INTERNATIONAL MONETARY FUND

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SENEGAL

January 2020

REQUEST FOR A THREE-YEAR POLICY COORDINATION INSTRUMENT—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR SENEGAL

In the context of the Request for a Three-Year Policy Coordination Instrument, 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 January 10, 2020 following discussions that ended on September 23, 2019 with the officials of Senegal on economic developments and policies underpinning the IMF arrangement under the Policy Coordination Instrument. Based on information available at the time of these discussions, the staff report was completed on December 19, 2019.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the International Development Association.
- A **Statement by the Executive Director** for Senegal.

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

Program Statement*

*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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Press Release No. 20/6
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RELEASE January 10, 2020

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IMF Executive Board Approves Three-Year Policy Coordination Instrument for Senegal [1]

On January 10, 2020, the Executive Board of the International Monetary Fund (IMF) approved a new three-year Policy Coordination Instrument (PCI) for Senegal.[1]

The PCI for Senegal will build on the lessons from the previous programs supported by the IMF. It aims to support the authorities' efforts to consolidate macroeconomic stability and foster sustained and inclusive growth. Program reviews take place on a semi-annual fixed schedule. While the PCI involves no use of IMF resources, successful completion of program reviews would help signal Senegal's commitment to continued strong economic policies and structural reforms.

Following the Executive Board discussion, Mr. Tao Zhang, Deputy Managing Director and Acting Chair, said:

Executive Board Assessment[2]

"Senegal's economic performance during the first phase of the Plan Senegal Emergent has been strong. Growth has been robust, buoyed by favorable external conditions and significant public investment, in the context of an improving business environment. Although public debt has increased and the current account deficit has widened, the outlook remains favorable, provided the authorities follow through with their comprehensive reform strategy and measures to consolidate macroeconomic stability.

[1] The PCI is available to all IMF members that do not need Fund financial resources at the time of approval. It is designed for countries seeking to demonstrate commitment to a reform agenda or to unlock and coordinate financing from other official creditors or private investors. (see https://www.imf.org/en/About/Factsheets/Sheets/2017/07/25/policy-coordination-instrument).

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

"The authorities' economic program supported by the Policy Coordination Instrument (PCI) focuses on achieving high, sustainable, and inclusive growth, consolidating macroeconomic stability through prudent fiscal policy and sound debt management, and managing the oil and gas sector in a transparent manner. The PCI will provide an appropriate framework for a close policy dialogue and signal policy priorities and reform commitments to development partners.

"The reform agenda's focus on promoting private sector-led and inclusive growth is welcome. Policies to support private sector development will need to be well-targeted and efficient to achieve the program's objectives.

"Fiscal policy will be anchored by the WAEMU convergence criterion to limit the fiscal deficit to 3 percent of GDP. Further progress to better assess and contain fiscal risks is needed, including by clearing unmet obligations from 2017 and 2018, improving the recording and monitoring of arrears, eliminating below-the-line operations, and better managing subsidies.

"Enhanced domestic revenue mobilization and expenditure efficiency will be essential to create further fiscal space. The medium-term revenue strategy appropriately targets an increase in the tax-to-GDP ratio to 20 percent of GDP by 2023.

"Future oil and gas production is likely to have substantial economic benefits. The government's strong commitment to setting up a transparent framework to manage oil and gas revenues is welcome."

ANNEX

Recent economic developments

Economic growth averaged 6.5 percent over the past five years, boosted by public investment under phase I of Senegal's development strategy, the "Plan Sénégal Émergent" (PSE), and buoyant private consumption. High public financing needs led to a rapid increase in public debt and a widening of the current account deficit. Economic growth is estimated at 6 percent in 2019 and inflation remains low at 1.3 percent for the 12-months period ending in October. The current account deficit widened in 2018 to 8.8 percent of GDP owing to higher energy and capital goods imports.

The economic outlook remains favorable. After slowing somewhat in 2019, growth is expected to accelerate to 7 percent in 2020-21, supported by the second phase of the PSE, robust activity in agriculture and services and increasing hydrocarbon-related investments, which would also lead to a temporary widening of the current account deficit to about 11 percent of GDP. Risks to the outlook mostly stem from rising security threats in the region, increasing trade barriers, and large swing in energy prices.

Program Summary

The program to be supported by the new PCI is fully aligned with the second phase of the authorities' PSE and is articulated around three main pillars: (i) achieving high, sustainable, and inclusive growth; (ii) consolidating macroeconomic stability through prudent fiscal policy, including through increasing revenues and spending efficiency, and sound debt management; and (iii) managing the oil and gas sector in a sustainable and transparent manner.

Reform commitments to promote inclusive growth include improving the judicial system, the skill-set of the workforce, access to land and credit, the functioning of the labor market and financial inclusion. The authorities' fiscal policy aims at consolidating macroeconomic stability by targeting a 3 percent of GDP deficit throughout the program period, in line with the WAEMU convergence criterion. A medium-term domestic revenue mobilization strategy is being developed with the objective to increase the tax-to-GDP ratio to 20 percent by 2023. The authorities' aim to set up a strong and transparent governance framework to govern the hydrocarbon sector and both the legal and fiscal framework are in the process of being updated in line with international best practices.

Senegal: Selected Economic and Financial Indicators, 2017–2024

	2017	2018	2019	2020	2021	2022	2023	2024
	Act.	Prel.			Projections			
National income and prices								
GDP at constant prices	7.1	6.7	6.0	6.8	7.0	8.4	11.6	8.0
Of which: Non-hydrocarbon GDP	7.1	6.7	6.0	6.8	7.0	7.1	7.4	7.3
Of which: Hydrocarbon GDP	…	…	…	…	…	…	359.6	21.3
Of which: Non-agriculture GDP	6.3	6.4	6.0	6.6	7.0	8.8	12.2	7.3
GDP deflator	0.6	0.6	1.1	1.1	1.8	1.2	2.4	2.3
Consumer prices								
Annual average	1.3	0.5	1.0	1.5	1.5	1.5	1.5	1.5
End of period	-0.7	1.3	2.0	1.5	1.5	1.5	1.5	1.5
External sector								
Exports, f.o.b. (CFA francs)	12.0	10.0	13.8	13.8	13.4	24.0	37.0	10.1
Imports, f.o.b. (CFA francs)	21.2	13.5	7.8	11.4	10.8	6.2	8.6	11.3
Export volume	11.3	7.9	12.0	13.6	12.0	28.9	41.6	8.8
Import volume	19.0	11.7	7.5	10.3	12.3	6.5	9.5	9.7
Terms of trade ("–" = deterioration)	-1.3	0.4	1.4	-0.8	2.6	-3.5	-2.5	-0.2
Nominal effective exchange rate	1.8	4.1	…	…	…	…	…	…
Real effective exchange rate	0.5	1.7	…	…	…	…	…	…
Broad money	9.2	14.2	9.1	6.6	…	…	…	…
Net domestic assets	6.6	4.8	4.9	9.1	…	…	…	…
Credit to the government (net)	-0.8	1.5	3.4	3.0	…	…	…	…
Credit to the economy (net)	12.9	1.4	4.4	6.6	…	…	…	…
Government financial operations								
Revenue	19.5	18.6	20.3	20.7	21.5	22.0	22.7	23.0
Grants	2.2	2.0	1.9	1.9	1.9	1.8	1.7	1.6
Total expenditure	22.5	22.2	24.0	23.7	24.5	25.0	25.7	26.0
Net lending/borrowing (Overall Balance)								
excluding grants	-5.2	-5.6	-5.7	-4.9	-4.9	-4.8	-4.7	-4.7
including grants	-3.0	-3.6	-3.7	-3.0	-3.0	-3.0	-3.0	-3.0
Net lending/borrowing (Overall Balance, excl. SENELEC operation)	-3.0	-3.6	-3.0	-3.0	-3.0	-3.0	-3.0	-3.0
Primary fiscal balance	-1.1	-1.6	-1.8	-0.9	-1.1	-1.3	-1.5	-1.5
Savings and investment								
Current account balance (official transfers included)	-7.3	-8.8	-9.2	-10.7	-10.5	-7.7	-3.8	-3.7
Current account balance (official transfers excluded)	-7.8	-9.0	-9.4	-10.9	-10.9	-8.0	-4.1	-4.0
Gross domestic investment	29.7	30.1	30.7	32.2	35.2	35.0	35.6	36.6
Government [2]	6.8	6.4	7.5	7.7	8.5	8.8	9.2	9.4
Nongovernment	22.9	23.7	23.2	24.5	26.8	26.2	26.4	27.2
Gross national savings	22.4	21.3	21.5	21.5	24.7	27.3	31.9	32.9
Government	6.1	5.7	7.9	8.6	8.9	9.5	11.5	12.6
Nongovernment	16.3	15.6	13.7	12.9	15.8	17.8	20.4	20.3
Total public debt [3]	61.2	61.4	63.7	61.9	60.8	59.6	56.0	54.7
Domestic public debt [4]	21.4	13.0	10.2	10.0	9.8	10.9	11.5	12.7
External public debt	39.8	48.5	53.5	51.9	51.0	48.8	44.5	42.0

Total public debt service [3]								
Percent of government revenue	28.3	42.7	29.8	29.8	22.8	22.0	19.6	22.6
Memorandum items:								
Gross domestic product (CFAF billions)	12,159	13,046	13,983	15,085	16,421	18,015	20,573	22,722
of which non-hydrocarbon (CFAF billions)	12,159	13,046	13,983	15,085	16,421	17,740	19,277	21,119
Gross domestic product (USD billions)	20.9	23.5	…	…	…	…	…	…
Share of hydrocarbon in total GDP (%)	…	…	…	…	…	1.5	6.3	7.1
National Currency per U.S. Dollar (Average)	581	555	…	…	…	…	…	…

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

[1] Based on new national accounts rebased to 2014.

[2] Reflects reclassification of public investment.

[3] Starting in 2017 debt level, debt service and government revenue include preliminary data covering the broader public sector.

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

INTERNATIONAL MONETARY FUND

SENEGAL

REQUEST FOR A THREE-YEAR POLICY COORDINATION INSTRUMENT

December 19, 2019

KEY ISSUES

Context: Economic growth averaged 6.5 percent over the past five years, boosted by public investment under phase I of Senegal's development strategy, the "*Plan Sénégal Émergent*" (PSE), and buoyant private consumption. High public financing needs led to a rapid increase in public debt and a widening of the current account deficit. The outlook remains favorable provided Senegal strictly adheres to the WAEMU fiscal deficit target of 3 percent of GDP and creates fiscal space for investment through enhanced revenue mobilization and spending efficiency to stabilize public debt. Hydrocarbon production is projected to start in 2022. The authorities requested the cancellation of the 2015-19 Policy Support Instrument (PSI) in early 2019 (with only one review left), and are now requesting approval of a three-year program supported by the Policy Coordination Instrument (PCI) to underpin implementation of the second phase of the PSE.

Main Policy Commitments

- **Private sector-led and inclusive growth:** To sustain high growth, the authorities have committed to improving the judicial system, the skill-set of the workforce, access to land and finance, the functioning of the labor market and the business environment, with an emphasis on supporting SMEs.
- **Fiscal policy:** Fiscal policy is anchored by the WAEMU convergence criteria. The 2019 revised budget and 2020 budget target a 3 percent of GDP overall deficit and include a strategy to address unmet obligations. A medium-term revenue strategy aiming at meeting WAEMU's 20 percent of GDP revenue target by 2023 is being finalized, and the authorities are moving forward with implementation of the WAEMU public financial management directives. Together with enhanced debt management, these commitments would allow to keep public debt ratios on a downward path.
- **Management of hydrocarbon revenues:** The authorities aim to set up a strong and transparent governance framework to govern the hydrocarbon sector. In this respect, both legal and fiscal frameworks are in the process of being updated in line with international best practices.

Risks: Program risks are low considering Senegal's strong track record under successive IMF programs. Risks to the outlook are tilted to the downside as lower-than-expected private investment, slow reform implementation, delayed hydrocarbon production, or materializing external risks could weigh on growth.

Staff support the authorities' request for a three-year program under the PCI.

Approved By
Annalisa Fedelino (AFR)
and Maria Gonzalez (SPR)

Discussions were held in Dakar during July 1-12, 2019 and September 12-23, 2019. The missions comprised C. Deléchat (head, September mission), M. Lazare (head, July mission), B. Versailles, D. Stenzel (AFR), E. Yéhoué (SPR), and M. Queyranne (FAD, September mission), assisted by C. Sancak (Resident Representative), S. Ba and A. Fame (local economists). O. Diakite (OED) also attended mission meetings. H. Devine and N. Quartey (both AFR) also contributed to this report.

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APPENDIX

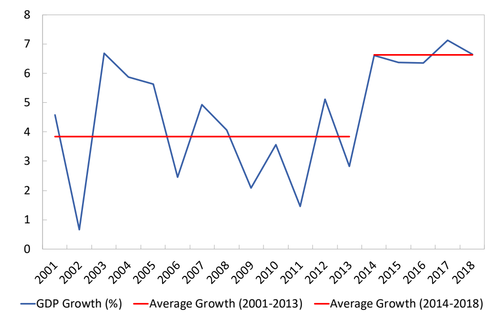
CONTEXT

1. **President Macky Sall was reelected in February 2019 for a five-year term with more than 58 percent of the votes.** This gives the President a strong mandate to pursue the reforms supporting the ambitious growth objectives of the second phase of Senegal's development strategy, the *Plan Sénégal Émergent (PSE)* covering the period 2019-23 (Box 1).

2. **The first phase of the PSE was marked by high and stable growth, a clear break from the past lackluster performance**. Growth averaged about 6 ½ percent in 2014-18 (Text Figure 1) and poverty declined by 4-7 percentage points since 2011 (Figure 1). The public infrastructure gap was partially closed with the completion of airport, roads, and railroad projects, while delivery of public services improved noticeably.[1] Growth was driven by a mix of public investment and strong private consumption boosted by a favorable external environment—low commodity prices, strong growth in trading partners, and increasing remittances. However, with public investment increasingly financed by non-concessional borrowing, the debt-to-GDP ratio continued to increase. These adverse debt dynamics were exacerbated by the expansion of debt coverage and public sector financing needs that went beyond the central government's deficit (Text Figure 2).

Text Figure 1. Growth, 2001-18

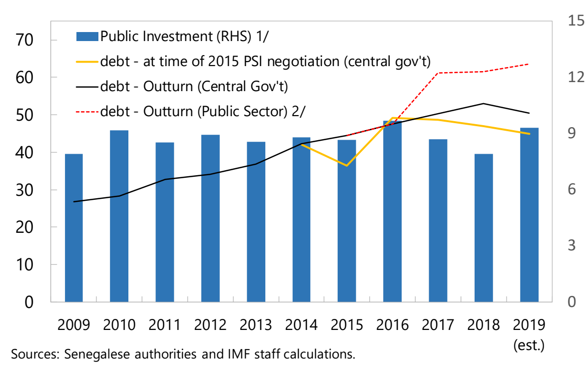
(Percent)



Sources: Senegalese authorities and IMF staff calculations.

Text Figure 2. Public Debt and Investment, 2009-19

(Percent of GDP)



Sources: Senegalese authorities and IMF staff calculations.
1/ As measured in the fiscal accounts (table 4) as opposed to the national accounts (table 1).
2/ Public Sector debt only calculated from 2017 onwards due to the expansion of debt coverage. Before 2017, public sector debt was equal to central government.

3. **Senegal's challenge is to sustain high growth while making it more inclusive, maintain debt sustainability and ensure sound governance of recently discovered oil and gas fields.** Public investment should be increasingly financed by enhanced domestic revenue mobilization and spending efficiency, while improvements in the business environment should allow the private sector to take over as the engine of strong and inclusive growth. The recent high growth has not been accompanied by a commensurate reduction of inequality, poverty incidence exhibits wide regional disparities and youth and adult literacy rates lag behind peers (Figure 1), which could hamper the government's strategy to further develop services and diversify

[1] Annex I discusses PSI 2015-19 performance.

the economy. Another key challenge will be to ensure that the potential benefits from the exploitation of Senegal's oil and gas resources materialize while avoiding risks related to weak governance in the energy sector and price volatility.

4. **The authorities cancelled the 2015-19 PSI in February 2019 and requested a new Policy Coordination instrument (PCI) to support implementation of PSE II (2019-23).** Performance under the 2015-2019 Policy Support Instrument (PSI) was broadly satisfactory (Annex I). The authorities see the PCI as a means to maintain the close policy dialogue with the Fund, provide a positive signal to markets and development partners, and ensure a conducive macro-economic environment to support the PSE II implementation.

Box 1. *Plan Sénégal Émergent*

In 2012, Senegal set out its key medium- to long-term development objectives in the "*Plan Sénégal Émergent.*" The plan's overarching ambition is for Senegal to reach emerging market status by 2035. It is articulated around 3 main axes: (i) economic growth and structural transformation of the economy, (ii) strengthening human capital, social protection and sustainable development, and (iii) enhancing governance, peace and security. The PSE is fully aligned with the SDGs.

In December 2018, Senegal launched the second phase of the *PSE* for the period 2019-2023 with a focus on inclusive, private sector-led growth. Steps to improve the business environment and mobilize revenues are key elements of the PSE II priority action plan (Box 1, Table 1), which targets improvements in key socio-economic indicators (Box 1, Table 2). Investments under the PSE are heavily tilted towards the first axis, with about 60 percent PSE spending allocated to infrastructure and agricultural development. Investments on human capital and social protection will make up 30 percent of the total, with 10 percent allocated to strengthening public institutions and the rule of law.

Box 1. Table 1. PSE II - Priority Action Plan (2019-23)

Cost of PSE II (all in CFAF billion)	
Total	14,098
Secured financing	
Government	4,248
Of which: PPP projects	*486*
Donors	5,166
Expected financing	
Donors	2,850
Private sector (PPP projects)	1,834

Box 1. Table 2. PSE II - Key Socio-Economic Targets

	Starting point		Target
	Year	Value	Value
HDI	2015	0.49	0.53
Infant Mortality Rate (per 1,000)	2017	42	29.2
Maternal Mortality Rate (per 100,000)	2017	236	178.4
Primary Gross Enrollment Ratio (percent of primary school-age population)	2017	87.3	96.3
Average Schooling Duration (years)	2017	3.0	3.4
Gini Coefficient	2011	40.2	35.8
National Poverty Rate (percent of population)	2017	41.2	33.0
International Poverty Rate (1.9$ / day)	2017	35.6	29.9
Access to Electricity (percent of population)	2017	61.7	85.9
Annual Creation of Jobs	2017	199,980	228,317
Share of Industry in GDP	2017	20.6	25
Exports per capita (CFAF)	2017	142,889	220,109

RECENT DEVELOPMENTS

5. **Senegal has experienced strong growth and low inflation.** Growth reached 6.7 percent in 2018, the fifth consecutive year of growth above 6 percent (Table 1). Economic activity has lost some momentum in 2019H1, as manufacturing and the services sectors' dynamism weakened, partly as delays in payments to government suppliers led to a slowdown in large public works, and growth for the year is projected at 6 percent. Inflation remains low at 1.3 percent at end-October (y-o-y). Monetary indicators are consistent with a softening of economic activity, as broad money growth (+2.5 percent at end-September) was held back by slow growth of private sector credit (+2 percent) while net foreign assets declined slightly.

6. **Budget execution in 2018 and 2019H1 was difficult.** Revenue collection in 2018 was only 90 percent of targets envisaged in the original budget law, while spending pressures in non-investment categories emerged in a pre-election year environment, leading to new unmet obligations[2] in the construction and energy sectors. Despite a very drastic reduction in public investment and a revised PSI deficit target of 3.5 percent of GDP, the 2018 deficit eventually reached 3.6 percent of GDP (Tables 4 and 5). Similar difficulties spilled into H1 2019, with fixed domestic energy prices leading to unbudgeted costs, increasing health and education spending and front-loaded infrastructure projects. Revenue continued to underperform with only 90 percent of the target reached in 2019H1. As a result, end-June deficit stood already at CFAF 469 billion (3.4 percent of GDP), with continued accumulation of unmet obligations (Text Table 1).

Text Table 1. Senegal: Fiscal Developments, 2018-19
(Billions of CFAF)

	2018	2019		
	End-Year Act.	Q2 (cum.)	Q3 (cum.)	Q4 (cum.)
Revenue (incl. grants)	**2,425**	**1,269**	**1,935**	**2,833**
Tax Revenue	1,990	1,108	1,673	2,400
Non-Tax Revenue (incl. FSE)	179	83	138	162
Grants	256	78	124	271
Expenditure	**2,897**	**1,738**	**2,497**	**3,356**
Compensation of Employees	682	361	540	744
Use of Goods and Services	306	129	204	389
Interest	258	173	249	278
Subsidies, Current Grants and Other Expense	614	376	582	625
Of which: subsidies to Electricity Sector	*70*	*70*	*195*	*209*
Of which: subsidies for Fuel	*15*	*3*	*12*	*17*
Social Benefits	7	7	11	25
Net Acquisition of Nonfinancial Assets	1,030	692	910	1,295
Financed with Internal Resources	513	348	490	655
Financed with External Resources	518	344	419	641
Net Borrowing	**-472**	**-469**	**-562**	**-523**
Net Borrowing (excl. SENELEC one-off)	**-472**	**-469**	**-462**	**-423**
Net Borrowing (% of GDP)	***-3.6***	***-3.4***	***-4.0***	***-3.7***
Net Borrowing (% of GDP, excl. SENELEC one-off)	***-3.6***	***-3.4***	***-3.3***	***-3.0***
Memrandum Item: Annual Nominal GDP (CFAF billion)	*13,046*	*13,983*	*13,983*	*13,983*

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

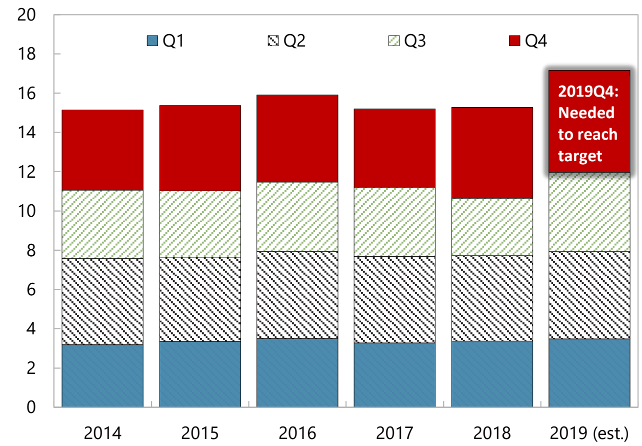
7. **Budget management improved in 2019H2, placing the 3 percent of GDP deficit target within reach.** Revenue performance improved, reflected in a 54 percent increase in collections in Q3 compared with the same quarter in 2018, bringing the target in the revised budget for the full year well within reach (Text Figure 3). Tighter spending controls in 2019Q3 resulted in a 15 percent

[2] Unmet obligations are related to both on- and off-budget spending and are defined as obligations of the central government vis-à-vis third parties for which no resources were set aside in original budget appropriations.

contraction compared with the quarterly average of 2019H1. The resulting overall deficit at end-September stood at CFAF 562 billion (4 percent of GDP), but lower than at end-June when excluding a one-off government transfer to clear pre-2019 arrears to the state-owned electricity company Senelec, amounting to 0.7 percent of GDP. This transfer is part of the strategy to improve Senelec's financial viability supported by the World Bank.

8. **Domestic fuel prices were increased in June 2019.** The government increased retail prices for gasoline by CFAF 80 per liter (+11.5 percent) and for diesel by CFAF 60 per liter (+10 percent) applying the existing adjustment mechanism.[3] The price increase removes the implicit subsidy on gasoline and diesel for international oil prices at end-June (when the Brent sold for $65 per barrel). The adjustment was well-prepared and there were no related social tensions.

Text Figure 3. Quarterly Tax Revenue Performance, 2014-19
(Percent of GDP)



Sources: Senegalese authorities; and IMF staff calculations.

9. **The 2019H1 budget execution difficulties resulted in a tight liquidity situation, despite availability of financing from the 2018 Eurobond residual.** Thus, the authorities returned to the regional bond market, and contracted two short-term non-concessional bridging loans for liquidity purposes (CFAF 150 billion in January) and to finance the aforementioned one-off payment to Senelec (CFAF 125 billion in September).

10. **The current account deficit widened in 2018.** The deficit increased to 8.8 percent of GDP owing to higher energy and capital goods imports. However, data for 2019H1 suggest that the trade balance for goods is improving. The value of goods exports increased significantly (+26.4 percent y-o-y), while the value of total goods imports increased by 4.5 percent. WAEMU pooled reserves stood at EUR 13.6 billion covering 4.5 months of prospective imports at end-August 2019.

POLICY DISCUSSIONS

Outlook and Risks

11. **The outlook remains favorable.** After slowing somewhat in 2019, staff expects growth to accelerate to about 7 percent in 2020-21, supported by robust activity in agriculture and services and increasing hydrocarbon-related investments, which would also lead to a temporary widening of

[3] The formula to set domestic fuel prices at cost-recovery levels is in place and is being calculated on a monthly basis, even though the authorities prefer to override the formula and rely on ad hoc less frequent changes.

the current account deficit to about 11 percent of GDP. In 2022-24, the start of hydrocarbon production could temporarily lift growth to double-digits. Inflation should remain low at under 2 percent, anchored by the CFAF/euro peg. Over the medium term, non-hydrocarbon growth is expected to reach between 6 percent and 7 percent, driven by a growing labor force, capital deepening and productivity gains (Text Table 2). The current account deficit is likely to decline to below 4 percent of GDP once hydrocarbon exports set in. The external position of Senegal in 2019 is moderately weaker than implied by fundamentals and desirable policy settings, with some real appreciation in the past 3 years (Annex II).

Text Table 2. Senegal: Macroeconomic Framework, 2017-23

	2017	2018	2019	2020	2021	2022	2023
	Act.	Prel.	Proj.				
Real GDP growth (percent)	7.1	6.7	6.0	6.8	7.0	8.4	11.6
CPI inflation, average (percent)	1.3	0.5	1.0	1.5	1.5	1.5	1.5
Current account balance (% GDP)	-7.3	-8.8	-9.2	-10.7	-10.6	-7.7	-3.8
Overal fiscal balance (% GDP)[1]	-3.0	-3.6	-3.0	-3.0	-3.0	-3.0	-3.0
Public sector debt	61.2	61.4	63.7	61.9	61.3	60.5	57.1

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

[1] Excludes one-off operation to allow clearance of central government unmet obligations vis-à-vis the national electricity company SENELEC in 2019.

12. Risks to the outlook are tilted to the downside. In the short term, the slowdown in economic activity in 2019H1 could prove more protracted. Slow progress with implementing reforms to improve the business environment and clearing unmet government obligations to suppliers could also weigh on economic activity. Large uncertainties surround timing and size of hydrocarbon production, which could delay related exports and fiscal revenues. Good prospects for gold mining projects constitute an upside risk. On the external front, rising security threats in the region, increasing trade barriers, a protracted slowdown in Europe, and large swings in energy prices could affect the outlook, including over the medium term should low energy prices delay hydrocarbon investments (Table 8).

13. The authorities shared staff's assessment of growth prospects while seeing larger upside risks. In particular, they considered that medium-term growth would be sustained by larger positive spillovers from oil and gas production to the rest of the economy and from implementation of their reform agenda.

Program Discussions

The program to be supported by the new PCI is fully aligned with the authorities' PSE II and is articulated around three main pillars: (i) achieving high, sustainable, and inclusive growth, driven mostly by the private sector; (ii) consolidating macroeconomic stability through prudent fiscal policy, including through increasing revenues and spending efficiency, and sound debt management; and (iii) managing the oil and gas sector in a sustainable and transparent manner.

