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

In the context of the Fifth Review Under the Policy Support Instrument and Request for Modification of Assessment Criterion, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on December 18. 2017, following discussions that ended on September 19, 2017, with the officials of Senegal on economic developments and policies underpinning the IMF arrangement. Based on information available at the time of these discussions, the staff report was completed on December 4, 2017.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the International Development Association (IDA).

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

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

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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December 18, 2017

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Fifth Review
Under the Policy Support Instrument (PSI)

The Executive Board of the International Monetary Fund (IMF) completed the fifth review of Senegal's economic performance under a program supported by the Policy Support Instrument (PSI).[1] The PSI supports the authorities' macroeconomic reforms designed to advance the *Plan Sénégal Emergent* (PSE), the authorities' strategy to increase growth and reduce poverty while preserving macroeconomic stability and debt sustainability. It was approved on June 24, 2015 (see Press Release No. 15/297) and extended by one-year to June 24, 2019. The Board's decision was taken on a lapse of time basis.

In completing the fifth review of Senegal's economic performance under the program supported by the PSI, Executive Directors endorsed staff's appraisal, as follows:

Senegal's macroeconomic situation is stable. Growth is expected to exceed 6 percent in 2017 for the third year in a row, while inflation remains low. The fiscal deficit has been declining progressively in recent years and is projected to reach 3.7 percent of GDP in 2017, but debt has grown faster than the fiscal deficit would imply as the Treasury has financed the deficits of the Post Office and Civil Service Pension, as well as expenditures from past years' appropriations. The current account deficit is projected to increase to 7.8 percent of GDP in 2017 due to higher oil prices and slightly slower export growth, reversing a decreasing trend over the past several years.

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[1] The PSI is an instrument of the IMF designed for countries that may not need, or want, IMF financial assistance, but still seek IMF advice, monitoring and endorsement of their policies. The PSI helps countries design effective economic programs that, once approved by the IMF's Executive Board, signal to donors, multilateral development banks, and markets the Fund's endorsement of a member's policies (see http://www.imf.org/external/np/exr/facts/psi.htm).

Program performance through September 2017 has been satisfactory. All end-June 2017 assessment criteria and indicative targets were met, except for the indicative target on tax revenue which was missed due to lower-than projected oil-related revenues. Of the three structural benchmarks (SBs) set for this review, two were met, while further progress is needed on the third SB to make the platform to share information between the tax and customs departments fully operational to improve revenue collection.

The outlook for the Senegalese economy remains on the whole positive. Senegal needs to continue implementing its structural reform program to maintain high growth rates of recent years. It has made progress in implementing public infrastructure projects, but it now needs to accelerate the implementation of reforms to improve the business environment and attract private investment. The new Special Economic Zone could play a catalytic role in this regard by leading by example in terms of good governance. Further progress is needed on implementing measures to facilitate small and medium enterprise access to credit and, more broadly, the transition of the informal sector to the formal sector. Sources of external risk include spillover from regional security threats and tightening of regional and global financial market conditions.

The main macroeconomic challenge for Senegal in the short term is to find the fiscal space for investment in infrastructure to facilitate private sector development, on the one hand, and for social spending, on the other hand, without undermining debt sustainability. To achieve this, the authorities will need to contain financing needs for Treasury operations through reforms of the Post Office, Civil Service Pensions and the *comptes de dépôt*. Over the medium term, continuing to support the *Plan Sénégal Emergent* (PSE) will require raising tax revenues to the WAEMU convergence criterion level following the GDP rebasing, which will entail improvements in tax policy and revenue administration. While Senegal remains at low risk of debt distress, debt indicators have deteriorated, requiring strong progress on fiscal and structural reforms. Senegal needs to continue to manage its debt prudently, including exercising caution with non-concessional debt.

INTERNATIONAL MONETARY FUND

SENEGAL

December 4, 2017

FIFTH REVIEW UNDER THE POLICY SUPPORT INSTRUMENT AND REQUEST FOR MODIFICATION OF ASSESSMENT CRITERION

EXECUTIVE SUMMARY

Economic performance. Growth is expected to stay high at close to 7 percent in 2017, similar to 2016, with inflation contained at 2 percent. A negative terms of trade shock combined with higher capital imports widened the current account deficit.

Fiscal policy. Authorities are committed to achieving the 3 percent of GDP fiscal deficit target by the 2019 WAEMU target date—one year later than foreseen in the PSI 4th review. Delayed reforms, including to strengthen Treasury operations, and presidential elections in early 2019, are leading to increasing fiscal pressures. To keep Senegal at low risk of debt distress, structural issues underlying the public sector overall borrowing requirement (which the headline budget deficit does not fully capture), need to be addressed, through reforming the Post Office and Civil Service Pension and limiting use of deposit accounts outside budget appropriations of the current fiscal year. This will help create space for continued and much-needed investments in human and physical capital.

Reforms to spur private sector growth, supported by G20 Compact with Africa. To sustain current high growth rates, the private sector needs to take over as the engine of growth. Progress is being made in revamping the business environment, notably by putting in place transparent governance rules needed to make the Special Economic Zone (SEZ) a success. The Compact with Africa could play a facilitating and financing role in promoting private sector growth. New initiatives for SMEs are underway, while energy supply is becoming more reliable. It is key that government maintain reform momentum by overcoming vested interests and ensuring initiatives are well coordinated.

Program implementation. Performance under the PSI-supported program has been broadly satisfactory. All end-June 2017 assessment criteria and indicative targets (IT) were met except for the floor on tax revenue. The end-September IT on revenues was missed, as was the one on net lending/borrowing due to accelerated externally-financed capital spending. Expenditure control is needed towards the end of 2017 to meet the targets on both the net lending/borrowing (i.e. headline fiscal deficit) and central government overall net financing. Two of the three structural benchmarks set for this review were met.

Staff recommends completion of the fifth PSI review.

Approved By
Roger Nord (AFR) and Daria Zakharova (SPR)

A staff team consisting of Messrs. Mansoor (head), Leichter and Versailles (all AFR), Mr. Reynaud (FAD), Ms. Mendes Tavares (SPR), and Ms. Sancak (IMF Resident Representative in Dakar) conducted the discussions in Dakar, September 7–19, 2017. The Executive Director (ED), Mr. Sembene, and the Advisor to the ED, Mr. Diakite, participated in this mission. The team met with Prime Minister Dione, the ministers in charge of economy and finance, civil service, public administration and industry and mines, the National Director of the BCEAO, and other senior officials. The team also met with representatives of the private sector, civil society, and donor community.

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RECENT DEVELOPMENTS, OUTLOOK, AND RISKS

Political and Economic Context

1. **The victory of President Sall's coalition in parliamentary elections in late July resulted in minor changes in the cabinet, but upcoming presidential elections could create reform challenges.** Overall, the ruling coalition got 125 out of 165 seats, including 97 seats won by President Macky Sall's party alone. His party now has a majority in Parliament even without counting seats from coalition members, giving him a strong mandate. The ensuing cabinet reshuffle in early September emphasized continuity, as Prime Minister Dione and ministers in charge of key economic portfolios were all reappointed. However, the presidential elections, scheduled for early 2019, could reduce the coalition's reform appetite, and increase spending pressures.

2. **To maintain Senegal's current high growth levels, the private sector needs to take over from the public sector as the main engine for growth.** Since 2015, public investment and increases in agricultural productivity under the framework of the *Plan Sénégal Emergent* (PSE) have delivered growth rates above 6 percent. However, in recent decades, growth episodes that were similarly driven by increases in public spending, typically petered out, as the necessary foundations for a thriving private sector were not put in place and fiscal sustainability eroded. To make sure this does not happen again, further improvements to the business environment, notably by making it more rules-based and transparent, will be key to attract private investment and maintain growth momentum. Public investments will need to create high-quality infrastructure and human capital attuned to the requirements of the private sector. The challenge will be to do this while containing the broad public sector borrowing requirement. Efforts to contain the public wage bill and consumption and to improve public expenditure efficiency and fiscal governance will be crucial in this respect.

3. **To spur private sector growth, sound economic policies have been developed, which now need to be implemented steadfastly.** Encouraging signs are the focus on delivering lower-cost access to electricity, the ongoing work to make the Special Economic Zone (SEZ) – the so-called "triangle of prosperity"[1] – a model for good economic governance in the country, and initiatives to encourage small and medium enterprise (SME) development. The development of the agricultural sector has included important measures to foster better use of irrigation and improved seed quality. The quality of public spending is being improved through the setting up of a "project bank" to vet public investment projects more closely and the use of a precautionary reserve envelope (PRE). The authorities are also working on revamping the Public Private Partnership (PPP) framework with assistance from development partners, including through innovative initiatives like peer-learning events. These policies now need to be implemented in a sound way to reap growth benefits over the medium term. The PSI accompanies these efforts, providing an important signal of progress to development partners and markets.

[1] This refers to the geographical area between Diamnadio, Thiès, and Mbour.

RECENT ECONOMIC DEVELOPMENTS

4. Growth in 2017 is expected to stay high at close to 7 percent, while inflation remains contained. Non-agricultural growth in the first six months of 2017 was 5.6 percent, driven mainly by the tertiary sector, especially public administration. High frequency data[2] point to an acceleration of economic activity in the second half of 2017 in the tertiary sector (e.g., commerce, transport, and hotel and restaurant services), as well as strong growth in fishing, peanut-related products—after the collapse in production in 2016—and cereal-based processed foods. With agricultural growth, likely in double digits, overall GDP growth could reach close to 7 percent. Inflation remains contained at 2.0 percent for the 12 months through August 2017. Private sector activity is underpinned by credit to the private sector which grew by 12.4 percent in the 12 months up to end-July.

5. The headline fiscal deficit is on track to meet the 2017 target of 3.7 percent of GDP, but Treasury pressures persist, adding to debt. In the first half of 2017, the deficit was contained and is expected to meet the nominal end-year target of CFAF 349 billion (3.7 percent of GDP). However, debt is growing faster than what is implied by the headline fiscal deficit, as the Treasury has financed the deficits of the Post Office and Civil Service Pension, as well as expenditures from past year budget appropriations.[3] To meet the overall borrowing target (i.e., fiscal deficit plus an additional CFAF 150 billion, the equivalent of 1.6 percent of GDP), the authorities will likely resort to increasing the annual carryover of end-year financing to the following year, which stood at CFAF 116 billion (1.3 percent of GDP) in 2016. To meet the additional borrowing target of CFAF 75 billion for 2018 without relying excessively on carryover, significant progress is needed on reforms to address the sources of these financing needs.

6. The current account deficit is projected to increase, reversing the downward trend since 2012. The current account deficit nearly halved over the past four years from close to 11 percent of GDP to 5.6 percent of GDP in 2016. However, lower phosphate exports and higher import of capital goods to finance public investment projects, combined with a negative terms of trade shock driven by higher prices for oil imports and lower prices for fish exports reversed this trend. As a result, the current account deficit is projected to reach close to 8 percent of GDP in 2017. In the medium term, imports of capital goods are projected to maintain a strong pace and exports to pick up. Capital inflows from abroad have been strong in 2017 due to higher donor financing for public investment projects and the issuance of a US$1.1 billion (6.7 percent of GDP) Eurobond earlier this year. At the regional level, the increase in pooled WAEMU reserves at end-September 2017 to over four months of imports is supportive of a stable external environment.

[2] Based on the General Activity Index (*Indice Générale d'Activité*) of August 2017.

[3] These transactions are appropriately classified in fiscal reporting as financing items rather than expenditures, given that they represent a change in intra-governmental debt. Financing a reduction of the "*comptes de dépôt*" would be recorded as a reduction of a past obligation towards a government ministry or agency. Treasury financing of the Post Office would increase its liabilities towards the Treasury and require settlement of these obligations at a future date following reforms, while contributions towards Civil Service Pensions add to pension liabilities.

7. The outlook remains broadly positive, with some downside risks emerging. Senegal is expected to continue to grow at 6-7 percent over the medium term, provided economic space is opened up for increased SME activity and FDI inflows. Lack of progress on such reforms would risk a return to the anemic growth rates of the past and could jeopardize debt sustainability. Overall, there is a risk that the 2019 presidential elections could weaken commitment to fiscal consolidation, including on structural reforms and on addressing financing needs beyond the budget. Sources of external risk include more-than-expected tightening of regional and global financial market conditions and adverse effects from security threats. If they were to materialize, these external risks are likely to have negative effects on growth and public finances. Higher oil prices similarly would have a negative impact on public finances, external accounts and growth, both through a direct effect by making oil-related imports more expensive and by increasing the production cost of electricity. The magnitude of the impact of an oil price increase would depend on the response of domestic fuel and electricity prices.

8. Senegal made significant progress on statistics with adherence to the Special Data Dissemination Standard (SDDS). On November, 20, Senegal became the fourth sub-Saharan African country to subscribe to the SDDS, implying high quality of its macro-economic data (Box 1).

Box 1. Senegal Improves its Statistical Framework Through Adherence to SDDS

On November, 20, 2017, Senegal reached a major milestone by becoming only the fourth subscriber to the Special Data Dissemination Standard (SDDS) in sub-Saharan Africa. The SDDS, established by the IMF in 1996, guides members that have, or might seek, access to international capital markets, in the provision of their economic and financial data to the public. Adhering to the SDDS implies the dissemination of certain data categories (with corresponding meta-data) with specified periodicity and timeliness to promote public knowledge and understanding of compilation practices.

Improvements in data practices that come with the SDDS include an Advanced Release Calendar and a National Summary Data Page (NSDP). The NSDP is the mandatory dissemination portal for the 18 data categories required by the SDDS. This allows rating agencies, investors and the broader public to benefit from easy access to information essential to assess economic conditions and policies while promoting government accountability. Publication of key financial and macroeconomic data through the NSDP brings many benefits:

It reduces the reporting burden as data can be posted in one data portal in a standardized format that can be accessed by different institutions. Data harvesting via machine-to-machine obviates the need to submit data to external stakeholders.

It allows data managers to control data updating processes and be informed by regular monitoring of data releases by IMF staff for improvements and fine tuning;

Improvements in data transparency and governance, including the discipline of following the Advance Release Calendar, reduces uncertainty for investors and the public in general. In turn, this helps with the development of local domestic financial markets.

Senegal’s adherence to the SDDS is a demonstration of strong government commitment to improving data transparency, including all public statistical agencies in Senegal (Ministry of Finance, ANSD, and BCEAO), supported by IMF technical assistance.

9. Senegal is rebasing GDP from the base year 1999 to 2014, with technical assistance from the IMF. Preliminary results show an increase of approximately 30 percent in the level of nominal GDP in 2014. Technical work is ongoing and it is expected that fully validated GDP series with 2014 as the base year will be available in the first half of 2018, in time for the preparation of the 2019 budget. While some debt indicators would improve under rebasing, debt service as a share of revenues would be unaffected, underscoring the need to maintain a prudent fiscal stance and borrowing strategy.

POLICY DISCUSSIONS

10. Discussions centered on policies to sustain high growth, while at the same time ensuring macroeconomic stability. Accordingly, the focus was on policies and reforms to: (i) continue on the fiscal consolidation path and improve the medium-term public sector balance sheet through revenue reforms and increased efficiency in investment to help meet development needs; (ii) strengthen control over Treasury operations to ensure debt sustainability; and (iii) accelerate private sector development through increasing private domestic and foreign investment.

A. Fiscal Policy: Gradual Consolidation to Ensure Medium-Term Sustainability

11. Discussions emphasized the reforms necessary for a medium-term fiscal path that would allow financing of the ambitious PSE without jeopardizing debt sustainability. In the near term, the government is committed to containing current spending, while externally-financed capital spending expands faster than programmed. In return, spending on domestically-financed projects will be reduced while increasing their efficiency, helped by an extended use of the newly operational project bank and the PRE. The authorities nevertheless expressed their commitment to keep the headline fiscal deficit on track to meet the 3 percent of GDP WAEMU convergence criterion by 2019, one year later than envisaged in the fourth PSI review, but in line with regional requirements. Medium-term fiscal discussions focused on structural reforms needed to contain future additional financing needs, ensure the debt-to-GDP ratio is put on a decreasing path, and improve the public sector's balance sheet over the medium term.

Fiscal policy for the near term

12. In 2017, externally-financed capital spending has been executed at a higher-than-programmed rate, while oil-related revenues are likely to be lower than expected. On the revenue side, authorities expect the end-year revenue target to be met. Domestic income and corporate tax collection were in line with authorities' targets for the first half of the year. The reduction in gasoline prices that took effect in the second half of 2016 pushed the Petroleum Product Imports Security Fund (FSIPP) into deficit at end-2016, in a context of rising international oil prices, and collections in the first half of 2017 were below the authorities' targets. Consequently, tax revenues fell short of the indicative target by 0.7 percent of GDP. The likely year-end revenue

shortfall would be compensated by strong customs revenues and the repatriation of a portion of surpluses from government agencies such as the Energy Support Fund (*Fonds de soutien à l'énergie—FSE*) and the Telecommunications and Postal Regulatory Authority (*Autorité de Régulation des Télécommunications et des Postes—ARTP*) into the budget (**MEFP ¶8**). Customs revenues are likely to be above target in the second half of the year because of higher-than-anticipated imports of basic food products (with tax surcharges). On the expenditure side, the authorities decided to make room for more spending on externally-financed investment projects by lowering the rate of execution of domestically-financed investment projects. These revenue and spending measures will ensure the program's end-year headline fiscal target of CFAF 349 billion (3.7 percent of GDP) is met.

	End June 2017		Year end 2017
	Outturns	Program targets	Projections
Total revenue	11.3		25.4
Tax revenue	9.9	10.6	20.7
of which:			
PIT	*2.3*		*3.1*
CIT	*1.4*		*1.9*
Domestic goods and services	*4.6*		*10.2*
International trade and transactions	*1.2*		*2.7*
Total expenditure	13.2		29.0
Wages	3.1		6.2
Interest	1.2		2.3
Capital expenditure	4.9		12.6
Net lending/borrowing	-2.0	-2.0	-3.7

13. For 2018, the program will allow a higher headline deficit by 0.5 percent of GDP than originally envisaged, to make room for higher externally-financed capital expenditure. Externally-financed projects are projected to be CFAF 325 billion in 2018, which is a significant increase compared to CFAF 230 billion envisaged during the 4th PSI review. The program will thus allow for a headline deficit of 3.5 percent of GDP, compared to 3.0 percent at the time of the 4th PSI review, provided that the authorities implement measures to reduce the fiscal deficit in the medium term (see ¶15). The authorities reiterated their commitment to meet the 3 percent of GDP WAEMU deficit convergence criterion by the target date of 2019.

14. The authorities will continue to mobilize revenue and improve the quality of investment in the 2018 Budget Law. Measures to achieve these objectives include:

- Repatriate to the budget taxes, duties, royalties and contributions from operations in the mining and telecommunications sector that are currently accounted for outside the budget (**MEFP ¶9**);
- Further advance the digitalization of tax collection for medium-size companies and households (**MEFP ¶10**);
- Implement important customs administration reform with the full deployment of the new customs software (GAINDE), the implementation of the customs release ticket (Ticket Libératoire) and full operationalization of the unique taxpayer identification number (NINEA) under the cooperation protocol between customs and internal revenue administration (**MEFP ¶11**);
- All new domestically-financed projects above CFAF 1 billion will be vetted through the project bank (**MEFP ¶16**).

Fiscal policy for the medium term

15. To compensate for the larger-than-planned 2018 deficit, the authorities are implementing measures to improve the public-sector balance sheet over the medium term. The following measures, taken from the 2017 Supplementary Budget Law and the 2018 Budget Law, will help reduce debt further over the medium term:

- Repatriate quasi-fiscal surpluses from identified public entities (FSE, l'ARTP, l'ARMP, the COSEC, l'ANACIM, the ADSs and the FERA) beyond the amount needed to finance two years of current expenditure in their budget (**MEFP ¶13**). An estimated CFAF 30 billion will be repatriated in 2017. The government will continue to integrate quasi-fiscal revenues into the budget (**MEFP ¶8).**

- Appropriate measures will be taken to reduce tax expenditures, consistent with a comprehensive approach based on rules published on the internet and applicable to everyone. This strategy is reflected in two new structural benchmarks for the sixth and seventh reviews (**MEFP ¶14**);

- From the end of the fiscal year 2018, public entities that have credit balances on their deposit account at the Treasury (*comptes de dépôt*) resulting from budgetary transfers received during the year and checks drawn from the Treasury on the period, will be subject to an adjustment above-the-line in the following year's budget (**MEFP ¶23**);

- Starting with the 2019 budget law, no project exceeding CFAF 1 billion will be included in the government's investment budget unless it has been vetted through the newly established investment project bank (**MEFP ¶16**).

16. Implementation of these measures, designed to support the reduction in the fiscal deficit to the 3 percent of GDP WAEMU criterion by 2019, is subject to risks. The presidential elections can give rise to spending pressures, creating uncertainty regarding the execution of the 2018 budget and the continuity of policies in the 2019 budget law. Other macroeconomic risks include the fluctuations in oil prices, which would have both direct (through oil imports) and indirect effects (through the FSIPP and the use of oil products in the electricity producing company SENELEC). Electricity prices were revised downwards by 10 percent in early 2017 following the downward trend in global oil prices. While initially this implied that SENELEC would not need a subsidy in 2017 (as in 2016), the recent increase of global oil prices could require a transfer to SENELEC from the central budget in 2017 and 2018, absent a reduction in production costs or an increase in electricity tariffs.

