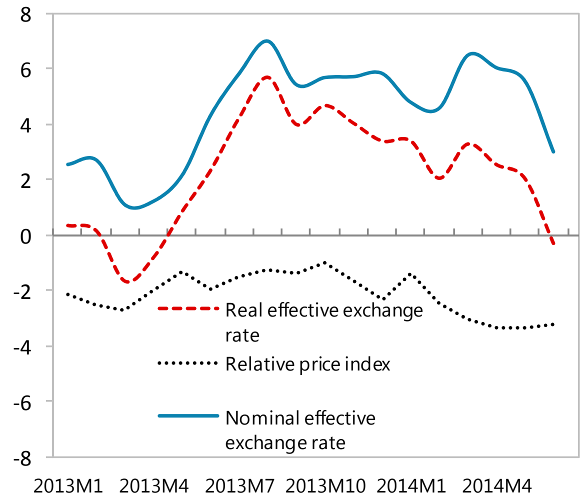
Figure 3. Senegal: Recent Developments: High Frequency Indicators

Inflation has been negative through August of 2014, because of negative food price inflation and declines in oil prices.

CPI Inflation
(12-month inflation rate)

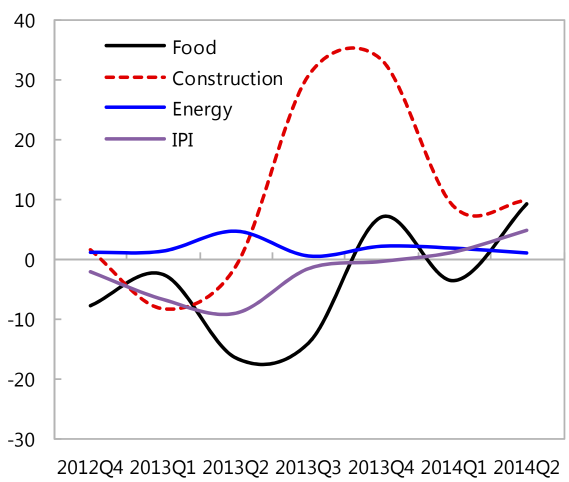


Senegal has lost some price competitiveness owing to appreciation

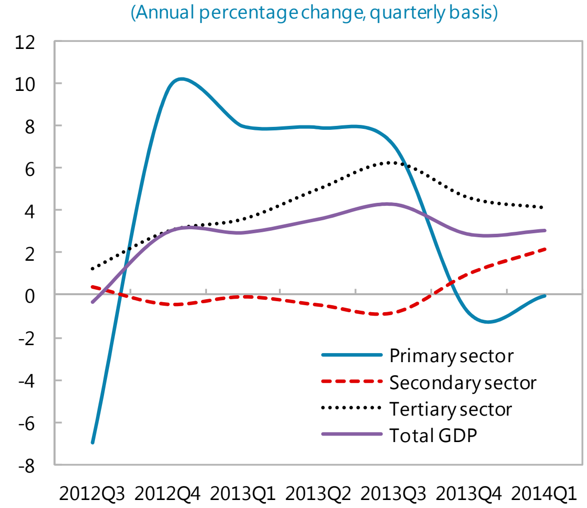


While construction has picked up, growth is now primarily driven by the tertiary sector.

Industrial Production Index
(Annual percentage change, quarterly basis)

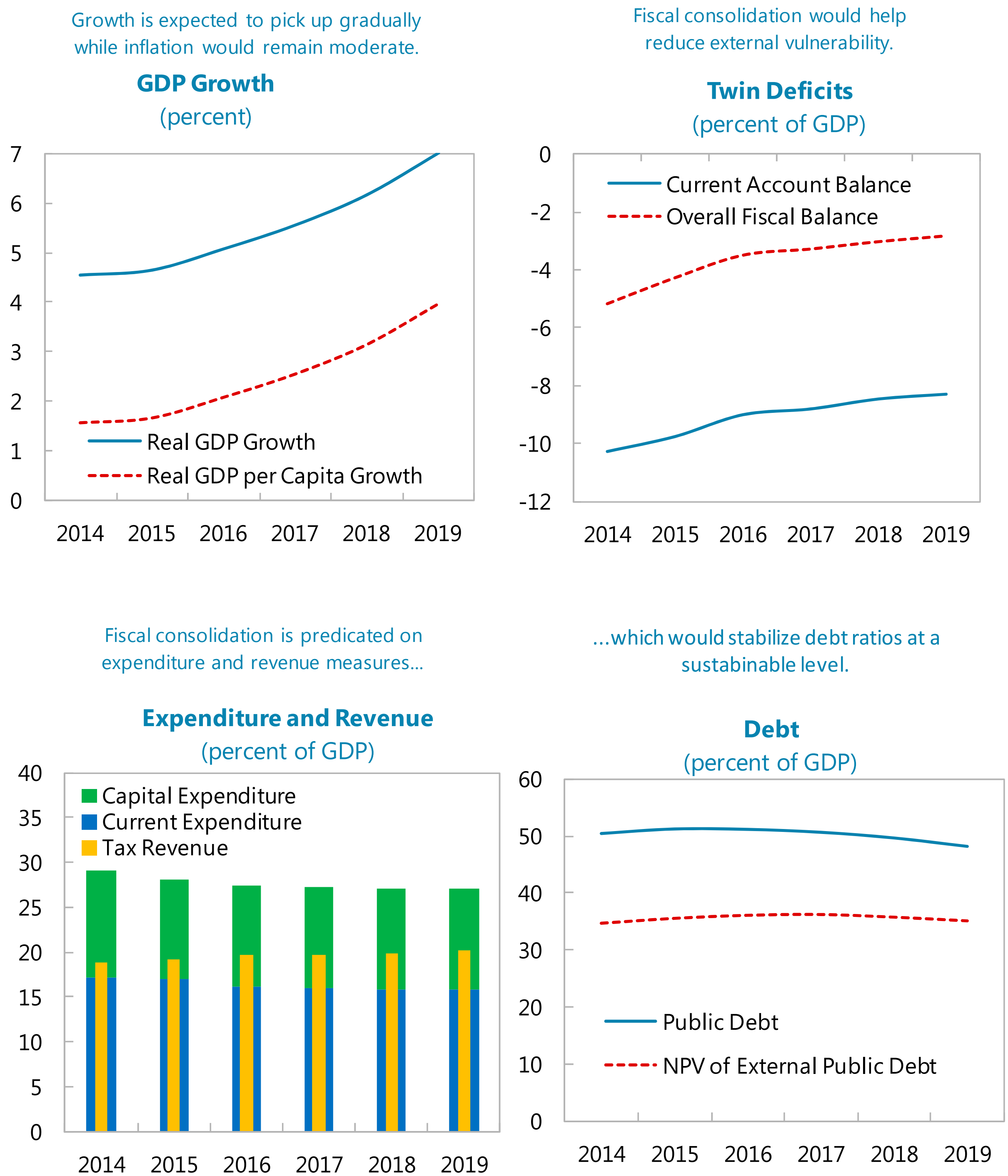


Real GPD Growth
(Annual percentage change, quarterly basis)



Sources: Senegal authorities; and IMF staff calculations.

Figure 4. Senegal: Medium-Term Projections

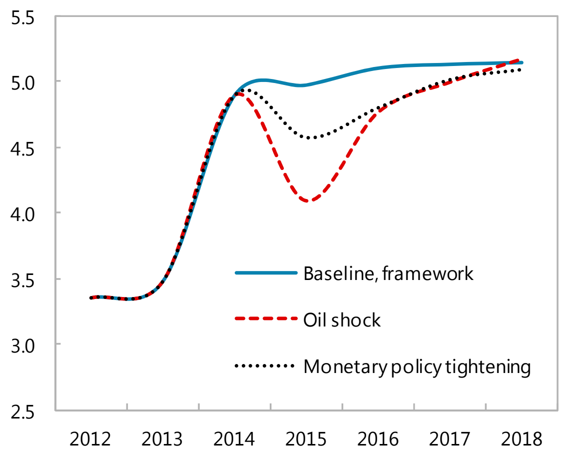


Sources: Senegal authorities; and IMF staff calculations.

Figure 5. Senegal: Outlook Risks

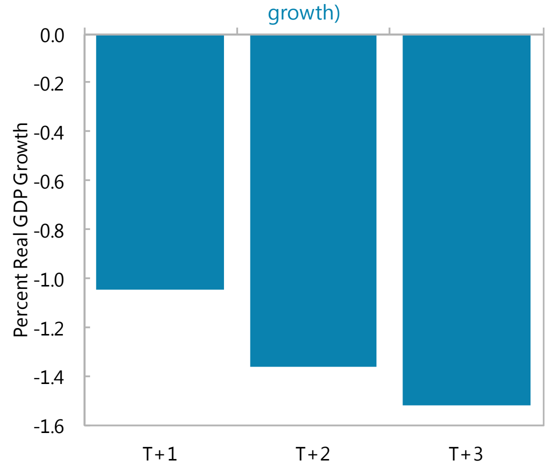
Senegal is exposed to spillover risks from commodity and policy shocks.

Real GDP Growth
(Percent)



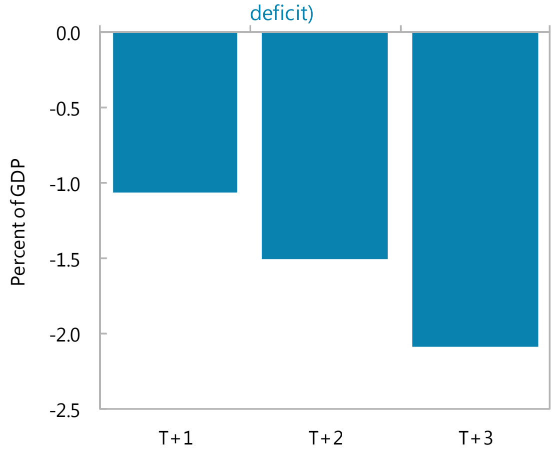
Growth projections have been optimistic...

Growth Bias[1]
(Negative Values indicate an overestimation of growth)



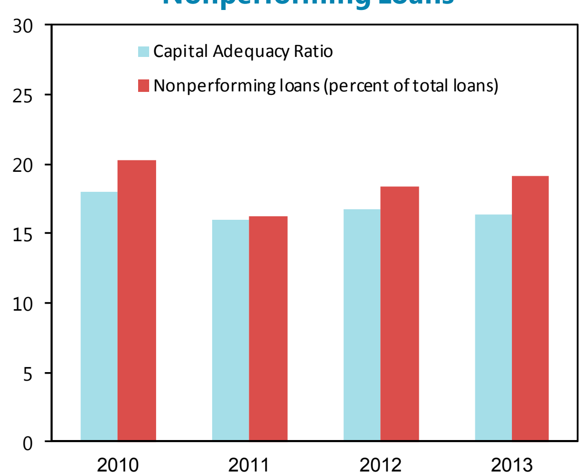
...leading to overly ambitious fiscal deficit targets.

Primary Balance Bias[1]
(Negative Values indicate an underestimation of the deficit)



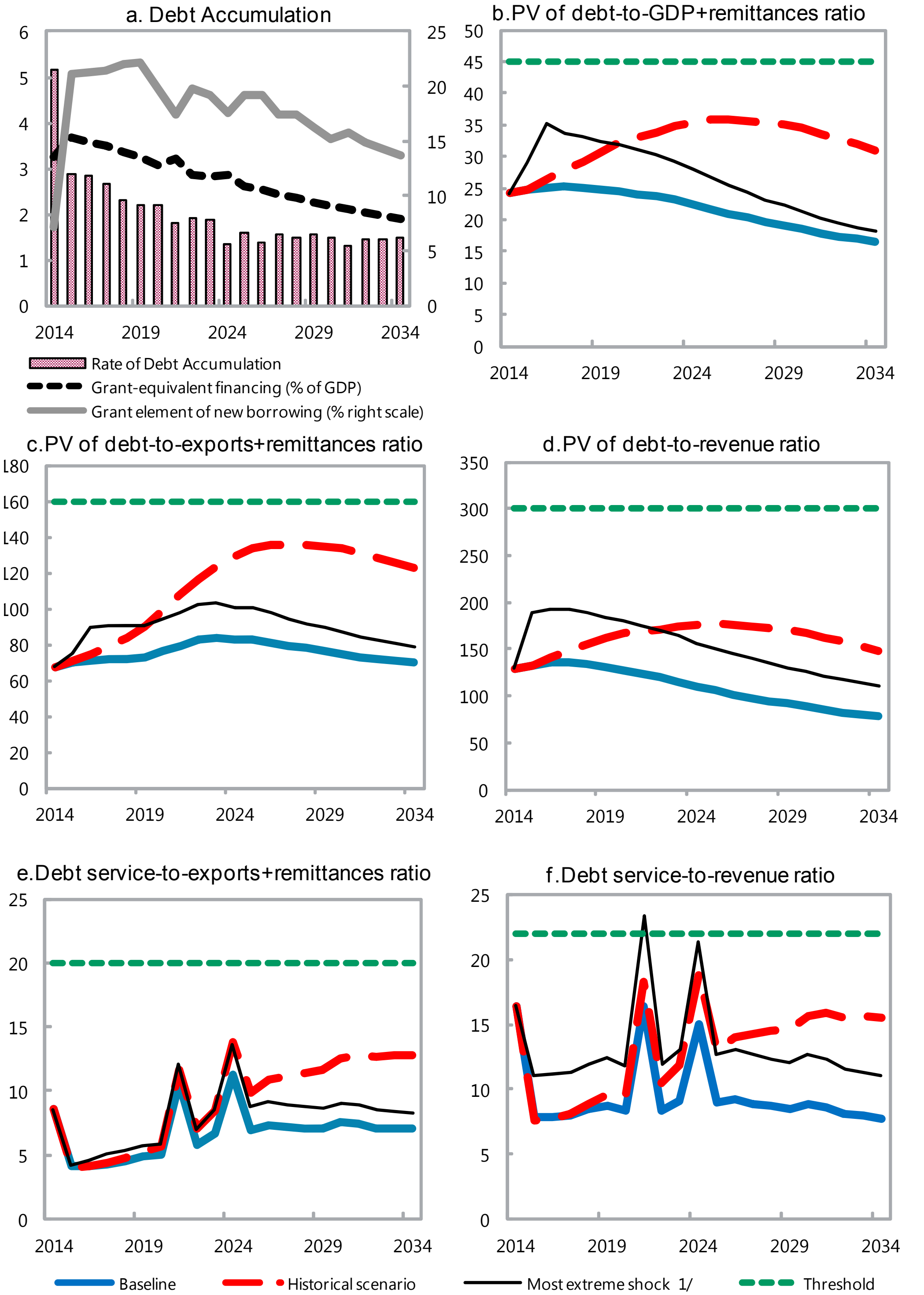
The financial sector is sound, but risks owing to non-performing loans warrant monitoring.

Capital Adequacy Ratio and Nonperforming Loans



Sources: Senegal authorities; and IMF staff calculations.
[1] Biases are computed from projection Made in year T for the year T+i, against outcomes, estimated over the period 1993-2013, based on WEO data.

Figure 6. Senegal: External Debt Sustainability

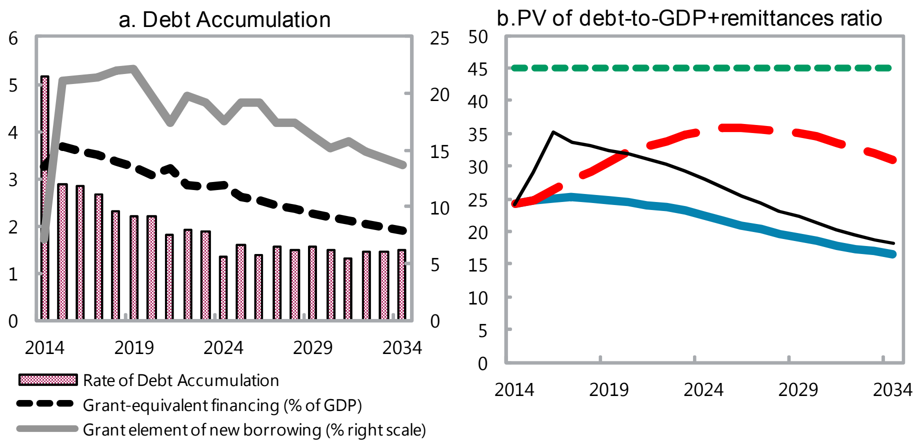


Sources: Country authorities; and staff estimates and projections.