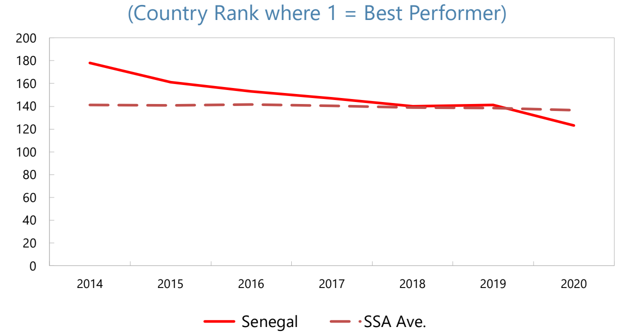
A. Pillar I: Achieving Inclusive and Private Sector-Led Growth

14. Economic competitiveness has improved but major constraints to private sector development persist. In recent years, Senegal has improved its business environment, and export growth has been strong and accompanied by increasing product diversification and complexity (Text Figure 4, Annex II).[4] However, private sector development is held back by longstanding impediments including: (i) low access to and high cost of energy; (ii) insufficient workforce skills due to a deficient education and vocational training system; (iii) rigid labor regulations; (iv) burdensome and lengthy procedures in tax and judiciary systems; (v) lack of access to credit; (vi) low efficiency of public investment; and (vii) a lack of competition in some product markets.

Text Figure 4. Business Environment and Exports, 2014-20

Senegal has made progress in improving its business environment…

Doing Business Ranking, 2014-20
(Country Rank where 1 = Best Performer)



Source: World Bank.

…and export growth has picked up.

Senegal: Goods Export Growth (Volume) 2000-18

Sources: BCEAO; and IMF staff calculation.

Reforms to improve the business environment

15. To sustain the high growth momentum, reforms to improve the business climate and boost private investment have been placed at the center of *PSE* II. Reform commitments under the PCI and the G20 initiative "Compact with Africa" draw on these plans. To ensure successful implementation, staff highlighted the importance of streamlining and regrouping the multitude of existing entities in charge of initiatives or funds aiming at supporting the private sector and in particular SMEs. The authorities agreed and noted that the newly created Ministry of Economy, Planning and Cooperation plans to finalize a comprehensive private sector development strategy (**PS, ¶7**).

[4] IMF (2017) Selected Issues "Export Diversification and Competitiveness in Senegal".

16. Specific reforms supported under the PCI include the following:

- **Justice system** (**PS, ¶9**): The commercial justice system will be further strengthened through the establishment of an appeals court (**reform target, December 2021**) and the digitalization of commercial court procedures. In its first year of existence, the commercial court in Dakar ruled on more than 10,000 cases for a total litigation amount of 0.6 percent of GDP, thus speeding up the resolution of disputes.
- **Labor markets** (**PS, ¶11**): A reform of the labor law is underway (**reform target, December 2021**), with the aim of drawing more workers into the formal sector (less than 10 percent of the Senegalese workforce is formally employed) and better meeting the needs of SMEs by simplifying filing and reporting requirements.
- **Access to land** (**PS, ¶12**): The authorities plan to set up a digital, centralized and integrated land management system (**reform target, June 2021**) which will help simplify land registration and administration. This will help agricultural development and facilitate using land as collateral to access credit.
- **Investment law** (**PS, ¶8**): The authorities envisage to adopt new legislation in 2021, which will aim at enhancing transparency for potential investors. Staff recommends streamlining and narrowing the scope and duration of investment incentives to contain tax expenditures.
- **Public Private Partnerships (PPPs) (PS, ¶7)**: A cornerstone of the authorities' development strategy is to rely more on PPPs to implement investment projects. To date, the private sector participates in 25 projects (toll roads, the new airport, electricity generation projects) resulting in public and private investment of about 10 percent of GDP.[5] More than a third of the projects were selected following unsolicited bids. Staff underscored the importance of introducing competition in the PPP proposal process and using systematic cost-benefit analyses. Staff also recommended that new PPPs, as externally financed projects, should be assessed by the national debt committee, and that monitoring of fiscal risks be strengthened. The authorities noted that they aim to update the PPP law, which will specify that all projects above CFAF 2 billion are to be subject to an ex-ante evaluation, while unsolicited bids will be subject to a counter-evaluation by the Ministry of Economy, Planning and Cooperation (**reform target, June 2020**). The authorities will also set up a database for all PPPs and power purchasing agreements, presenting their budgetary impact and main risks (**reform target, June 2021**).
- **Incentive schemes and targeted support to start-ups:** Three special economic zones are in place to help boost FDI and attract investments in export-oriented manufacturing, benefitting from fiscal incentives. Currently planned investments amount to about 3 percent of GDP. Staff emphasized the importance of containing fiscal risks and that the zones should be governed by transparent rules, especially regarding requirements to benefit from incentives to minimize revenue losses, while focusing on providing a favorable physical and legal environment. Investment platforms and targeted support networks for farmers, spread across the country,

[5] Source: "IMF Investment and Capital Stock Dataset, 2019" https://www.imf.org/external/np/fad/publicinvestment/pdf/csupdate_aug19.pdf.

provide hands-on and administrative support to entrepreneurs in order to boost economic activity outside of Dakar.

- **Digitalization**: Senegal is advancing e-government platforms, e-payments and digital data management to reduce administrative burden, tackling informality and mobilize revenues. To facilitate tax payments, the authorities are implementing the M-tax app, making it possible to file and pay taxes by mobile phone (**reform target, end-December 2020**).

17. Initiatives to enhance the quality of education and vocational training, increase opportunities and reduce poverty will complement these reforms.

- **The authorities are studying policies to increase secondary education completion rates (reform target, June 2020) and will adopt a law on professional and technical education to be finalized by June 2020**. 70 percent of workers are unskilled, adult literacy is well-below the SSA average (just above 40 percent vs. 60 percent), and the vocational training system serves only 7 percent of those completing basic education. Yet, to achieve a structural transformation of the economy and more inclusive growth, it will be critical to equip the workforce, particularly the youths, with the necessary skills.
- **The authorities intend to strengthen programs launched during PSE I to reduce poverty and expand access to social services**. These include a universal healthcare access program, and the cash-transfer program "*Programme National de Bourses de Sécurité Familiale*" currently benefitting more than 300,000 households. The move to program-based budgeting will facilitate an increased focus on the gender impact of public spending (**PS, ¶6 and ¶14**). Staff encouraged the authorities to assess social spending programs' efficiency (for example energy and agricultural subsidies, tertiary education allowances) to meet PSE objectives and explore the scope to better reach the poor, including by considering an expansion of the cash-transfer program.

18. Switching inputs for electricity production to gas and renewables will lower prices and emissions (Annex III). Electricity production currently relies on expensive heavy fuel oil and diesel, putting Senegal at a competitive disadvantage. The authorities intend to switch to gas and renewables, which will reduce emissions and the need for government subsidies (**PS, ¶16**).

Financial Stability and Development

19. The banking system is adequately capitalized while transitioning to new prudential standards. Transition to Basel II/III regulatory standards is moving forward, with 2018 being the first year of data reporting in accordance with the new standard and the new WAEMU chart of accounts. Over time, this should help make the banking system more resilient by requiring more equity, while improving credit quality. The new regulatory standard forces banks to write off NPLs after 5 years which, in turn, had a negative effect on capital adequacy ratios (Table 7). Pockets of vulnerability exist in some smaller financial institutions that could undermine financial stability if left unattended. The authorities are assessing options to improve their financial situation, which could lead to fiscal costs of up to 0.5 percent of GDP. A WAEMU Financial Sector Assessment Program (FSAP) is scheduled for 2020. Strategic deficiencies in the country's AML/CFT system were identified in a 2018 report.[6] The authorities should swiftly address such deficiencies to prevent adverse consequences on correspondent banking relationships from a potential FATF public listing.

20. The authorities aim to boost the financial sector's contribution to growth and poverty reduction (PS ¶13). Despite progress on financial inclusion,[7] the majority of the population still has no access to financial services. Moreover, surveys show that access to credit for households and smaller firms is hampered by informality, information asymmetries, and difficulties to enforce contracts. Improvements need to be made to facilitate the use of real estate for collateral, further strengthening the credit bureau, promoting financial inclusion, and improving access to credit for SMEs:

- A national financial inclusion strategy will complement the (existing) regional WAEMU strategy by identifying constraints and policy options to expand access to financial services (**reform target, June 2020**).
- The authorities will put in place a collateral registry that combines data on movable collateral and mortgages in cooperation with the BCEAO (**reform target, December 2021**).
- The credit bureau is rapidly expanding and will improve its data sources by using information from large billers such as utilities. This will allow the bureau to improve information availability and thus reduce information asymmetries (**reform target, December 2020**).
- The authorities will continue to pursue various initiatives to facilitate access to credit for SMEs.[8]

B. Pillar II: Consolidating Macroeconomic Stability Through Prudent Fiscal Policy and Sound Debt Management

Implement Prudent Fiscal Policy Anchored by the WAEMU Deficit Target

21. The authorities reiterated their commitment to sound fiscal policies, starting with 2019 budget execution and the 2020 budget law. The second supplementary budget[9] submitted to Parliament in October 2019 (revised budget or LFR2), includes important measures to ensure that the overall deficit target of 3 percent of GDP can be reached **(prior action).**

- *A resolute effort to enhance tax collection*. The recovery in revenue since July, stemming mainly from an enhanced tax collection effort and improvements in tax administration (Text Figure 4 and **PS ¶19**), puts the supplementary budget's revenue target well within reach (implying a 2 percentage points of GDP increase over 2018).

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[6] Inter-Governmental Action Group Against Money Laundering in West Africa (GIABA), Anti-money laundering and counter-terrorist financing measures—Senegal, Second Round Mutual Evaluation Report, GIABA, Dakar, 2018.

[7] The share of adults with a deposit account at commercial banks has increased from 8 percent to 19 percent between 2004 and 2018, while use of mobile money is growing rapidly, with now 33.6 active mobile money accounts per 100 adults (source: IMF Financial Access Survey).

[8] See IMF Country Report No. 19/27 (p. 48) for a more comprehensive discussion of the initiatives.

[9] Parliament has approved two supplementary budgets in 2019.

- *Realistic expenditure allocations*. Unmet obligations of 0.7 percent of GDP accumulated during the first months of 2019 have been identified and added to the revised budget (Text Table 3, first three columns). Similarly, the revised budget now fully accounts for energy subsidies needed to cover the gap between administered prices and production cost (Annex III).
- *Prioritization of spending*. Domestically-financed investment was reduced by about CFAF 100 billion compared to the initial budget, mainly by delaying projects that have not yet started so as to avoid accumulation of new unmet obligations.
- *Contingency planning*. Finally, the revised budget includes a contingency for a potential revenue shortfall by identifying CFAF 25 billion in expenditure that cannot be allocated unless corresponding revenue materialize (**PS ¶20**).

Text Table 3. Unmet Obligations: Estimates and Settlement Plan, 2019-22[1]

(Billions of CFAF)

	Unmet Obligations		LFR 2	Settlement Plan		
	Pre-2019	2019 2/	2019 2/	2020	2021	2022
Electricity Sector	68.3	13.9	13.9	22.8	22.8	22.8
Fuel Importers	90.5	32.2	2.2	30.0	45.3	45.3
Social Spending 3/	0.0	16.0	16.0	0.0	0.0	0.0
Obligations vis-à-vis Banking Sector	9.9	56.0	56.0	5.0	5.0	0
Other (2019 related)	0.0	1.1	1.1	0.0	0.0	0.0
Banque Agricole (formerly CNCAS)	50.0	0.0	10.0	10.0	10.0	20.0
Agency for Universal Health Coverage (ACMU)	24.9	0.0	0.0	8.3	8.3	8.3
Private Higher Education Institutions	15.5	0.0	0.0	7.8	7.8	0.0
Infrastructure	34.5	0.0	0.0	13.7	11.1	9.7
Agricultural inputs	15.5	0.0	0.0	7.7	7.7	0.0
Other (pre-2019 related)	18.9	0.0	0.0	7.3	5.8	5.8
Total (CFAF billion)	**328.1**	**119.2**	**99.2**	**112.6**	**123.7**	**111.8**
Total (% of 2019 GDP)	2.35	0.85	0.71	0.81	0.88	0.80

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

1/ Unmet obligations can be related to both on- and off-budget spending and are defined as obligations of the central government vis-à-vis third parties for which no resources were set aside in original budget appropriations.

2/ Central government 2019 spending obligations that were not reflected in the original budget law were included in the 2nd supplementary budget (LFR2), with the exception of end-of 2019 payments to fuel importers (estimated at FCFA 30 billion), which are included in the 2020 part of the settlement plan.

3/ Includes: (i) Emergency Community Development Programme (PUDC); (ii) Emergency Programme for the Modernization of Frontier Infrastructure (PUMA); and (iii) Towns Modernization Programme (PROMOVILLES).

22. **Below-the-line treasury operations in treasury deposit accounts ("*comptes de dépôt*") imply an additional financing need**. These operations reflect drawings on the pre-2019 *stock* of the *comptes de dépôt,* estimated at CFAF 220 billion, and are mainly related to revenues collected by or owed to social security agencies and the road fund. About CFAF 100 billion (0.7 percent of GDP)

is to be settled in 2019, with the residual (i.e. CFAF 121 billion) to be fully accounted for in the 2020 budget, and no legal allowance for future flows to be carried over.[10]

23. Staff advocated for greater and more regular pass-through of international oil prices. The authorities committed to implement the decree regarding the mechanism for regularly revising fuel prices to eliminate the need for fuel subsidies on an annual basis. For the time being, they preferred to retain discretion on whether to adjust domestic prices on a monthly basis but committed to free up additional space in the budget (if necessary through a supplementary budget) if the price adjustment was suspended so as to avoid new arrears accumulations (**PS ¶22**, **reform target, continuous**). The authorities and staff agreed to continue discussions on a more automatic adjustment mechanism, to be accompanied by a communication campaign and measures to protect the vulnerable segments of the population (e.g. by expanding the cash-transfer program "*bourses familiales*"). In November 2019 the authorities announced an increase in electricity tariffs between 6 percent and 10 percent starting on December 1, 2019 for all but low-consumption households, which remain exempted. This should allow the compensation amount to be lowered by about CFAF 3 billion in 2019 at current world oil prices (with the Brent price just above $60 per barrel).

Text Table 4. Senegal: Fiscal Framework, 2018-20
(Percent of GDP)

	2018 (Act.)	2019 (est.)	2020 (proj.)
Revenue (incl. grants)	**18.6**	**20.3**	**20.7**
Tax Revenue	15.3	17.2	17.7
Non-Tax Revenue (incl. FSE)	1.4	1.2	1.0
Grants	2.0	1.9	1.9
Expenditure	**22.2**	**24.0**	**23.7**
Compensation of Employees	5.2	5.3	5.4
Use of Goods and Services	2.3	2.8	2.9
Interest	2.0	2.0	2.2
Subsidies, Current Grants and Other Expense	4.7	4.5	3.6
Of which: subsidies to Electricity Sector	0.5	1.5	0.7
Of which: Subsidies for Fuel	0.1	0.1	0.2
Social Benefits	0.1	0.2	0.2
Net Acquisition of Nonfinancial Assets	7.9	9.3	9.5
Financed with Internal Resources	3.9	4.7	4.4
Financed with External Resources	4.0	4.6	5.0
Net borrowing (% of GDP)	***-3.6***	***-3.7***	***-3.0***
Net borrowing (% of GDP, excl. SENELEC one-off)	***-3.6***	***-3.0***	***-3.0***
Memorandum item: annual nominal GDP (CFAF billion)	*13,046*	*13,983*	*15,085*

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

24. The 2020 budget targets a 3 percent of GDP deficit and starts the settlement of 2017-18 unmet obligations (prior action, Text Tables 3 and 4). The 2020 budget aims at increasing tax revenues by about 0.5 percent of GDP, supported by measures to expand the tax base and improve tax and customs administration under the medium-term revenue strategy (MTRS).[11] Current spending is kept broadly constant in real terms including through: (i) active management of

[10] The 2015-19 PSI closed loopholes vis-à-vis other below the line spending such as *La Poste* and the public pension fund (*Fonds National de Retraite* or *FNR*), while eliminating the carry-over of *comptes de dépôt* balances into subsequent budgetary year from 2019 onwards (see structural benchmarks table of IMF Country Report 19/27).

[11] Envisaged measures include: (i) revision of prepayments of taxes on imports to limit the loss of tax revenue (including VAT); (ii) limiting VAT exemptions; (iii) improving the reporting situation of taxpayers, (iv) improved audit function; while (v) the increase in domestic fuel prices and electricity tariffs will also have a positive effect on revenues.

government real estate and vehicles; (ii) reduction in utility bills (especially civil servants' phone bills); (iii) closing of some state representations abroad; and (iv) rationalization of public agencies. This allows capital spending to increase by about 0.3 percent of GDP, while providing space to clear 0.8 percent of GDP in unmet obligations. Staff urged the authorities to continue updating their inventory of unmet obligations, including through targeted audits. Going forward, the authorities committed to implement an automatic alert system on new debt through the integrated financial management system (**PS ¶20**).

Strengthening Domestic Revenue Mobilization

25. To implement *PSE II* and improve human and physical capital while maintaining debt sustainability, Senegal needs to mobilize more fiscal revenues domestically. The MTRS aims at achieving the WAEMU 20 percent tax-to-GDP target (excluding hydrocarbon-related revenues) by 2023, by integrating tax policy, revenue administration and tax law aspects of tax system reform into one holistic reform strategy **(Reform Target, June 2020, see PS ¶26-¶35).**[12]

26. The MTRS' immediate focus will be on expanding the tax base. As Senegal's tax rates are already relatively high compared to the region, reforms will emphasize expanding the tax base, notably by gradually bringing the informal sector into the tax net and streamlining exemptions and their application.[13] Priorities to raise taxpayer compliance levels include improving collection enforcement, tax audits, and enhancing customs controls and procedures. In the short term, customs prepayments (i.e., importers having to prepay CIT at the time of importing) on income taxes will be increased for non-registered taxpayers to encourage them to become compliant (**reform target, June 2020**).

27. The MTRS will aim at improving data management and increasing tax digital applications. Digitalization will also help in improving data management, with better coordination between customs and internal tax services, including the preparation of a quarterly report on the use of data and information exchanges, using manual data reconciliations until the finalization of the interconnection between customs and tax administration databases (**reform target, quarterly from January 2020**).

Improving Spending Efficiency and Governance

28. The PCI supports a gradual reallocation of spending from low priority public consumption to investment in human capital and infrastructure. To create fiscal space for public investment, the authorities have stepped up their efforts to reduce energy subsidies and rationalize government consumption (**PS ¶36**). In addition, new large investment projects exceeding CFAF 1 billion will be subject to an ex-ante costs-benefits analysis to provide value for money

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[12] A first draft of the MTRS is expected by late 2019/early 2020. A Technical Assistance mission in April 2019 laid the groundwork for MTRS while a TADAT mission took place in September 2019. Further intensive FAD TA is ongoing during 2019Q4 assisting the MTRS steering committee to prepare the first high-level draft of their MTRS document.

[13] A recent audit of the 100 largest conventions showed that 65 percent of companies were noncompliant.

(excluding projects affecting defense and security) (**reform target, December 2020**), in line with the recommendations of the 2018 Public Investment Management Assessment. To ensure fiscal sustainability, public investment planning will also be better aligned with budget commitment authorization ceilings for 2021-2023 (**reform target, December 2020**).

29. The authorities are committed to improve public financial management. While the PSI 2015-19 has been able to curb drastically below-the-line operations, further measures are needed to ensure all central government spending is executed through the budget and within the relevant fiscal year. The share of domestically-financed spending executed under exceptional or simplified procedures (about 60 percent of total expenditure in 2017) and procurement contracts awarded using single source contracts (29 percent of the total in 2018) should also be reduced. To that end, the authorities indicated that they will undertake a study of the expenditure chain in 2020 (**reform target, June 2020**) and rationalize the list of expenditures eligible for simplified procedures (**reform target, December 2020**), supported by IMF technical assistance. Further, budget commitment letters will be limited to reduce off-budget operations (**reform target, December 2020**). The accounts of all public agencies in commercial banks will be closed and balances repatriated to the single treasury account to improve cash management (**reform target, December 2021**).

30. In 2020, Senegal is significantly modernizing its budget management by starting implementation of the WAEMU public financial management directives.[14] This includes: (i) performance-based program budgeting; (ii) partial devolution of spending authorization responsibilities to line ministries; (iii) an improved system to record and report budget operations; and (iv) multi-year commitment authorizations to manage multi-year investment projects (and reduce the need for *comptes de dépôt*).

31. Senegal aims to improve management of fiscal risks. The 2019 Fiscal Transparency Evaluation showed that fiscal risks are not always well captured and monitored, particularly contingent liabilities from state-owned enterprises and PPPs. To remedy this, authorities will publish a fiscal risk statement in annex to the 2022 budget (**reform target, December 2021**).

Maintaining Public Debt Sustainability

32. The new IMF-World Bank DSA shows that Senegal's risk of debt distress has shifted from low to moderate (Supplement 1). Senegal debt has tripled since 2008, reaching 61.4 percent of GDP in 2018 and projected at 63.7 percent of GDP in 2019. Debt composition has also shifted toward external borrowing with successive Eurobond issuances in 2017 and 2018 amounting to US$3.3 billion. While financing strategic growth-enhancing investments, including to develop oil and gas reserves, is at the core of this rise in public debt, other factors such as below-the-line spending and the inclusion of debt from SOEs—including Senelec and Air Senegal—have also contributed.

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[14] As of November 2019, Senegal has transposed seven of the eight directives of the harmonized public finance framework (**PS ¶37**).

While the country has limited space to absorb shocks in the near term, it maintains substantial space for borrowing over the long term.

33. The sharp rise in public debt in recent years calls for a strategy to stabilize the debt-to-GDP ratio and actively monitor risks. The proposed fiscal policy, which involves an average primary deficit of 1.3 percent of GDP between 2019 and 2024 for the central government and the elimination of below-the-line spending, is consistent with gradually reducing the stock of debt over the medium term. Taking into account Senegal's high debt management capacity and current access to regional and international capital markets, total nominal public debt would be monitored under the PCI to ensure a downward trajectory of the debt-to-GDP ratio (**quantitative target**).

34. Going forward, a prudent debt management strategy will be key to ensure debt remains sustainable. This involves privileging domestic and concessional external financing, while looking for longer maturities for domestically and regionally issued debt (**PS ¶42**). In 2019, Senegal has hedged exchange rate risk related to Eurobond debt service, while also smoothing the amortization schedule of the 2011 Eurobond (originally fully due in 2021) over three years (2020-22). The authorities indicated that they will continue to explore options for similar debt liability operations. They are reprofiling about CFAF 150 billion of the CFAF 275 billion bridge loans contracted in 2019 (Attachment I).

35. Coordination of debt management functions and data coverage can be further improved. The authorities welcomed the proposal to activate the National Public Debt Committee (CNDP) to facilitate the coordination of public debt management, whose responsibilities are now split among various entities (**PS ¶43**). The committee will be responsible for examining all new external debt proposals of the central government and public entities, as well as projects financed through PPPs. A CNDP procedures manual is to be developed (**reform target, June 2020**). Given the expanded debt perimeter, staff highlighted the importance of the ongoing work to also expand coverage of the fiscal accounts to the full public sector, with the move towards general government as an important intermediate step.

36. Authorities' Views. The authorities emphasized that public borrowing had allowed the development of first-rate infrastructure and hydrocarbon production, which would deliver significant additional resources to future generations. They would have preferred the rating to remain low, pointing out that the debt-to-GDP ratio would be on a firm downward trajectory after 2019. They reiterated their commitment to limit non-concessional borrowing.

C. Pillar III: Managing Oil and Gas Revenues in a Sustainable and Transparent Manner

37. Recent oil and gas discoveries could expand Senegal's GDP by about 5 percent annually over the production horizon. Oil and gas fields linked to the SNE and GTA reservoirs are expected to begin production in 2022, with additional fiscal revenues averaging 1.5 percent of GDP annually.[15] Furthermore, recent exploration activities linked to the Yakaar-Teranga reservoir show recoverable gas amounts similar to the GTA field, potentially increasing the above estimates substantially. However, significant uncertainties remain as to the size of reserves, production schedule and profile and cost of the projects, with new discoveries also increasing overall investment needs. Staff encouraged the authorities to continue to develop their capacity to manage complex hydrocarbon projects and associated risks.

38. The authorities are committed to set up a strong and transparent governance framework to govern the oil and gas sector in line with international best practices. Managing natural resources is associated with significant risks in terms of governance, competitiveness, and volatility. On the legal front, progress was made in 2019 as both the Petroleum Law and the law on local content were adopted by Parliament (**PS ¶48**), while the forthcoming law on oil revenue sharing will lay down principles of how hydrocarbon revenues will be divided between spending and saving (**PS ¶51, reform target, June 2020**). Finally, the authorities plan to update the legal framework to reflect the envisaged enhancements to the fiscal framework, including amending the organic law governing budget laws.

39. The authorities have laid down a series of principles that will govern the management of fiscal resources coming from the newly-discovered hydrocarbons (**PS ¶49**). Staff emphasized the importance of enhancing transparency over the entire cycle of resource extraction and management, with all resource flows transiting through the central budget and publication of information on the beneficial ownership structure of businesses. Work is ongoing to define a long-term fiscal rule to anchor the fiscal framework, with a short-term operational rule targeting a non-oil primary or overall balance (**PS ¶50**), in accordance with the regional convergence criteria (**reform target, December 2020**).

40. IMF Technical Assistance is helping with the development of a fiscal framework for Senegal's oil and gas sector. The IMF's Fiscal Affairs Department is providing TA via a three-year program under the Managing Natural Resource Wealth (MNRW) Thematic Fund, in close coordination with the World Bank, which is advising on technical and cost aspects of the oil and gas projects. The authorities welcomed the medium-term capacity-building project and the inter-institutional cooperation.

PROGRAM MODALITIES AND RISKS

41. The attached Program Statement (PS) details the authorities' policy commitments. Senegal meets the criteria for use of the PCI, and staff's current analysis does not indicate a present, prospective or potential balance of payments need. Proposed quantitative targets, to be monitored on a semi-annual and continuous basis (Table 9) for the first 12 months of the program are set in PS Table 1a. The standard continuous targets on trade and exchange rate restrictions, bilateral payments arrangements and multiple currency practices and external arrears shall apply (PS

[15] For more details see IMF Country Report 19/28.

Table 1b). The authorities' reform targets are proposed in PS Table 2. **Both prior actions have been met**: a revised 2019 budget and the 2020 draft budget were submitted to parliament on October 14, 2019.

42. **Program implementation is supported by a comprehensive capacity development strategy.** Priorities for technical assistance are closely aligned with program objectives (Annex IV). The focus will be on revenue mobilization, public financial management, debt management, and establishing a sound legal and fiscal framework for managing hydrocarbon revenues.

43. **The program is fully financed for 12 months with good prospects for its remaining period.** The PCI could help to catalyze substantial financing, in line with the funding strategy for the PSE II (Box 1). Expected budget support (grants and loans) in 2020 amounts to 0.8 percent of GDP (CFAF 125 billion), with the main contributors being the World Bank, African Development Bank, the European Union and France. Senegal benefits from market access as shown by successful Eurobond issuances in 2017 and 2018, and there are no sovereign arrears to bilateral, multilateral or commercial creditors.

