September 2007
IMF Country Report No. 07/335

Senegal: 2006 Article IV Consultation—Staff Report; Public Information Notice on the Executive Board Discussion; 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 2007 Article IV consultation with Senegal, the following documents have been released and are included in this package:

- The staff report for the 2006 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on November 9, 2006, 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 January 10, 2007. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its January 29, 2007 discussion of the staff report that concluded the Article IV consultation.

- A statement by the Executive Director for Senegal.

The document listed below has been or will be separately released.

Selected Issues Paper

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

To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to publicationpolicy@imf.org.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
700 19th Street, N.W. • Washington, D.C. 20431
Telephone: (202) 623-7430 • Telefax: (202) 623-7201
E-mail: publications@imf.org • Internet: http://www.imf.org

Price: $18.00 a copy

International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

SENEGAL

Staff Report for the 2006 Article IV Consultation

Prepared by the Staff Representatives for the
2006 Consultation with Senegal

Approved by Saul Lizondo and Adnan Mazarei

January 10, 2007

- The 2006 Article IV consultation discussions were held in Dakar during October 26–November 9, 2006. The Senegalese representatives included the Ministers of Economy and Finance, Budget, Energy, and Agriculture, and the National Director of the BCEAO. The staff also met with the Acting Governor of the BCEAO and representatives of the donors, labor, and business communities, and NGOs. The staff team comprised Messrs. Vaez-Zadeh (head), Castro, Roudet, and Saxegaard (all AFR), and Ms. Koranchelian (FAD). Mr. Segura-Ubiergo, the Fund's Resident Representative in Senegal and Mr. Morisset (World Bank) also participated in the discussions. Mr. Sembene (Senior Advisor, OED) attended some of the meetings.

- The last Article IV consultation was concluded in March 2005. Senegal's PRGF arrangement expired in April 2006, and the final review under the arrangement was concluded in January 2006. An ex post assessment of Senegal's program engagement with the Fund was discussed at the Board in March 2006.

- Outstanding purchases and loans amounted to SDR 17.33 million (10.7 percent of quota) at end-November 2006. Under the MDRI, Senegal received debt relief from the Fund, the African Development Fund, and the World Bank, totaling about 25 percent of 2005 GDP. Together with other members of the West African Economic and Monetary Union (WAEMU), Senegal has accepted the obligations of Article VIII, Sections 2, 3, and 4 of the Fund's Articles of Agreement.

- External and public debt sustainability is discussed in Appendix 1. The Selected Issues Papers (SIPs) accompanying this report cover external competitiveness and the real exchange rate, and fiscal risks. Relations with the Fund and the World Bank, and Statistical Issues are reported in the Informational Annex (www.imf.org).

- Parliamentary and presidential elections are scheduled for February 2007. President Wade has announced his candidacy.

Contents Page

EXECUTIVE SUMMARY

Senegal has achieved macroeconomic stability and debt sustainability. Poverty and social indicators have improved in recent years, but meeting the Millennium Development Goals (MDGs) remains a challenge. Reform implementation has been uneven over the past few years and problems with budgetary discipline and fiscal transparency persist.

Macroeconomic performance weakened in 2006, with lower growth, higher inflation, and widening fiscal and external current account deficits. The deterioration reflected the disruption in the operations of the chemical export company (ICS), oil price increases, and growing energy subsidies. Domestic payments arrears of about one percent of GDP are estimated to have accumulated by year-end.

The outlook for 2007 and the medium term is favorable, provided ICS resumes full operation as expected, the overall fiscal deficit (including grants) is contained to about 4 percent of GDP, and progress is made on enterprise reform, fiscal governance, and improving the business climate. The authorities intend to contain the fiscal deficit broadly in line with staff recommendations and avoid nonconcessional borrowing. To these ends, energy subsidies will be phased out and the government wage bill and public investment contained.

The authorities introduced a new pricing policy for petroleum products that incorporates a discretionary margin above international prices. The funds generated will be used for subsidizing the oil refinery and only partially included in the government budget. The new margin raises issues of efficiency and transparency as it implies earmarking and off-budget use of public funds. The authorities intend to remove the margin within two years.

Serious concerns about the transparency of the new airport project linger and procurement rules continue to be abused. It is not clear whether procedures agreed earlier with staff and decreed by the President, are being applied for the collection and use of the receipts from the air travel tax, which are earmarked for airport construction and kept off budget. Tighter procurement procedures have been prepared, but enforcement will be difficult in the run-up to presidential and legislative elections, scheduled for February 2007.

Banks meet the capital requirement but are burdened by bad loans, potential losses from ICS restructuring, credit concentration, and an inadequate judicial framework. The capital adequacy ratio and loan provisioning requirements should be raised to reflect these risks, and judicial reforms implemented to facilitate loan recovery.

Discussions on a program under the PSI began in May 2006 but were not concluded. They are unlikely to be resumed before the upcoming elections.

I. BACKGROUND: STRONG MACROECONOMIC PERFORMANCE, BUT SIGNS OF WEAKENING

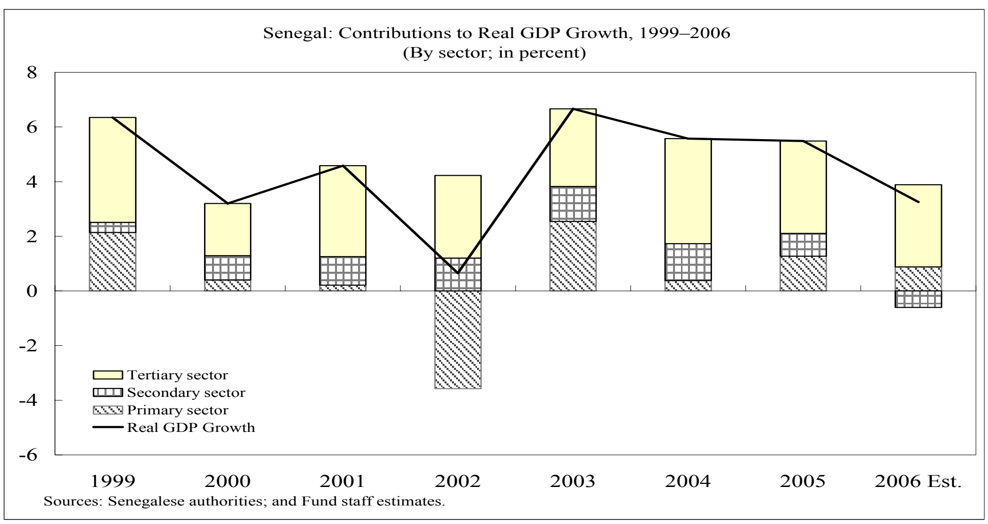
1. **Senegal has experienced robust growth, price stability, and a declining debt stock owing to substantial debt relief, but macroeconomic performance weakened in 2006.**

- Following robust performance in 2003–05 (average real GDP growth rate of about 6 percent), economic growth is estimated to have fallen below 3.5 percent. (Tables 1 and 2). The decline reflects mainly the impact of higher oil prices, disruption in electricity supply (para. 11), and interruption in the operations of ICS—one of the largest companies in the country, accounting for 2 percent of GDP, 10 percent of exports, and 7 percent of bank credit at end-2005.

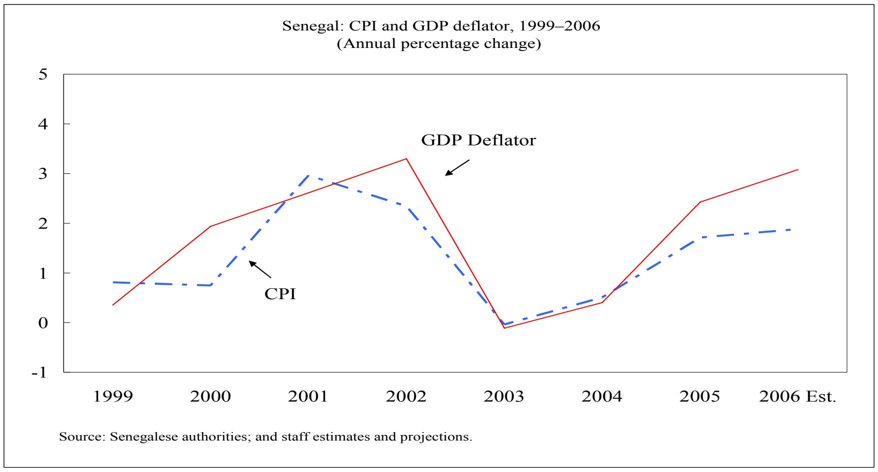
Senegal: Selected Economic Indicators, 2003–06
(Percent, unless otherwise indicated)

	2003	2004	2005	2006 Est.
Real GDP growth	6.7	5.6	5.5	3.3
Average CPI inflation	0.0	0.5	1.7	1.9
External current account balance (including current official transfers; percent of GDP)	-6.2	-6.1	-8.1	-12.0
Overall fiscal balance (including grants; percent of GDP)	-1.3	-3.1	-3.0	-5.7

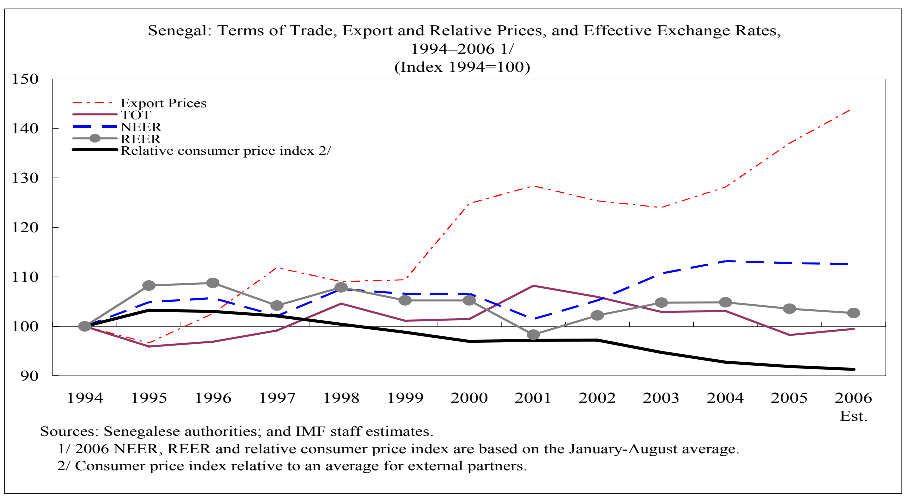
Sources: Senegalese authorities; and Fund staff estimates.



- Since 2002, CPI inflation has remained below 2 percent on an annual average basis, owing to favorable food supply conditions and inadequate adjustments of administered prices of butane gas, electricity, and transport.

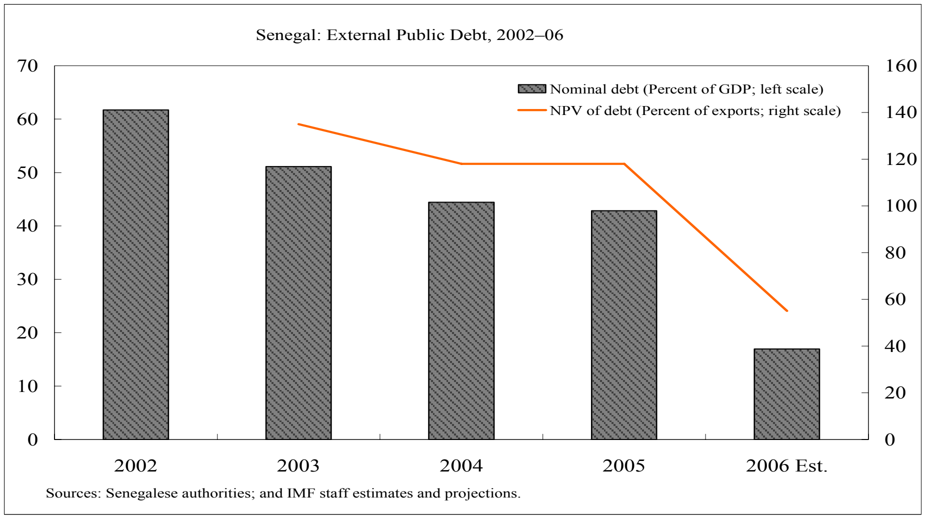


- The real effective exchange rate (REER) has been broadly in line with the underlying economic fundamentals and fairly stable since 2002, as changes in relative prices offset the appreciation of the CFA franc (CFAF) against the U.S. dollar (in line with the Euro to which the CFAF is pegged).[1]



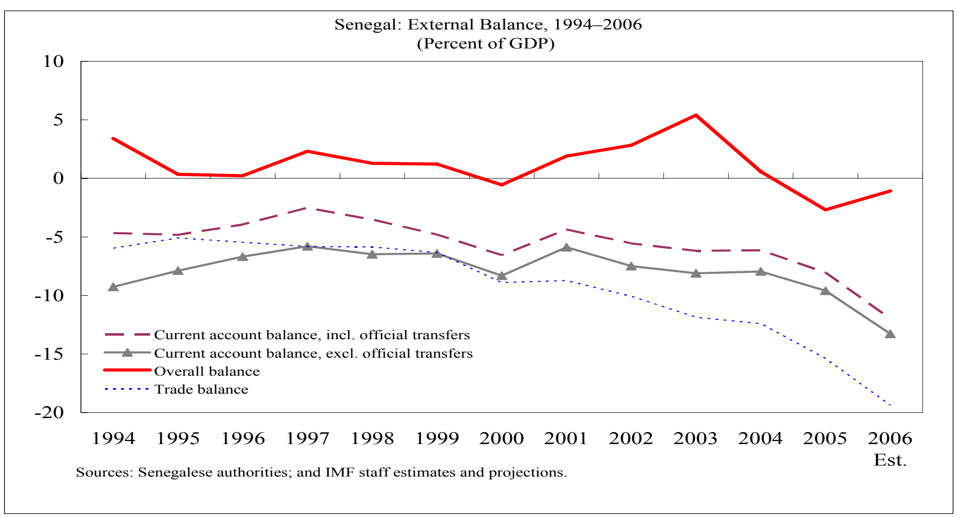
- The ratio of the NPV of public external debt to exports is estimated to have fallen from 118 percent at end-2004 to about 55 percent at end-2006 owing to Enhanced HIPC and MDRI debt relief (Table 3). Central government domestic debt is estimated to have remained at about 3.5 percent of GDP at end-2006.

[1] See the 2007 Selected Issues Paper (www.imf.org).

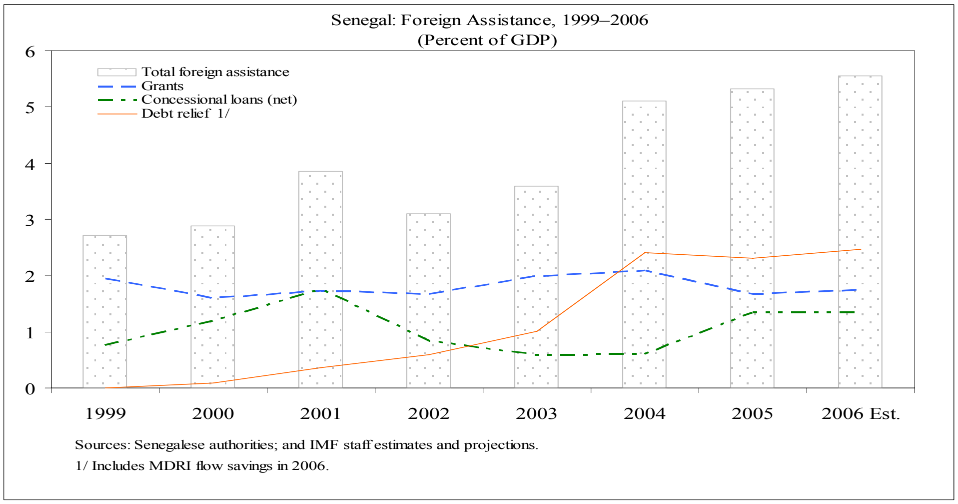


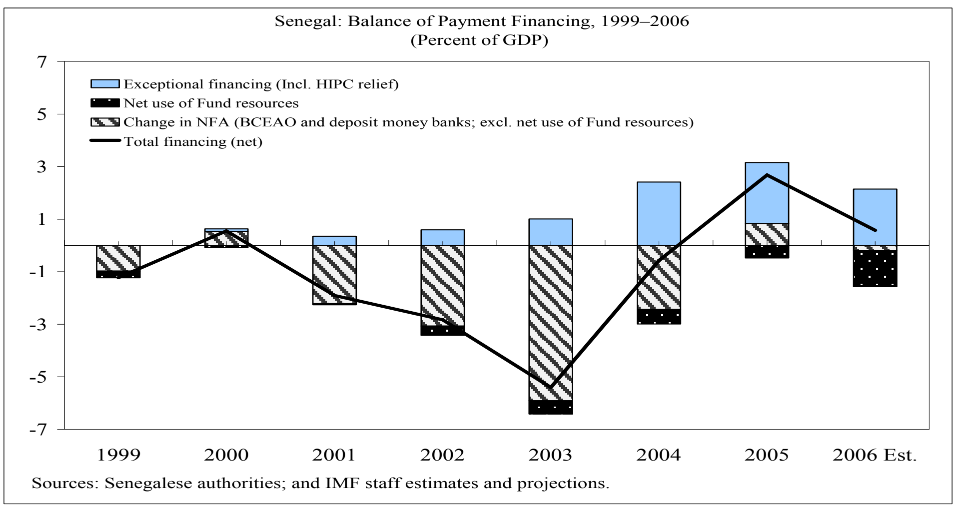
2. **The economy remains vulnerable to exogenous shocks and is dependent on donor support.**

- The external current account deficit excluding grants is estimated to have increased by about 5 percent of GDP between 2004 and 2006 (Table 4), owing to the oil price shock and ICS' difficulties.

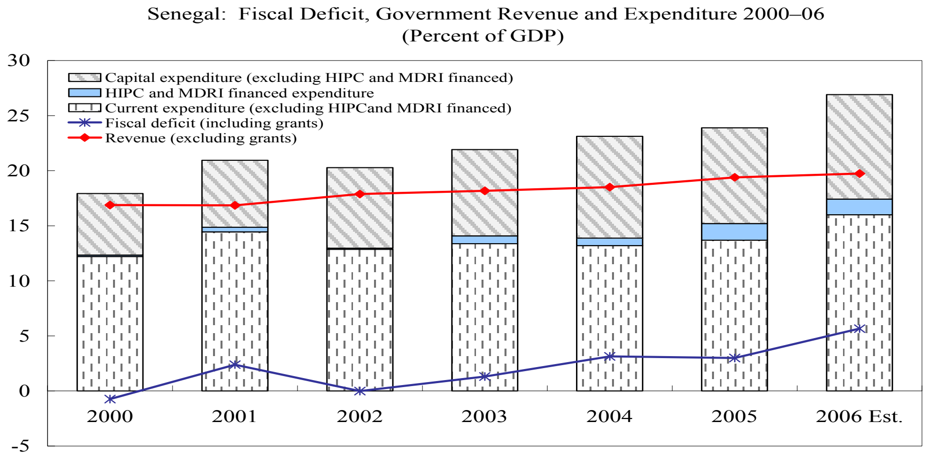


- Foreign assistance, in the form of grants, concessional loans, and debt relief (flow savings) amounted to about half of the external current account deficit in 2005–06.



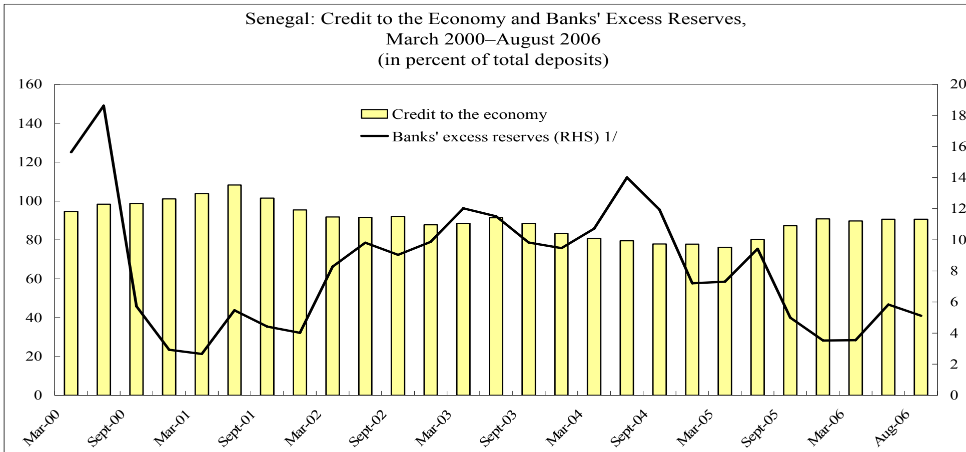


3. **After several years of prudence, fiscal discipline deteriorated in 2006.** The overall fiscal balance (including grants) moved from a balanced position in 2002 to a deficit of 3 percent of GDP in 2005 and is estimated to have almost doubled to about 5.7 percent of GDP in 2006 (Tables 5 and 6). The deterioration reflects increases in capital expenditures, the wage bill, and subsidies (2 percent of GDP in 2006) to the electricity company (SENELEC) and the oil refinery (SAR) to compensate them for below-market prices for electricity and butane gas. For the first time since 1995, domestic payments arrears of about 1 percent of GDP are estimated to have emerged by end-2006.



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

4. **Substantial excess reserves in the banking system have reduced monetary policy effectiveness.** Changes in the discount rate by the regional central bank (BCEAO) during 2003–06 (Table 7) did not have much impact on banks' interest rates. The BCEAO does not see a need to absorb the excess liquidity on the grounds that historically, it has not entailed inflationary risks.



Sources: BCEAO; and IMF staff estimates.
1/ Difference between banks' actual reserves and the required reserves. Required reserves are calculated by the BCEAO as a percentage of banks' deposits, short-term credit and gross foreign claims.

5. **Reform implementation has been uneven over the past few years.** Key achievements include the privatization of the groundnut processing company (SONACOS), improvements in tax collection, and better expenditure tracking and budget reporting. However, the rehabilitation of loss-making enterprises and structural reforms in the energy sector have lagged, and serious problems with fiscal governance persist.