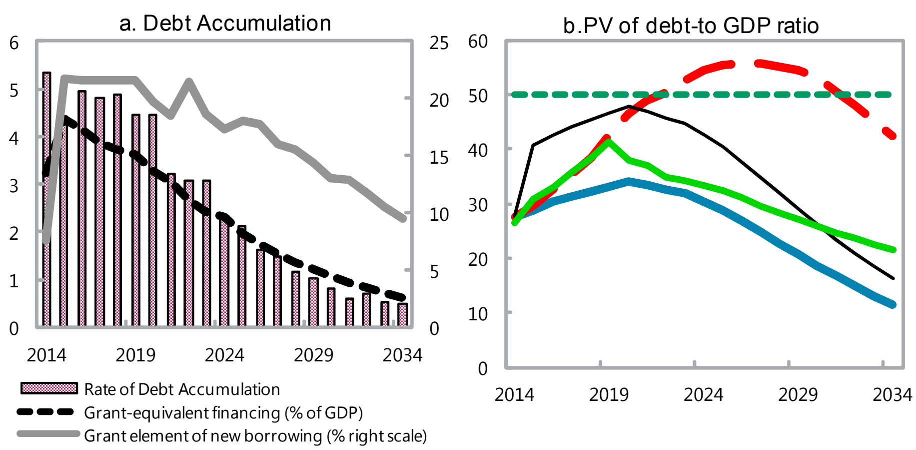
1/ The most extreme stress test is the test that yields the highest ratio on or before 2024. In figure b. it corresponds to a Combination shock; in c. to a Exports shock; in d. to a One-time depreciation shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

Figure 7. Senegal: External Debt Sustainability under Alternative Scenarios

External DSA, Baseline Projections, 2014-2034



External DSA, Higher Capital Spending, 2014-2034 [1/]



[1]Under the alternative scenario, higher capital spending boosts the fiscal deficit by about 0.7 percentage point of GDP in 2015-19, growth is assumed to increase by 1 percentage point over the same period.

Table 1. Senegal: External Sector Vulnerabilities

Overall assessment: Senegal's external position remains weak, primarily owing to its twin deficits. External stability risks are manageable provided fiscal policy remains prudent.	**Background**. Low savings relative to investment needs have led to substantial current account deficits, of about 10 percent of GDP. **Potential policy responses**. Fiscal consolidation and prudent borrowing should help in managing external vulnerabilities in the medium term. The real exchange rate is broadly in line with fundamentals, but structural reforms are needed to boost growth, increase competitiveness, and reduce external vulnerabilities.
Current account: high as a percent of GDP and coupled with high fiscal deficit	**Background**. The domestic savings rate is low, while investment needs are high. Despite large remittances, this generates high current account deficits of about 10 percent of GDP, which are covered partly by capital grants but increasingly non-concessional financing. The current account deficit reflects high fiscal deficits, as well as exogenous factors (e.g., oil prices, drought). **Assessment**. The current account deficit needs to decrease in the next few years to remain financeable and avoid dependency on grants and non-concessional borrowing. Fiscal consolidation will also be critical.
Real exchange rate: no significant misalignment	**Background**. Senegal is part of the WAEMU, whose CFA franc is pegged to the euro. **Assessment**. The three CGER methods do not suggest a significant misalignment (with results based on end-2013 data ranging from -8 to +4 percent). These findings are in line with those for the WAEMU. Competitiveness could be strengthened through structural reforms to improve the business environment.
Capital and financial account: dependency on donor inflows and market sentiment	**Background**. Official flows (both program and project) have accounted for a significant share of financing in recent years. FDI and portfolio investment are less significant. The overall balance recorded a deficit in 2013, but is expected to record a small surplus in 2014. **Assessment**. The sustainability of capital account flows rests mainly on donor and market sentiment toward Senegal's government, which depends on forceful fiscal consolidation and implementation of strong structural reforms to boost growth.
FX reserves: adequate level	**Background**. WAEMU reserves currently amount to 4.7 months of prospective imports, 50 percent of broad money, and about 91 percent of short-term liabilities. These common reserves can be used to finance the needs of individual WAEMU countries. **Assessment**. The level of foreign exchange reserves of the WAEMU is adequate, although at the low end of the optimal reserves range.
Foreign assets and liabilities position: fiscal consolidation required to balance a negative IIP position	**Background**. Gross external debt is at 32 percent of GDP and has increased substantially in the past few years. It consists mainly of concessional loans from official creditors, but commercial debt is increasing. **Assessment**. The net IIP position at -30 percent of GDP in 2013 currently presents limited risk. The DSA shows that fiscal consolidation is required to stabilize it.

Source: IMF staff.

Table 2. Senegal: Risk Assessment Matrix[1]

Source of Risks	Relative Likelihood	Potential impact
Spillover Risks		
Surges in global financial market volatility	High	Medium. A reversal of financial flow towards emerging and frontier markets could affect Senegal. However, at present appetite for frontier markets remains positive. A surge in interest rates could affect Senegal's external borrowing and fiscal position.
Protracted period of slower growth in advanced and emerging economies	High	High. Lower growth in advanced or emerging could affect Senegal exports, thus weakening growth prospects the current account balance, and remittances.
• Heightened geopolitical risks in the Middle East, leading to a sharp rise in oil prices, with negative spillovers to the global economy.	Low	High. An increase in oil prices would deteriorate the current account balance, and would also put pressures on electricity subsidies, as electricity generation still heavily depends on oil products.
Bond market stress from a reassessment in sovereign risk		Medium. Increased financial stress could lead to higher interest rates and/or lower appetite for Senegal sovereign bonds.
• Japan	Medium	
• Euro area	Low	
• United States	Low	
Domestic and Regional Risks		
Spillovers from the outbreak of Ebola in neighboring countries	High	Medium. Senegal's growth may be affected by lower proceeds from exports, tourism, transportation, and other services sectors.
Continued delays in electricity sector reform	Medium	High. Continued delayed in the electricity sector reform (notably in the investment plan) would maintain high electricity prices and significant budgetary costs.
Delayed fiscal consolidation	High	Medium. Fiscal consolidation remains necessary to address external vulnerabilities.

Source: IMF

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability of 30 percent or more). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

Table 3. Senegal: Authorities' Response to the 2012 Article IV Policy Recommendations

Article IV Recommendations	Authorities' Response
Fiscal policies to reduce vulnerabilities and foster inclusiveness	
1. Preserve fiscal sustainability and reconstitute fiscal buffers. Lower the deficit to below 5 percent of GDP in 2013 and 4 percent by 2015.	1. Broadly positive response. Fiscal sustainability has been preserved albeit with slower consolidation than initially anticipated. The 2013 deficit was 5.5 percent of GDP.
2. Should adverse exogenous shocks materialize, fiscal consolidation efforts could be reduced to accommodate their impact.	2. Mixed response. While deviation from the fiscal consolidation path in 2013 was partially motivated by floods and security needs due to conflicts in Mali, some deviations could not be explained by exogenous factors and were policy driven.
3. Pursue forcefully expenditure control and rationalization, with more attention to distributional issues.	3. Partially positive response. The authorities have started implementing the recommendations TA from the Fund on expenditure rationalization and started implementing its recommendation. Action is being initiated to target scholarships for tertiary education and the actual wage bill has been better identified. However, major corrective action is yet to be taken. Although attention to distributional issues increased, including in the Plan Sénégal Emergent (PSE), very few specific policy actions have been taken to address them.
4. Implement the ambitious reform of the tax code.	4. Positive response. The new Tax Code has been developed and implemented, and authorities are dealing with transitional difficulties in its practical application.
5. Strengthen debt management and borrow safely.	5. Positive response. A new debt management strategy has been developed and a debt management office has been established, although some coordination challenges remain.
Policies to rekindle growth	
6. Strike a balance between ambition and realism for growth objectives, and be mindful of the tradeoffs between public investment, growth, and debt sustainability.	6. Mixed response. There has been a systematic bias in overestimating growth and structural reform implementation has lagged. The PSE represents a welcome step towards unlocking higher growth through far-reaching reforms, but the short-term growth impact is likely to be overestimated.
7. Pay attention to inclusiveness.	7. Mixed response. The authorities achieved modest progress in poverty reduction with the benefits of growth progressively distributed, conducted a comprehensive household survey and made inclusiveness a strategic pillar of the PSE. However, more forceful policy initiatives may be required to make more decisive progress.
8. Pursue more forcefully reforms to improve the business climate, such as the reform of the energy sector.	8. Poor response. Senegal fell back in rank in the 2013 and 2014 Doing Business surveys and has one of the least attractive business climates in SSA. Moreover, reforms of the macro-critical energy sector have proved challenging and have not yet brought the expected results, although it is encouraging that a regional project has moved ahead which will use Mauritanian gas to produce electricity for Mali and Senegal.
Strengthening the financial sector and external stability	
9. Deepen further, and improve access to, the financial sector to increase growth, reduce poverty, and alleviate constraints on macro-economic policies.	9. Mixed response. Financial sector reforms have been slow, reflecting in part the need for regional coordination. The authorities have tried to increase inclusiveness for SME's through the creation of dedicated funds.
10. Strengthen Senegal's external position through prudent fiscal and debt policies.	10. Mixed response. The fiscal deficit has been contained, and debt management capacity improved, although debt accumulation has been higher than projected.

Source: IMF staff.

Table 4. Senegal: Selected Economic and Financial Indicators, 2013–19

	2013	2014		2015	2016	2017	2018	2019
		7th Review	Proj.	Proj.	Projections			
	(Annual percentage change)							
National income and prices								
GDP at constant prices	3.5	4.9	4.5	4.6	5.1	5.6	6.2	7.0
Of which: nonagriculture GDP	3.7	4.5	5.0	4.5	5.0	5.5	6.1	6.9
GDP deflator	-1.4	1.5	0.7	2.3	2.3	2.3	2.3	2.3
Consumer prices								
Annual average	0.7	0.0	-0.5	1.5	1.4	1.4	1.4	1.4
End of period	-0.1	1.2	1.4	1.5	1.4	1.4	1.4	1.4
External sector								
Exports, f.o.b. (CFA francs)	0.1	5.5	2.3	5.2	9.5	7.1	7.6	7.3
Imports, f.o.b. (CFA francs)	0.8	4.8	2.1	2.5	7.8	7.9	7.3	6.9
Export volume	7.7	6.6	3.4	7.0	7.8	1.5	5.4	5.3
Import volume	2.6	7.6	4.6	7.9	6.0	6.6	5.6	5.2
Terms of trade ("–" = deterioration)	-5.3	1.5	1.4	3.4	-0.1	4.3	0.5	0.3
Nominal effective exchange rate	4.1	…	…	…	…	…	…	…
Real effective exchange rate	2.2	…	…	…	…	…	…	…
	(Changes in percent of beginning-of-year broad money, unless otherwise indicated)							
Broad money	8.0	8.9	7.7	9.1	…	…	…	
Net domestic assets	8.8	10.7	10.5	11.1	…	…	…	…
Domestic credit	11.3	9.5	9.4	10.6	…	…	…	…
Credit to the government (net)	2.0	1.1	-0.5	3.1	…	…	…	…
Credit to the economy (net) (percentage growth)	12.6	8.6	10.6	7.3	…	…	…	…
	(Percent of GDP, unless otherwise indicated)[1]							
Government financial operations								
Revenue	20.1	20.4	21.1	21.2	21.1	21.2	21.3	21.6
Grants	2.6	2.8	2.8	2.8	2.7	2.7	2.6	2.5
Total expenditure and net lending	28.2	28.3	29.1	28.7	28.0	27.9	27.6	27.1
Overall fiscal balance								
Payment order basis, excluding grants	-8.0	-7.9	-8.0	-7.4	-6.9	-6.7	-6.3	-5.5
Payment order basis, including grants	-5.5	-5.1	-5.2	-4.7	-4.2	-4.0	-3.7	-3.0
Primary fiscal balance	-3.9	-3.5	-3.5	-2.9	-2.5	-2.2	-1.9	-1.2
Savings and investment								
Current account balance (official transfers included)	-10.9	-10.0	-10.3	-8.8	-8.2	-8.0	-7.6	-7.4
Current account balance (official transfers excluded)	-11.6	-10.7	-11.1	-9.8	-9.2	-9.0	-8.7	-8.5
Gross domestic investment	27.4	27.2	27.7	26.3	26.6	27.0	27.2	26.3
Government[1]	6.4	6.8	7.1	7.0	7.0	7.1	7.0	6.7
Nongovernment	20.9	20.3	20.6	19.3	19.6	19.9	20.2	19.6
Gross national savings	16.4	17.2	17.4	17.5	18.4	19.0	19.6	18.9
Government	0.9	1.8	1.9	2.4	2.8	3.1	3.3	3.7
Nongovernment	15.5	15.4	15.4	15.1	15.6	15.9	16.3	15.2
Total public debt	47.1	50.0	53.4	51.0	51.7	52.0	51.8	50.6
Domestic public debt[2]	14.4	14.5	14.8	15.2	15.4	15.5	15.8	15.5
External public debt	32.7	35.6	38.6	35.8	36.4	36.5	36.0	35.1
External public debt service								
Percent of exports	16.0	9.1	9.6	10.0	9.8	9.7	9.6	10.3
Percent of government revenue	9.2	12.6	-0.8	23.9	7.8	8.0	8.4	8.8
Memorandum item:								
Gross domestic product (CFAF billions)[2]	7,308	7,782	7,691	8,229	8,841	9,545	10,364	11,350

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

[1] Reflects reclassification of public investment.

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

Table 5. Senegal: Balance of Payments, 2013–19 (in Billions of CFAF)

	2013	2014	2015	2016	2017	2018	2019
		Projections					
		(Billions of CFAF, unless otherwise indicated)					
Current account	-798	-790	-724	-724	-762	-789	-844
Balance on goods	-1,490	-1,519	-1,520	-1,614	-1,754	-1,877	-1,998
Exports, f.o.b.	1,404	1,436	1,510	1,653	1,771	1,906	2,044
Imports, f.o.b.	-2,893	-2,955	-3,030	-3,267	-3,524	-3,783	-4,042
Services and incomes (net)	-215	-220	-256	-249	-234	-224	-251
Credits	770	789	818	849	887	950	1,018
Debits	-985	-1,008	-1,074	-1,097	-1,121	-1,174	-1,269
Of which: interest on public debt	-65	-77	-82	-89	-98	-107	-116
Unrequited current transfers (net)	907	948	1,052	1,139	1,225	1,312	1,405
Private (net)	864	889	978	1,056	1,130	1,209	1,294
Public (net)	43	59	74	83	95	103	111
Of which: budgetary grants	20	38	35	38	41	44	48
Capital and financial account	777	791	754	756	822	845	905
Capital account	183	184	197	208	219	231	243
Private capital transfers	6	3	3	4	4	4	5
Project grants	168	181	194	204	215	227	239
Debt cancellation and other transfers	9	0	0	0	0	0	0
Financial account	594	607	557	548	603	614	661
Direct investment	131	145	165	183	204	228	257
Portfolio investment (net)	26	235	42	97	116	180	104
Of which: Eurobond issuance	0	250	0	0	0	0	50
Other investment	436	227	349	268	283	206	300
Public sector (net)	193	335	287	285	279	246	187
Of which: disbursements	273	285	343	351	364	358	324
program loans	53	58	62	66	71	77	85
project loans	167	177	211	214	222	230	239
other	53	50	70	70	70	50	0
amortization	-80	-50	-55	-65	-85	-111	-137
Private sector (net)	199	-31	62	-18	4	-40	114
Errors and omissions	44	-77	0	0	0	0	0
Overall balance	-21	0	31	32	60	56	61
Financing	21	0	-31	-32	-60	-56	-61
Net foreign assets (BCEAO)	11	0	-31	-32	-60	-56	-61
Net use of IMF resources	-3	-9	-18	-19	-18	-18	-12
Purchases/disbursements	0	0	0	0	0	0	0
Repurchases/repayments	-3	-9	-18	-19	-18	-18	-12
Other	14	8	-12	-13	-41	-38	-49
Deposit money banks	10	0	0	0	0	0	0
Residual financing gap	0	0	0	0	0	0	0
Memorandum items:							
Current account balance							
Including current official transfers (percent of GDP)	-10.9	-10.3	-8.8	-8.2	-8.0	-7.6	-7.4
Excluding current official transfers (percent of GDP)	-11.6	-11.1	-9.8	-9.2	-9.0	-8.7	-8.5
Gross official reserves (imputed reserves, billions of US$)	2.2	2.1	2.2	2.3	2.4	2.5	2.7
(percent of broad money)	33.1	30.7	29.0	27.8	27.1	26.2	25.1
WAEMU gross official reserves (billions of US$)	14.4	…	…	…	…	…	…
(percent of broad money)	42.9	…	…	…	…	…	…
(months of WAEMU imports of GNFS)	4.7	…	…	…	…	…	…
Gross domestic product	7,308	7,691	8,229	8,841	9,545	10,364	11,350