17. In this context, discussions about medium-term fiscal policy will continue in the context of the 2018 Article IV discussions. Those discussions will focus on the authorities' strategy to reach the WAEMU convergence criterion on the revenue-to-GDP ratio, given that the GDP rebasing will push the Senegal ratio below the criterion by about 4 percent of GDP (from over 20 percent to 16 percent). The authorities indicated that they will continue to use the PSE to guide them in setting their new revenue mobilization and expenditure rationalization strategy.

B. Treasury Management and Debt Issues

18. Debt remains on a sustainable path, but further efforts are needed to improve the public-sector balance sheet and sustain growth over the medium term. Key debt indicators are at high levels, with debt to GDP over 60 percent (46.5 percent after rebasing) and debt service near one-third of revenues. Moreover, the DSA shows a breaching of debt indicators under the stress and historical scenarios. To maintain the current low risk of debt distress rating, strong reform efforts are needed to raise revenue and limit Treasury operations to free up financing for the substantial ongoing development needs and enable the private sector to drive and sustain growth. The results of the DSA underscore that a loss of reform momentum, which would return Senegal to the mediocre growth of the past, would adversely affect debt dynamics. In addition, it is essential that the debt management strategy emphasize continued reliance on concessional lending, when possible (**MEFP ¶21**).

19. Reforms are needed to address structural factors that have pushed up the public sector borrowing requirement (Box 2). In recent years, the need to finance operations of the Post Office and Civil Service Pensions, as well as unutilized appropriations from past budgets,[4] has required additional borrowing beyond what is needed to finance the budget deficit. Initial efforts to reduce the public sector borrowing requirement have focused on limiting the implementation and financing of multi-year projects in 2017, but more fundamental reforms are needed to bring it in line with the budget deficit. The authorities are committed to (i) identifying the Post Office structural deficit and re-evaluating the subsidy it receives in the budget; and (ii) separating the Post Office from the deposit-taking *Poste Finance* (**MEPF ¶25**). The parametric and structural reform of Civil Service Pensions will be implemented by end-2018, ensuring the sustainability of the Fund. Until the reform is passed, the pension deficit will be part of the government budget and not require additional financing (**MEFP ¶26**). Finally, for the *comptes de dépôt:* (i) the stock will be audited to establish valid claims and a time-bound plan to unwind them; and (ii) new PFM rules will limit the carryover of appropriations to zero for current spending and 5 percent of the appropriation for capital spending starting at end-2018 (**MEFP ¶23**).

[4] The carryover of these appropriations which are often associated with multi-year public investment projects are recorded in the entity's Treasury account called *comptes de dépôts*.

Box 2. Treasury Operations for 2017

Over the past few years, the financing requirement for the central government has extended beyond what would be implied by the budget deficit (see Box 1 of CR/17/230). In particular, the need for the Treasury to finance deficits of the Post Office and the Civil Service Pension, as well as the tapping of unutilized appropriations of past budgets through the *comptes de dépôt*, resulted in additional net financing beyond the budget deficit of 2.5 percent of GDP in 2016. The PSI 4th review introduced a new assessment criterion (AC) to bring this additional borrowing gradually down over the remainder of the PSI and to zero by end-2019.

With the bulk of reforms to address the source of additional financing needs expected to take place in 2018, the Post Office and Civil Service Pension are projected to continue to run deficits in 2017 and 2018. The 2017 projections for additional Treasury borrowing are shown in the text-table.

Projected 2017 Additional Treasury Financing Needs

(CFAF Billions)

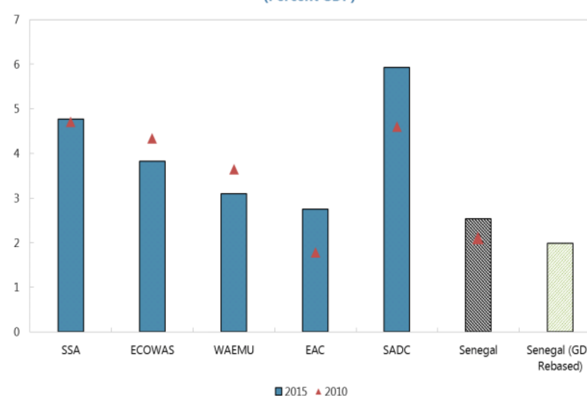
	Jan-Jun	Jul-Dec	2017
Post Office	25	28	53
Civil Service Pension	5	8	13
Comptes de Depot [1]	117	96	213
Total	147	132	279

[1] This includes illiquid revenues (recettes dardre) resulting from entities paying their taxesby drawing down their comptes de depot accounts.

The projection for financing of the *comptes de dépôt* operations which are not included in the 2017 budget is CFAF 213 billion and includes: (i) financing needed in 2017 to cover 2016 end-year government purchase orders which are in the process of being paid (*instances de paiement*); and (ii) a reduction of the stock of previously unutilized appropriations from past budgets, largely representing ongoing multi-year public investment projects. Under current projections for net financing to cover the budget deficit and additional Treasury financing needs, the assessment criterion for total government borrowing of CFAF 499 billion would be met if government purchases at end-year 2017 to be settled in 2018 would total close to 1.4 percent of GDP, higher than the 2016 level.

C. Preserving External Stability while Developing the Private Sector

20. Senegal's external position remains stable and would strengthen further with continued structural reforms to sustain growth over the medium term. With the reliance on imported oil and the recent increase of foreign currency debt as a percent of total debt, Senegal remains vulnerable to external shocks. Low levels of FDI relative to peer countries mean that Senegal is dependent on external debt-creating flows to finance the current account. While the recent increase in WAEMU's pooled reserves provides a good cushion against potential shocks, more needs to be done to boost external competitiveness and attract private foreign investment. The discovery of gas and oil off the coast could be substantial, and if managed properly would yield significant revenue gains and boost FDI, exports and growth (**MEFP ¶12**). While still at the exploration stage,



continued progress in finalizing discussions with private investors could result in new oil and gas production as early as 2021-23**.**

21. The SEZ needs to be carefully set up to create space for SMEs and put in place the right incentives to attract FDI. This could be helped by the G20 Compact with Africa. The development of the SEZ as a zone of good economic governance to create a "triangle of prosperity" connecting Diamniado, Thiès and Mbour could receive a boost from the G20 Compact with Africa. The Compact could help with the implementation of the development plan for the zone through a transparent call for tenders, and could also get involved with a planned program to support unemployed young people and women in the zone and a plan to make electricity supply in the zone independent of SENELEC. Progress is being made on reforms to the SEZ set-up, including subjecting all companies in the zone to a 15 percent corporate tax rate without exemptions. The authorities also plan to extend VAT to all enterprises in the zone without reference to administrative criteria.[5] Finally, the institutions responsible for regulations in the zone will involve foreign investors more closely (**MEFP ¶32, 33**). Senegal's main electricity provider, SENELEC continues to diversify supply through use of hydro-electricity and renewable energies[6] **(MEFP ¶37)**. Senegal's gain of six places in the overall ranking of the 2017-18 World Economic Forum Global Competitiveness Report is encouraging, even though it's overall ranking of 106th out of 137 countries highlights the further potential for progress. Similarly, Senegal gained seven places in the 2018 World Bank Doing Business rankings, and is now positioned 140th out of 190 countries.

22. The financial system is stable. The ratio of NPLs to total loans fell slightly to 17.3 percent at end-2016. While this remains high, the ratio of NPLs net of provisioning is in single digits.[7] The BCEAO recently made capital requirements more stringent by increasing the minimum own funds banks have to hold from CFAF 5 billion to CFAF 10 billion. At end-June 2017, when the new regulation became effective, two banks did not meet this requirement. The BCEAO is working with these banks to identify measures to rectify this situation. The BCEAO's monetary tightening has only had a limited impact on banking sector liquidity, helped by the Eurobond issuance and the resulting small emission of WAEMU bonds. As a result, credit to the private sector held up well and was growing at 12.4 percent in the 12 months through July 2017.

23. Several initiatives are being implemented to develop further the SME sector, including reforms to increase access to finance. Modification to the law on credit bureaus, which will require banks to provide credit histories of potential borrowers, is underway and supported by the BCEAO. Judicial reforms in the form of the setting up of commercial courts is planned for 2019. This will help facilitate the role of collateral in the credit-creating process. Both of these reforms would help SMEs access to credit. Authorities are launching the "*Maison de l'Entreprise*" initiative, which is a one-

[5] For the portion exported, refunds could be provided within 30 days.

[6] New projects already take into account the way Senegalese oil and gas could be used once exploitation starts.

[7] The BCEAO is in the process of implementing a change in definition of NPLs at the WAEMU level where loans that have returned to being performing will be taken off the list of NPLs. Senegalese banks will start communicating information in line with the new definition from mid-February 2018 onwards. It is expected that this will reduce the level of NPLs in Senegal, given restructuring of some large loans.

stop-shop for financial and non-financial services aimed predominantly at SMEs. The BCEAO has also launched a region-wide tool to support SME financing aimed at reducing the risks for banks extending credit to SMEs via the re-financing of extended loans. Different institutions created in 2013 to help with financing of SMEs, the *Fonds de Garantie des Investissements Prioritaires* (FONGIP), the *Fonds Souverain d'Investissements Stratégiques* (FONSIS) and *Banque Nationale pour le Développement Economique* (BNDE), continue to grow, which will increase the availability of credit. Quality of credit portfolio's will need to be maintained in these institutions however, and measures should be taken in tandem to improve the underlying structural impediments for SMEs' access to finance.

PROGRAM ISSUES

24. End-December 2018 ACs and end-September 2018 ITs are proposed. All end-June 2017 ACs and ITs were met, save for the IT on the floor on tax revenue. All end-September 2017 ITs were met except for two. The two unmet ITs are linked as lower-than-expected tax revenue contributed to the wide margin by which the net/lending borrowing IT was not met, with another contributing factor the frontloading of capital spending. The authorities nevertheless remain committed to meeting their 2017 fiscal deficit target. The authorities have requested the modification of (i) the end-June 2018 AC on the floor on net lending and borrowing and the end-June 2018 IT on the floor on tax revenue; (ii) the end-March 2018 ITs on the floor on net lending and borrowing and tax revenue; and (iii) the end-December 2017 IT on the floor on tax revenue. Of the three Structural Benchmarks (SB's) set for this review, two were fully met as the audit of the *comptes de dépôt* and the draft decree setting out the conditions for the operation of these accounts were finalized, and the reorganization of the DGID was completed. Progress was made on the final SB with the DGD-DGID platform operational, but not fully up to speed as it has not yet been populated with data **(MEFP, Tables 1, 2).**

25. Four new SBs are proposed for the sixth review, and two new SBs are proposed for the seventh review. The four new SBs for sixth review relate to: (i) pilot project on tax expenditures for auditing supporting documentation for approvals; (ii) use of integrated project bank for all projects over CFAF 1 billion; (iii) preparation of restructuring plan of *La Poste*, and stopping compensation operations between Treasury and *La Poste*; and (iv) establishment of an exchange platform between taxpayer and internal tax authority. Three SBs are being revised and reset from the sixth to the seventh review: (i) establishing basic infrastructure for M-Tax; (ii) reducing tax expenditures; and (iii) establishing a public investment committee and its use in vetting projects from the government's capital budget. Two new SBs are proposed for the seventh review: (i) reducing carryover related to *comptes de dépôt; and* (ii) establishing job ceilings. **(MEFP, Table 2)**

26. Safeguards assessment. The 2013 assessment of the WAEMU regional central bank, BCEAO, found a continuing strong control environment. All recommendations from the assessment have been implemented. These included strengthening the external audit arrangements by appointment of an international firm with ISA experience for the audits of FY 2015–17, reinforcing the capacity of the audit committee with external expertise to oversee the audit and financial reporting processes,

and adoption of IFRS starting with the financial year 2015. An update safeguards assessment is planned for the first quarter of 2018, in line with a four-year cycle for regional central banks.

STAFF APPRAISAL

27. Senegal needs to continue implementing its structural reform program to maintain high growth rates of recent years. It has made progress in implementing much-needed public infrastructure projects, but it now needs to implement reforms to improve the business environment and attract private investment. The new SEZ could play a catalytic role in this regard by leading by example in terms of good economic governance, potentially supported by the Compact with Africa. As SMEs make up more than 95 percent of Senegal's economic fabric, the raft of initiatives to develop SMEs, facilitate their access to credit and in general help them into the formal sector, now need to be carefully implemented and coordinated. Progress on the functioning of credit bureaus and the one-stop shop for SMEs (*Maison de l'Entreprise*) is welcome in this respect. To address high levels of debt service, it is essential that the debt management strategy emphasize continued reliance on concessional borrowing, when possible.

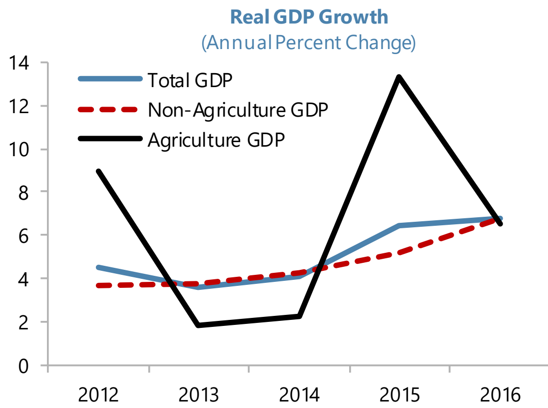
28. On the fiscal side, structural weaknesses linked to Treasury operations need to be dealt with swiftly so as to meet the WAEMU fiscal deficit target and ensure long-term fiscal sustainability. The main macro-economic challenge for Senegal in the short term is to maintain its rating of low risk of debt distress, while finding the fiscal space for physical and human capital accumulation to facilitate private investment. To achieve this in 2018, authorities will have to resolve the issues related to Treasury operations through reforms of the Post Office, Civil Service Pensions and the *comptes de dépôt*, and maintain fiscal prudence in the face of potential spending pressures in the run-up to presidential elections in early 2019. Over the medium term, it will be important to raise tax revenues to the WAEMU convergence criterion level following the GDP rebasing, which will imply both improvements in revenue collection and changes in tax policy.

29. The outlook remains broadly positive, but some risks are emerging. Senegal is expected to continue to grow at 6-7 percent over the medium term, provided the necessary reforms are implemented. Lack of progress would risk a return to the anemic growth rates of the past and could jeopardize debt sustainability. Overall, there is a risk that the 2019 presidential elections could weaken commitment to pursue fiscal consolidation and to tackle vested interests, which is needed to open up economic space. Sources of external risk include more-than-expected tightening of regional and global financial market conditions and adverse effects from regional security threats.

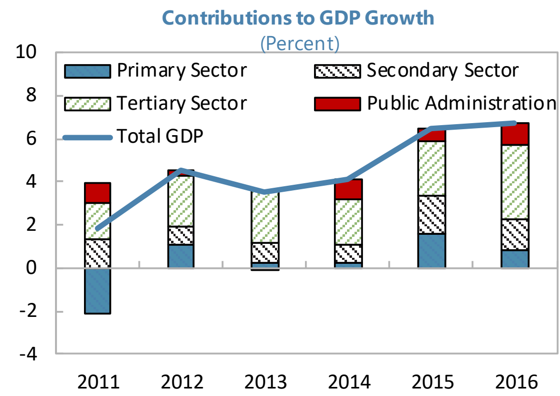
30. Staff recommends completion of the fifth PSI review. All end-June 2017 ACs have been met and all end-June 2017 ITs have been met save for the IT on the floor on tax revenue. All end-September 2017 ITs have been met except for two. Two of the three SBs set for the fifth review have been met. Staff supports the authorities request for the modification of (i) the end-June 2018 AC on the floor on net lending and borrowing, and the end-June 2018 IT on the floor on tax revenue; (ii) the end-March 2018 ITs on the floor on net lending and borrowing and tax revenue; and (iii) the end-December 2017 IT on the floor on tax revenue.

Figure 1. Senegal: Real and External Sectors, 2011–16

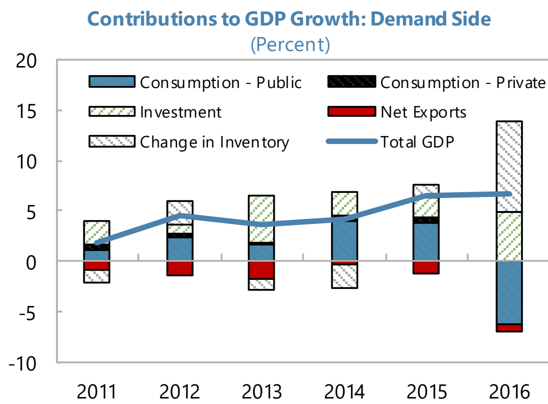
Real GDP growth is accelerating..



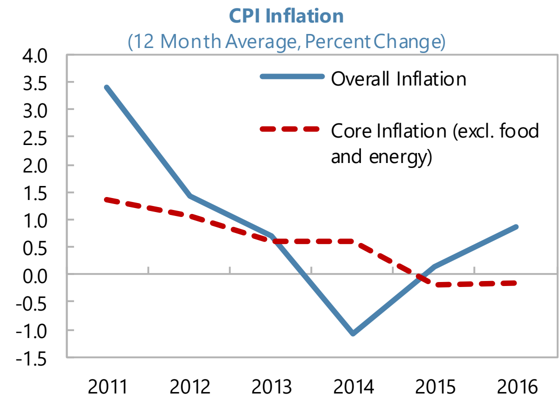
..mainly driven by agriculture and services..



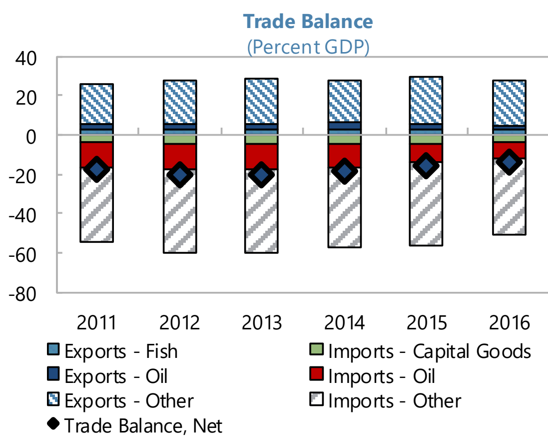
...and investment



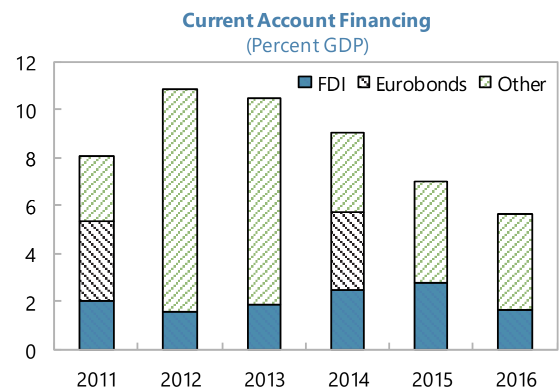
Inflation is contained below 2 percent



A negative trade balance contributes..