6. **Poverty and social indicators have improved, but substantial efforts will be needed to meet the MDGs (Table 8).** Maternal and child mortality have been reduced and access to safe water and primary education improved. However, the poverty reduction agenda underlying the PRSP remains largely unfulfilled, reflecting absorptive capacity constraints and weaknesses in public expenditure management. The authorities have prepared a new PRSP (covering 2006–10) which, if properly implemented, could alleviate these weaknesses.[2]

II. Policy Discussions

7. The discussions focused on macroeconomic prospects and four main policy challenges: (i) resolving energy sector problems; (ii) implementing prudent fiscal policy to preserve macroeconomic stability; (iii) improving fiscal governance and transparency to raise the productivity of government spending and sustain external assistance; and (iv) encouraging private sector activity and enterprise and banking reforms to foster economic growth.

A. Macroeconomic Prospects

8. **The staff's baseline scenario envisages average real GDP growth of slightly above 5 percent per annum, continued low inflation, and a sustainable public debt during 2006–11 (Table 9).** Growth will be driven by the resumption of ICS operations (adding about 1 percentage point to the GDP growth rate in 2007) and the dynamism of the construction, transportation, and telecommunication sectors. The projections assume increases in private sector investment and productivity gains from the implementation of the reforms and policies outlined below. Export growth will be driven by structural reforms and the resumption of SAR (para. 11) and ICS operations. These projections are broadly in line with the PRSP's baseline scenario.

Senegal : Contributions to Growth, 1995–2011

	1995–2006	2007–11	Difference
	(In percent)		
Real GDP growth	4.3	5.3	0.9
Primary sector	0.4	0.6	0.1
Secondary sector	0.9	1.4	0.5
Tertiary sector	3.0	3.3	0.3
Consumption	3.3	2.8	-0.5
Private	2.5	2.7	0.2
Public	0.8	0.1	-0.7
Gross fixed investment	2.2	2.3	0.2
Private 1/	1.2	1.6	0.4
Public	0.9	0.7	-0.2
Net exports	-1.1	0.2	1.3
Exports of goods and non-factor services	0.3	2.2	1.9
Imports of goods and non-factor services	-1.4	-2.0	-0.6
Labor force 2/	1.6	1.7	0.1
Physical capital 2/	1.7	2.2	0.5
Total factor productivity 2/	1.0	1.4	0.4

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

1/ Including change in inventories.

2/ The growth accounting exercise assumes a standard Cobb-Douglas production function with an elasticity of output to capital of 0.35--in line with estimates for West Africa (see Sacerdoti et al. WP/98/162).

9. **The baseline scenario allows for a narrowing of the resource gap over the medium term.** The authorities agreed that the external current account deficit should be reduced, including by containing the fiscal deficit. Private savings should also grow over the medium term, facilitated by rising real incomes and financial sector development. Reflecting these

[2] See the 2007 Joint Staff Advisory Note (JSAN) (www.imf.org).

trends and the recovery in ICS' exports, the current account deficit (including official transfers) is projected to decline substantially by 2011 (Table 10). The continued flow of grants, concessional funding, and debt relief would help finance the deficit.[3]

10. **The medium-term prospects are subject to downside risks.** Apart from exogenous shocks, such as drought, locust invasion, and rising oil prices, there is a risk that the recovery of ICS may be delayed. If the ICS activities do not resume during the projection period, average GDP growth would fall to 4.8 percent per annum during 2007–11. Other risks include: fiscal spillovers from ICS restructuring; supervisory weakness and forbearance that may endanger the health of the banking system; slackening political resolve to implement structural reforms; and slippage in fiscal governance that could undermine policy credibility and reduce the flow of aid.

B. Resolving Energy Sector Problems

11. **Disruptions in the supply of petroleum products and electricity adversely affected the economy in 2006.** The price-setting formula for petroleum products and electricity did not reflect market conditions and generated losses for SAR and SENELEC. Delays and shortfalls in the government compensation of these companies amplified their already fragile financial situations. SENELEC accumulated arrears to suppliers and SAR was forced to stop refining activities and reduce its petroleum product imports.

12. **To address these problems, the authorities took several steps.** They (i) increased electricity rates by 15 percent in September and initiated a gradual phase-out of butane subsidies; (ii) revised the price-setting formula for petroleum products to reflect market conditions; and (iii) created a new discretionary margin in the price structure, which would allow them to limit the pass-through of declining international prices. Part of the resources generated by the margin will be kept off budget and used to reconstitute SAR's capital. The other part will be deposited in a new Fund—*Fonds de Sécurisation des Importations de Produits Pétroliers* (FSIPP)—to finance subsidies, compensate SAR for its commercial losses, and possibly stabilize petroleum product prices.

13. **While welcoming most of these steps, the staff advised against the off-budget use and earmarking of resources generated by the margin.** The authorities pointed out that the resources earmarked for SAR should remain off budget to facilitate SAR's access to bank financing, but indicated that the off-budget component of the margin would be rescinded when SAR's capital is reconstituted (within two years). The authorities also downplayed the stabilization aspect of the FSIPP, in response to the staff's advice against it, and stressed that the FSIPP would be managed transparently.

[3] The likelihood of a scaling up of foreign assistance is limited. The optimistic scenario of the proposed new PRSP envisages a larger investment program compared to staff's medium-term assumptions, without specifying the sources of financing, but it recognizes that implementation may pose a challenge.

C. Fiscal Policy

14. **The fiscal outlook for 2007 and the medium term is not favorable, unless corrective measures are implemented.** Assuming no fiscal spillover from ICS restructuring, the authorities' draft fiscal program for 2007 entails a deficit of about 5.5 percent of GDP (Table 6). The staff's debt sustainability analysis carried out jointly with the World Bank staff (Appendix 1) shows that, although the risk of debt distress in Senegal is low, fiscal deficits of this magnitude could eventually lead to debt distress.[4] The related additional domestic borrowing needs could be satisfied over the medium term only at increasing costs and at the risk of crowding out the private sector. Continued increases in public expenditure could lower the productivity of public outlays as investment surpasses implementation capacity. Taking these factors into account, and in light of emerging domestic payments arrears and a growing current account deficit, the authorities agreed that the overall fiscal deficit (including grants) should be reduced in 2007 and contained to about 4 percent of GDP over the medium term.

15. **The policies to achieve this fiscal objective will include phasing out subsidies, containing the wage bill, and limiting the increase in investment outlays.** The authorities agreed to consider phasing out butane gas subsidies by end-2007. They also intend to revise and automatically apply the formula for setting electricity prices to reflect SENELEC's cost structure, thereby reducing the need for transfers to SENELEC. Increases in electricity prices would be applied asymmetrically, with smaller increases for low-income households. The staff endorsed these measures and added that ad hoc civil service salary increases, similar to those announced in 2006, should be avoided and the wage bill kept stable relative to GDP. It also suggested that increases in capital expenditure relative to GDP be considered only if investment planning and implementation capacity improve and debt sustainability is not put at risk. The authorities broadly agreed with these recommendations.

16. **The staff stressed that domestic arrears have adversely affected the private sector and should be eliminated without delay through the issuance of treasury bills.** The authorities were unwilling to consider this financing option prior to elections on the grounds that any securities tender could be undersubscribed or too costly. However, they committed to clear the arrears, which they attributed to shortfalls in donor support, soon after the upcoming elections.[5]

17. **Effective debt management is needed to maintain debt sustainability.** The staff endorsed the authorities' preference for borrowing externally only on concessional terms. It highlighted the need for regular debt sustainability analyses and stressed that government

---

[4] The analysis also shows that the realization of existing contingent liabilities of the government (about 10 percent of GDP—see the 2007 Selected Issues (www.imf.org), everything else remaining unchanged, will not undermine debt sustainability.

[5] The World Bank delayed disbursements until legislation was enacted in July to bring a new protective tax in line with WTO safeguard rules. Also, for administrative reasons, the EU disbursed only 25 percent of its € 20 million budgetary aid for 2006.

contingent liabilities—including those stemming from Public-Private Partnerships (PPPs), government guarantees, and public enterprises—should be monitored closely and their financial implications included in the budget. Given the growing domestic financing needs and the volatility of external assistance, the authorities agreed to develop a program for the issuance of government securities and lengthen their maturity.

18. **Fiscal policy will remain the key instrument of macroeconomic stability, but more effective monetary policy is also important.** The staff urged the authorities to encourage the BCEAO to reduce excess liquidity and remove the anomalies in monetary management identified during consultation discussions with the WAEMU.

D. Improving Fiscal Governance and Transparency to Enhance Policy Credibility and the Productivity of Public Spending

19. **The staff urged the authorities to speed up implementation of the measures already agreed to for improving fiscal governance and transparency.**[6] It proposed a three-year public financial management (PFM) plan prepared by the Fund and World Bank staffs (Appendix 2). However, concerned about the consistency of various reform programs, the authorities postponed the discussion of the PFM plan until the completion (by end-2007) of the Public Expenditure and Financial Accountability Assessment (PEFA), being coordinated by the EU and the World Bank. In addition to the critical issues mentioned below, the proposed PFM plan includes measures to extend the coverage of fiscal reports to public enterprise operations, establish a legal framework for public agencies, and encourage adherence to internal and external budget control and audit mechanisms.

20. **Persistent problems with enforcement of procurement rules are a major concern for the private sector and development partners.** A large part of domestically-financed expenditure (37 percent during January–September 2006) continues to be implemented through contracts awarded on a noncompetitive basis. The staff welcomed the new procurement code—which limits the conditions under which noncompetitive bids can be approved and is endorsed by the World Bank staff—and urged its speedy implementation. The authorities could not commit to a timetable for implementation, noting the need for the new organizational structure to be set up. However, they will require submission of procurement plans by spending ministries at the beginning of each year to reduce emergency requests, and publish the list of contracts awarded on a regular basis to reduce infractions.

21. **The off-budget use of public resources and nonbudgeted spending should be avoided.** The staff expressed concern that the external resources received by the agency implementing the infrastructure projects for the Islamic Conference Organization (ICO) summit had not been included in the budget, and resources had been diverted to the agency from other budgetary lines. The authorities did not share these concerns, noting that the 2006 supplementary budget law would regularize these expenditures and the operations of the

[6] These are included in the CFAA, CPAR, fiscal ROSC, and the authorities' latest MEFP (IMF Country Report 06/127).

agency would be subject to ex post control. The staff regretted that the supplementary budget was expected to be enacted only in November 2006.

22. **Serious concerns about the transparency of the new airport project remain.** The staff was not assured that the transparency procedures for the collection and use of the receipts from the air travel tax (RDIA—instituted in April 2005) which were mandated by presidential decree are being followed.[7] These receipts are earmarked for airport construction and kept off budget. In addition, the capital base of the company in charge of the implementation of the project is small (US$200,000) compared to the size of the project (US$300 million or 4 percent of GDP), there are no other contributions from the company's single private shareholder (who owns 55 percent of the company), and no public-private-partnership contract is being prepared for the implementation of the project.[8] Therefore, the entire risk of the project will be borne by the government. Consequently, the staff renewed its call for the project to be treated as public and included in the budget. The authorities were strongly opposed to this idea, claiming that off-budget procedures would accelerate construction and facilitate financing of the project.

23. **A streamlined tax system and a stronger tax administration would help consolidate the progress achieved in revenue collection.** The authorities agreed that exemptions should be recorded in the budget, but they did not commit to their reduction. They did not agree that direct tax collection responsibilities should be transferred from the treasury to the tax department. While the transfer could simplify filing and payment procedures and improve enforcement of tax arrears, they were concerned that any change in the organizational structure could disrupt an already well-performing tax collection system. Nevertheless, they intend to implement the long-overdue installation of a software for data-sharing between the three tax collecting agencies (treasury, tax department, and customs), to improve information exchange on taxpayers, detection of unreported activities, and assessment of each agency's performance.

E. Fostering Economic Growth by Encouraging Private Sector Activity and Structural Reforms

24. **In light of the recent slowdown in economic activity, maintaining robust growth remains a challenge.** The government is preparing an Accelerated Growth Strategy (AGS) that focuses on developing five sectors with presumed export potential and improving the business climate, and aims at raising the annual growth rate to 7 percent over the medium term.[9] The authorities indicated that, when completed, the AGS will be incorporated into the PRSP. The staff pointed out that attaining the AGS's growth objective will be a major challenge as it is substantially above the already high rates of the past few years. The

[7] See IMF Country Report 06/127 (Appendix I, MEFP, paragraphs 23–24 and annex II).

[8] In its letter to the authorities dated July 12, 2006, the World Bank staff has raised similar concerns (see also IMF Country Report 06/127).

[9] The five sectors include agro-industry, fisheries, electronic customer support services, tourism, and textiles.

emphasis on developing specific sectors through government investment and incentives is also questionable. The authorities agreed that priority should be given to implementing the AGS action plan aimed at: (i) raising the efficiency of public administration and eliminating complex administrative procedures; (ii) reducing corruption and strengthening the judicial system; (iii) removing infrastructural bottlenecks, especially in the transport and electricity sectors; (iv) alleviating labor market rigidities; (v) deepening the financial market; and (vi) generally, strengthening competition throughout the economy.

25. **Resumption of full operations by the ICS is essential for raising the growth rate.** The company stopped its operations in March 2006 and is not servicing its debt.[10] It is currently under court protection. Some of the litigations against it have been settled, and an urgently needed restructuring plan is under discussion. The staff urged the authorities to ensure that the plan includes cost-cutting measures, management improvements, and capital injection by private partners, and minimizes the impact on public finances. The authorities concurred that any contribution by the government should be included in the budget. They agreed to reduce the government's 47 percent stake in the company, but did not commit to total divesture.

26. **Further efforts will be necessary to ensure the financial viability of SENELEC.** The staff welcomed the planned efforts, in collaboration with the World Bank, to increase production capacity, diversify sources of energy, and reduce costs, over the next three years. To ensure that the company becomes profitable and able to provide a reliable electricity service to the country, the authorities endorsed the World Bank staff's view that the company be placed under private management, but could not commit to a precise timetable.

27. **Raising the contribution of the financial sector to the economy through improved access to credit and enhanced soundness is essential for growth.** Nonperforming loans are sizeable and the banking sector suffers from excessive loan concentration (Table 11), which cannot be easily corrected owing to a shortage of creditworthy enterprises in a nondiversified economy. As part of their financial sector development plan (Table 12), the authorities intend to provide adequate budgetary allocations for the implementation of judicial reforms to facilitate loan recovery and enhance enforceability of private sector contracts, thereby facilitating credit availability. The staff stressed that, in addition, banks' capital adequacy ratio should be raised above 8 percent to account for the loan concentration risk. Since the implementation of this measure, which is in line with the FSAP recommendations, requires coordination at the regional level, the authorities should urge speedy progress by the WAEMU on the proposed measures.[11] The staff also emphasized the need to remain vigilant

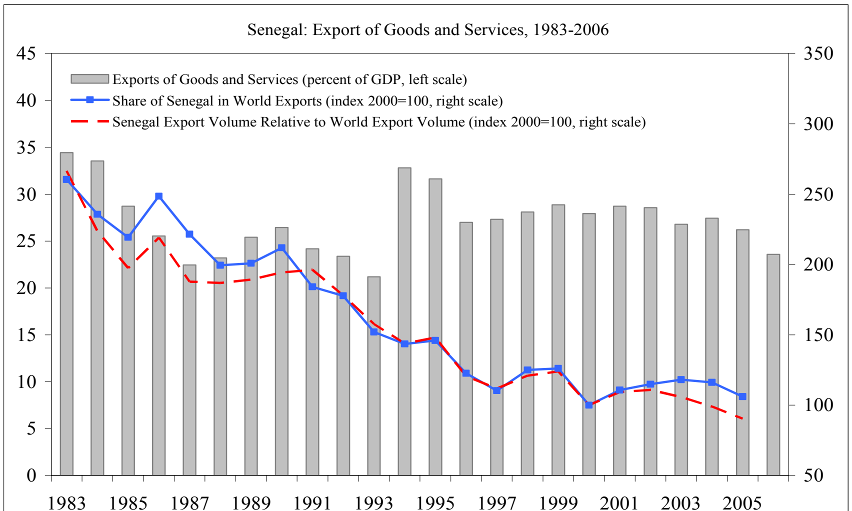
[10] ICS' cumulative losses over 2003–05 amounted to about 4 percent of 2005 GDP. They were due to cost overruns, managerial weaknesses, disputes with clients, low export prices during 2001–03, and the appreciation of CFAF against the U.S. dollar in 2004–05.

[11] The Minister of Finance has written to the BCEAO requesting that this issue be placed on the agenda for the WAEMU Council of Ministers.

in detecting fragilities in banks and microfinance institutions and impose timely corrective actions.

28. **The financial difficulties of the ICS are weighing on bank soundness.** Against staff recommendations, the government guaranteed ICS' debt to banks—amounting to 1.5 percent of GDP—and all interest falling due until a restructuring plan is in place. As a result, banks are not required to make provisions for ICS risk. The BCEAO agreed with the staff that the supervision commission should proactively urge banks to begin provisioning against potential write-offs arising from ICS restructuring.

29. **The contribution of the export sector to economic growth should be raised.** The share of exports in GDP has declined, and Senegal's share in world exports has been gradually declining. The lackluster performance of the export sector could be attributable to falling world demand for some of Senegal's products and declining competitiveness (as indicated by the evolution of the unit labor cost REER)[12] arising from structural weaknesses that raise production costs and hinder diversification. In this light, the authorities agreed that export diversification and infrastructural improvements are essential for export growth.



Source: IMF World Economic Outlook (WEO)

30. **Further trade openness will enhance the efficiency of the economy.** Senegal has adopted the WAEMU's common external tariff, and its average tariff rate does not exceed 12 percent.[13] However, the following measures reduce free trade and hinder competition in the import sector.

[12] See the 2007 Selected Issues Paper (www.imf.org).

[13] In 2006, Senegal is expected to have met all of the WAEMU's convergence criteria, except those on domestic arrears, the basic fiscal balance, and the external current account deficit.

- The tax protecting the vegetable oil import operations of the newly-privatized groundnut company SONACOS (adopted in January 2006 against staff recommendations) should be eliminated as soon as possible. This tax is regressive (as imported vegetable oil is used mainly by the poor) and creates wrong incentives for SONACOS.

- The recent arbitrary increase in the indicative value for the import price of palm oil, which allows customs to reject the prices reported by importers, should be rescinded as it constitutes another element of protection for SONACOS.

- The reference values used by customs for assessing import duties hinder competition and should be eliminated in conformity with WTO commitments.[14]

The authorities considered these measures to be temporary, allowing domestic firms to adjust to foreign competition. They also noted that another protective tax (*Taxe Dégressive de Protection*) has been suspended and its elimination is under consideration.

III. Relations with the Fund

31. **The authorities reiterated their interest in a close relationship with the Fund.** Discussions on a program under the PSI— to succeed the PRGF arrangement that expired in April 2006—began in May 2006, but could not be concluded. The authorities needed more time to forge a consensus within the government before committing to any policy package. These deliberations are unlikely to be completed before the upcoming elections.

IV. Staff Appraisal

32. **Renewed efforts at macroeconomic stabilization and progress on the structural reform agenda will be critical to reverse the weakening macroeconomic performance and to move toward the MDGs.** Maintaining a robust growth rate and improving the economy's resilience to exogenous shocks will require, among other things, enhancing the efficiency of public expenditure, rehabilitating ICS and SENELEC, developing the financial sector, improving export competitiveness through diversification and infrastructural improvements, and reducing impediments to private sector activity. In this regard, speedy implementation of the action plan for improving the business environment and reducing the cost of doing business, proposed under the AGS, is critical.

33. **Macroeconomic stability hinges on reversing the rising trend in the fiscal deficit.** The authorities' intention to lower deficits over the medium term in order to contain external current account deficits and prevent debt distress and arrears is welcome. Reducing subsidies is the critical component of this policy. Energy subsidies only delay adjustment and cannot be maintained indefinitely in an environment of high energy prices. Prompt elimination of domestic payment arrears is also needed.

---

[14] These were supposed to be reduced by July 2005, but a two-year extension was granted by WTO.

34. **The recent changes in the pricing policy for energy products, which will help reduce subsidies, are welcome.** However, the discretionary margin included in the price structure, the off-budget use of the resulting resources, and the creation of a stabilization fund can hamper economic efficiency and transparency. The government should eliminate the margin and reduce official intervention in the energy sector.

35. **A prudent borrowing policy is necessary to maintain debt sustainability.** The authorities should comply with their commitment to borrow exclusively on concessional terms in the post-MDRI era. They should also conduct debt sustainability analysis regularly and closely monitor the potential liabilities of the government, including those stemming from activities of public agencies.

36. **The country's dependence on external assistance makes it imperative to improve policy credibility and fiscal transparency.** To this end, the breakdown in procurement practices should be rectified, the new procurement code strictly applied, off-budget use of public resources avoided, and transparency in the implementation of the new Dakar airport project ensured.

37. **The prompt rehabilitation of ICS and SENELEC is essential for economic growth.** The authorities should press for injection of funds by the private partners of ICS, cost cutting, and management improvements. They should also allow electricity prices to reflect market conditions and place SENELEC under private management by 2009.

38. **The large nonperforming loans and credit concentration in the banking system are potential sources of vulnerability.** These problems are exacerbated by the financial difficulties of ICS. The Banking Commission should require banks to make adequate provisions against potential losses arising from the restructuring of ICS. Planned judicial reforms should be accelerated to facilitate loan recovery and capital adequacy ratios raised to account for the risks inherent in the Senegalese economy.

39. **The authorities should create a level playing field in the import sector.** In particular, the new tax protecting the import operations of the privatized SONACOS should be eliminated as soon as possible.