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

Table 6. Senegal: Balance of Payments, 2013–19 (in Percent of GDP)

	2013	2014	2015	2016	2017	2018	2019
	Prel.	Projections					
		(Percent of GDP, unless otherwise indicated)					
Current account	-10.9	-10.3	-8.8	-8.2	-8.0	-7.6	-7.4
Balance on goods	-20.4	-19.8	-18.5	-18.3	-18.4	-18.1	-17.6
Exports, f.o.b.	19.2	18.7	18.4	18.7	18.6	18.4	18.0
Imports, f.o.b.	-39.6	-38.4	-36.8	-37.0	-36.9	-36.5	-35.6
Services and incomes (net)	-2.9	-2.9	-3.1	-2.8	-2.5	-2.2	-2.2
Credits	10.5	10.3	9.9	9.6	9.3	9.2	9.0
Debits	-13.5	-13.1	-13.1	-12.4	-11.7	-11.3	-11.2
Of which: interest on public debt	-0.9	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0
Unrequited current transfers (net)	12.4	12.3	12.8	12.9	12.8	12.7	12.4
Private (net)	11.8	11.6	11.9	11.9	11.8	11.7	11.4
Public (net)	0.6	0.8	0.9	0.9	1.0	1.0	1.0
Of which: budgetary grants	0.3	0.5	0.4	0.4	0.4	0.4	0.4
Capital and financial account	10.6	10.3	9.2	8.5	8.6	8.2	8.0
Capital account	2.5	2.4	2.4	2.3	2.3	2.2	2.1
Private capital transfers	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Project grants	2.3	2.3	2.4	2.3	2.3	2.2	2.1
Debt cancellation and other transfers	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	8.1	7.9	6.8	6.2	6.3	5.9	5.8
Direct investment	1.8	1.9	2.0	2.1	2.1	2.2	2.3
Portfolio investment (net)	0.4	3.1	0.5	1.1	1.2	1.7	0.9
Of which: Eurobond issuance	0.0	3.3	0.0	0.0	0.0	0.0	0.4
Other investment	6.0	3.0	4.2	3.0	3.0	2.0	2.6
Public sector (net)	2.6	4.4	3.5	3.2	2.9	2.4	1.6
Of which: disbursements	3.7	3.7	4.2	4.0	3.8	3.5	2.9
program loans	0.7	0.8	0.8	0.8	0.7	0.7	0.7
project loans	2.3	2.3	2.6	2.4	2.3	2.2	2.1
other	0.7	0.7	0.9	0.8	0.7	0.5	0.0
amortization	-1.1	-0.7	-0.7	-0.7	-0.9	-1.1	-1.2
Private sector (net)	2.7	-0.4	0.7	-0.2	0.0	-0.4	1.0
Errors and omissions	0.6	-1.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-0.3	0.0	0.4	0.4	0.6	0.5	0.5
Financing	0.3	0.0	-0.4	-0.4	-0.6	-0.5	-0.5
Net foreign assets (BCEAO)	0.2	0.0	-0.4	-0.4	-0.6	-0.5	-0.5
Net use of IMF resources	0.0	-0.1	-0.2	-0.2	-0.2	-0.2	-0.1
Purchases/disbursements	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repurchases/repayments	0.0	-0.1	-0.2	-0.2	-0.2	-0.2	-0.1
Other	0.2	0.1	-0.2	-0.1	-0.4	-0.4	-0.4
Deposit money banks	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Residual financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum item:							
Gross domestic product (CFAF billions)	7,308	7,691	8,229	8,841	9,545	10,364	11,350

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

Table 7. Senegal: Government and FSE Financial Operations, 2013–19 (in Billions of CFAF)

	2013	2014		2015		2016	2017	2018	2019
	Act.[1]	7th Review	Proj.	7th Review SR	Budget	Projections			
	(Billions of CFAF, unless otherwise indicated)								
Total revenue and grants	1,659	1,805	1,842	1,959	1,978	2,107	2,279	2,478	2,735
Revenue	1,471	1,587	1,624	1,720	1,749	1,866	2,024	2,207	2,448
Tax revenue	1,343	1,459	1,447	1,600	1,602	1,739	1,887	2,059	2,285
Income tax	390	418	406	460	454	495	544	591	649
Taxes on goods and services	760	829	829	919	922	1,017	1,098	1,202	1,322
Taxes on petroleum products	194	212	212	222	226	227	245	266	314
Nontax revenue	90	89	126	78	103	83	89	97	106
FSE	38	38	50	42	44	44	48	52	57
Grants	188	219	219	239	229	242	256	271	287
Budget	20	38	38	45	35	38	41	44	48
Projects	168	181	181	194	194	204	215	227	239
Total expenditure and net lending [2]	2,059	2,201	2,239	2,282	2,361	2,478	2,661	2,862	3,076
Current expenditure	1,263	1,306	1,322	1,335	1,392	1,445	1,524	1,654	1,814
Wages and salaries	465	486	484	510	510	539	573	622	681
Interest due	113	126	127	132	148	152	169	183	203
Of which: external	55	58	69	76	74	82	91	100	108
Other current expenditure	685	694	711	693	734	753	783	850	931
Transfers and subsidies	336	336	357	317	362	390	391	425	465
Of which: SAR and butane subsidy	16	16	16	0	13	0	0	0	0
Of which: SENELEC/energy	80	60	74	40	66	28	0	0	0
Of which: Food subsidies	4	0	0	0	0	0	0	0	0
Goods and services	349	358	354	376	371	362	391	425	465
Capital expenditure [3]	801	888	910	947	962	1,034	1,137	1,207	1,262
Domestically and nonconcessionally financed	477	530	552	542	557	616	699	750	784
Externally (concessionally) financed	324	358	358	405	405	418	437	457	478
Net lending	-5	7	7	0	7	0	0	0	0
Of which: On-lending	10	10	10	14	10	15	16	17	19
Selected public sector entities balance	0	0	0	0	0	0	0	0	0
Primary fiscal balance	-287	-269	-269	-191	-235	-219	-213	-201	-138
Overall fiscal balance (excluding grants)	-588	-614	-615	-562	-612	-613	-637	-654	-628
Overall fiscal balance (including grants)	-400	-396	-396	-323	-383	-371	-382	-383	-341
Financing	400	396	396	323	383	371	382	383	341
External financing	204	396	447	335	284	343	366	382	241
Drawings	214	137	197	320	270	339	381	443	328
Program loans	53	58	58	61	62	66	71	77	85
Project loans	167	177	177	211	211	214	222	230	239
T-bills and T-bonds, WAEMU (net)	-6	-98	-38	49	-3	58	87	136	5
Nonconcessional loans	53	408	300	70	70	70	70	50	50
Eurobond issuance	0	240	250	0	0	0	0	0	0
Deposit	0	0	0	0	0	0	0	0	0
Other non-concessional borrowing	53	168	50	70	70	70	70	50	50
Amortization due	-63	-149	-50	-55	-55	-65	-85	-111	-137
Domestic financing	181	38	-13	-12	99	28	16	1	99
Banking system	163	34	-17	-14	96	26	14	-1	99
Of which: T-bills and T-bonds, domestic (net)	11	58	8	20	130	61	48	34	123
Nonbank financing	18	4	4	2	3	2	2	2	0
Settlement of payment delays	15	-38	-38	0	0	0	0	0	0
Errors and omissions	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	563	…	322	…	…	…	…	…	…
Priority expenditure (percent of total expenditure) [4]	44	…	…	…	…	…	…	…	…
Gross domestic product	7,308	7,782	7,691	8,356	8,229	8,841	9,545	10,364	11,350

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] Part of capital spending includes current expenditures.

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

Table 8. Senegal: Government and FSE Financial Operations, 2013–19 (in Percent of GDP)

	2013	2014		2015		2016	2017	2018	2019
		7th Review	Proj.	7th Review SR	Budget				
	(Percent of GDP, unless otherwise indicated)								
Total revenue and grants	22.7	23.2	24.0	23.4	24.0	23.8	23.9	23.9	24.1
Revenue	20.1	20.4	21.1	20.6	21.2	21.1	21.2	21.3	21.6
Tax revenue	18.4	18.8	18.8	19.2	19.5	19.7	19.8	19.9	20.1
Income tax	5.3	5.4	5.3	5.5	5.5	5.6	5.7	5.7	5.7
Taxes on goods and services	10.4	10.7	10.8	11.0	11.2	11.5	11.5	11.6	11.6
Taxes on petroleum products	2.7	2.7	2.8	2.7	2.8	2.6	2.6	2.6	2.8
Nontax revenue	1.2	1.1	1.6	0.9	1.3	0.9	0.9	0.9	0.9
FSE	0.5	0.5	0.7	0.5	0.5	0.5	0.5	0.5	0.5
Grants	2.6	2.8	2.8	2.9	2.8	2.7	2.7	2.6	2.5
Total expenditure and net lending	28.2	28.3	29.1	27.3	28.7	28.0	27.9	27.6	27.1
Current expenditure	17.3	16.8	17.2	16.0	16.9	16.3	16.0	16.0	16.0
Wages and salaries	6.4	6.2	6.3	6.1	6.2	6.1	6.0	6.0	6.0
Interest payments	1.5	1.6	1.7	1.6	1.8	1.7	1.8	1.8	1.8
Other current expenditure	9.4	8.9	9.2	8.3	8.9	8.5	8.2	8.2	8.2
Transfers and subsidies	4.6	4.3	4.6	3.8	4.4	4.4	4.1	4.1	4.1
Of which: SAR and butane subsidy	0.2	0.2	0.2	0.0	0.2	0.0	0.0	0.0	0.0
Of which: SENELEC/energy	1.1	0.8	1.0	0.5	0.8	0.3	0.0	0.0	0.0
Of which: Food subsidies	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Goods and services	4.8	4.6	4.6	4.5	4.5	4.1	4.1	4.1	4.1
Capital expenditure	11.0	11.4	11.8	11.3	11.7	11.7	11.9	11.6	11.1
Domestically and nonconcessionally financed	6.5	6.8	7.2	6.5	6.8	7.0	7.3	7.2	6.9
Externally (concessionally) financed	4.4	4.6	4.7	4.8	4.9	4.7	4.6	4.4	4.2
Net lending	-0.1	0.1	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	-3.9	-3.5	-3.5	-2.3	-2.9	-2.5	-2.2	-1.9	-1.2
Overall fiscal balance									
Payment order basis, excluding grants	-8.0	-7.9	-8.0	-6.7	-7.4	-6.9	-6.7	-6.3	-5.5
Payment order basis, including grants	-5.5	-5.1	-5.2	-3.9	-4.7	-4.2	-4.0	-3.7	-3.0
Financing	5.5	5.1	5.2	3.9	4.7	4.2	4.0	3.7	3.0
External financing	2.8	5.1	5.8	4.0	3.5	3.9	3.8	3.7	2.1
Domestic financing	2.5	0.5	-0.2	-0.1	1.2	0.3	0.2	0.0	0.9
Settlement of payment delays	0.2	-0.5	-0.5	0.0	0.0	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	…	…	…	…	…	…	…	…
Wages and salaries (percent of revenue)	31.6	30.6	29.8	29.6	29.2	28.9	28.3	28.2	27.8
Total cost of energy subsidies	1.6	…	…	…	…	…	…	…	…

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

Table 9. Senegal: Monetary Survey, 2011–14

	2011	2012	2013	2014	2015
				Proj.	Proj.
	(Billions of CFAF)				
Net foreign assets	931	879	858	859	889
BCEAO	726	776	764	765	795
Commercial banks	204	104	94	94	94
Net domestic assets	1,781	2,016	2,269	2,508	2,785
Net domestic credit	2,106	2,240	2,565	2,805	3,103
Net credit to the government[1]	150	97	151	136	239
Central bank	103	-38	21	4	-22
Commercial banks	46	130	124	132	261
Other institutions	2	5	4	4	4
Credit to the economy	1,956	2,144	2,414	2,669	2,864
Other items (net)	-326	-224	-297	-297	-318
Broad money	2,711	2,896	3,127	3,367	3,675
Currency outside banks	588	585	620	627	621
Total deposits	2,123	2,310	2,507	2,740	3,054
Demand deposits	1,061	1,192	1,358	1,484	1,654
Time deposits	1,063	1,118	1,150	1,256	1,400
	(Change in percentage of beginning-of-period broad money stock)				
Net foreign assets	-2.3	-1.9	-0.7	0.0	0.9
BCEAO	-0.3	1.8	-0.4	0.0	0.9
Commercial banks	-1.9	-3.7	-0.3	0.0	0.0
Net domestic assets	9.0	8.7	8.8	7.6	8.2
Net credit to the government[1]	-2.0	-2.0	2.0	-0.5	3.1
Credit to the economy	12.2	6.9	9.3	8.2	5.8
Other items (net)	-1.2	3.7	-2.5	0.0	-0.6
Broad money	6.7	6.8	8.0	7.7	9.1
Memorandum items:	(Units indicated)				
Velocity (GDP/broad money; end of period)	2.5	2.5	2.3	2.3	2.2
Nominal GDP growth (percentage growth)	5.9	5.3	2.0	5.2	7.0
Credit to the economy (percentage growth)	18.8	9.6	12.6	10.6	7.3
Credit to the economy/GDP (percent)	28.9	29.8	33.0	34.7	37.2
Variation of net credit to the government (yoy; CFAF billions)	-49.7	-53.7	151.1	-15.2	103.2
Central bank refinance rate (eop; percent)	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 10. Senegal: Financial Soundness Indicators, 2008–13

	2008	2009	2010	2011	2012	2013	2014 June
	(Percent, unless otherwise indicated)						
Capital Adequacy							
Capital to risk-weighted assets	13.8	16.3	18.0	16.0	16.7	16.4	16.5
Regulatory capital to risk-weighted assets	13.9	16.5	18.2	15.9	16.3	15.9	16.0
Capital to total assets	9.1	9.3	10.0	9.8	9.6	9.4	9.8
Asset Composition and Quality							
Total Loans to Total Assets	62.8	59.5	57.5	60.6	61.4	60.1	62.1
Concentration: loans to 5 largest borrowers to capital	100.9	71.7	70.6	69.8	196.7	137.4	137.9
Sectoral distribution of loans							
Industrial*	19.5	27.5	26.4	22.2	23.8	25.5	24.2
Retail and wholesale trade*	18.5	24.5	23.8	19.2	21.6	23.8	23.4
Services, transportation and communication*	31.1	34.1	41.9	34.0	30.6	35.9	42.1
Ratio of non-performing loans (NPLs) to total loans	17.4	18.7	20.2	16.2	18.4	19.1	20.3
Of which: without ICS	14.2	15.8	15.8	13.2	15.1	14.8	16.9
Ratio of provisions for NPLs to total NPLs	51.5	53.1	54.9	54.0	56.1	55.8	54.2
Of which: without ICS	65.7	64.7	65.3	68.3	63.0	66.8	58.7
NPLs net of provisions to total loans	9.3	9.7	9.1	8.1	8.2	8.6	9.5
Of which: without ICS	5.4	6.2	6.1	4.6	6.3	5.6	7.7
NPLs net of provisions to capital	63.9	62.3	52.3	50.4	51.4	54.7	60.0
Of which: without ICS	35.3	38.4	41.5	35.7	38.8	43.3	51.3
Earnings and profitability							
Average cost of borrowed funds	2.8	3.4	2.2	2.0	2.1	1.9	1.0
Average interest rate on loans[1]	13.9	15.4	8.1	8.4	8.6	8.1	3.7
Average interest margin[2]	11.1	12.0	5.9	6.4	6.6	6.2	2.7
After-tax return on average assets	1.4	1.3	1.6	2.2	1.7	1.3	1.0
After-tax return on average equity	13.0	16.0	15.4	22.6	17.4	13.7	10.2
Noninterest expenses/net banking income	51.3	60.3	56.7	56.0	57.0	57.6	53.1
Salaries and wages/net banking income	21.1	23.0	24.8	23.8	24.4	25.2	23.5
Liquidity							
Liquid assets to total assets	…	31.7	39.8	36.1	37.0	42.1	44.2
Liquid assets to total deposits	…	49.8	52.4	76.7	52.3	62.9	65.7
Total deposits to total liabilities	70.3	74.9	76.0	62.8	70.7	67.0	67.3

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. Letter of Intent

Dakar, December 2, 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 eighth and final review under the Policy Support Instrument (PSI) of its macroeconomic program. The focus of the PSI is on increasing growth and reducing vulnerabilities and poverty in particular by maintaining macroeconomic stability and improving the business environment.