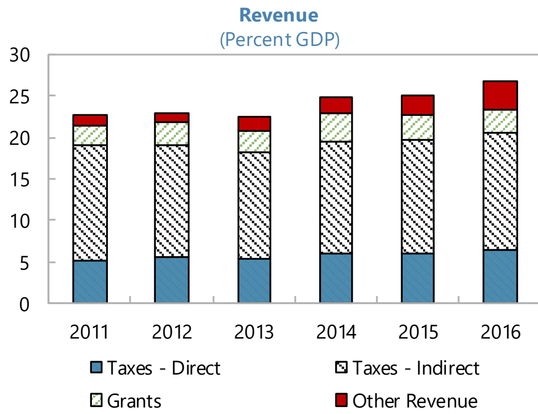
..to current account deficits, which are periodically financed by eurobonds



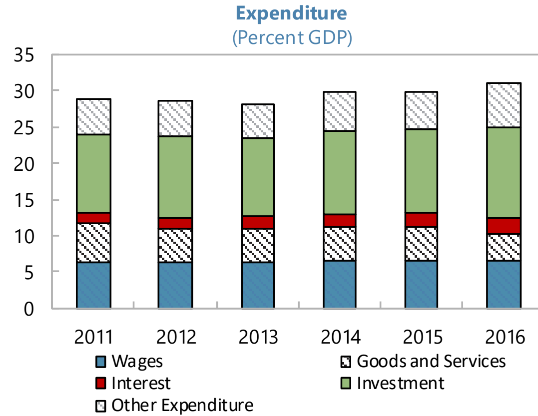
Sources: Senegal authorities; and IMF staff calculations

Figure 2. Senegal: Fiscal and Financial Indicators, 2011–16

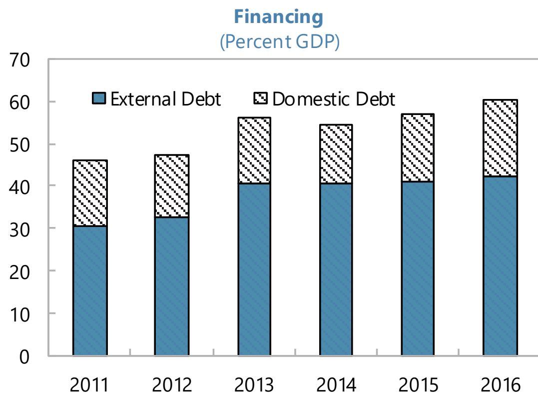
Revenues, dominated by indirect taxes, increased



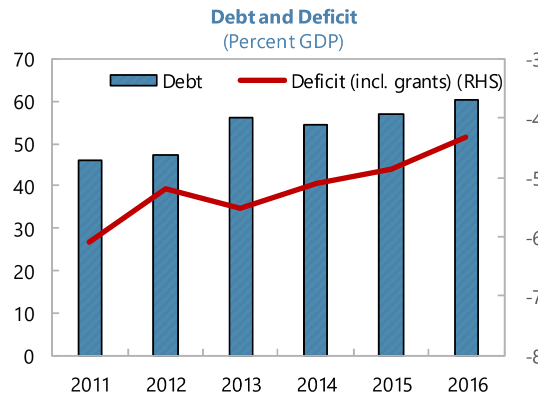
...while expenditures have been contained



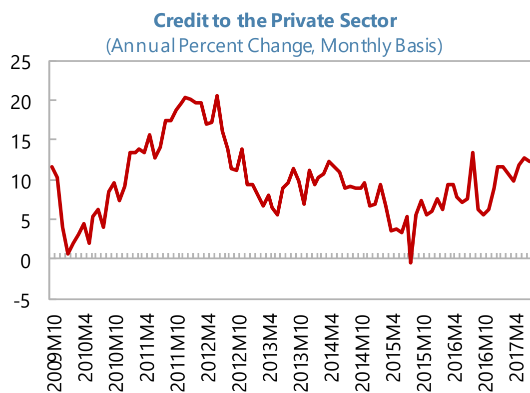
Financing relies mainly on external sources



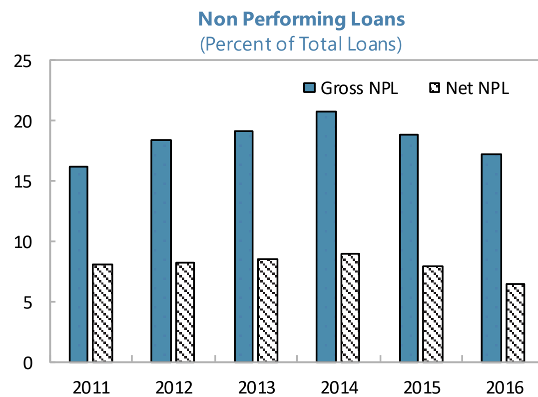
Debt has increased despite improving deficit



Growth in credit to private sector accelerated in 2017H1



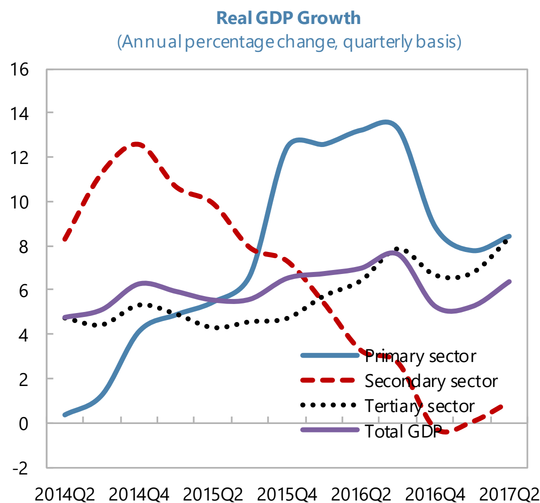
NPL's are coming down, and are well provisioned for

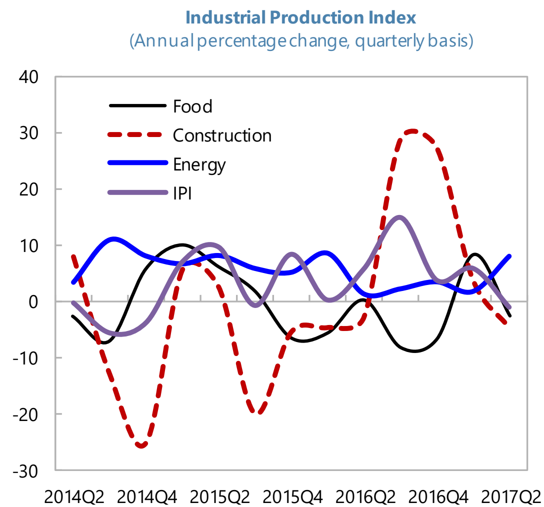


Sources: Senegal authorities; and IMF staff calculations.

Figure 3. Senegal: High Frequency Indicators, 2014-2017

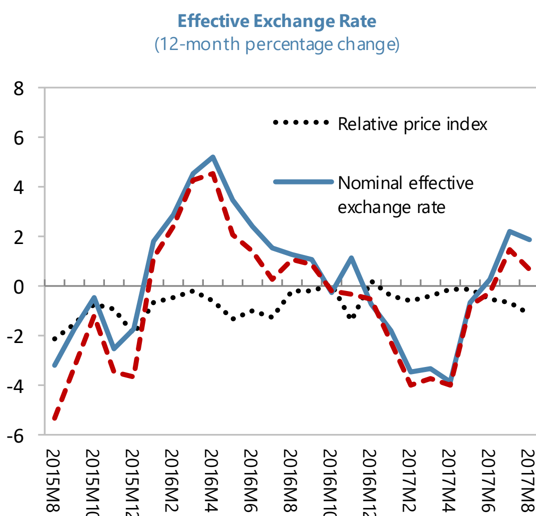
Indicators on economic activity show a slight slowdown in 2017H1 driven by the secondary sector, and construction in particular.

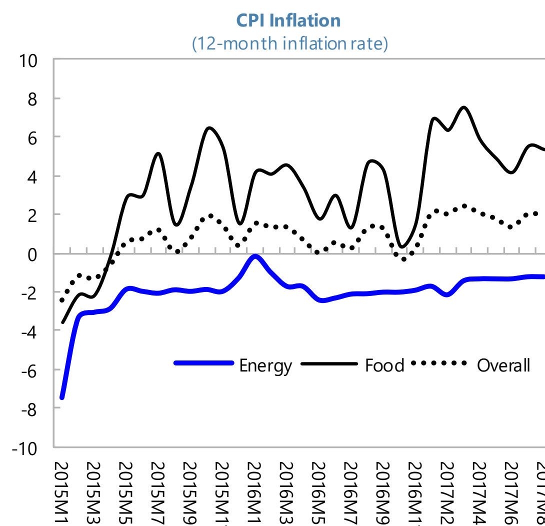




Price competitiveness is stabilizing after some of the gains from 2015-16 were reversed.

Negative inflation rates have been driven by energy prices, but higher food prices put inflation back to 2%.

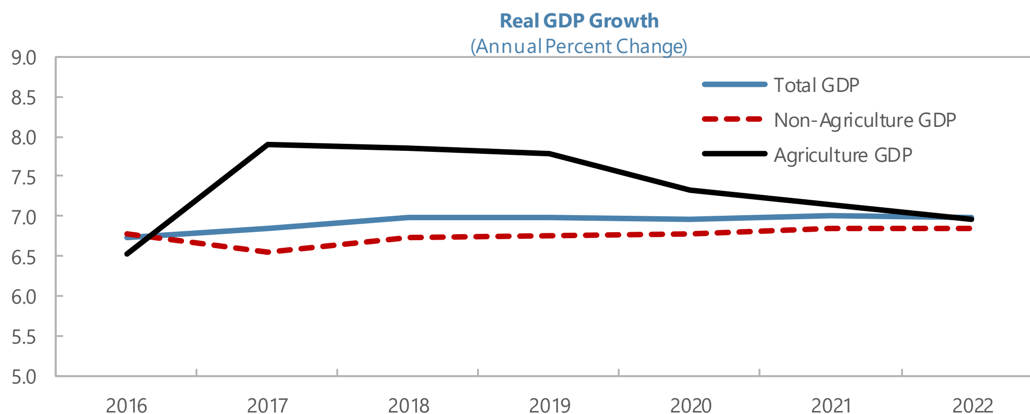




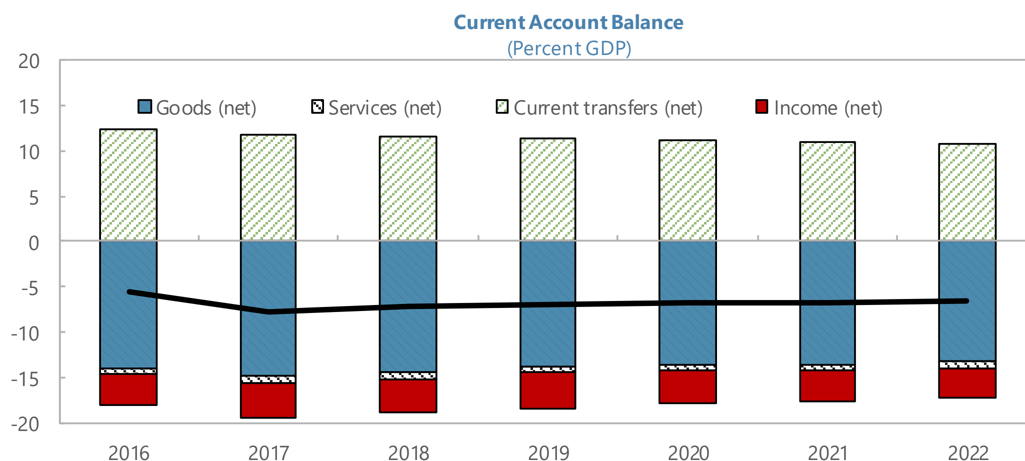
Sources: Senegal authorities; and IMF staff calculations.

Figure 4. Senegal: Outlook, 2016-22

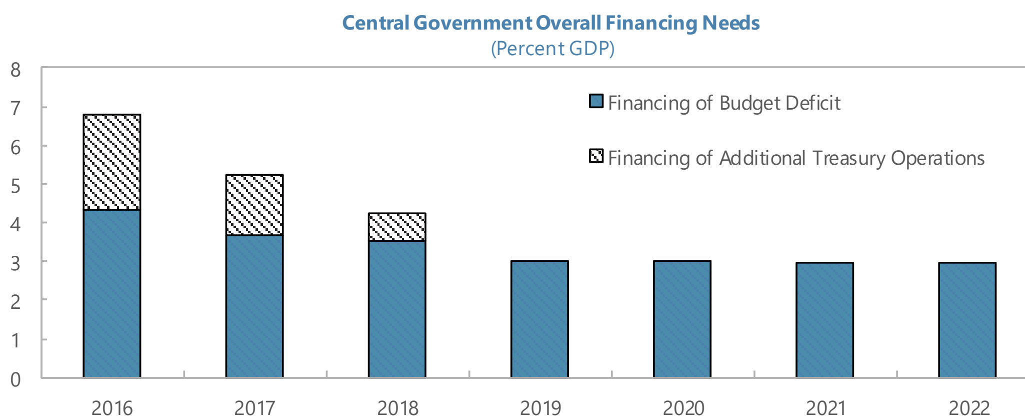
The PSE, underpinned by the PSI aims for 7-8 percent growth



A stable C.A. deficit is projected as exports improve, while imports support long-term growth



Financing of treasury operations is projected to go to zero by 2019



Sources: Senegal authorities; and IMF staff calculations.

Table 1. Senegal: Selected Economic and Financial Indicators, 2015–22

	2015	2016	2017		2018	2019	2020	2021	2022
	Act.		CR 17/230	Proj.	Projections				
			(Annual percentage change)						
National income and prices									
GDP at constant prices	6.5	6.7	6.8	6.8	7.0	7.0	7.0	7.0	7.0
Of which: nonagriculture GDP	5.2	6.8	6.6	6.6	6.7	6.8	6.8	6.8	6.9
GDP deflator	0.3	1.1	1.9	2.2	1.9	1.8	1.8	1.8	1.8
Consumer prices									
Annual average	0.1	0.9	2.1	1.9	2.0	2.0	2.0	2.0	2.0
End of period	0.4	2.1	2.0	1.9	2.0	2.0	2.0	2.0	2.0
External sector									
Exports, f.o.b. (CFA francs)	13.3	0.4	15.4	7.4	5.3	9.2	9.8	10.7	12.8
Imports, f.o.b. (CFA francs)	2.7	-1.4	12.1	9.7	5.6	8.0	8.8	10.0	9.9
Export volume	14.6	9.7	4.8	8.8	6.1	7.8	8.3	8.5	10.6
Import volume	16.1	8.3	7.0	7.6	8.0	8.4	8.9	9.2	8.7
Terms of trade ("–" = deterioration)	11.8	0.5	5.1	-3.1	1.5	1.6	1.5	1.3	0.9
Nominal effective exchange rate	-3.9	2.0	...	...	...	...	...	...	...
Real effective exchange rate	-6.0	1.4	...	...	...	...	...	...	...
			(Changes in percent of beginning-of-year broad money)						
Broad money	13.4	12.0	10.0	9.2	...	...	...	...	...
Net domestic assets	9.0	11.1	6.1	3.2	...	...	...	...	...
Domestic credit	8.5	13.5	7.8	3.6	...	...	...	...	...
Credit to the government (net)	3.7	9.0	0.5	-2.6	...	...	...	...	...
Credit to the economy (net)	4.8	4.6	7.3	6.3	...	...	...	...	...
			(Percent of GDP, unless otherwise indicated)[1]						
Government financial operations									
Revenue	25.1	26.8	25.1	25.4	25.6	25.7	25.7	25.8	25.8
Grants	2.9	2.8	2.6	2.6	2.7	2.6	2.6	2.6	2.6
Total expenditure	29.9	31.0	28.8	29.0	29.2	28.7	28.8	28.8	28.7
Net lending/borrowing (Overall Balance)									
excluding grants	-7.7	-7.0	-6.3	-6.3	-6.3	-5.6	-5.6	-5.6	-5.5
including grants	-4.8	-4.2	-3.7	-3.7	-3.5	-3.0	-3.0	-3.0	-3.0
Primary fiscal balance	-2.8	-2.1	-1.5	-1.3	-1.4	-0.9	-1.0	-1.1	-1.1
Savings and investment									
Current account balance (official transfers included)	-7.0	-5.6	-5.6	-7.8	-7.2	-7.0	-6.8	-6.7	-6.5
Current account balance (official transfers excluded)	-7.8	-6.5	-6.4	-8.6	-8.0	-7.9	-7.6	-7.4	-7.3
Gross domestic investment	25.2	26.9	27.1	27.2	27.7	28.0	28.1	28.3	28.4
Government[1]	6.8	7.5	7.5	7.6	7.8	8.0	7.9	8.0	7.9
Nongovernment	18.4	19.3	19.6	19.6	19.8	20.0	20.2	20.3	20.4
Gross national savings	18.2	21.2	21.5	19.3	20.5	21.0	21.3	21.6	21.9
Government	2.0	3.3	3.8	3.9	4.3	5.0	4.9	5.0	5.0
Nongovernment	16.2	18.0	17.6	15.4	16.1	16.0	16.4	16.6	16.9
Total public debt	56.9	60.4	62.1	60.8	58.7	57.1	55.6	54.5	53.4
Domestic public debt[2]	15.8	18.2	12.1	14.4	13.5	13.0	12.2	12.1	11.6
External public debt	41.1	42.3	50.0	46.4	45.2	44.1	43.4	42.4	41.8
Total public debt service									
Percent of government revenue	28.2	32.6	28.8	32.3	34.9	32.8	25.1	33.0	22.8
Memorandum item:									
Gross domestic product (CFAF billions)	8,082	8,722	9,494	9,528	10,390	11,311	12,317	13,414	14,608
Gross domestic product (USD billions)	13.7	14.7	...	...	...	...	...	...	...
National Currency per U.S. Dollar (Average)	591	593	...	...	...	...	...	...	...
WAEMU gross official reserves (billions of $US)	12.4	10.4	...	...	...	...	...	...	...
(percent of broad money)	43.6	34.5	...	...	...	...	...	...	...
(months of WAEMU imports of GNFS)	5.0	3.9	...	...	...	...	...	...	...

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

[1] Reflects reclassification of public investment.

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

Table 2. Senegal: Balance of Payments, 2015–22
(Billions of CFAF)

	2015	2016	2017	2018	2019	2020	2021	2022
	Act.		Projections					
	(Billions of CFAF, unless otherwise indicated)							
Current account	-569	-491	-747	-750	-792	-834	-894	-950
Balance on goods	-1,274	-1,226	-1,384	-1,468	-1,564	-1,681	-1,834	-1,941
Exports, f.o.b.	1,669	1,675	1,800	1,894	2,068	2,271	2,514	2,837
Imports, f.o.b.	-2,944	-2,901	-3,183	-3,362	-3,632	-3,952	-4,348	-4,778
Services and incomes (net)	-310	-341	-480	-481	-508	-521	-524	-578
Credits	800	816	932	973	1,015	1,060	1,107	1,173
Debits	-1,110	-1,156	-1,413	-1,454	-1,523	-1,581	-1,630	-1,751
Of which: interest on public debt	-176	-200	-255	-264	-283	-303	-303	-325
Unrequited current transfers (net)	1,016	1,075	1,117	1,199	1,280	1,367	1,464	1,569
Private (net)	964	1,003	1,060	1,120	1,186	1,274	1,365	1,462
Public (net)	52	73	57	79	94	93	99	107
Of which: budgetary grants	31	38	35	47	60	61	66	72
Capital and financial account	724	528	1,016	783	971	1,011	1,105	1,234
Capital account	206	209	220	242	245	267	288	311
Private capital transfers	8	8	8	9	9	9	9	9
Project grants	200	204	215	237	256	261	282	305
Debt cancellation and other transfers	-2	-3	-3	-3	-3	-3	-3	-3
Financial account	518	318	796	541	726	744	817	923
Direct investment	223	143	236	281	315	355	396	450
Portfolio investment (net)	156	306	556	30	104	8	61	16
Of which: Eurobond issuance	0	0	641	0	0	0	0	0
Other investment	139	-131	3	229	307	381	359	457
Public sector (net)	181	162	236	286	295	345	292	368
Of which: disbursements	279	309	378	451	471	494	767	571
program loans	68	74	73	66	70	76	76	76
project loans	211	220	305	325	341	358	376	415
other	0	15	0	60	60	60	315	80
amortization	-98	-147	-142	-165	-176	-149	-475	-203
Private sector (net)	-42	-203	-233	-57	12	35	67	89
Errors and omissions	-1	-90	0	0	0	0	0	0
Overall balance	155	37	269	33	179	176	211	283
Financing	-155	-37	-269	-33	-179	-176	-211	-283
Net foreign assets [1]	-99	-37	-269	-33	-179	-176	-211	-283
Net use of IMF resources	-19	-21	-20	-19	-13	-3	0	0
Purchases/disbursements	0	0	0	0	0	0	0	0
Repurchases/repayments	-19	-21	-20	-19	-13	-3	0	0
Other	-80	-16	-250	-14	-166	-174	-211	-283
Deposit money banks	-56	0	0	0	0	0	0	0
Residual financing gap	0	0	0	0	0	0	0	0
Memorandum items:								
Current account balance								
Including current official transfers (percent of GDP)	-7.0	-5.6	-7.8	-7.2	-7.0	-6.8	-6.7	-6.5
Excluding current official transfers (percent of GDP)	-7.8	-6.5	-8.6	-8.0	-7.9	-7.6	-7.4	-7.3
WAEMU gross official reserves (billions of US$)	12.4	10.4	...	...	...	...	...	...
(percent of broad money)	43.6	34.5	...	...	...	...	...	...
(months of WAEMU imports of GNFS)	5.0	3.9	...	...	...	...	...	...
Gross domestic product	8,082	8,722	9,528	10,390	11,311	12,317	13,414	14,608

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

[1] This is not indicative of the country's impact on WAEMU's aggregate external position or the pooled WAEMU reserves since the data contains intra-WAEMU flows from the current, capital and financial account.