40. **It is expected that the next Article IV Consultation discussions will take place within 12 months.**

Table 1. Senegal: Selected Economic and Financial Indicators, 2003 – 07 1/

	2003	2004	2005		2006		2007
			IMF 06/127		IMF 06/127	Est. 1/	Proj.
			(Annual percentage change)				
National income and prices							
GDP at constant prices	6.7	5.6	5.1	5.5	5.1	3.3	5.6
Of which : nonagriculture GDP	4.6	5.7	4.7	4.9	4.8	2.6	5.3
GDP deflator	-0.1	0.4	2.6	2.4	2.3	3.1	2.5
Consumer prices							
Annual average	0.0	0.5	1.8	1.7	2.6	1.9	1.9
End of period	-1.4	1.7	2.1	1.4	2.2	2.2	2.0
External sector							
Exports, f.o.b. (in CFA francs)	-1.7	9.2	8.6	1.6	6.5	-7.9	14.6
Imports, f.o.b. (in CFA francs)	7.4	9.8	9.5	14.4	6.7	11.5	4.3
Export volume	-0.6	5.6	3.1	-5.0	4.1	-12.5	11.8
Import volume	5.8	1.5	1.9	2.4	3.4	1.9	5.2
Terms of trade (deterioration (-))	-3.2	-4.5	-1.9	-4.4	-0.5	-3.1	3.3
Nominal effective exchange rate	5.2	2.2	-0.4	-0.3	…	…	…
Real effective exchange rate	2.5	0.1	-1.9	-1.3	…	…	…
	(Changes in percent of beginning-of-year broad money, unless otherwise indicated)						
Money and credit							
Net domestic assets	5.4	3.1	11.7	8.6	8.3	7.7	10.3
Domestic credit	5.7	2.5	11.5	10.4	8.4	8.2	10.5
Credit to the government (net)	-4.3	-3.1	-1.2	-4.1	2.4	-0.5	2.7
Credit to the economy (percentage growth)	14.3	9.2	21.5	24.5	9.6	12.7	11.4
Central bank discount rate (end of period; in percent)	5.00	4.50	4.50	4.50	…	4.75	…
			(Percent of GDP, unless otherwise indicated)				
Government financial operations							
Revenue	18.2	18.5	20.2	19.4	20.0	19.7	19.9
Grants	2.0	2.1	1.8	1.7	1.9	1.8	1.8
Total expenditure and net lending	21.7	23.5	25.6	24.3	25.8	27.3	26.0
Overall fiscal surplus or deficit (-)							
Payment order basis, excluding grants	-3.3	-5.2	-5.3	-4.7	-5.8	-7.4	-6.1
Payment order basis, including grants	-1.3	-3.1	-3.5	-3.0	-4.0	-5.7	-4.3
Primary fiscal balance 2/	-0.5	-1.8	-2.5	-2.4	-3.0	-5.0	-3.7
Basic fiscal balance 3/	1.3	0.5	0.9	1.2	-0.3	-1.3	-0.3
Gross domestic investment	24.0	23.7	23.4	25.6	23.7	24.8	25.9
Gross domestic savings	11.8	10.9	9.3	9.9	9.8	5.1	8.3
Gross national savings	17.8	17.6	15.7	17.6	16.1	12.9	15.9
External current account deficit (-)							
Excluding current official transfers	-8.1	-8.0	-9.2	-9.6	-9.1	-13.3	-11.3
Including current official transfers	-6.2	-6.1	-7.6	-8.1	-7.6	-12.0	-10.0
Central government domestic debt 4/	3.9	3.6	...	3.5	...	3.3	4.0
External public debt (nominal) 4/ 5/	51.1	44.4	42.8	42.9	39.9	17.0	18.2
NPV of external public debt 5/	36.2	32.4	32.2	30.9	31.9	13.0	12.6
NPV of external public debt (in percent of exports) 5/	135.0	118.1	116.4	118.0	117.1	55.0	52.0
External public debt service (in percent of exports) 5/	8.3	6.7	6.0	5.2	6.9	6.3	5.0
External public debt service (in percent of government revenue) :	12.3	9.9	8.2	7.0	9.4	7.5	6.1
GDP at current market prices (billions of CFA francs)	3,961	4,198	4,346	4,536	4,673	4,828	5,223

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

1/ Data expressed as a percentage of GDP cannot be compared with those presented in IMF Country Report 06/127, because new national accounts have been introduced since the issuance of the document, leading to an upward revision of nominal GDP.

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

3/ Defined as total revenue minus total expenditure and net lending, excluding externally financed capital expenditure, on-lending, and expenditure financed with HIPC Initiative and MDRI assistance.

4/ Debt outstanding at year-end.

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

Table 2. Senegal: Savings-Investment Balances and National Accounts 2003–07 1/

	2003	2004	2005		2006		2007
			IMF 06/127		IMF 06/127	Est. 1/	Proj.
	(Annual percentage change at constant prices, unless otherwise indicated)						
Primary sector	20.5	2.7	7.4	9.4	6.0	6.2	5.6
Agriculture	38.6	4.0	10.0	13.1	8.0	10.4	8.0
Livestock	2.0	1.3	5.0	4.5	4.0	2.6	2.7
Forestry	2.0	1.2	3.2	1.3	3.0	1.3	1.3
Fishing	8.7	0.6	1.9	5.9	1.9	-5.1	0.4
Secondary sector	5.8	6.2	3.1	3.8	3.6	-2.8	7.0
Mining	8.1	6.2	-13.0	-14.8	3.5	-29.2	10.2
Industry	4.5	3.1	1.6	1.5	0.1	-7.6	5.2
Oil milling	-23.1	-25.7	26.8	1.0	15.0	-25.6	5.0
Energy	7.0	8.4	0.9	10.0	1.5	1.8	5.7
Construction and public works	11.6	17.7	13.0	13.0	13.0	15.0	11.5
Tertiary sector	4.3	6.0	5.3	5.3	5.4	4.6	5.1
Transportation and telecommunications	12.8	15.0	10.4	10.1	9.0	7.9	8.9
Commerce	1.9	3.3	4.6	2.8	4.0	2.0	3.0
Public administration	2.2	5.1	5.4	5.2	5.4	4.8	4.7
Other	5.1	5.1	3.4	5.1	4.9	5.1	5.2
GDP	6.7	5.6	5.1	5.5	5.1	3.3	5.6
Nonagriculture GDP	4.6	5.7	4.7	4.9	4.8	2.6	5.3
GDP deflator	-0.1	0.4	2.6	2.4	2.3	3.1	2.5
Consumer price index (period average)	0.0	0.5	1.8	1.7	2.6	1.9	1.9
	(Percent of GDP)						
Gross domestic investment	24.0	23.7	23.4	25.6	23.7	24.8	25.9
Government 2/	8.5	9.8	9.8	10.0	10.1	10.7	10.8
Nongovernment	15.4	13.9	13.6	15.6	13.6	14.1	15.1
Gross domestic savings	11.8	10.9	9.3	9.9	9.8	5.1	8.3
Government	8.4	8.5	6.5	8.0	6.6	4.7	6.9
Nongovernment	3.4	2.5	2.8	1.9	3.2	0.4	1.3
Savings/investment balance	-12.2	-12.8	-14.0	-15.7	-13.8	-19.8	-17.6
Government	-0.2	-1.3	-3.3	-2.1	-3.5	-6.1	-3.8
Nongovernment	-12.0	-11.5	-10.7	-13.7	-10.3	-13.7	-13.8
External current account balance 3/	-6.2	-6.1	-7.6	-8.1	-7.6	-12.0	-10.0
Gross national savings	17.8	17.6	15.7	17.6	16.1	12.9	15.9
Memorandum item:	(Billions of CFA francs)						
GDP at current prices	3,961	4,198	4,346	4,536	4,673	4,828	5,223

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

1/ Data expressed as a percentage of GDP cannot be compared with those presented in IMF Country Report 06/127, because new national accounts have been introduced since the issuance of the document, leading to an upward revision of nominal GDP.

2/ Includes capital expenditure financed with HIPC Initiative and MDRI assistance.

3/ Includes current official transfers.

Table 3. Senegal: Follow-up on HIPC Assistance
(As of October 30, 2006)

	Assistance agreed at the decision point (June 2000)	Interim assistance granted after the decision point	Assistance granted after the completion point (April 2004)	Comments
Multilateral creditors				
IMF	Yes	yes	yes	
IDA	Yes	yes	yes	
BAD/FAD	Yes	yes	yes	CFAF 7.4 billion have been refunded, representing assistance from 4/1/2004 to 12/31/2004
EU	Yes	yes	yes	
BID	Limited	no	no	Agreement being finalized
FIDA	Yes	no	yes	
BOAD	Yes	yes	yes	Agreement signed May 20, 2005
BADEA	Limited	no	yes	Agreement signed July 20, 2004
BCEAO	Yes	no	yes	
ECOWAS	Limited	no	no	
OPEC Fund	Yes	yes	yes	Refinancing assistance
Nordic Fund	Yes	no	yes	Memorandum signed October 8, 2003
Paris Club Creditors				
France	Yes	yes	yes	Agreement signed November 29, 2004
Germany	Yes	yes	yes	Agreement being finalized
Italy	Yes	yes	yes	Agreement signed May 4, 2005
Japan	Yes	no	yes	Agreement signed November 17, 2004
Spain	Yes	yes	yes	Agreement signed with the export credit insurance corporation, April 14, 2005; and with the Government's development credit agent, December 31, 2005.
United States	Yes	yes	yes	Agreement signed November 19, 2004
Norway	Yes	yes	yes	Agreement signed March 11, 2005
Denmark	Yes	no	yes	Agreement signed October 24, 2005
The Netherlands	Yes	yes	yes	Letter for cancellation June 28,2004
Belgium	Yes	yes	yes	Agreement signed November 24, 2004
Canada	Yes	yes	yes	Agreement signed September 9, 2004
United Kingdom	Yes	yes	yes	Agreement signed February 21, 2005
Sweden	Yes	no	no	
Bilateral creditors—Non-Paris Club members				
Kuwait	No	no	yes	Agreement signed with Kuwaiti Fund (March 4, 2005). Discussions initiated with Kuwaiti Investment Authority about the Kuwaiti deposit at the BCEAO
Saudi Arabia	No	no	no	
China	No	no	no	China pledged to cancel the $18.9 million debt. Agreement being finalized.
Taiwan, Prov. of China	n/a	n/a	no	
Emirates	No	no	no	
Algeria	No	no	no	
Oman	No	no	no	
Iraq	No	no	no	

Source: Senegalese authorities.

Table 4. Senegal: Balance of Payments, 2003–07

	2003	2004	2005		2006		2007
			IMF 06/127		IMF 06/127	Est.	Proj.
			(Billions of CFA francs, unless otherwise indicated)				
Current account	-245	-258	-331	-365	-356	-579	-521
Balance on goods	-470	-521	-591	-698	-632	-935	-899
Exports, f.o.b.	731	797	841	810	896	746	854
Imports, f.o.b.	-1,201	-1,319	-1,432	-1,508	-1,528	-1,681	-1,753
Services and incomes (net)	-87	-78	-102	-78	-99	-83	-84
Credits	400	437	417	463	434	479	498
Debits	-487	-515	-518	-541	-532	-562	-582
Of which : interest on public debt	-41	-42	-39	-37	-38	-31	-27
Unrequited current transfers (net)	312	342	361	411	374	440	462
Private (net)	241	270	297	345	309	381	399
Public (net)	71	72	64	66	65	58	63
Of which: budgetary grants	19	19	11	12	16	13	17
Capital and financial account	459	282	282	244	306	551	469
Capital account	67	74	74	69	80	1,236	84
Private capital transfers	7	4	7	6	8	6	6
Project grants	60	70	67	63	72	72	79
Debt cancellation and other transfers 1/	0	0	0	0	0	1,159	0
Financial account	392	207	208	175	226	-686	384
Direct investment	29	34	59	53	75	74	79
Portfolio investment	13	-15	19	15	22	4	39
Other investment	350	188	130	107	129	-764	266
Public sector (net)	20	31	47	33	33	-1,046	144
Of which : disbursements	91	157	175	154	164	180	249
program loans	0	13	41	21	32	30	104
project loans	91	144	132	133	132	150	144
other	0	0	1	0	0	0	0
amortization	-72	-126	-129	-121	-132	-1,226	-105
Private sector (net)	133	129	83	91	96	281	122
Errors and omissions	197	28	0	-17	0	0	0
Overall balance	214	24	-50	-122	-50	-28	-52
Financing	-214	-24	50	122	50	28	52
Net foreign assets (BCEAO)	-214	-126	-53	-9	-34	-67	-7
Net use of Fund resources	-20	-23	-22	-22	-10	-67	0
Purchases	3	3	3	3	11	11	0
Repurchases	-23	-26	-24	-24	-21	-77	0
Other	-194	-102	-31	12	-24	0	-7
Deposit money banks	-40	0	-10	26	-10	-9	-9
Payments arrears (reduction (-))	0	0	0	0	0	0	0
Exceptional financing 1/ 2/	40	101	112	105	94	104	68
Residual financing gap	0	0	0	0	0	0	0
Memorandum items:							
Current account balance							
As percentage of GDP (including current official transfers)	-6.2	-6.1	-7.6	-8.1	-7.6	-12.0	-10.0
As percentage of GDP (excluding current official transfers)	-8.1	-8.0	-9.2	-9.6	-9.1	-13.3	-11.3
Gross official reserves (billions of CFA francs)	577	668	707	662	732	659	667
(in months of imports of GNFS)	4.5	4.8	4.7	4.2	4.6	3.8	3.7
Nominal GDP (billions of CFA francs)	3,961	4,198	4,346	4,536	4,673	4,828	5,223

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

1/ Reflects MDRI stock debt relief in 2006. Debt relief from the Fund is recorded as a capital transfer. Debt relief from the IDA and the AfDF on the amounts falling due in 2006 is shown as exceptional financing, while debt relief on amounts due in 2007 and beyond is recorded as a capital transfer.

2/ Until 2005, HIPC Initiative flow debt relief granted by the IMF is recorded as a grant, and that granted by the World Bank, the African Development Bank, Paris Club creditors,and Kuwait is recorded as exceptional financing.

Table 5. Senegal: Government Financial Operations, 2003–07

	2003	2004	2005		2006		2007	
			IMF 06/127		IMF 06/127	Est.	Authorities' fiscal prog.	Staff
			(In billions of CFA francs)					
Total revenue and grants	798	865	957	956	1,022	1,038	1,136	1,136
Revenue	720	777	879	880	935	953	1,040	1,040
Tax revenue	677	739	840	851	892	920	1,010	1,010
Nontax revenue	43	38	39	29	42	33	29	29
Grants	78	88	78	76	88	85	96	96
Budgetary	18	19	11	12	16	13	17	17
Budgeted development projects	60	70	67	63	72	72	79	79
Total expenditure and net lending	861	988	1,110	1,104	1,207	1,317	1,424	1,359
Current expenditure	530	554	658	629	701	777	837	773
Wages and salaries 1/	204	218	255	255	266	284	326	326
Interest due	45	47	44	41	46	38	32	32
Of which: external 2/	40	41	38	36	38	31	27	27
Other current expenditure	281	290	359	333	388	456	479	415
Transfers and subsidies 3/	141	135	194	162	198	239	238	181
Of which: SAR and other GPL producers	0	9	43	14	35	70	65	26
Of which: SENELEC	0	0	16	22	28	34	27	19
Goods and services	140	148	155	163	181	204	228	221
HIPC and MDRI current spending	0	6	10	8	9	13	13	13
Capital expenditure	339	410	425	455	473	519	563	563
Domestically financed	190	221	257	287	295	323	356	356
HIPC and MDRI financed	28	23	59	61	45	62	68	68
Non HIPC/MDRI financed	162	199	198	226	251	261	288	288
Externally financed	148	189	168	168	178	196	207	207
Net lending	-7	12	23	17	18	18	8	8
Temporary costs of structural reforms	0	11	4	3	16	3	16	16
Selected public sector entities balance 4/	11	-9	0	12	0	5	0	0
Primary fiscal balance 5/	-7	-85	-110	-95	-139	-236	-256	-192
Overall fiscal balance (including grants)	-52	-132	-153	-136	-185	-273	-288	-224
Overall fiscal balance (excluding grants)	-130	-220	-231	-211	-273	-358	-384	-319
Basic fiscal balance 6/	50	22	37	53	-15	-61	-80	-16
Financing	52	132	153	136	185	273	288	224
External financing	69	142	169	161	146	141	256	234
Drawings	91	157	174	154	164	180	249	249
Program loans	0	13	41	21	32	30	104	104
Project loans	91	144	132	133	132	150	144	144
Amortization due	-74	-127	-130	-122	-132	-117	-105	-105
Debt relief and HIPC Initiative assistance 7/	44	109	112	113	98	76	68	68
T-bills and bonds issued in WAEMU	8	3	12	17	15	2	43	22
Domestic financing	-12	-8	-15	-28	39	132	33	-10
Banking system	-14	-49	-18	-45	41	78	90	47
Of which: T-bills and bonds	15	19	37	11	15	28	78	35
Nonbank financing	2	41	2	17	-2	54	-57	-57
Of which: arrears						56	-56	-56
Errors and omissions	0	-2	0	3	0	0	0	0
Financing gap (arrears)	0	0	0	0	0	0	0	0
Memorandum items:								
Airport travel tax earmarked for new airport (RDIA)	…	…	12	...	16	21	22	22
Grant received, assistance from the HIPC and MDRI Trusts	…	…	…	…	…	86	…	…
IMF MDRI savings on amortization and interest payments	…	…	…	…	…	20	18	18
MDRI debt relief from IDA and AfDF	…	…	…	…	…	1,109	…	…
IDA and AfDF MDRI savings on amortization and interest payments	…	…	…	…	…	22	35	35
HIPC Initiative expenditure 8/	28	29	69	69	53	33	26	26
Change in bank deposits of public entities without counterpart in the fiscal accounts	-28	9	…	-14	…	…	…	…
Gross domestic product	3,961	4,198	4,346	4,536	4,673	4,828	5,223	5,223

Sources: Senegalese authorities; and staff estimates and projections.

1/ Excludes project-related wages and salaries, which are included in capital spending.
2/ From 2006, reflects post full-MDRI debt service schedule.
3/ Excludes subsidies aimed at sector development policies, which are included in capital spending.
4/ Local governments, autonomous public sector entities (e.g. hospitals, universities), and the civil servants' pension fund (FNR).
5/ Defined as total revenue and grants minus total expenditure and net lending, excluding interest expenditure.
6/ Defined as total revenue minus total expenditure and net lending, excluding externally financed capital expenditure, on-lending, and HIPC/MDRI expenditure.
7/ Until 2005, includes HIPC Initiative debt relief accorded by the IMF, the World Bank, the African Development Bank, and Paris Club creditors.
8/ Refers to HIPC-financed capital and other expenditure.

Table 6. Senegal: Government Financial Operations, 2003–07 1/

	2003	2004	2005		2006		2007	
			IMF 06/127		IMF 06/127	Est. 1/	Authorities' fiscal prog.	Staff
			(Percent of GDP)					
Total revenue and grants	20.1	20.6	22.0	21.1	21.9	21.5	21.7	21.7
Revenue	18.2	18.5	20.2	19.4	20.0	19.7	19.9	19.9
Tax revenue	17.1	17.6	19.3	18.8	19.1	19.1	19.3	19.3
Nontax revenue	1.1	0.9	0.9	0.6	0.9	0.7	0.6	0.6
Grants	2.0	2.1	1.8	1.7	1.9	1.8	1.8	1.8
Total expenditure and net lending	21.7	23.5	25.6	24.3	25.8	27.3	27.3	26.0
Current expenditure	13.4	13.2	15.1	13.9	15.0	16.1	16.0	14.8
Wages and salaries	5.1	5.2	5.9	5.6	5.7	5.9	6.2	6.2
Interest payments 2/	1.1	1.1	1.0	0.9	1.0	0.8	0.6	0.6
Other current expenditure	7.1	6.9	8.3	7.3	8.3	9.4	9.2	7.9
Goods and services	3.5	3.5	3.6	3.6	3.9	4.2	4.4	4.2
Transfers and subsidies	3.6	3.2	4.5	3.6	4.2	4.9	4.6	3.5
Capital expenditure	8.5	9.8	9.8	10.0	10.1	10.7	10.8	10.8
Domestically financed	4.8	5.3	5.9	6.3	6.3	6.7	6.8	6.8
Externally financed	3.7	4.5	3.9	3.7	3.8	4.1	4.0	4.0
Net lending	-0.2	0.3	0.5	0.4	0.4	0.4	0.2	0.2
Temporary costs of structural reforms	0.0	0.3	0.1	0.1	0.3	0.1	0.3	0.3
Selected public sector entities balance 3/	0.3	-0.2	0.0	0.3	0.0	0.1	0.0	0.0
Primary fiscal balance 4/	-0.5	-1.8	-2.5	-2.4	-3.0	-5.0	-4.9	-3.7
Overall fiscal balance								
Payment order basis, excluding grants	-3.3	-5.2	-5.3	-4.7	-5.8	-7.4	-7.4	-6.1
Payment order basis, including grants	-1.3	-3.1	-3.5	-3.0	-4.0	-5.7	-5.5	-4.3
Basic fiscal balance 5/	1.3	0.5	0.9	1.2	-0.3	-1.3	-1.5	-0.3
Financing	1.3	3.1	3.5	3.0	4.0	5.7	5.5	4.3
External financing 2/	1.7	3.4	3.9	3.6	3.1	2.9	4.9	4.5
Domestic financing 2/	-0.3	-0.2	-0.3	-0.6	0.8	2.7	0.6	-0.2
Of which: accumulation of arrears						1.2	-1.2	-1.2
Errors and omissions	0.0	-0.1	0.0	0.1	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:			(Percent of GDP, unless otherwise indicated)					
Grant received, assistance from the HIPC and MDRI Trusts	…	…	…	…	…	1.8	…	…
IMF MDRI savings on amortization and interest payments	…	…	…	…	…	0.4	0.4	0.4
MDRI debt relief from IDA and AfDF	…	…	…	…	…	23.0	…	…
IDA and AfDF MDRI savings on amortization and interest payments	…	…	…	…	…	0.5	0.7	0.7
Airport travel tax earmarked for new airport (RDIA)	…	…	0.3	...	0.3	0.4	0.4	0.4
HIPC Initiative expenditure	0.7	0.7	1.6	1.5	1.1	0.7	0.5	0.5
Health expenditure	1.7	1.7	…	…	…	…	…	…
Education expenditure	4.7	4.8	…	…	…	…	…	…
Wages and salaries (in percent of fiscal revenue)	30.1	29.5	30.4	30.0	29.9	29.7	31.4	31.4
Gross domestic product (billions of CFA francs)	3,961	4,198	4,346	4,536	4,673	4,828	5,223	5,223

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

1/ Data expressed as a percentage of GDP cannot be compared with those presented in IMF Country Report 06/127, because new national accounts have been introduced since the issuance of the document, leading to an upward revision of nominal GDP.