2. Macroeconomic performance has been satisfactory in the first half of the year. The quarterly indicators show economic activity strengthening further while inflation remains relatively low. Revenue performance improved markedly, amounting to CFAF 746 billion at end-June compared to an original objective of CFAF 730 billion. This increase coupled with a relative under-execution of spending has resulted in a budget deficit of CFAF 170 billion compared to a target of CFAF 198 billion.

3. Program implementation has remained satisfactory. All quantitative criteria and indicative targets under the program at end-June 2014 were met. However, the continuous criterion on the level of nonconcessional borrowing has not been observed since September, following the issuance of Eurobonds amounting to US$500 million. Total nonconcessional borrowing now amounts to CFAF 281billion, compared to CFAF 250 billion adopted under the program. There are two main factors underlying this overrun. First, a loan of CFAF 31.8 billion (34 million Euros) contracted with EXIM Bank of Turkey could not be classified as a semi-concessional loan because, contrary to our expectations, the total grant subsidy resources only amounted to a grant element of 11 percent thus falling short of the required 15 percent threshold under the definition on semi-concessional loans. Second, in spite of this, we had to proceed with the Eurobond issuance of 500 million dollars as this is the minimum required to obtain favorable terms on international markets. However, despite the

deviation observed, our debt level remains viable and we remain committed to pursuing a prudent debt management policy.

4. Significant progress has also been made in implementing reforms. In the fiscal area, the measures implemented have focused mainly on improving tax revenue collection and the transparency and efficiency of public resources, although the implementation of various measures has taken somewhat longer than expected. Performance contracts have been signed with the five largest public agencies. Further, the 2015 draft budget law includes an annex with a complete list of agencies and funds as well as an update on the implementation of the plan to restructure the agencies and another annex containing an estimate and analysis of direct and indirect budget support for energy prices. It should also be underscored that no new agencies have been established since the last review. Cost-benefit analyses have been carried out on five large investment projects. Summaries of these reports have been submitted to the National Assembly at the same time as the 2015 draft budget law. Regarding structural reforms, progress has also been made in several sectors, notably steps to encourage private sector development, reform the energy sector, and foster financial deepening.

5. The macroeconomic outlook for 2014 and for the medium-term remains positive. In 2014, taking into account the impact of the Ebola epidemic and the late start of the rainy season, the growth rate is likely to reach 4.5 percent (compared to the initial target of 4.9 percent). The secondary sector recovered faster than expected reflecting the favorable performance of construction and public works, cement, and sugar and leather production sectors. Continued efforts to mobilize resources and streamline spending should make it possible to achieve the budget deficit target of 5.2 percent of GDP, following 5.5 percent in 2013.

6. Nevertheless, Senegal's economy continues to be characterized by low growth, owing essentially to a business environment that is not very attractive because of inadequate productivity levels, limited infrastructure, and difficulty accessing factors of production. This sluggish economic growth is also attributable to delays in implementing reforms, particularly in the energy sector, as well as to problems with the efficiency of public spending and the resistance to change of some economic players.

7. In that context, Senegal has devised a new development strategy to spur its progress towards emergence. This strategy, known as the *Plan Sénégal Émergent* (PSE), provides a framework for the implementation of economic and social policy over the medium to long term. It emphasizes (i) structural transformation of the economy by consolidating the existing drivers of growth and developing new sectors with strong potential for enhancing wealth- and job-creation as well as

social inclusion; (ii) improving the well-being of the population as a whole by protecting vulnerable groups and ensuring access to basic social services; and (iii) strengthening governance, promoting peace and security, and consolidating the rule of law.

8. Effective implementation of the PSE is expected to make it possible to achieve a growth rate of 5.4 percent in 2015. Growth is set to be driven by stronger agricultural performance and ongoing recovery in the secondary sector. In the agricultural sector, the government is continuing with the repair, rehabilitation, and building of hydro-agricultural schemes and works. In 2015, the attendant plans for the valley include the: implementation and rehabilitation of hydro-agricultural schemes, 4,024 ha and 1,950 ha, respectively, strengthening of agricultural equipment, increased production of certified seeds (14,400 metric tons), and fertilizer purchases, as well as the development of storage infrastructure (50 warehouses with a unit storage capacity of 300 metric tons). In turn, buoyancy in the extractive and chemical industries—boosted mainly by the opening up of the capital of *Industries Chimiques du Sénégal* to Indonesian private investors—as well as in the BTP and cement sectors is expected to spur the recovery in the secondary sector. The pace of growth is expected to pick up from year to year with rates climbing to 7.0 percent in 2017 and 7.2 percent in 2018.

9. The government intends to launch the implementation of the PSE while pursuing its efforts to reduce the fiscal deficit. Indeed, the success of the PSE is dependent on a strong increase in both the level and efficiency of public investment. To maintain the stability of the macroeconomic framework, a substantial effort is needed to mobilize revenue, strengthen investment efficiency, and continue to streamline public consumption. Thus, efforts will continue to be made to curb the government's rate of expenditure while the increase in the wage bill will be contained by a freeze on hiring, except for staff replacements, and overtime work will be significantly reduced. However, to strengthen security in a relatively unstable sub-region, the government intends to recruit some 3,000 agents for the defense and security forces and around 1,000 personnel in the health sector. The additional cost is estimated at CFAF 10 billion. We intend to explore, with World Bank support, the implementation of a performance management system that could link allowances or benefits to the objectives of the program budget that is currently being developed. Further, the restructuring of agencies needs to be pursued. Generally speaking, we intend to maintain spending on public consumption in real terms to create space to finance investment spending on both human capital and infrastructure. In that context, the fiscal deficit is expected to continue trending downwards, declining from 5.2 percent in 2014 to 4.7 percent in 2015. The fall in the deficit for 2015 is lower than originally expected under the PSI, owing principally to PSE-related spending on public investment. The deficit will continue on a downward path, falling under 4 percent in 2018, with the

acceleration of growth, and the streamlining of public expenditure. Continued implementation of prudent fiscal policy would make make it possible to preserve fiscal sustainability and keep debt levels below the ceiling of 52 percent of GDP.

10. In that regard, tax measures have been taken and modernization of the tax administration is continuing. The main tax measures introduced in the 2014 supplementary budget relate to the: (i) introduction of a one percent withholding on the turnover of telecommunications companies; (ii) increase in the ceiling for the minimum tax rate (fixed lump-sum tax); (iii) increase in the rate of the additional levy on alcohol; (iv) setting a higher and uniform rate for the special tax on cigarettes; (v) ongoing efforts to streamline tax expenditures; and (vi) the adoption of various measures amending the General Tax Code for greater clarification and proper implementation of tax provisions to significantly increase fiscal revenue. The current review of matters related to the comprehensive taxation of the financial and telecommunications sectors as well as issues related to the environment, mining, the business license tax on enterprises and electronic commerce is expected to be completed and culminate in a draft proposal for an appropriate framework to be implemented in 2015. The modernization objectives, in turn, focus on reduction of the timeframes for processing tax disputes, the introduction of paperless processing, the timely production legal and regulatory texts, and closer monitoring of the largest taxpayers and VAT creditors as well as the increased efficiency of tax audits. The government also continues to strengthen its public financial management by modernizing the public administration, implementing the WAEMU directives on public financial management, and improving accounting, fiscal, and financial information.

11. We are convinced that the effective implementation of the PSE will enable Senegal achieve its objective of high, sustainable, and inclusive growth. In this regard, we are counting on the support of the international community, including the Fund, for assistance in implementing reforms critical to attaining the objectives outlined in the PSE. The government authorizes the IMF to publish this letter and the related staff report.

Very truly yours.

/s/

Amadou Ba

Minister of Economy, Finance and Planning

Attachment:

Technical Memorandum of Understanding

Table 1. Senegal: Assessment Criteria and Indicative Targets, 2013–14

	2013				2014											
	Dec.				Mar.				Jun.				Sep.			
	Prog.	Adj.	Act.	Status	Prog.	Adj.	Act.	Status	Prog.	Adj.	Act.	Status	Prog.	Adj.	Prel.	Status
	(CFAF billions, unless otherwise specified)															
Assessment criteria[1]																
Floor on the overall fiscal balance[2]	-406	-420	-400	met	-100	-96	-62	met	-198	-202	-170	met	-297	-227	-164	met
Ceiling on the contracting or guaranteeing of new nonconcessional external debt by the government (US$ millions)[3]	800	...	557	met	800	...	557	met	1,006	...	557	met	1,006	...	1,071	not met
Ceiling on spending undertaken outside normal and simplified procedures[3]	0	...	0	met	0	...	0	met	0	...	0	met	0	...	0	met
Ceiling on government external payment arrears (stock)[3]	0	...	0	met	0	...	0	met	0	...	0	met	0	...	0	met
Ceiling on the amount of the budgetary float	50	...	30	met	50	...	21	met	50	...	34	met	50	...	41	met
Ceiling on nonconcessional debt with a minimum grant element of 15 percent[3]	132	...	53	met	132	...	53	met	224	...	53	met	224	...	53	met
Indicative targets																
Quarterly ceiling on the share of the value of public sector contracts signed by single tender (percent)	20	...	8	met	20	...	14	met	20	...	18	met	20	...	19	met
Floor on social expenditures (percent of total spending)	35	...	38	met	35	...	n.a.	n.a.	35	...	38	met	35	...	n.a.	n.a.
Floor on tax revenue	1,434	...	1,343	not met	374	...	349	...	730	...	746	met	1,095	...	1,084	not met
Maximum upward adjustment of the overall deficit ceiling owing to																
Shortfall in program grants relative to program projections	15	...	18	...	15	...	9	...	15	...	3	...	15	...	4	...
Excess in concessional loans relative to program projections	50	...	-1	...	50	...	-13	...	50	...	0.9	...	50	...	-74	...
Memorandum items:																
Program grants	38	...	20	...	10	...	2	...	19	...	16	...	29	...	24	...
Concessional loans	221	...	220	...	65	...	52	...	117.5	...	118.4	...	176	...	103	...

Sources: 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. Senegal: Structural Benchmarks				
Measures	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	Met
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	Met
The 2014 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	Met
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	Met

Measures	Implementation date	Benchmark for review	Macroeconomic Significance	Status
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.
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	Met with delay. The first publication was issues on May 21, 2014. The audit was delayed, because of the time needed to comply with the World Bank's procurement rules

Attachment. Technical Memorandum of Understanding

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) is 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. The 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 LOI 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. 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

[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.

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 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.

ADDITIONAL INFORMATION FOR PROGRAM MONITORING

26. 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.

27. 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.

28. 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.

29. 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.

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.

SENEGAL

STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION AND EIGHTH REVIEW UNDER THE POLICY SUPPORT INSTRUMENT—DEBT SUSTAINABILITY ANALYSIS

December 2, 2014

Approved By
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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 non-concessional and semi-concessional borrowing, all the debt burden indicators remain below their policy-dependent indicative thresholds, and debt ratios in present value terms are lower than in the previous debt sustainability analysis (DSA). Policy-dependent thresholds were increased as Senegal was reclassified to 'strong' performer based on higher average CPIA score in 2011-2013.[1] The probability approach also shows a more favorable outlook. The stress tests result in two spikes in debt service to revenue ratio, corresponding to the repayment of two Eurobonds, which lead to a small and temporary breach of the threshold. 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 non-concessional borrowing.[2]

[1] Senegal's CPIA score was 3.825 in 2013, and on average 3.81 over 2011–13. Under the debt sustainability framework rules, this corresponds to a "strong" performance.

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

BORROWING PLAN AND UNDERLYING ASSUMPTIONS

1. **The authorities have continued to strengthen their capacity to manage debt and assess project loans**. Senegal recently recorded improvement in its sub-score on debt management under the Country Policy and Institutional Assessment (CPIA). 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. The strategy essentially aims at reducing rollover risks by extending the maturity of debt issued on the regional market—which has a very short average maturity—as well as at giving priority to concessional financing to keep borrowing costs low. An updated medium-term second debt management strategy is being finalized along the same lines. 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 "strong 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).

Table 1. Total External Debt, Central Government

(Percent of Total, as of end of year)

	(Percent of Total, as of end of year)					
	2008	**2009**	**2010**	**2011**	**2012**	**2013**
Total	100.0	100.0	100.0	100.0	100.0	100.0
Multilateral creditors	61.2	65.1	66.4	60.2	62.1	63.7
IDA/IBRD	35.6	29.7	29.2	32.2	30.2	29.6
AfDB/AfDF	7.6	8.3	9.0	10.5	9.8	11.0
IMF	2.6	6.8	10.8	0.0	6.1	7.4
OFID/BADEA/IsDB	8.6	11.9	10.1	10.2	8.4	8.0
EIB	0.9	1.0	1.0	0.9	0.8	0.8
Others	5.9	7.4	6.4	6.4	6.9	6.8
Bilateral creditors	38.7	29.3	27.8	26.3	26.5	26.2
OECD countries	11.2	10.2	9.7	7.7	10.4	10.1
Arab countries	21.2	14.1	10.3	8.1	6.9	6.1
Others	6.3	5.0	7.8	8.4	9.1	8.8
Commercial creditors	0.1	5.6	5.8	13.5	11.4	10.1
Memorandum Item						
Nominal GDP (CFAF billions)	5994	6050	6395	6775	7165	7308

Sources: Senegalese authorities and IMF staff estimates.

2. **Senegal has also now been reclassified as a strong performer in the CPIA index.** This reclassification has led to an increase of indicative thresholds for each debt burden indicators, which has improved Senegal's debt outlook. The present value of the external debt-to-GDP ratio has been raised to 50 percent from 40 percent in the previous DSA (without remittances), while the ratios for external debt-to-exports and for external debt-to- revenue are 200 and 300 respectively, up from 150 and 250 in the previous DSA. The ratio for PPG external debt service in relation to exports is now 25 percent and 22 percent in relation to revenue compared to 20 percent thresholds for both indicators in the previous DSA (Table 2).

Table 2. PPG External Debt Thresholds

Quality of Policies and Institutions (CPIA)	PV of PPG External Debt in percent of			PPG External Debt Service in percent of	
	GDP	Exports	Revenue	Exports	Revenue
Weak	30	100	200	15	18
Medium	40	150	250	20	20
Strong	50	200	300	25	22

Source: IMF

3. **This DSA is consistent with the macroeconomic framework outlined in the staff report**. As in the April 2014 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 above 5 percent only in 2016 and to accelerate and 7.3 percent on average in 2020-34, from a high base of 7 percent in the medium-term, compared to 6.2 percent medium-term growth in the previous DSA. This assumes efficiency gains from reform implementation under the authorities Plan Senegal Emergent (PSE),[3] which would kick start total factor productivity (TFP) growth. Successful PSE reforms are expected to lift growth to 7 percent in the medium term driven by FDI generated exports.

- **Fiscal deficit.** The overall fiscal deficit projections are somewhat higher in the medium term, but in the long term they are in line with the authorities' commitment to meet the key WAEMU convergence criterion on the fiscal deficit (see paragraph 10 below)

- **Current account deficit**: The current account deficit is projected to narrow gradually from 10.3 percent of GDP in 2014 to just above 7.4 percent in 2019 and further down in the long term. This would be driven by projected fiscal consolidation and stronger dynamism in exports (mining in particular). Remittances are projected to remain significant as a share of GDP.