44. **Risks to program implementation are low given Senegal's strong track record.** Nevertheless, the ambitious reform agenda could be held back by administrative fragmentation. In addition, uncertainties related to oil and gas production could have medium-term implications for investments, exports and fiscal revenues.

STAFF APPRAISAL

45. **Senegal has achieved strong growth in recent years.** An improving business environment, favorable external conditions, and significant public investment boosted economic activity. The challenge now is twofold: to sustain high growth rates while consolidating macroeconomic stability; and to ensure growth is inclusive to reduce poverty and create jobs to harness the demographic dividend. Senegal's external position in 2019 is moderately weaker than implied by fundamentals and desirable policy settings. The current post-election period should be used to accelerate reforms and lay the foundation for a prosperous future.

46. **The authorities' reform agenda, spelled out in *PSE II*, sets the right priorities.** Reforms aimed at improving the judicial system, the skill-set of the workforce, access to land and credit, the functioning of the labor market and financial inclusion will help address important constraints to growth. The authorities should carefully evaluate, better coordinate and eventually streamline the large number of private sector incentive schemes and dedicated funds (including support to SMEs, tax exemptions, special economic zones, and sector-specific subsidies), managed by different entities across the administration, to limit fiscal costs and ensure effectiveness and efficiency. The newly planned private sector strategy spearheaded by the Ministry of Economy and Planning should be used to help coordinate these initiatives.

47. The fiscal anchor is appropriate. Recent fiscal performance, including buoyant revenues and measures to streamline spending, has been encouraging. Fiscal policy will target a 3 percent of GDP deficit throughout the program period, in line with the WAEMU convergence criterion, appropriately balancing spending needs and safeguarding macroeconomic stability by putting public debt on a downward trajectory. The current IMF-World Bank DSA shows that Senegal's risk of debt distress has moved from "low" to "moderate."

48. Further progress to better assess and contain fiscal risks is needed. The authorities should clear unmet obligations accumulated from 2017 and 2018, in line with the plan in the 2020 budget, improve recording and monitoring of expenditure float and arrears, eliminate below-the-line treasury operations, and better manage fuel and electricity subsidies by either adjusting prices or allocating sufficient funds through the budget. Staff also cautions the authorities to not see increasing reliance on PPPs as an alternative to public borrowing, given associated costs and risks. Debt management needs to improve, including by enhanced coordination of debt-related activities.

49. Enhanced revenue mobilization and spending efficiency are key to achieve program objectives. To increase revenues, the authorities appropriately focus on broadening the tax base, including by targeting the informal sector, and strengthening revenue administration. A stronger focus on reducing tax expenditures will also be essential to reach the 20 percent of GDP tax-to-GDP target by 2023. On the expenditure side, recent steps to lower administrative costs, restructure public agencies and the commitment to limit non-standard spending procedures are welcome. This could free up important budgetary space for pro-poor spending and investment in education and infrastructure. Sound management of the transition to program budgeting and a new public financial management software will be critical to avoid disruptions to budget execution.

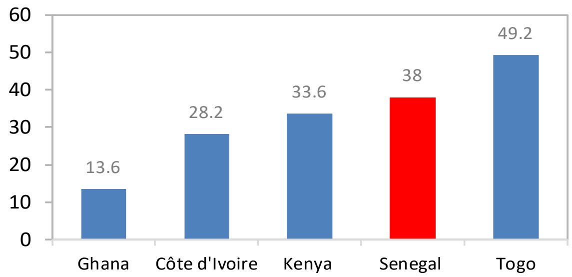
50. Future hydrocarbon production and revenues are an important opportunity if well managed. The authorities' close cooperation with international partners in setting up a transparent framework to manage oil and gas revenues is welcome. The draft law on the management and allocation of hydrocarbon revenues, as well as the operational fiscal framework, should be aligned with international best practices. All resource flows should transit through the central budget and information on the beneficial ownership structure of businesses should be published. Staff encourages the authorities to continue to invest in their capacity to forecast future production, revenues and costs.

51. A three-year PCI is appropriate to support the authorities' macroeconomic policies and commitments. Staff do not foresee a potential balance of payments need over the forecast horizon as Senegal has access to regional and global markets and receives stable support from development partners. The program will continue to signal policies and reform commitments to development partners and serve as a framework for close consultation with IMF staff. Staff support the authorities' request for a 3-year PCI-supported program.

Figure 1. Senegal: Socio-Economic Indicators, 2000-17

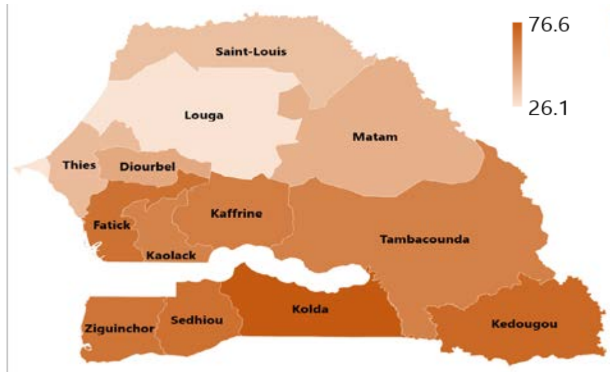
Data from 2011 showed that 38 percent of the population live with less than US$1.90 per day.

Poverty Rates in Senegal and Comparator Countries (most recent year)
(Percent of Population)



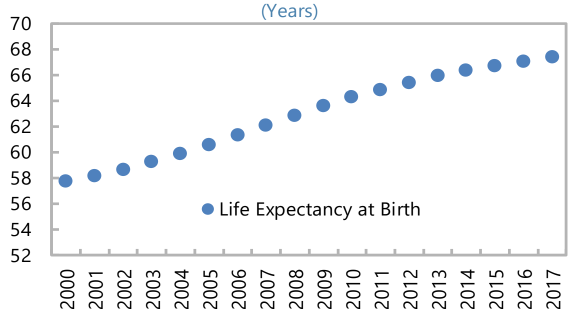
Some regions have a significantly higher incidence of poverty than others.

Incidence of Poverty (Percent)



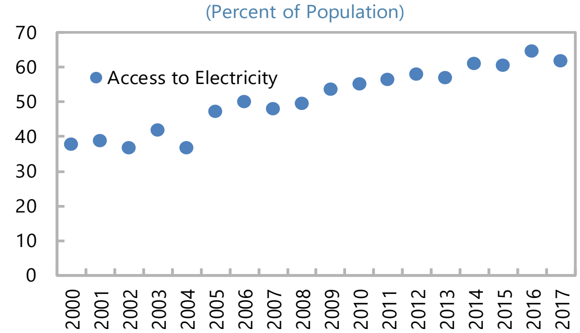
Life expectancy at birth has increased significantly...

Senegal life expectancy at birth
(Years)



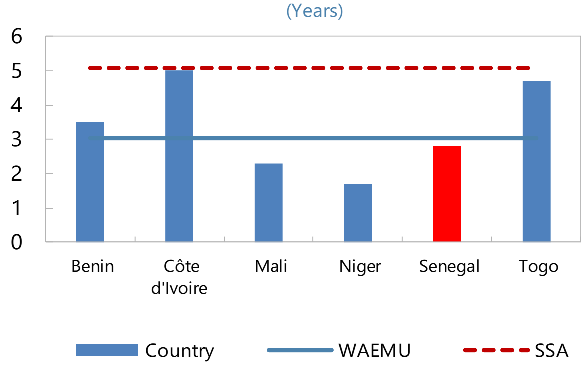
...as has access to electricity.

Access to Electriciity
(Percent of Population)



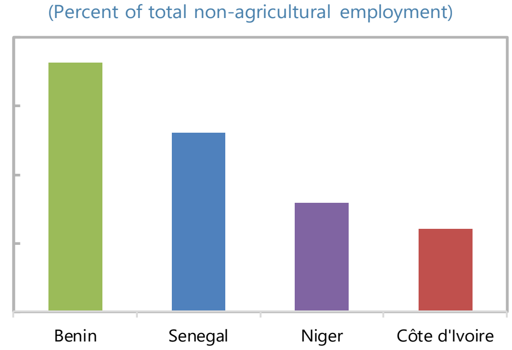
Senegal is lagging behind African peers on educational peformance...

Mean years of schooling, 2015
(Years)



...and the economy is marked by a high degree of informality.

Share of Informal Employment
(Percent of total non-agricultural employment)

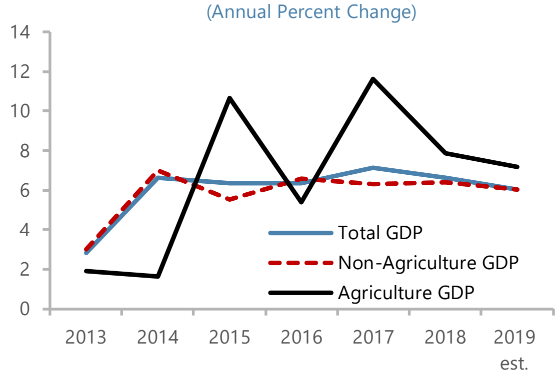


Sources: World Bank, World Development Indicators; Senegal authorities; UNDP, Human Development Reports; and IMF staff calculations.

Figure 2. Senegal: Real and External Sectors, 2013–19

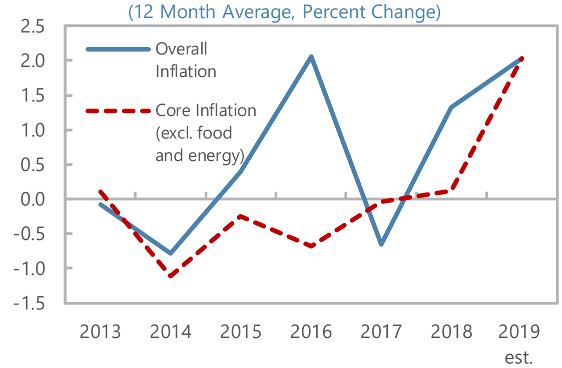
Compared to 2017, growth is lower, but would still be at or above 6% for the 5th consecutive year.

Real GDP Growth
(Annual Percent Change)



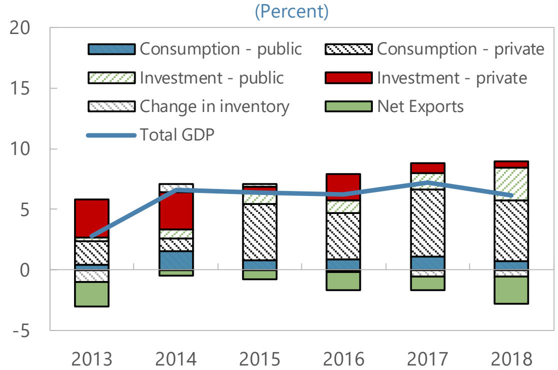
Inflation picked up from a low level but remains below 2 percent.

CPI Inflation
(12 Month Average, Percent Change)



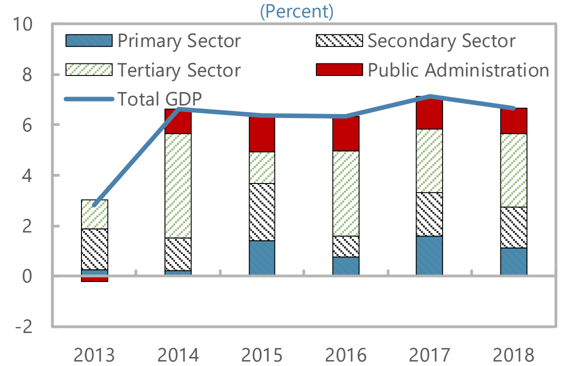
On the demand side, public investment and private consumption pulled growth in 2018...

Contributions to GDP Growth: Demand Side
(Percent)



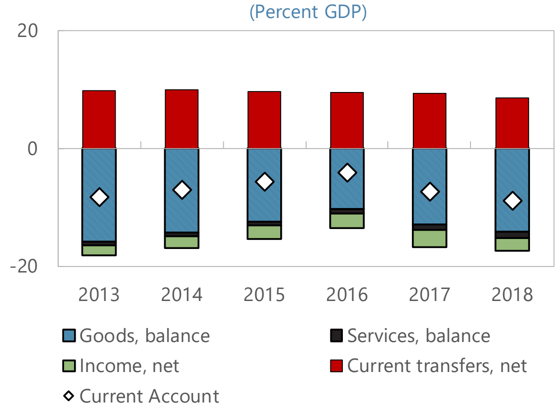
...and, from the supply side, especially the services sector contributed to GDP growth.

Contributions to GDP Growth: Supply Side
(Percent)



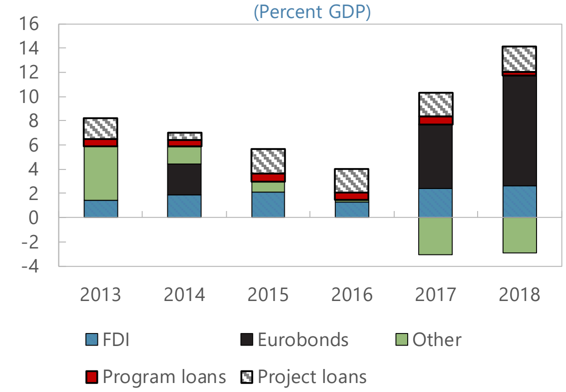
Increasingly large trade deficits are partially offset by remittances..

Current Account: Main Components
(Percent GDP)



..with the resulting widening of the current account deficit financed largely by Eurobonds.

Current Account Financing
(Percent GDP)

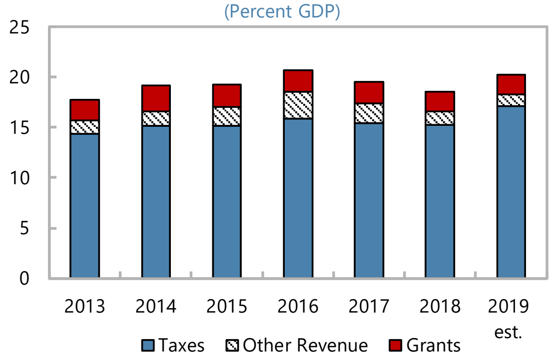


Sources: Senegal authorities; and IMF staff calculations.

Figure 3. Senegal: Fiscal and Financial Indicators, 2013–19

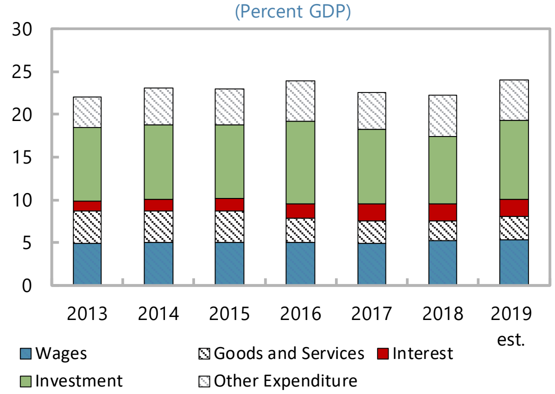
Tax revenues disappointed in 2018 and are below the 20 percent of GDP WAEMU target following rebasing.

Revenue
(Percent GDP)



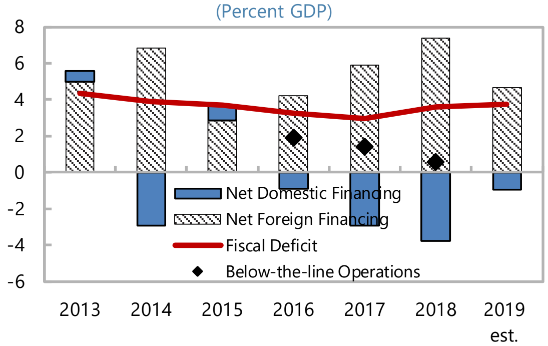
Public investments have come down in 2017-18 to contain expenditures.

Expenditure
(Percent GDP)



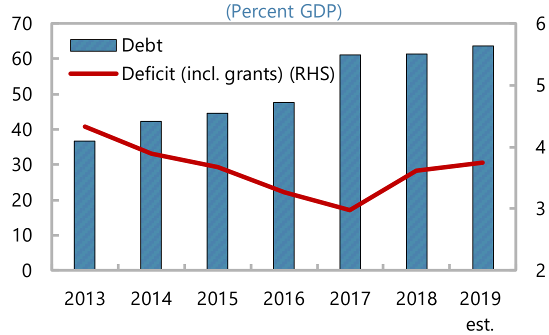
Financing is increasingly relying on external sources..

Financing
(Percent GDP)



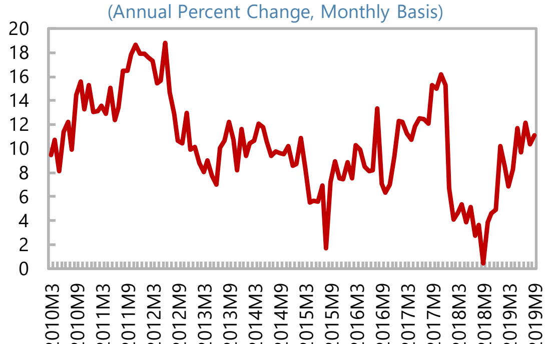
..contributing to a significant debt increase, which grew further in 2018 as the deficit worsened.

Debt and Deficit
(Percent GDP)



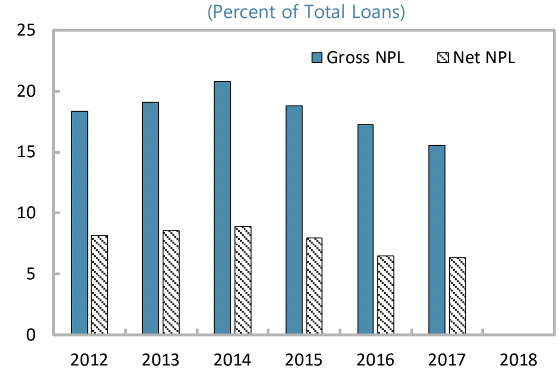
Growth in credit to the private sector slowed in 2018, but has picked up in 2019H1.

Credit to the Private Sector
(Annual Percent Change, Monthly Basis)



The level of NPLs is falling and is in single digits, net of provisioning

Non Performing Loans
(Percent of Total Loans)

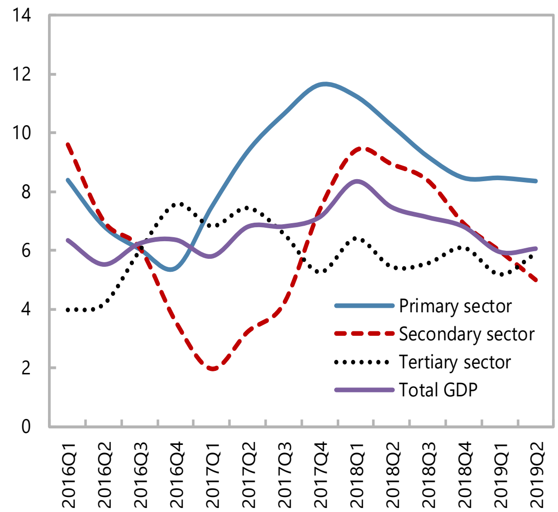


Sources: Senegal authorities; and IMF staff calculations.

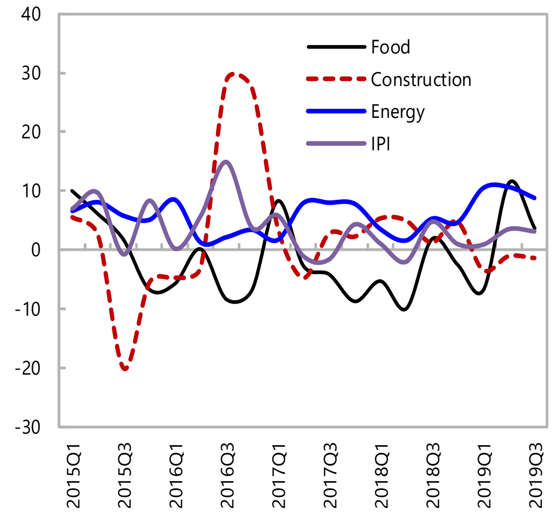
Figure 4. Senegal: High Frequency Indicators, 2016–19

Indicators of economic activity show a slowdown in 2019H1 driven by the secondary sector, and construction in particular.

Real GDP Growth
(Annual percentage change, quarterly basis)

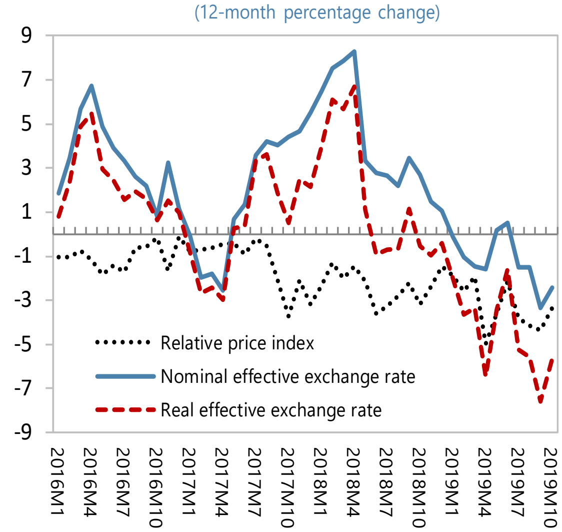


Industrial Production Index
(Annual percentage change, quarterly basis)



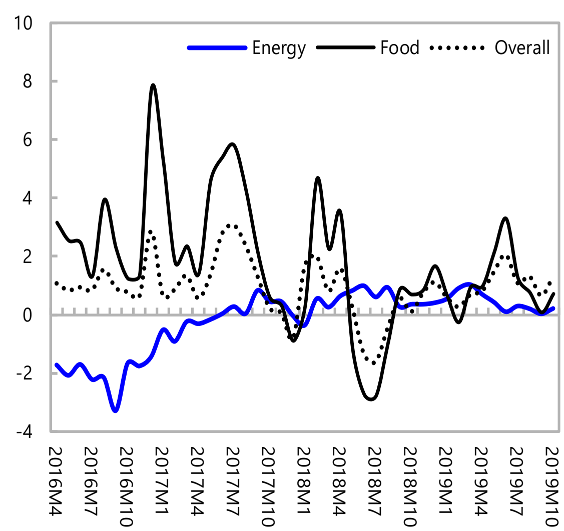
REER depreciated in 2019Q1, but made up ground in 2019Q2, mimicking euro-dollar movements.

Effective Exchange Rate
(12-month percentage change)



Inflation remains low and below 2 percent in 2019.

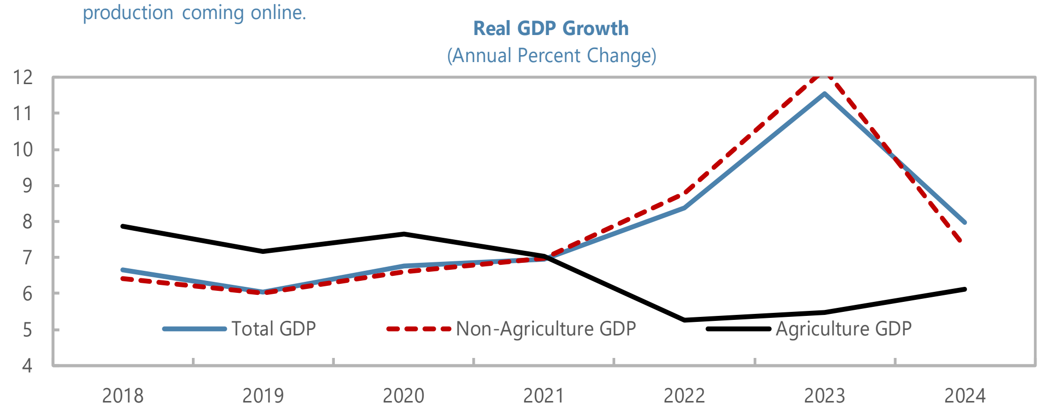
CPI Inflation
(12-month inflation rate)



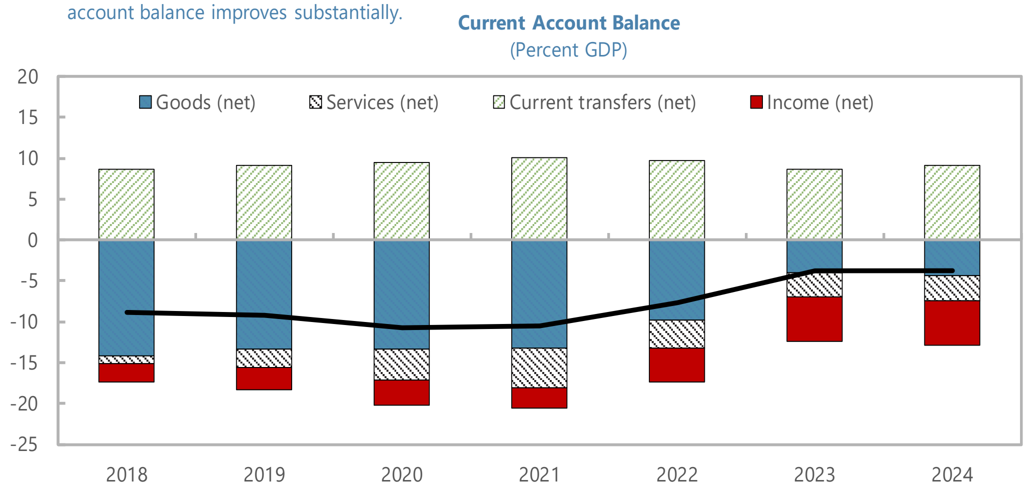
Sources: Senegal authorities; and IMF staff calculations

Figure 5. Senegal: Outlook, 2018–24

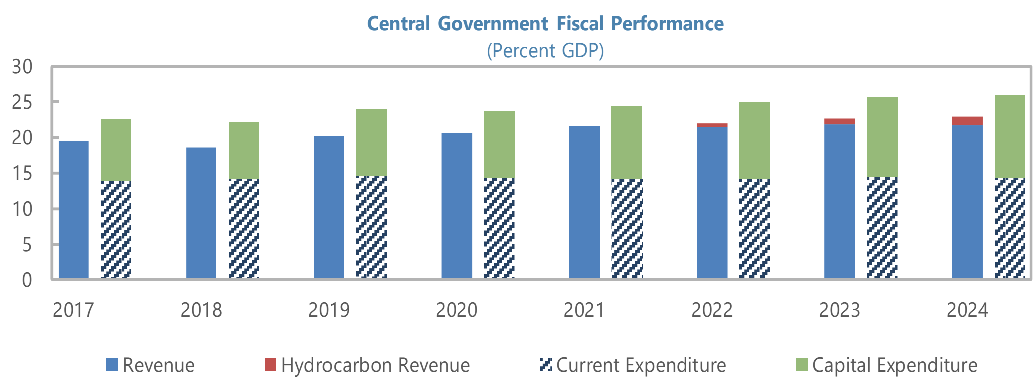
Implementation of *PSE II* is expected to keep growth high, supported by increased investments in oil and gas. The level of GDP then jumps in 2022, and especially 2023 because of hydrocarbon production coming online.



Oil and gas discoveries initially lead to a deterioration in the current account balance as related investment surges during pre-production. Once production and exports start in 2022, the current account balance improves substantially.



Revenues steadily increase, helped from 2022 onwards by oil and gas revenues, while capital expenditure progressively increases its share of total spending over the medium-term.



Source: Senegal authorities; and IMF staff calculations.