2/ From 2006, reflects post full-MDRI debt service schedule.

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

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

5/ Defined as total revenue minus total expenditure and net lending, excluding externally financed capital expenditure, on-lending, and HIPC/MDRI expenditure.

Table 7. Senegal: Monetary Survey, 2003–07

	2003	2004	2005		2006		2007
			IMF 06/127		IMF 06/127	Est.	Proj.
	(Billions of CFA francs)						
Net foreign assets	551	676	739	660	783	735	751
Central Bank of West African States (BCEAO)	352	477	530	487	564	553	560
Commercial banks	199	199	209	173	220	182	191
Net domestic assets	730	770	939	894	1,078	1,014	1,194
Net domestic credit	849	881	1,047	1,032	1,188	1,159	1,342
Net credit to the government 1/	64	24	6	-35	48	-43	3
Central bank	176	108	54	84	80	61	73
Commercial banks	-117	-94	-57	-123	-42	-108	-73
Other institutions	6	10	10	4	10	4	4
Credit to the economy	785	857	1,041	1,067	1,140	1,202	1,339
Of which : crop credit	4	14	15	10	16	11	12
Other items (net)	-119	-111	-109	-138	-109	-145	-148
Broad money (M2)	1,281	1,446	1,678	1,553	1,862	1,749	1,945
Currency outside banks	338	344	350	378	373	398	427
Total deposits	943	1,102	1,328	1,176	1,489	1,351	1,518
Demand deposits	495	563	834	593	935	682	766
Time deposits	448	538	495	582	555	669	752
	(Change in percentage of beginning-of-period broad money stock)						
Net foreign assets	26.1	9.8	4.4	-1.2	2.6	4.9	0.9
BCEAO	22.0	9.8	3.7	0.7	2.0	4.3	0.4
Commercial banks	4.1	0.0	0.7	-1.8	0.6	0.6	0.5
Net domestic assets	5.4	3.1	11.7	8.6	8.3	7.7	10.3
Net credit to the government	-4.3	-3.1	-1.2	-4.1	2.4	-0.5	2.7
Credit to the economy	10.1	5.6	12.7	14.5	5.9	8.7	7.8
Other items (net)	-0.3	0.6	0.2	-1.8	0.0	-0.4	-0.2
Broad money (M2)	31.5	12.9	16.0	7.4	11.0	12.6	11.2
Memorandum items:	(Units indicated)						
Velocity (GDP/M2; end of period)	3.1	2.9	2.6	2.9	2.5	2.8	2.7
Nominal GDP growth (percentage growth)	6.5	6.0	7.9	8.0	7.5	6.4	8.2
Credit to the economy (percentage growth)	14.3	9.2	21.5	24.5	9.6	12.7	11.4
Credit to the economy/GDP (in percent)	19.8	20.4	24.0	23.5	24.4	24.9	25.6
Variation of net credit to the government (from previous year; billions of CFA francs)	-42.3	-40.2	-17.5	-59.2	41.0	-8.1	46.7
Central bank discount rate (end of period; in percent)	5.0	4.5	4.5	4.5	…	4.75	…

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

1/ There is a difference in government coverage of the fiscal and the monetary sectors. The change in bank deposits of public entities without counterparts in the fiscal accounts is shown as a memorandum item in Table 5. In 2006, the Fund MDRI-related cancellation of the central bank claim on the government is not reflected in the fiscal accounts, as they are presented on a cash basis. This operation is shown as memorandum item in Table 5.

Table 8. Senegal: Millennium Development Goals 1/

	1990	1995	2000	2005	2015
Goal 1. Eradicate extreme poverty and hunger					
Target 1: Halve between 1990 and 2015, the proportion of people whose income is less than one dollar a day					
1. Population below US$1 a day (percent)	…	…	...	...	
2. Poverty gap at US$1 a day (percent)	…	6.0	...	...	
3. National household survey poverty incidence 2/	…	67.9	...	*57.1*	
4. Share of income or consumption held by poorest 20 (percent)	...	6.0	...	...	
Target 2: Halve between 1990 and 2015, the proportion of people suffering hunger					
4. Prevalence of child malnutrition (percent of children under 5)	…	…	23.0	…	[10.8]
5. Population below minimum level of dietary energy consumption (percent)	...	...	…	...	
Goal 2. Achieve universal primary education					
Target 3: Ensure that, by 2015, children will be able to complete a full course of primary schooling					
6. Net primary enrollment ratio (percent of relevant age group)	47.3	...	68.3	79.9	[100.0]
7. Percentage of cohort reaching grade 5 (percent)	…	...	...	…	
8. Youth literacy rate (percent ages 15–24)	40.1	…	…	…	
Goal 3. Promote gender equality and empower women					
Target 4: Eliminate gender disparity in primary and secondary education preferably by 2005 and to all levels of education by 2015					
9. Ratio of girls to boys in primary and secondary education (percent)	68.5	...	83.9	*87.1*	[100.0]
10. Ratio of young literate females to males (percent ages 15–24)	60.4	...	...	...	
11. Share of women employed in the nonagricultural sector (percent)	26.0	...	...	...	
12. Proportion of seats held by women in national parliament (percent)	13.0	...	12.0	19.0	
Goal 4. Reduce child mortality					
Target 5: Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate					
13. Under 5 mortality rate (per 1,000)	148.0	143.0	139.0	*121.0*	[49.3]
14. Infant mortality rate (per 1,000 live births)	90.0	84.0	80.0	*61.0*	
15. Immunization, measles (percent of children under 12 months)	51.0	80.0	41.0	*75.0*	
Goal 5. Improve maternal health					
Target 6: Reduce by three-quarters, between 1990 and 2015, the maternal mortality rate					
16. Maternal mortality ratio (modeled estimate, per 100,000 live births)	510.0	...		*434*	[127.5]
17. Births attended by skilled health staff (percent)	38.0	…	...	*52.0*	[75]
Goal 6. Combat HIV/AIDS, malaria and other diseases					
Target 7: Halt by 2015, and begin to reverse, the spread of HIV/AIDS					
18. Prevalence of HIV (percent of population aged 15-24)	...	...	1.0	*1.5*	…
19. Contraceptive prevalence rate (percent of women aged 15-49)	0.0	0.0	0.0	…	
20. Number of children orphaned by HIV/AIDS	...	...	...	25000.0	

Table 8. Senegal: Millennium Development Goals (concluded) 1/

	1990	1995	2000	2005	2015
Target 8: Halt by 2015, and begin to reverse, the incidence of malaria and other major diseases					
21. Malaria incidence (notified cases, per 100,000 people)	...	...	...	...	
22. Malaria prevention (percent of population aged under 5 using insecticide-treated bed nets)	...	...	...	…	
23. Tuberculosis incidence (per 100,000 people)	203.3	…	…	...	
24. Tuberculosis cases detected under DOTS (percent)	…	61.0	54.0	...	
Goal 7. Ensure environmental sustainability					
Target 9: Integrate the principles of sustainable development into policies and programs. Reverse the loss of environmental resources					
25. Forest area (percent of total land area)	49.0	...	46.2	45.0	
26. Nationally protected areas (percent of total land area)	...	...	...	...	
27. GDP per unit of energy use (2000 PPP U.S. dollar per kilogram oil equivalent)	5.0	5.0	5.0	…	
28. CO_2 emissions (metric tons per capita)	0.0	0.0	0.0	…	
Target 10: Halve by 2015 proportion of people without access to safe drinking water					
29. Access to an improved water source (percent of rural population)	...	...	...	*65.0*	[82.0]
30. Access to an improved water source (percent of urban population)	66.0	...	78.0	*90.0*	[95.0]
Target 11: Achieve significant improvement in life of at least 100 million slum dwellers by 2020					
31. Access to improved sanitation (percent of rural population)	...	...	...	*19.1*	[59]
32. Access to improved sanitation (percent of urban population)	35.0	...	56.0	*60.0*	[78]
Goal 8. Develop a Global Partnership for Development					
Target 12: Develop and implement strategies for productive work for youth					
33. Youth unemployment rate (percent of total labor force ages 15–24)	...	...	...	...	
34. Fixed line and mobile telephones (per 1,000 people)	6.0	9.0	44.0	...	
35. Personal computers (per 1,000 people)	2.5	7.0	15.0	...	

Source: World Bank Staff and World Development Indicators.

1/ The data in italics refer to periods earlier than shown.

2/ The 2005 data come from the 2002/2003 national household survey.

Table 9. Senegal: Selected Medium-Term Economic and Financial Indicators, 2006–11

	2006	2007	2008	2009	2010	2011
	Est.	Proj.				
National income and prices	(Annual percentage change)					
GDP at constant prices	3.3	5.6	5.6	5.2	5.0	5.0
Of which : nonagriculture GDP	2.6	5.3	5.7	5.3	5.1	5.1
GDP deflator	3.1	2.5	2.3	2.2	1.8	1.8
Consumer prices						
Annual average	1.9	1.9	2.2	2.0	1.6	1.6
End of period	2.2	2.0	2.2	2.0	1.6	1.6
External sector						
Exports, f.o.b. (in CFA francs)	-7.9	14.6	10.9	10.0	9.4	9.3
Imports, f.o.b. (in CFA francs)	11.5	4.3	4.6	6.8	6.6	7.2
Export volume	-12.5	11.8	12.9	11.0	10.7	10.3
Import volume	1.9	5.2	4.7	7.2	6.3	7.0
Terms of trade (deterioration (-))	-3.1	3.3	-2.8	-0.5	-1.5	-1.2
Government financial operations	(Percent of GDP, unless otherwise indicated)					
Revenue	19.7	19.9	19.9	19.4	19.5	19.5
Grants	1.8	1.8	1.8	1.8	1.8	1.8
Total expenditure and net lending	27.3	26.0	25.7	25.3	25.3	25.4
Of which : capital expenditure	10.7	10.8	10.9	11.0	11.0	11.0
Domestically financed	6.7	6.8	6.9	7.0	6.9	7.1
Externally financed	4.1	4.0	4.0	4.0	4.0	3.9
Overall fiscal surplus or deficit (-)						
Commitment basis, excluding grants	-7.4	-6.1	-5.8	-5.8	-5.8	-5.8
Commitment basis, including grants	-5.7	-4.3	-4.0	-4.0	-4.0	-4.0
Primary fiscal balance 1/	-5.0	-3.7	-3.4	-3.4	-3.4	-3.4
Basic fiscal balance 2/	-1.3	-0.3	-0.4	-0.5	-0.6	-0.6
Gross domestic investment	24.8	25.9	27.0	27.9	28.4	29.0
Government	10.7	10.8	10.9	11.0	11.0	11.0
Nongovernment	14.1	15.1	16.0	16.8	17.4	18.0
Gross domestic savings	5.1	8.3	10.9	12.4	13.4	14.2
Government	4.7	6.9	7.1	7.8	7.7	7.8
Nongovernment	0.4	1.3	3.8	4.6	5.7	6.4
Gross national savings	12.9	15.9	18.2	19.8	20.8	21.7
External current account deficit (-)						
Excluding current official transfers	-13.3	-11.3	-10.0	-9.4	-8.8	-8.5
Including current official transfers	-12.0	-10.0	-8.8	-8.1	-7.6	-7.3
Central government domestic debt 3/	3.3	4.0	4.7	5.4	6.0	6.6
External public debt (nominal) 3/ 4/	17.0	18.2	18.5	18.9	19.5	20.0
NPV of public external debt 4/ 5/	13.0	12.6	12.3	12.5	12.8	13.1
NPV of public external debt (percent of exports) 4/ 5/	55.0	52.0	50.1	50.0	50.4	50.9
External public debt service (percent of exports) 4/	6.3	5.0	4.4	4.1	3.8	3.0
Percent of government revenue	7.5	6.1	5.5	5.2	4.9	4.0
GDP at current market prices (billions of CFA francs)	4,828	5,223	5,642	6,062	6,481	6,927

Source: Senegalese authorities; and Fund staff estimates and projections.

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

2/ Defined as total revenue minus total expenditure and net lending, excluding externally financed capital expenditure, on-lending, and expenditure financed with HIPC Initiative and MDRI assistance.

3/ Debt outstanding at year-end.

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

5/ Including programmed new debt.

Table 10. Senegal: Medium-Term Balance of Payments, 2006–11

	2006	2007	2008	2009	2010	2011
	Est.			Proj.		
	(Billions of CFA francs, unless otherwise indicated)					
Current account	-579	-521	-497	-491	-492	-504
Balance on goods	-935	-899	-886	-915	-946	-991
Exports, f.o.b.	746	854	948	1,043	1,141	1,247
Imports, f.o.b.	-1,681	-1,753	-1,834	-1,958	-2,087	-2,238
Services and incomes (net)	-83	-84	-114	-118	-127	-137
Credits	479	498	527	561	597	634
Debits	-562	-582	-641	-679	-724	-772
Unrequited current transfers (net)	440	462	503	542	582	624
Private (net)	381	399	433	467	501	537
Public (net)	58	63	70	76	81	87
Capital and financial account	551	469	442	449	476	491
Capital account 1/	1,236	84	85	91	98	104
Private capital transfers	6	6	0	0	0	0
Project grants	72	79	85	91	98	104
Debt cancellation and other transfers	1,159	0	0	0	0	0
Financial account	-686	384	357	357	378	386
Direct investment	74	79	91	103	114	127
Portfolio investment	4	39	40	41	41	41
Other investment	-764	266	226	214	223	218
Public sector (net)	-1,046	144	103	114	132	138
Of which : disbursements	180	249	203	218	233	239
program loans	30	104	53	57	61	65
project loans	150	144	150	161	173	174
other	0	0	0	0	0	0
amortization	-1,226	-105	-100	-104	-101	-100
Private sector (net)	281	122	123	100	91	80
Errors and omissions	0	0	0	0	0	0
Overall balance	-28	-52	-55	-42	-15	-14
Financing	28	52	55	43	15	14
Net foreign assets (BCEAO)	-67	-7	-6	-18	-45	-54
Deposit money bank	-9	-9	-10	-10	-11	-11
Exceptional financing 1/ 2/	104	68	71	71	71	79
Residual financing gap	0	0	0	0	0	0
Memorandum items:						
Current account balance						
As percentage of GDP (including current official transfers)	-12.0	-10.0	-8.8	-8.1	-7.6	-7.3
As percentage of GDP (excluding current official transfers)	-13.3	-11.3	-10.0	-9.4	-8.8	-8.5
Gross official reserves	659	667	675	694	740	793
(months of imports of GNFS)	3.8	3.7	3.5	3.4	3.4	3.4
Nominal GDP (billions of CFA francs)	4,828	5,223	5,642	6,062	6,481	6,927

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

1/ Reflects MDRI stock debt relief in 2006. Debt relief from the Fund is recorded as a capital transfer. Debt relief from the IDA and the AfDF on the amounts falling due in 2006 is shown as exceptional financing, while debt relief on amounts due in 2007 and beyond is recorded as a capital transfer.

2/ Until 2005, HIPC Initiative flow debt relief granted by the IMF is recorded as a grant, and that granted by the World Bank, the African Development Bank, Paris Club creditors, and Kuwait is recorded as exceptional financing.

Table 11. Financial Soundness Indicators for the Banking Sector, 2001–06

(Percent)

	2001 Dec.	2002 Dec.	2003 Dec.	2004 Dec.	2005 Dec.	2006 Aug.
Capital Adequacy 1/						
Capital to risk weighted assets	16.8	16.0	12.1	11.9	11.1	14.2
Regulatory capital to risk weighted assets	16.8	15.5	11.7	11.5	10.8	14.1
Capital to total assets	9.7	10.3	7.8	7.7	7.6	8.1
Asset composition and quality						
Total loans to total assets	59.4	58.3	59.6	57.1	64.0	60.0
Concentration: loans to 5 largest borrowers to capital	107.7	104.9	141.0	131.4	179.9	109.9
Sectoral distribution of loans						
Industrial	33.1	36.4	41.1	33.6	35.5	30.3
Retail and wholesale trade	23.6	22.2	19.9	19.3	17.0	16.8
Services, transport and communications	16.3	17.5	17.2	27.4	28.0	30.4
Gross NPLs to total loans 1/	17.8	18.5	13.3	12.6	11.9	16.0
Provisions to NPLs	70.2	70.5	75.3	75.7	75.4	56.4
NPLs net of provisions to total loans	5.6	5.5	3.3	3.4	3.2	7.7
NPLs net of provisions to capital	34.3	30.7	27.8	25.1	27.2	57.0
Earnings and Profitability						
Average cost of borrowed funds	2.4	2.2	1.8	1.9	...	…
Average interest rate on loans	10.1	9.7	8.7	8.3	...	…
Average interest margin 2/	7.7	7.6	6.7	6.4	...	…
After-tax return on average assets	1.6	1.8	1.8	1.8	...	…
After-tax return on average equity	18.6	21.1	22.1 3/	17.6	...	…
Noninterest expenses/net banking income	44.5	45.5	48.9	48.7	...	…
Salaries and wages/net banking income	19.9	20.6	21.8	21.5	...	…
Liquidity						
Liquid assets to total assets	…	65.1	66.5	66.4	…	…
Liquid assets to total deposits	…	82.9	81.0	82.0	…	…
Total deposits to total liabilities	75.5	78.5	82.0	79.6	78.3	75.1

Source: Senegalese authorities.

1/ ICS loans backed by government guarantees have a 20 percent weight in the risk-weighted assets. Banks have not made provisions against the overdue amount (about ½ of the total). Total ICS debt with banks is approximately ⅓ of the total capital of the banking system.

2/ Excluding the tax on banking operations.

3/ Estimation for 2003.

Table 12. Senegal: Priority Measures for Enhancing the Performance of the Financial Sector

Objective	Measures	Timetable
Improve the legal and judicial environment	Boost resources allocated to the judicial system to:	2006 Budget Law. Implemented
	• Enhance the performance of the offices of the clerks of courts	June 2006 Not implemented
	• Institute a specialized window to expedite procedures for the realization of collateral	June 2006 Not implemented
	• Create specialized chambers within the Dakar courts to handle commercial, financial, and banking cases so as to simplify and expedite procedures for the realization of collateral	June 2006 Not implemented
	• Increase the number of judges trained in economic and financial matters and ensuring that court cases are handled regularly throughout the year (including during the judicial holiday period)	During 2006 Not implemented
Improve prudential regulation	Bring the following measures to the attention of the president of the Council of Ministers of the WAEMU:	Minister of Finance's letter sent in October 2005.
	• Raise the minimum capital adequacy ratio	
	• Adopt a law on bank failure in accordance with best international practices	No follow up in BCEAO
Improve access to credit for SMEs	• Streamline the guarantee funds and the existing interest subsidy mechanisms, as well as their management	December 2006 Not implemented
	• Provide technical, financial, and institutional assistance (through the Private Investment Promotion Project) to the National Association of Chartered Accountants (ONECCA) to promote the preparation of certified financial statements and prevent the illegal performance of accounting functions	Ongoing from September 2005. Not implemented
	• Ensure the effectiveness of the ONECCA disciplinary unit	December 2006 Not implemented

Appendix 1. Senegal: Joint Fund-World Bank Debt Sustainability Analysis

This analysis assesses the sustainability of Senegal's external public debt and total public debt. The debt sustainability analysis (DSA) was conducted jointly by the staffs of the IMF and the World Bank, using the joint Bank-Fund framework for debt sustainability analysis for low-income countries (LIC). The data in this DSA were updated by Fund staff and Senegalese authorities during the October 2006 Article IV consultation mission.

1. **The risk of debt distress in Senegal is low during the period 2006–26, given the low current level of debt, and assuming the fiscal deficit remains below 4 percent of GDP on the average, real interest rates remain below real GDP growth rate, and the inflow of concessional funds is sustained at historical levels.**[1] Under the baseline scenario, which assumes fiscal deficit and inflow of concessional funds aligned with historical trends, the net present value (NPV) of total (domestic and external) public and publicly guaranteed (PPG) debt-to-GDP ratio will remain below its policy-dependent threshold during the whole projection period. The total PPG debt service-to-revenues ratio (including short-term debt service) will nevertheless double to 30 percent in five years if the average maturity of new debt remains at the current one year. Debt burden indicators worsen significantly if borrowing terms deteriorate or if the fiscal deficit remains high.

I. Background

2. **Senegal's debt sustainability indicators improved substantially after the enhanced HIPC Initiative and the Multilateral Debt Relief Initiative (MDRI).** Senegal reached its HIPC floating completion point in April 2004, when it received debt relief of about US$488 million in NPV terms (about US$850 million in nominal terms).[2] Debt relief under the HIPC has been granted by Kuwait and all Paris Club creditors except Sweden. China has committed to cancel all Senegal's debt. In 2005, Senegal qualified for further debt cancellation under the MDRI when the IMF, the International Development Association (IDA), and the African Development Fund (AfDF) cancelled their claims on Senegal amounting to about US$1.4 billion in nominal terms (19 percent of 2006 GDP in NPV terms).[3] As a result of these two initiatives, the NPV of external PPG debt outstanding is estimated to have amounted to 13 percent of GDP at end-2006. Public domestic debt is estimated at about 3 percent of GDP, of which two-thirds is long term.

---

[1] The risk of debt distress is considered low if all debt indicators are well below relevant country-specific debt-burden thresholds and stress testing does not result in indicators significantly breaching thresholds.

[2] See *Senegal: Enhanced Initiative for HIPC-Completion Point Document* (IMF Country Report 04/130)

[3] MDRI debt relief from the IMF became effective in January 5, 2006, providing stock relief on debt disbursed before end-2004 and still outstanding at end-2005. IDA and the AfDF started providing debt relief in July 2006. The eligible debt covers IDA credits disbursed before end-2003 and AfDF credits disbursed before end-2004 that are still outstanding at the time of qualification.

3. **The exposure of the private sector also appears limited.** The International Investment Position compiled by the BCEAO for end-2004 indicates that the stock of private external debt (net of private external assets) is only 9 percent of GDP. The net private external debt includes trade credit (2 percent of GDP), currency and deposits owed by Senegalese banks to nonresidents (3 percent of GDP) and loans taken abroad (3 percent of GDP).