[3] The Senegalese authorities' new development strategy,

- **Inflation:** it is expected to remain moderate, on average less than 1.4 percent in the medium term.

Table 3. Evolution of Selected Macroeconomic Indicators

	2012	2013	2014	2015	Long term 1/
Real GDP growth					
Current DSA	3.4	3.5	4.5	4.6	7.3
Previous DSA	3.5	3.5	4.9	5.0	5.4
Overall fiscal deficit (percent of GDP)					
Current DSA	5.9	5.5	5.2	4.7	2.6
Previous DSA	5.9	5.5	5.1	3.9	2.6
Current account deficit (percent of GDP)					
Current DSA	10.8	10.9	10.3	8.8	7.5
Previous DSA	10.8	10.4	10.0	8.9	7.6

1/ Defined as the last 15 years of the projection period. For the current DSA update, the long term covers the years 2020-2034 (same as the full DSA in June 2014).

- **Financing:** The financing assumptions under this DSA are broadly similar to those under the most recent DSA (July 2014). As noted in the previous DSA, the authorities are increasingly relying on external nonconcessional or semi-concessional borrowing to finance infrastructure projects, and this trend is expected to continue. At the time of the previous DSA, the authorities had postponed a planned Eurobond issuance from 2013 to 2014 following a sharp tightening of financial conditions on international markets in the course of 2013. The authorities have since issued the US$500 million Eurobond in July 2014. Conditions have been relatively favorable in international markets in the past few months, and the authorities got a rate of 6.25 percent compared to the 6 percent yield on the 2011 Eurobond. This interest rate is higher than expected at the time of the previous DSA, partly owing to market concerns about the slow pace of reform. However, part of the proceeds would be used to repay the euro tranche of the syndicated loan contracted in 2013, which has a shorter maturity and higher rate (6.5 percent). The projections assume a repayment of the 2011 and 2014 bonds at maturity, as well as a moderate annual amount of non-concessional 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 just above 10 percent over the projection period, as Senegal gradually moves away from concessional borrowing toward non-concessional borrowing.

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

- **Alternative Scenarios.** In addition to the baseline, scenario, the DSA considers alternative scenarios using the authorities' PSE projections (with higher debt accumulation in the early years.The probability approach is also applied.

EXTERNAL DSA

4. **The use of remittances in the base case is justified for Senegal, since remittances are both stable and high as a percentage of GDP and exports.**[4] Since 2000, remittances have grown every year with the exception of 2009, when they fell 6 percent. Over the period 2010–2013, 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.[5]

5. **Under the baseline scenario (Figure 1), and taking remittances into account, debt burden indicators remain well below their thresholds** The external PPG debt ratios remain below their respective thresholds even under the most extreme stress tests, with one exception. Two spikes in debt service reflect the assumption of the repayment of the Eurobonds at maturity, and lead to one breach under the most extreme stress test (a 30 percent depreciation of the currency). Given that the largest breach falls within a 10-percent band of the threshold, the probability approach was also applied.

6. **Alternatively, a more rapid scaling up of spending would imply larger fiscal deficits, higher debt accumulation, and some deterioration in debt burden indicators[6].** Although the indicators remain below their policy-dependent thresholds, the PV of debt to GDP ratio and the PV of debt to exports ratio come closer to the thresholds (Figure 2), despite higher assumed growth than in the baseline. This suggests that, in a scenario where the spending is scaled up quickly, but expected growth dividends do not materialize, Senegal could be at risk of losing its "low risk" rating. It also indicates a need for caution in the recourse to non-concessional borrowing.

7. **The probability of debt distress also appears to be low (Figure 3)**. Under the probability approach, which focuses on the evolution of the probability of debt distress over time based on a country's individual CPIA score and average GDP growth rate, all the indicators for Senegal remain below the thresholds in all scenarios, supporting the case for a low risk of debt distress.

[4] In line with the Staff Guidance Note on the Application of the Joint Bank-Fund Debt Sustainability Framework for Low-Income Countries, remittances must be presented as the base case in the DSA if they are both greater than 10 percent of GDP and greater than 20 percent of exports of goods and services.

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

[6] This scenario assumes that higher capital spending boosts the fiscal deficit by about 0.7 percentage point of GDP in 2015-19, growth is assumed to increase by 1 percentage point over the same period.

PUBLIC DSA

8. **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 gradually decrease over the projection period. The PV of public debt to GDP remains well below the benchmark level of 74 percent associated with public debt vulnerabilities for strong performers. Similar to the thresholds for PPG external debt, the benchmarks for total public debt vary depending on a country's CPIA score and designate levels above which the risk of public debt distress is heightened. The benchmarks are in PV terms. Benchmarks for total public debt differ from thresholds for PPG external debt in that they serve as reference points for triggering a deeper discussion of public domestic debt. Thresholds for PPG external play a fundamental role in the determination of the external risk rating. The public debt benchmark for Senegal is higher than in the previous DSA of June 2014, owing to Senegal's CPIA reclassification as a strong performer. 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.

9. **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 but does not breach the 74 percent benchmark level. The benchmark level is 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 growth.

CONCLUSION

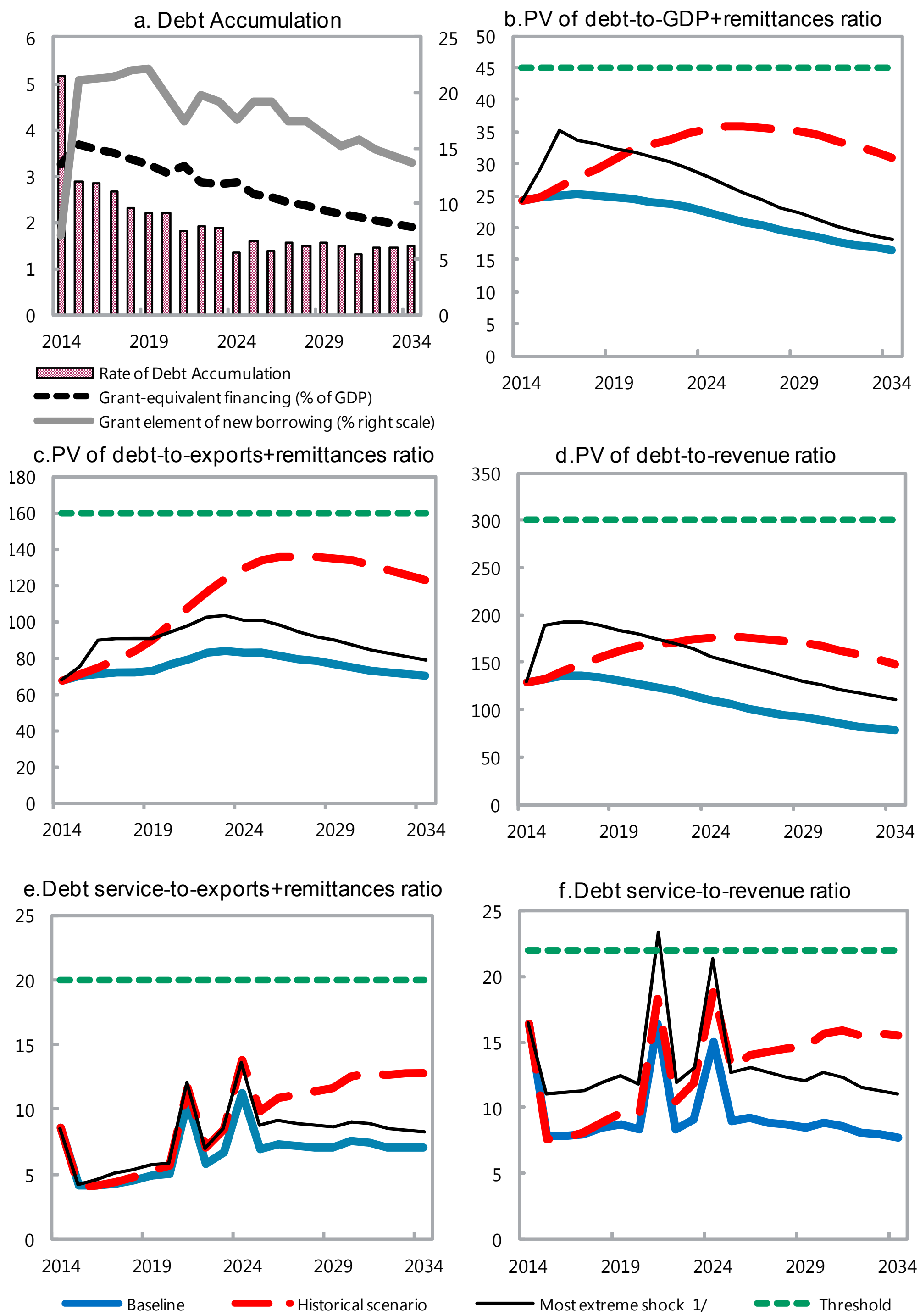
10. **In staff's view, Senegal continues to face a low risk of debt distress.** This assessment, however, hinges critically on a continued reduction of the fiscal deficit and prudence in the shift towards less concessional financing. Fiscal reforms should continue and additional fiscal space for PSE-related and social spending should be secured through efforts to increase revenue—particularly collecting tax arrears, freezing public consumption in real terms, and improving the composition of spending. The authorities also need to focus spending on productive areas, working closely with development partners to strengthen project design, preparation and execution while ensuring the overall quality and efficiency of public investment.

11. **A cautious approach to non-concessional borrowing will similarly be essential for safeguarding debt sustainability.** Preserving debt sustainability under the PSE as originally envisaged 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).

12. **The conclusion also hinges on achieving projected growth, although there are some downside risks.** The authorities are strongly committed to achieving **s**uccessful PSE reforms. These could lift growth to 7 percent in the medium term, driven by FDI generated exports. The PSE offers an achievable development strategy, including the right mix of private investment to be crowded in by public investment

in both human capital and infrastructure. However, unlocking private investment, including FDI, requires speeding up reforms to the business climate and improving public sector governance. Frontloading public investment without implementing the necessary structural reforms may jeopardize fiscal targets and debt sustainability while failing to raise growth from its sub-par trend. The main risks relate mainly to weak or slow implementation of the reforms, revenue shortfalls that would not allow sufficient mobilization of resources in support of the plan, failure to curb unproductive public consumption, and delays in raising expenditure efficiency, in particular of domestically financed capital expenditure.

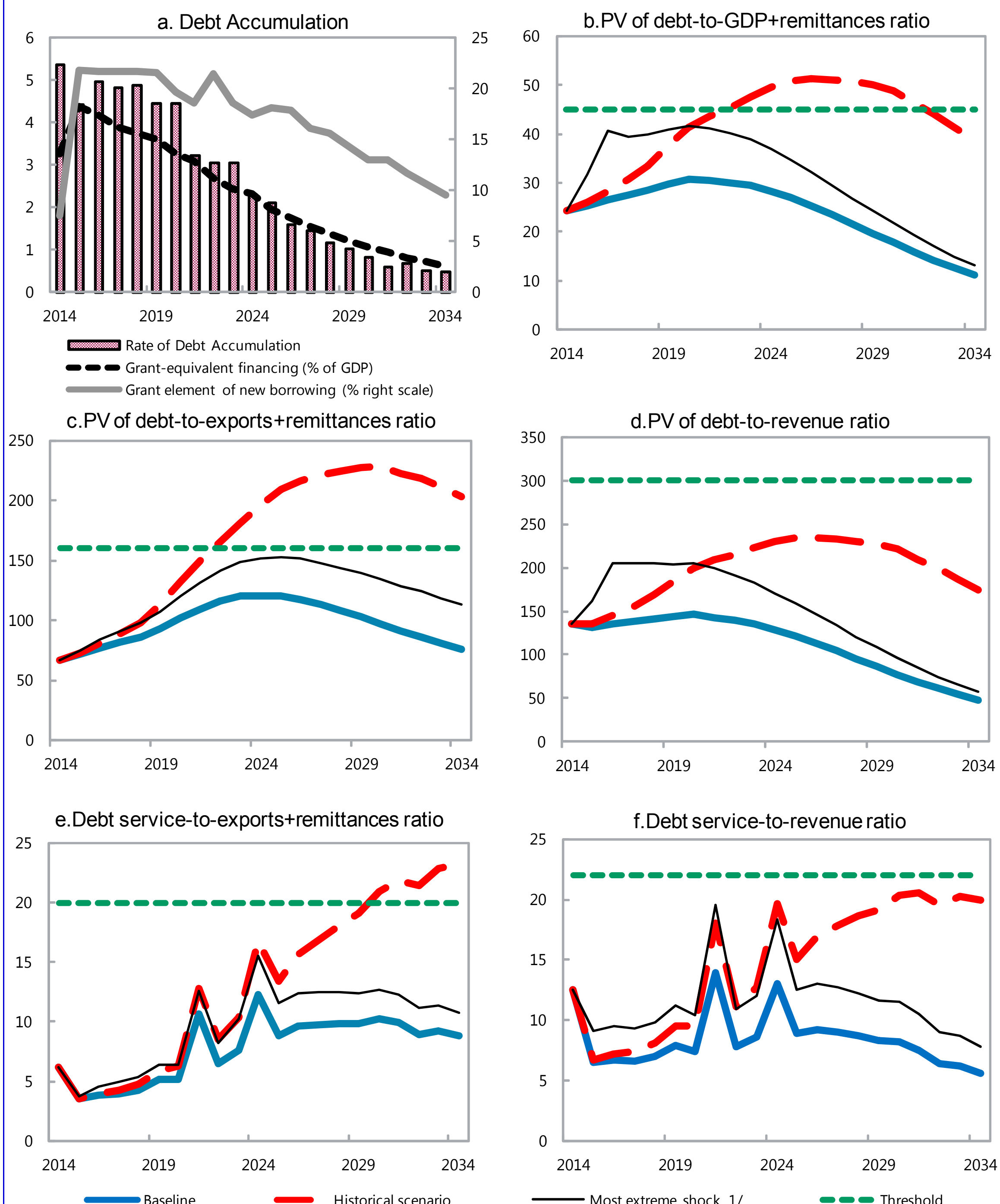
Figure 1. Senegal: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios 2014-2034 (Baseline with Remittances)



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 Exports shock; in d. to a One-time depreciation shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