Table 1. Senegal: Selected Economic and Financial Indicators, 2017–24[1]

	2017	2018	2019	2020	2021	2022	2023	2024
	Act.	Prel.	Projections					
	(Annual percentage change)							
National income and prices								
GDP at constant prices	7.1	6.7	6.0	6.8	7.0	8.4	11.6	8.0
Of which: Non-hydrocarbon GDP	7.1	6.7	6.0	6.8	7.0	7.1	7.4	7.3
Of which: Hydrocarbon GDP	...	...	...	...	...	...	359.6	21.3
Of which: Non-agriculture GDP	6.3	6.4	6.0	6.6	7.0	8.8	12.2	7.3
GDP deflator	0.6	0.6	1.1	1.1	1.8	1.2	2.4	2.3
Consumer prices								
Annual average	1.3	0.5	1.0	1.5	1.5	1.5	1.5	1.5
End of period	-0.7	1.3	2.0	1.5	1.5	1.5	1.5	1.5
External sector								
Exports, f.o.b. (CFA francs)	12.0	10.0	13.8	13.8	13.4	24.0	37.0	10.1
Imports, f.o.b. (CFA francs)	21.2	13.5	7.8	11.4	10.8	6.2	8.6	11.3
Export volume	11.3	7.9	12.0	13.6	12.0	28.9	41.6	8.8
Import volume	19.0	11.7	7.5	10.3	12.3	6.5	9.5	9.7
Terms of trade ("–" = deterioration)	-1.3	0.4	1.4	-0.8	2.6	-3.5	-2.5	-0.2
Nominal effective exchange rate	1.8	4.1	...	...	...	...	...	...
Real effective exchange rate	0.5	1.7	...	...	...	...	...	...
	(Changes in percent of beginning-of-year broad money)							
Broad money	9.2	14.2	9.1	6.6	...	...	...	...
Net domestic assets	6.6	4.8	4.9	9.1	...	...	...	...
Credit to the government (net)	-0.8	1.5	3.4	3.0	...	...	...	...
Credit to the economy (net)	12.9	1.4	4.4	6.6	...	...	...	...
	(Percent of GDP, unless otherwise indicated)[1]							
Government financial operations								
Revenue	19.5	18.6	20.3	20.7	21.5	22.0	22.7	23.0
Grants	2.2	2.0	1.9	1.9	1.9	1.8	1.7	1.6
Total expenditure	22.5	22.2	24.0	23.7	24.5	25.0	25.7	26.0
Net lending/borrowing (Overall Balance)								
excluding grants	-5.2	-5.6	-5.7	-4.9	-4.9	-4.8	-4.7	-4.7
including grants	-3.0	-3.6	-3.7	-3.0	-3.0	-3.0	-3.0	-3.0
Net lending/borrowing (Overall Balance, excl. SENELEC operation	-3.0	-3.6	-3.0	-3.0	-3.0	-3.0	-3.0	-3.0
Primary fiscal balance	-1.1	-1.6	-1.8	-0.9	-1.1	-1.3	-1.5	-1.5
Savings and investment								
Current account balance (official transfers included)	-7.3	-8.8	-9.2	-10.7	-10.5	-7.7	-3.8	-3.7
Current account balance (official transfers excluded)	-7.8	-9.0	-9.4	-10.9	-10.9	-8.0	-4.1	-4.0
Gross domestic investment	29.7	30.1	30.7	32.2	35.2	35.0	35.6	36.6
Government [2]	6.8	6.4	7.5	7.7	8.5	8.8	9.2	9.4
Nongovernment	22.9	23.7	23.2	24.5	26.8	26.2	26.4	27.2
Gross national savings	22.4	21.3	21.5	21.5	24.7	27.3	31.9	32.9
Government	6.1	5.7	7.9	8.6	8.9	9.5	11.5	12.6
Nongovernment	16.3	15.6	13.7	12.9	15.8	17.8	20.4	20.3
Total public debt [3]	61.2	61.4	63.7	61.9	60.8	59.6	56.0	54.7
Domestic public debt [4]	21.4	13.0	10.2	10.0	9.8	10.9	11.5	12.7
External public debt	39.8	48.5	53.5	51.9	51.0	48.8	44.5	42.0
Total public debt service [3]								
Percent of government revenue	28.3	42.7	29.8	29.8	22.8	22.0	19.6	22.6
Memorandum items:								
Gross domestic product (CFAF billions)	12,159	13,046	13,983	15,085	16,421	18,015	20,573	22,722
of which non-hydrocarbon (CFAF billions)	12,159	13,046	13,983	15,085	16,421	17,740	19,277	21,119
Gross domestic product (USD billions)	20.9	23.5	...	...	...	...	...	...
Share of hydrocarbon in total GDP (%)	...	...	...	...	...	1.5	6.3	7.1
National Currency per U.S. Dollar (Average)	581	555	...	...	...	...	...	...

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

[1] Based on new national accounts rebased to 2014.

[2] Reflects reclassification of public investment.

[3] Starting in 2017 debt level, debt service and government revenue include preliminary data covering the broader public sector.

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

Table 2. Senegal: Balance of Payments, 2017–24
(Billions of CFAF)

	2017	2018	2019	2020	2021	2022	2023	2024
	Act.	Prel.	Projections					
	(Billions of CFAF, unless otherwise indicated)							
Current account	-887	-1,150	-1,284	-1,612	-1,731	-1,381	-778	-844
Balance on goods	-1,569	-1,847	-1,865	-2,023	-2,173	-1,758	-824	-982
Exports, f.o.b.	1,908	2,098	2,388	2,716	3,079	3,820	5,235	5,764
Imports, f.o.b.	-3,477	-3,945	-4,253	-4,739	-5,252	-5,577	-6,059	-6,745
Services (net)	-119	-131	-311	-560	-802	-626	-617	-716
Export	758	743	782	823	878	1,029	1,101	1,149
Import	-878	-874	-1,093	-1,383	-1,680	-1,655	-1,717	-1,866
Incomes (net)	-341	-296	-384	-463	-410	-744	-1,115	-1,216
Credits	194	209	226	243	218	226	237	245
Debits	-535	-505	-610	-706	-628	-969	-1,352	-1,461
Of which: interest on public debt	-178	-205	-242	-281	-258	-309	-322	-390
Current transfers (net)	1,142	1,123	1,275	1,434	1,655	1,747	1,779	2,070
Private (net)	1,097	1,107	1,246	1,407	1,601	1,691	1,721	2,024
Public (net)	45	16	30	28	54	55	57	46
Of which: budgetary grants	49	20	20	21	44	46	49	36
Capital and financial account	1,033	1,507	1,528	1,495	1,655	1,666	1,740	1,756
Capital account	222	250	253	273	285	305	325	345
Private capital transfers	9	15	15	15	10	10	9	10
Project grants	215	237	240	260	279	298	319	338
Debt cancellation and other transfers	-2	-2	-2	-2	-3	-3	-3	-3
Financial account	811	1,257	1,275	1,221	1,370	1,361	1,415	1,411
Direct investment	294	341	523	718	773	779	831	915
Portfolio investment (net)	525	910	21	115	56	88	122	353
Of which : Eurobond issuance	641	1,185	0	0	131	0	0	208
Other investment	-7	7	731	388	541	493	461	144
Public sector (net)	324	58	835	447	528	519	492	168
Of which : disbursements	409	321	1,005	869	832	832	727	644
program loans	79	40	285	82	81	80	80	80
project loans	241	281	401	501	426	405	364	364
other	88	0	319	286	325	347	284	200
amortization	-150	-263	-170	-422	-304	-314	-235	-476
Private sector (net)	-122	-50	-104	-59	13	-25	-30	-24
Errors and omissions	-209	0	0	0	0	0	0	0
Overall balance	146	357	243	-117	-76	285	962	1,013
Financing	-146	-357	-243	117	76	-285	-962	-1,013
Net foreign assets [1]	-71	-212	-243	117	76	-285	-962	-1,013
Net use of IMF resources	-20	-19	-13	-3	0	0	0	0
Purchases/disbursements	0	0	0	0	0	0	0	0
Repurchases/repayments	-20	-19	-13	-3	0	0	0	0
Other	-52	-193	-230	120	76	-285	-962	-1,013
Deposit money banks	-75	-145	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)	-7.3	-8.8	-9.2	-10.7	-10.5	-7.7	-3.8	-3.7
Excluding current official transfers (percent of GDP)	-7.8	-9.0	-9.4	-10.9	-10.9	-8.0	-4.1	-4.0
Gross domestic product	12,159	13,046	13,983	15,085	16,421	18,015	20,573	22,722

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, 2017–24
(Percent of GDP)

	2017	2018	2019	2020	2021	2022	2023	2024
	Act.	Prel.	Projections					
	(Percent of GDP, unless otherwise indicated)							
Current account	-7.3	-8.8	-9.2	-10.7	-10.5	-7.7	-3.8	-3.7
Balance on goods	-12.9	-14.2	-13.3	-13.4	-13.2	-9.8	-4.0	-4.3
Exports, f.o.b.	15.7	16.1	17.1	18.0	18.8	21.2	25.4	25.4
Imports, f.o.b.	-28.6	-30.2	-30.4	-31.4	-32.0	-31.0	-29.5	-29.7
Services (net)	-1.0	-1.0	-2.2	-3.7	-4.9	-3.5	-3.0	-3.2
Export	6.2	5.7	5.6	5.5	5.3	5.7	5.3	5.1
Import	-7.2	-6.7	-7.8	-9.2	-10.2	-9.2	-8.3	-8.2
Incomes (net)	-2.8	-2.3	-2.7	-3.1	-2.5	-4.1	-5.4	-5.4
Credits	1.6	1.6	1.6	1.6	1.3	1.3	1.1	1.1
Debits	-4.4	-3.9	-4.4	-4.7	-3.8	-5.4	-6.6	-6.4
Of which: interest on public debt	-1.5	-1.6	-1.7	-1.9	-1.6	-1.7	-1.6	-1.7
Current transfers (net)	9.4	8.6	9.1	9.5	10.1	9.7	8.6	9.1
Private (net)	9.0	8.5	8.9	9.3	9.7	9.4	8.4	8.9
Public (net)	0.4	0.1	0.2	0.2	0.3	0.3	0.3	0.2
Of which: budgetary grants	0.4	0.1	0.1	0.1	0.3	0.3	0.2	0.2
Capital and financial account	8.5	11.6	10.9	9.9	10.1	9.2	8.5	7.7
Capital account	1.8	1.9	1.8	1.8	1.7	1.7	1.6	1.5
Private capital transfers	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0
Project grants	1.8	1.8	1.7	1.7	1.7	1.7	1.6	1.5
Debt cancellation and other transfers	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	6.7	9.6	9.1	8.1	8.3	7.6	6.9	6.2
Direct investment	2.4	2.6	3.7	4.8	4.7	4.3	4.0	4.0
Portfolio investment (net)	4.3	7.0	0.1	0.8	0.3	0.5	0.6	1.6
Of which : Eurobond issuance	5.3	9.1	0.0	0.0	0.8	0.0	0.0	0.9
Other investment	-0.1	0.1	5.2	2.6	3.3	2.7	2.2	0.6
Public sector (net)	2.7	0.4	6.0	3.0	3.2	2.9	2.4	0.7
Of which : disbursements	3.4	2.5	7.2	5.8	5.1	4.6	3.5	2.8
program loans	0.7	0.3	2.0	0.5	0.5	0.4	0.4	0.4
project loans	2.0	2.2	2.9	3.3	2.6	2.2	1.8	1.6
other	0.7	0.0	2.3	1.9	2.0	1.9	1.4	0.9
amortization	-1.2	-2.0	-1.2	-2.8	-1.9	-1.7	-1.1	-2.1
Private sector (net)	-1.0	-0.4	-0.7	-0.4	0.1	-0.1	-0.1	-0.1
Errors and omissions	-1.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	1.2	2.7	1.7	-0.8	-0.5	1.6	4.7	4.5
Financing	-1.2	-2.7	-1.7	0.8	0.5	-1.6	-4.7	-4.5
Net foreign assets [1]	-0.6	-1.6	-1.7	0.8	0.5	-1.6	-4.7	-4.5
Net use of IMF resources	-0.2	-0.1	-0.1	0.0	0.0	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	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0
Other	-0.4	-1.5	-1.6	0.8	0.5	-1.6	-4.7	-4.5
Deposit money banks	-0.6	-1.1	0.0	0.0	0.0	0.0	0.0	0.0
Residual financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum item:								
Gross domestic product (CFAF billions)	12,159	13,046	13,983	15,085	16,421	18,015	20,573	22,722

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: Budgetary Central Government Operations, GFSM 2001 Classification, 2017–24[1]

(Billions of CFAF)

	2017	2018	2019	2020	2021	2022	2023	2024
	Act.	Prel.	Proj.	Proj.	Projections			
				(CFAF billions)				
Revenue	2,377	2,425	2,833	3,122	3,537	3,962	4,674	5,223
Taxes	1,876	1,990	2,400	2,675	3,059	3,448	4,118	4,620
Hydrocarbon taxes	..	..	..	..	..	4	119	146
Non-hydrocarbon taxes	1,876	1,990	2,400	2,675	3,059	3,443	3,999	4,474
Taxes on income, profits, capital gains	559	603	700	740	856	947	1,097	1,211
Taxes on payroll and workforce	14	5	10	7	16	17	20	22
Taxes on property	34	39	36	38	49	63	82	102
Taxes on goods and services	904	1,016	1,269	1,412	1,593	1,800	2,096	2,361
Taxes on international trade and transactions	266	290	345	437	501	567	648	715
Other taxes	99	36	39	41	45	50	57	62
Grants	264	256	271	293	312	331	352	375
Budget	49	20	31	33	33	33	33	36
Projects	215	237	240	260	279	298	319	338
Other revenue	236	179	162	154	167	183	204	228
Expenditure	2,739	2,897	3,356	3,574	4,026	4,500	5,295	5,909
Expense	1,679	1,867	2,061	2,147	2,312	2,552	2,959	3,269
Compensation of employees	600	682	744	818	887	973	1,111	1,227
Use of goods and services	326	306	389	437	476	522	617	682
Interest	234	258	278	324	301	310	314	343
Foreign	178	205	242	281	258	266	265	287
Domestic	56	53	36	43	43	44	49	56
Subsidies	43	130	292	189	163	142	89	72
of which: Electricity subsidies	0	70	209	107	88	68	60	45
of which: Fuel subsidies	0	15	17	30	45	45	0	0
Grants (current excl. FSE)	190	207	212	190	261	308	427	472
Social benefits	7	7	25	31	53	99	153	206
Other expense	280 ..	278	121	158	172	198	249	268
Net acquisition of nonfinancial assets [4]	1,059	1,030	1,295	1,428	1,713	1,948	2,336	2,640
Domestically financed	603	513	655	666	1,009	1,245	1,653	1,938
Externally financed	456	518	641	762	705	703	683	702
Net lending/borrowing *(Overall balance)*	-362	-472	-523	-452	-489	-538	-621	-687
Net lending/borrowing *(Excl. SENELEC one-of operation)* [5]	..	-472	-423	-452	-489	-538	-621	-687
Transactions in financial assets and liabilities (Financing)	-362	-472	-523	-452	-489	-538	-621	-687
Net acquisition of financial assets	24	166	-36	-130	0	0	0	0
Domestic	24	166	-36	-130	0	0	0	0
Currency and deposits	24	166	-36	-130	0	0	0	0
Debt securities	0	0	0	0	0	0	0	0
Loans	0	0	0	0	0	0	0	0
Other accounts receivable	0	0	0	0	0	0	0	0
Foreign	0	0	0	0	0	0	0	0
Net incurrence of liabilities	386	638	487	322	489	538	621	687
Domestic	-334	-326	-167	-40	148	195	209	292
IMF and SDRs	-20	-19	-13	-3	0	0	0	0
Debt securities (net)	-88	-183	1	159	194	230	270	325
BOAD	0	0	-7	-9	-8	-9	-36	-9
Loans	-55	-48	-49	-67	-38	-25	-25	-25
Other accounts payable[2]	-172	-75	-100	-121	0	0	0	0
Foreign	720	964	655	362	341	343	412	395
Debt securities (net)	461	906	14	141	78	111	144	367
Debt securities (net)	461	906	14	141	78	111	144	367
T-bills and bonds issued in WAEMU	-180	-279	14	141	-54	111	144	159
Eurobond	641	1,185	0	0	131	0	0	208
Loans	259	58	641	221	263	231	268	28
Program loans	79	40	285	82	81	80	80	80
Project loans	241	281	401	501	426	405	364	364
Nonconcessional loans	88	0	125	-65	60	60	60	60
Other	-150	-263	-170	-297	-304	-314	-235	-476
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 borrowir	534	547	623	573	489	538	621	687
Clearance of unmet obligations		..	100	113	124	112	..	..
Hydrocarbon revenues [3]	..	..	..	..	..	5	148	183
Nominal GDP	12,159	13,046	13,983	15,085	16,421	18,015	20,573	22,722

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

[3] This is total hydrocarbon revenues accruing to the Senegalese government and is higher than what is annually included in the budget of the central government

[4] Public Investment differs from net acquisition of nonfinancial assets reported in the fiscal tables by including public spending in wages and salaries of frontline staff in education and health, both of which are considered as investment in human capital (in line with the spirit of the PSE).

[5] One-off operation to allow clearance of central government unmet obligations vis-à-vis the national electricity company SENELEC. This is mostly linked to *compensation* for subsidized electricity tariffs dating from the period 2017-2018.

Table 5. Senegal: Budgetary Central Government Operations, GFSM 2001 Classification, 2017–24[1]

(Percent of GDP)

	2017	2018	2019	2020	2021	2022	2023	2024
	Act.	Prel,	Proj.	Proj.	Projections			
	(Percent of GDP, unless otherwise indicated)							
Revenue	19.5	18.6	20.3	20.7	21.5	22.0	22.7	23.0
Taxes	15.4	15.3	17.2	17.7	18.6	19.1	20.0	20.3
Hydrocarbon Taxes	..	..	..	..	..	0.02	0.58	0.64
Non-Hydrocarbon Taxes	15.4	15.3	17.2	17.7	18.6	19.1	19.4	19.7
Taxes on income, profits, capital gains	4.6	4.6	5.0	4.9	5.2	5.3	5.3	5.3
Taxes on payroll and workforce	0.1	0.0	0.1	0.0	0.1	0.1	0.1	0.1
Taxes on property	0.3	0.3	0.3	0.2	0.3	0.4	0.4	0.4
Taxes on goods and services	7.4	7.8	9.1	9.4	9.7	10.0	10.2	10.4
Taxes on international trade and transactions	2.2	2.2	2.5	2.9	3.0	3.1	3.1	3.1
Other taxes	0.8	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Grants	2.2	2.0	1.9	1.9	1.9	1.8	1.7	1.6
Budget	0.4	0.1	0.2	0.2	0.2	0.2	0.2	0.2
Projects	1.8	1.8	1.7	1.7	1.7	1.7	1.6	1.5
Other revenue	1.9	1.4	1.2	1.0	1.0	1.0	1.0	1.0
Expenditure	22.5	22.2	24.0	23.7	24.5	25.0	25.7	26.0
Expense	13.8	14.3	14.7	14.2	14.1	14.2	14.4	14.4
Compensation of employees	4.9	5.2	5.3	5.4	5.4	5.4	5.4	5.4
Use of goods and services	2.7	2.3	2.8	2.9	2.9	2.9	3.0	3.0
Interest	1.9	2.0	2.0	2.1	1.8	1.7	1.5	1.5
Foreign	1.5	1.6	1.7	1.9	1.6	1.5	1.3	1.3
Domestic	0.5	0.4	0.3	0.3	0.3	0.2	0.2	0.2
Subsidies	0.3	1.0	2.1	1.3	1.0	0.8	0.4	0.3
of which: Electricity subsidies	0.0	0.5	1.5	0.7	0.5	0.4	0.3	0.2
of which: Fuel subsidies	0.0	0.1	0.1	0.2	0.3	0.3	0.0	0.0
Grants (current excl. FSE)	1.6	1.6	1.5	1.3	1.6	1.7	2.1	2.1
Social benefits	0.1	0.1	0.2	0.2	0.3	0.5	0.7	0.9
Other expense	2.3	2.1	0.9	1.0	1.0	1.1	1.2	1.2
Net acquisition of nonfinancial assets [4]	8.7	7.9	9.3	9.5	10.4	10.8	11.4	11.6
Domestically financed	0.6	3.9	4.7	4.4	6.1	6.9	8.0	8.5
Externally financed	3.8	4.0	4.6	5.0	4.3	3.9	3.3	3.1
Net lending/borrowing *(Overall balance)*	-3.0	-3.6	-3.7	-3.0	-3.0	-3.0	-3.0	-3.0
Net lending/borrowing *(Excl. SENELEC one-of operation)* [5]		-3.6	-3.0	-3.0	-3.0	-3.0	-3.0	-3.0
Transactions in financial assets and liabilities (Financing)	-3.0	-3.6	-3.7	-3.0	-3.0	-3.0	-3.0	-3.0
Net acquisition of financial assets	0.2	1.3	-0.3	-0.9	0.0	0.0	0.0	0.0
Domestic	0.2	1.3	-0.3	-0.9	0.0	0.0	0.0	0.0
Currency and deposits	0.2	1.3	-0.3	-0.9	0.0	0.0	0.0	0.0
Debt securities	0.0	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	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	3.2	4.9	3.5	2.1	3.0	3.0	3.0	3.0
Domestic	-2.7	-2.5	-1.2	-0.3	0.9	1.1	1.0	1.3
IMF and SDRs	-0.2	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0
Debt securities (net)	-0.7	-1.4	0.0	1.1	1.2	1.3	1.3	1.4
BOAD		0.0	0.0	-0.1	0.0	-0.1	-0.2	0.0
Loans	-0.4	-0.4	-0.3	-0.4	-0.2	-0.1	-0.1	-0.1
Other accounts payable[2]	-1.4	-0.6	-0.7	-0.8	0.0	0.0	0.0	0.0
Foreign	5.9	7.4	4.7	2.4	2.1	1.9	2.0	1.7
Debt securities (net)	3.8	6.9	0.1	0.9	0.5	0.6	0.7	1.6
T-bills and bonds issued in WAEMU	-1.5	-2.1	0.1	0.9	-0.3	0.6	0.7	0.7
Eurobond	5.3	9.1	0.0	0.0	0.8	0.0	0.0	0.9
Loans	2.1	0.4	4.6	1.5	1.6	1.3	1.3	0.1
Program loans	0.7	0.3	2.0	0.5	0.5	0.4	0.4	0.4
Project loans	2.0	2.2	2.9	3.3	2.6	2.2	1.8	1.6
Nonconcessional loans	0.7	0.0	1.0	-0.5	0.5	0.5	0.5	0.5
Other	-1.2	-2.0	-1.2	-2.0	-1.9	-1.7	-1.1	-2.1
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)	4.4	4.2	4.5	3.8	3.0	3.0	3.0	3.0
Clearance of unmet obligations		..	0.7	0.7	0.8	0.6	..	..
Hydrocarbon revenues [3]	..	..	..	..	..	0.03	0.72	0.80
Non-hydrocarbon taxes / non-hydrocarbon GDP						19.4	20.7	21.2
Nominal GDP	12,159	13,046	13,983	15,085	16,421	18,015	20,573	22,722
of which: non-hydrocarbon	12,159	13,046	13,983	15,085	16,421	17,740	19,277	21,119

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

[3] This is total hydrocarbon revenues accruing to the Senegalese government and is higher than what is annually included in the budget of the central government

[5] One-off operation to allow clearance of central government unmet obligations vis-à-vis the national electricity company SENELEC. This is mostly linked to *compensation* for subsidized electricity tariffs dating from the period 2017-2018.

Table 6. Senegal: Monetary Survey, 2017–20

	2017	2018	2019	2020
	Act.	Act.	Proj.	Proj.
	(Billions of CFAF)			
Net foreign assets	1,311	1,820	2,063	1,946
BCEAO	803	1,167	1,410	1,293
Commercial banks	508	653	653	653
Net domestic assets	3,549	3,769	4,025	4,547
Net domestic credit	4,611	4,746	5,155	5,701
Net credit to the government[1]	402	471	651	822
Central bank	-6	-174	-151	-23
Commercial banks	408	644	802	845
Other institutions	2	2	2	2
Credit to the economy	4,209	4,275	4,504	4,880
Shares and other equity	-677	-717	-769	-829
Other items (net)	-385	-260	-362	-325
Broad money	4,603	5,255	5,731	6,107
Currency outside banks	1,032	1,190	1,414	1,507
Total deposits	3,571	4,065	4,317	4,601
Demand deposits	2,091	2,418	2,637	2,810
Time deposits	1,480	1,647	1,680	1,791
Non-liquid Liabilities	257	334	357	386
	(Change in percentage of beginning-of-period broad money stock)			
Net foreign assets	3.5	11.1	4.6	-2.0
BCEAO	1.7	7.9	4.6	-2.0
Commercial banks	1.8	3.2	0.0	0.0
Net domestic assets	6.6	4.8	4.9	9.1
Net credit to the government[1]	-0.8	1.5	3.4	3.0
Credit to the economy (net)	12.9	1.4	4.4	6.6
Other items (net)	-3.4	2.7	1.9	-0.6
Broad money	9.2	14.2	9.1	6.6
Memorandum items:	(Units indicated)			
Velocity (GDP/broad money; end of period)	2.6	2.5	2.4	2.5
Nominal GDP growth (percentage growth)	7.8	7.3	7.2	7.9
Credit to the private sector (percentage growth)	15.3	4.9	6.0	9.3
Credit to the private sector/GDP (percent)	29.7	29.1	28.8	29.2
Variation of net credit to the government (yoy; CFAF billions)	-32.0	68.7	448.5	821.7

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, 2011–18

	2011	2012	2013	2014	2015	2016	2017	2018[1]
	Dec	Dec	Dec	Dec	Dec	Dec	Dec	Dec
Solvency ratios								
Regulatory capital to risk weighted assets	15.7	16.7	18.3	17.0	19.1	14.5	13.6	12.4
Tier I capital to risk-weighted assets	15.5	17.0	17.9	16.4	16.3	13.8	13.2	12.5
Provisions to risk-weighted assets	9.2	10.7	11.2	13.5	16.0	13.6	11.6	9.2
Capital to total assets	9.9	9.8	10.3	9.0	8.3	7.2	7.6	8.0
Composition and quality of assets								
Total loans to total assets	61.1	62.5	61.2	59.5	55.5	53.6	60.5	61.3
Concentration: loans to 5 largest borrowers to capital	74.6	66.4	58.0	54.7	46.4	63.7	71.6	68.4
Sectoral distribution of loans [2]								
Agriculture	2.3	2.1	1.6	2.1	2.6	2.2	2.4	2.4
Extractive industries	1.1	0.8	0.8	0.9	0.8	0.8	0.8	1.2
Manufacturing	23.8	24.9	22.9	22.7	21.1	18.7	17.2	15.3
Electricity, water and gas	1.9	2.2	1.7	2.0	1.8	1.7	2.1	2.1
Construction	5.4	5.1	6.5	7.1	3.9	4.9	5.7	4.5
Retail and wholesale trade, restaurants and hotels	24.9	24.6	25.4	24.0	25.4	25.3	23.1	26.0
Transportation and communication	8.2	7.1	8.1	7.8	10.0	12.0	12.9	12.8
Insurance, real estate and services	6.1	6.3	6.3	6.7	7.0	7.1	8.6	7.5
Other services	26.3	26.9	26.7	26.8	27.5	27.2	27.2	28.2
Gross NPLs to total loans	15.9	16.4	17.5	18.6	19.3	18.0	16.2	13.1
Provisioning rate	54.0	55.4	53.5	57.5	57.7	62.5	59.7	68.1
Net NPLs to total loans	8.0	8.1	9.0	8.8	9.2	7.6	7.2	4.6
Net NPLs to capital	49.7	51.4	53.3	58.5	61.4	56.4	57.7	35.0
Earnings and profitability[3]								
Average cost of borrowed funds	2.2	2.4	2.2	2.2	2.2	2.3	2.4	...
Average interest rate on loans	9.2	9.2	9.3	8.4	8.2	8.4	8.6	...
Average interest margin[4]	7.0	6.8	7.1	6.2	6.0	6.1	6.2	...
After-tax return on average assets (ROA)	1.8	1.0	1.1	0.3	0.8	1.0	1.7	0.7
After-tax return on average equity (ROE)	14.7	9.9	10.5	3.6	9.0	13.0	19.9	7.2
Noninterest expenses/net banking income	56.4	57.9	57.7	59.6	61.0	57.7	58.0	57.3
Salaries and wages/net banking income	24.3	23.7	25.6	25.4	26.1	25.0	24.9	26.8
Liquidity								
Liquid assets to total assets	31.0	32.3	30.5	28.9	27.4	26.8	28.3	31.8
Liquid assets to total deposits	43.7	45.5	45.4	42.9	39.7	40.6	41.8	47.9
Total loans to total deposits	94.3	97.1	100.7	99.1	90.6	91.5	99.1	101.6
Total deposits to total liabilities	70.9	70.8	67.1	67.2	69.0	66.0	67.6	66.3
Sight deposits to total liabilities[5]	35.8	37.0	37.3	35.0	38.3	37.8	37.5	37.1
Term deposits to total liabilities	35.2	33.9	29.7	32.3	30.6	28.2	30.1	29.2

Source: BCEAO.