II. Methodology and Baseline scenario

4. **Following the guidelines of the LIC DSA framework, staffs have analyzed the evolution of the total public debt stock and debt service indicators for Senegal subject to a baseline scenario and a series of stress tests.**[4] The stress tests are designed to assess a country's probability of facing debt distress in the future.[5] The analysis is guided by indicative, country-specific external PPG debt-burden thresholds, which take into account the empirical finding that the external debt levels that a low-income country can sustain increase with the quality of its policies and institutions. The quality of policies and institutions is measured by the World Bank's 2005 Country Policy and Institutional Assessment (CPIA), according to which Senegal ranks as a "strong performer." The indicative external debt-burden thresholds for countries in this category are: (i) an NPV of external PPG debt-to-GDP ratio of 50 percent; (ii) an NPV of external PPG debt-to-exports ratio of 200 percent; (iii) an NPV of external PPG debt-to-revenue ratio of 300 percent; (iv) an external PPG debt service-to-exports ratio of 25 percent; (v) and an external medium and long-term PPG debt service-to-revenue ratio of 35 percent.

5. **Broadly in line with the PRSP II, the baseline scenario assumes that:**

- Economic performance will follow the trends observed during 2000–05 (Box 1 and Table 3). Economic growth will recover from around 3.3 percent in 2006 and range between 4.9 and 5.6 percent during 2007–26—3.8 percentage points higher than the average real interest rate on public debt over the period. The projected recovery in 2007–8 will be induced by the decline in international oil prices and the resolution of the financial crisis in Senegal's largest company (*Industries Chimiques du Sénégal*

---

[4] See "Operational Framework for Debt Sustainability Assessments in Low-Income Countries—Further Considerations," March 28, 2005 (www.imf.org). The new framework introduces some methodological changes in the calculation of the NPV of debt compared to the HIPC methodology by using (a) a fixed 5 percent discount rate instead of currency specific discount rates (under HIPC), (b) WEO exchange rate projections instead of fixed exchange rates as of the end of the base year and (c) annual exports instead of a three-year average of exports as the denominator in the NPV of debt-to-exports ratio.

[5] The standard stress tests conducted for Senegal for external DSA are listed in Table 2 and for fiscal DSA in Table 4. The most extreme stress tests (worst case scenarios) depicted in Figures 1 and 2 and detailed in Box 2 are those with the worst indicator in 2016.

- ICS).[6] Beyond 2008, the reforms to improve the business environment will boost private investment and sustain economic growth close to the trend level of 5.1 percent per year observed in 2000–05.[7]

- The overall fiscal deficit (including transfers) will remain below 4 percent of GDP over 2007–26 on the average.

- The external current account deficit will decline during 2007–26 as export growth exceeds that of imports (Box 1 and Table 1). Growth in the exports of goods will outpace the growth in GDP in 2007–26 as ICS, which accounts for about 10 percent of total exports, will gradually resume its activities during 2007–08, and structural reforms expand the export base. Imports as a percentage of GDP will fall in 2007–08 as oil prices decline and the local refinery resumes its operations. Remittances will grow slightly faster than GDP during the entire projection period, in line with recent trends.

- External borrowing on concessional terms will remain constant at trend level of about 3.5 percent of GDP throughout the projection period, with an average grant element of 45.3 percent (1.6 percent of GDP). The authorities intend to borrow abroad only on concessional terms. Financing needs of the public sector beyond that level will be covered almost entirely by short-term domestic borrowing on nonconcessional terms, which is consistent with the debt management policy implemented in recent years.

---

[6] The price of oil is assumed to decline to US$59 per barrel, at end-2006 from US$68 in mid-2006, and rise to US$64 at end-2008. It is projected to decline again to US$59 at end-2011 and stabilize at that level for the rest of the projection period.

[7] Excluding 2002, when a severe drought reduced real GDP growth to 0.7 percent.

Box 1. Senegal: Baseline Scenario (2007–26) - Main Assumptions

Real GDP growth	projected to average 5 percent per year
The external current account deficit	will decline from 12 percent of GDP in 2006 to 5.3 percent of GDP in 2026.
The primary fiscal deficit	will decline from 5 percent of GDP in 2006 to remain around 3.1 percent of GDP during 2007–26, which is consistent with historical performance.
External grants and concessional loans	will remain constant at 3.5 percent of GDP, with a grant element of 45.3 percent (1.6 percent of GDP).
New public sector domestic borrowing	assumed to be composed of 95 percent of short-term securities and 5 percent of long-term bonds.
Interest rate on private and domestic PPG debt	assumed to average 4.5 percent.

III. External Sustainability Analysis

6. **Under the baseline scenario, Senegal's external PPG debt-burden indicators remain below the thresholds throughout the projection period.** The NPV of external PPG debt-to-GDP ratio will rise slightly from 13 percent in 2006 to 15 percent by 2026 under this scenario, below the policy-dependent threshold of 50 percent for a strong performer such as Senegal. Similarly, the NPV of external PPG debt-to-exports ratio and the external PPG debt service-to-exports ratio are projected to remain under 56 and 6 percent, respectively, during the whole projection period, below their respective policy-dependent thresholds (Figure 1 and Table 2).

7. **External debt sustainability indicators remain below the thresholds in case of all standard temporary shocks, including the most extreme.**[8] The most extreme stress test for Senegal consists of a combined two-year decline in GDP growth, export growth, capital inflows, and a reduction in GDP in US dollars (Box 2).[9] External PPG debt and debt service will rise sharply as a result of such a shock, but will remain below the thresholds during the projection period (Figure 1, Table 2).

[8] The effect of fiscal slippages on total PPG debt is analyzed in the next section. The tests assume that balance-of-payments gaps are financed by public sector borrowing. External PPG debt indicators remain unchanged if the balance-of-payments gaps are financed by private sector borrowing.
[9] The magnitude of the shocks in the worst case scenarios is substantially more severe than the effect of delaying the resumption of ICS for one year, in which case GDP growth rate would be around 1.5 percentage point below the baseline scenario in 2007.

Box 2. Senegal: Standard Stress Tests (temporary shocks)

	Baseline scenario	Worst-case scenarios for PPG debt sustainability	
		External DSA	Fiscal DSA (domestic and external)
Real GDP growth rate (percent)	5.0	3.3 in 2007–08	2.3 in 2007–08
Exports (in $) growth rate (percent)	8.2	–1.0 in 2007–08	8.2
Net current transfers (percent of GDP)	8.8	4.5 in 2007–08	8.8
GDP (in $) deflator (percent change)	2.1	–2.9 in 2007–08	2.1

8. **The debt indicators are sensitive to borrowing terms.** If all new external borrowing (3.5 percent of GDP annually on average) is concessional with an average grant element of 45.3 percent, the NPV of external PPG debt-to-GDP ratio will rise by only 2 percentage points in the projection period. However, it will grow by 21 percentage points and reach 34 percent in 2026 if all new external borrowing is nonconcessional (Figure 1 and Table 2). In this case, the debt indicators remain below the threshold during the projection period but continue to grow and eventually breach the thresholds after the end of the projection period. If financing under the worst case shock is nonconcessional, the NPV of external PPG debt-to-GDP ratio in 2008 will be 10 percentage points higher than if it is concessional (Figure 1). These results underline the need for the government to adhere strictly to the policy of borrowing externally only on concessional terms.

IV. Fiscal Sustainability Analysis

9. **Under the baseline scenario, the public debt indicators mirror the external debt indicators.** The NPV of total PPG debt-to-GDP ratio and the NPV of total PPG debt-to-exports ratio will remain low during the entire projection period, even though the domestic portion of the total public debt is nonconcessional. The medium and long-term debt service-to-revenues ratio will similarly remain low under the baseline scenario (Box 1, Figure 2, Tables 3 and 4).

10. **The government may face rollover difficulties over the next 5 to 10 years owing to the growing share of short-term domestic debt (Figure 3).** If the current policy of issuing short-term securities to close the financing gap continues in the medium-term, the total PPG debt service-to-revenue ratio (including short-term debt service) will double to 30 percent by 2011 before stabilizing at a high level, around 42 percent, over the rest of the

period.[10] These projections underline the need for Senegal to extend the maturities of public debt securities and to develop a liquid primary and secondary market for government debt.

11. **Fiscal debt sustainability hinges on the reduction of the fiscal deficit to below 4 percent of GDP on the average.** If the fiscal deficit remains at its 2006 level of 5.7 percent of GDP (equivalent to a primary deficit of 5.0 percent of GDP) during the entire projection period, the NPV of total PPG debt-to-GDP ratio will reach 50 percent in 2021. The financing needs caused by the accumulated deficits could crowd out the private sector. The NPV of total debt-to-revenue ratio and debt service-to-revenue ratio (including short-term debt service) will follow similar trajectories, reaching 268 and 197 percent by 2026, respectively. This prospect highlights once again the need for the authorities to pursue a prudent fiscal policy over the medium term (Figure 2 and Tables 3 and 4).

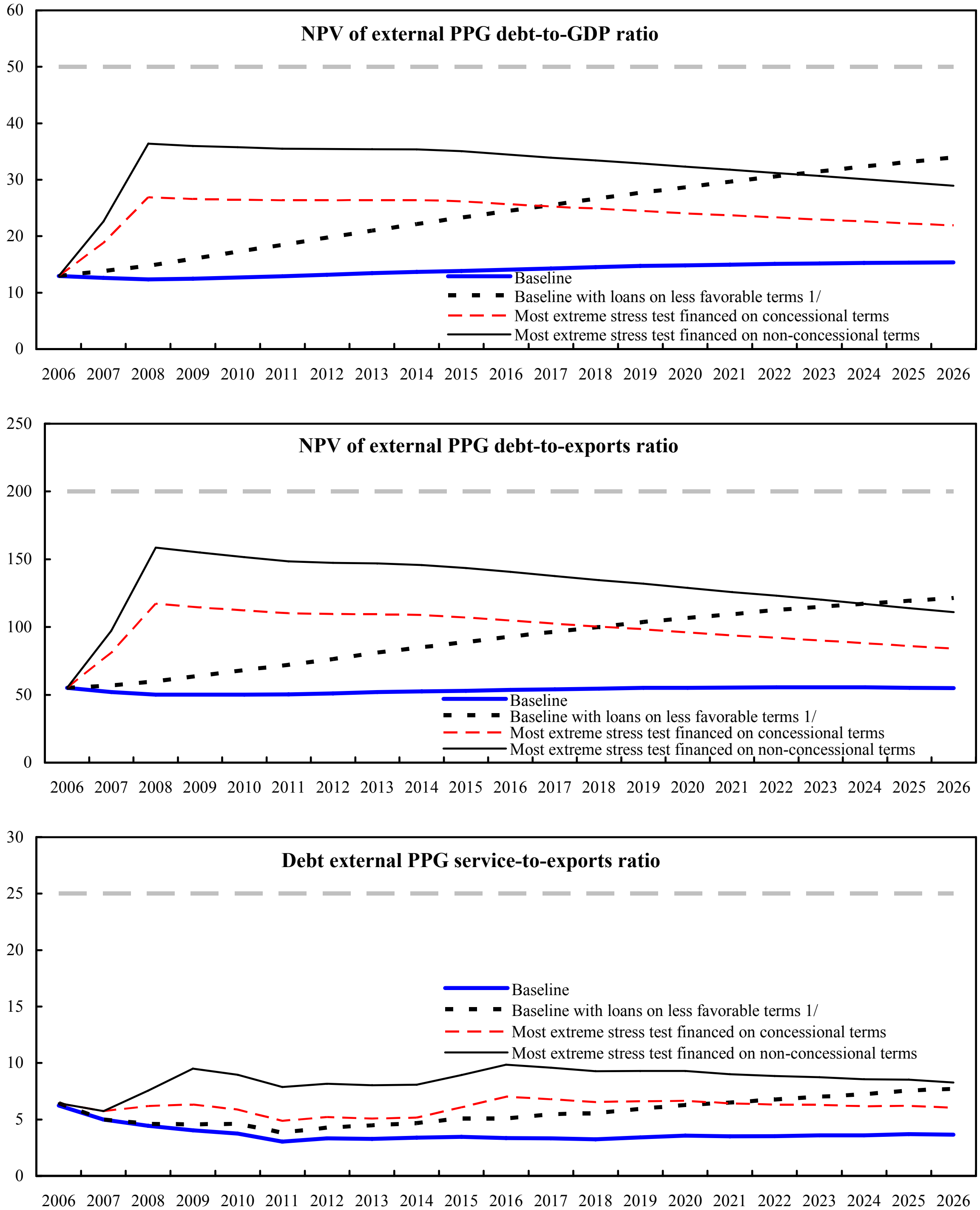
12. **Temporary adverse shocks will require additional fiscal adjustment to reduce domestic borrowing and stabilize public debt.** The most extreme shock for fiscal DSA, which involves GDP growth rate falling to 2.3 percent a year in 2007 and 2008 (equivalent to one standard deviation below its historical average), would raise the NPV of total PPG debt-to-GDP ratio to 50 percent by the end of the projection period. The NPV of total PPG debt-to-revenues ratio would follow a similar trajectory and reach 200 percent in 2022. The realization of the government's existing contingent liabilities (about 10 percent of GDP in 2007—see Selected Issues (www.imf.org) will have a less severe impact on debt sustainability than the worst-case scenario. To ensure that debt indicators remain within reasonable limits in case of a shock, the fiscal deficit should be reduced below the level assumed under the baseline scenario (Box 2, Figure 2 and Table 4).

V. CONCLUSION

13. **The risk of debt distress remains low.** Debt indicators rise steeply during the projection period only if the overall fiscal deficit remains at its 2006 level of 5.7 percent of GDP, or the average maturity of new domestic debt remains at one year or less. Beyond 2026, the debt distress may arise only if GDP does not grow as projected, or all borrowing is on nonconcessional terms. In these cases, additional fiscal adjustment will be needed to ensure that the risk of debt distress stays low. This DSA highlights the need for Senegal to continue to adopt strict fiscal discipline, a prudent strategy regarding borrowing on non-concessional terms, and appropriate debt management policies.

[10] See "Operational Framework for Debt Sustainability Assessments in Low-Income Countries—Further Considerations," March 28, 2005 (www.imf.org).

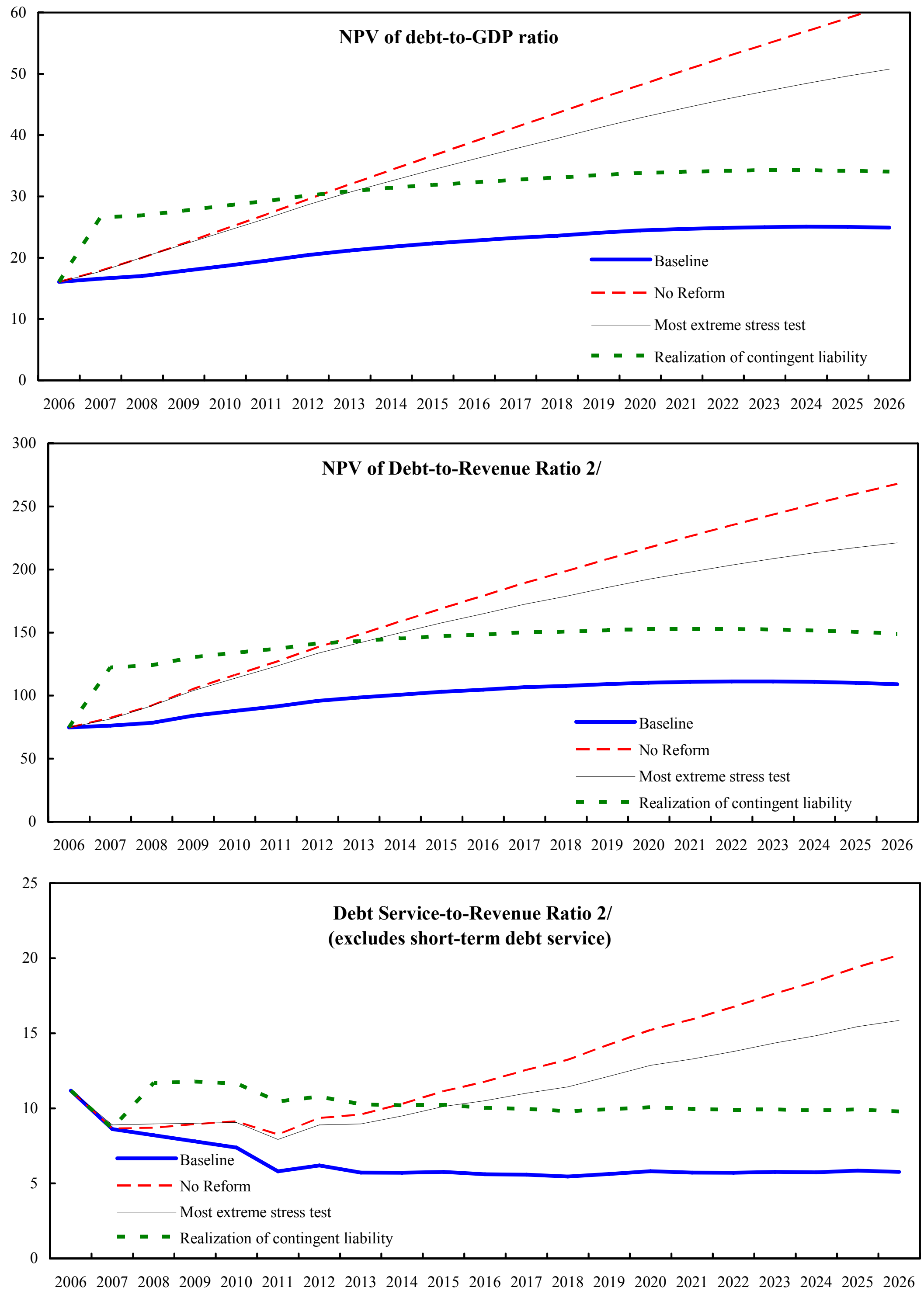
Figure 1. Senegal: Indicators of External PPG Debt Under Alternative Scenarios, 2006-2026 (In percent)



Source: Staff projections and simulations.

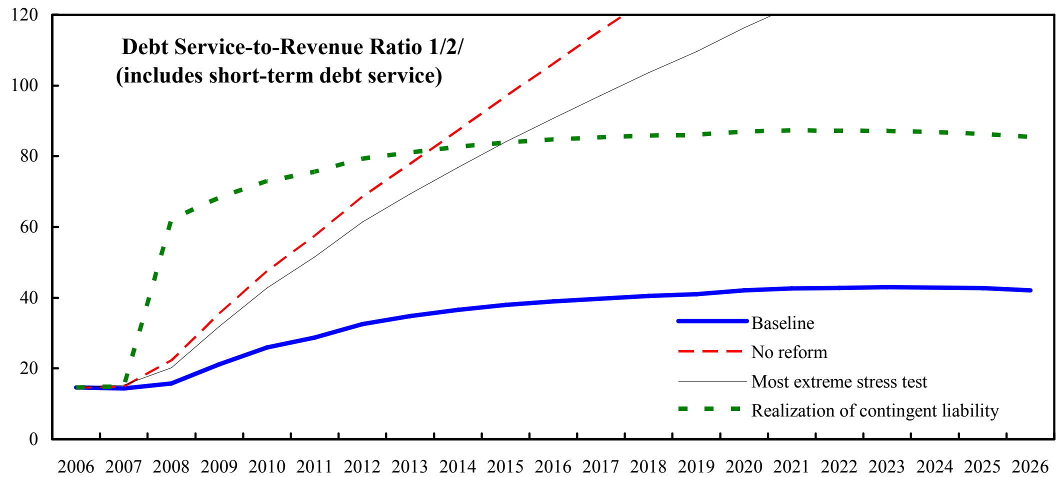
1/ Assumes that the interest rate on new borrowing is 3.5 percentage points higher than in the baseline, while grace and maturity periods are the same as in the baseline.

Figure 2. Senegal: Indicators of Total PPG Debt Under Alternative Scenarios, 2006-2026 1/



Source: Staff projections and simulations.
1/ Most extreme stress test is test that yields highest ratio in 2016.
2/ Revenue including grants.

Figure 3. Senegal: Indicators of Total PPG Debt Under Alternative Scenarios, 2006-2026 1/



Source: Staff projections and simulations.
1/ Most extreme stress test is test that yields highest ratio in 2016.
2/ Revenue including grants.