Table 3. Senegal: Balance of Payments, 2015–22
(Percent GDP)

	2015	2016	2017	2018	2019	2020	2021	2022
	Act.		Projections					
	(Percent of GDP, unless otherwise indicated)							
Current account	-7.0	-5.6	-7.8	-7.2	-7.0	-6.8	-6.7	-6.5
Balance on goods	-15.8	-14.1	-14.5	-14.1	-13.8	-13.6	-13.7	-13.3
Exports, f.o.b.	20.7	19.2	18.9	18.2	18.3	18.4	18.7	19.4
Imports, f.o.b.	-36.4	-33.3	-33.4	-32.4	-32.1	-32.1	-32.4	-32.7
Services and incomes (net)	-3.8	-3.9	-5.0	-4.6	-4.5	-4.2	-3.9	-4.0
Credits	9.9	9.4	9.8	9.4	9.0	8.6	8.2	8.0
Debits	-13.7	-13.3	-14.8	-14.0	-13.5	-12.8	-12.2	-12.0
Of which: interest on public debt	-2.2	-2.3	-2.7	-2.5	-2.5	-2.5	-2.3	-2.2
Unrequited current transfers (net)	12.6	12.3	11.7	11.5	11.3	11.1	10.9	10.7
Private (net)	11.9	11.5	11.1	10.8	10.5	10.3	10.2	10.0
Public (net)	0.6	0.8	0.6	0.8	0.8	0.8	0.7	0.7
Of which: budgetary grants	0.4	0.4	0.4	0.5	0.5	0.5	0.5	0.5
Capital and financial account	9.0	6.1	10.7	7.5	8.6	8.2	8.2	8.4
Capital account	2.5	2.4	2.3	2.3	2.2	2.2	2.1	2.1
Private capital transfers	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Project grants	2.5	2.3	2.3	2.3	2.3	2.1	2.1	2.1
Debt cancellation and other transfers	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	6.4	3.7	8.4	5.2	6.4	6.0	6.1	6.3
Direct investment	2.8	1.6	2.5	2.7	2.8	2.9	3.0	3.1
Portfolio investment (net)	1.9	3.5	5.8	0.3	0.9	0.1	0.5	0.1
Of which: Eurobond issuance	0.0	0.0	6.7	0.0	0.0	0.0	0.0	0.0
Other investment	1.7	-1.5	0.0	2.2	2.7	3.1	2.7	3.1
Public sector (net)	2.2	1.9	2.5	2.8	2.6	2.8	2.2	2.5
Of which: disbursements	3.5	3.5	4.0	4.3	4.2	4.0	5.7	3.9
program loans	0.8	0.8	0.8	0.6	0.6	0.6	0.6	0.5
project loans	2.6	2.5	3.2	3.1	3.0	2.9	2.8	2.8
other	0.0	0.2	0.0	0.6	0.5	0.5	2.3	0.5
amortization	-1.2	-1.7	-1.5	-1.6	-1.6	-1.2	-3.5	-1.4
Private sector (net)	-0.5	-2.3	-2.4	-0.5	0.1	0.3	0.5	0.6
Errors and omissions	0.0	-1.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	1.9	0.4	2.8	0.3	1.6	1.4	1.6	1.9
Financing	-1.9	-0.4	-2.8	-0.3	-1.6	-1.4	-1.6	-1.9
Net foreign assets [1]	-1.2	-0.4	-2.8	-0.3	-1.6	-1.4	-1.6	-1.9
Net use of IMF resources	-0.2	-0.2	-0.2	-0.2	-0.1	0.0	0.0	0.0
Purchases/disbursements	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repurchases/repayments	-0.2	-0.2	-0.2	-0.2	-0.1	0.0	0.0	0.0
Other	-1.0	-0.2	-2.6	-0.1	-1.5	-1.4	-1.6	-1.9
Deposit money banks	-0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Residual financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum item:								
Gross domestic product (CFAF billions)	8,082	8,722	9,528	10,390	11,311	12,317	13,414	14,608

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

[1] This is not indicative of the country's impact on WAEMU's aggregate external position or the pooled WAEMU reserves since the data contains intra-WAEMU flows from the current, capital and financial account.

Table 4. Senegal: Government and FSE Financial Operations, 2015–22[1]

(Billions of CFAF)

	2015	2016	2017	2018	2019	2020	2021	2022
	Act.		Projections					
	(CFAF billions)							
Revenue	2,026	2,335	2,415	2,665	2,904	3,171	3,458	3,769
Taxes	1,597	1,789	1,977	2,212	2,407	2,639	2,882	3,143
Taxes on income, profits, and capital gains	435	513	552	613	682	754	821	894
Taxes on payroll and workforce	20	17	23	23	25	25	27	29
Taxes on property	31	30	32	52	57	62	67	73
Taxes on goods and services	855	960	972	1,145	1,232	1,344	1,465	1,600
Taxes on international trade and transactions	228	235	261	285	305	332	361	393
Other taxes	27	34	138	94	107	123	141	153
Grants	232	244	250	284	300	322	349	377
Budget	31	38	35	47	60	61	66	72
Projects	201	206	215	237	240	261	282	305
Other revenue	197	302	188	169	196	209	228	248
Expenditure	2,413	2,704	2,764	3,031	3,242	3,541	3,857	4,200
Expense	1,504	1,613	1,565	1,673	1,737	1,913	2,076	2,265
Compensation of employees	526	572	586	633	671	727	778	847
Use of goods and services	384	322	344	386	396	431	469	497
Interest	160	188	223	221	233	249	250	270
Foreign	126	140	168	172	187	206	203	223
Domestic	34	48	54	49	46	43	47	48
Subsidies[2]	51	52	45	45	44	46	48	57
of which: subsidies to SENELEC financed by FSE	0	20	0	0	0	0	0	0
of which: SENELEC from budget	0	0	0	0	0	0	0	0
of which: Fuel subsidies	0	14	0	0	0	0	0	0
Grants (current excl. FSE)	216	284	244	248	261	286	311	337
Social benefits	60	6	5	7	10	24	40	67
Other expense	108	189	118	133	122	150	179	190
Net acquisition of nonfinancial assets	909	1,091	1,199	1,359	1,506	1,628	1,780	1,935
Net lending/borrowing *(Overall balance)*	-387	-369	-349	-367	-339	-371	-398	-431
Transactions in financial assets and liabilities (Financing)	-387	-369	-349	-367	-339	-371	-398	-431
Net acquisition of financial assets	-100	-58	145	-145	10	10	10	10
Domestic	-145	-58	145	-145	10	10	10	10
Currency and deposits	-128	-89	145	-145	10	10	10	10
Debt securities	13	0	0	0	0	0	0	0
Loans	0	0	0	0	0	0	0	0
Other accounts receivable	-29	31	0	0	0	0	0	0
Foreign	45	0	0	0	0	0	0	0
Net incurrence of liabilities	287	311	494	222	349	381	408	441
Domestic	-56	-162	-312	-121	-69	21	63	74
IMF and SDRs	-19	-21	-20	-19	-13	-3	0	0
Debt securities (net)	33	125	-88	21	-7	74	101	99
Loans	-14	-50	-55	-48	-49	-50	-38	-25
Other accounts payable[3]	-56	-216	-150	-75	0	0	0	0
Foreign	343	473	806	344	417	360	345	367
Debt securities (net)	161	311	569	57	122	14	53	-1
T-bills and bonds issued in WAEMU	161	311	-72	57	122	14	53	-1
Eurobond	0	0	641	0	0	0	0	0
Loans	181	162	236	286	295	345	292	368
Program loans	68	74	73	66	70	76	76	76
Project loans	211	220	305	325	341	358	376	415
Nonconcessional loans	0	15	0	60	51	46	295	18
Other	-98	-147	-142	-165	-168	-135	-455	-141
Other accounts payable	0	0	0	0	0	0	0	0
Errors and omisions	0	0	0	0	0	0	0	0
Memorandum items:								
Total Financing (deficit +nonbudgetary additional borrowing)	...	585	499	442	339	371	398	431
Change in net worth: Transactions	522	722	850	992	1,167	1,258	1,382	1,504
Net lending /borrowing *(excluding grants)*	522	722	850	992	1,167	1,258	1,382	1,504
Nominal GDP	8,082	8,722	9,528	10,390	11,311	12,317	13,414	14,608

Sources: Ministry of Finance; and IMF staff estimates and projections.

[1] Government Finance Statistics Manual (http://www.imf.org/external/pubs/ft/gfs/manual/).

[2] On projections, subsidies do not reflect reclassification changes, which will be done during the mission.

[3] Starting in 2016, Treasury operations to finance (i) Post office operations (Poste and Poste Finance), (ii) pensions (Fonds National de Retraites), and (iii) reduction of stock of comptes de depots.

Table 5. Senegal: Government and FSE Financial Operations, 2015–22[1]

(Percent GDP)

	2015	2016	2017	2018	2019	2020	2021	2022
	Act.		Projections					
	(Percent of GDP, unless otherwise indicated)							
Revenue	25.1	26.8	25.4	25.6	25.7	25.7	25.8	25.8
Taxes	19.8	20.5	20.8	21.3	21.3	21.4	21.5	21.5
Taxes on income, profits, and capital gains	5.4	5.9	5.8	5.9	6.0	6.1	6.1	6.1
Taxes on payroll and workforce	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Taxes on property	0.4	0.3	0.3	0.5	0.5	0.5	0.5	0.5
Taxes on goods and services	10.6	11.0	10.2	11.0	10.9	10.9	10.9	11.0
Taxes on international trade and transactions	2.8	2.7	2.7	2.7	2.7	2.7	2.7	2.7
Other taxes	0.3	0.4	1.4	0.9	1.0	1.0	1.1	1.1
Grants	2.9	2.8	2.6	2.7	2.6	2.6	2.6	2.6
Budget	0.4	0.4	0.4	0.5	0.5	0.5	0.5	0.5
Projects	2.5	2.4	2.3	2.3	2.1	2.1	2.1	2.1
Other revenue	2.4	3.5	2.0	1.6	1.7	1.7	1.7	1.7
Expenditure	29.9	31.0	29.0	29.2	28.7	28.8	28.8	28.7
Expense	18.6	18.5	16.4	16.1	15.4	15.5	15.5	15.5
Compensation of employees	6.5	6.6	6.2	6.1	5.9	5.9	5.8	5.8
Use of goods and services	4.8	3.7	3.6	3.7	3.5	3.5	3.5	3.4
Interest	2.0	2.2	2.3	2.1	2.1	2.0	1.9	1.9
Foreign	1.6	1.6	1.8	1.7	1.7	1.7	1.5	1.5
Domestic	0.4	0.5	0.6	0.5	0.4	0.3	0.4	0.3
Subsidies [2]	0.6	0.6	0.5	0.4	0.4	0.4	0.4	0.4
of which: subsidies to SENELEC financed by FSE	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0
of which: SENELEC from budget	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
of which: Fuel subsidies	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Grants (current excl. FSE)	2.7	3.3	2.6	2.4	2.3	2.3	2.3	2.3
Social benefits	0.7	0.1	0.1	0.1	0.1	0.2	0.3	0.5
Other expense	1.3	2.2	1.2	1.3	1.1	1.2	1.3	1.3
Net acquisition of nonfinancial assets	11.2	12.5	12.6	13.1	13.3	13.2	13.3	13.2
Net lending/borrowing *(Overall balance)*	-4.8	-4.2	-3.7	-3.5	-3.0	-3.0	-3.0	-3.0
Transactions in financial assets and liabilities (Financing)	-4.8	-4.2	-3.7	-3.5	-3.0	-3.0	-3.0	-3.0
Net acquisition of financial assets	-1.2	-0.7	1.5	-1.4	0.1	0.1	0.1	0.1
Domestic	-1.8	-0.7	1.5	-1.4	0.1	0.1	0.1	0.1
Currency and deposits	-1.6	-1.0	1.5	-1.4	0.1	0.1	0.1	0.1
Debt securities	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts receivable	-0.4	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Foreign	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	3.5	3.6	5.2	2.1	3.1	3.1	3.0	3.0
Domestic	-0.7	-1.9	-3.3	-1.2	-0.6	0.2	0.5	0.5
IMF and SDRs	-0.2	-0.2	-0.2	-0.2	-0.1	0.0	0.0	0.0
Debt securities (net)	0.4	1.4	-0.9	0.2	-0.1	0.6	0.8	0.7
Loans	-0.2	-0.6	-0.6	-0.5	-0.4	-0.4	-0.3	-0.2
Other accounts payable[3]	-0.7	-2.5	-1.6	-0.7	0.0	0.0	0.0	0.0
Foreign	4.2	5.4	8.5	3.3	3.7	2.9	2.6	2.5
Debt securities (net)	2.0	3.6	6.0	0.5	1.1	0.1	0.4	0.0
T-bills and bonds issued in WAEMU	2.0	3.6	-0.8	0.5	1.1	0.1	0.4	0.0
Eurobond	0.0	0.0	6.7	0.0	0.0	0.0	0.0	0.0
Loans	2.2	1.9	2.5	2.8	2.6	2.8	2.2	2.5
Program loans	0.8	0.8	0.8	0.6	0.6	0.6	0.6	0.5
Project loans	2.6	2.5	3.2	3.1	3.0	2.9	2.8	2.8
Nonconcessional loans	0.0	0.2	0.0	0.6	0.5	0.5	3.1	0.2
Other	-1.2	-1.7	-1.5	-1.6	-1.5	-1.1	-3.4	-1.0
Other accounts payable	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omisions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:								
Total Financing (deficit +nonbudgetary additional borrowing)	...	6.7	5.2	4.3	3.0	3.0	3.0	3.0
Change in net worth: Transactions	6.5	8.3	8.9	9.5	10.3	10.2	10.3	10.3
Net lending /borrowing *(excluding grants)*	6.5	8.3	8.9	9.5	10.3	10.2	10.3	10.3
Nominal GDP	8,082	8,722	9,528	10,390	11,311	12,317	13,414	14,608

Sources: Ministry of Finance; and IMF staff estimates and projections.

[1] Government Finance Statistics Manual (http://www.imf.org/external/pubs/ft/gfs/manual/).

[2] On projections, subsidies do not reflect reclassification changes, which will be done during the mission.

[3] Starting in 2016, Treasury operations to finance (i) Post office operations (Poste and Poste Finance), (ii) pensions (Fonds National de Retraites), and (iii) reduction of stock of comptes de depots.

Table 6. Senegal: Monetary Survey, 2014–17

	2014	2015	2016	2017
	Act.		Prel.	Proj.
	(Billions of CFAF)			
Net foreign assets	1,078	1,233	1,270	1,539
BCEAO	865	963	1,000	1,269
Commercial banks	213	270	270	270
Net domestic assets	2,407	2,720	3,158	3,298
Net domestic credit	2,638	2,933	3,467	3,629
Net credit to the government[1]	70	198	552	435
Central bank	-75	46	114	-50
Commercial banks	142	149	438	485
Other institutions	13	26	26	26
Credit to the economy	2,568	2,735	2,916	3,194
Other items (net)	-231	-213	-310	-331
Broad money	3,485	3,953	4,428	4,837
Currency outside banks	685	807	904	987
Total deposits	2,799	3,146	3,524	3,849
Demand deposits	1,430	1,737	1,946	2,126
Time deposits	1,370	1,409	1,578	1,724
	(Change in percentage of beginning-of-period broad money stock)			
Net foreign assets	7.0	4.4	0.9	6.1
BCEAO	3.2	2.8	0.9	6.1
Commercial banks	3.8	1.6	0.0	0.0
Net domestic assets	4.4	9.0	11.1	3.2
Net credit to the government[1]	-2.6	3.7	9.0	-2.6
Credit to the economy (net)	4.9	4.8	4.6	6.3
Other items (net)	2.1	0.5	-2.5	-0.5
Broad money	11.4	13.4	12.0	9.2
Memorandum items:	(Units indicated)			
Velocity (GDP/broad money; end of period)	2.2	2.0	2.0	2.0
Nominal GDP growth (percentage growth)	3.0	6.8	7.9	9.2
Credit to the economy (percentage growth)	6.4	6.5	6.6	9.5
Credit to the economy/GDP (percent)	33.9	33.8	33.4	33.5
Variation of net credit to the government (yoy; CFAF billions)	-81.3	127.8	354.0	-116.8

Sources: BCEAO; and IMF staff estimates and projections.

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

Table 7. Senegal: Financial Soundness Indicators for the Banking Sector, 2008–16

	2008	2009	2010	2011	2012	2013	2014	2015	2016
	December								
	(Percent, unless otherwise indicated)								
Capital Adequacy									
Capital to risk-weighted assets	13.8	16.3	18.0	16.0	16.7	16.4	16.4	16.7	14.8
Regulatory capital to risk-weighted assets	13.9	16.5	18.2	15.9	16.3	15.9	15.9	16.0	14.1
Capital to total assets	9.1	9.3	10.0	9.8	9.6	9.4	9.0	8.5	7.2
Asset Composition and Quality									
Total Loans to Total Assets	62.8	59.5	57.5	60.6	61.4	60.1	58.3	64.3	63.2
Concentration: loans to 5 largest borrowers to capital	100.9	71.7	70.6	69.8	196.7	137.4	166.0	159.8	170.9
Sectoral distribution of loans									
Industrial	19.5	27.5	26.4	22.2	23.8	25.5	23.1	19.8	21.2
Retail and wholesale trade	18.5	24.5	23.8	19.2	21.6	23.8	23.7	21.9	25.3
Services, transportation and communication	31.1	34.1	41.9	34.0	30.6	35.9	41.0	38.7	46.3
Ratio of non-performing loans (NPLs) to total loans	17.4	18.7	20.2	16.2	18.4	19.1	20.8	18.8	17.3
Of which: without ICS	14.2	15.8	15.8	13.2	15.1	14.8	17.6	18.3	17.1
Ratio of provisions for NPLs to total NPLs	51.5	53.1	54.9	54.0	56.1	55.8	58.1	57.9	56.7
Of which: without ICS	65.7	64.7	65.3	68.3	63.0	66.8	60.7	60.0	55.0
NPLs net of provisions to total loans	9.3	9.7	9.1	8.1	8.2	8.6	9.0	7.9	6.5
Of which: without ICS	5.4	6.2	6.1	4.6	6.3	5.6	7.7	8.2	6.3
NPLs net of provisions to capital	63.9	62.3	52.3	50.4	51.4	54.7	57.8	60.2	56.7
Of which: without ICS	35.3	38.4	41.5	35.7	38.8	43.3	53.8	58.1	55.0
Earnings and profitability									
Average cost of borrowed funds	2.8	3.4	2.2	2.0	2.1	1.9	2.0	1.0	2.0
Average interest rate on loans[1]	13.9	15.4	8.1	8.4	8.6	8.1	7.8	12.5	10.5
Average interest margin[2]	11.1	12.0	5.9	6.4	6.6	6.2	5.1	11.5	...
After-tax return on average assets	1.4	1.3	1.6	2.2	1.7	1.3	0.6	1.0	0.8
After-tax return on average equity	13.0	16.0	15.4	22.6	17.4	13.7	6.8	11.9	9.1
Noninterest expenses/net banking income	51.3	60.3	56.7	56.0	57.0	57.6	58.6	60.6	68.7
Salaries and wages/net banking income	21.1	23.0	24.8	23.8	24.4	25.2	25.0	26.1	27.0
Liquidity									
Liquid assets to total assets	...	31.7	39.8	36.1	37.0	42.1	40.8	54.7	57.5
Liquid assets to total deposits	...	49.8	52.4	76.7	52.3	62.9	61.2	80.6	88.1
Total deposits to total liabilities	70.3	74.9	76.0	62.8	70.7	67.0	66.7	75.7	71.9

Source: BCEAO.

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

[2]Excluding the tax on banking operations.

Appendix I. Letter of Intent

Dakar, Senegal
November 27, 2017

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

Madame Managing Director:

1. The government of Senegal requests completion of the fifth review under the Policy Support Instrument (PSI) of its macroeconomic program. The details of this program were set forth in the initial Memorandum of Economic and Financial Policies (MEFP) of June 8, 2015, and in the MEFPs pertaining to subsequent program reviews. The attached MEFP takes stock of program performance at end-June 2017, defines the macroeconomic objectives for 2018, and updates the structural reforms monitored under the program.

2. Program implementation remains satisfactory overall. All end-June 2017 assessment criteria under the program were met, as well as two out of the three indicative targets. At end-September 2017, all indicative targets were met except for two targets linked to the budget. The government nevertheless remains fully committed to meeting the deficit target for the end of 2017. Progress was also made on structural reforms, with two out of the three benchmarks set for the fifth review being met.

3. The fiscal deficit will continue to be reduced in 2018 and beyond. This objective is essentially based on satisfactory revenue collection, effective control of current expenditure, a controlled increase in social spending and diligent execution of investment projects to support growth. The government plans to address the challenge of mobilizing internal resources by strengthening the tax and customs administrations and by broadening the tax base. In addition, efforts will continue to strengthen Treasury cash management, including by implementing reforms to address sources of financing needs beyond the budget emanating from the Post Office, Civil Service Pensions and past year appropriations in the *comptes de dépôt*.

4. The attached memorandum proposes quantitative assessment criteria for end-December 2018 and indicative targets for end-September 2018 in addition to new structural benchmarks. To take into account the increase in fiscal space in 2018, the government requests modification of: (i) the end-June 2018 assessment criterion on the floor on net lending and borrowing and the end-June 2018 indicative target on the floor on tax revenue; (ii) the end-March 2018 indicative targets on the floor on net lending and borrowing and tax revenue; and the end-December 2017 indicative target on the floor on tax revenue.