[1] First year of data reporting in accordance with Basel II/III prudential standards and the new banking chart of account (interim data).

[2] Declared to central risk registry.

[3] Based on semi-annual income statements.

[4] Excluding tax on bank operations.

[5] Including saving accounts.

Table 8. Senegal: Risk Assessment Matrix[1]

Source of Risks	Relative Likelihood	Potential impact	Policy Response
Spillover Risks			
Rising protectionism and retreat from multilateralism.	**High**	**Low**. Senegal is unlikely to be substantially affected by global protectionist trends given the trading partner mix.	Structural reforms to improve external competitiveness.
Sharp rise in risk premia.	**High**	**High.** A surge in interest rates would increase costs of financing and could reduce access for the Senegalese government in international markets.	Continue with fiscal consolidation, efforts to contain Treasury financing needs, and a strengthening of debt management.
Weaker-than-expected growth in Europe.	**High**	**Medium**. Lower growth in Europe could have an impact on Senegal's external sector and growth.	Structural reforms to improve external competitiveness.
Large swings in energy prices.	**Medium**	**High**. Increases in energy prices could in the short-run complicate fiscal policy making, and undermine Senegal achieving the 3 percent of GDP fiscal deficit target by 2019.	Contain energy subsidies, including by adjusting domestic energy prices in response to change in world prices
Domestic/Regional Risks			
Reforms to boost fiscal revenues and attract private investment are delayed.	**High**	**High**. Lack of progress on structural reforms would risk returning to lower growth of the past with potential implications for fiscal sustainability.	Steadfast implementation of the reform program.
Drought	**Medium**	**Low**. Senegal recently experienced low rainfall. This could affect agricultural output negatively, with some potential impact on public finances.	Provide assistance as needed to agriculture sector.
Domestic and regional security threats.	**Medium**	**Medium**. An increase in security concerns for Senegal would require higher security expenditures and could affect private investment.	Ensure that multi-year budget framework allows room to address fiscal contingencies.

Source: IMF.

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

Table 9. Senegal: Schedule of Reviews Under the Policy Coordination Instrument, 2019–22

Program Review	Proposed Date	Test Date
Board Discussion of PCI Request	January 10, 2020	
First Review	By June 30, 2020	End-December 2019
Second Review	By December 31, 2020	End-June 2020
Third Review	By June 30, 2021	End-December 2020
Fourth Review	By December 31, 2021	End-June 2021
Fifth Review	By June 30, 2022	End-December 2021
Sixth Review	By December 31, 2022	End-June 2022

Source: IMF.

Annex I. Performance Under the 2015-19 PSI

1. The 2015-19 PSI retained the quantitative conditionality of the 2010-14 PSI, except for assessment criteria (AC) on non-concessional external debt which lost relevance in the Fund's new Debt Limit Policy given Senegal's low risk of external debt distress and high debt management capacity.

2. Observance of quantitative conditionality under the 2015-19 PSI was broadly satisfactory, with 79 percent of AC and indicative targets (IT) met for the seven reviews completed prior to its cancellation.

3. However, two ITs were repeatedly breached, respectively aimed at limiting the value of public sector contracts signed by single tender and at safeguarding the program's tax revenue targets. Persistent underperformance in tax revenue mobilization contributed to the reliance on debt-creating below-the-line operations as a way to meet the program's fiscal deficit targets. In response, quantitative conditionality was adjusted during the 5th review through adding a ceiling on the government's net financing requirement and, during the 6th review, through upgrading the floor on tax revenue from an IT to an AC.

4. Structural reforms progressed broadly as envisaged. Structural benchmarks focused on revenue mobilization through containing tax expenditure and strengthening revenue administration, strengthening public financial management and improving the management of investment projects. A majority was implemented in time or with slight delays while a few experienced more significant delays owing to a mix of limited administrative capacity, competing reform priorities and resistance by vested interests.

Table.1 Senegal: Observance of Quantitative Conditionality, 2015-19

	2015-19 PSI Reviews							Ave.
	1st	2nd	3rd	4th	5th	6th	7th	Met
Quantitative targets (percent met)	88	86	86	57	86	63	88	79
Assessment Criteria (percent met)	100	100	100	75	100	80	100	94
Government net lending/borrowing (overall fiscal balance)								86
Government spending undertaken outside normal and simplified procedures								100
Amount of the budgetary float								100
Public sector external payment arrears (stock)								100
New concessional external debt contracted or guaranteed by the public sector		--	--	--	--	--	--	100
Central government net financing requirement	--	--	--	--	--			50
Tax revenue	--	--	--	--	--	--		100
Indicative targets	67	67	67	33	67	33	50	55
Tax revenue							--	17
Share of the value of public sector contractors by single tender								43
Social expenditures (percent of total spending)								100

Conditionality Met	
Yes	No

Source: IMF Staff Reports

Annex II. External Sector Assessment

Senegal's external position in 2019 is moderately weaker than implied by fundamentals and desirable policy settings, contrary to the last assessment where it was assessed to be in line with fundamentals. The current account deficit widened further in 2018 after the deterioration observed in 2017 and surging hydrocarbon-related investments are expected to temporarily drive it further up in 2019. Going forward, this moderate imbalance will be addressed through prudent fiscal policy, structural reforms as well as the coming on stream of oil and gas exports.

Assessment of the External Position

1. **The sharp current account deficit widening observed in 2017 has continued in 2018 and 2019.** After a steady improvement from 8.7 percent of GDP in 2012 to 4 percent in 2016, the current account deficit widened to 7.3 percent in 2017 and further to 8.8 percent in 2018. It is projected at 9.2 percent of GDP in 2019. This trend reversal reflects higher energy and capital goods imports and expansionary fiscal policies. It is expected to deteriorate further in 2020-2021, owing to high investment in the oil and gas pre-production period. The current account is projected to improve from 2022 onward, as the oil and gas production begins (Figure 1).

2. **Foreign direct investment (FDI) has modestly increased, and portfolio investment inflows have surged recently.** Net FDI inflows remain modest but have increased from 1.3 percent of GDP in 2016 to 2.4 percent in 2017 and further to 2.6 percent in 2018. They are estimated to increase further to 3.7 percent in 2019. Portfolio debt inflows have surged owing to the successful Eurobond issuance in 2017 and 2018 and reflecting investor confidence in Senegal (Figure 1).

3. **WAEMU pooled reserves have maintained their upward trend of the last two years.** International reserves have picked up since 2017, mainly on the back of capital account surpluses and portfolio inflows. The regional pooled reserves stood at about $15 billion at end-August 2019 (more than 4 months of imports), up from $13.1 billion at end-2017, with the increase largely driven by Eurobond issuances of Senegal (in 2018), Cote d'Ivoire (2018 and 2019) and Benin (2019).

4. **EBA-lite estimates using 2019 data indicate that Senegal's external position is moderately weaker than implied by fundamentals and desirable policy settings.**

EBA-Lite Results 2019 (Percent of GDP)	
Implied over(+)/under (-) valuation	
REER Model	-15.4
CA Model	13
Memorendum Items	
Cyclically adjusted CA	-9.7
CA-Norm	-7.1
CA-Gap	-2.7
of which Policy Gap	0.9

- The EBA's Current Account model, on which staff places the most weight as it takes full advantage of cross-country information—compares the actual current account balance with the estimated current account norm. It indicates an overvaluation of 13 percent and a current account gap of -2.7percent (with a cyclically adjusted current account balance of -9.7 percent of GDP compared to an estimated norm of -7.1 percent of GDP). The gap may reflect some country-specific factors underpinning Senegal's CA developments. Specifically, the CA deficit is boosted by temporary factors, notably an increase in investment and strong imports growth largely owing to the recent large oil and gas investments as well as investments by Air Senegal.

- While the EBA's Lite Index Real Effective Exchange Rate (REER) shows an undervaluation of about 15 percent, this model has limitations for a country such as Senegal with: (i) no sustained price pressures (inflation is below 2 percent); (ii) large structural changes; and (iii) short data spans.

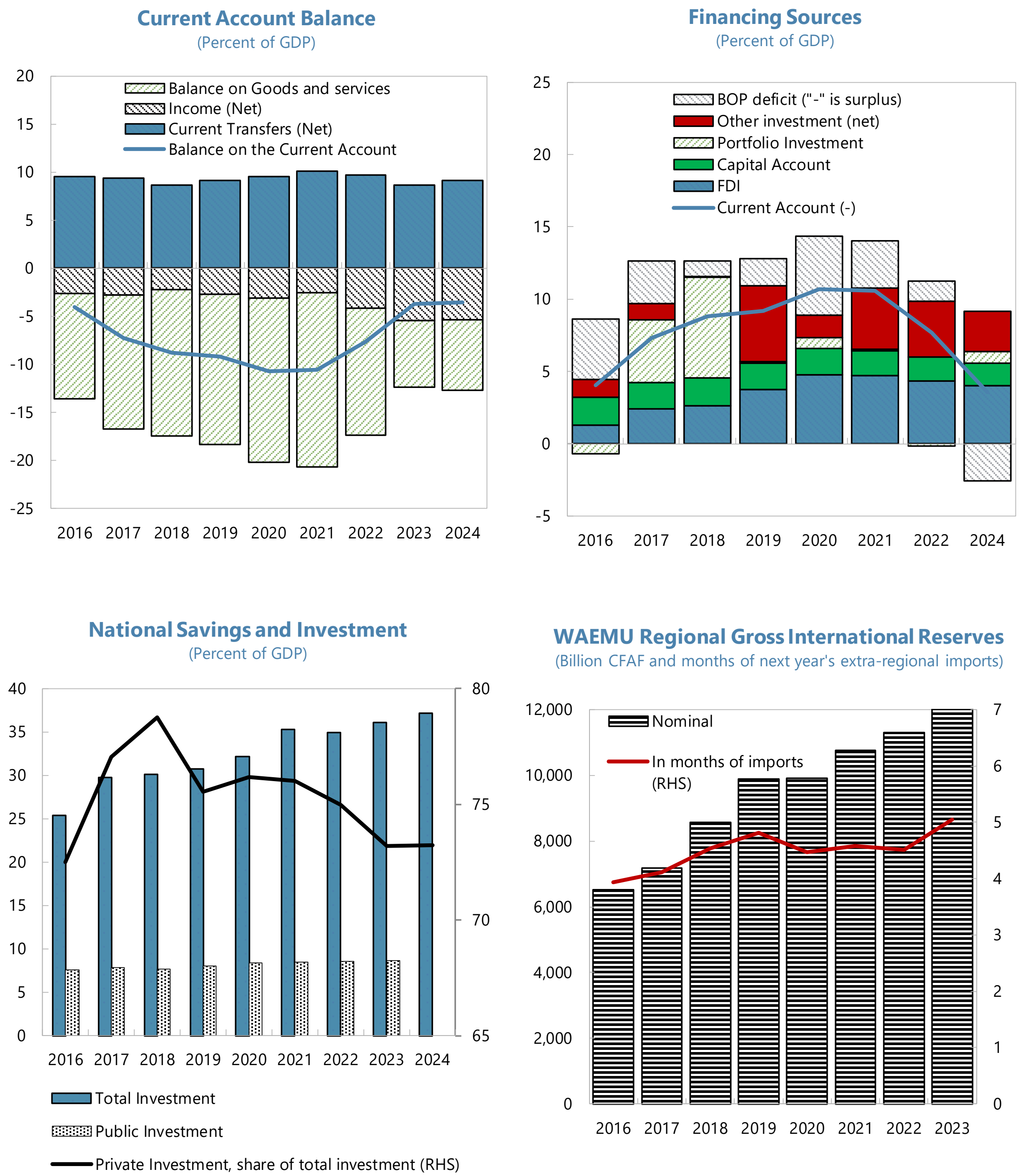
The current account model's cross-country information advantage, combined with relatively small policy gap along with a fiscal deficit close to the long-term desired policy stance of 3 percent of GDP, makes it more suitable for Senegal.

Structural Competitiveness

5. Senegal's competitiveness has improved but could be strengthened further through structural reforms to improve the business environment. Senegal has in the past outperformed regional peers with regard to governance in general and its attractiveness for doing business in particular as evidenced by various indicators such as the World Bank's Doing Business and World Governance indicators (Figure 2). However, private sector development remains constrained by various bottlenecks including: (i) low access to and high cost of energy; (ii) burdensome and lengthy procedures in the tax system and the judiciary (iii) labor regulations; (iv) lack of access to credit; (v) low efficiency of public investment; (vi) weak human capital; and (vii) highly regulated product markets. Moreover, as other countries have started improving their standing in various competitiveness indicators (Figure 2), it is crucial for Senegal to accelerate structural reforms to maintain or even improve its position.

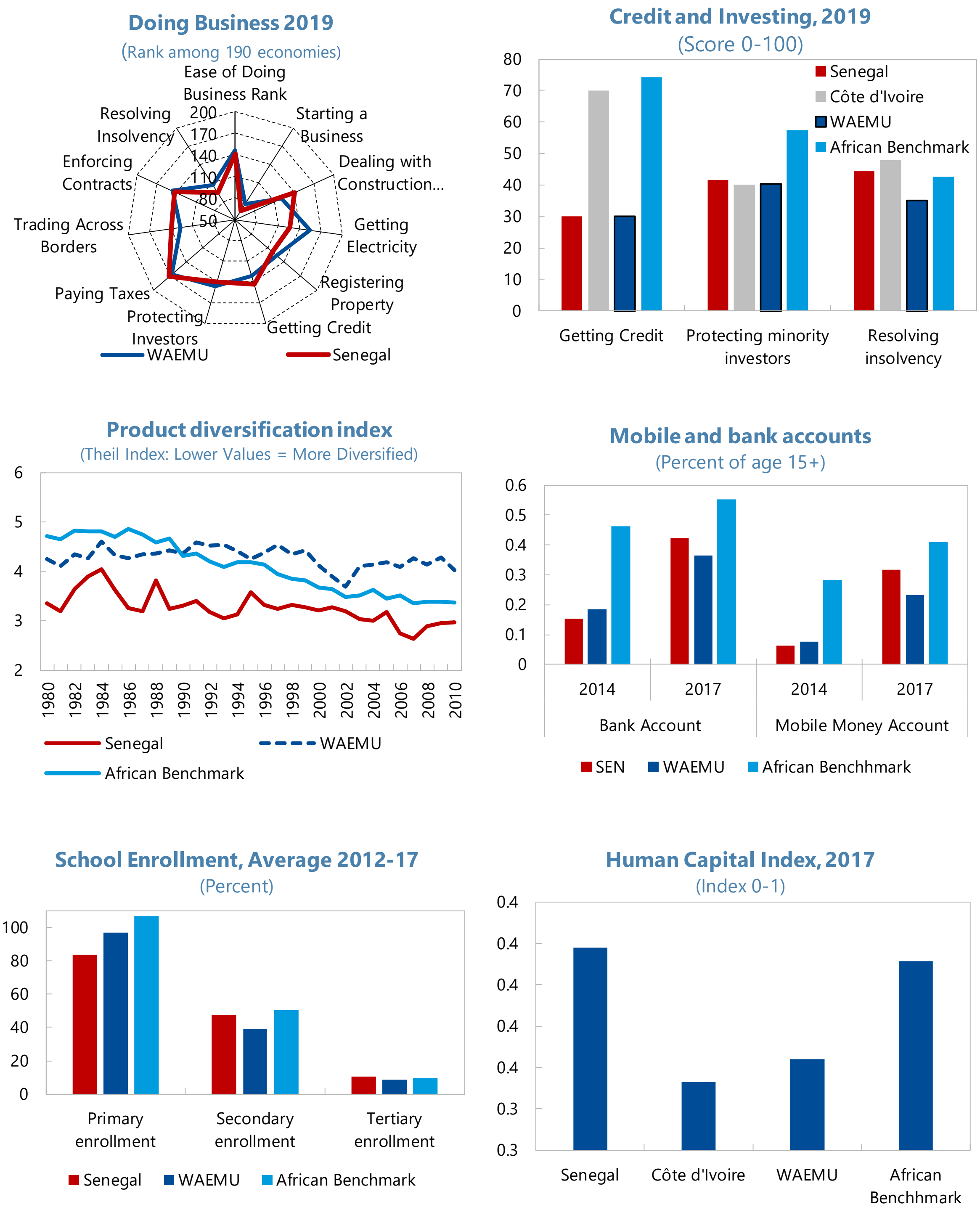
6. The authorities' *PSE II* aims to steer the development strategy from public sector led growth to a model centered on private sector as the engine of growth. Through *PSE II* an ambitious reform agenda—encompassing the justice system, the labor market, land reform, public private partnerships, the investment code, and digitalization of the tax system—has been put forward. Senegal is increasing export diversification in products as well as across trading partners (IMF Country Report No. 17/2) but needs to step up efforts to fully operationalize its Special Economic Zone (SEZ) through the "Triangle of Prosperity" project. The completion of this project will be a key driving force to attract further FDI and help expand the country's export-oriented productive capacity. Improving access to credit and creating a transparent, rules-based tax system would also boost private investment and help unlock Senegal's export potential.

Figure 1. Senegal: Current Account Balance and Financing Sources, 2016-24



Sources: BCEAO; IMF staff calculations

Figure 2. Senegal: Doing Business and Competitiveness



Sources: World Bank, Doing Business; World Bank, World Development Indicators; World Bank FINDEX Database; IMF Export Diversification Database.

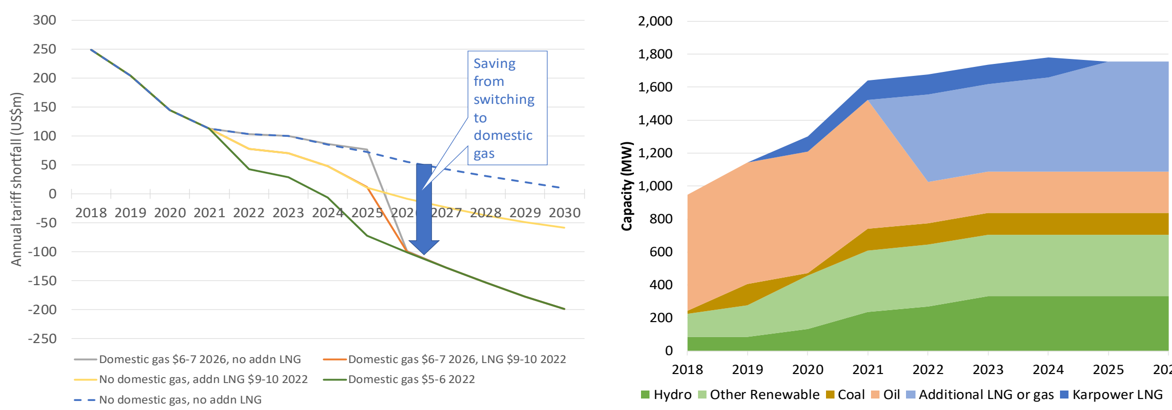
Notes: African Benchmark includes Ghana, Kenya, Lesotho, Rwanda, Tanzania, Uganda and Zambia.

Annex III. Transforming Electricity Production[1]

1. **Electricity production in Senegal is costly.** It currently relies on expensive heavy fuel oil (HFO) and diesel generation, hence costs are highly sensitive to global oil prices. The average cost of supply in 2018 stood at US$0.26 per kilowatt-hour (kwh). This is significantly higher than the global benchmark of US$0.10 per kwh, putting Senegal at a competitive disadvantage. Indeed, in surveys that assess Senegal's business environment, electricity cost and reliability often top the list of key constraints to growth. A profound change in the way electricity is produced is therefore both a macroeconomic and environmental priority.

2. **The authorities' strategy is to switch electricity production from heavy fuel to gas and renewables, the "gas-to-power" strategy.** A first step in the switch to gas is projected for 2022, using an LNG bridge solution.[2] A second step involves using domestically produced gas, currently expected around 2026, which would decrease production costs to about US$17 per kWh.[3] The current average electricity tariff stands at US$18 per kWh, hence a successful move to domestic gas would eliminate the need for government subsidies and could eventually pave the way for tariff reductions (Figure 1). Renewables, a mix of solar power, imported hydropower and wind power, are expected to contribute about a quarter of total electricity production from 2020 onwards. The implementation of this strategy is underway, with extensive support by the World Bank Group and the Millennium Challenge Corporation.

Figure 1. Senegal: Scenario for Senegal Energy Mix with Increased Renewables and Sectoral Finances



Source: World Bank.

[1] This annex is largely based on information provided by the World Bank.

[2] The LNG bridge would use imported LNG and use a Floating Storage Regasification Unit (FSRU) moored near Dakar and supply gas-to-power plants in the Dakar region that have been converted to burn gas. The FSRU could be in place starting in 2022 until domestic gas becomes available.

[3] Provided a gas transport system is in place, and the fleet of power plants is converted to gas.

3. The state-owned power utility's operational and financial performance needs to be strengthened to support the transition. The government reduced electricity tariffs on average by 10 percent in early 2017 while production costs increased subsequently due to higher oil prices. This increased the need for compensation payments to Senelec the power utility. However, the central government did not transfer sufficient resources to Senelec, resulting in arrears to suppliers and Independent Power Providers (IPPs). In addition, public sector arrears related to unpaid electricity bills increased. Taken together, the central government's total unmet obligations vis-à-vis Senelec stand at CFAF 67.5 billion (0.5 percent of GDP) (see Table 1), which will be settled in the context of the overall 2020-22 arrears clearance plan. This is after taking into account the one-off transfer in the amount of CFAF 125 billion, made by central government in September 2019 as part of the wider strategy to reform the energy sector. To this effect, CFAF 100 billion was added to the overall 2019 spending envelope beyond the 3.0 percent of GDP deficit target, implying a projected headline fiscal deficit of 3.7 percent of GDP.

Table 1. Senegal: Obligations of the Central Government vis-à-vis Senelec

	CFAF billion	% of 2019 GDP
2017	38.6	0.3%
2018	57.3	0.4%
2019 1/	0.0	0.0%
Electricity bills	56.8	0.4%
Other	39.8	0.3%
TOTAL	192.5	1.4%
One-off transfer to SENELEC (2019)	125.0	0.9%
Residual (to be paid over 2020-22)	67.5	0.5%

Sources: Senegalese authorities; World Bank and IMF Staff estimates.
1/ assumes no further accumulation of compensation obligations in 2019.

4. Additional measures are expected to put the sector's finances on a sounder footing. First, the authorities have budgeted the full amount of compensation payment to Senelec due in 2019 in the second supplementary budget law and about CFAF 55 billion in the LFI 2020. Second, they have modified the formula to calculate the required compensation by including an ex-post adjustment addressing the difference between projected and realized Senelec investments. Third, on December 1 electricity tariffs increased between 6 and 10 percent for all but low-consumption households, which remain exempted. The need for compensation is nevertheless forecast to remain high at about CFAF 84 billion in 2020, CFAF 65 billion in 2021 and CFAF 45 billion in 2022.[4] These estimates point to a need to increase tariffs in the short term to alleviate Senelec's cash management difficulties. Successful implementation of the "gas-to-power" strategy would imply that, over the medium term, tariffs could again be reduced. Over time, tariffs should be set to allow Senelec to operate without losses.

5. The government is implementing broader reforms to facilitate the energy transition. Beyond addressing the immediate financial challenges, an updated electricity generation plan takes into account natural gas and renewable energy and provides greater certainty for investors. The government has also adopted a legal and regulatory framework for the gas sector and has taken a public decision on the source of gas in their gas-to-power strategy (initially importing liquified natural gas and using a Floating Storage Regasification Unit, as noted above).

[4] These estimates are subject to changes in projections to the cost of fuel, tariff adjustments and Senelec's investment plan for the upcoming regulatory period.

Annex IV. Capacity Development Strategy FY2020

CD Strategy

1. **Senegal is an intensive technical assistance user with relatively strong institutional capacity.** In recent years, TA activity has supported the implementation of Senegal's development strategy through work on revenue administration, tax policy, public financial management, debt management, and better and more timely compilation of macroeconomic statistics which resulted in Senegal reaching SDDS status. Overall, the track record of implementing recommendations is good. Suggestions to improve revenue administration and some aspects of PFM had more mixed traction in the run-up to the February 2019 presidential elections. From 2022 onwards, substantial revenues linked to hydrocarbon production are expected and a TA focus will be on developing sound legal and fiscal frameworks for the oil and gas sectors. In addition, priorities are to further strengthen revenue mobilization, public financial management, debt management and macroeconomic statistics compilation and dissemination.[1]

Key overall CD priorities going forward

Priorities	Objectives
Framework for Hydrocarbon-Related Budget Revenues	Establish a sound fiscal and legal framework incorporating all macro-critical issues related to the management of hydrocarbon revenues and strengthen the capacity to integrate the oil and gas sector into macro-fiscal forecasts.
Debt Management	Strengthen debt management capacity, including by formulating a sound debt management strategy, linking it more closely with actual borrowing decisions, enhancing the capacity of the debt unit, and strengthening all units and the national committee responsible for debt management.
Public Financial Management	Improve budget preparation and expenditure execution and control, including public investment budgeting, to support the transition to program-budgeting in 2020. Limit below-the-line operations. Improve cash management and consolidate Treasury Single Account. Strengthen capacity to manage Public Private Partnerships to limit fiscal risks.
Revenue Mobilization	Develop and implement a medium-term revenue strategy to bring the (non-hydrocarbon) tax-to-GDP ratio to 20 percent by 2023.

[1] Senegal is a member of the WAEMU and TA on financial sector supervision and monetary and exchange rate issues are provided to regional institutions.

Main risks and mitigation

2. TA delivery could be undermined by rising insecurity in the Sahel region if it spreads to Senegal. To optimize traction of TA recommendations it will be important to pay close attention to the political economy of reforms and support reform-minded officials. Measures to substantially increase revenues could be opposed by taxpayers but also by tax administration staff. This makes it important to seek broad endorsement of TA activities and seek strong political support at a high level. Low staffing levels, high turnover and limited capacity in the administration can also pose risks to achieving reform objectives. A range of major PFM reforms is underway simultaneously and weak capacity in line Ministries could jeopardize their effective implementation. An intensification of hands-on training could mitigate this risk. In addition, peer learning could be a way to increase traction and overcome resistance to reform.