Table 1. Senegal: External PPG Debt Sustainability Framework, Baseline Scenario, 2006-2026 1/
(In percent of GDP, unless otherwise indicated)

	Actual						Historical Average 6/	Standard Deviation 6/	Projections									
	2000	2001	2002	2003	2004	2005			2006	2007	2008	2009	2010	2011	2006-11 Average	2016	2026	2012-26 Average
External debt (nominal) 1/	**76.1**	**74.0**	**81.5**	**72.6**	**70.9**	**61.2**			**43.1**	**43.7**	**44.0**	**44.0**	**44.1**	**44.0**		**43.1**	**38.4**	
o/w public and publicly guaranteed (PPG)	64.7	62.7	66.6	55.6	47.9	40.8			17.3	18.3	18.5	18.9	19.6	20.1		22.8	28.6	
Change in external debt	1.4	-2.1	7.5	-8.9	-1.7	-9.7			-18.1	0.7	0.2	0.0	0.2	-0.2		-0.2	-0.7	
Identified net debt-creating flows	12.5	0.6	-1.8	-12.2	-5.0	1.5			8.6	6.3	4.9	4.3	3.8	3.4		2.7	1.0	
Non-interest current account deficit	**5.1**	**3.4**	**4.2**	**4.7**	**4.8**	**6.9**	**3.9**	**1.8**	**11.2**	**9.3**	**7.7**	**7.1**	**6.6**	**6.3**	**8.1**	**5.8**	**4.4**	5.4
Deficit in balance of goods and services	9.3	9.0	10.4	12.2	12.8	15.7			19.8	17.6	16.0	15.5	15.0	14.8		14.4	13.2	
Exports	27.9	28.7	28.5	26.8	27.4	26.2			23.6	24.3	24.6	24.9	25.3	25.7		26.3	28.0	
Imports	37.2	37.8	39.0	39.0	40.2	41.9			43.4	41.9	40.7	40.4	40.3	40.4		40.7	41.2	
Net current transfers (negative = inflow)	-4.6	-6.2	-7.0	-7.9	-8.1	-9.1	-5.7	2.3	-9.1	-8.8	-8.9	-8.9	-9.0	-9.0	**-9.0**	-9.1	-9.4	-9.2
Other current account flows (negative = net inflow)	0.5	0.6	0.8	0.4	0.1	0.2			0.6	0.5	0.6	0.6	0.6	0.6		0.6	0.6	
Net FDI (negative = inflow)	**-1.3**	**-0.8**	**-0.8**	**-0.7**	**-0.8**	**-1.2**	**-1.2**	**0.8**	**-1.5**	**-1.5**	**-1.6**	**-1.7**	**-1.8**	**-1.8**	**-1.7**	**-2.0**	**-2.2**	-2.0
Endogenous debt dynamics 2/	**8.7**	**-2.0**	**-5.2**	**-16.1**	**-8.9**	**-4.3**			**-1.1**	**-1.5**	**-1.2**	**-1.1**	**-1.1**	**-1.1**		**-1.2**	**-1.2**	
Contribution from nominal interest rate	1.4	1.0	1.3	1.5	1.4	1.1			0.7	0.7	1.1	1.0	1.0	0.9		0.9	0.6	
Contribution from real GDP growth	-2.6	-3.4	-0.4	-4.3	-3.5	-3.6			-1.9	-2.2	-2.3	-2.1	-2.1	-2.0		-2.0	-1.8	
Contribution from price and exchange rate changes	9.9	0.4	-6.1	-13.4	-6.8	-1.8			…	…	…	…	…	…		…	…	
Residual (3-4) 3/	**-11.1**	**-2.7**	**9.3**	**3.2**	**3.3**	**-11.2**			**-26.7**	**-5.6**	**-4.7**	**-4.3**	**-3.6**	**-3.6**		**-2.9**	**-1.7**	
o/w exceptional financing	-0.1	-0.4	-0.6	-1.0	-13.1	-2.3			-27.2	-1.3	-1.3	-1.2	-1.1	-1.1		-0.8	-0.4	
NPV of external debt 4/	...	...	...	...	...	33.1			38.8	38.1	37.8	37.5	37.3	36.8		34.4	25.1	
In percent of exports	...	...	...	...	...	126.4			164.5	156.9	153.5	150.5	147.4	143.5		130.9	89.8	
NPV of PPG external debt	**...**	**...**	**...**	**...**	**...**	**12.7**			**13.0**	**12.6**	**12.3**	**12.5**	**12.7**	**12.9**		**14.1**	**15.4**	
In percent of exports	...	...	...	...	...	48.5			55.0	52.0	50.1	50.0	50.2	50.3		53.6	54.9	
Debt service-to-exports ratio (in percent)	12.6	16.8	15.6	15.8	23.6	21.6			16.2	13.4	17.8	17.3	16.7	15.6		13.9	8.8	
PPG debt service-to-exports ratio (in percent)	8.8	8.4	9.5	8.8	12.7	11.7			6.2	5.0	4.4	4.0	3.8	3.0		3.3	3.7	
Total gross financing need (billions of U.S. dollars)	0.3	0.4	0.4	0.6	0.8	1.0			1.2	1.1	1.2	1.2	1.2	1.2		1.4	1.8	
Non-interest current account deficit that stabilizes debt ratio	3.7	5.5	-3.3	13.6	6.5	16.6			29.3	8.6	7.5	7.1	6.4	6.5		6.0	5.1	
Key macroeconomic assumptions																		
Real GDP growth (in percent)	3.2	4.6	0.7	6.7	5.6	5.5	4.4	2.0	3.3	5.6	5.6	5.2	5.0	5.0	4.9	5.0	5.0	5.0
GDP deflator in US dollar terms (change in percent)	-11.7	-0.5	8.9	19.6	10.4	2.6	1.9	9.5	3.4	4.8	2.8	2.5	2.3	2.6	3.1	1.8	1.9	1.8
Effective interest rate (percent) 5/	1.7	1.3	2.0	2.4	2.2	1.7	2.0	0.4	1.3	1.8	2.6	2.4	2.4	2.3	2.1	2.2	1.6	2.0
Growth of exports of G&S (US dollar terms, in percent)	-11.9	7.0	9.0	19.7	19.3	3.4	4.4	10.8	-3.8	13.8	10.1	9.2	9.0	9.2	7.9	7.2	7.7	7.5
Growth of imports of G&S (US dollar terms, in percent)	-3.3	5.5	13.1	27.7	20.1	13.0	7.8	11.4	10.4	6.9	5.4	7.2	7.1	8.0	7.5	6.9	6.9	7.0
Grant element of new public sector borrowing (in percent)		...	...	...	...	...	...	...	40.9	45.3	53.5	45.0	45.2	47.1	46.2	45.6	45.6	45.6
Memorandym item:																		
Nominal GDP (billions of US dollars)	4.7	4.9	5.4	6.8	8.0	8.6			9.2	10.2	11.1	11.9	12.8	13.8		19.3	37.5	

Source: Staff simulations.

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 NPV of private sector debt is equivalent to its face value.
5/ Current-year interest payments devided by previous period debt stock.
6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 2. Senegal: Sensitivity Analyses for Key Indicators of External PPG Debt, 2006-26 1/
(In percent)

	Projections							
	2006	2007	2008	2009	2010	2011	**2016**	2026
NPV of debt-to-GDP ratio								
Baseline	13	13	12	12	13	13	**14**	15
A. Alternative Scenario								
New public sector loans on less favorable terms in 2007-26 2/	13	14	15	16	17	18	**24**	34
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2007-08	13	13	13	13	14	14	**15**	16
B2. Export value growth at historical average minus one standard deviation in 2007-08 3/	13	17	24	24	24	24	**24**	21
B3. US dollar GDP deflator at historical average minus one standard deviation in 2007-08	13	14	16	16	16	16	**18**	19
B4. Net non-debt creating flows at historical average minus one standard deviation in 2007-08 4/	13	19	25	25	25	25	**25**	22
B5. Combination of B1-B4 using one-half standard deviation shocks	13	23	36	36	36	36	**34**	29
B6. One-time 30 percent nominal depreciation relative to the baseline in 2007 5/	13	18	17	17	18	18	**20**	22
NPV of debt-to-exports ratio								
Baseline	55	52	50	50	50	50	**54**	55
A. Alternative Scenario								
New public sector loans on less favorable terms in 2007-26 2/	55	57	60	64	68	72	**93**	121
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2007-08	55	52	50	50	50	50	**54**	55
B2. Export value growth at historical average minus one standard deviation in 2007-08 3/	55	85	139	137	134	132	**128**	108
B3. US dollar GDP deflator at historical average minus one standard deviation in 2007-08	55	52	50	50	50	50	**54**	55
B4. Net non-debt creating flows at historical average minus one standard deviation in 2007-08 4/	55	79	103	101	99	97	**94**	78
B5. Combination of B1-B4 using one-half standard deviation shocks	55	97	159	155	152	148	**141**	111
B6. One-time 30 percent nominal depreciation relative to the baseline in 2007 5/	55	52	50	50	50	50	**54**	55
Debt service ratio								
Baseline	6	5	4	4	4	3	**3**	4
A. Alternative Scenario								
New public sector loans on less favorable terms in 2007-26 2/	6	5	5	5	5	4	**5**	8
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2007-08	6	5	4	4	4	3	**3**	4
B2. Export value growth at historical average minus one standard deviation in 2007-08 3/	6	6	8	9	8	7	**9**	8
B3. US dollar GDP deflator at historical average minus one standard deviation in 2007-08	6	5	4	4	4	3	**3**	4
B4. Net non-debt creating flows at historical average minus one standard deviation in 2007-08 4/	6	5	6	6	6	5	**6**	6
B5. Combination of B1-B4 using one-half standard deviation shocks	6	6	8	9	9	8	**10**	8
B6. One-time 30 percent nominal depreciation relative to the baseline in 2007 5/	6	5	4	4	4	3	**3**	4
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	0	0	0	0	0	0	**0**	0

Source: Staff projections and simulations.

1/ Stress-tests assume that shocks are fully financed by public sector on non-concessional terms, not by private sector.
2/ Assumes that the interest rate on new borrowing is by 3.5 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 assuming an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for the alternative scenario (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Table 3. Senegal: Total PPG Debt Sustainability Framework, Baseline Scenario, 2003-2026
(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average 5/	Standard Deviation 5/	Estimate	Projections								
	2003	2004	2005			2006	2007	2008	2009	2010	2011	2006-11 Average	2016	2026	2012-26 Average
Public sector debt 1/	55.1	48.0	46.3			20.3	22.2	23.2	24.3	25.5	26.7		31.5	38.2	
o/w foreign-currency denominated	51.1	44.4	42.9			17.0	18.2	18.5	18.9	19.5	20.0		22.8	28.6	
Change in public sector debt	-13.4	-7.0	-1.7			-26.0	2.0	1.0	1.1	1.3	1.1		0.8	0.3	
Identified debt-creating flows	-13.9	-6.9	2.6			-24.3	1.7	1.3	1.3	1.4	1.1		0.9	0.3	
Primary deficit	0.5	1.8	2.4	-0.2	1.7	5.0	3.7	3.4	3.4	3.4	3.4	3.7	3.0	2.6	3.0
Revenue and grants	20.1	20.6	21.1			21.5	21.7	21.7	21.2	21.3	21.3		21.8	22.8	
of which : grants	2.0	2.1	1.7			1.8	1.8	1.8	1.8	1.8	1.8		1.8	1.8	
Primary (noninterest) expenditure	20.6	22.4	23.4			26.5	25.4	25.0	24.7	24.7	24.8		24.8	25.4	
Automatic debt dynamics	-13.2	-6.1	2.8			-4.8	-1.0	-1.0	-1.1	-1.1	-1.2	-1.7	-1.4	-1.9	-1.5
Contribution from interest rate/growth differential	-4.3	-3.1	-2.8			-1.9	-0.9	-0.9	-1.0	-1.0	-1.1		-1.4	-1.9	
of which : contribution from average real interest rate	0.0	-0.2	-0.3			-0.5	0.2	0.3	0.1	0.2	0.1		0.1	-0.1	
of which : contribution from real GDP growth	-4.3	-2.9	-2.5			-1.5	-1.1	-1.2	-1.1	-1.2	-1.2		-1.5	-1.8	
Contribution from real exchange rate depreciation	-8.9	-3.0	5.6			-2.9	-0.2	-0.1	-0.1	-0.1	-0.1		...	...	
Other identified debt-creating flows	-1.1	-2.6	-2.6			-24.5	-1.0	-1.0	-1.0	-1.0	-1.2		-0.8	-0.4	
Privatization receipts (negative)	0.0	0.0	-0.1			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)	-1.1	-2.6	-2.5			-24.5	-1.0	-1.0	-1.0	-1.0	-1.2		-0.8	-0.4	
Other	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	0.5	-0.1	-4.3			-1.7	0.2	-0.3	-0.2	-0.1	0.0		0.0	0.1	
NPV of public sector debt	…	…	…			16.1	16.6	17.0	17.9	18.7	19.5		22.8	24.9	
o/w foreign-currency denominated	…	…	…			12.7	12.6	12.3	12.4	12.6	12.9		14.1	15.3	
o/w external	...	...	…			12.7	12.6	12.3	12.4	12.6	12.9		14.1	15.3	
NPV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	2.8	6.4	6.4			8.0	6.8	6.6	7.7	8.7	9.3		11.2	11.8	
NPV of public sector debt-to-revenue ratio (in percent) 3/	…	…	…			74.7	76.3	78.5	84.1	87.9	91.4		104.7	109.0	
o/w external	…	…	…			59.2	57.9	56.8	58.6	59.5	60.3		64.7	67.2	
Debt service-to-revenue ratio (in percent) 3/ 4/	12.8	18.4	15.8			11.2	8.6	8.2	7.8	7.4	5.8		5.6	5.8	
Primary deficit that stabilizes the debt-to-GDP ratio	13.8	8.9	4.1			31.0	1.7	2.4	2.3	2.2	2.3		2.2	2.3	2.2
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	6.7	5.6	5.5	4.4	2.0	3.3	5.6	5.6	5.2	5.0	5.0	4.9	5.0	5.0	5.0
Average nominal interest rate on forex debt (in percent)	1.7	2.0	1.9	1.8	0.5	0.9	2.0	2.1	1.5	1.6	1.3	1.6	1.3	1.1	1.3
Average real interest rate on domestic currency debt (in percent)	2.0	3.2	0.7	0.2	2.3	9.8	6.7	6.7	5.1	4.4	4.3	6.1	2.5	1.3	2.2
Real exchange rate depreciation (in percent, + indicates depreciation)	-15.4	-6.3	13.5	1.9	12.1	-7.2	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	-0.1	0.4	2.4	2.0	1.4	3.1	2.5	2.3	2.2	1.8	1.8	2.3	1.8	1.9	1.9
Growth of real primary spending (deflated by GDP deflator, in percen	15.4	14.8	10.2	9.3	10.4	16.8	1.3	4.0	3.7	5.2	5.3	6.0	5.0	5.3	5.2
Grant element of new external borrowing (in percent)	...	...	...			40.9	45.3	53.5	45.0	45.2	47.1	46.2	45.6	45.6	45.6

Sources: Country authorities; and Fund staff estimates and projections.
1/ Public sector comprises central government. 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 including 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 Total PPG Debt, 2006-2026

	Projections							
	2006	2007	2008	2009	2010	2011	2016	2026
NPV of Debt-to-GDP Ratio								
Baseline	16	17	17	18	19	20	23	25
A. Alternative scenarios								
Primary balance is unchanged from 2006	16	18	20	22	25	27	39	61
Permanently lower GDP growth 1/	16	17	17	19	20	21	29	46
B. Bound tests 4/								
B1. Real GDP growth is at historical average minus one standard deviations in 2007-2008	16	18	20	22	24	26	36	51
B2. Primary balance is at historical average minus one standard deviations in 2007-2008	16	14	13	14	15	16	19	21
B3. Combination of B1-B2 using one half standard deviation shocks	16	14	12	12	13	14	16	17
B4. One-time 30 percent real depreciation in 2007	16	21	21	21	22	22	24	23
B5. 10 percent of GDP increase in other debt-creating flows in 2007	16	27	27	28	28	29	32	34
NPV of Debt-to-Revenue Ratio 2/								
Baseline	75	76	79	84	88	91	105	109
A. Alternative scenarios								
Primary balance is unchanged from 2006	75	82	92	105	116	127	179	268
Permanently lower GDP growth 1/	75	77	80	88	93	99	131	200
B. Bound tests 4/								
B1. Real GDP growth is at historical average minus one standard deviations in 2007-2008	75	81	92	104	114	123	165	221
B2. Primary balance is at historical average minus one standard deviations in 2007-2008	75	66	60	66	70	73	87	93
B3. Combination of B1-B2 using one half standard deviation shocks	75	64	54	59	62	65	75	74
B4. One-time 30 percent real depreciation in 2007	75	97	96	100	102	103	109	102
B5. 10 percent of GDP increase in other debt-creating flows in 2007	75	122	124	130	134	137	149	149
Debt Service-to-Revenue Ratio 2/ 3/								
Baseline	11	9	8	8	7	6	6	6
A. Alternative scenarios								
Primary balance is unchanged from 2006	11	9	9	9	9	8	12	20
Permanently lower GDP growth 1/	11	9	8	8	8	6	7	13
B. Bound tests 4/								
B1. Real GDP growth is at historical average minus one standard deviations in 2007-2008	11	9	9	9	9	8	11	16
B2. Primary balance is at historical average minus one standard deviations in 2007-2008	11	9	8	6	6	4	4	4
B3. Combination of B1-B2 using one half standard deviation shocks	11	9	7	6	5	3	3	2
B4. One-time 30 percent real depreciation in 2007	11	9	9	8	8	7	7	7
B5. 10 percent of GDP increase in other debt-creating flows in 2007	11	9	12	12	12	10	10	10

Sources: Country authorities; and Fund staff estimates and projections.

1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of 20 (i.e., the length of the projection period).

2/ Revenues are defined inclusive of grants.

3/ Excludes short-term debt service.

4/ Assumes residual financing (i.e., financing required above baseline) is non-concessional with grant element equal to zero.

Appendix 2

Senegal. Proposed Three-Year Public Financial Management Plan (2007-09)[1/]

Budget Preparation

OBJECTIVES	2007	2008	2009
Harmonize the budget with PRSP objectives			
- Translate PRSP objectives into programs	In the functional classification, identify functions and secondary functions related to PRSP implementation, including both operations and investment, as well as operations under program budgets		
- Gradually extend the preparation of medium-term program budgets to all ministries	Prepare the 2008 budget on a programmatic basis (Medium Term Expenditure Framework) for at least 10 ministries	Prepare the 2008 budget on a programmatic basis (Medium Term Expenditure Framework) for at least 12 ministries.	Prepare the 2008 budget on a programmatic basis (Medium Term Expenditure Framework) for at least 15 ministries.
Strengthen investment planning and project evaluation	Prepare cost-benefit analysis for all projects amounting to US$ 50,000 and above Budget for recurrent costs that will emerge from individual investment projects	Prepare sectoral investment plans by prioritizing projects on the basis of cost-benefit analysis Send to the Ministry of Finance and Economy line ministries' annual investment plans	Centrally prioritize all investment projects at the Ministry of Finance and Economy
Improve classification and coverage	Prepare the Consolidated Investment Budget (BCI) and the three-year Investment Program using an economic classification of expenditures Include in the budget transfers to public or private enterprises and EPAs to compensate them for quasi-fiscal activities Include in the budget exemptions of direct and indirect taxes, especially those that are associated with the new Investment Code	Expand the coverage of the budget by incorporating detailed information on local government activities	Expand the coverage of the budget by incorporating detailed information on government agencies
	Establish a framework to monitor fiscal risks raised by public and para-public enterprises, and PPPs (including the airport project). Record these risks in the fiscal accounts.	Record the fiscal risks raised by public and para-public enterprises, and PPPs (including the airport project) in the fiscal accounts.	Record the fiscal risks raised by public and para-public enterprises, and PPPs (including the airport project) in the fiscal accounts.
Avoid off budget use of public resources	Record any resources that may be received by the government or its agencies the budget and/or supplementary budget. Disclose fully the proceeds and the use of the air travel tax (RDIA).	Record any resources that may be received by the government or its agencies the budget and/or supplementary budget. Disclose fully the proceeds and the use of the air travel tax (RDIA).	Record any resources that may be received by the government or its agencies the budget and/or supplementary budget. Disclose fully the proceeds and the use of the air travel tax (RDIA).

Budget Execution			
Objectives	**2007**	**2008**	**2009**
Simplify the expenditure process			
- Execute budget within fiscal year	Shorten the time limit for opening budget appropriations by setting a deadline on November 30 Shorten the length of the complementary period (*période complémentaire*): • close out the administrative phase of the expenditure process (payment order or *ordonnancement*) on December 31 • close out the accounting phase (payment) at end-February of the following year, with exceptions strictly limited to expenditure included in the supplementary budget law		
- Reduce commitment processing times	Delegate payment authorization and financial control (COF) to 10 ministries and eliminate prior control by the single authority in charge of issuing payment orders at the payment order stage	Extend the decentralization of budget execution to 10 additional ministries	Extend the decentralization of budget execution to 10 additional ministries
Improve consolidated cash management	Regularly reconcile bank and accounting data Develop accounting methodologies and information flows necessary to record in the treasury accounts all flows related to external project financing and the operations of autonomous agencies, regardless of the nature of such transactions and the bank accounts used	Develop a reliable, unified cash flow plan covering all government revenue and expenditure. - Prepare and submit to the MEF regularly detailed information on the financial position and operations of autonomous agencies	Extend the coverage of the single Treasury account to include all government revenue and expenditure, in particular by increasing the fungibility of donor financing, funds held by EPAs and agencies with other government resources
Limit extraordinary expenditure procedures	Limit recourse to exceptional expenditure without prior authorization (to a total of CFAF 20 billion per year) and promptly regularize such expenditure	Reduce the number of imprest and special revenue funds (régies d'avances et de recettes) and restrict their activity to the management of small amounts of specific revenue and expenditure	

Procurement

Objectives	2007	2008	2009
Implement the new regulation applicable to procurement			
- Set the new institutional framework up	- Create a central directorate of procurement at the Ministry of Finance and Economy to undertake the ex ante control of procurement contracts	Strengthen the directorate of procurement	Strengthen the directorate of procurement
	- Create the regulatory council *Commissions Internes des Marchés* (CIM) and its management unit	Strengthen the CIM	Strengthen the CIM
- Enforce application of the new law	- Define the sanctions for noncompliance	Sanction noncompliance	Sanction noncompliance
Strengthen procurement practices			
- Streamline planning and execution	Forward to the National Commission of Public Procurement (CNCA/DCMP) the procurement plans for 2007 of all ministries and agencies by end-January. Sanction noncomplying ministries by excluding their projects from the annual procurement program	Forward to the National Commission of Public Procurement (CNCA/DCMP) the procurement plans for 2007 of all ministries and agencies by end-January. Sanction noncomplying ministries by excluding their projects from the annual procurement program	Forward to the National Commission of Public Procurement (CNCA/DCMP) the procurement plans for 2007 of all ministries and agencies by end-January. Sanction noncomplying ministries by excluding their projects from the annual procurement program
	Prepare installation of the software SIGMP for procurement	Install SIGMP in all ministries and government agencies	
- Increase transparency	Publish 2007 contract award decisions	Publish 2008 contract award decisions	Publish 2009 contract award decisions
	Undertake and publish the 2005 Audit of Public Procurement and propose corrective measures, including the need for sanctions	Undertake and publish the 2006 Audit of Public Procurement and propose corrective measures, including the need for sanctions	Undertake and publish the 2007 Audit of Public Procurement and propose corrective measures, including the need for sanctions
- Reduce the share of government contract signed by single tender	Respect IMF indicator (20 percent ceiling on the share of government contract signed by single tender)	Respect IMF indicator (18 percent ceiling on the share of government contract signed by single tender)	Respect IMF indicator (16 percent ceiling on the share of government contract signed by single tender)

External and Internal Controls

Objectives	2007	2008	2009
Rationalize administrative controls			
- Forward to the Audit Court the end-year Treasury accounts (comptes de gestion) of t-2	Submit *comptes de gestion* of 2004 and 2005 to the *Cour des comptes*	Submit *comptes de gestion* of 2006 to the *Cour des comptes*	Submit *comptes de gestion* of 2007 to the *Cour des comptes*
- Forward the draft budget review laws (lois de règlement) for t-2 to the Audit Court	Submit project of *lois de règlements* for 2004 and 2005 to the Audit General (*Cour des comptes),* which should be able to issue the conformity statement	Submit project of *lois de règlements* for 2006 to the Audit General (*Cour des comptes)* which should be able to issue the conformity statement	Submit project of *lois de règlements* for 2007 to the Audit General (*Cour des comptes)* which should be able to issue the conformity statement
- Streamline *ex ante* and *ex post* controls	Carry out a study on the rationalization of its internal and external control systems	Conduct ex ante controls selectively and prioritized on the basis of risk analysis	
		Strengthen the ex post control activities—particularly on-site—of the IGF and of the internal control units of line ministries and financial administrations (DGCPT, DGID, DGD)	

Management Information System

Objectives	2007	2008	2009
Improve the Management Information System			
- Computerize the accounting and monitoring expenditure execution	Extend the coverage of the software SIGFIP to foreign financed capital spending.	Extend the coverage of SIGFIP to the payment phase.	
	Adopt a new software for the management of the wage bill	Link the wage bill software to SIGFIP	
	Finalize a feasibility study to link SIGFIP with the accounting software ASTER	Start the installation of SIGFIP/ASTER interfaces in line ministries, and possibly EPAs	Continue with the installation of SIGFIP /ASTER interfaces
- Finalize the computerization of tax administration	Make the data-sharing system between the three tax collecting agencies fully operational.		
	Install the tax management software SIGTAS at the large enterprises unit		

Legal Framework			
Objectives	**2007**	**2008**	**2009**
Define a legal framework for nongovernmental public entities .	- Promulgate a law establishing the terms on which agencies and funds may be created, specifying their goals, decision-making bodies, and other mechanisms necessary for tracking and monitoring their operations, and budget execution procedures, including compliance with the Procurement Code	- Ensure compliance of all existing agencies with the law. Eliminate agencies not covered by the framework	

[1/] The plan, proposed by the staff, is based on the recommendations of the 2003 World Bank's Country Financial Accountability Assessment (CFAA) and review of Country Procurement Practices (CPAR), the 2004 Assessment and Action Plan (AAP), the 2005 fiscal ROSC, as well as the authorities' action plan to improve fiscal transparency and public expenditure management discussed during the third and fourth reviews of the last PRGF-supported program (IMF Country Report 06/127).