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

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

Sincerely yours,

/s/

Amadou Ba
Minister of Economy, Finance, and Planning

Attachments: I. Memorandum of Economic and Financial Policies
II. Technical Memorandum of Understanding

Attachment I. Memorandum of Economic and Financial Policies 2015–18

1. This Memorandum updates the Memorandum of June 8, 2015 on our economic and financial program supported by the Policy Support Instrument (PSI) for 2015–18. It reviews recent economic developments and describes the policies that the government plans to implement for the remainder of 2017 and in 2018 to build on the strong macroeconomic performance achieved.

Recent economic developments

2. On the domestic front, analysis of quarterly economic developments over the recent period shows that implementation of the Emerging Senegal Plan (*Plan Sénégal Émergent—PSE*) has resulted in an acceleration of growth since 2014. Quarterly GDP growth measured on an annual basis stood at 5.2 percent on average over the period 2014–17, compared to 3.5 percent on average during the period 2010-2013. The contribution of consumption to this growth stood, on average, at 4.4 percent over the period 2014–17 compared to 2.0 percent between 2010 and 2013, owing in particular to higher incomes resulting from lower taxes and the family allowances (*bourses familiales*) granted to the most vulnerable. The contribution of gross fixed capital formation (GFCF) stood at 3.4 percent over the period 2014-2017, compared to 2.6 percent between 2010 and 2013. The greater contribution of GFCF to quarterly growth reflects the launch of major infrastructure-related public and private investment projects. The contribution of exports of goods stood at 2.6 percent during the period 2014-2017, compared to 1.9 percent between 2010 and 2013. The buoyancy of exports of goods in the period under review is attributable primarily to phosphates, mineral and chemical fertilizers, groundnut oil and hydraulic cement. Foreign sales of zircon and nonmonetary gold also contributed significantly to the volume of exports over the past three years. Conversely, imports weighed on GDP growth, as their contribution fell from a quarterly average of -1.2 percent between 2010 and 2013 to - 2.0 percent during the period 2014–17.

3. During the first nine months of 2017, nonagricultural economic growth, as measured by the General Activity Index (IGA), rose 6.6 percent, reflecting the buoyancy of construction (+9.7 percent), chemical industries (+8.6 percent), energy production (+7.6 percent), woodworking (+26.1 percent), hotel and restaurant services (18.3 percent) and financial services (16.1 percent). In contrast, industries such as mining (-0.5 percent), leather manufacturing (-12.9 percent), meat and fish canneries (-0.7 percent), grain mill products (-6.3%), and tobacco manufacturing (-3 percent) performed poorly. In terms of inflation, consumer prices increased 1.9 percent over the first six months of 2017 compared to the same period in 2016.

4. Overall, program implementation continues to be satisfactory. All quantitative assessment criteria at end-June 2017 were met. The quarterly ceilings on the budgetary float (CFAF 50 billion) and single-tender contracting (15 percent) and the floor on social spending (35 percent) were all observed. The fiscal deficit was contained within the CFAF 189 billion target set by the program, although the indicative target for the floor on tax revenues (CFAF 1,006 billion) was missed (CFAF -67 billion) owing, in particular, to an oil revenue shortfall.

5. Significant progress was also made in meeting the three structural benchmarks. The DGID-DGD platform became operational and the relevant staff are in the process of being trained; the expansion of the audit of deposit accounts (*comptes de dépôt*) by the General Inspectorate of Finance (*Inspection Générale des Finances—IGF*) was completed and the draft decree setting out the conditions for the opening, operation and closing of deposit accounts was finalized. The reorganization of the General Directorate of Taxes and Government Property (*Direction générale des impôts et domains—DGID*) became effective in September 2017 with the approval of Decree No. 10012 of June 14, 2017 on the organization of the DGID.

Macroeconomic policy and structural reforms for 2017

6. The government will continue to implement the PSE reforms and priority projects to accelerate growth. Based on performance through end-June and the favorable outlook for the remainder of the year, particularly in the agricultural subsector, the projection for real GDP growth is maintained at 6.8 percent in 2017. Inflation will be moderate in 2017, while the current account deficit is expected to deteriorate slightly as a result of the higher prices for imported oil products and the growth of imports of capital goods that accompanies investment growth.

7. In order to maintain the growth momentum and strengthen the economy's resilience, the PSI program supported by the IMF will continue to revolve around the following three pillars: (i) consolidating the government's fiscal space; (ii) strengthening public finance management and governance; and (iii) improving the business environment.

A. Consolidating the Government's Fiscal Space

8. The budget deficit target of CFAF 349 billion (3.7 percent of GDP) in 2017 remains unchanged, despite the revenue gap at end-June attributable in particular to the level of oil revenues. To make up this gap and maintain the deficit level, the government will repatriate a portion of the surpluses of entities such as the Energy Support Fund (*Fonds de soutien à l'énergie—FSE*) and the Telecommunications and Postal Regulatory Authority (*Autorité de Régulation des Télécommunications et des Postes—ARTP*) into the budget. In the event that revenues at year's end do not reach the programmed levels, the deficit target will be reached by limiting expenditure. The government will continue its general consideration of quasi-fiscal taxes with a view to integrate them into the budget.

9. The government intends to address the challenge of mobilizing domestic resources by broadening the tax base. Emphasis will be placed on continuing to modernize the tax and customs administrations, strengthening tax policy, and streamlining tax expenditures. Legislative and/or regulatory measures will be taken under the 2018 initial budget law to repatriate into the budget taxes, duties, royalties and contributions on operations in the mining and telecommunications sectors that are currently accounted for outside of the government budget. The collection of mining and oil royalties will be improved by the establishment of a reporting regime by end-March 2018 and the annual organization of joint audit missions (Mining Directorate-DGID-Customs). This will involve the transfer of authority for the collection of these royalties to the Tax Administration Department. Taxpayers will be required to voluntarily declare and pay the royalties they owe for the year to the DGID.

10. To support the modernization of the DGID, the following other measures will be implemented: (i) adoption of a regulation prior to the sixth review making it possible for medium-sized enterprises to file and pay taxes online in 2018 **(structural benchmark for the sixth review**); and (ii) launching of the three priority applications selected during the Hackathon organized in 2016 for the benefit of the DGID. This will involve implementing the project called "Mon espace perso" (**structural benchmark for the sixth review**). This project, which aims to improve data quality, is intended as a permanent platform for interaction between DGID and the taxpayer. The specifications have already been prepared and the choice of supplier will be decided by end-December 2017. As regards M-Tax (application allowing taxpayers to file and pay their taxes using their mobile phones without internet access), the basic infrastructure for the platform will be put in place for the seventh review (**structural benchmark for the seventh review**)—in particular the equipment, the voice server in the national language and the acquisition of licenses. Similarly, many of the modules for the batch scanning project to transform 8 to 10 million hard copy documents into electronic files, a major technological challenge, will be operational by December 2018. Moreover, following the audit of outstanding payments conducted by the DGID, the government is committed to mobilizing at least 50 percent of the tax debt deemed recoverable with a floor of CFAF 45 billion by end-December 2017.

11. The modernization of the DGD is ongoing with the deployment of the full version of the computerized system, GAINDE, implementation of the customs release ticket, and DGID/DGD cooperation on the single taxpayer identification number (NINEA). These measures are taking more time than expected but should be completed early next year. The deployment of the new full version of GAINDE constitutes a new level of technology with the move from hard copy to electronic documents and the generalized use of electronic signatures. It will be effective on February 1, 2018. Implementation of the customs release ticket makes it possible to group all types of payments (excluding duties and taxes) related to the port and airport platforms. Although it is an autonomous module, its effectiveness will depend on the implementation of the full GAINDE. The customs release ticket will be operational in early June 2018. DGID/DGD cooperation on NINEA is operational and the next phase will involve refining the data tables to align them better with the needs of the tax and customs administrations.

12. Concerning tax policy, potential reforms cover land and mining activities, financial services and telecommunications. Discussions on the tax regime applicable to these sectors should result in legislative proposals to streamline and/or simplify the tax system. Discussions will also be held, starting in the last quarter of 2017, on the optimal taxation of the agricultural sector, taking account of the thrusts of the PSE, and on the appropriate taxation of the oil and gas sectors as Senegal transitions from being an oil importer to becoming a producing/exporting country in the coming years. The above proposals will be discussed with the IMF during the sixth review for inclusion in the 2019 budget.

13. The repatriation of quasi-fiscal revenue continues. Pending the revision of the legal and regulatory provisions for this repatriation, the government will, together with the Energy Support Fund (*Fonds de soutien à l'énergie—FSE*), the Telecommunications and Postal Regulatory Authority (Autorité de Régulation des Télécommunications et des Postes—ARTP), the Government Procurement Regulatory Authority (*Autorité de Régulation des Marchés Publics—ARMP*), the Senegalese Shippers' Council (*Conseil Sénégalais des Chargeurs—COSEC*), the National Civil Aviation and Meteorology Agency (*Agence Nationale de l'Aviation Civile et de la*

Météorologie—ANACIN), the Senegal Airport Agency (*Agence des Aéroports du Sénégal—ADS*) and the Autonomous Road Maintenance Fund of Senegal (*Fonds d'Entretien Routier Autonome du Sénégal—FERA*), examine the possibility of repatriating a share of their surpluses into the government budget. The terms and conditions for the transfer of the surpluses will be defined in a law or regulation. The DGID will also be involved in the payment, audit and recovery of royalties and other mining and oil revenues. In addition, surpluses beyond the amount needed to finance two years of current expenditures will be transferred to the government budget. If these entities have investment projects to be financed, they must be approved in accordance with the procedures in effect for the investment budget.

14. The streamlining of tax expenditures is continuing. Based on the most recent report (currently being finalized) on tax expenditures and the conclusions of the working group established for this purpose, the action plan will be revised by the government. This action plan will be implemented to reduce tax expenditures **(structural benchmark for the seventh review)**. Appropriate provisions will be implemented to limit discretionary measures and foster a comprehensive approach based on rules published on the internet and applicable to everyone. Specifically, the DGID and the DGD, in partnership with the National Investment and Works Promotion Agency (*Agence nationale pour la promotion des investissements et des grands travaux—APIX*), which will share its databases, will undertake a pilot project to audit the supporting documents for approvals with a view to auditing the 100 most important approvals by the time of the next review (**structural benchmark for the sixth review**). The conclusions of the pilot project will be presented and discussed during the mission for the sixth review. Legislative and/or regulatory measures will be taken in the 2018 initial budget law. In this context, the government undertakes to:

(i) review the personal income tax regime to ensure greater equity between the various income brackets;

(ii) resume investigations of all importers of products for resale whose declared turnover was less than their imports declared at customs;

(iii) assess the current mechanism for BIC installment payments by importers who are not part of the large taxpayer unit to improve the audit of payments; and

(iv) adopt a draft law amending the General Tax Code regarding the taxation of property and patent income.

15. The effort to rationalize public consumption expenditures will continue. The government will continue to ensure strict control of the wage bill by implementing policies to improve the payroll information system following a recent audit that revealed deficiencies in terms of IT security and in the legal basis for certain allowances which can result in unwarranted payments. At the same time, working methods in the civil service will be modernized in light of international experience, including private sector experience, to promote better use of ICT to achieve productivity gains with lower staffing levels. Finally, to better control staff increases, job ceilings will be set in the 2019 budget law following a series of technical discussions with all ministries and institutions to be organized by March 31, 2018 (**structural benchmark for the seventh review**).

16. Improving the quality of domestically financed public spending continues to be a major challenge. The government plans, as of the second year of implementation of a project with a total cost equal to or higher than CFAF 1 billion, to make the relevant payment appropriations in the budget law subject to an implementation report covering the previous year and discussing both physical and financial aspects, delivered by the Ministry concerned. Moreover, a system for better monitoring project execution, involving the Budget, Public Procurement and Planning Units, will be introduced by January 1, 2018. Further, the government undertakes to review by December 31, 2017 Decree No. 2012-673 of July 4, 2012 establishing the government's budget nomenclature with the aim of steering expenditures toward gross fixed capital formation. Finally, the integrated project bank will be a mandatory phase to go through for all projects exceeding CFAF 1 billion, before they can be included in the budget. A public investment selection committee will be established to vet the projects in the integrated project bank. Starting with the 2018 budget, all new projects exceeding 1 billion CFAF financed entirely with domestic resources will be taken from the integrated project bank. Quarterly and annual physical and financial execution reports will be transmitted for all these projects (**structural benchmark for the sixth review**) and, starting with the 2019 budget law, no project exceeding CFAF 1 billion will be included in the government's investment budget unless it has been reviewed by this committee (**structural benchmark for the seventh review**).

B. Strengthening Public Finance Management and Governance

17. To improve the effectiveness of the civil service and respond to the needs of a performance- and service-based administration, as desired by the Head of State, there are plans, in the wake of the development of the Ministry Spheres (*Sphères Ministérielles*) and the Regional Administrative Buildings, to develop shared service centers, primarily involving: (i) grouping together service departments; (ii) pooling resources and achieving economies of scale; (iii) integrating their functional processes; and (iv) facilitating user access to public services. Moreover, a national professional development strategy is also being prepared to ensure better coordination of training and better alignment of the profiles of officials with the needs of the economy and expectations of the population.

18. The process for the transposition of the WAEMU directives into national law is ongoing in accordance with a well-established three-year plan. However, regarding the budgetary aspects of the reform, emphasis will be placed on the establishment of the organizational prerequisites and the training of those concerned, given the highly decentralized nature of the budget preparation and execution processes. To this end, a review of the organization and technical capacity of all ministries and institutions was organized in 2016, external audit reports were produced, and action plans were prepared. The testing phase for the decentralization of payment orders will be launched on January 1, 2018 for a group of five pilot ministries. The organization of the budget administration has already been adapted to guide the implementation of the reform, in particular, through the creation of a network of ministerial budget controllers and the doubling of the number of payment order units. Finally, in the area of program budgeting, validation of programs will take place by December 31, 2017 at a meeting of a special interministerial council; two versions of the 2018 budget law will be produced (a line version and a program version); and program managers will be appointed by March 31, 2018.

19. Draft legislation on the harmonized public finance framework directives, covering the financial regime for local governments and the stock accounting system, will be finalized. They will be subject to a review by the Council of Ministers.

20. The modernization of the Treasury is ongoing. More specifically, the modernization of payment systems should result in the use of digital channels, allowing the government to directly handle mass payments such as higher education scholarships and pensions, as well as increase financial inclusion of a large proportion of the population currently excluded from financial services. The modernization of the Treasury also focuses on putting in place a quality approach with the aim of obtaining an ISO 9001 certification for the General Treasury Revenue Agency (*Recette générale du Trésor—RGT*) and the Public Debt Directorate (DDP). The restructuring plan will be prepared before the sixth review. The same concern for improving the quality of services and responding to the concerns of the population has underpinned the establishment of two observation groups for the broader public sector (*secteur parapublic*) and the local public sector.

21. The government is planning active public debt management. A working group has been established to analyze the possibility of a large issuance to remove expensive debt from the portfolio in early 2018 and made proposals to the government in late October 2017 to this effect.

22. The streamlining of the bank accounts of units with deposit accounts with the Treasury is also ongoing. The centralization of cash flow has become a reality with the establishment of a single point for receipts and payments now that the General Directorate of Public Accounting and the Treasury (DGCPT) has joined the SICA-STAR payment system. This has made it possible to resolve the issue of unused cash sitting in the Treasury's direct accounting network while interventions were taking place in financial markets or the budgetary float was building up. The next step will involve including a critical mass of entities from the broader public sector with a deposit account at the Treasury in the SICA-STAR system. Initially the government plans to expand the scope of the SICA-STAR Settlement System to 10 such agencies and units by June 30, 2018 at the latest. These challenges underline the need for reforming Treasury structures; particularly, the General Treasury (*Trésorerie générale*), which will need to adapt to the new requirements of active cash flow management. This will involve establishing appropriate structures in the new General Treasury to ensure adequate services for the new customer base and to manage relations with banking institutions proactively. At the same time, the work to consolidate the second-generation Single Treasury Account will be completed in December 2017.

23. Starting with the 2018 fiscal year, credit balances on deposit accounts resulting from budgetary transfers received during the year and drawings of checks on the Treasury during the period will be subject to an adjustment in the next budget (**structural benchmark for the seventh review**). To this end, for incorporated entities, at the end of each fiscal year the General Directorate of Public Accounting and the Treasury will transmit to the General Directorate of the Budget a financial statement on the deposit accounts (both current and capital), net of outstanding checks and funds blocked for public contracts already being implemented, to enable it to duly decrease new current and capital budget allocations to agencies and units thus identified. In the case of non-incorporated entities, the same measure will be implemented with the same provisions regarding outstanding checks and funds to be blocked for public contracts being implemented. The government also commits to following budgetary rules for non-incorporated entities. The Treasury will audit the deposit accounts by end-December 2017 to

separate current and capital expenditures, and to determine those capital expenditures already committed, with a view to streamlining the stock thereof.

24. The government is also determined to implement the government's portfolio management strategy, specifically through three bold actions: (i) reviewing government holdings abroad; (ii) making the interministerial committee responsible for the restructuring of distressed enterprises operational; and (iii) establishing a financing mechanism for restructuring plans of distressed enterprises. The government reaffirms its commitment to take all necessary measures for the privatization of SONACOS in 2018 and the streamlining of the number of agencies. The timetable for implementation of the streamlining plan will be established before the sixth review.

25. The restructuring of the Post Office will be a government priority in 2017. With the support of partners such as the World Bank, restructuring measures will be taken that are both strong and beneficial for the government and for this public service institution, based on a financial and operational assessment. Such measures will essentially involve: (i) recapitalization through the conversion of all or part of the remainder of the government's claims on the *Groupe SN La Poste* after settling of cross debts; (ii) reconstitution of third-party deposits; and (iii) implementation of a business recovery plan involving the reduction of operating expenses. The government has asked the BCEAO to conduct an audit of financial flows and two working groups have been established to examine: (i) the modalities for the separation of *Poste Finances* from the Post Office; and (ii) the conditions for the streamlining of Post Office branches. Compensating transactions between the Post Office and the Treasury will cease as of December 31, 2017, apart from those for checks relating to *Poste Finances* depositors, which will cease as of March 31, 2018. In short, all compensating transactions will cease, and a decision regarding *Poste Finances* will be taken by end-March 2018 at the latest. The restructuring plan will also be prepared before the sixth review **(structural benchmark for the sixth review).**

26. The government is committed to implementing reform of the National Pension Fund (FNR) by the end of 2018. To this end, a bill is currently being finalized. The retained option is to increase contributions to the Fund while a supplementary pension scheme will be introduced. The assessment of the impact that the reform's parameters will have on the FNR's expected liquidity needs has been done and has been integrated in the special Treasury accounts. The balance of these accounts will be included in the overall budget balance.

27. The promotion of good governance remains a major requirement under the PSE. During the remainder of 2017, a new five-year governance strategy will be developed which will integrate public and private initiatives and provisions to harmonize the numerous tools for measuring the state of governance. More schematically, this will involve: (i) sharing the determinants, vision and main components of the governance policy with institutional partners; (ii) updating the assessment by sharing achievements, constraints and challenges in this area; and (iii) defining new important components and priority measures for the medium term.

C. Business Environment

28. The WAEMU Commission has initiated discussions on public-private partnerships (PPPs). This has resulted in the adoption by the sectoral experts of the member countries of: (i) the draft Community Directive on PPPs; and (ii) the draft strategy for the development and promotion of PPPs. These two drafts should receive final approval in accordance with the timetable prepared by the Union authorities.

29. The increase in PSE projects with a major structural impact should be accompanied by an improved business environment. The Business Environment and Competitiveness Reform Program (PREAC) is an important instrument for achieving key reforms and promoting projects with a significant structural impact in which the private sector can be a partner. In this context, Senegal has revamped the main tools governing its business environment by adapting it to international standards. These involve the Customs, Tax, Civil Procedure and Mining Codes in addition to reforms at the community level under the auspices of OHADA, WAEMU and ECOWAS. Moreover, reforms in the areas of commercial justice, starting a business, partnerships, transfer of ownership, vocational training, apprenticeships and the financing of SMEs and economics zones have been considered effective by the private sector. Wide-scale structural reforms are being completed in the area of land tenure, mining, labor legislation, the Investment Code, and the regulation of partnership contracts.

30. Senegal received a score of 6 for the strength of legal rights under the Getting Credit criterion in Doing Business 2017. To increase this score, a collateral registry should be established to facilitate non-judicial foreclosure on collateral established by borrowers. This would be particularly helpful for ensuring greater access of SME-SMIs to bank financing once it reduces the time required to proceed against collateral. This would support the planned establishment of the Commercial Tribunals in an effective way. To this end, the appropriate ministries should take the necessary steps with OHADA to remove the provisions contained in the uniform acts, particularly those related to issues to do with collateral, which prevent the establishment of such a registry.

31. The contribution of Islamic finance to the financing of the Senegalese economy, particularly in support of the productive fabric made up of SME/SMIs, could increase significantly given the interest of economic agents in such products. In the context of the assessment and measurement of credit risk pertaining to Islamic products, the existence of collateral does not cover all of the risks incurred. A detailed analysis of risk management is necessary, supplementing the financial product with insurance (*takaful*) and reinsurance (*retakaful*) products adapted to the risks in question. Moreover, the authorities could conduct appropriate discussions for handling the implementation of measures on insurance for Islamic financial services under the CIMA code.