Authorities' views

3. The authorities agreed with the CD priorities noted above. They welcomed that it is well aligned with the objectives of the "Plan Senegal Emergent" and appreciated the focus on strengthening revenue mobilization (notably broadening the tax base and digitalization), PFM and putting in place a sound framework to manage hydrocarbon-related revenues. They emphasized that long-term experts are particularly helpful to advance crucial reforms and expressed a wish to receive more TA this way. They welcomed support on the "how to" aspect of the implementation of reforms, including by using peer learning and hands-on training as methods of delivering TA. The authorities suggest to better involve their staff in the preparation of TA activities, including in the drafting of terms of references and funding requests. They would also like to collaborate more closely on the selection of experts for TA activities.

Appendix I. Program Statement

Dakar, Senegal
December 18, 2019

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
700 19th Street N.W.
Washington, D.C. 20431
U.S.A.

Madam Managing Director,

1. The implementation of the first phase of the Emerging Senegal Plan (Plan Sénégal Émergent or PSE) in the period 2014-2018, supported by a Policy Support Instrument, resulted in higher growth, particularly through the implementation of an ambitious public infrastructure program, and reduced poverty. Furthermore, prudent macroeconomic policies have made it possible to maintain fiscal and debt sustainability.

2. The Government of Senegal will continue to demonstrate its commitment to sound macroeconomic policies. To that end, I wish to request approval of a new macroeconomic and structural reform program supported by the Policy Coordination Instrument (PCI) of the International Monetary Fund (IMF), for the period December 2019-January 2023. The Program Statement for December 2019-January 2023 outlines our objectives and the economic policies that the Government intends to implement.

3. The program aims to support the implementation of the second phase of the PSE, while maintaining macroeconomic stability. In particular, the main objectives of the program are: (i) to achieve sustained and inclusive growth, driven mainly by the private sector, (ii) to strengthen macroeconomic stability by maintaining fiscal sustainability and managing debt prudently, and (iii) to put in place sustainable and transparent management of the revenues from hydrocarbon production.

4. The implementation of our program will be evaluated based on quantitative targets, continuous targets, as well as reform targets as described in the Program Statement and Technical Memorandum of Understanding (TMU). The IMF will conduct six program reviews on a semi-annual basis to assess program implementation and agree on any additional measures that may be required to achieve the program's objectives.

5. The Government believes that the policies and measures set out in the Program Statement are appropriate for achieving the objectives of the PCI-supported program. Given its commitment to macroeconomic stability, the Government will take early action on any additional measures that may be necessary to achieve the program objectives. It will consult with IMF staff, on its own initiative or whenever requested to do so by the Managing Director, before adopting such measures or reviewing the measures included in the Program Statement. Finally, in line with the TMU, it will regularly provide to the IMF the requested information to monitor and evaluate the implementation of the program.

6. The government hereby authorizes the IMF to publish this letter, the attached Program Statement, the TMU, and the IMF staff report on this program request.

Sincerely yours,

/s/

Abdoulaye Daouda Diallo
Minister of Finance and Budget

Attachment: Technical Memorandum of Understanding

Program Statement for the Period December 2019–January 2023

I. RECENT ECONOMIC DEVELOPMENTS

1. **The year 2018 marks the end of the first stage of the Plan Senegal Emergent (PSE), characterized by sustained growth in a context of low inflation and a significant reduction of the budget deficit**. Indeed, for the fifth consecutive year, the Senegalese economy recorded a growth rate of over 6 percent in 2018, significantly above the 3 percent recorded in the 2009-2013 period. Over the period 2014-2018, the average GDP growth rate was 6.6 percent a year.

2. **2019, the first year of implementation of the Priority Action Plan for the second phase (PAP II, 2019-2023) of the PSE, is characterized by continued economic dynamism.** In the first half of 2019, nonagricultural economic growth, as measured by the General Activity Index (IGA) is up 5.7 percent. Overall, GDP growth is projected at 6.0 percent for 2019. Inflation stood at 1.0 percent over the first six months of 2019 compared to the same period in 2018, measured by the national harmonized consumer price index (NHCPI).

II. STRATEGIC OBJECTIVES OF OUR REFORM PROGRAM

3. **The Government intends to continue implementing the Priority Action Plan (PAP) of the PSE, in line with reaching the Sustainable Development Goals (SDGs) and the objectives of the African Union's Agenda 2063.** To consolidate the performance since 2015, an ambitious reform program will be implemented focusing on revenue mobilization, the quality of spending, human capital development, and improvements in the business environment.

4. **The new program, based on the Priority Action Plan (PAP 2019-2023) of the PSE, is aimed at promoting inclusive growth while preserving macroeconomic stability and debt sustainability.** It focuses on accelerating structural reforms to promote a more conducive business environment and foster private sector development. It also aims to consolidate fiscal sustainability through improved revenue collection, more efficient public spending and prudent debt management. And, lastly, it strives to ensure a transparent management of the hydrocarbon sector.

PILLAR I: ACHIEVING HIGH, INCLUSIVE AND PRIVATE SECTOR LED GROWTH

5. **To maintain the performance of the Senegalese economy over the long term, the government has placed the private sector at the center of phase two of the PSE**, thus demonstrating its full confidence in its know-how and commitment. Senegal is striving to achieve a massive acceleration in private investment through an ambitious program of strategic, mature, bankable projects developed with dedicated seed capital.

6. **The Government's ambition is to promote strong and inclusive growth that will generate employment and income and thus support inclusive development.** To that end,

various initiatives launched during the first PSE phase will be strengthened. These include the Emergency Program for Community Development (*Programme d'Urgence de Développement Communautaire* or PUDC), dedicated to the poorest rural areas; the Emergency Program for the Modernization of Border Regions (*Programme d'Urgence de Modernisation des Axes Frontaliers* or PUMA), dedicated to our remote and disadvantaged localities; the Program for the Modernization of Towns (*Programme de Modernisation des Villes*), with a focus on high labor intensity (sanitation, roads, and public lighting); the national cash transfer program—*le Programme National de Bourse de Sécurité familiale* (PNBSF), which supports poor families conditional on sending their children to school and regular health checks; and the Universal Healthcare program (*Couverture Maladie Universelle*/UMC) whose priority is to develop and promote mutual health care schemes.

7. The Government will prepare a private sector development strategy. This strategy is based on the following pillars:

- Strengthening the foundations for development will rest on expanding and upgrading physical infrastructure, a sustainable management of natural resources and the strengthening of human capital.
- Improving the role of the public sector will require a set of reforms related to the legal and judicial framework, financing, the simplification of procedures, the promotion of competition, labor legislation, public administration reform, tax policy, and the management of public resources.
- The development of public-private partnerships (PPP) aims to improve the efficiency of public investment while strictly monitoring their budgetary impact. With that in mind, the 2014 PPP law will be reviewed in depth. A first new draft will be available by January 2020, including provisions to transfer competencies to respective institutions ("*Conseil National de Soutien aux Partenariats Public-Privé*" (CNAPP) and Infrastructure Council) in order to operationalize the law. The government will create a database for all PPPs and power purchase contracts showing their budgetary impact and quantifying the main risks **(reform target, June 2021)**. The involvement in the creation and development of PPPs of local businesses will be strengthened through a higher level of sub- and co-contracting based on the expertise and assessed capacities of the local enterprises.
- The new PPP legal framework shall specify that all investment projects financed through PPPs of over two billion CFAF must be subject to a prior evaluation and that for all unsolicited bids there must be an independent review by the Ministry in charge of PPPs (**reform target, June 2020**).

8. Evaluating and updating the investment law to give investors greater visibility is one of the priorities to provide a transparent framework for investors and increase the impact of their investments on the economy and employment. The evaluation report is expected in October 2020 which should make it possible to adopt a new investment law by end-2021. This will help boost investments by large enterprises and SMEs and is fully aligned with the objective of private sector development.

9. Reforms to improve the business environment will be continued. Regarding commercial justice, a change in the 2017-24 law is envisaged to transfer the residual files from the Court of First Instance to the Dakar commercial court and clarify the competencies regarding the seizing of real estate between the Court of First Instance and the Commercial Court by end-June 2020. The creation over time of an independent commercial justice system is planned. Next steps are to establish a court of first instance and an appeals court (**reform target, December 2021**). Further, the modernization of commercial justice is ongoing with the digitization of judicial activities and of the commercial and credit register (RCCM); the digitization of commercial court procedures in Dakar is being rolled out and is expected to be completed in mid-2020.

10. The initiative "Compact with Africa" represents an opportunity to implement reforms to improve the business climate in Senegal. The action plan supported by Germany in the context of the Partnership to encourage reform emphasizes four priority areas: (i) labor administration and laws, (ii) access to land, (iii) access to finance and development of SMEs, and (iv) vocational training.

11. Based on a participatory process, reforms to labor laws and administration, more adapted to the situation of SMEs, will be prepared and implemented. The Government has undertaken a review of the labor law and will submit a revised law to Parliament by December 2021 (**reform target, December 2021**). Accompanying measures will focus on the optimization of processes at the Labor Inspectorate to ensure greater effectiveness and transparency with (i) an analysis of the role of labor inspections in the institutional job environment; (ii) a study of the processes at the Labor Inspectorate to increase the transparency, responsibility and efficiency of these structures; (iii) and capacity building measures and digitization.

12. Access to land is a major obstacle to improving the business climate. Reforms in this area will focus on the acceleration of the attribution of land usage (right to use) and land titles in rural areas and the computerization of Government property, real estate, and land registry procedures by putting in place an integrated, centralized land management system (**reform target, June 2021**).

13. The PSE also aims to improve access to financing for private enterprises. Emphasis will be placed on support for a) the institutional transformation process of the Priority Investments Guarantee Fund ("*Fonds de Garantie des Investissements Prioritaires" or FONGIP*), b) to the Sovereign Fund for Strategic Investments ("Fonds Souverain d'Investissements Prioritaires" or FONSIS) for the creation of an SME fund, including governance aspects, c) to microfinance institutions (MFIs) to develop new loan products and improve credit and risk analysis for SMEs, including by creating a single platform for the exchange of information among microfinance institutions and d) commercial bank partners of the African Guarantee Fund (AGF) to develop loan products tailored to SMEs and improve credit and risk analysis for SMEs. The Government also intends to implement the following actions:

- **Senegal will put in place a single online registry for collateral combining data on movable collateral and mortgages,** in cooperation with the Central Bank of West African States (BCEAO) to strengthen the quality of available information and protection of investors (**reform target, December 2021**).

- **Incorporation of large billers (main public utilities) into the platform of the Credit Information Bureau** (BIC, **reform target, December 2020**). This measure will make it possible to increase the availability of information through the BIC, which had 696,797 clients at end-September 2019. The BIC collects data on the credit or payment history of borrowers from financial entities, public sources, and large billers (water, electricity, telephone). This information is used to provide credit institutions with detailed solvency reports.
- **Preparation of a national financial inclusion strategy (reform target, June 2020).** This strategy will make it possible to identify constraints as well as the instruments to increase access to financial services. The strategy will help to reduce poverty, disparities, and inequalities in access to financial services. It will aim, in particular, to improve the supply by using technical, technological, and organizational innovations as well as to strengthen demand by ensuring consumer protection and promoting financial literacy. Performance monitoring indicators will be put in place.

14. The Government of Senegal aims to reduce economic and social disparities between urban and rural areas and strengthen the economic prospects of youth and women. With the move to program budgeting, the government will strive to increase the share of projects with a gender focus starting with the 2020 budget law. Moreover, the Government's efforts will focus on education as well as professional training. With regard to education, the Government will conduct a study (impact assessment) to identify mechanisms that will improve secondary school enrollment of children (**reform target, June 2020**). Further, the supply of Senegalese vocational and technical training needs to be adapted to economic and social needs of the country. The reforms envisaged involve (i) the finalization and application of the law on professional and technical training at end-June 2020; (ii) the strengthening of consultation and coordination mechanisms between the public and private sectors; (iii) improving professional training quality assurance processes; (iv) improving both access to training and the certification of competences; (v) and support for updating of the industry classification annexes.

15. The framework for the management of resources generated by hydrocarbons will be strengthened by broadening the scope for intervention by the regulator. The regulatory framework will therefore be broadened to the entire energy sector by December 2020. Further, the government intends to continue to secure the hydrocarbon supply chain by taking into account domestic production. To that end, a master plan to improve oil and gas logistics will be prepared and implemented by end-2021.

16. Universal access to electricity is a Government priority. With that in mind, in 2022 Senegal aims to achieve an urban electrification rate of 95 percent and a rural electrification rate of 75 percent. Efforts will be made to ensure a significant improvement in the quality and continuity of electricity supplies. The Government intends to optimize the energy mix by using domestic gas produced from the GTA, Yaakar-Teranga or SNE fields through a floating storage and re-gasification unit (FSRU) of 120MW while using imports from the end of the first half of 2020 in the transition until domestic production becomes available. Using increasingly gas as input for Senelec's electricity production will lead to a significant fall in the price per kWh and thus strengthen competitiveness and reduce or eliminate the need for a subsidy. In parallel, energy transformation is also a Government priority and should facilitate the achievement of the objective of universal access to electricity. Thus, Senegal's aim is to increase the penetration rate of renewable energies excluding hydropower to 18 percent by 2022.

PILLAR II: CONSOLIDATE MACROECONOMIC STABILITY THROUGH A PRUDENT FISCAL POLICY

17. Senegal is committed, in the context of the PSE, to promoting economic growth that is sustainable and inclusive. Achieving this object requires a stable macroeconomic framework based on a well-balanced fiscal policy resulting from higher revenue mobilization and more efficient public spending. The Government will adhere to all WAEMU convergence criteria by implementing the current economic and financial program to be supported by the Policy Coordination Instrument (PCI) and by keeping the debt ratio on a sustainable trajectory,

18. The Government has committed to consolidating its fiscal revenues. To that end, a first draft of the Medium-Term Revenue Strategy (MTRS) will be prepared by December 2019 which will be finalized by June 2020 **(reform target, June 2020)**. It seeks to increase domestic revenue mobilization to bring it closer to its potential and thus ensure sufficient financing for development programs, while preserving Senegal's macro-budgetary stability. The Government has also committed to completing the reform of the overall public finance framework with the transposition of the WAEMU directive on the fiscal regime of local governments.

A. A Fiscal Policy Stance Consistent with the WAEMU Convergence Criteria

19. Short-term fiscal objectives. The Government intends to limit the fiscal deficit to 3 percent of GDP in 2019 and for the following years in the context of the economic and financial program supported by the PCI. For that purpose, short-term measures have been launched to increase the pace of revenue collection and achieve the objectives of the supplementary budget law of July 2019:

- Regarding domestic taxation, the short-term measures consist of (i) tightening up the monitoring of declarations and rapid treatment of delinquencies; (ii) increasing the coverage of tax audits and (iii) speeding up the collection of tax arrears from government suppliers.
- Regarding measures initiated by customs, they involve (i) broadening of the scope of taxes and duties on import operations by the so-called informal sector, with particular emphasis on value, type, and weight declared and the cancellation of customs clearance based on a lump sum deposit (*dédouanement forfaitaire*); (ii) strengthening controls on the economic and special customs arrangements as well as on exemptions; (iii) improving the arrangements for management of the portfolio of customs claims and the monitoring of payment of interest penalties and suspended VAT; (iv) consolidation of the reform to clear goods in proximity;

(v) optimization of the use of the scanner by making it compulsory for containers for which an inspection outside of the customs perimeter is authorized to go through the red lane.

20. In parallel, the composition of expenditures has been significantly changed so as to ensure the full payment of unpaid amounts due in 2019 and unpaid amounts due to the energy sector for previous financial years while remaining within the deficit target of 3 percent of GDP. These changes have made it necessary to prepare a second supplementary budget law, which was submitted to Parliament on October 15, 2019 (LFR2). The LFR 2 is part of the fiscal consolidation to meet the deficit target of 3 percent of GDP. To ensure that the deficit target will be met, a reserve of CFAF 25 billion has been included, to be used if there is a shortfall on the revenue side.

21. Senelec, the state-owned power utility, faced liquidity shortages due to a combination of fixed electricity prices and an increase in international oil prices. Therefore, the Government decided to transfer CFAF 125 billion to Senelec. This is a one-off operation aimed at restoring Senelec's financial health. It will increase the 2019 budget deficit by CFAF 100 billion (or 0.7 percent of GDP), which will lead to an overall budget deficit of 3.7percent of GDP. Without this exceptional operation, the overall deficit will be limited to 3 percent of GDP.

22. The Government will implement the decree regarding the mechanism for regularly revising fuel prices to eliminate the need for fuel subsidies on an annual basis. If the mechanism is not complied with and price adjustment is suspended, the Government undertakes to include the necessary budget allocations in a supplementary budget, and to settle the amounts of fuel subsidies and tariff compensation due within 90 days following validation (**continuous reform target**). Similarly, if electricity are below cost-recovery level, the Government undertakes to include the necessary budget allocations in a supplementary budget law, and to pay the amounts due within 90 days after validation.

23. A time-bound strategy to repay unmet obligation accumulated before 2019 has been adopted and included in the 2020 draft budget law. Repayments are spread over the period 2020-2022, based on supporting documentation provided by the various sectoral departments. In the context of this plan, the 2020 budget law has earmarked a total of CFAF 112.6 billion were earmarked in the 2020 budget to clear overdue obligations in the energy, construction and public works, agriculture, public real estate, and water sector. The remaining payments (estimated at CFAF 235 billion) will be spread about evenly over 2021-22.

24. The remaining balances of deposit accounts will be cleared in order to facilitate cash management. This is in accordance with order n° 14117 amending order n° 21136 of November 21, 2017, setting out the conditions for the opening, functioning, and closure of deposit accounts by accountants of the Treasury. In fact, outstanding balances have declined by CFAF 174.1 billion in 2018 to a total of CFAF 221.8 billion. The remainder will be cleared by paying CFAF 100 billion in 2019 and CFAF 121.8 billion in 2020 (as reflected in the ceiling on the net domestic financing of the Government). In addition, the prohibition to carry forward amounts for current spending and limiting the carry forward for investment spending to 5 percent will support the clearing process.

25. Objectives of the draft budget law (LFI) 2020. The preparation of the 2020 budget seeks to increase revenue mobilization by at least 0.5 percent of GDP and takes into account the Government's financial commitments from prior fiscal years in the amount of 1.3 percent of GDP. The increase in revenues will be achieved by (i) increasing the number of registered taxpayers including by crosschecking of information with customs, and (ii) strengthening of tax audits, in particular by closely monitoring voluntary declarations and increasing the number of controlled entities. Improved commitment, procurement, and cash flow plans, in particular for large investment projects, will help improve the monitoring of the available funds and achieve the fiscal deficit target.

B. Strengthening Domestic Revenue Collection

26. Starting in 2020, the Government will put in place a Medium-Term Revenue Strategy (MTRS). The aim of this strategy will be to significantly improve revenue collection on a sustained basis to achieve a tax-to-GDP ratio[1] of 20 percent by 2023, creating space to finance development programs of PSE II while maintaining macroeconomic stability.

27. Implementation of the revenue mobilization strategy will focus on four main areas: (i) completing the digital transformation of the revenue agencies; (ii) adapting human resources to the current and future challenges for controlling the tax base and tax assessment; (iii) institutional and governance reforms of revenue mobilization programs; and (iv) legislative measures, in particular tax policy measures.

28. The MTRS will contain important administrative measures. A diagnostic assessment of the tax system shows that the number of taxpayers and registered importers is too low. To reverse this situation, the MTRS will aim at the following objectives:

(i) broaden the tax and customs base, by centralizing and making use of data and information on taxpayers that are unknown to the revenue administration;

(ii) check the consistency of declarations;

(iii) better assess customs value and reduce destination and economic regime fraud;

(iv) improve the productivity of the revenue services by optimizing their processes; and

(v) lower the costs borne by taxpayers to meet their tax and customs obligations.

29. The main tax policy measures of the MTRS will aim at facilitating the formalization of enterprises and broadening the tax base. They will include, among other things, a reform of the tax regime for small enterprises, of the corporate tax, and of the minimum corporate income tax, as well as a lowering of tax expenditures, in particular by better targeting of tax incentives for investment. Property taxes will be reformed to ultimately contribute to the identification of taxpayers and their assets, the simplification of stamp and registration duties will continue, and the VAT refund system will be improved to prevent it from weighing on businesses. In the short term,

[1] Tax ratio excluding natural resources/GDP excluding natural resources.

customs prepayments on income taxes will be increased for non-regulated taxpayers to encourage them to become compliant (**reform target, June 2020**).

30. The Ministry of Finance will implement the following actions to control and broaden the base:

- *digitization* of declarations as well as tax and customs procedures that are rich in data on economic agents outside the existing portfolio or that contribute little to revenues;
- *centralization* and review of financial data by the various administrations and their treatment with a view to combating tax evasion;
- *access* by customs to domestic tax data (details of domestic transactions and charges, financial statements, etc.) for better optimization of the work of the Directorate in charge of customs investigations; and finalization of the customs and tax department interconnection including a quarterly report on the use of data and information exchanges (reform target, quarterly from January 2020);
- *Implementation of a strategy to "recruit" and retain new taxpayers* or first-time filers. An accompanying mechanism will be set up to identify unregistered and informal sector actors for a period of at least two years, by providing support/assistance in the declaration process and a reminder procedure;
- *registration, identification and geo-localization* of economic units to strengthen control and collection activities;
- *improvement of the effectiveness of audit missions* and enhancing the information function.

31. The special program for the mobilization of land taxes will contribute to the expansion of the domestic tax base. The deployment of applicable solutions for the inventory of real estate (geo-localization of buildings and addresses in Dakar) will make it possible to have a better base. The first steps of this strategy for the identification and taxation of real estate will be carried out in the Dakar region in 2020.

32. The Government will continue to extend the scope of e-procedures and e-payments to other taxpayers and other tax procedures. Under the MTRS, the Government will adopt initiatives to strengthen e-payments in the economy. In this respect, it will adopt a legal and regulatory framework to support current trends of less cash transactions which promote informality, in order to develop the tax base. In addition, the Government will introduce the M-tax to allow taxpayers to declare and pay their taxes by mobile phone (**reform target, December 2020**).

33. Measures to improve VAT efficiency will be implemented. The Customs Directorate General will increase the number of staff dedicated to the monitoring, control, and recovery of suspended VAT. Through the completion of its digital strategy, the Customs Directorate General will also develop solutions for monitoring the suspended VAT stock. In the same vein, the Directorate General of Taxes and Estates will adopt digital solutions (electronic invoicing machines, e-VAT system, etc.) for the real-time control of invoices in order to strengthen control over revenues and deductions.

34. Controlling and broadening the base will also be strengthened at customs through the following actions:

- strengthening control over commercial transactions by focusing on taxation considerations (cash value and weight) and the elimination of flat-rate customs clearance;
- optimizing the use of the scanner;
- widespread use of the GAINDE system across domestic offices;
- digitization of transit formalities and extension of electronic tracking of goods shipments to all transport corridors;
- consolidating the reform of local customs clearance;
- full digitization of customs clearance procedures and administrative formalities;
- automation of the management of suspended VAT;
- extension of the computer application for the management of exemptions and economic customs procedures (GRED) to other procedures, outside the mining code.

35. In order to effectively monitor exemptions and strengthen the fight against fraud, the cross-checking and consistency control between the activities of the beneficiary importer, the amount of exemptions obtained and the nature of the beneficiary goods will be strengthened at the level of risk analysis and at the post-clearance control stage by June 2020.

C. Improve the Efficiency and Transparency of Expenditure

36. Major measures to streamline expenditure have been taken and will be strengthened as part of the preparation of the 2020 budget:

- The Government will conduct a study of the expenditure chain with IMF technical assistance, to limit the share of expenditures executed in simplified procedures and non-competitive public procurement (**reform target, June 2020**). Based on the mission's recommendations, a regulatory text will update the framework for expenditure eligible for simplified procedures (**reform target, December 2020**). Additionally, the Government will revise the November 2018 decree governing budget commitment letters to limit them to the defense and security sector only (**reform target, December 2020**);
- New investment projects included in the 2021 budget law will be submitted to arbitration, in view of budgetary constraints, in order to give priority to ongoing projects. Recurrent projects which remain unlimited in the investment program and support projects that mainly finance operating expenses will be discontinued. The inclusion of any new investment project of more than CFAF 1 billion in the budget is subject to a conclusive cost-benefit analysis by the Ministry

of Economy, Planning and Cooperation (**reform target, December 2020**). The 2021 budget law will present an investment program consistent with the commitment authorization ceilings for the next 3 years (**reform target, December 2020**) and the annual performance reports (RAPs) annexed to the 2020 budget execution law will have to report on the physical and financial execution of the main projects financed in the budget programs, with regard to their initial objectives;

- Diplomatic missions will be restructured and streamlined with the closure of some consulates and economic offices, as well as a reduction in the budget allocated to the Ministry of Foreign Affairs and Senegalese nationals living abroad;
- Mobile phone spending will be better controlled, leading to savings of at least CFAF 15 billion over a full year. Since September 1, 2019, Decree No. 2019-1310 of August 14, 2019, grants a monthly allowance to civil servants for the professional use of their phones, in lieu of direct payment with often much higher costs. Operating expenses will thus be streamlined by the end of 2019 and in 2020;
- The restructuring process of agencies that is underway will result in dissolutions, mergers, and takeovers involving 24 agencies and similar entities. This process will result in substantial budgetary savings on operating and staff costs and refocus the agencies' missions. This process is based on an analysis of the financial and social situation of the agencies and similar structures, the proposal of a social plan for the entities to be liquidated or merged, the creation of a Restructuring Fund to deal with all due diligence concerning the liquidation of workers' rights, as well as the implementation of a redeployment process for some of them to the civil service (for seconded officials), the settlement of claims and the recovery of debts, the vesting of the assets and the pursuit of investment contracts and programs through the new entities;
- The management of government vehicles will be reformed. To achieve more efficient management of its vehicle fleet, the government plans to streamline its fleet by restricting availability to certain categories of senior managers. This will make it possible to curb the growth of the fleet and gradually control the expenditure associated with the acquisition of these vehicles, their maintenance and the purchase of fuel, which weighs on the government's budget.

37. The Government will continue with the implementation of WAEMU PFM directives from January 2020 onwards. Senegal has transposed seven of the eight (8) directives of the harmonized public finance framework, with the exception of the directive on the financial and accounting regime for local and regional authorities. In particular, the organic budget law enshrines the principles underlying the new budgetary and accounting practices: the transition from a means budget to a results-based budget, from cash to accrual accounting, as well as the strengthening of the National Assembly's and the Court of Auditors' audit powers.

38. The budgetary reforms provided for in the organic budget law will be fully implemented from January 1, 2020. In order to ensure the success of the switch to program budgeting, the Government intends to continue to ensure consistency in the public finance legal framework by revising Decree No. 2011-1880 of November 11, 2011 on the General Regulation on Public Accounts and by drafting a decree on the State budget management framework that clarifies the rules for managing budgetary authorizations. The Government will adopt a new government financial information system (Integrated Financial Information Management System—SIGIF), integrating operations relating to the preparation of the budget, its execution, control, and reporting at the end of the financial year. The Government will set up a mechanism to monitor multi-year commitments, with a schedule of Payment Appropriations (PA) associated with Commitment Authorizations (CA) for all projects (new and ongoing).