INTERNATIONAL MONETARY FUND

SENEGAL

2006 Article IV Consultation—Informational Annex

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

Approved by Saul Lizondo and Adnan Mazarei

January 8, 2007

- **Relations with the Fund.** Describes financial and technical assistance by the IMF and provides information on the safeguards assessment and exchange system. Outstanding purchases and loans amounted to SDR17.33 million (10.7 percent of quota) at end-November 2006.

- **Relations with the World Bank.** Describes World Bank Group program and portfolio and provides statement of IFC investments.

- **Statistical Issues.** Assesses the quality of statistical data. Although the economic database is comprehensive and generally adequate for surveillance, there are weaknesses in data on national accounts, production, international trade, and social indicators.

Senegal: Relations with the Fund

(As of November 30, 2006)

I. Membership Status: Joined: August 31, 1962; Article VIII as of June 1, 1996.

II. General Resources Account:	**SDR Million**	**Percent of Quota**
Quota	161.80	100.00
Fund holdings of currency	160.21	99.02
Reserve Position	1.59	0.98
Holdings Exchange Rate		

III. SDR Department:	**SDR Million**	**Percent of Allocation**
Net cumulative allocation	24.46	100.00
Holdings	0.08	0.33

IV. Outstanding Purchases and Loans:	**SDR Million**	**Percent of Quota**
PRGF Arrangements	17.33	10.71

V. Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
PRGF	Apr 28, 2003	Apr 27, 2006	24.27	24.27
PRGF	Apr 20, 1998	Apr 19, 2002	107.01	96.47
PRGF	Aug 29, 1994	Jan 12, 1998	130.79	130.79

VI. Projected Payments to Fund:

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

	Forthcoming				
	2006	2007	2008	2009	2010
Principal					0.35
Charges/Interest	0.04	1.07	1.08	1.07	1.07
Total	0.04	1.07	1.08	1.07	1.42

VII. Implementation of HIPC Initiative:[1]

	Enhanced Framework
I. Commitment of HIPC assistance	
Decision point date	Jun 2000
Assistance committed by all creditors (US$ Million)	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

VIII. Implementation of MDRI Assistance:

I. Total Debt Relief (SDR Million)[3]	100.32
Of which: MDRI	94.76
HIPC	5.56

[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.

II. Debt Relief by Facility (SDR Million)

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

IX. Safeguards Assessments:

The Central Bank of West African States (BCEAO) is the common central bank of the countries of the West African Economic and Monetary Union. A new safeguards assessment of the BCEAO was completed on November 4, 2005. The assessment found that progress has been made in strengthening the BCEAO's safeguards framework of the bank since 2002 when the previous safeguards assessment took place.

The BCEAO now publishes a full set of audited financial statements and improvements have been made to move financial reporting closer to International Financial Reporting Standards (IFRS). Furthermore, an internal audit charter has been put in place and mechanisms have been established to improve risk management and risk prevention and follow up on internal and external audit recommendations has been strengthened.

The new assessment identified a number of areas where further steps would help solidify the progress made. The main recommendations relate to improvements in the external audit process (including the adoption of a formal rotation policy), further enhancement of the transparency of the financial statements by fully adopting IFRS, and further strengthening of the effectiveness of the internal audit function.

The staff follows up regularly on the BCEAO's progress in implementing the recommendations in the context of the Fund's semiannual regional consultation missions.

X. Exchange System:

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

---

[3] The Multilateral Debt Relief Initiative (MDRI) provides 100 percent debt relief to eligible member countries that are qualified for the assistance. The debt relief covers the full stock of debt owed to the Fund as of end-2004 which remains outstanding at the time the member qualifies for such debt relief. The MDRI is financed by bilateral contributions and the Fund's own resources, as well as the resources already disbursed to the member under the HIPC Initiative (see Section VII above).

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 are also discussed in the recent report on economic developments and regional policy issues of WAEMU.

XI. Article IV Consultations:

Senegal's last PRGF expired in April 2006 and, therefore, the country is on a 12-month Article IV consultation cycle. The 2004 Article IV consultation was completed by the Executive Board on March 7, 2005 (2004 Article IV consultation and the second review, and IMF Country Report No. 05/155). In concluding the Article IV consultation, Executive Directors stressed the importance of prudent fiscal policies and structural reforms to enhance policy credibility, maintain debt sustainability, and achieve the growth needed to further reduce poverty. They emphasized in particular the need to enhance public expenditure management and fiscal transparency, rehabilitate and privatize public enterprises, address the under-development of financial markets, and press ahead with structural reforms and infrastructural improvements to lower the cost of production, improve the business climate and raise productivity in the export sector.

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

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

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

XIII. Technical Assistance:

STA	Staff	September 2001	ROSC assessment of data.
FAD	Staff/consultant	September 2001	Assessment of capacity to track poverty-reducing expenditures.
STA	AFRISTAT	July 2002	Real sector statistics assessment. Mission, under GDDS West Africa project.
STA	AFRISTAT	August 2002	National accounts assistance under GDDS West Africa project.

STA	Regional advisor	August 2002	Continued assistance with fiscal sector data under GDDS West Africa project.
STA	AFRISTAT	December 2002	Continued assistance with national accounts and prices statistics under GDDS West Africa project
STA	Regional advisor	February 2003	Continued assistance with fiscal sector data under GDDS West Africa project.
AFRITAC		2003	Public external debt: Upgrading of information systems; techniques of external debt management.
AFRITAC		November 2003 - ongoing	Assistance to strengthening the microfinance sector.
FAD	Staff	February 2004	Fiscal reporting
FAD	Staff	November 2004	PSIA – Poverty and social impact analysis
FAD	Staff	January 2005	ROSC
FAD	Staff	February 2006	Tax administration
STA	Staff	March 2006	Real sector statistics
STA	Staff	March 2006	Government finance statistics
MFD	Staff	September 2006	Bank Supervision and Regulation

XIV. Resident Representative

Stationed in Dakar since July 24, 1984. The position has been held by Mr. Alex Segura-Ubiergo since September 22, 2006.

XV. Anti Money Laundering / Combating the Financing of Terrorism

The legal and institutional framework for AML/CFT is only partially developed. Senegal is scheduled for an AML/CFT evaluation in March 2007 in the context of ECOWAS Inter-Governmental Action Group Against Money Laundering, based on which the AML/CFT framework will be updated.

XVI. Fourth Amendment of the Articles of Agreement and the Eleventh Quota Review

The authorities have indicated their agreement with the Fourth Amendment of the Articles of Agreement. The increase in Senegal’s quota under the Eleventh General Review of Quotas was completed on February 11, 1999.

Senegal: Relations with the World Bank[1]

(As of December 18, 2006
Data as at November 14, 2006)

Partnership in Senegal's development

1. Senegal's second PRSP has recently been forwarded to donors. A JSAN is currently being prepared. The second PRSP covers the period 2006–2010. It sets out the following pillars of the Government's strategy: (i) creation of wealth, with emphasis on the country's Accelerated Growth Strategy, (ii) access to basic social services, (iii) protection of vulnerable groups and risk management, and (iv) good governance and participatory processes.

2. Regarding the division of responsibilities between the Bretton Woods institutions, the IMF takes the lead in the policy dialogue on macroeconomic policies and monitors macroeconomic performance by way of quantitative performance criteria and indicators. In addition, the IMF's last PRGF-supported program contained structural conditionality in areas such as electricity and groundnut sector reform, which have a direct bearing on macroeconomic stability and growth prospects.

3. The PRSP and its comprehensive poverty analysis have provided the framework for the Bank's country assistance strategy (FY03–05). The Bank supports the Government's efforts to achieve sustained growth rates, reduce the incidence of poverty and improve access to basic social services. In particular, the Bank is currently supporting the implementation of the PRSP in the areas of health/nutrition, education, HIV/AIDS, rural development, transport, water, and urban development through the implementation of a portfolio of specific projects, as outlined more fully below. A new CAS (FY07–10) is being prepared to take into account the Government's priorities as set in its new PRSP. CAS Board presentation is currently planned for April 2007.

World Bank Group strategy and portfolio

4. IDA has provided external assistance to Senegal since 1966. The main objective of the Bank's assistance strategy for Senegal has been to reduce the incidence of poverty and improve employment. The Bank is working to (i) develop country ownership through policy dialogue; (ii) use public expenditure reviews with a focus on impacts at the levels of the consolidated central budget; (iii) monitor linkages between implementation and aggregate results; and (iv) emphasize investment in human capital through the lending and advisory services.

5. As of December 18, 2006, the World Bank had approved 137 credits for Senegal with a total amount of about US$2.9 billion. Past projects had supported agricultural

---

[1] Prepared by Françoise Perrot from the World Bank (202) 473-4465.

diversification, irrigation, human resources development, institutional development, and expansion of the country's infrastructure, particularly its transport system. In recent years, the emphasis has shifted to better utilizing and maintaining existing facilities and to helping the Government resolve some of the key issues hampering long-term development prospects. The current active portfolio has a commitment value of about US$806.7 million equivalent, with an undisbursed amount of about US$512.3 million. The portfolio is composed of 19 credits in various sectors (rural development, human resources: population/health/ nutrition/ education/social development, HIV/AIDS, infrastructure/urban development, energy/water, industry, and private sector development, budget support).

6. Bank support to the **health** sector is provided under a series of **Poverty Reduction Support Credits**. PRSC II is expected to strengthen the Government's efforts aimed at improving health infrastructure and the allocation of human and financial resources toward the regions. An **HIV/AIDS Prevention and Control Project** aims at assisting the Government in: (i) preventing the spread of HIV/AIDS by reducing transmission among high risk groups; (ii) expanding access to treatment, care, and support for people living with HIV/AIDS in Senegal to serve as a pilot for the implementation of antiretroviral treatment in sub-Saharan Africa; and (iii) supporting civil society and community initiatives for HIV/AIDS prevention and care.

7. In 1999, the Government adopted a ten-year program (PDEF) with the ultimate objective of reaching universal primary **education** by the year 2008 (up from 60 percent of gross primary enrollment in 1999). A **Quality Education For All Project** (QEFA - Education SIP) supports the program in three phases. Key issues in education include the need to (a) consolidate gains in expanding access while addressing the needs of the under- and un-served areas; (b) support quality improvements in education through interventions at the school and at local education structures; (c) improve sector management (in particular, financial and personnel management); and (d) prepare for smooth deconcentration, and eventual decentralization, to the regional and departmental levels. The first phase of the QEFA closed at the end of December 2005. The second phase was approved on August 30, 2006.

8. A **Nutrition** project was approved in November 2006. Its objective is to expand access to, and enhance nutritional conditions of, vulnerable populations, in particular those conditions affecting the growth of children under five years of age in poor urban and rural areas.

9. Bank support to the **urban** sector is provided under the **Urban Mobility** project, which aims to improve the safety, efficiency and environmental quality of urban mobility in the Dakar metropolitan area, especially for the urban poor, and to improve road safety in Thiès and Kaolack. Support to urban municipalities is also provided under the recently approved **Local Authorities Development Program** which aims at (i) strengthening the capacity of urban municipalities to improve resource mobilization, and municipal and urban management, and (ii) increasing access to and quality of public infrastructure and services in urban areas.

10. Up until 1996, the urban **water** sector was facing two major issues: (i) a shortage of water production and distribution capacity in the Dakar area requiring substantial immediate investments, (ii) low managerial efficiency with no financial viability of the sector. To deal with these issues, the government adopted two Water Sector Projects in 1996 and 2001 supported by seven donors, including the World Bank as lead agency. The **Long-Term Water Sector project** includes a large physical investment program and institutional reforms (PSP), which have increased access to potable water in the Dakar area and improved overall management of the sector.

11. In terms of **rural development,** Bank support is provided under various instruments. First, a recently approved second phase of the **Agricultural Services and Producer Organizations Program** aims at increasing access for smallholder producers to effective and diversified agricultural services and innovations, with a view to diversifying and stabilizing their productions and increasing their food security. Second, the recently approved first phase of the **Agricultural Markets and Agribusiness Development project** will help increase non-traditional agricultural exports and farm revenues for project-supported producers. Finally, the recently approved **Participatory Local Development project** will assist the Government in setting up an effective framework for participatory local development, decentralization, resource mobilization and transfer to local governments and communities, to deliver services in rural areas and targeted poorest cities efficiently.

12. In the **transport** sector, capacity constraints are being addressed with a program of new investments, especially in rehabilitating rail links between Senegal and Mali, as well as institutional reforms. The **Transport SIP** was launched in 1999 with support from several donors, including the World Bank. Key issues in transport include the need to strengthen institutional capacity, direct private sector involvement in investment and management of the sector, improving the condition of the priority road network and reducing the cost of road maintenance and rehabilitation.

13. Due to global difficulties in the **energy** sector, the two "privatization" efforts conducted over the last five years to bring private sector expertise and private financing into SENELEC were not successful. Bank's assistance to the Government takes into account the lessons learned and the overall international context where private sector interest in investing in Africa is reduced. A **Rural Electrification Services project** was approved in September 2004, and an **Electricity Efficiency Enhancement project** was approved in May 2005.

14. In terms of **private sector development**, the **Private Investment Promotion** project and the **Private Sector Adjustment** operation assist in creating the conditions to stimulate a sustained increase in private investment in Senegal through an improved investment climate, greater private participation in economic activities, and polity and sector reform.

15. As of September 2006, credits from the International Finance Corporation's (IFC) portfolio totaled about US$46 million and included two large investments (the GTI-Dakar power plant—the first independent power producer of the country—and Ciments du Sahel—the country's second cement producer). Direct SME investments were made to finance a

130-room hotel, a private school, a microfinance institution, and expand a fishing fleet. Prior equity investments in the financial sector in housing and leasing are mature and IFC is seeking exit. IFC has been active in advisory work with FIAS assessments of investment red tape and the taxation system. IFC is also an active participant in the President's Investors' Advisory Council, a forum for high-level dialogue between the government and private sector (domestic and foreign).

World Bank-IMF collaboration in specific areas

16. The IMF and the World Bank staff maintain a close working relationship, especially with respect to (i) the implementation of the Poverty Reduction Strategy; (ii) reforms in public finance management; and (iii) structural measures in specific sectors, such as electricity and groundnuts, which have systematic impact on the public finances and on macroeconomic stability.

17. The conditionality for the groundnut and electricity sectors in the last PRGF-supported program has been developed in close collaboration with World Bank staff, and the Bank takes the lead role in working out the technical details of the envisaged reforms. The IMF and the Bank also coordinate their activities and conditionalities in the area of public expenditure reform, an area in which both institutions have an interest.

Senegal: Statement of Loans/Credits/Grants
(as of end-November, 2006)

Loan/Credit / Grant	Description	Principal	Available	Approval Date	Closing Date
42450	Nutrition	15.0	15.0	13-Nov-06	14-May-12
42310	Education QEFA 2	30.0	30.5	30-Aug-06	31-Oct-10
42240	Local Authorities	80.0	80.1	18-Jul-06	31-Dec-11
42150	OMVS Felou Hydroelectric	25.0	25.1	29-Jun-06	30-Jun-10
41840	Senegal River Basin	30.08	31.2	08-Jun-06	08-Sep-11
41870	Ag.Services 2	20.0	20.8	05-Jun-06	31-Dec-10
41660	Participatory Local Dev	50.05	51.9	27-Apr-06	31-Dec-09
41510	Ag Markets	35.0	36.7	28-Feb-06	31-Dec-11
40600	Electricity Efficiency Enhancement	15.7	12.2	17-May-05	31-Jan-09
40250	Emergency Locust	10.00	6.7	16-Dec-04	30-Jun-09
39980	Girmac	10.00	7.1	11-Nov-04	1-Jun-10
39810	Rural Electrification Services	29.90	25.3	9-Sep-04	30-Jun-09
39820	Casamance	20.00	14.4	9-Sep-04	31-May-08
40100	PRSC II	30.00	0.0	29-Mar-06	31-Dec-06
38750	Private Sector Adjustment	45.00	20.0	18-Mar-04	28-Feb-07
37620	Private Investment Promotion	46.00	32.9	20-May-03	31-Dec-08
36010	HIV/AIDS Prevention and Control	30.00	13.8	7-Feb-02	30-Sep-07
34700	Long-Term Water Sector Project	125.00	51.8	6-Mar-01	31-Dec-07
33540	Urban Mobility Improv. Project	70.00	28.7	25-May-00	30-Jun-07
31830	Transport II	90.00	7.2	30-Mar-99	30-Jun-06
	Total	806.7	512.3		

Statement of IFC's Held and Disbursed Portfolio
(As at September 20, 2006)
(In US$ million)

		Held				Disbursed			
FY Approval	Company	Loan	Equity	Quasi	Partic	Loan	Equity	Quasi	Partic
1980	BHS	0	0.46	0	0	0	0.46	0	0
1999	CDS	10.2	2.26	3.12	0	10.2	2.26	3.12	0
1997/98	GTI Dakar	11.61	1.68	0	9.04	8.66	1.51	0	9.04
2005	Kounoune	21.67	0	0	0	0	0	0	0
2001	SEF Royal Saly	1.48	0	0	0	1.48	0	0	0
	Total Portfolio:	44.89	4.4	3.12	9.04	20.27	4.23	3.12	9.04

BHS = *Banque Habitat du Sénégal* (local housing bank)
CDS = *Ciments du Sahel* (cement factory)
GTI-DAKAR = (power plant)
SEF Royal Saly = Small Enterprise Fund (small tourist hotel)

Senegal: Statistical Issues

1. Although the economic database is comprehensive, there are weaknesses in data on national accounts, production, international trade, and social indicators. The authorities are strongly 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. A Report on the Observance of Standards and Codes—Data Module, a Detailed Assessment Using the Data Quality Assessment Framework (DQAF), and a Response by the Authorities were published on the IMF website on December 2, 2002.

2. Senegal has embarked on a process of regional harmonization of statistical methodologies within the framework of the West African Economic and Monetary Union (WAEMU).

3. Senegal participates in the General Data Dissemination System (GDDS), and its metadata were posted on the Fund's Dissemination Standards Bulletin Board on September 10, 2001. Metadata were updated in July 2005. The authorities intend to subscribe to the Standard Data Dissemination System (SDDS) within two to three years. A STA mission in May 2006 helped the authorities develop an action plan to meet SDDS requirements.

Real sector

4. The compilation of the national accounts generally follows the *System of National Accounts, 1993*. While staff demonstrates professionalism, the lack of adequate financial resources has constrained efforts to collect and process data. Data sources are deficient in some areas, particularly the informal sector. Owing to financial constraints, surveys of business and households are not conducted regularly, impeding the production of national accounts estimates (e.g., input-output tables and institutional sector accounts are not compiled annually). However, efforts are being made to improve data collection procedures, strengthen the coordination among statistical agencies, and reduce delays in data dissemination.

5. A regional advisor in real sector statistics covering the West AFRITAC countries, including Senegal, was posted for one year beginning December 2005 and the first assessment visit covering real sector statistics took place in March 2006. Progress reported by the advisor includes: (i) completion of a national accounts series for 1980–2004 with 1999 as base year; (ii) dissemination of the series 1980–2003 in hard copy and on the internet; (iii) production of accounts by institutional sector; and (iv) production of national accounts according to schedule. The authorities plan to start production of quarterly accounts in view of the country's intention to subscribe to the SDDS.

6. The coverage of the harmonized consumer price index, introduced in January 1998, is limited to Dakar. Its weights are based on a household budget survey conducted during only three months in 1996, and the regular provision of financial resources required for the price

collection is not assured. The authorities plan to extend the scope of the CPI to cover all 11 regions of the country.

Public finances

7. Government finance statistics (GFS) are compiled by the Ministry of Economy and Finance from customs, tax, and treasury directorate sources. Data last reported to STA for inclusion in the *Government Finance Statistics Yearbook* were for fiscal year 2001. Subannual data are not updated for publication in *IFS*, although the ministry compiles and disseminates reasonably detailed quarterly government financial operations tables (TOFE) in their own publications.