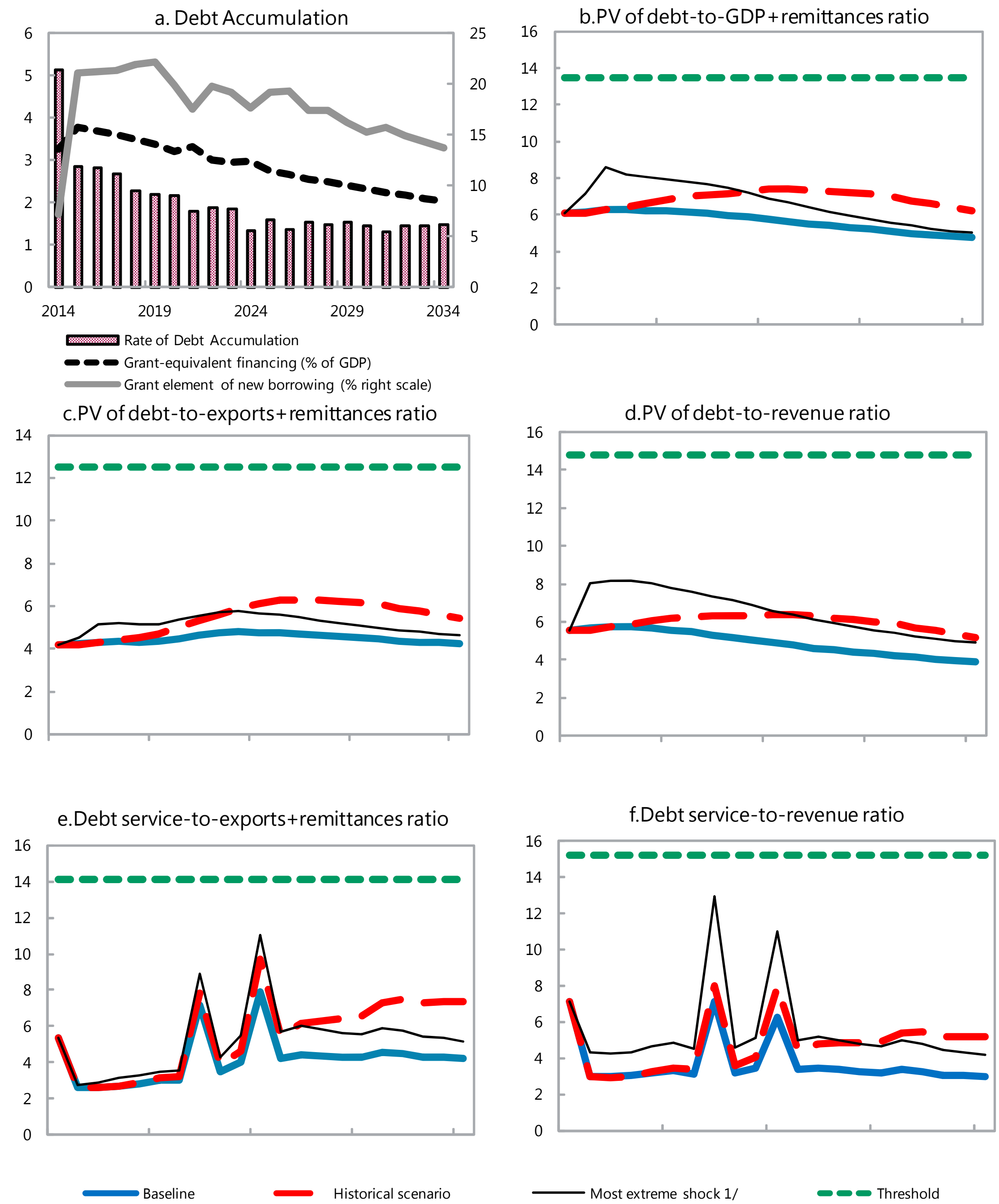
Figure 2. Senegal: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios (with higher capital spending), 2014-2034



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. In figure b. it corresponds to a Combination shock; in c. to a Terms 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: Probability of Debt Distress of Public and Publicly Guaranteed External 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. In figure b. it corresponds to a Combination shock; in c. to a Exports shock; in d. to a One-time depreciation shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

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

	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**	**70.1**			**73.1**	**76.7**	**77.9**	**78.2**	**76.7**	**75.4**		**65.1**	**60.8**	
of which: public and publicly guaranteed (PPG)	29.4	31.0	32.7			35.0	35.8	36.4	36.5	36.0	35.3		30.1	21.2	
Change in external debt	3.8	8.1	7.4			3.0	3.6	1.2	0.3	-1.4	-1.3		-3.0	-0.2	
Identified net debt-creating flows	0.8	10.1	5.9			5.4	3.6	2.5	1.9	1.0	0.3		0.4	0.9	
Non-interest current account deficit	**6.9**	**9.9**	**10.0**	**8.3**	**2.9**	**9.3**	**7.8**	**7.2**	**7.0**	**6.6**	**6.4**		**6.3**	**6.7**	6.7
Deficit in balance of goods and services	18.3	21.3	21.2			20.5	19.6	19.1	19.0	18.5	18.1		14.0	12.9	
Exports	26.4	28.3	27.9			27.1	26.5	26.6	26.2	26.0	25.5		20.6	18.5	
Imports	44.7	49.5	49.1			47.6	46.1	45.7	45.2	44.5	43.6		34.6	31.4	
Net current transfers (negative = inflow)	-12.3	-12.5	-12.4	-10.9	2.1	-12.3	-12.8	-12.9	-12.8	-12.7	-12.4		-8.3	-6.5	-7.9
of which: official	-0.9	-1.0	-0.6			-0.8	-0.9	-0.9	-1.0	-1.0	-1.0		-0.8	-0.7	
Other current account flows (negative = net inflow)	0.9	1.2	1.3			1.1	1.0	0.9	0.8	0.8	0.7		0.5	0.3	
Net FDI (negative = inflow)	**-2.0**	**-2.0**	**-1.8**	**-1.8**	**0.6**	**-1.9**	**-2.0**	**-2.1**	**-2.1**	**-2.2**	**-2.3**		**-2.3**	**-2.3**	-2.3
Endogenous debt dynamics 2/	**-4.1**	**2.2**	**-2.3**			**-2.0**	**-2.2**	**-2.6**	**-3.0**	**-3.4**	**-3.9**		**-3.6**	**-3.5**	
Contribution from nominal interest rate	1.0	0.9	0.9			1.0	1.0	1.0	1.0	1.0	1.0		0.8	0.7	
Contribution from real GDP growth	-0.8	-1.9	-2.1			-3.0	-3.2	-3.6	-4.0	-4.4	-4.9		-4.5	-4.2	
Contribution from price and exchange rate changes	-4.3	3.2	-1.1			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**3.0**	**-2.0**	**1.5**			**-2.4**	**0.1**	**-1.3**	**-1.6**	**-2.4**	**-1.6**		**-3.4**	**-1.1**	
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/	...	...	60.5			65.5	69.0	70.1	70.4	69.1	68.1		59.2	57.2	
In percent of exports	...	...	216.5			241.5	260.1	263.9	269.1	266.2	267.3		287.8	308.9	
PV of PPG external debt	**...**	**...**	**23.1**			**27.4**	**28.1**	**28.6**	**28.7**	**28.4**	**28.0**		**24.3**	**17.6**	
In percent of exports	**...**	**...**	**82.8**			**101.0**	**105.9**	**107.6**	**109.8**	**109.3**	**110.0**		**117.8**	**95.2**	
In percent of government revenues	**...**	**...**	**114.8**			**129.7**	**132.2**	**135.5**	**135.5**	**133.2**	**129.9**		**110.2**	**77.6**	
Debt service-to-exports ratio (in percent)	**17.8**	**9.7**	**10.3**			**18.4**	**7.9**	**8.2**	**8.0**	**8.6**	**8.1**		**16.3**	**8.2**	
PPG debt service-to-exports ratio (in percent)	**13.2**	**7.0**	**6.6**			**12.8**	**6.3**	**6.2**	**6.4**	**6.9**	**7.4**		**16.1**	**9.6**	
PPG debt service-to-revenue ratio (in percent)	**17.2**	**9.6**	**9.2**			**16.4**	**7.8**	**7.8**	**8.0**	**8.4**	**8.8**		**15.0**	**7.8**	
Total gross financing need (Billions of U.S. dollars)	1.4	1.5	1.6			2.0	1.3	1.3	1.4	1.4	1.5		2.8	6.2	
Non-interest current account deficit that stabilizes debt ratio	3.1	1.8	2.6			6.3	4.2	6.0	6.7	8.0	7.8		9.3	6.9	
Key macroeconomic assumptions															
Real GDP growth (in percent)	1.7	3.4	3.5	3.8	1.4	4.5	4.6	5.1	5.6	6.2	7.0	5.5	7.2	7.6	7.3
GDP deflator in US dollar terms (change in percent)	9.3	-5.5	1.8	4.3	8.0	2.7	1.4	2.8	3.1	3.0	2.3	2.6	2.7	3.1	2.8
Effective interest rate (percent) 5/	2.2	1.6	1.5	1.8	0.4	1.5	1.5	1.4	1.4	1.4	1.4	1.4	1.4	1.3	1.3
Growth of exports of G&S (US dollar terms, in percent)	17.7	4.7	4.1	9.0	10.6	4.2	3.8	8.2	7.2	8.4	7.5	6.6	9.1	9.9	8.1
Growth of imports of G&S (US dollar terms, in percent)	23.2	8.2	4.4	11.9	17.2	4.1	2.8	7.1	7.6	7.5	7.3	6.1	6.5	9.9	8.0
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	7.1	21.1	21.2	21.4	22.0	22.1	19.2	17.6	13.6	17.1
Government revenues (excluding grants, in percent of GDP)	20.3	20.4	20.1			21.1	21.2	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			0.5	0.5	0.6	0.6	0.6	0.7		0.9	1.9	
of which: Grants	0.3	0.4	0.4			0.5	0.5	0.5	0.5	0.6	0.6		0.8	1.6	
of which: Concessional loans	0.4	0.6	0.4			0.0	0.1	0.1	0.1	0.1	0.1		0.1	0.3	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			3.2	3.7	3.6	3.5	3.4	3.3		2.9	1.9	2.5
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			38.2	52.7	53.4	53.8	55.6	56.0		45.9	45.2	49.7
Memorandum items:															
Nominal GDP (Billions of US dollars)	14.4	14.0	14.8			15.9	16.9	18.2	19.8	21.7	23.7		38.0	103.9	
Nominal dollar GDP growth	11.1	-2.3	5.4			7.3	6.1	8.0	8.9	9.3	9.5	8.2	10.1	11.0	10.3
PV of PPG external debt (in Billions of US dollars)			3.5			4.3	4.7	5.2	5.7	6.2	6.6		9.2	18.3	
(PVt-PVt-1)/GDPt-1 (in percent)						5.1	2.9	2.8	2.7	2.3	2.2	3.0	1.3	1.5	1.6
Gross workers' remittances (Billions of US dollars)	1.9	1.9	2.0			2.1	2.3	2.5	2.7	2.9	3.1		3.3	7.0	
PV of PPG external debt (in percent of GDP + remittances)	...	...	20.3			24.1	24.7	25.1	25.3	25.0	24.7		22.3	16.5	
PV of PPG external debt (in percent of exports + remittances)	...	...	55.5			67.6	69.7	70.8	72.1	71.9	72.4		83.0	69.9	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	4.4			8.6	4.1	4.1	4.2	4.5	4.9		11.3	7.0	

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: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt 2014-2034

	Projections							
	2014	2015	2016	2017	2018	2019	**2024**	2034
PV of debt-to GDP ratio								
Baseline	27	28	29	29	28	28	**24**	18
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	27	28	30	32	33	35	**39**	34
A2. New public sector loans on less favorable terms in 2014-2034 2	27	29	30	31	31	31	**30**	26
Authorities' PSE framework	26	31	33	36	38	41	**33**	22
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	27	29	30	30	30	29	**25**	18
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	27	29	33	33	32	32	**27**	18
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	27	30	32	32	32	31	**27**	20
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	27	32	37	37	36	35	**29**	18
B5. Combination of B1-B4 using one-half standard deviation shocks	27	32	39	39	38	37	**31**	19
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	27	40	41	41	40	40	**34**	25
PV of debt-to-exports ratio								
Baseline	101	106	108	110	109	110	**118**	95
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	101	106	112	121	127	137	**188**	182
A2. New public sector loans on less favorable terms in 2014-2034 2	101	109	114	118	120	123	**145**	138
Authorities' PSE framework	95	115	124	135	143	151	**137**	82
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	101	106	108	110	110	110	**118**	95
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	101	117	144	146	144	144	**150**	112
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	101	106	108	110	110	110	**118**	95
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	101	121	139	140	138	138	**140**	98
B5. Combination of B1-B4 using one-half standard deviation shocks	101	118	143	145	143	143	**145**	102
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	101	106	108	110	110	110	**118**	95
PV of debt-to-revenue ratio								
Baseline	130	132	135	136	133	130	**110**	78
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	130	133	141	149	155	161	**176**	149
A2. New public sector loans on less favorable terms in 2014-2034 2	130	136	143	146	146	145	**136**	113
Authorities' PSE framework	134	156	166	177	189	203	**164**	107
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	130	135	143	143	140	136	**116**	81
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	130	138	156	155	152	147	**121**	79
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	130	139	153	153	150	146	**124**	87
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	130	152	174	173	169	163	**131**	80
B5. Combination of B1-B4 using one-half standard deviation shocks	130	151	185	183	179	173	**139**	86
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	130	188	193	193	190	184	**157**	110

Table 2. Senegal: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt 2014-2034 (concluded)

Debt service-to-exports ratio

Baseline	13	6	6	6	7	7	**16**	10
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	13	6	6	7	7	8	**20**	19
A2. New public sector loans on less favorable terms in 2014-2034 2/	13	6	6	6	6	7	**11**	12
Authorities' PSE framework	9	7	8	8	9	9	**10**	11
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	13	6	6	6	7	7	**16**	10
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	13	7	7	8	9	9	**20**	12
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	13	6	6	6	7	7	**16**	10
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	13	6	7	8	8	8	**19**	10
B5. Combination of B1-B4 using one-half standard deviation shocks	13	6	7	8	8	9	**20**	11
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	13	6	6	6	7	7	**16**	10

Debt service-to-revenue ratio

Baseline	16	8	8	8	8	9	**15**	8
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	16	8	8	8	9	10	**19**	16
A2. New public sector loans on less favorable terms in 2014-2034 2/	16	8	7	7	8	8	**10**	10
Authorities' PSE framework	12	9	11	11	11	12	**13**	14
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	16	8	8	8	9	9	**16**	8
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	16	8	8	9	9	9	**16**	8
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	16	8	9	9	9	10	**17**	9
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	16	8	9	9	10	10	**18**	8
B5. Combination of B1-B4 using one-half standard deviation shocks	16	8	9	10	10	11	**19**	9
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	16	11	11	11	12	12	**21**	11
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 assumingan 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 3. Senegal: Public Sector Debt Sustainability Framework, Baseline Scenario, 2011-2034

	Actual					Estimate	Projections								
	2011	2012	2013	Average 5/	Standard Deviation 5/	2014	2015	2016	2017	2018	2019	2014-19 Average	2024	2034	2020-34 Average
Public sector debt 1/	40.7	43.4	47.1			49.7	51.0	51.7	52.0	51.8	50.8		41.9	24.9	
of which: foreign-currency denominated	29.4	31.0	32.7			35.0	35.8	36.4	36.5	36.0	35.3		30.1	21.2	
Change in public sector debt	5.2	2.7	3.7			2.6	1.3	0.7	0.3	-0.2	-1.0		-2.0	-1.3	
Identified debt-creating flows	4.9	3.2	3.3			3.6	1.2	0.5	-0.1	-0.6	-1.4		-2.1	-1.3	
Primary deficit	5.2	4.4	3.9	3.9	1.1	3.5	2.9	2.5	2.2	2.0	1.2	2.4	0.5	0.3	0.5
Revenue and grants	22.5	23.3	22.7			24.0	24.0	23.8	23.9	23.9	24.1		24.2	24.2	
of which: grants	2.2	2.9	2.6			2.8	2.8	2.7	2.7	2.6	2.5		2.1	1.5	
Primary (noninterest) expenditure	27.7	27.7	26.6			27.5	26.9	26.3	26.1	25.9	25.3		24.6	24.6	
Automatic debt dynamics	-0.3	-0.6	-0.6			0.1	-1.7	-2.0	-2.3	-2.6	-2.6		-2.6	-1.7	
Contribution from interest rate/growth differential	-0.4	-0.7	0.7			-0.7	-1.4	-1.8	-2.0	-2.4	-2.7		-2.6	-1.7	
of which: contribution from average real interest rate	0.2	0.6	2.2			1.3	0.8	0.7	0.7	0.7	0.7		0.4	0.2	
of which: contribution from real GDP growth	-0.6	-1.3	-1.5			-2.0	-2.2	-2.5	-2.7	-3.0	-3.4		-3.0	-1.9	
Contribution from real exchange rate depreciation	0.1	0.1	-1.3			0.8	-0.2	-0.2	-0.3	-0.2	0.1		...	...	
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	0.4			-1.0	0.1	0.3	0.4	0.4	0.4		0.1	0.1	
Other Sustainability Indicators															
PV of public sector debt	...	...	37.5			42.1	43.3	44.0	44.3	44.2	43.5		36.1	21.3	
of which: foreign-currency denominated	...	...	23.1			27.4	28.1	28.6	28.7	28.4	28.0		24.3	17.6	
of which: external	...	...	23.1			27.4	28.1	28.6	28.7	28.4	28.0		24.3	17.6	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	12.3	12.2	12.2			15.7	13.4	13.1	12.3	12.6	10.2		9.0	4.1	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	165.3			175.9	180.1	184.5	185.4	184.9	180.5		149.6	88.0	
PV of public sector debt-to-revenue ratio (in percent)	...	...	186.4			199.6	203.7	208.3	208.8	207.5	201.6		164.1	93.9	
of which: external 3/	...	...	114.8			129.7	132.2	135.5	135.5	133.2	129.9		110.2	77.6	
Debt service-to-revenue and grants ratio (in percent) 4/	19.9	16.4	17.0			24.2	28.1	33.2	31.3	34.6	28.2		29.7	13.4	
Debt service-to-revenue ratio (in percent) 4/	22.1	18.7	19.2			27.5	31.7	37.5	35.3	38.9	31.6		32.6	14.3	
Primary deficit that stabilizes the debt-to-GDP ratio	0.0	1.7	0.2			0.9	1.5	1.8	2.0	2.2	2.3		2.5	1.6	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	1.7	3.4	3.5	3.8	1.4	4.5	4.6	5.1	5.6	6.2	7.0	5.5	7.2	7.6	7.3
Average nominal interest rate on forex debt (in percent)	3.7	2.5	2.5	2.4	0.6	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	3.5	3.0
Average real interest rate on domestic debt (in percent)	3.7	4.8	8.1	3.2	3.7	4.8	4.2	3.3	3.4	3.2	3.3	3.7	2.9	2.6	2.7
Real exchange rate depreciation (in percent, + indicates depreciatior	0.3	0.5	-4.3	-0.8	8.5	2.5	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	4.2	2.3	-1.4	2.4	2.8	0.7	2.3	2.3	2.3	2.3	2.3	2.0	2.7	3.1	2.8
Growth of real primary spending (deflated by GDP deflator, in percer	7.9	3.2	-0.4	1.1	2.6	7.9	2.4	2.8	4.8	5.1	4.8	4.6	6.6	7.6	7.1
Grant element of new external borrowing (in percent)	...	...	...	...	...	7.1	21.1	21.2	21.4	22.0	22.1	19.2	17.6	13.6	...