39. **In recent years, the Government of Senegal has been committed to improving the transparency and accessibility of budgetary information.** The 2018 Public Financial Transparency Assessment identifies key reforms to strengthen public management transparency and better control fiscal risks:

- The process of drafting the finance law could promote participation in order to better identify needs and inform budgetary choices. With the support of its partners, the Government intends to improve public participation through the dissemination of a citizen budget.
- The Directorate-General for the Budget plans to develop and complete the budget documentation so that it meets the best international standards and to publish it without delay following its approval. These improvements will cover all the annexes to draft finance laws, multi-annual and in-year reports, including the functional nomenclature.
- The control of budgetary risks is well reflected in the Budget and Policy Programming Document (DPBEP 2020-2022). In order to better understand and manage fiscal risks, a government equity strategy and a fiscal risk statement will be developed, with IMF technical assistance. A fiscal risk statement will be annexed to the 2022 budget law (**reform target, December 2021**).
- Consolidation of the treasury single account will continue in 2020 with the integration of 20 public bodies, and the closure of all remaining accounts in commercial banks, except accounts for foreign-financed projects, and the repatriation of their balance to the treasury single account by the end of 2021 (**reform target, December 2021**).

40. The system put in place to eliminate Treasury funding for the compensation of the post office is working well. The next challenge is to put the La Poste group on a solid financial footing. The necessary restructuring of La Poste to achieve this is underway and various options will be examined, including the transformation of *Postes Finances* into a financial institution.

D. Maintaining the Sustainability of Public Debt

41. The debt strategy aims to ensure debt sustainability through prudent management while promoting economic development. It seeks to preserve the sustainability of debt and public finances in general by developing, implementing and monitoring an appropriate debt strategy. The Government is committed to maintaining a prudent debt policy, while mobilizing significant resources to finance growth. Today, debt policy is increasingly oriented towards the choice of innovative instruments such as fungible bonds, targeted auctions reserved for specialists in government securities, and structured project finance. The Government will also explore alternative sources of financing such as the development of public-private partnerships (PPPs) for certain large-scale projects and the strengthening of the business climate to attract foreign direct investment.

42. The debt strategy remains oriented towards reducing structural debt vulnerabilities and improving financial conditions (refinancing, exchange rate, and interest rate risk). It aims to meet the annual financing requirement with the best cost-risk ratio. The choice of debt instruments favors external loans with the highest concessionality rates as well as domestic financing with the longest maturities. The Government will ensure the diversification of its loan portfolio by ensuring a good balance between borrowing on the regional market and external borrowing to limit the risks associated with the latter. For the rest, the terms of the loans are considered according to the nature of the projects to be financed. In addition, Senegal will contribute to the development of the sub-regional market through active participation.

43. The National Public Debt Committee (CNDP) will be revitalized to facilitate the coordination of public debt management. In particular, the CNDP Coordination Committee will hold regular meetings to facilitate coordination and information exchange between the different entities with a mandate related to public debt management (Ministry of Finance and Budget, Ministry of Economy, Planning and Cooperation). Furthermore, the human resources of the debt office and in particular those of its middle-office unit will be strengthened in order to enable it to fully assume its role as permanent secretariat of the CNDP, as well as to enable the debt office to centralize activities relating to loan commitments, securities issuance, disbursements, or debt service payments. The CNDP will be responsible for examining all new proposals for external debt of the central government and public entities, as well as PPP-financed projects. A CNDP procedures manual will be finalized (**reform target, June 2020**).

44. The central Government debt stock at end-2018 stood at CFAF 7346.4 billion (including CFAF 6436.5 billion in external debt and 910.2 billion in domestic debt). The central Government's debt ratio stood at 56.3 percent of GDP in 2018, below the WAEMU ceiling of 70 percent of GDP. Debt servicing is expected to be CFAF 919.0 billion.[2]

45. The implementation of the debt management strategy will allow us to keep the public debt (in nominal terms) below 62 percent of GDP in 2020. The stock of public debt is expected to peak in 2021 before gradually beginning to decline, approaching 56 percent of GDP by 2024.

46. Through the 2019 currency hedge, the Government sought to limit the impact of USD/FCFA fluctuations on Eurobond debt service. The hedging strategy adopted (incorporating a

[2] The stock of public sector debt, which includes parastatal entities and state-owned companies, amounted to CFAF 8030.0 billion (61.6 percent of GDP) at the end of 2018, compared to CFAF 7445.2 billion in 2017 (61.2 percent of GDP).

reprofiling of the 2021 repayment between 2020 and 2022) limits the exchange rate risk, smooths debt service and reduces the vulnerabilities associated with the repayment of the 2011 Eurobond, thus contributing to maintaining the sustainability of public debt.

47. The widening of the debt perimeter to the parapublic sector requires regular reporting by the Directorate of the Parapublic Sector (DSP) on the debt of these companies and the guarantees granted by the Government. Companies in the parapublic sector are required to regularly report their debt situation to the DSP, which in turn forward it to the Public Debt Department for follow-up. This work will also serve to establish the public sector balance sheet. Similarly, Senegal intends to continue its efforts to extend the debt perimeter to local authorities.

PILLAR III: ENSURING SUSTAINABLE AND TRANSPARENT MANAGEMENT OF THE HYDROCARBON SECTOR

48. Senegal has a petroleum law since 2019 that governs exploration, exploitation, and production-sharing activities. Another law on local content came into force in the same year in order to allow the local private sector to benefit from the positive externalities induced by hydrocarbon exploitation. This legal framework will subsequently be supplemented by two further laws dealing with the distribution, supervision, and management of revenues from hydrocarbon exploitation and the ways in which gas resources can contribute to reducing energy costs and strengthening the competitiveness of the economy. In addition, the Government and PETROSEN participate in contracting activities with the private sector and implement the guidelines and recommendations from COS-PETROGAZ. It is intended that the law on the distribution and management of hydrocarbon resources will include the creation of an inter-generational fund to be managed by FONSIS, and the creation of a stabilization fund.

49. The Government intends to adopt a system for the long-term anchoring of fiscal policy based on the following principles: (i) consistency with WAEMU fiscal policy rules, which already reflect a well-defined set of macroeconomic objective; (ii) simplicity to ensure transparency; (iii) the Prudence Principle through the establishment of reserves that take into account Senegal's exposure to the risks of hydrocarbon exploitation; and (iv) the definition of a mechanism to deal with unexpected and permanent shocks.

50. The Government intends to adopt a bill on income distribution and management as soon as possible, which reflects best practices in this area. The government intends to adopt a long-term fiscal anchor that will be defined around a framework that ensures revenue sharing with future generations. The government intends to adopt a short-term operational budget rule (excluding oil and gas resources) in order to have a better appreciation of its fiscal policy (**reform target, end-December 2020**). This approach will take into account the budgetary risks of uncertainties related to the recovery (prices, quantities, etc.) of expected revenues from the sector.

51. The Government intends to set up a coherent and transparent system for the management of resources resulting from hydrocarbon production. To this end, the draft legislative text on the allocation, management and control of revenues from hydrocarbon production (**reform target, June 2020**) will be based on the following principles: (i) the full budgeting of tax and non-tax revenues from hydrocarbon production; (ii) the planning of the management of resources from hydrocarbon exploitation and its alignment with budget documents; (iii) the strengthening of public financial management oversight mechanisms; (iv) the prohibition of any early transfer of hydrocarbon reserves. As part of the drafting of the law and the institutional framework, the government will carry out a review of the legislative and regulatory measures required for a framework that is in line with international best practices.

Program Monitoring

52. Progress in the implementation of the policies under this program will be monitored through quantitative targets (QTs), continuous targets (CTs) and reform targets (RTs). Quantitative targets for end-December 2019, end-June 2020 and end-December 2020, as well as a quantitative target to be monitored on a continuous basis, are proposed (Tables 1a and 1b of the PS). The Government and IMF staff also agreed on the reform targets shown in Table 2 of the PS. The first review is scheduled to be completed by June 30, 2020, the second review by December 31, 2020, the third review by June 30, 2021, fourth review by December 31, 2021, fifth review by June 30, 2022, and the sixth review by December 31, 2022. Definitions are provided in the attached Technical Memorandum of Understanding.

Table 1a. Senegal: Quantitative Targets for 2019-2020 (GFSM 2001)

	2019			2020					
	Dec.			Jun.			Dec.		
	QT			QT			QT		
	Prog.	Act.	Status	Prog.	Act.	Status	Prog.	Act.	Status
Quantitative Targets									
Floor on net lending/borrowing[1]	523			300			452		
Ceiling on central government's overall net financing requirement[2]	623			..			573		
Ceiling on the amount of the budgetary float	40			40			40		
Floor on tax revenue	2,328			1,297			2,595		
Ceiling on the share of the value of public sector contracts signed by single tender (percent)	15			15			15		
Floor on social expenditures (percent of total spending)	35			35			35		
Ceiling on total nominal public debt (CFAF billion)	9,114			..			9,563		
Ceiling on spending undertaken outside normal and simplified procedures[3]	0			0			0		
Ceiling on public sector external payment arrears (stock)[4]	0			0			0		
Maximum upward adjustment of the overall deficit ceiling owing to									
Shortfall in program grants relative to program projections	20			20			20		
Memorandum items:									
Program grants									
Clearance of pre-2019 comptes de dépôt stock	100						121		

Sources: Senegal authorities; and IMF Staff estimates.

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

[2]This QT allows for the net financing needs of the central government to be larger than the floor on net lending/borrowing to clear the pre-2019 stock of the comptes de dépôt.

[3] This QT applies on a continuous basis.

[4] This constitutes a standard continuous target.

Table 1b. Senegal: Continuous Targets

- Not to impose or intensify restrictions on the making of payments and transfers for current international transactions.
- Not to introduce or modify multiple currency practices.
- Not to conclude bilateral payments agreements that are inconsistent with Article VIII.
- Not to impose or intensify import restrictions for balance of payments reasons.

Table 2. Senegal: Prior Actions and Reform Targets for 2019–21

Prior actions

- Submit to parliament a second supplementary budget for 2019 with an underlying fiscal deficit of 3 percent of GDP (excluding one-off transfer to Senelec), including realistic assumptions and measures. [Met]
- Submit to parliament a 2020 budget with a 3 percent of GDP fiscal deficit that includes a strategy and a timetable for the clearance of unmet obligations. [Met]

Reform Targets

Target	Description	Target Date
Pillar 1. Achieving inclusive growth		
Improve the business climate	• Set up a centralized and integrated land management system which will digitalize land management procedures.	End June 2021
	• Establish a court of first instance and an appeals court to further develop a commercial justice system.	End December 2021
Promote the digitalization of administrative procedures	• Implement the M-tax that enables taxpayers to file and pay their taxes by mobile phone.	End December 2020
Invest in human capital to accompany the structural transformation.	• Prepare a study to identify policy measures to improve secondary school enrollment and attendance.	End June 2020
	• Submit to parliament a revised labor law and accompanying regulations.	End December 2021
Promote access to credit/financial inclusion	• Adopt a national financial inclusion strategy to boost access to financial services.	End June 2020
	• Expand the credit bureau's access to data by using information from large billers such as utilities.	End December 2020
	• Put in place a collateral registry that is accessible online and combines data on movable collateral as well as mortgages in cooperation with the BCEAO.	End December 2021

Pilar II. Consolidate macroeconomic stability and improve public financial management		
Increase revenue	• Finalize a medium-term revenue strategy aimed at achieving a non-resource tax-to-GDP ratio of 20 percent by 2023.	End June 2020
	• Prepare a quarterly report on the use of information from the interconnection and cooperation between the customs and the tax administration.	Quarterly from January 2020
	• Raise prepayments on income taxes at customs for unregistered taxpayers to encourage them to join the formal system.	End June 2020
Improve the efficiency of expenditure	• Fully implement the decree on the mechanism to regularly revise fuel prices. If the mechanism is not used and the price adjustment is suspended, the Government undertakes to include the necessary budget allocations in a supplementary budget and to settle the amounts of fuel subsidies and tariff compensation due within 90 days following validation.	Continuous RT starting from January 2020
	• The inclusion in the budget of any new investment project exceeding one billion CFAF is subject to an ex-ante evaluation using cost-benefit analysis by the Ministry in charge of Planning (excluding projects affecting defense and security).	End December 2020
	• Submit to Parliament an updated PPP law specifying that all investment projects of over two billion CFAF shall be subject to a prior assessment and, in the event of unsolicited proposals, a second opinion from the Ministry in charge of PPPs.	End June 2020
	• The 2021 budget law will include an investment program which is consistent with ceilings for authorized commitments for the next three years.	End December 2020
Strengthen public financial management	• Review the November 2018 ministerial order on budget commitment letters to limit them exclusively to the defense and security sector.	End December 2020
	• Conduct a study of the expenditure chain supported by IMF technical assistance to limit the share of expenditure executed using simplified procedures and non-competitive public procurement.	End June 2020
	• Based on the study, a regulatory text will update the framework for expenditure eligible for simplified procedures.	End December 2020

Improve cash management	• Close remaining accounts of all public agencies and entities in commercial banks and repatriate the balances to the single treasury account, except accounts for foreign-financed projects.	End December 2021
Strengthen debt management and contain fiscal risks	• Finalize a procedures manual for the National Public Debt Committee.	End June 2020
	• Establish a database for all PPPs and power purchase agreements showing their budgetary impact and quantifying the main fiscal risks.	End June 2021
	• Publish a fiscal risk statement as annex to the 2022 budget law.	End December 2021
Pilar III. Manage the oil and gas sector in a transparent and sustainable manner		
Strengthen the legal and budgetary framework	• Prepare a draft law on the allocation, management and control of hydrocarbon revenues generated based on principles which are in line with international best practices.	End June 2020
	• Adopt a new fiscal framework with a long-term budgetary anchor defined in a way that guarantees the sharing of hydrocarbon revenues with future generations and a short-term operational rule (which will exclude oil and gas revenues).	End December 2020

Attachment I. Technical Memorandum of Understanding

1. This technical memorandum of understanding (TMU) defines the quantitative targets and continuous targets described in the program statement (PS) to monitor the IMF-supported program under the Policy Coordination Instrument (PCI) for the period January 10, 2020 – January 9, 2023. It also establishes the terms and timeframe for transmitting the information that will enable Fund staff to monitor the program. Reviews will assess quantitative targets as of specified test dates and on a continuous basis. Specifically, the first review will assess end-December 2019 test date, the second review will assess end-June 2020 test date and the third review will assess end-December 2020 test date.

A. Definitions

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

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

4. Debt. 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 (including Treasury Bills), 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 borrowed 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 this guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property.

(b) Under the definition of debt above, arrears, penalties, and judicially awarded damages and interest arising from the failure to make payment under a contractual obligation that constitutes debt is a debt.

(c) 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).

(d) 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.

B. Quantitative Program Targets

Floor on net lending/borrowing (program definition)

5. **Definition.** Net lending/borrowing, 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 definition of revenues and expenditures is consistent with that in the 2001/14 Government Financial Statistics Manual (GFSM). Government expenditure is defined on a payment order basis accepted by Treasury, as well as those executed with external resources. This quantitative target is set as a floor on the overall fiscal balance as of the beginning of the year.

6. **Adjustment.** The floor including grants is adjusted downward by the amount that budget grants fall short of program projections up to a maximum of CFAF 20 billion at current exchange rates (PS Table 1).

7. **Reporting requirement.** 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 6 weeks 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.

Ceiling on central government's overall net financing requirement

8. **Definition.** The central Government's net overall financing requirement is defined as the sum of the following two components: i) the overall fiscal balance, as defined for the quantitative target on net lending/borrowing; and ii) the additional borrowing by the Treasury to finance accounts payable, comprising spending by ministries out of unutilized appropriations from past budgets (drawdown of the "*comptes de dépôt*"), offsets for illiquid revenues (*"recettes d'ordre"*) and other below-the-line operations. For end-December 2019 and 2020, this quantitative target would need to be lower or equal to the amount indicated in Table 1 of the Program Statement.

9. **Adjustment.** The ceiling is adjusted upward by the amount that budget grants fall short of program projections up to a maximum of CFAF 20 billion at current exchange rates (PS Table 1).

10. **Reporting requirements.**

- Data related to the additional borrowing by the Treasury to finance accounts payable will be sent quarterly within a period of one month from the end of the quarter. This comprises: spending by ministries out of unutilized appropriations from past budgets (drawdown of the "*comptes de dépôt*") and offsets for illiquid revenues (*"recettes d'ordre"*) and for other below-the-line operations.
- Data related to the overall financing requirement will be sent quarterly within a period of one month from the end of the quarter, starting from the end 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.

Ceiling on the amount of budgetary float

11. **Definition.** The budgetary float (*instances de paiement*) is defined as the outstanding stock of Government expenditures for which bills have been received and validated (the difference between *dépenses liquidées* and *dépenses payées*) and for which the payment delay does not exceed regulatory delays (90 days after reception and validation of relevant bills (*liquidation*) except for payments related to domestic debt service for which the delay is 30 days).

12. **Reporting requirement.** The authorities will transmit to Fund staff at the end of each month, a table from the expenditure tracking system (SIGFIP, or SIGIF once it becomes operational) 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 payées*). The SIGFIP table will exclude delegations for regions and embassies. The SIGFIP table (or SIGIF once it becomes operational) will also list any payments that do not have a cash impact on the Treasury accounts. Balances outstanding are broken down by payer and spending category, as well as by maturity and length of time overdue.

Regarding derogatory expenditures, the authorities will report to IMF staff at the end of each quarter: (i) the status of 'waiting and provisional imputation' accounts (*comptes d'attentes et d'imputation provisoire*) showing the stock of transactions awaiting regularization from the general balance of accounts of the state; (ii) the status of the derogatory expenditures presented by expenditure category; and (iii) the status of deposit accounts (*comptes de dépôt*) and commitments related to comfort letters. The authorities will also present an assessment of the regularization of such expenditures from one quarter to the next.

Floor on tax revenues

13. **Definition.** 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 quantitative target will be assessed based on data for these revenues provided in the quarterly TOFE. 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).

14. **Reporting requirement.** Reporting requirements are the same as for the quantitative target floor on net lending/borrowing.

Ceiling on the share of the value of public sector contracts signed by single tender (percent)

15. **Definition.** 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 procurement is considered "non-competitive" when the contracting authority awards the contract to the successful candidate without open competitive tender and without an open inquiry and open price. The quarterly quantitative 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 imposes on SENELEC to buy fuel from SAR on the basis of the current price structure. The ceiling also excludes administrative amendments. Also excluded are riders whose execution with the supplier is a necessary condition for the final delivery of goods and services which are included in the original contract provided that they comply with the provisions of the procurement code.

16. **Reporting requirements.** The Government will report semi-annually 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.

Floor on social expenditure

17. **Definition.** 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).

18. **Reporting requirements.** The authorities will report semiannual data to Fund staff within two months following the end of each period.

Ceiling on total nominal public debt

19. **Definition.** Debt for this quantitative target is defined as in paragraph 4 above, comprises external and domestic debt of the public sector (i.e. general Government and public nonfinancial corporations as defined in paragraph 3), and is measured at its nominal value.

20. **Reporting requirements.** The authorities will report quarterly data to Fund staff within two months following the end of each quarter.

Ceiling on spending undertaken outside simplified and normal procedures (continuous)

21. **Definition.** This quantitative target 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 23 of the Organic Budget Law. Such spending requires the signature of the President of the Republic.

22. **Reporting requirements.** The authorities will report any such procedure immediately to Fund staff.

Ceiling on public sector external payments arrears (continuous)

23. **Definition.** 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 4 is applicable here. The quantitative target on external payments arrears will be monitored on a continuous basis.

24. **Reporting requirements.** The authorities will promptly report any accumulation of external payments arrears to Fund staff.

C. Additional Information for Program Monitoring

25. 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;
- 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
- A quarterly report on FSE operations in terms of revenues and expenditures;
- A monthly report on the price structure of fuel products, including an estimate of the subsidy involved; no later than 4 weeks after the publication of the price structure.

(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.

26. 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.

27. 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.

28. 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.

SENEGAL

REQUEST FOR A THREE-YEAR POLICY COORDINATION INSTRUMENT—DEBT SUSTAINABILITY ANALYSIS[1]

December 19, 2019

Approved By
Annalisa Fedelino and Maria Gonzalez (IMF), and Marcello Estevão (IDA)

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

Senegal Joint Bank-Fund Debt Sustainability Analysis	
Risk of external debt distress	*Moderate*
Overall risk of debt distress	*Moderate*
Granularity in the risk rating	*Limited shock absorption space in the short run and substantial space over the long-run*
Application of judgment	*No*

Compared with the January 2019 DSA, Senegal's risk of debt distress (external and overall) has moved from low to moderate, reflecting a significant shift in the composition of public debt towards non-concessional external debt, including to fund investments to develop the hydrocarbon sector. As a result, the DSA shows more significant and prolonged breaches of the thresholds under the stress tests for three out of four key external debt ratios, driven by higher external debt service. Although the country has limited space to absorb shocks in the near term, it maintains substantial space for borrowing over the long run. The moderate risk of debt distress is predicated on adherence to the planned fiscal consolidation path, an acceleration of reforms, and a prudent borrowing strategy, especially over the medium term, as reflected in the authorities' Program Statement. Looking ahead, addressing fiscal risks from the broader public sector, including the energy sector, will be critical to anchor debt sustainability.

[1]This DSA has been prepared following the revised LIC-DSA framework. It updates the previous Joint DSA (IMF Country Report No. 19/27). Senegal's debt carrying capacity, calculated based on the April and October 2019 WEOs is classified as strong. The applicable thresholds to public and publicly guaranteed external debt are: 55 percent for the PV of debt-to-GDP ratio, 240 percent for the PV of debt-to-exports ratio, 21 percent for the debt service-to-exports ratio, and 23 percent for the debt service-to-revenue ratio. The applicable benchmark for the PV of total public debt for strong debt carrying capacity is 70 percent of GDP.

BACKGROUND

1. **Compared with the previous DSA (the January 2019 DSA, based on the end-2017 stock of public debt), the current DSA uses the end-2018 public debt stock as a starting point.** Like the January 2019 DSA, the current DSA continues to use the broader coverage of the public sector, which is deemed comprehensive as debts from 26 major parastatals and SOEs are included (Box 1). During 2018, the public sector debt-to-GDP ratio slightly increased to 61.4 percent inclusive of the 2018 budget overfinancing (1.6 percent of GDP) initially put in an escrow account to meet the 2019 financing needs. However, the composition of new borrowing changed markedly, driven by large Eurobond issuances, and a decline in the share of domestic debt as the government refrained from issuing on the regional bond market during the year. The change in debt composition is also characterized by a rapid and unanticipated increase in the share of short-term external borrowing as the government resorted to two bridge loans—CFAF 125 billion to finance the one-off government transfer to the state-owned electricity utility, Senelec, and CFAF 150 billion for liquidity needs. Combined with the introduction of additional financing (compared with the last DSA) for Petrosen's full investment for the development of oil and gas projects (Box 2 below) this has led to a significant increase in external debt service starting in 2020 compared with past projections. The rebasing of GDP in 2018 on the contrary contributed to lowering the debt-to-GDP ratio

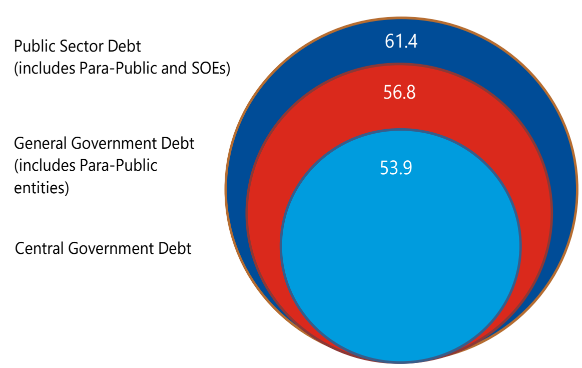
Box 1. Coverage of Public Sector Data in the DSA

This DSA, similar to the previous one, is based on a broader coverage of the public sector. The public sector includes the (i) central government, (ii) para-public entities which are part of the general government, and (iii) SOEs.

Total public debt data, including debt of para-public entities and SOEs, are provided by the authorities. Revenue and expenditure data on para-public entities and SOEs are derived from technical assistance (TA) reports from the Statistics and Fiscal Affairs Departments of the IMF. Combining the central government deficit of 3.3 percent of GDP with data from other public-sector entities, puts the 2016 public sector deficit at 1.4 percent of GDP. The implementation of the ambitious *Plan Senegal Emergent* (PSE) investment program widened the overall public-sector deficit to 2.5 percent of GDP in 2017 and to 4.6 percent of GDP in 2018. The expanded coverage of debt brought the end-2017 debt stock to 61.2 percent of GDP, including central government debt of 50 percent of GDP. In 2018, the debt to GDP ratio slightly increased to 61.4 percent of GDP, with external debt standing at about 48.5 percent of GDP compared with 39.8 percent in 2017, inclusive of the loans from the regional development bank (BOAD), which has been reclassified as domestic debt in 2018.[1]

The authorities remain committed to tackling public debt data gaps and further improving debt transparency. The expanded coverage of public sector data in this DSA starting in 2017 creates a structural break with historical data.

Senegal: Total Public Debt, year end 2018



Sources: Senegalese authorities; and staff estimates.

[1]Applying the same reclassification to the 2017 debt stock would lower the external debt-to-GDP ratio to about 46.5 percent.

2. Overall, several key factors have contributed to the rapid public sector debt build-up over recent years. They include: (i) accelerated public spending, particularly in 2017-18; (ii) below-the-line treasury spending; and, more recently, (iii) the inclusion of debt from SOEs such as Senelec and Air Senegal for one-off significant investments; and (iv) significant non-concessional external borrowing.

3. As SOEs' debts are mostly covered by the DSA, the contingent liability stress test accounts for risks from ongoing PPPs and financial markets. The value of PPPs, estimated at about 6-7 percent of GDP (as in the January 2019 DSA), raises the contingent liability shock by 2 percent of GDP (corresponding to 35 percent of the total PPP stock). Contingent liabilities from financial markets are set at the minimum value of 5 percent of GDP, which represents the average cost to the government of a financial crisis in a LIC since 1980 (Table 1).

Table 1. Senegal: Coverage of Public Sector Debt and Design of the Contingent Liability Stress Test

	Subsectors of the Public Sector	Sub-sectors covered
1	Central government	X
2	State and local government	X
3	Other elements in the general government	
4	o/w: Social security fund	
5	o/w: Extra budgetary funds (EBFs)	X
6	Guarantees (to other entities in the public and private sector, including to SOEs)	X
7	Central bank (borrowed on behalf of the government)	X
8	Non-guaranteed SOE debt	X

1	The country's coverage of public debt	The central, state, and local governments plus extra budgetary funds, central bank, government-guaranteed debt, non-guaranteed SOE debt		
		Default	Used for the analysis	Reasons for deviations from the default settings
2	Other elements of the general government not captured in 1.	0 percent of GDP	0.0	
3	SOE's debt (guaranteed and not guaranteed by the government) 1/	2 percent of GDP	0.0	
4	PPP	35 percent of PPP stock	2.1	PPP capital stock of 6 percetn of GDP is larger than 3 percent threshold
5	Financial market (the default value of 5 percent of GDP is the minimum value)	5 percent of GDP	5.0	
	Total (2+3+4+5) (in percent of GDP)		7.1	

1/ The default shock of 2% of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1.). If it is already included in the government debt (1.) and risks associated with SOE's debt not guaranteed by the government is assessed to be negligible, a country team may reduce this to 0%.