32. The government of Senegal intends to seize the opportunity offered by the G20's Compact with Africa to develop the "prosperity triangle," which involves making Greater Dakar, which extends as far as Thiès and Mbour, the Shenzhen of West Africa. The aim is to develop a modern city of 5 to 10 million inhabitants as a special economic zone with liberal economic governance. The zone has a simplified tax regime with a corporate income tax of 15 percent that cannot be waived. The VAT is applicable to businesses that do not export at least

80 percent of their output. To open space for SMEs, the VAT will be extended to all enterprises in the zone without reference to administrative criteria. For the portion exported, a mechanism will be established to provide refunds within no more than 30 days. The activities targeted in this zone go beyond manufacturing, extending to leading-edge services such as digital technology, health, tourism, higher education and research. The sectoral projects and reforms that aim to control and lower costs of factors of production and intermediation costs (logistics, irrigation, electricity, vocational training, financing, interconnection and connectivity with border countries, investment platforms) will also be continued and completed in 2017–18 to establish and strengthen the competitiveness and position of the Senegal Hub in the West African subregion.

33. Support from Senegal's partners is requested under the Compact with Africa to promote the acceleration of reforms aimed at creating jobs for unemployed young people and women. First, support is needed to implement the development plan for the zone through a transparent call for tenders in order to identify experienced international developers with a significant financial capacity to construct a modern, green and livable city. Senegal envisages backing for developing of the specifications and guiding of the call for tenders and eventual implementation. A program is also planned to support unemployed young people and women. On-the-job training and a share of wages for the first year will be covered by the program to encourage investors to hire these unemployed persons while improving the quality of their labor. To ensure liberal economic governance for the zone and a world-class business environment, the joint committee responsible for regulations in the zone will be expanded to include foreign investors.

34. Senegal and the IMF will organize a workshop on diversification in January 2018. In this context, Senegal is asking for support from the IMF for the participation of pilot countries in the G20 "Compact with Africa" to further explore the key role played by the private sector in the diversification of their economies.

D. Promoting the Private Sector

Local private sector

35. Improving the business environment and promotion of the private sector are key in providing continuing momentum to the country's development. The role assigned to the private sector in the PSE is important for the development of projects with a major structural impact in terms of wealth and job creation with a view to support strong, inclusive and sustainable growth. To achieve this, particularly from an industrial standpoint, profound changes and bold actions in terms of creativity and innovation are expected from employers.

36. The government continues to assign a key role to the private sector, particularly SMEs, through the creation of a one-stop shop (the *Maison de l'Entreprise*). The general aim is to help promote and develop a strong and competitive private sector by supplying financial and nonfinancial services to enterprises, professional organizations and associations. The feasibility study has been finalized and the institutional set-up is being prepared.

Energy

37. The government of Senegal has identified the energy sector as a major contributor to its development strategy as set out in the PSE. The achievement of the PSE objectives requires assurances for the broadest possible access to lower-cost energy. The Millennium Challenge Corporation (MCC) plans to support the government in its overall strategy aimed at definitively settling the energy issue. In the context of this support, the issues to be addressed relate to the high cost of electricity and poor access, particularly in suburban and rural areas. The emphasis will be placed on: (i) diversification of SENELEC's energy sources through the greater use of hydroelectricity, renewable energies and sources of energy other than gas; (ii) modernization of the distribution and transportation network; (iii) improvements in access to electricity outside the network in rural and suburban areas; and (iv) the establishment of a simplified, optimal regulatory framework that is favorable to private investment and the expansion of the electricity sector and the energy sector in general.

New program monitoring indicators

38. Assessment criteria have been defined for 2018. Assessment criteria for end-December 2018 and indicative targets for end-September 2018 are proposed (Table 1 of the MEFP). To take into account the increase in fiscal space in 2018, modifications were made to: (i) the end-June 2018 assessment criterion on the floor on net lending and borrowing and the end-June 2018 indicative target on the floor on tax revenue; (ii) the end-March 2018 indicative targets on the floor on net lending and borrowing and tax revenue; and (iii) the end-December 2017 indicative target on the floor on tax revenue (Table 1 of the MEFP). The government and the IMF staff have also agreed on the measures and structural benchmarks shown in Table 2 of the MEFP. Reviews will occur at six monthly intervals. The sixth review is expected to be completed by end-June 2018, the seventh review by end-December 2018 and the eighth review by June 23, 2019.

Table 1. Quantitative Assessment Criteria and Indicative Targets for 2017-18

	2017											2018			
	Mar.				Jun.				Sep.		Dec.	Mar.	Jun.	Sep.	Dec.
	IT				AC				IT		AC	IT	AC	IT	AC
	Prog.	Adj.	Act.	Status	Prog.	Adj.	Act.	Status	Prog.	Act.	Prog.	Program			
Assessment criteria[1]															
Floor on net lending/borrowing[2]	-49	-49	-298	not met	-189	-192	-187	met	-259	-565	-349	-154	-220	-280	-367
Ceiling on spending undertaken outside normal and simplified procedures[3]	0		0	met	0		0	met	0	pending	0	0	0	0	0
Ceiling on public sector external payment arrears (stock)[3]	0		0	met	0		0	met	0	0	0	0	0	0	0
Ceiling on central government's overall net financing	…		…		…				…	…	499	…	…	…	442
Ceiling on the amount of the budgetary float	50		33	met	50		25	met	50	47	50	50	50	50	50
Indicative targets															
Quarterly ceiling on the share of the value of public sector contracts signed by single tender (percent)	15		25	not met	15		1	met	15	10	15	15	15	15	15
Floor on social expenditures (percent of total spending)	35		36	met	35		36	met	35	pending	35	35	35	35	35
Floor on tax revenue	445		396	not met	1,006		939	not met	1,464	1,436	1,977	471	1,097	1,599	2,211
Maximum upward adjustment of the overall deficit ceiling owing to															
Shortfall in program grants relative to program projections	15		0	…	15		3		15		15	15	15	15	15
Memorandum items:															
Program grants	3		10	…	13		10		24		35	4	17	32	47

Sources: Senegal authorities; and IMF Staff estimates.

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

[2] GFSM 2001 definition. Cumulative since the beginning of the year.

[3] Monitored on a continuous basis.

Table 2. Structural Benchmarks for 2017–18

Measures	Review	Status
2017		
Operationalize the DGD-DGID platform. Produce a report based on data crosschecks between the DGD and DGID.	5th review	Not met
Expand and finalize the IGF financing audit and adopt a decree setting out the conditions for the opening, operation, and closing of deposit accounts.	5th review	Met
Implement the new DGID organization.	5th review	Met
2018		
Adopt a regulation making online filing and payment of taxes for medium-size enterprises possible in 2018.	6th review	
Starting with 2018 budget, all new projects exceeding 1 billion CFAF financed entirely with domestic resources will be taken from the integrated project bank. Quarterly and annual physical and financial execution reports will be transmitted for all these projects.	6th review	
In the context of reducing tax expenditures, and supporting a comprehensive approach based on rules that are applicable to all, the DGID and DGD will undertake a pilot project for auditing the supporting documentation for approvals with a view to auditing the 100 most important approvals.	6th review	
The restructuring plan of the Poste will be prepared before the sixth review. Compensating transactions between the Post Office and the Treasury will cease as of December 31, 2017, apart from those for checks relating to Poste Finances depositors, which will cease as of March 31, 2018.	6th review	
Implement the project entitled "Mon espace perso," a platform for communication between the DGID and the taxpayer.	6th review	
From 2018, credit balances on deposit accounts (from budgetary transfers received during the year and drawings of checks on Treasury), will be adjusted in the next budget. For incorporated entities, end-year financial statements will be prepared so that new budget allocations can be decreased (net of outstanding checks and public contracts already being implemented).	7th review	
Establish job ceilings in the 2019 finance law following a series of technical discussions with all ministries and institutions to be organized by March 31, 2018.	7th review	
Establish the basic infrastructure for the platform for the M-Tax application, which will allow taxpayers to file and pay their taxes via their mobile phones without internet access.	7th review	reset from 6th review
Starting with the 2019 budget law, no project in excess of CFAF 1 billion will be included in the government capital budget if it has not been reviewed by the committee responsible for the selection of public investment projects.	7th review	encompasses SB reset from 6th review
Implement the action plan for reducing tax expenditures: specifically limit discretionary measures in favor of a comprehensive approach based on rules published on the internet that are applicable to all.	7th review	reset from 6th review

Attachment II. Technical Memorandum of Understanding

1. This technical memorandum of understanding (TMU) defines the quantitative assessment criteria, indicative targets, and structural benchmarks necessary to monitor the Fund-supported program under the Policy Support Instrument (PSI) in 2015-2018. It also establishes the terms and timeframe for transmitting the information that will enable Fund staff to monitor the program.

Program conditionality

2. The assessment criteria for end-December 2018, and the indicative targets for end-September 2018, are set out in Table 1 of the Memorandum of Economic and Financial Policies (MEFP). The structural benchmarks established under the program are presented in Table 2.

Definitions, adjusters, and data reporting

A. The Government and Public Sector

3. Unless otherwise indicated, "government" in this TMU means the central government of the Republic of Senegal. It excludes the central bank and the non-government public sector (see paragraph 4).

4. Unless otherwise indicated, "public sector" in this TMU means the government, local governments and all majority government-owned or controlled entities.

B. Net lending/Borrowing (Program Definition)

Definition

5. Net lending/borrowing (program definition), or the overall fiscal balance, is the difference between the government's total revenue and total expenditure (costs and acquisition net of nonfinancial assets). The operations of the Energy Sector Support Fund (FSE) are integrated in the TOFE. The definition of revenues and expenditures is consistent with that in the 2001/14 Government Financial Statistics Manual (GFSM). Government expenditure is defined on the basis of payment orders accepted by the Treasury, as well as those executed with external resources. This assessment criterion is set as a floor on the overall fiscal balance as of the beginning of the year.

Sample calculation

6. The floor on net lending/borrowing (program definition) as of December 31, 2014, is minus CFAF 381 billion. It is calculated as the difference between revenue (CFAF 1,877 billion) and total expenditure (CFAF 2,258 billion).

Adjustment

7. The floor including grants is adjusted downward by the amount that budget grants fall short of program projections up to a maximum of CFAF 15 billion at current exchange rates (see MEFP Table 1).

Reporting requirements

8. During the program period, the authorities will report provisional data on the overall fiscal balance (program definition) and its components monthly to Fund staff with a lag of no more than 30 days after the end of the relative month. Data on revenues and expenditure that are included in the calculation of the overall fiscal balance will be drawn mainly from preliminary Treasury account balances. Final data will be provided as soon as the final balances of the Treasury accounts are available, but no later than two months after the reporting of the provisional data.

C. Social Expenditure

Definition

9. Social spending is defined as spending on health, education, the environment, the judicial system, social safety nets, sanitation, and rural water supply (as contained in the table on social expenditure).

Reporting requirements

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

D. Budgetary Float

Definition

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

Reporting requirements

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

for regions and embassies. The SIGFIP table will also list any payments that do not have a cash impact on the Treasury accounts.

E. Spending Undertaken Outside Simplified and Normal Procedures

13. This assessment criterion is applied on a continuous basis to any procedure other than the normal and simplified procedures to execute spending. It excludes only spending undertaken on the basis of a supplemental appropriation order (*décret d'avance*) in cases of absolute urgency and need in the national interest, pursuant to Article 12 of the Organic Budget Law. Such spending requires the signatures of the President of the Republic and the Prime Minister.

14. The authorities will report any such procedure immediately to Fund staff.

F. Public Sector External Payments Arrears

Definition

15. External payment arrears are defined as the sum of payments owed and not paid when due (in accordance with the terms of the contract) on the external debt contracted or guaranteed by the public sector. The definition of external debt given in paragraph 19 is applicable here. The assessment criterion on external payments arrears will be monitored on a continuous basis.

Reporting requirements

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

Definition

17. The definition of debt is set out in paragraph 8(a) of the Guidelines on Public Debt Conditionality in Fund Arrangements attached to Executive Board Decision No. 15688-(14/107), adopted December 5, 2014.

(a) The term "debt" will be understood to mean a direct, i.e., non-contingent, liability created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, according to a given repayment schedule; these payments will discharge the principal and/or interest. Debts can take a number of forms, the primary ones being as follows:

    (i) Loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral

from the buyer in the future (such as repurchase agreements and official swap arrangements.) ;

(ii) Suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and

(iii) Leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property.

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

18. Debt guarantees. The guarantee of a debt arises from any explicit legal obligation of the public sector to service a debt in the event of nonpayment by the debtor (involving payments in cash or in kind.)

19. External debt. External debt is defined as debt borrowed or serviced in a currency other than the CFA franc, regardless of the residency of the creditor.

G. Annual Central Government Net Financing Requirement

Definition

20. The central government's net financing requirement is defined as the sum of the following two components: i) the overall fiscal balance, as defined above in the assessment criterion on net lending/borrowing; and ii) the additional borrowing by the Treasury to finance accounts payable, comprising (a) the operations of the post office (*Poste and Poste Finance*), (b) the pension system (*Fonds National de Retraites*), (c) spending by ministries out of unutilized appropriations from past budgets (drawdown of the "*comptes de dépôt*"), and (d) offsets for illiquid revenues (*"recettes d'ordre"*). For end-December 2017 this assessment criterion must be less than or equal to the amount indicated in Table 1 attached to the Memorandum of Economic and Financial Policies.

Sample calculation

21. The government's overall net financing requirement for fiscal year 2017 is CFAF 499 billion. It is calculated as the sum of the overall fiscal deficit (CFAF 349 billion), and additional borrowing to finance accounts payable, as defined above (CFAF 150 billion).

Reporting requirements

22. Data related to the additional borrowing by the Treasury to finance accounts payable will be sent annually within a period of one month from the end of the month of December. This comprises: (a) the operations of the post office (*Poste and Poste Finance*), (b) the pension system (*Fonds National de Retraites*), (c) spending by ministries out of unutilized appropriations from past budgets (drawdown of the "*comptes de dépôt*"), and (d) offsets for illiquid revenues (*"recettes d'ordre"*).

23. Data related to the overall financing requirement will be sent annually within a period of one month from the end of the month of December. These data must include: (i) total gross government debt; (ii) total debt principal repaid by the government; and (iii) all guarantees granted by the government for domestic or external loans to its suppliers and contractors and any other public or private entity. The details regarding any government borrowing (including amounts on-lent and any guarantee granted by the government for domestic or external loans to its suppliers and contractors and any other public or private entity) will be reported monthly within six weeks of the end of the month. The data on borrowings will be grouped together as short-term (less than one year) or long-term (one year or more). This rule will also apply to amounts on-lent and guarantees granted by the government for domestic or external loans to its suppliers and contractors and any other public or private entity.

H. Public Sector Contracts Signed by Single Tender

Definitions

24. Public sector contracts are administrative contracts, drawn up and entered into by the government or any entity subject to the procurement code, for the procurement of supplies, delivery of services, or execution of work. Public sector contracts are considered "single-tender" contracts when the contracting agent signs the contract with the chosen contractor without competitive tender. The quarterly indicative target will apply to total public sector contracts entered into by the government or by any entity subject to the procurement code. The ceiling on contracts executed by single tender will exclude classified purchases and fuel purchases by SENELEC for electricity production reflected in a new regulation that allows SENELEC to buy fuel from SAR on the basis of the current price structure.

Reporting requirements

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

I. Tax Revenues

Definition

26. Tax revenues are the sum of revenues from taxes and levies on income, profits and capital gains, salaries and labor, on assets; taxes on goods and services; on foreign trade and international transactions; and other tax revenues. The indicative target will be assessed on the basis of data for these revenues provided in the quarterly TOFE.

27. Specifically, petroleum revenues are the subject of specific monitoring in connection with international price trends. These are the VAT on oil, excise taxes on oil, customs duties on oil, vehicle taxes, and the Petroleum Product Imports Security Fund (FSIPP).

Additional information for program monitoring

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

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

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

- Tax receipts and tax and customs assessments by category, accompanied by the corresponding revenue on a monthly basis;
- The monthly amount of expenditures committed, certified, or for which payment orders have been issued;
- The monthly situation of checks issued by agencies from their deposit accounts at the Treasury but not paid to beneficiaries, with the dates of issuance of the checks.
- The quarterly report of the Debt and Investment Directorate (DDI) on the execution of investment programs;
- The monthly preliminary government financial operations table (TOFE) based on the Treasury accounts;
- The provisional monthly balance of the Treasury accounts; and
- Reconciliation tables between the SIGFIP table and the consolidated Treasury accounts, between the consolidated Treasury accounts and the TOFE for "budgetary revenues and

expenditures," and between the TOFE and the net treasury position (NTP), on a quarterly basis; and

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

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

30. The central bank will transmit to Fund staff:

- The monthly balance sheet of the central bank, with a maximum lag of one month;
- The monthly consolidated balance sheet of banks with a maximum lag of two months;
- The monetary survey, on a monthly basis, with a maximum lag of two months;
- The lending and deposit interest rates of commercial banks, on a monthly basis; and
- Prudential supervision and financial soundness indicators for bank financial institutions, as reported in the table entitled *Situation des Établissements de Crédit vis-à-vis du Dispositif Prudentiel* (Survey of Credit Institution Compliance with the Prudential Framework), on a quarterly basis, with a maximum delay of two months.

31. The government will update on a monthly basis on the website established for this purpose the following information:

(a) Preliminary TOFE and transition tables with a delay of two months;

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

The amount of the airport tax collected, deposited in the escrow account, and used for the repayment of the loan financing the construction of the new airport, with a delay of one month. Full information on (i) the operations of the Energy Sector Support Fund (FSE); (ii) investment projects in the power sector; (iii) planning and execution of these projects; and (iv) details of financing and updated costs.

INTERNATIONAL MONETARY FUND

SENEGAL

December 4, 2017

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

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

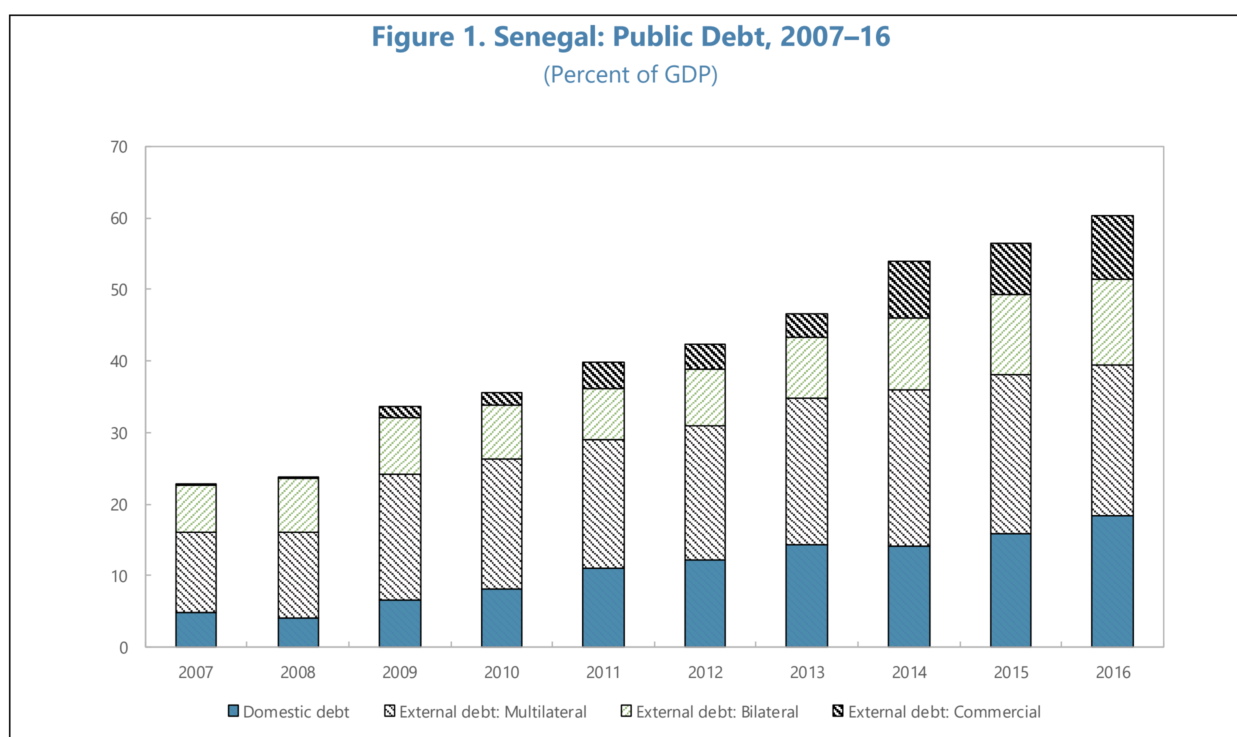
Risk of external debt distress	Low
Augmented by significant risks stemming from domestic public and/or private external debt?	No

Senegal remains at low risk of debt distress; however, debt indicators have deteriorated since the last DSA. Under extreme stress tests, two indicators breach the threshold, one multiple times, indicating an increase in debt-related vulnerability driven by Eurobond rollover risk. The breaches are, at times, significant and prolonged, suggesting that further deterioration of debt indicators could place Senegal at moderate risk of debt distress. To stabilize debt and remain at low risk of debt distress, Senegal needs to continue to manage its debt prudently, including exercising caution with non-concessional debt, reducing the financing needs for Treasury Operations and implementing reforms to mobilize domestic resources and sustain growth.