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

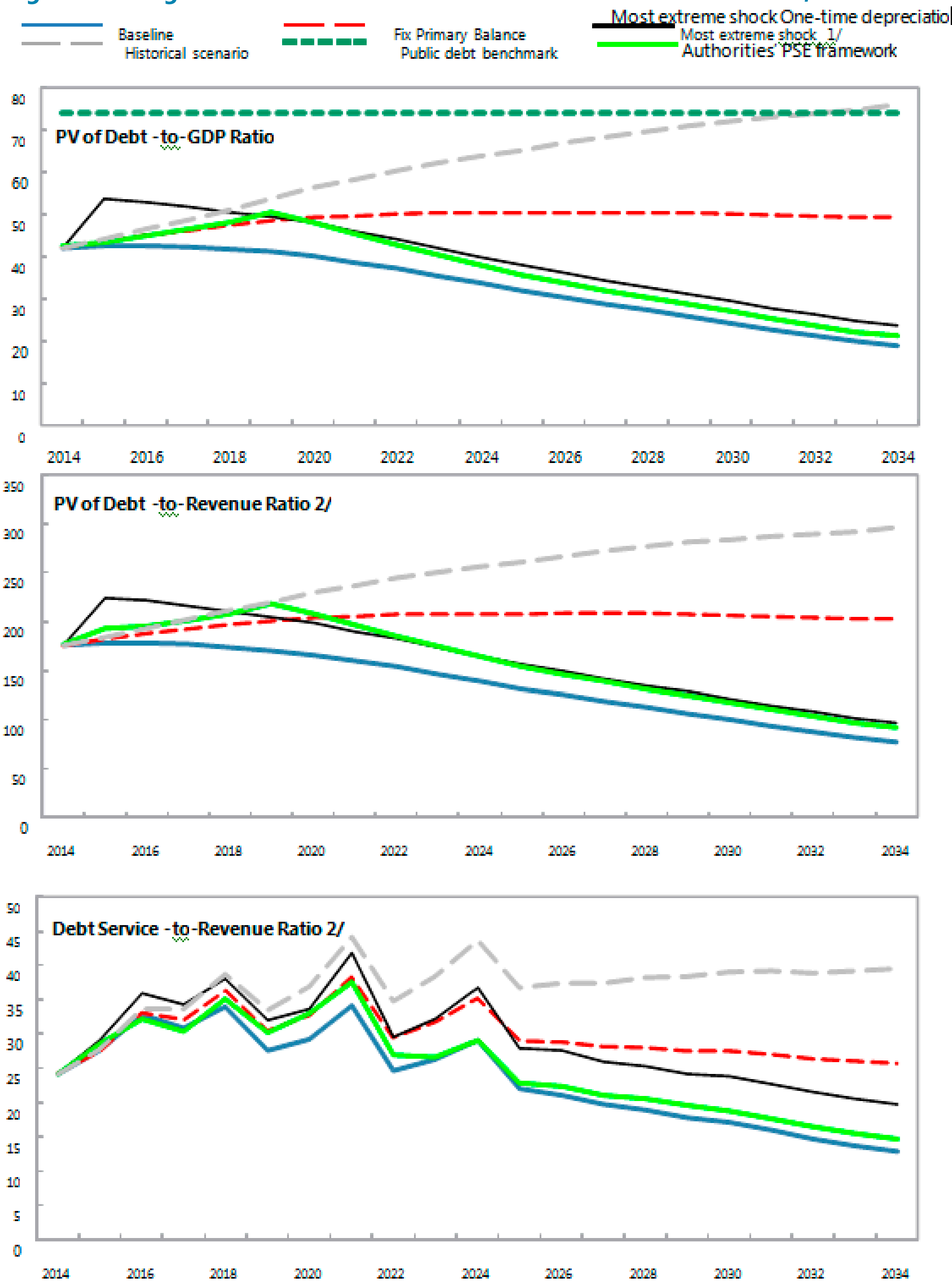
	Projections							
	2014	2015	2016	2017	2018	2019	2024	2034
PV of Debt-to-GDP Ratio								
Baseline	42	43	44	44	44	43	36	21
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	42	45	47	49	52	55	65	77
A2. Primary balance is unchanged from 2014	42	44	45	47	48	49	51	50
A3. Permanently lower GDP growth 1/	42	43	44	45	45	45	40	31
Authorities' PSE framework	43	44	45	47	48	51	38	21
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2015-20	42	45	47	49	49	49	45	33
B2. Primary balance is at historical average minus one standard deviations in 2015-201	42	45	48	48	48	47	39	23
B3. Combination of B1-B2 using one half standard deviation shocks	42	45	48	49	50	49	44	31
B4. One-time 30 percent real depreciation in 2015	42	54	54	54	53	52	42	26
B5. 10 percent of GDP increase in other debt-creating flows in 2015	42	52	52	52	52	51	42	24
PV of Debt-to-Revenue Ratio 2/								
Baseline	176	180	184	185	185	180	150	88
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	176	185	196	206	215	224	261	304
A2. Primary balance is unchanged from 2014	176	183	191	196	201	204	212	207
A3. Permanently lower GDP growth 1/	176	181	186	188	189	186	164	128
Authorities' PSE framework	178	193	196	201	208	218	163	89
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2015-20	176	185	198	203	205	204	185	138
B2. Primary balance is at historical average minus one standard deviations in 2015-201	176	188	201	201	200	195	160	93
B3. Combination of B1-B2 using one half standard deviation shocks	176	188	203	206	207	204	180	126
B4. One-time 30 percent real depreciation in 2015	176	226	228	225	222	215	175	108
B5. 10 percent of GDP increase in other debt-creating flows in 2015	176	217	220	219	217	210	172	100
Debt Service-to-Revenue Ratio 2/								
Baseline	24	28	33	31	35	28	30	13
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	24	28	34	34	38	33	44	39
A2. Primary balance is unchanged from 2014	24	28	33	32	36	30	35	26
A3. Permanently lower GDP growth 1/	24	28	33	32	35	29	31	18
Authorities' PSE framework	24	29	32	30	35	30	29	14
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2015-20	24	29	35	33	37	31	34	19
B2. Primary balance is at historical average minus one standard deviations in 2015-201	24	28	34	34	38	29	31	14
B3. Combination of B1-B2 using one half standard deviation shocks	24	28	34	34	38	31	33	18
B4. One-time 30 percent real depreciation in 2015	24	30	36	35	39	33	38	20
B5. 10 percent of GDP increase in other debt-creating flows in 2015	24	28	35	42	37	32	32	15

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.

Figure 4. 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/ Revenues are defined inclusive of grants.

INTERNATIONAL MONETARY FUND

SENEGAL

STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION AND EIGHTH REVIEW UNDER THE POLICY SUPPORT INSTRUMENT—INFORMATIONAL ANNEX

December 2, 2014

Prepared By

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

CONTENTS

RELATIONS WITH THE FUND

(As of November 1, 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	130.14	84.07

Outstanding Purchases and Loans:	**SDR Million**	**%Quota**
ESF Arrangements	118.92	73.50
ECF Arrangements	4.51	2.78

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	5.66	24.15	25.66	24.27	24.27
Charges/Interest	0.00	0.29	0.22	0.16	0.10
Total	5.67	24.44	25.88	24.43	24.37

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 (WAEMU). 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 WAEMU, 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, a member of the West African Economic and Monetary Union (WAEMU), accepted the obligations under Article VIII, Sections 2(a), 3 and 4 of the Fund's Articles of Agreement, and maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions. The WAEMU's exchange regime is a conventional peg to the euro.

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 IMF 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	DSA workshop
	National accounts	Institutional sector and quarterly national accounts
	Microfinance	Supervision and organization
2009	National accounts	Quarterly national accounts (QNA)
	Tax administration	Status of the reform and scope for further TA
	Debt management	Strengthening public debt management
	Microfinance	Strengthening microfinance supervision
	Macroeconomic and financial statistics	Enhancing production and dissemination of public finances statistics
2010	Debt management	Strengthening public debt management
	National accounts	Quarterly national accounts (QNA)
	Customs administration	Risk analysis and audit
	Tax administration	Tax administration modernization
	Customs administration	Follow-up mission
2011	National accounts	Quarterly national accounts (QNA)
	Customs administration	Risk analysis and audit
	Public expenditure management	Strengthening of PFM information systems
	Debt management	Strengthening public debt management
	Tax administration	Establishment of medium-sized enterprise tax center
2012	Tax administration	Identification and registration of tax payers
	National accounts	Quarterly national accounts (QNA)
	Customs administration	Risk analysis and audit
	Public expenditure management	Public accounting system
2013	Public expenditure management	Central government accounting
	Public debt analysis	Financial regime of autonomous agencies DSA workshop
	Public debt management	Help the authorities produce a national borrowing policy document.
2014	Tax administration Public financial management	Identification and registration of tax payers
	Customs administration	Risk analysis and audit
	Bank Supervision and Regulations	BCEAO mission on Basel II & III Implementation
	Public Debt	Public Debt Management, Government securities policy issuance

B. Headquarters

Department	Date	Form	Purpose
Fiscal Affairs	Jan. 2010	FAD Expert	Review of the expenditure chain
	Feb. 2010	Staff/AFRITAC	Public financial management
	Jul-10	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-11	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
	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 system to improve tax administration
	Apr. 2014	FAD experts	Tax administration, tax arrears management
	Apr. 2014	FAD experts	Module 1 Regional Workshop (WAEMU Regional Workshop)
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-12	LEG Staff/Expert	Tax law (general, tax procedures)
	Jun-12	LEG Expert	Tax procedures
	Sept. 2013	LEG Expert	Tax policy administration

C. Resident Representative

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

D. 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 would 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 approved in July 2014
	Development policy operation	Reforms in governance, education, health, agriculture subsidies, energy, and investment climate	December 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	Approved, April 2014
	Health project	Support to universal health coverage	Signed, April 2014
	Poverty and gender policy notes	Trends, profile, gender, regional, employment, social sectors	On-going
	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="6">IMF</td><td colspan="2">IMF-supported program</td></tr>
<tr><td>Eighth PSI Review and Article IV Consultations</td><td>December 15, 2014 (Board)</td></tr>
<tr><td>Brainstorming session on possible Fund support for the PSE</td><td>December 4.5, 2014
Washington</td></tr>
<tr><td colspan="2">Technical assistance</td></tr>
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<tr><td>AFR</td><td>AFW : Regional workshop in SEN on NA</td><td>8/31/2014</td><td>9/3/2014</td></tr>
<tr><td>FAD</td><td>Program budgeting - subject to approval</td><td>9/1/2014</td><td>9/14/2014</td></tr>
<tr><td>STA</td><td>AFW: Government Finance Statistics</td><td>9/1/2014</td><td>9/5/2014</td></tr>
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<tr><td>FAD</td><td>Fiscal reporting and budget execution</td><td>10/20/2014</td><td>11/4/2014</td></tr>
<tr><td>FAD</td><td>AFW: Customs Administration</td><td>10/27/2014</td><td>11/7/2014</td></tr>
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<tr><td>FAD</td><td>AFW: Public Financial Management</td><td>11/10/2014</td><td>11/21/2014</td></tr>
<tr><td>FAD</td><td>AFW : Tax Administration</td><td>11/17/2014</td><td>11/28/2014</td></tr>
<tr><td>FAD</td><td>PFM Advisor (pending approval from EC)</td><td>12/1/2014</td><td>11/30/2015</td></tr>
<tr><td>FAD</td><td>AFW: Customs administration</td><td>12/1/2014</td><td>12/12/2014</td></tr>
<tr><td>STA</td><td>AFW: Government Finance Statistics</td><td>12/1/2014</td><td>12/11/2014</td></tr>
<tr><td>FAD</td><td>Budget process</td><td>12/1/2014</td><td>12/14/2014</td></tr>
<tr><td>FAD</td><td>AFW: Public Financial Mgt TA mission to Senegal</td><td>12/8/2014</td><td>12/19/2014</td></tr>
<tr><td>FAD</td><td>Installation of LTX (pending approval of EC)</td><td>12/12/2014</td><td>12/14/2014</td></tr>
<tr><td>FAD</td><td>AFW: PFM TA</td><td>1/12/2015</td><td>1/23/2015</td></tr>
<tr><td>FAD</td><td>Fiscal reporting (pending approval of EC project)</td><td>1/12/2015</td><td>1/25/2015</td></tr>
<tr><td>FAD</td><td>Cash management</td><td>2/1/2015</td><td>2/14/2015</td></tr>
<tr><td>FAD</td><td>Budget process (pending approval of EC project)</td><td>3/2/2015</td><td>3/15/2015</td></tr>
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<tr><td colspan="4">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</td><td>Continuous</td></tr>
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		the tariff gap, expertise of the investment plan	
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

STATISTICAL ISSUES

Senegal – Statistical Issues Appendix As of October 2014
I. Assessment of Data Adequacy for Surveillance
General: Data provision has some shortcomings, but is broadly adequate for surveillance and program monitoring. There are weaknesses in data on national accounts, production, and social indicators. The authorities are committed to improving the quality and availability of economic, financial, and social indicators, partially relying on technical assistance from the Fund and other international organizations and donors.
National accounts: The compilation of the national accounts generally follows the *System of National Accounts, 1993*. Despite staff's professionalism, the lack of adequate financial resources has constrained efforts to collect and process data. Data sources are deficient in some areas, particularly the informal sector. Because of financial constraints, surveys of business and households are not conducted regularly. However, efforts continue to be made to improve data collection procedures, strengthen the coordination among statistical agencies, and reduce delays in data dissemination. The Regional Technical Assistance Center for West Africa (West AFRITAC) has been assisting Senegal with the improvement of their real sector statistics, in particular annual and quarterly national accounts (QNA). Senegal started releasing the QNA in 2012 and integrated economic accounts (IEA) in 2014.
Government finance statistics (GFS): GFS are compiled by the Ministry of Economy and Finance from customs, tax, and treasury directorate sources, and quarterly disseminated as government financial operations tables (TOFE) in the ministry's publications. Following Fund's TA, TOFE presentations were improved and aligned with the extended WAEMU TOFE. Remaining step is to implement the recent WAEMU fiscal directives. A regional advisor in GFS has been conducting technical assistance missions aimed at improving the consistency of fiscal reporting and migrating to the methodologies of the *Government Finance Statistics Manual 2001*. The regional advisor also supported efforts to resume reporting of annual and higher frequency data for publication in *International Financial Statistics (IFS)* and electronic dissemination of the *GFS Yearbook*.
Monetary and financial statistics: Preliminary monetary data are compiled by the national agency of the Central Bank of West African States (BCEAO) and officially released (including to the IMF) by BCEAO headquarters. The authorities report monetary data to STA on a regular basis, with a lag of about three months. There has been an improvement in the timeliness of reporting interest rate and main depository corporation data (central bank and commercial). An area-wide page for the WAEMU zone was introduced in the January 2003 issue of *IFS*. As part of the continuing efforts to help the authorities implement the statistical methodology recommended in the *Monetary and Financial Statistics Manual*, a STA TA mission visited Dakar in 2011 to assist the BCEAO National agency in the migration of MFS to the standardized report form (SRF) framework. The mission was undertaken as a

pilot within the context of a multi-annual project for improving the relevance and timeliness of MFS compiled by the BCEAO.
External sector statistics: Balance of payments statistics are compiled by the Senegalese national agency of the BCEAO. With STA support, several steps have been taken to address certain shortcomings, including: (i) implementation of the *Balance of Payments Manual, fifth edition*; (ii) modification and simplification of related surveys for companies and banks; (iii) improvement in the computerization of procedures; and (iv) significant strengthening of training. Nevertheless, further steps could be taken to enhance the quality and coverage of the balance of payments statistics. Although definitive balance of payments statistics can now be provided with a delay of less than one year, there are significant delays in reporting the data to STA.
II. Data Standards and Quality
The country has begun the process of regional harmonization of statistical methodologies within the framework of the WAEMU. It participates in the General Data Dissemination System (GDDS), and its metadata were posted on the Fund's Dissemination Standards Bulletin Board in 2001. In 2006, the authorities expressed their commitment to work toward subscription to the Special Data Dissemination Standard (SDDS) and appointed a national SDDS coordinator. The 2008 SDDS assessment mission evaluated dissemination practices against SDDS requirements for coverage, periodicity and timeliness and, in cooperation with the authorities, developed an action plan to address identified gaps. A Data ROSC was published on the IMF website in 2002.