8. An AFR team worked with the authorities in February 2004 to improve fiscal reporting in the context of the PRGF-supported program. The team focused on (i) public accounts that are outside of the direct purview of the treasury; (ii) the treatment of correspondents' accounts in the TOFE; and (iii) ensuring consistency between treasury and banking system information concerning government transactions. The mission found that the recent adoption by the authorities of the five WAEMU directives on public finances had set off a series of reforms, which should contribute to improving the overall government financial operations and bring the TOFE much in line with the extended WAEMU TOFE. However, full implementation of these reforms could take time because of delays in addressing the weakness in the treasury computerization system. In the interim, the mission proposed a number of specific recommendations for improvement of the fiscal accounting practices. The authorities will review with Fund staff the modalities for incorporating these recommendations.

Monetary data

9. Preliminary monetary data for Senegal are compiled by the national agency of the Central Bank of West African States (BCEAO) and officially released by BCEAO headquarters. There has been an improvement in the timeliness of data provided on interest rates, monetary institutions, and deposit money banks. The authorities are now reporting monetary data to STA on a regular basis, with a reduction in the lag from about six months to about three to four months. An area-wide page for the WAEMU zone was introduced in the January 2003 issue of *IFS*.

10. In 2005, the BCEAO made substantial revisions to the estimates of banknotes in circulation in member states resulting from cross-border banknote movement. These revisions were due to changes in the method to estimate currency in circulation in the WAEMU countries. The revised method, based on updated sorting coefficients ("coefficients de tri"), has been applied retroactively from December 2003.

11. In August 2006, as part of the authorities' efforts to implement the *MFSM*'s methodology, the BCEAO reported to STA monetary data for June 2006 for all member countries using Standardized Report Forms (1SR-central bank, 2SR-other depository corporations, and 5SR-monetary aggregates).

Balance of payments data

12. Balance of payments data are compiled by the national agency of the BCEAO. With STA support, several steps have been taken to tackle deficiencies, including: (i) implementation of the *Balance of Payments Manual, fifth edition*; (ii) modified and simplified related surveys for companies and banks; (iii) improvement in the computerization of procedures; and (iv) significant strengthening of staff training. Although definitive balance of payments data can now be provided with a delay of less than one year, there are significant delays in reporting data to STA. Further efforts are required to enhance the quality and coverage of balance of payments data. In particular, their latest published data show inconsistencies between the balance of payments and the international investment position.

Senegal: Table of Common Indicators Required for Surveillance
(As of October 6, 2006)

	Date of latest observation	Date received	Frequency of data[6]	Frequency of reporting[6]	Frequency of publication[6]	Memo Items:	
						Data Quality – Methodological soundness[7]	Data Quality Accuracy and reliability[8]
Exchange Rates	Current	Current	D	M	M		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]							
Reserve/Base Money	Sep. 2005	12/08/05	M	M	M	LO, LO, O, O	LO, O, O, LO
Broad Money	Sep. 2005	12/08/05	M	M	M		
Central Bank Balance Sheet	Sep. 2005	12/08/05	M	M	M		
Consolidated Balance Sheet of the Banking System	June 2006	Aug 2006					
Interest Rates[2]	Sept. 2006	Oct. 2006	M	M	M		
Consumer Price Index	Jun. 2006	Aug. 2006	M	M	M	O, LO, O, O	LO, O, O, NA
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]						O, LNO, LO, O	LO, LO, O, LO
Revenue, Expenditure, Balance and Composition of Financing[3] – Central Government							
Stocks of Central Government and Central Government-Guaranteed Debt[5]							
External Current Account Balance	2003	July 2005	A	A	A	O, O, O, O	O, O, O, O
Exports and Imports of Goods and Services	2003	July 2005	A	A	A		
GDP/GNP	2005	July 2006	A	V	A	LO, LO, LO, LNO	LNO, LNO, LNO, LNO
Gross External Debt	June 2002	Nov 2002	Q	V	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] Daily (D); Weekly (W); Monthly (M); Quarterly (Q); Annually (A); Irregular (I); Not Available (NA).
[7] Reflects the assessment provided in the data ROSC published in November 2002 and based on the findings of the mission that took place in September 2001 for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning (respectively) concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O), largely observed (LO), largely not observed (LNO), not observed (NO), or not available (NA).
[8] Same as footnote 7, except referring to international standards concerning (respectively) source data, statistical techniques, assessment and validation of source data, and revision studies.

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 07/45
FOR IMMEDIATE RELEASE
April 12, 2007

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Concludes 2006 Article IV Consultation with Senegal

On January, 29, 2007, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Senegal.[1]

Background

Senegal has experienced strong growth, price stability, and a declining debt stock owing to substantial debt relief, but macroeconomic performance weakened in 2006. Following robust performance in 2003-05 (average real GDP growth rate of about 6 percent), economic growth is estimated to have fallen below 3.5 percent. The decline reflects mainly the impact of higher oil prices, disruption in electricity supply, and interruption in the operations of the chemical company (ICS), one of the largest firms in the country. Since 2002, CPI inflation has remained below 2 percent on an annual average basis, owing to favorable food supply conditions and inadequate adjustments of administered prices of butane gas, electricity, and transport.

The real effective exchange rate has been broadly in line with the underlying economic fundamentals and fairly stable since 2002, as changes in relative prices offset the appreciation of the CFA franc (CFAF) against the U.S. dollar (in line with the Euro to which the CFAF is pegged).

---

[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. 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. This PIN summarizes the views of the Executive Board as expressed during the March 7, 2005 Executive Board discussion based on the staff report.

The economy remains vulnerable to exogenous shocks and is dependent on donor support. The external current account deficit excluding grants is estimated to have increased by about 5 percent of GDP between 2004 and 2006, owing to the oil price shock and ICS' difficulties. Foreign assistance, in the form of grants, concessional loans, and debt relief (flow savings) amounted to about half of the external current account deficit in 2005–06.

The overall fiscal balance (including grants) moved from a balanced position in 2002 to a deficit of 3 percent of GDP in 2005 and is estimated to have almost doubled to about 5.7 percent of GDP in 2006. The deterioration reflects increases in capital expenditures, the wage bill, and subsidies (2 percent of GDP in 2006) to the electricity company (SENELEC) and the oil refinery (SAR) to compensate them for below-market prices for electricity and butane gas. For the first time since 1995, domestic payments arrears of about 1 percent of GDP are estimated to have emerged by end-2006.

The ratio of the Net Present Value (NPV) of public external debt to exports is estimated to have fallen from 118 percent at end-2004 to about 55 percent at end-2006 owing to Enhanced Heavily Indebted Poor Countries Initiative (HIPC) and Multilateral Debt Relief Initiative (MDRI) debt relief. Central government domestic debt is estimated to have remained at about 3.5 percent of GDP at end-2006.

Poverty and social indicators have improved, but substantial efforts will be needed to meet the Millennium Development Goals (MDGs). The authorities have prepared a new Poverty Reduction Strategy Paper, covering 2006-10, which aims at accelerating progress toward MDGs.

Executive Board Assessment

Executive Directors observed that Senegal has achieved macroeconomic stability and debt sustainability, and that progress has been made on poverty and social indicators.

Directors observed, nevertheless, that macroeconomic performance had weakened in 2006, with lower growth, higher inflation, and widening fiscal and external current account deficits, reflecting higher oil prices and financial difficulties of a major export company. They stressed that renewed efforts at macroeconomic stabilization and deepening of structural reforms would be critical to improve the economy's resistance to shocks, address problems in budgetary discipline and fiscal transparency, and move toward the Millennium Development Goals. In this context, Directors urged speedy implementation of the authorities' action plan for improving the business environment and reducing the cost of doing business, which would be crucial for enhancing growth prospects. More generally, Directors stressed that the authorities should use the opportunity provided by debt relief under the HIPC Initiative and the MDRI to address Senegal's long-standing economic problems and further reduce poverty.

Directors welcomed the authorities' intention to lower fiscal deficits over the medium term in order to contain the external current account deficit and prevent debt distress and arrears. They highlighted that reducing energy subsidies should be the main component of this policy, supported by containment of the wage bill relative to GDP and limited increases in capital outlays. Directors also urged prompt elimination of domestic payment arrears.

Emphasizing the need for a prudent borrowing policy to maintain debt sustainability, Directors welcomed the authorities' commitment to borrow exclusively on concessional terms in the post-MDRI era. They encouraged close monitoring of the potential liabilities of the government, including those stemming from activities of public agencies.

Directors welcomed the recent measures that allow energy prices to reflect market conditions better, but encouraged further liberalization in the energy sector. They cautioned against the off-budget use of any resources generated by the new pricing mechanism for petroleum products. The government should allow electricity prices to reflect market conditions, with adequate safeguards for the low-income households, and should reduce official intervention in the energy sector.

Directors called for early efforts to improve policy credibility and fiscal governance and transparency, stressing that such improvements would be crucial for ensuring continued international support to Senegal. To this end, they urged the authorities to rectify the breakdown in procurement practices; strictly apply the new procurement code; avoid off-budget use of public resources with the expansion of the fiscal framework to include the risks posed by parastatals, public-private partnerships, and government guarantees; and ensure transparency in the implementation of the new Dakar airport project.

Directors observed that the financial sector could make a greater contribution to the economy through improved access to credit and enhanced soundness. The large nonperforming loans and credit concentration in the banking system are potential sources of vulnerability, and these weaknesses are exacerbated by the financial difficulties of the chemical export company. Directors stressed the need for banks to make adequate provisions against potential losses arising from the restructuring of this company. In addition, they urged the authorities to accelerate planned judicial reforms to facilitate loan recovery and to discuss with the West African Economic and Monetary Union authorities a possible increase in banks' capital adequacy ratio in view of the risks inherent in the Senegalese economy.

Directors recommended that the authorities rescind recent measures that reduce free trade and hinder competition in the import sector. In particular, they urged the authorities to eliminate the new tax protecting the import operations of the groundnut company as soon as possible.

Directors were of the view that the authorities' second poverty reduction strategy paper provides an adequate framework for poverty reduction in Senegal, and recommended that implementation be vigorously pursued. They also emphasized the need to prioritize public expenditure, improve its effectiveness through better investment planning and evaluation, and involve the private sector in infrastructure projects, especially in view of the tight budgetary conditions.

Senegal: Selected Economic Indicators

	2003	2004	2005	2006 Est.
(Annual changes in percent)				
Domestic economy				
Real GDP	6.7	5.6	5.5	3.3
Consumer prices	0.0	0.5	1.7	1.9
Exports (in CFA francs)	-1.7	9.2	1.6	-7.9
Imports (in CFA francs)	7.4	9.8	14.4	11.5
Real effective exchange rate 1/	2.5	0.1	-1.3	...
(In percent of GDP, unless otherwise indicated)				
Gross domestic investment	24.0	23.7	25.6	24.8
Gross national savings	17.8	17.6	17.6	12.9
Current account balance 2/	-6.2	-6.1	-8.1	-12.0
Central government revenue 3/	20.1	20.6	21.1	21.5
Total expenditure and net lending	21.7	23.5	24.3	27.3
Primary balance	-0.5	-1.8	-2.4	-5.0
Overall balance	-1.3	-3.1	-3.0	-5.7
Change in broad money (in percent)	31.5	12.9	7.4	12.6
External public debt	51.1	44.4	42.9	17.0

Sources: Senegalese authorities and Fund staff estimates.

1/ Negative change indicates depreciation.

2/ Including official transfers.

3/ Including grants.

Statement by Laurean Rutayisire, Executive Director for Senegal
January 29, 2007

I would like to convey to Management and staff my authorities' appreciation of the good quality of the dialogue between the Fund and Senegal. After the expiry of its last Fund-supported program in April 2006, this Article IV consultation provides a good opportunity for the Senegalese authorities to benefit from Fund candid advice and assessment of their macroeconomic policies and reform agenda. As discussed below, the Senegalese economy has been affected in 2006 by a number of shocks, including oil price increases and the disruption in the operations of one of the largest exporting companies in the country. The authorities are making their utmost efforts to mitigate the impact of these shocks, while addressing increasing social needs, especially in the run-up to next month's presidential elections.

Recent Economic Developments

Over the past years macroeconomic performance in Senegal has been strong. During the period 2003-05, real GDP growth averaged about 6 percent, average inflation was maintained below 2 percent, and the overall fiscal deficit (including grants) amounted, on average, to less than 3 percent of GDP. Throughout the same period, Senegal maintained a good track record of implementation of sound macroeconomic and structural policies and pursued prudent debt management policies, enabling Senegal to reach the completion point under the Enhanced HIPC, and more recently to benefit from MDRI debt relief.

In 2006, my authorities have continued the implementation of their structural reform agenda with a view to improving economic efficiency and maintaining fiscal and debt sustainability. Owing to the authorities' prudent debt management policies and MDRI debt relief, debt indicators have strengthened further, with the ratio of the NPV of public external debt to export amounting about 55 percent at the end of last year. Inflation is estimated to have been slightly above 2 percent, in line with the convergence criterion on inflation defined by the Convergence, Stability, Growth, and Solidarity Pact of the West African Economic and Monetary Union (WAEMU). All other secondary convergence criteria set by the Pact were also met, except that on external current account deficit.

However, macroeconomic performance was adversely affected by oil price increases and the interruption in the operations of the *Industries Chimiques du Sénégal* (ICS), one of the largest exporting companies in the country. On one hand, these higher oil prices partly contributed to aggravating the numerous problems already facing the energy sector, fueling energy subsidies to the electricity company (SENELEC) and the refinery company (SAR) and exacerbating disruptions in supply of these companies' products. On the other hand, ICS faced epic difficulties that resulted in a significant scale-down of its operations, owing to inadequate export pricing, depreciation of the US dollar relative to the euro-pegged CFA, and weak management,. Given that this company accounted for 2 percent of GDP and 10 percent of total exports at end-2005, the disruption in its operations contributed to the slowdown in GDP growth and the significant deterioration of the external position.

Due to these adverse developments, real GDP growth is estimated to have declined in 2006 and the external current account deficit is estimated to have widened. Despite strong, higher-than-projected revenues, the fiscal deficit is also estimated to have deteriorated, largely as a result of increases in subsidies mainly induced by the exogenous oil price shock. However, the government has since taken measures to gradually reduce these subsidies.

Medium-Term Growth Prospects and Economic Outlook for 2007

In order to achieve the poverty reduction objectives set forth in Senegal's second PRSP (PRSP-II), my authorities are determined to achieve higher growth rates in the context of macroeconomic stability and debt sustainability. It is their expectation that medium term growth will range, on average, between 5 and 8 percent depending on the extent to which additional resources expected for the implementation of the poverty reduction strategy set forth in the PRSP-II are mobilized and absorbed. In the most optimistic scenario, the growth rate is projected to reach the upper bound of this range, in line with the objective set by the accelerated growth strategy (AGS). Based on their extensive consultations with domestic and external stakeholders, my authorities expect that growth rates of this magnitude can be driven by the promotion of domestic and foreign direct investment and sectors with high growth and export potential. They plan to facilitate the achievement of such growth rates by continuing the implementation of structural reforms aimed at creating a more market-oriented, private sector-led economy. In this respect, they intend to pursue their efforts to improve the business climate and reduce budgetary support to energy and electricity companies.

The economic outlook for 2007 continues to be favorable. In order to improve growth prospects, my authorities intend to work on ensuring full recovery of ICS activities. They are hopeful that their ongoing negotiations with potential ICS private partners will be successfully concluded this year, which would help growth regain momentum. Meanwhile, they have appointed a new management team tasked with running the company until new strategic partners are found and the restructuring plan of the company finalized. The government is still eager to reduce its 47 percent stake in the company upon entry of new private partners.

It is also my authorities' intention to take action to improve the potential of the agricultural sector whose contribution to growth is projected to be higher in 2007. The dynamism of the services sectors, including tourism, telecommunication, construction, and transportation is expected to boost growth. Growth will be also expected to be driven by higher exports resulting from the resumption of ICS and SAR productive activities that should be facilitated by my authorities' efforts to restructure ICS and better adapt the price-setting formula for petroleum products to market conditions.

Fiscal Policy, Transparency and Governance

As noted by staff, the Senegalese authorities agreed that a 4 percent fiscal deficit will be appropriate in 2007. In light of the latest available estimates, my authorities are hopeful that the projected fiscal deficit for 2007 will be about 4.3 percent of GDP in line with staff's projection, instead of 5.5 percent as previously suggested by their draft fiscal program. My authorities have already taken steps that make them hopeful that this objective will be achieved. These steps include but are not limited to the gradual phase-out of gas butane subsidies, the projected salary freeze in the civil service, and the expected, higher frequency in adjustments of the electricity price-setting formula to better reflect market conditions. My authorities intend to keep the ratio of the wage bill to GDP constant in 2007, and they are contemplating no salary increase in the public sector. On the revenue side, they plan to continue their efforts to strengthen and modernize tax administration, notably through the installation of an information-sharing system between the main agencies responsible for tax collection. The achievement of this fiscal objective set for 2007 will be consistent with the authorities' commitment to preserve debt sustainability. My authorities will also continue to abide by their commitment to borrow only at concessional terms.

My authorities are fully aware of the need to strengthen fiscal governance and transparency. In order to improve fiscal transparency and reporting, budgetary and public financial management, and public procurement, they are implementing many reforms based on the World Bank's Country Financial Accountability Assessment (CFAA) and the review of Country Procurement Practices (CPAR), the Public Expenditure and Financial Accountability Assessment (PEFA), and WAEMU guidelines. They have institutionalized all WAEMU requirements on budget classification, fiscal reporting, and public accounting. My authorities have decided to postpone discussions on the proposed three-year public financial management plan until the completion of the PEFA. As they are already implementing many fiscal reform programs, they want to subject any additional reform to their implementation capacity and are concerned about the sequencing of these various reforms and the consistency between ongoing reform programs.

With regard to the airport project, my authorities reiterate their commitment to ensuring transparency in the implementation of the new airport project. The revenue generated by the airport tax is being collected and held by the International Air Transport Association (IATA) and is not being used yet. In addition, IATA is sending regular reports to the authorities on the amount of revenue that is collected. The project has been submitted to, and fully endorsed by the National Assembly and the Infrastructure Council. The government was encouraged to carry the project forward after committing before the Parliament to ensuring full transparency in the conduct of the project.

In order to increase fiscal transparency, it is my authorities' intention to closely monitor the activities of the agency in charge of the preparation of the Islamic Conference Organization. Regarding staff's concern about the diversion to this agency from other budgetary lines, my authorities note that such practice can be undertaken in full compliance with existing fiscal rules and guidelines. Other actions signaling the authorities' commitment to transparency include the submission of the 2006 supplementary budget to the National Assembly and continued audit of SENELEC's accounts by an international audit company and the publication of its annual reports.

Given my authorities' efforts to strengthen fiscal governance and transparency, staff's suggestion that improvement in fiscal governance and transparency will help sustain external assistance can possibly send adverse signals that reported shortfalls and disbursement delays in donor assistance are due to weak fiscal governance and transparency. In fact, it is my authorities' view that the absence of a Fund-supported program had sent a negative signal to development partners about the commitment of the Senegalese authorities to embark on a new program relationship with the Fund. This signal coupled with the imminence of the upcoming elections motivated a wait-and-see attitude on the part of these partners, translating into shortfalls and disbursement delays in donor assistance

Energy Sector

My authorities are fully aware of the need to reduce budget transfers to the electricity company and butane gas subsidies. To this end, they have taken some measures aimed at addressing the difficulties facing SENELEC, including a 15 percent increase in electricity tariffs in September 2006. Work is also being undertaken by the regulatory commission, *Commission de Régulation du Secteur de l'Énergie*, to ensure more frequent revisions of the formula so as to enable a prompter adjustment in electricity tariffs and shorten delays in payments of government compensation for the company's losses. This work is also aimed at revising the price-setting formula for electricity prices, with a view to better reflecting fuel costs borne by SENELEC in electricity production. Over the coming years, the authorities, in collaboration with the World Bank, envisage to increase SENELEC's production capacity and reduce its operating costs.

At the same time, my authorities have taken steps to reduce the budgetary impact of government compensation to the refinery company. They have translated into actions their strong commitment to gradually phasing out butane gas subsidies. Since August 2006, subsidies on butane gas have been drastically reduced and it is the authorities' intention to continue these subsidies' cuts until completely phasing them out by end-2007. Furthermore, the authorities have proceeded to the revision of the price-setting formula for petroleum products with a view to making this formula more sensitive to market developments.

Financial Sector and Competitiveness

My authorities welcome staff's advice on ways by which the contribution of the financial sector to the economy could be increase. This advice will particularly useful to the ongoing efforts made by the authorities to preserve the soundness of the banking system and enhance credit availability, especially among the poor. How best monetary policy can help achieve these objectives is under the competency of regional monetary authorities; but, whenever necessary, my authorities will draw their attention to any issues that call to actions in this area, as was recently the case with the issue related to banks' capital adequacy ratio.

My authorities share the concerns about the adverse impact of ICS crisis on bank soundness. But they are also concerned about the need to ensure a fair distribution of risks caused by ICS bankruptcy. In the absence of the government guarantee of ICS debt the adverse impact of the ICS crisis on bank soundness would have been worse. This guarantee which covers a large part, but not all, of ICS' debt to banks was actually meant to minimize this adverse impact. While the authorities recognized that such guarantee may impact on fiscal risks, they took this last resort measure, concerned that, without this guarantee, the health of the banking system would have been seriously affected by the potential bankruptcy of many small banks to which ICS is indebted. It is also important to note this guarantee will expire once the ICS restructuring plan is completed.

We note the results of the analysis presented in the Selected Issues paper which indicate that competitiveness measured by unit labor costs- and CPI-based REER has declined between 1994 and 2004, although the ex-post assessment report for Senegal which was carried out for this same period indicates that competitiveness actually improved. As this Chair has repeatedly stated, exchange rate is a regional issue and in order to improve competitiveness my authorities are committed to implementing other measures which are under their control, including structural reforms.

In concluding, I would like to reiterate my authorities' intention to maintain close relationships with the Fund, which would enable them to reach agreement with staff on a successor arrangement after the upcoming elections.