BACKGROUND

1. Debt indicators have deteriorated in the last year, reflecting the increase in external borrowing. For 2017, external public debt in Senegal is projected at 46.4 percent of GDP, compared to 38.7 percent projected in the previous DSA. In 2017, Senegal issued a $1.1 billion dollar Eurobond, its largest ever and more than double the previous issuance of $500 million in 2014. This substituted, to a large extent, for borrowing on the regional market which created space for WAEMU countries without access to international markets. Moreover, Eurobond issues by Senegal and Cote d'Ivoire were helpful in the short run to rebuild WAEMU reserves, which had fallen sharply in 2016.

2. The new Eurobond shifted borrowing from the domestic to the external market. Domestic debt is projected to decrease from 18.2 percent of GDP at end-2016 to 14.4 percent of GDP at end-2017. Total public debt is projected to reach 60.8 percent of GDP in 2017, which is higher than the 57.2 percent estimated in the previous the DSA. Public debt service is projected to reach 32.3 percent of revenue in 2017. The higher debt reflects unexpected pressures from Treasury Operations, documented in the staff report for the Policy Support Instrument (PSI) fourth review,[1] which more than offset the valuation effects on the stock of external debt from an appreciation of the CFAF in 2017.



[1] Over the past few years, the financing requirement for the central government has extended beyond what would be implied by the budget deficit (see Box 1 CR/17/230). In particular, the need for the Treasury to finance deficits of the Post Office and the Civil Service Pension, as well as the tapping of unutilized appropriations of past budgets through the *comptes de dépôt*, resulted in additional net financing beyond the budget deficit of 2.5 percent of GDP in 2016. The PSI 4th review introduced a new assessment criteria (AC) to bring this additional borrowing gradually down over the remainder of the PSI and to zero by end-2019.

3. The authorities are committed to reduce debt ratios over the medium term, thanks to continuous efforts to increase government revenue, contain additional borrowing from the Treasury, and strengthen debt management policies. Immediate reforms to reduce the structural deficits of the Post Office and civil service pensions are needed, as well as PFM reforms to limit the carry-over of unutilized appropriations from past budgets. The 2017 Eurobond, with longer maturity than previous bonds (16 years) and a moderate interest rate (6.25 percent), indicates that markets have confidence in the economy. However, the fast-paced growth of public debt and the use of bullet bonds represents a substantial challenge to debt management.[2]

UNDERLYING ASSUMPTIONS AND BORROWING PLAN

4. The DSA is consistent with the macroeconomic framework outlined in the Staff Report and updates the previous DSA produced in EBS/17/1, for the 2016 Article IV and third review of the PSI. In line with the previous DSA, the baseline scenario assumes the implementation of sound macroeconomic policies, structural reforms, and an ambitious investment plan, as outlined in the *Plan Sénégal Emergent* (PSE). It also assumes that the authorities reduce the additional borrowing to finance below the line Treasury operations and are cautious about non-concessional borrowing, consistent with recent strong levels of donor project financing. These policies are expected to deliver strong and sustained economic growth and a stable and prudent fiscal deficit over the medium term, a result that represents a significant break from historical averages—especially for real GDP growth and the primary balance—but aligned with recent outcomes in 2015-16. However, to sustain this performance, reforms must enable increased levels of private investment and promote prudent macroeconomic management. The main assumptions are as follows:

- **Real GDP growth** is estimated at 6.8 percent in 2017 and projected to increase to 7.0 percent in 2018-22 to reflect the effects of infrastructure investment, export growth, and reforms under the PSE. Over the long run, real GDP growth is projected to average 5.4 percent, slightly lower than the last DSA. This is in line with international experience suggesting that growth tends to moderate over the long run as economies converge to middle income status.
- **Fiscal deficit**. The overall fiscal deficit is projected at 3.7 percent of GDP in 2017 and 3.5 percent in 2018. In the long run, the deficit is set at 3.0 percent of GDP, incorporating efforts to increase revenues mainly through improved revenue administration and lower tax exemptions in support of meeting investment needs and other development challenges.
- **Current account deficit**. The current account deficit is projected to increase in 2017, reaching 7.8 percent of GDP, due to an increase in imports of capital goods and oil, and to lower export growth. Starting in 2018, the current account is projected to improve slightly due to a decrease in imports. Over the long term, the average current account deficit is projected to decrease to 5.3 percent of GDP due to improved export growth. Remittances remain a significant

[2] The IMF and World Bank have provided technical assistance on debt management, including recent work on developing a medium-term debt strategy.

component of the current account—projected at 11.1 of GDP in 2017—but are expected to decline as a percent of GDP over the medium term, reaching 10.0 percent of GDP in 2022.

Evolution of Selected Macroeconomic Indicators

	2015	2016	2017	Ave. 2018-22	Long term 1/
Real GDP growth					
Current DSA	6.5	6.7	6.8	7.0	5.4
Previous DSA	6.5	6.6	6.8	6.9	5.5
Overall fiscal deficit (percent of GDP)					
Current DSA	4.8	4.2	3.7	3.1	3.0
Previous DSA	4.8	4.2	3.7	3.0	3.0
Current account deficit (percent of GDP)					
Current DSA	7.0	5.6	7.8	6.8	5.3
Previous DSA	7.4	6.5	6.9	6.9	6.7

1/ Defined as the last 15 years of the projection period. For the current DSA update, the long term covers the years 2023-2037.

- **Inflation**. Inflation is contained in 2017 at 1.9 percent, consistent with the deceleration in commodity prices. The GDP deflator is projected at 2.2 percent in 2017 and is expected to come down slightly to just under 2 percent through 2022, similar to the previous DSA.
- **Remittances.** The analysis assumes a steady decline in the ratio of remittances to GDP over the medium term, with nominal growth of 7 percent in the next five years, in line with the growth rate in the last three years, and at 6.5 percent after that.
- **External financing mix and terms**. The DSA assumes that the financing mix will be consistent with a prudent borrowing strategy, even though recently there has been increased reliance on non-concessional borrowing. The average maturity of new debt is close to 18 years, with a 5-year grace period (compared to 17.2 and 4.2, respectively, in the previous DSA). Finally, the average cost of new external borrowing is assumed to be 3.7 percent, consistent with the 4 percent ceiling commitment in the MEFP (CR/17/1).
- **Domestic borrowing**. Domestic debt accounted for 30.1 percent of total public debt in 2016 and is assumed to decrease to 23.6 percent of total public debt by 2022 due to issuance of the Eurobond. New short-term domestic debt is assumed to be issued at an average interest rate of 6 percent, while medium- and long-term domestic debt is assumed to carry a real interest rate of 3.3 percent with average maturity of 4.7 years, consistent with the current structure of domestic debt.
- **Discount rate**. The discount rate for this DSA is set at 5 percent.

EXTERNAL DSA

5. The medium-term trajectory remains on a declining path under a reform-heavy baseline, where the government undertakes reforms needed to contain borrowing from the Treasury, improve revenue mobilization, and sustain growth. scenario. Public and publicly guaranteed (PPG) external debt is projected at 38.0 percent of GDP in 2017 and is estimated to decline to 34.6 percent of GDP in 2022 and to well below 30 percent in the long term. However, the historical scenario in the DSA provides an illustration of how lack of progress on reforms and a return to the anemic growth of the past would put debt on an unsustainable path (see Figure 1). Under this scenario, Senegal would grow at 4.3 percent, all indicators breach their respective thresholds over the medium term. The historical scenario highlights the importance of steadfast implementation of structural reforms to sustain high growth.

6. External debt burden indicators have deteriorated in 2017 relative to the last DSA.[3] The deterioration of the indicators reflects the increase in external borrowing due to the issue of a 16-year Eurobond in 2017, creating rollover pressures in 2033. Under extreme stress tests (Figure 1), two debt indicators breach their thresholds: (i) PV of debt-to-GDP + remittances ratio; and (ii) debt-service-to revenue ratio, with the latter ratio spiking towards the threshold under the baseline due to the bullet payment structure of the existing Eurobonds. The multiple breaches of the thresholds under the stress scenario, which are at times significant and prolonged, indicate a deterioration of debt sustainability when compared to the last DSA when only one indicator had breaches under bound tests. For PV of debt-to-GDP + remittances ratio, the stress scenario presented is a "combination" shock which considers a simultaneous shock to growth, exports, the US dollar GDP deflator and non-debt creating flows, including FDI, underscoring the importance of continued reforms to sustain growth and external competitiveness. For the debt-service-to revenue ratio, it is a one-time 30 percent depreciation shock which leads to breaches of the threshold, highlighting how the recent greater reliance on foreign currency-denominated debt has increased debt vulnerabilities. A rebasing of GDP would improve some ratios—the debt to GDP + remittances ratio would remain below the threshold even under extreme stress tests—but the debt service-to-revenue ratio would not change, making the rollover of the three bullet bonds issued in 2011, 2014, and 2017 a continued source of vulnerability.[4]

7. Senegal remains at a low risk of debt distress, because the stress test scenario is unlikely to materialize under the reform-heavy scenario. The debt-to-GDP + remittances ratio in the stress test scenario rises above the relevant threshold of 45 percent of GDP under a combination shock. However, the combination shock is based on shock to the US dollar GDP deflator and historical averages for several macroeconomic variables which, like the historical scenario, illustrates that a return to anemic growth of the past would have adverse consequences for public debt dynamics. As discussed earlier, Senegal's recent

[3] The analysis uses remittance-enhanced debt burden indicators, consistent with DSA guidance—in the last three years, remittances as a share of GPD are equal to 11 percent and remittances as a share of total exports are equal to 41 percent, both above the guidance thresholds.

[4] Preliminary results of a rebasing exercise to be finalized in 2018 suggest that changing the base year from 1999 to 2014 will increase the level of GDP by about 30 percent. This would imply a fall in the projected debt to GDP ratio in 2017 from just over 60 percent to around 47 percent, with the debt to GDP + remittances shock scenario staying below the threshold for the projection period.

strong growth performance and the commitment to ongoing reforms should lower the risk of this scenario materializing. Finally, an expected increase of 30 percent in the level of GDP following the rebasing exercise underway would put the ratio of debt-to-GDP + remittances ratio under the threshold, eliminating this breach under the stress test scenario. The three temporary debt service-to-revenue ratio breaches under the most extreme stress test, which is a one-time depreciation shock, overstate Senegal's exposure to exchange rate variations. Senegal is a member of a currency union with a currency fixed to the euro. Senegal's external debt is diversified with less than 40 percent of its external debt in dollars, and authorities have made active use of swaps that provides substantial protection against CFAF/dollar exchange rate volatility. The combination of these factors call for judgement to be used in interpreting the threshold breaches under the stress scenario and keep Senegal at low rate of debt distress.

PUBLIC DSA

8. Indicators of overall public debt and debt service do not point to significant vulnerabilities stemming from domestic debt. Under the baseline scenario, the PV of total public debt decreases from 52.8 percent in 2016 to 52.4 percent in 2017, and then is projected to steadily decline to 38.6 percent of GDP in 2037 (Figure 2 and Table 3).[5] Overall, these ratios are slightly higher than the ones estimated in the previous DSA, reflecting increased borrowing to finance below the line Treasury operations and greater reliance on non-concessional debt. Under the scenario of a 30 percent depreciation of the currency in 2017, debt ratios increase more than under the other scenarios in the short term, but in the long term, the evolution of total public debt is similar to what is projected under the baseline scenario and there is no breach of the threshold. Under the historical scenario, the PV of total public debt is on a growing path and in 2022 is projected to be above the benchmark of 74 percent of GDP. As noted in the external DSA section, in the case of Senegal, historical averages illustrate the risk that insufficient reforms accompanied by anemic growth represent to public debt dynamics. Overall, risks to public debt sustainability remain low, but stress tests underline the importance of making continuous efforts to reduce the fiscal deficit, increase revenue, sustain strong economic growth and strictly control the volumes and terms of non-concessional borrowing.

9. The public DSA exposes vulnerabilities related to debt service which are also presented in the external DSA. Debt service is close to 30 percent of revenues over the medium term with some spikes due to Eurobond bullet repayments. Under the current trajectory, debt service will absorb a significant portion of fiscal revenues, leaving little room for other expenditures like infrastructure investment, health, and education. As in the external DSA, this illustrates the importance of implementing key policies and reforms both to control spending and mobilize additional revenue to create fiscal space.

[5] Public debt covers central government debt and does not include the debt of state-owned enterprises or guarantees. Government bonds issued on the WAEMU regional market are treated as domestic debt.

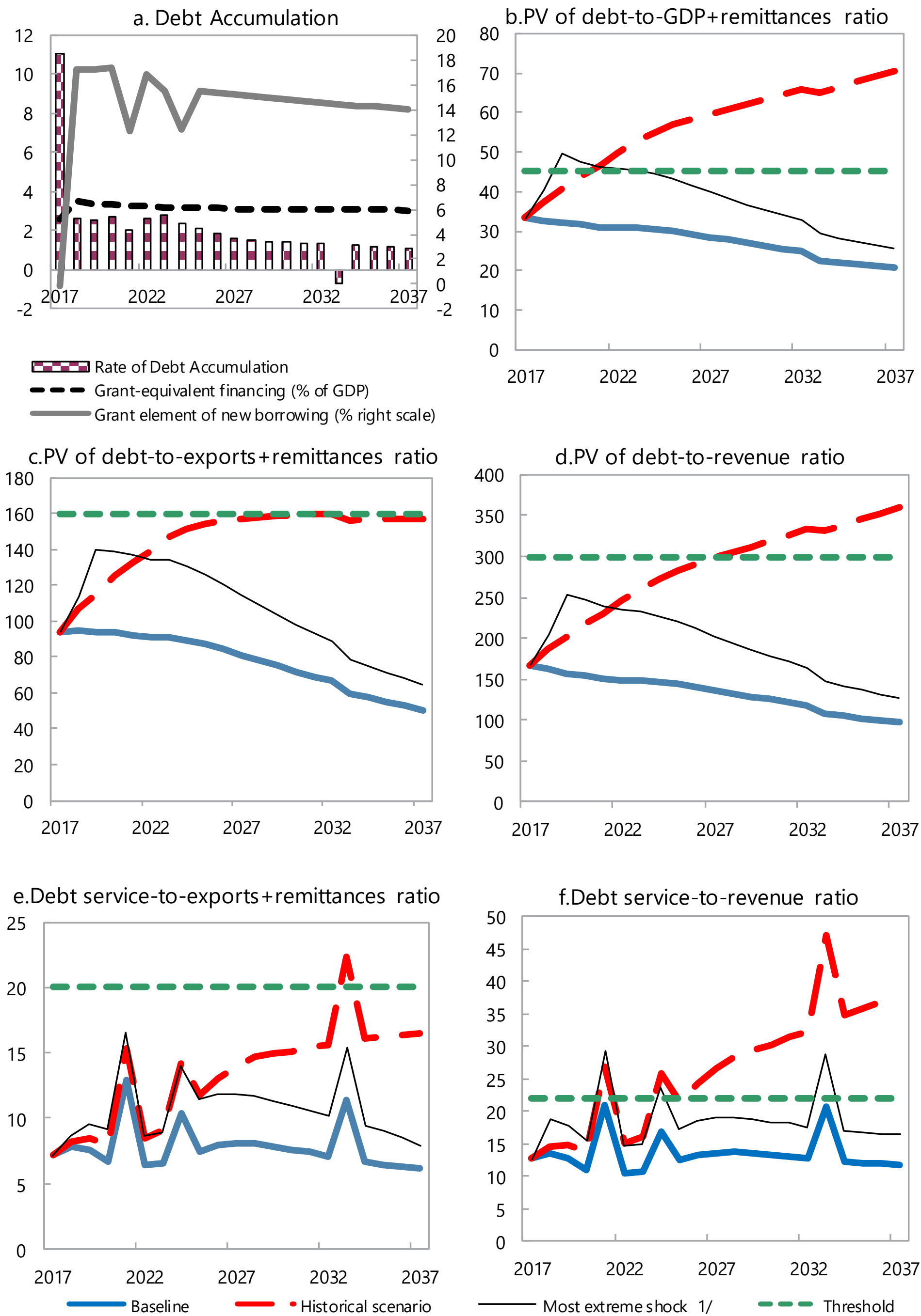
CONCLUSION

10. According to staff's assessment, Senegal remains at low risk of debt distress under the baseline scenario where reforms are implemented as planned to sustain high economic growth. However, under extreme stress tests, two debt indicators breach their thresholds. The breaches are, at times, significant and prolonged, suggesting that further deterioration of debt indicators could place Senegal at moderate risk of debt distress. Nonetheless, the debt-to-GDP trajectory remains on a declining path over the medium term and the most extreme shocks which lead to breaches of the thresholds may overstate the risk to Senegal's debt sustainability, supporting the low risk of debt distress rating. This trajectory depends highly on the authorities' commitment to pursue structural reforms, mobilize additional revenue, control borrowing, and sustain high growth. A slippage in any of these commitments can easily lead Senegal to moderate risk of debt distress.

11. The current projections highlight increased vulnerabilities related to debt service, which requires a cautious approach to commercial borrowing. The three-time breach of the debt service-to-revenue threshold under the baseline scenario underscores liquidity risks during multiple Eurobond bullet amortizations over the next 20 years. The overall debt dynamics raise concerns under both the baseline and stress scenarios. Under the historical scenario there are substantial and sustained breaches of debt indicators, highlighting the importance of structural reforms and economic growth in Senegal. In this context, staff recommends a careful and continuous monitoring of financing needs and of borrowing plans, the development of a transparent pipeline of bankable projects and a strengthening of debt management, as well as continued fiscal consolidation and structural reforms.

12. The authorities agree with the analysis in this DSA. The conclusions of the DSA were shared with the authorities who broadly concurred with the assessment and with maintaining a "low" debt risk rating. They agreed with staff that Senegal needs to reinforce its debt management capacity including a pro-active search for the best available financing. This will be especially important as per capita income rises and concessional financing falls as a share of total financing needs. In view of this gradual transition to market sources they are committed to increase domestic revenues. They also expressed a strong commitment to limit non-concessional borrowing and to properly vet projects to ensure that borrowing decisions consider their impact on growth.

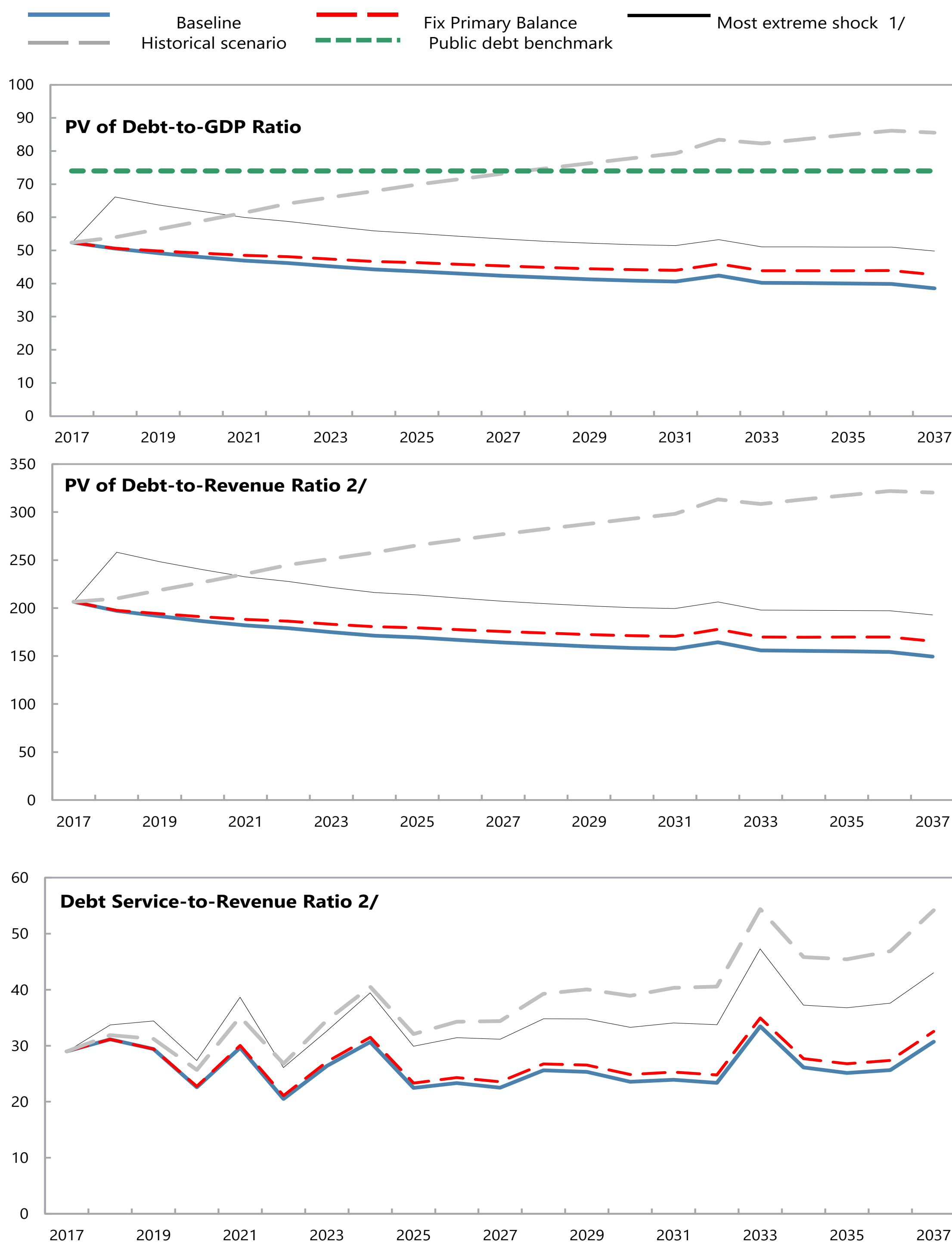
Figure 1. Senegal: Indicators of Public- and Publicly-Guaranteed External Debt Under Alternatives Scenarios, 2017-37[1]



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2027. In figure b. it corresponds to a Combination shock; in c. to a Exports shock; in d. to a Combination shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock.