Senegal: Table of Common Indicators Required for Surveillance
(As of November 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]	07/2014	08/2014	M	M	M		
Reserve/Base Money	07/2014	08/2014	M	M	M		
Broad Money	07/2014	08/2014	M	M	M	LO, LO, O, O	LO, O, O, LO
Central Bank Balance Sheet	07/2014	08/2014	M	M	M		
Consolidated Balance Sheet of the Banking System	07/2014	08/2014	M	M	M		
Interest Rates[2]	07/2014	08/2014	M	M	M		
Consumer Price Index	08/2014	09/2014	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	06/2014	09/2014	Q	Q	Q	O, LNO, LO, O	LO, LO, O, LO
Stocks of Central Government and Central Government-Guaranteed Debt[5/11]	2013	10/2014					
External Current Account Balance [10/11]	06/2014	09/2014	A	A	A		
Exports and Imports of Goods and Services [10/11]	06/2014	09/2014	A	A	A	O, O, O, O	O, O, O, O
GDP/GNP [10/11]	2013	09/2014	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.14/578
FOR IMMEDIATE RELEASE
December 15, 2014

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Eight PSI Review for Senegal and Concludes 2014 Article IV Consultation

The Executive Board of the International Monetary Fund (IMF) today completed the eighth review of Senegal's economic performance under the program supported by the Policy Support Instrument (PSI) and also concluded the 2014 Article IV consultation[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). In completing the review, the Board approved a waiver for nonobservance of the assessment criterion on non-concessional borrowing.

Following the Board discussion, Mr. Min Zhu, Deputy Managing Director and Acting Chair, made the following statement:

"The authorities should be commended for successfully maintaining macroeconomic stability, advancing with fiscal consolidation and completing the PSI. However, slow implementation of structural reforms has resulted in below par and sluggish growth. This has hampered poverty reduction. In 2014, exogenous shocks, including the spillovers from the Ebola epidemic, have also weighed down growth.

"To exit the trap of low growth and high poverty, the government has developed an ambitious program "Plan Sénégal Emergent" (PSE). The PSE presents a unique opportunity to unlock a broad-based and inclusive growth that will make Senegal an emerging economy. The goal of a 7 to 8 percent annual growth is feasible in the medium term but would require a

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

broadening, deepening and acceleration of structural reforms. Public consumption should be constrained to create fiscal space for implementation of PSE-related social spending and projects. Substantial improvements are required in the regulatory framework and governance, as well as in the quality and efficiency of public investment.

"The 2015 budget targets a further reduction in the deficit to 4.7 percent of GDP, less ambitious than the 4.0 percent of GDP projected earlier. However, the authorities are taking action to improve the quality of public spending by holding back appropriations for new public investment projects until feasibility studies are ready. This may mean that in practice the deficit is closer to the initial projections. Ebola-related shocks could add 0.3 percent of GDP to the deficit in 2015. The authorities remain committed to bringing the fiscal deficit in line with the WAEMU target of 3 percent of GDP in the medium term."

The Executive Board also completed the 2014 Article IV Consultation with Senegal.

Senegal's macroeconomic situation is stable. Inflation remains low. The fiscal outlook has improved owing to stronger revenue performance and expenditure control measures and overall deficit is expected to fall to 5.2 percent of GDP in 2014 from 5.5 percent of GDP in 2013. The current account deficit is expected to decline but would stay at about 10 percent of GDP because of depressed exports.

Slow implementation of structural reforms and exogenous shocks continued to weigh down growth. While progress has been made, particularly in the area of governance and business climate, some delays have accrued in the introduction of the single treasury account, expenditure rationalization, investment expenditure execution, and energy sector reforms, with distortive energy subsidies weighing heavily on the budget. For 2014, growth is expected to reach 4.5 percent (from 3.5 percent in 2013), 0.4 percentage points below earlier estimates, reflecting an expected softening in the tourism sector because of the Ebola epidemic compounded by the late start of the rainy season.

The outlook for the Senegalese economy is positive. The authorities' new development strategy, Plan Sénégal Emergent (PSE), presents a unique opportunity to unlock a broad-based and inclusive growth that will make Senegal an emerging economy. Risks are mainly domestic and regional, and relate to continued slow implementation of structural reforms, including in the energy sector, and the impact of the regional Ebola epidemic. External risks include possible increases in the cost of public borrowing, global effects of the unwinding of unconventional monetary policies, and potential spillovers from a protracted period of slower growth in partner countries and falling oil prices, which may affect fiscal revenue.

Executive Board Assessment[2]

Executive Directors agreed with the thrust of the staff appraisal. They noted that satisfactory program implementation has helped Senegal preserve macroeconomic stability. However, due to internal and external factors, the economy has continued to underperform and unemployment and poverty remain high. The large current account deficit and increasing exposure of the external position to shifting market sentiment pose additional risks to the outlook. Directors stressed that prudent policies and ambitious structural reforms are critical to boosting growth and reducing poverty. In this regard, they welcomed the authorities' new development strategy as outlined in "Plan Sénégal Emergent" (PSE) and looked forward to its steadfast and timely implementation.

Directors emphasized that accelerating the pace of structural reforms will be key to achieving the PSE objectives. They agreed that reform efforts should be aimed at improving governance and the business climate in order to promote private sector development and to attract foreign direct investment. Priority should also be given to making delivery of public services more efficient, improving the impact of public spending through PFM reforms, containing public consumption to generate the fiscal space for investment in human capital and public infrastructure, and strengthening social safety nets. A comprehensive restructuring of the energy sector and increasing export competitiveness will also be important. Directors welcomed the authorities' plans to engage with a few comparator countries to develop an active peer learning effort to roll out the required reforms.

Directors encouraged the authorities to anchor fiscal policy on long-term debt sustainability within a medium-term budget framework and reach the WAEMU convergence criteria on the fiscal deficit of 3 percent of GDP by 2019. They noted that attaining this goal will require further strengthening of tax and expenditure policy measures. While supporting the PSE priorities, Directors emphasized that all related investment should be consistent with the authorities' earlier fiscal consolidation plans and Senegal's absorptive capacity. In addition, decisions to contract nonconcessional financing should be carefully weighed.

Directors welcomed the initiative to improve the quality of public investment by establishing a precautionary reserve envelope from which funding would only be released for projects with proper feasibility studies. Directors encouraged the authorities to extend this in the 2016 budget.

Directors stressed that continued efforts will be needed to improve public financial management, budget institutions, and economic governance. They underscored that reforms

[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

should focus on key areas such as macro-fiscal policy design, development of a medium-term expenditure framework and improved fiscal discipline in budget execution.

Directors highlighted the importance of addressing financial sector vulnerabilities, especially the quality of bank assets. They encouraged continued vigilance of the high level of non-performing loans in close cooperation with the BCEAO and WAEMU Banking Commission. Directors supported the strategy to improve access to financial services.

Statement by Ngueto Tiraina Yambaye, Executive Director for Senegal and Daouda Sembene, Senior Advisor to the Executive Director
December 15, 2014

Senegal's current economic program supported by the Policy Support Instrument (PSI) was adopted in December 2010, with the aim of increasing growth and reducing vulnerabilities and poverty. Reflecting their commitment to the program, the country authorities have since put an increasing focus on implementing sustainable fiscal policy, enhancing fiscal governance and transparency, and promoting private sector development within a well-functioning financial sector.

Four years later, significant progress has been made towards key program objectives, notably strengthening macroeconomic stability, enhancing revenue mobilization, improving public financial management. However, implementation of structural reforms helped to secure only modest improvements in the business climate until recently, while failing to curtail the acute fiscal risks emanating from the energy sector. In addition, there is still scope for improving the efficiency of public expenditure. As a result, growth acceleration and significant poverty reduction have remained elusive in recent years, as illustrated in the comprehensive staff report and informative Selected Issues paper.

Introducing a New Policy Framework

To raise living standards and make inroads into poverty, the authorities acknowledge the importance of maintaining a strong reform momentum and tapping new drivers of growth, while consolidating existing ones. In this context, the Plan Senegal Emergent (PSE), the country's new growth strategy, was validated earlier this year to realize the government's vision for making Senegal an emerging economy by 2035. This new policy framework has since occupied center stage in the country' policy and reform agenda and is expected to remain so over the medium term. The PSE features a number of transformative investment projects and critical reform actions that are expected to facilitate a durable growth takeoff, starting from 2015.

Exercising fiscal prudence

The authorities are fully aware of the potential risks to fiscal and debt sustainability that could be triggered by a sustained buildup of debt to finance unproductive public investment. To mitigate such risks, they have signaled their strong resolve to anchor the implementation of the PSE on a concomitant reduction of the fiscal deficit. Fiscal consolidation efforts were successful in keeping the deficit on a downward trend in recent years. In 2014, prudent fiscal management has contributed to the lower-than-projected deficit achieved in the first half of 2014. For 2015, the fiscal deficit is expected to be kept half a percentage point of GDP below its 2014 level.

In light of the authorities' strong commitment to fiscal sustainability, the gradual pace of fiscal consolidation is expected to be sustained amid the implementation of the PSE—albeit at a pace slower than initially anticipated under the PSI. Deficit reduction is expected to be achieved through adherence to a number of critical reform measures. First, tax measures introduced as part of this year's supplementary budget will support fiscal consolidation through their revenue-enhancing effect; so will the ongoing steps taken to modernize tax administration and review tax policy for a number of specific sectors, including the telecommunication and financial sectors, the environment, mining industry, and e-commerce.

Moreover, improved fiscal positions will result from the authorities' efforts to contain public consumption, improve the efficiency of public investment, reallocate non-priority infrastructure spending, and pursue the agency reform strategy. In this endeavor, it is also the authorities' intention to consolidate on recent progress made in public financial management under the PSI, notably by implementing regional guidelines in this area.

While being appropriately adamant on the scaling up of public investment, the authorities agreed with the staff on the need to exercise caution by introducing a Precautionary Reserve Envelope (PRE). This will entail unfreezing budgetary allocations for some PSE-related investment projects only once their feasibility studies are finalized.

Finally, it is noteworthy that the achievement of fiscal objectives will be served by the ongoing reorganization of the Ministry of Economy, Finance, and Planning, based on a set of recommendations made by an international development consulting firm. Upon its completion, this reorganization is expected to help improve the work of the ministry, with positive spillovers on the quality of fiscal policy and administration.

Sustaining good program performance

Overall, program implementation has continued to proceed satisfactorily. On the structural front, reform efforts helped to secure progress toward improving the quality of public expenditure and fiscal transparency, leading to the observance of all structural benchmarks set forth in the program. More specifically, a number of documents were submitted to the Parliament along with the 2015 draft budget law, including cost-benefit analyses of the 5 largest investment projects, estimates of energy subsidies, the complete list of agencies and funds, an update on the implementation of the agency reform strategy. In parallel, performance contracts were signed with the five largest agencies and no new agency was set up in recent months.

Moreover, all end-June 2014 quantitative assessment criteria were met. However, the continuous criterion on the level of nonconcessional borrowing was breached since September. This unexpected outcome arose following the issuance of a $500 million Eurobond in international bond markets and the determination that the grant element of a loan contracted with a creditor fell short of the minimum threshold to be considered as semi-concessional, as initially anticipated. Notwithstanding this breach, the country remains assessed at a low risk of debt distress. The authorities reiterated their continued attachment to prudent debt management. Nonconcessional borrowing decisions have largely obeyed so far to a deliberate refinancing strategy aimed at lengthening the maturities of public debt and lowering debt service payments. It is also expected that prudent fiscal policy will help to maintain the level of public debt below 52 percent of GDP.

In light of the above, we would appreciate Directors' support for the completion of the eighth review under the PSI and staff's proposal for a waiver of nonobservance of the assessment criterion on non-concessional borrowing.

Improving the growth outlook

The staff report provides a useful account of the risks to the PSE scenario, including spillovers risks stemming from a growth slowdown in advanced and emerging economies, oil price developments, and global bond markets as well as domestic and regional risks arising from the Ebola outbreak and potential delays in fiscal and energy sector reforms. The authorities' continued adherence to prudent fiscal management should help reduce these vulnerabilities along with successful implementation of the PSE and the comprehensive restructuring plan for the energy sector.

In addition, the authorities will continue to work closely with development partners, with a view to helping to contain the epidemic in neighboring countries, preventing new cases within the country, and coping with adverse spillovers. Preventive measures taken by the health ministry have contributed to keeping Senegal Ebola-free, except for one imported case that was successfully treated in a local hospital last September. Yet, the Senegalese economy has been affected, albeit slightly, by the adverse spillovers of the outbreak of the epidemic in neighboring countries, notably with fears of the disease spread led to reduced business opportunities in the hotel industry.

That said the authorities remain more optimistic than staff about growth prospects, as their projections take into account the effective implementation of the PSE as well as the potential use of the Precautionary Reserve Envelope. It is their expectation that the significant budgetary allocations for PSE-related projects and the improved quality of investment spending embodied in the recently approved 2015 budget will contribute to raising growth above 5 percent from next year on. Given the strong domestic ownership of the PSE, a more rapid pace of reform implementation is anticipated, which bodes well for growth acceleration. In this context, a number of commendable steps have already been taken to reform the business environment and university scholarships, as indicated in the staff report. As a result, Senegal features in the Doing Business's latest list of the world's top 10 business reformers. Still, the authorities are fully aware that ample scope exists for further improving the country's business environment and will continue to take necessary steps to that effect.

Learning from the experience of comparator countries

In line with staff advice, the authorities have already identified a few comparator countries and begun engaging with them with a view to reflecting on the reform and policy initiatives underpinning their success. As part of this peer learning initiative which is proceeding in close collaboration with Fund staff, a team of Senegalese officials is scheduled to meet in the Fund's premises with their counterparts from these countries, as the Board meets up to conclude this eighth and final PSI review. We would like to convey to staff the authorities' appreciation of the excellent quality of the policy dialogue as well as their valuable contribution to their productive peer learning experience. Our authorities are hopeful that Management and staff will continue to support this initiative in order to assist them in their efforts to make headway toward economic emergence.

More generally, the authorities continue to place a high premium on the Fund's policy advice in support of their policy and reform agenda under the PSE. They have expressed their strong interest in maintaining a close relationship with the Fund in whatever forms that will best serve their ambition to put the Senegalese economy on the shortest path to emergence in line with the PSE. They look forward to addressing these issues with Management and staff in the context of their upcoming policy dialogue.