Figure 2. Senegal: Indicators of Public Debt Under Alternative Scenario, 2017-37[1]



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2027.

2/ Revenues are defined inclusive of grants.

Table 1. Senegal: External Sustainability Framework, Baseline Scenario, 2014-37[1/]

(Percent of GDP, unless otherwise indicated)

	Actual			Historical [6/] Average	Standard [6/] Deviation	Projections									
	2014	2015	2016			2017	2018	2019	2020	2021	2022	2017-2022 Average	2027	2037	2023-2037 Average
External debt (nominal) 1/	**71.4**	**73.4**	**70.9**			**75.1**	**69.6**	**66.8**	**64.7**	**62.6**	**61.3**		**58.0**	**49.6**	
of which: public and publicly guaranteed (PPG)	40.4	41.1	42.3			46.4	45.2	44.1	43.4	42.4	41.8		37.8	27.2	
Change in external debt	2.5	2.0	-2.5			4.2	-5.6	-2.8	-2.1	-2.1	-1.2		-0.9	-0.4	
Identified net debt-creating flows	4.5	13.0	-1.2			1.4	0.3	0.1	0.0	0.1	-0.1		0.7	-1.6	
Non-interest current account deficit	**7.1**	**5.5**	**3.7**	**7.8**	**3.3**	**6.0**	**5.2**	**4.8**	**4.6**	**4.6**	**4.6**		**4.7**	**1.9**	3.8
Deficit in balance of goods and services	19.3	16.6	14.7			15.7	15.2	14.5	14.2	14.2	14.0		13.8	10.1	
Exports	28.1	29.4	27.4			26.5	25.5	25.6	25.5	25.5	26.0		27.7	34.5	
Imports	47.4	46.0	42.1			42.2	40.7	40.1	39.7	39.7	40.0		41.5	44.7	
Net current transfers (negative = inflow)	-12.8	-12.6	-12.3	-12.2	0.5	-11.7	-11.5	-11.3	-11.1	-10.9	-10.7		-10.2	-9.4	-9.9
of which: official	-1.1	-0.6	-0.8			-0.6	-0.8	-0.8	-0.8	-0.7	-0.7		-0.7	-0.9	
Other current account flows (negative = net inflow)	0.7	1.4	1.4			2.0	1.6	1.6	1.5	1.3	1.3		1.1	1.1	
Net FDI (negative = inflow)	**-2.5**	**-2.8**	**-1.6**	**-2.1**	**0.4**	**-2.5**	**-2.5**	**-2.5**	**-2.5**	**-2.4**	**-2.5**		**-2.6**	**-2.6**	-2.6
Endogenous debt dynamics 2/	**-0.2**	**10.3**	**-3.3**			**-2.1**	**-2.4**	**-2.2**	**-2.1**	**-2.1**	**-2.1**		**-1.4**	**-0.9**	
Contribution from nominal interest rate	1.8	1.7	1.9			2.2	2.2	2.2	2.1	2.0	1.9		1.8	1.2	
Contribution from real GDP growth	-2.7	-5.2	-4.6			-4.4	-4.6	-4.4	-4.3	-4.2	-4.0		-3.2	-2.1	
Contribution from price and exchange rate changes	0.7	13.8	-0.6			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**-2.0**	**-11.0**	**-1.3**			**2.8**	**-5.9**	**-2.9**	**-2.2**	**-2.1**	**-1.2**		**-1.6**	**1.2**	
of which: exceptional financing	1.6	0.7	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	63.3			66.7	61.4	58.9	57.0	55.0	54.2		52.0	45.0	
In percent of exports	...	...	230.7			251.9	240.6	230.1	224.0	215.9	208.2		187.5	130.3	
PV of PPG external debt	**...**	**...**	**34.6**			**38.0**	**37.1**	**36.2**	**35.8**	**34.8**	**34.6**		**31.8**	**22.7**	
In percent of exports	**...**	**...**	**126.2**			**143.4**	**145.2**	**141.5**	**140.5**	**136.7**	**133.0**		**114.8**	**65.6**	
In percent of government revenues	**...**	**...**	**144.5**			**167.0**	**161.9**	**157.3**	**154.7**	**150.3**	**149.0**		**136.9**	**97.5**	
Debt service-to-exports ratio (in percent)	**13.9**	**12.0**	**15.9**			**17.4**	**19.0**	**17.3**	**15.4**	**24.0**	**13.8**		**15.0**	**10.3**	
PPG debt service-to-exports ratio (in percent)	**8.9**	**7.4**	**10.5**			**10.9**	**12.0**	**11.4**	**10.0**	**19.1**	**9.4**		**11.4**	**7.9**	
PPG debt service-to-revenue ratio (in percent)	**11.7**	**9.8**	**12.0**			**12.7**	**13.4**	**12.7**	**11.1**	**21.0**	**10.5**		**13.6**	**11.8**	
Total gross financing need (Billions of U.S. dollars)	1.3	0.9	1.0			1.3	1.4	1.4	1.4	2.0	1.5		2.4	2.3	
Non-interest current account deficit that stabilizes debt ratio	4.7	3.4	6.2			1.8	10.8	7.6	6.8	6.7	5.8		5.6	2.3	
Key macroeconomic assumptions															
Real GDP growth (in percent)	4.1	6.5	6.7	4.3	1.5	6.8	7.0	7.0	7.0	7.0	7.0	7.0	5.8	4.6	5.4
GDP deflator in US dollar terms (change in percent)	-1.0	-16.2	0.8	0.8	9.8	4.2	6.3	2.2	2.0	1.4	1.4	2.9	2.1	2.8	2.3
Effective interest rate (percent) 5/	2.8	2.1	2.8	1.8	0.9	3.5	3.4	3.5	3.5	3.4	3.3	3.4	3.2	2.6	3.0
Growth of exports of G&S (US dollar terms, in percent)	2.3	-6.7	0.5	5.9	11.0	7.4	9.7	9.6	8.5	8.6	10.7	9.1	10.0	10.3	9.9
Growth of imports of G&S (US dollar terms, in percent)	-0.7	-13.4	-1.4	5.9	18.8	11.4	9.8	7.7	7.9	8.6	9.2	9.1	8.6	8.6	8.6
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	-0.2	17.3	17.3	17.4	12.3	16.9	13.5	15.2	14.1	14.6
Government revenues (excluding grants, in percent of GDP)	21.5	22.2	24.0			22.7	22.9	23.0	23.1	23.2	23.2		23.2	23.2	23.2
Aid flows (in Billions of US dollars) 7/	0.7	0.9	0.9			0.5	0.5	0.6	0.6	0.7	0.7		1.0	2.1	
of which: Grants	0.5	0.4	0.4			0.4	0.5	0.5	0.6	0.6	0.7		1.0	2.1	
of which: Concessional loans	0.2	0.5	0.5			0.1	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			2.6	3.5	3.4	3.3	3.3	3.2		3.1	3.0	3.1
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			19.2	49.2	49.4	50.0	39.7	50.0		49.9	52.6	50.3
Memorandum items:															
Nominal GDP (Billions of US dollars)	15.3	13.7	14.7			16.4	18.6	20.4	22.2	24.1	26.2		38.7	81.0	
Nominal dollar GDP growth	3.1	-10.8	7.6			11.3	13.7	9.4	9.1	8.5	8.4	10.1	8.0	7.5	7.8
PV of PPG external debt (in Billions of US dollars)			4.9			6.5	6.9	7.4	7.9	8.4	9.0		12.3	18.4	
(PVt-PVt-1)/GDPt-1 (in percent)						11.1	2.7	2.5	2.7	2.0	2.7	3.9	1.6	1.1	1.5
Gross workers' remittances (Billions of US dollars)	2.2	2.0	2.1			2.3	2.5	2.6	2.8	3.0	3.2		4.4	8.3	
PV of PPG external debt (in percent of GDP + remittances)	...	...	30.2			33.3	32.7	32.1	31.8	31.0	30.9		28.5	20.6	
PV of PPG external debt (in percent of exports + remittances)	...	...	82.4			94.0	95.1	93.9	94.0	92.3	90.9		81.3	50.6	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	6.9			7.2	7.9	7.6	6.7	12.9	6.4		8.1	6.1	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

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

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

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

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

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

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

Table 2. Senegal: Sensitivity Analysis for Key Indicators of Public- and Publicly-Guaranteed External Debt, 2017–37

(Percent)

	Projections							
	2017	2018	2019	2020	2021	2022	**2027**	2037
PV of debt-to-GDP+remittances ratio								
Baseline	33	33	32	32	31	31	**29**	21
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	33	38	41	45	48	52	**64**	77
A2. New public sector loans on less favorable terms in 2017-2037 2	33	34	34	34	34	34	**35**	31
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	33	34	35	34	33	33	**31**	22
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	33	36	40	39	38	38	**33**	21
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	33	38	41	40	39	39	**36**	26
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	33	33	33	33	32	32	**29**	21
B5. Combination of B1-B4 using one-half standard deviation shocks	33	41	50	48	46	46	**40**	26
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	33	44	43	42	41	41	**38**	28
PV of debt-to-exports+remittances ratio								
Baseline	93	94	94	94	92	91	**81**	51
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	93	107	117	128	137	145	**168**	172
A2. New public sector loans on less favorable terms in 2017-2037 2	93	97	98	100	101	101	**100**	77
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	93	95	94	94	92	91	**81**	51
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	93	113	139	138	135	133	**113**	64
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	93	95	94	94	92	91	**81**	51
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	93	96	96	97	95	94	**83**	51
B5. Combination of B1-B4 using one-half standard deviation shocks	93	109	131	121	119	116	**99**	56
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	93	95	94	94	92	91	**81**	51
PV of debt-to-revenue ratio								
Baseline	167	162	157	155	150	149	**137**	98
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	167	188	204	222	237	256	**319**	394
A2. New public sector loans on less favorable terms in 2017-2037 2	167	166	165	165	164	166	**168**	148
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	167	169	171	168	163	162	**149**	106
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	167	176	195	190	184	181	**158**	101
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	167	190	207	203	197	196	**180**	128
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	167	166	163	160	155	154	**140**	98
B5. Combination of B1-B4 using one-half standard deviation shocks	167	205	254	247	240	236	**204**	128
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	167	226	220	216	209	207	**191**	136

Table 2. Senegal: Sensitivity Analysis for Key Indicators of Public- and Publicly-Guaranteed External Debt, 2017–37 (concluded)

(Percent)

	Projections							
	2017	2018	2019	2020	2021	2022	**2027**	2037
Debt service-to-exports+remittances ratio								
Baseline	7	8	8	7	13	6	**8**	6
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	7	8	9	8	15	9	**15**	18
A2. New public sector loans on less favorable terms in 2017-2037 2	7	8	6	6	12	5	**9**	8
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	7	8	8	7	13	6	**8**	6
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	7	9	9	9	16	9	**12**	8
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	7	8	8	7	13	6	**8**	6
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	7	8	8	7	13	7	**8**	6
B5. Combination of B1-B4 using one-half standard deviation shocks	7	8	9	8	14	7	**10**	7
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	7	8	8	7	13	6	**8**	6
Debt service-to-revenue ratio								
Baseline	13	13	13	11	21	10	**14**	12
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	13	14	15	14	27	15	**28**	41
A2. New public sector loans on less favorable terms in 2017-2037 2	13	13	11	9	19	9	**15**	15
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	13	14	14	12	23	11	**15**	13
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	13	13	13	12	22	12	**16**	12
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	13	16	17	15	28	14	**18**	16
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	13	13	13	11	21	11	**14**	12
B5. Combination of B1-B4 using one-half standard deviation shocks	13	15	17	16	28	15	**21**	16
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	13	19	18	15	29	15	**19**	16
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	11	11	11	11	11	11	**11**	11

Sources: Country authorities; and staff estimates and projections.

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

Table 3. Senegal: Public Sector Debt Sustainability Framework, Baseline Scenario, 2014-37

(Percent of GDP, unless otherwise indicated)

	Actual			Average 5/	Standard Deviation 5/	Estimate	Projections								
	2014	2015	2016			2017	2018	2019	2020	2021	2022	2017-22 Average	2027	2037	2023-37 Average
Public sector debt 1/	54.5	56.9	60.4			60.8	58.7	57.1	55.6	54.5	53.4		48.4	43.2	
of which: foreign-currency denominated	40.4	41.1	42.3			46.4	45.2	44.1	43.4	42.4	41.8		37.8	27.3	
Change in public sector debt	7.6	2.4	3.5			0.4	-2.1	-1.6	-1.4	-1.1	-1.1		-0.8	-1.4	
Identified debt-creating flows	9.4	7.2	3.9			-3.9	-0.9	-1.9	-1.6	-1.4	-1.3		-0.6	-0.1	
Primary deficit	3.3	3.2	2.2	3.7	0.7	1.5	1.4	0.9	0.9	1.0	1.1	1.1	1.2	1.3	1.2
Revenue and grants	24.8	25.1	26.8			25.4	25.6	25.7	25.7	25.8	25.8		25.8	25.8	
of which: grants	3.3	2.9	2.8			2.6	2.7	2.6	2.6	2.6	2.6		2.6	2.6	
Primary (noninterest) expenditure	28.1	28.3	29.0			26.9	27.0	26.6	26.7	26.8	26.9		27.0	27.1	
Automatic debt dynamics	4.1	3.2	-0.8			-7.0	-3.0	-2.8	-2.5	-2.4	-2.4		-1.9	-1.4	
Contribution from interest rate/growth differential	0.4	-1.9	-2.0			-2.9	-2.9	-2.7	-2.6	-2.6	-2.6		-1.9	-1.4	
of which: contribution from average real interest rate	2.3	1.4	1.5			1.0	1.1	1.2	1.1	1.1	1.0		0.8	0.6	
of which: contribution from real GDP growth	-1.8	-3.3	-3.6			-3.9	-4.0	-3.8	-3.7	-3.6	-3.6		-2.7	-2.0	
Contribution from real exchange rate depreciation	3.6	5.2	1.3			-4.2	-0.1	-0.2	0.1	0.2	0.2		...	...	
Other identified debt-creating flows	2.1	0.7	2.5			1.6	0.7	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	2.1	0.7	2.5			1.6	0.7	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	-1.9	-4.7	-0.4			4.3	-1.2	0.3	0.1	0.3	0.2		-0.2	-1.3	
Other Sustainability Indicators															
PV of public sector debt	...	...	52.8			52.4	50.5	49.2	48.0	46.9	46.2		42.4	38.6	
of which: foreign-currency denominated	...	...	34.6			38.0	37.1	36.2	35.8	34.8	34.6		31.8	22.7	
of which: external	...	...	34.6			38.0	37.1	36.2	35.8	34.8	34.6		31.8	22.7	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	14.1	11.9	12.4			11.1	10.9	9.7	8.0	9.9	7.6		8.3	10.5	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	197.2			206.5	197.2	191.6	186.4	182.0	179.1		164.2	149.5	
PV of public sector debt-to-revenue ratio (in percent)	...	...	220.3			230.3	220.8	213.6	207.6	202.4	199.0		182.4	166.0	
of which: external 3/	...	...	144.5			167.0	161.9	157.3	154.7	150.3	149.0		136.9	97.5	
Debt service-to-revenue and grants ratio (in percent) 4/	30.5	24.9	29.2			29.0	31.2	29.4	22.6	29.6	20.5		22.5	30.7	
Debt service-to-revenue ratio (in percent) 4/	35.2	28.2	32.6			32.3	34.9	32.8	25.1	33.0	22.8		25.0	34.1	
Primary deficit that stabilizes the debt-to-GDP ratio	-4.3	0.8	-1.3			1.1	3.5	2.5	2.4	2.2	2.2		2.1	2.7	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	4.1	6.5	6.7	4.3	1.5	6.8	7.0	7.0	7.0	7.0	7.0	7.0	5.8	4.6	5.4
Average nominal interest rate on forex debt (in percent)	3.1	2.3	3.2	2.0	1.4	3.5	3.3	3.3	3.3	3.2	3.1	3.3	3.3	3.3	3.3
Average real interest rate on domestic debt (in percent)	6.9	4.7	5.0	5.3	2.0	3.1	3.7	4.0	4.1	4.1	4.1	3.9	3.6	2.7	3.3
Real exchange rate depreciation (in percent, + indicates depreciation)	11.1	13.4	3.2	2.6	7.9	-10.4	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	-1.0	0.3	1.1	1.7	3.0	2.2	1.9	1.8	1.8	1.8	1.8	1.9	2.1	2.8	2.3
Growth of real primary spending (deflated by GDP deflator, in percent)	10.1	7.3	9.3	2.7	4.3	-1.0	7.6	5.2	7.5	7.4	7.3	5.7	5.8	4.8	5.5
Grant element of new external borrowing (in percent)	...	...	...	...	...	-0.2	17.3	17.3	17.4	12.3	16.9	13.5	15.2	14.1	...

Sources: Country authorities; and staff estimates and projections.

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

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

3/ Revenues excluding grants.

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

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

Table 4. Senegal: Sensitivity Analysis for Key Indicators of Public Debt, 2017-37

	Projections							
	2017	2018	2019	2020	2021	2022	2027	2037
PV of Debt-to-GDP Ratio								
Baseline	52	51	49	48	47	46	42	39
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	52	54	56	59	61	64	73	86
A2. Primary balance is unchanged from 2017	52	51	50	49	48	48	45	43
A3. Permanently lower GDP growth 1/	52	51	50	49	48	48	47	54
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2018-2019	52	54	56	56	57	58	61	69
B2. Primary balance is at historical average minus one standard deviations in 2018-2019	52	53	55	54	53	52	47	42
B3. Combination of B1-B2 using one half standard deviation shocks	52	55	58	58	58	58	60	65
B4. One-time 30 percent real depreciation in 2018	52	66	64	62	60	59	53	50
B5. 10 percent of GDP increase in other debt-creating flows in 2018	52	60	58	56	55	54	49	43
PV of Debt-to-Revenue Ratio 2/								
Baseline	207	197	192	186	182	179	164	149
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	207	210	219	227	236	245	277	320
A2. Primary balance is unchanged from 2017	207	198	194	191	188	186	176	165
A3. Permanently lower GDP growth 1/	207	198	193	190	187	185	182	206
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2018-2019	207	208	216	217	219	222	234	264
B2. Primary balance is at historical average minus one standard deviations in 2018-2019	207	208	215	209	204	200	182	162
B3. Combination of B1-B2 using one half standard deviation shocks	207	213	224	223	223	225	230	249
B4. One-time 30 percent real depreciation in 2018	207	258	248	240	233	228	207	193
B5. 10 percent of GDP increase in other debt-creating flows in 2018	207	233	226	219	214	210	190	168
Debt Service-to-Revenue Ratio 2/								
Baseline	29	31	29	23	30	20	23	31
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	29	32	31	26	35	27	34	54
A2. Primary balance is unchanged from 2017	29	31	29	23	30	21	24	33
A3. Permanently lower GDP growth 1/	29	31	30	23	30	21	24	37
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2018-2019	29	32	32	25	33	24	29	44
B2. Primary balance is at historical average minus one standard deviations in 2018-2019	29	31	30	24	32	23	24	32
B3. Combination of B1-B2 using one half standard deviation shocks	29	32	32	26	34	25	29	43
B4. One-time 30 percent real depreciation in 2018	29	34	34	27	39	26	31	43
B5. 10 percent of GDP increase in other debt-creating flows in 2018	29	31	31	27	34	25	26	33

Sources: Country authorities; and staff estimates and projections.

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

2/ Revenues are defined inclusive of grants.