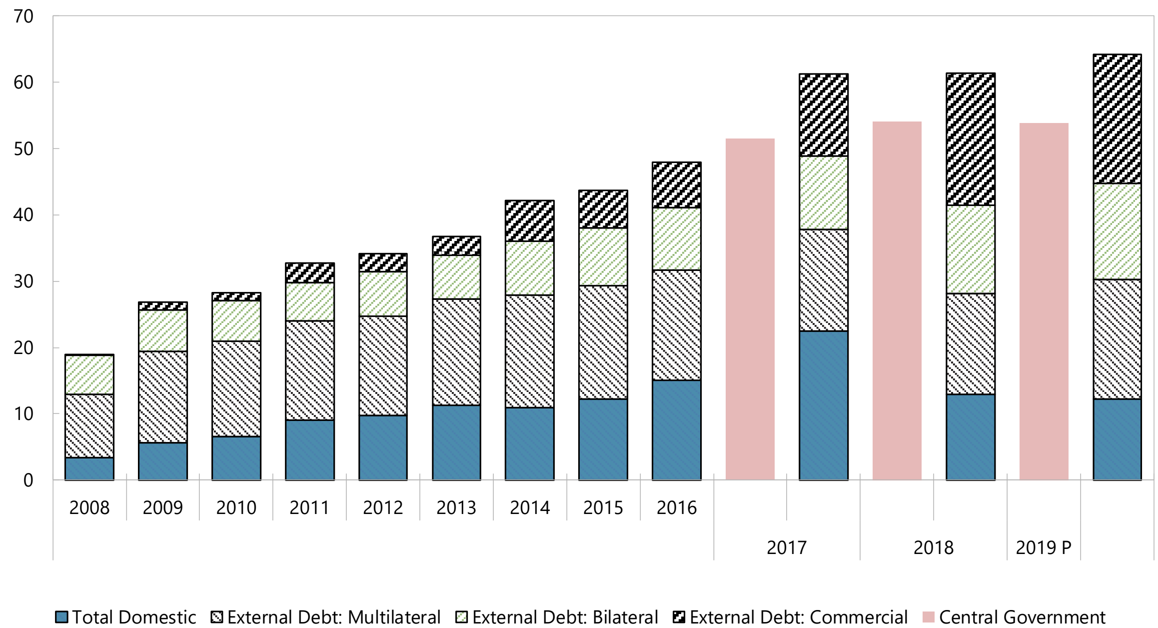
4. Senegal's external public debt stock stood at 48.5 percent of GDP as of end-2018.[2] This represents an increase of over 8 percentage points compared to 2017, and mostly reflects the issuance of a US$2.2 billion Eurobond in March 2018, Senegal's largest ever and amounting to twice the previous issuance of US$1.1 billion in 2017. A part of the proceeds was used to buy back 40 percent of the 2021 bullet payment on the US$500 million Eurobond issued in 2011. Senegal's Eurobond issuance helped create space in the regional bond market for WAEMU countries without access to international markets, and, combined with substantial Eurobond issuance by Côte d'Ivoire, supported the build-up of WAEMU pooled reserves, which had fallen in 2016.

[2] In this DSA, external debt is defined based on currency rather than residency.

5. **Both Eurobond issuances substituted, to a large extent, for borrowing on the regional market**. As a result, domestic debt declined from about 21 percent of GDP at end-2017 to 13 percent of GDP at end-2018, leading to significant changes in the composition of public debt (Figure 1).

Figure 1. Senegal: Public Sector Debt, 2008-19[1]

(Percent of GDP)



Sources: Senegalese authorities; and staff estimates and projections.

[1/] Total debt refers to central government debt until 2016, and public sector debt from 2017 onwards. The pink bars show central government debt for the years 2017-19.

Source: Staff estimates.

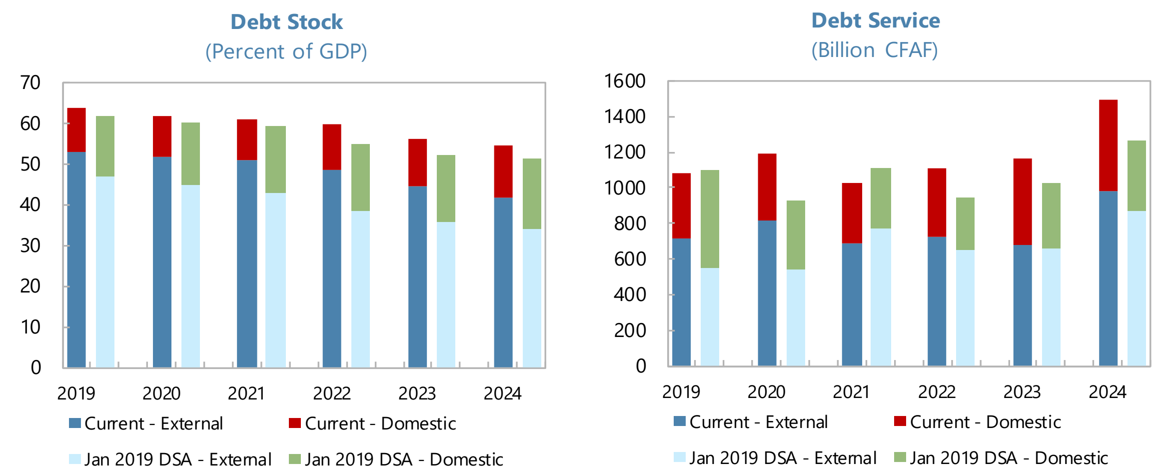
6. **Recent developments point to a further increase in the external public debt ratio for 2019.** External public debt is projected at 53.5 percent of GDP (47.2 percent in the previous DSA), and total public debt is projected to reach 63.7 percent in 2019. The increase reflects higher financing requirements owing to the need for the Treasury to finance: (i) the reduction in the end-2018 outstanding balance in below-the-line *comptes de dépôt*; (ii) the payment of pre-2019 Senelec arrears as part of the World Bank-supported plan to restore the company's financial viability, which was financed through a short-term external commercial loan of CFAF 125 billion (see Annex III in Senegal Request for a three year Policy Coordination Instrument); (iii) larger-than-previously-anticipated investments in Petrosen for the oil and gas projects; (iv) the purchasing of airplanes by Air Senegal; and (v) a syndicated loan of CFAF 150 billion for other treasury operations. The authorities intend to refinance this loan in the regional CFA bond market with a longer maturity. Domestic debt is estimated to decline further to about 10 percent of GDP at end-2019, as most of the borrowing to finance these major projects is external.

7. **External debt service has increased recently, and total public debt service remains sizeable**. The ratio of public external debt service to exports increased from about 9 percent in 2017 to 17.5 percent

in 2018 and is estimated at 18.5 percent in 2019 Public external debt service to revenue increased from about 8 percent in 2017 to 15.6 percent in 2018 and is estimated at 16 percent in 2019. Total public debt service, estimated at about 28 percent of total revenue (including grants) in 2019, reflects the increased resort to non-concessional borrowing in the last two years.

8. Overall, the increase in the share of non-concessional external debt and implications on debt service explain, for a large part, the difference between the current and the previous DSA. Domestic debt represented about one third of total debt in 2017, the base year in the previous DSA. However, at end-2018 (the base year for the current assessment), the share of domestic debt stood at 20 percent of total public debt (Figure 2). The dynamics of debt service have thus significantly changed in the current assessment as compared with the previous DSA (Figure 2).

Figure 2. Senegal: Debt Stock and Debt Service, 2019-24



Sources: Senegalese authorities; and staff estimates and projections.

UNDERLYING ASSUMPTIONS AND BORROWING PLAN

9. The DSA is consistent with the macroeconomic framework outlined in the staff report. 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 PSE II. It is also assumed that Senegal's central government fiscal deficit remains at 3 percent of GDP over the long term, consistent with WAEMU convergence criteria. The main macroeconomic assumptions are as follows:

- **Natural resources**. The current framework assumes the implementation of two large off-shore oil and gas projects (GTA and SNE projects), including pre-production investment and borrowing with first production and export of oil and gas expected in 2022. Full investments for phase I as well as expected investments for phases II and III for both projects were added, along with the projected impact of these investments on GDP growth, exports and government revenues. *While the previous DSA considered only partial investments of US$600 million equally split over three years for the phase I of SNE and GTA, the current DSA considers all three phases for* *both projects. For GTA, total capital expenditure is estimated at $1,452 million, spread over the period 2020-26. For SNE, the equivalent number is $1,641 million over the period 2020-32* (Box 2).

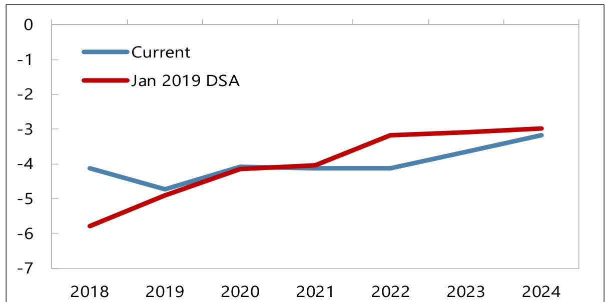
- **Real GDP growth** is estimated at 6 percent in 2019, increasing to 6.8 percent in 2020, *compared with 6.9 and 7.5 respectively in the previous DSA,* reflecting a slow-down in economic activity around the February 2019 elections and the negative impact of unpaid government obligations in the construction sector. The growth rate peaks at 11.6 percent in 2023, decelerating to 8 percent in 2024, reflecting the incorporation of oil and gas production. Thus, medium-term projections of real GDP growth (7.9 percent) are more optimistic than historical averages (4.8 percent) but more aligned with recent outcomes in 2016-18, implying that the growth take-off is projected to continue, conditional on reforms being implemented and materialization of expected returns on investment. Over the long run, real GDP growth is projected to slow down, averaging 5.1 percent over the period 2025-39 (slightly above the historical average) *and unchanged compared with the previous DSA*. This is in line with international experience that suggests that, over a long period of time and as economies converge to middle income status, the real GDP growth rate slows down.

- **Inflation**. Inflation is projected to remain contained at under 2 percent in 2019 The GDP deflator is projected at 1.1 percent in 2019 and is expected to hover around 2 percent over the medium term.

- **Fiscal deficit**. The public sector deficit is projected at about 4.7 percent of GDP in 2019 (owing to Petrosen and Air Senegal investments) and 4.3 percent of GDP over the medium term, still reflecting large Petrosen investments (Figure 3). *This medium-term deficit is somewhat larger than assumed in the previous DSA (3.7. percent of GDP), mainly owing to the higher investments in oil and gas (Box 2).* In the long run, the deficit is set at about 2.7 percent of GDP, *broadly unchanged from the previous DSA*, incorporating some efforts to improve the financial performance of SOEs (Table 2).

Figure 3. Public Sector Fiscal Deficit, 2018-24

(Percent of GDP)



Sources: Senegalese authorities; and staff estimates and projections.

- **Gross financing needs**. In line with the rise in the deficit, average gross financing needs over the medium-term in the current DSA increase and stand at about 9 percent of GDP *compared to 7.5 percent in the previous one*.

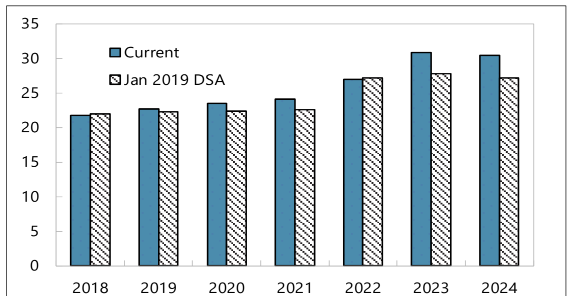
- **External financing mix and terms**. The DSA assumes that the financing mix will be consistent with a prudent borrowing strategy, aimed at gradually increasing the share of domestic debt and seeking new external financing on concessional terms whenever feasible. *The current DSA also includes the two external bridge loans— CFAF 125 billion for Senelec and CFAF 150 billion syndicated loan—contracted in 2019 and repayable in 2020*. However, consistent with the authorities' debt management strategy, the refinancing of at least CFAF 150 billion through issuance of bonds on the regional market is also included. The authorities have already obtained the BCEAO's authorization to place an additional amount of up to CFAF 275 billion in 2019 and there appears to be significant liquidity in this market (the recent bond issuance by Senegal was oversubscribed by 300 percent). Even though recent borrowing has seen an increased reliance on non-concessional borrowing, the average maturity of new debt is assumed to remain close to 17 years, with 6-year grace period and an average interest rate of 4 percent, broadly unchanged compared to the previous DSA which had a 7-year grace period and 4 percent average interest payment.

- **Domestic borrowing.** Domestic financing is assumed to account on average for about 35 percent of total financing over 2019-24; about 10 percent of which has maturity below one year. New medium- and long-term domestic debt has an average maturity of 5 years, with some SOE debt benefiting from a grace period.

- **Exports**. Exports of goods and services are estimated at about 23 percent of GDP in 2019 and projected to average about 27 percent over the medium term compared respectively to about 22 percent and 24 percent in the last DSA (Figure 4). Over the long run, exports are expected to average 31 percent of GDP compared to 28 percent in the last DSA.

Figure 4. Exports of Goods and Services, 2018-24

(Percent of GDP)

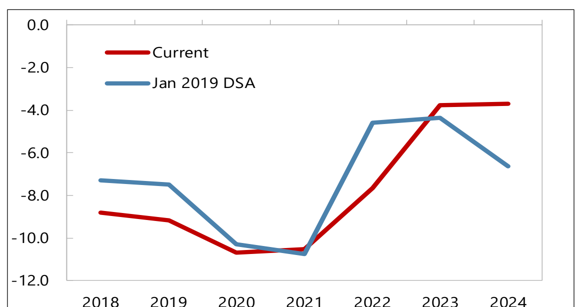


Sources: Senegalese authorities; and staff estimates and projections.

- **Current account deficit**. The current account deficit in 2018 was higher than anticipated in the previous DSA (8.8 percent of GDP actual compared with a projection of 7.3 percent of GDP), and is projected to stay elevated in 2019 (9.2 percent of GDP compared with a previous projection of 7.5 percent of GDP) due to an increase in imports of capital goods and oil, and their related services. The current account deficit is projected to remain elevated through 2021 due to oil and gas investment in the pre-production period (Figure 5). Over the long term, the average current account deficit is projected to converge to1.1 percent of GDP (compared to1.2 percent in the last DSA) due to improved export growth, including from the oil and gas sector and the ongoing export-oriented investments in the Special Economic Zones (SEZs). Remittances remain a significant component of the current account but are expected to decline as a percent of GDP over the medium term.

Figure 5. Current Account Deficit, 2018-24

(Percent of GDP)



Sources: Senegalese authorities; and staff estimates and projections.

- **Discount rate**. The discount rate for this DSA is set at 5 percent, *as for the previous one.*

Box 2. Oil and Gas—Petrosen Borrowing Assumptions

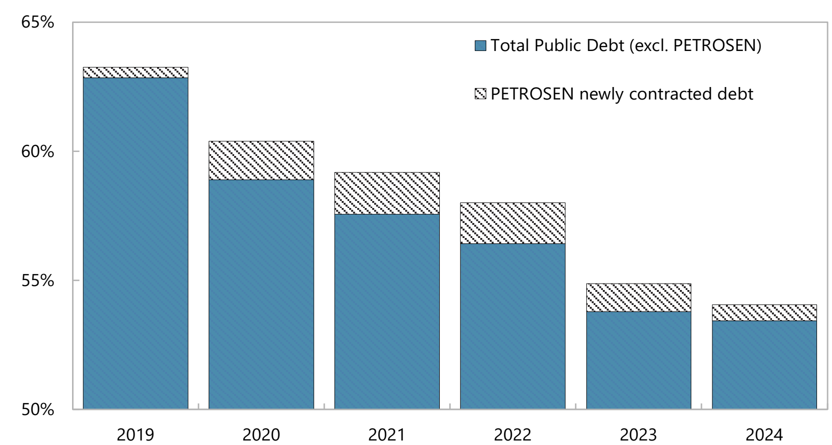
The Senegalese National Oil Company, Petrosen, was created in May 1981 to serve as the implementing agency for the State's petroleum policy. Petrosen is under the supervision of the Ministry in charge of the energy sector. In collaboration with the Ministry, it prepares and negotiates all petroleum conventions and contracts. The SNE deep-water oil field is expected to be Senegal's first offshore oil development. The field is located within the Sangomar Deep Offshore permit area, approximately 100 kilometers south of Dakar. The gas project consists of about 15 trillion cubic feet estimated recoverable in a high-quality reservoir at a 2,850 meters water depth (Greater Tortue Ahmeyim-GTA) and is exploited jointly with Mauritania.

The oil and gas sector development for both SNE and GTA comprises three phases and the state-owned enterprise Petrosen's investments for the first phase amount to US$1,140 million with US$425 million for GTA and US$715 million for SNE. This DSA updates the last DSA—which only partially considered the first phase (US$600 million)—by not only accounting for the full phase I investments, but also by considering investments for the remaining two phases. The total Petrosen investment for GTA across the three phases is estimated at US$1,452 million, with the equivalent for SNE being US$1,641 million (see Text Table for the spread of these investments across time).

Senegal: Total Public Debt, 2019-31

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
BASELINE													
(CFAF Billions)													
Petrosen Borrowing Assumption	59	226	265	287	224	140	111	47	77	75	83	78	57
Total Public External Debt (excl. Petrosen)	7,416	7,606	8,107	8,496	8,933	9,398	9,754	10,024	10094	10143	10154	10400	10636
Total Public External Debt	**7,475**	**7,832**	**8,372**	**8,783**	**9,156**	**9,538**	**9,865**	**10,071**	**10171**	**10218**	**10236**	**10478**	**10693**
Total Public Debt	**8,904**	**9,337**	**9,983**	**10,738**	**11,514**	**12,423**	**13,326**	**14,238**	**15257**	**16353**	**17555**	**18854**	**20238**
(Percent of GDP)													
Petrosen Borrowing Assumption	0.4	1.5	1.6	1.6	1.1	0.6	0.5	0.2	0.3	0.2	0.3	0.2	0.2
Total Public External Debt (excl. Petrosen)	53.0	50.4	49.4	47.2	43.4	41.4	40.0	38.2	35.7	33.5	31.2	29.6	28.1
Total Public External Debt	**53.5**	**51.9**	**51.0**	**48.8**	**44.5**	**42.0**	**40.4**	**38.4**	**35.9**	**33.8**	**31.5**	**29.8**	**28.3**
Total Public Debt	**63.7**	**61.9**	**60.8**	**59.6**	**56.0**	**54.7**	**54.6**	**54.3**	**53.9**	**54.1**	**54.0**	**53.6**	**53.6**

Senegal: Public Sector Debt - impact of Petrosen investment[1]
(Percent of GDP)



Sources: Senegalese authorities; and IMF staff calculations.
[1] Petrosen loans are assumed to be contracted for a 10-year period, at 7 percent interest per annum, with a 4 year grace period (hence amortization would start in 2024, but would be quite low).

10. The realism of the macroeconomic framework is confirmed by several checks (Figure 9). The nature of projected medium-term debt-creating flows is similar to that of the historical outturns. The projected fiscal adjustment for the next three years is well below the top quartile of the distribution of approved Fund-supported programs for LICs since 1990. The assumed fiscal consolidation plans are consistent with the WAEMU regional fiscal deficit convergence criterion of 3 percent of GDP, to which the authorities have committed. Regarding the relation between fiscal adjustment and growth paths, the baseline projection does not deviate significantly in 2020 from the growth paths with LIC's typical fiscal multipliers extracted from the empirical literature. The contribution of government capital to real GDP growth is conservative and remains in the order of the historical magnitudes.

Table 2. Senegal: Evolution of Selected Macroeconomic Indicators, 2016-19

	2016	2017	2018	2019	Med. term[1]	Long term[2]
Real GDP growth						
Current DSA	6.4	7.1	6.7	6.0	7.9	5.1
Previous DSA	6.2	7.2	6.2	6.9	8.3	5.1
Overall fiscal deficit (percent of GDP)						
Current DSA[3]	3.3	2.5	4.1	4.7	4.0	2.4
Previous DSA[4]	3.3	2.8	5.1	4.3	3.7	2.8
Current account deficit (percent of GDP)						
Current DSA	4.0	7.3	8.8	9.2	7.6	1.2
Previous DSA	4.0	7.3	7.3	7.0	7.5	1.2
Exports of goods and services (percent of GDP)						
Current DSA	21.5	21.9	21.8	22.7	26.4	31.3
Previous DSA	21.5	21.7	22.0	22.3	24.0	28.1

Sources: Senegalese authorities; and staff estiamtes and projections.
[1] Defined as the first 5 years of the projection period. For the current DSA update, the medium term covers the years 2019-2024.
[2] Defined as the last 15 years of the projection period. For the current DSA update, the long term covers the years 2025-2039.
[3] Overall fiscal deficit of General Government and Public Sector.
[4] Overall fiscal deficit of Central Government.

COUNTRY CLASSIFICATION AND DETERMINATION OF STRESS TEST SCENARIOS

11. Senegal's capacity to carry debt remains strong. Values in the components of the Composite Indicator (CI) score, which reflect 10-year averages, have only changed marginally compared to the previous DSA (Table 3). Thus, thresholds to assess debt sustainability have remained unchanged compared to the previous DSA. The main contributors to the score are the CPIA value, reflecting quality of institutions and policies, and import coverage of reserves.

12. Stress tests follow standardized settings, with the addition of a market financing shock. The standardized stress tests apply the default settings, while the contingent liability stress test is based on the quantification of contingent liabilities discussed above. The market financing shock is the only tailored stress test that applies to Senegal due to an outstanding Eurobond. The test assumes a temporary increase in the cost of new commercial external borrowing by 400 basis points combined with a nominal depreciation of 15 percent of the CFAF vis-à-vis the US$ and a shortening of maturities and of grace periods.[3]

Table 3. Senegal: Debt Carrying Capacity

Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.385	3.818	1.47	44%
Real growth rate (in percent)	2.719	7.598	0.21	6%
Import coverage of reserves (in percent)	4.052	39.075	1.58	47%
Import coverage of reserves^2 (in percent)	-3.990	15.269	-0.61	-18%
Remittances (in percent)	2.022	10.587	0.21	6%
World economic growth (in percent)	13.520	3.559	0.48	14%
CI Score			3.34	100%
CI rating			Strong	

Source: Staff estimates.

EXTERNAL DSA

13. The external debt indicators remain below their thresholds under the baseline scenario—with the exception of the debt service-to-export ratio—and are projected to be on a downward path over the medium term (Figure 6). Public external debt service to revenue is projected to peak at about 20 percent in 2020 before reversing trend. Public external debt service to exports is projected to reach a peak of about 23 percent in 2020 before declining in subsequent years. While other debt indicators remain well below their thresholds, the debt service-to-exports ratio exceeds its threshold once (during 2020) by a small margin (about 2 percentage points), reflecting mainly the repayment of the non-refinanced portion (CFAF 125 billion CFA) of the two bridge loans contracted in 2019 on top of, among other elements, the Eurobond debt service of more than CFAF 125 billion.[4] The breach under the baseline

[3] The considered shortening of maturities of commercial external borrowing are as follows. If the original maturity is greater than 5 years, the new maturity is set to 5 years. If the original maturity is less than 5 years, the new maturity is shortened by 0.7 years.

[4] Compared to the previous DSA, this is much higher as the full bullet repayment of the 2011 Eurobond, originally scheduled for 2021, has been reprofiled and spread across three years 2020-22.

is temporary in nature (one year) and according to the LIC DSF guidance note does not affect the risk rating. In the previous DSA this same ratio was about 7 percentage points below its threshold in 2020. The present value of public and publicly guaranteed (PPG) external debt is estimated at about 46 percent of GDP in 2019 and is projected to decline to about 38 percent of GDP in 2024 and 25 percent on average in the long term (well below the 55 percent threshold). This baseline scenario assumes good progress on reforms, where the government continues to take measures to sustain growth and guarantee the efficiency of public investment. However, the historical scenario in the DSA provides an illustration of how lack of progress on reforms and a return to the low growth of the past would put debt on an upward and unsustainable path (Figure 6). Under this scenario,[5] most indicators would breach their respective thresholds over the medium to long term. The historical scenario highlights the importance of steadfast implementation of structural reforms to sustain high growth.

14. All debt indicators exceed their thresholds—albeit for a short period of time— under the stress tests. All four of public and publicly guaranteed external debt burden indicators breach their threshold under the stress tests in 2020 but for a short period of time (three years maximum). All the breaches are relevant towards determining the rating with the exception of the breach of the debt service-to-revenue ratio, which experiences only a short-lived breach of one year under the simulation of a depreciation of the exchange rate. In addition, such a shock is unlikely to materialize given the CFA franc peg. Concerning the other three debt indicators, the most extreme shock is the export shock for both debt-to-exports and debt service-to-exports ratios, while the combination shock would be the worst shock for the PV of debt-to-GDP ratio. The largest deviations are recorded for the debt service-to-export ratio and the debt-to-exports ratio, which peak at about 26 percent in 2020 and about 310 percent in 2021, respectively (i.e., close to 30 percent above their thresholds). The tailored market financing risk stress tests causes the debt service-to-export ratio to breach its threshold in 2020 reaching 23 percent (Figure 10).

15. The external debt developments put Senegal at a moderate risk of external debt distress. Even when taking into account certain factors that have influenced Senegal's debt dynamics, such as: (i) GDP rebasing, (ii) active liability management (the repurchase of 40 percent of the 2011 Eurobond in 2018 and the resulting reduction in the 2021 bullet repayment spike), and (iii) introduction of oil and gas-related production and revenues starting in 2022 and the related higher exports and GDP growth—the debt indicators still display noticeable deteriorations compared with the previous DSA, pointing to the moderate risk of debt distress. The results are robust to several alternative hypotheses, including a scenario where half of Petrosen financing would go through project finance and that portion is removed from the DSA calculations after the construction period of each phase.

16. This change in rating results from a combination of factors affecting both the numerator and the denominator of key debt ratios. With the previous DSA risk of debt distress rating already considered to be low but "borderline" medium, the continued increase in debt, particularly the tilt towards non-concessional external debt, and the deterioration of some short-term macroeconomic indicators (such as the fiscal and the current account deficits and real GDP growth) compared with previous projections

[5] It simulates the incidence of a non interest current account deficit and FDI stabilizing at - 5.4 percent of GDP and 1.8 percent, respectively; and real GDP and GDP deflator would grow at 4.8 percent and -1.2 percent, respectively.

explain the change in rating. Compared to the last DSA, average debt service over 2019-24 has increased by about 19 percent (Figure 2). The country has limited space to absorb shocks in the near term, but it has substantial space for borrowing over the long run (Figure 11).

PUBLIC DSA

17. Indicators of overall public debt and debt service point to moderate vulnerabilities. The debt-to-GDP ratio displays a downward trend starting in 2020, which accelerates in 2023 as hydrocarbon production intensifies and nominal GDP increases. The net present value of total public debt is projected to decline from 57 percent in 2019 to 49 percent of GDP by 2039, remaining well below its benchmark of 70 percent (Figure 7 and Table 5). Under the most extreme stress test, a shock to GDP growth results in a prolonged breach of the threshold, but the stress test may overstate the magnitude of the debt vulnerability in the case of Senegal because the sizable permanent increase in the primary deficit created by the standardized simulation is not consistent with Senegal's stated fiscal policy or historical data—a conclusion that will only be reinforced by the advent of oil and gas revenues from 2022 onwards. [6] Under the historical scenario, the PV of total public debt is on an upward trend, highlighting the risk that insufficient reforms, and related low growth, represent for public debt dynamics. Overall, risks to public debt sustainability are moderate, but stress tests underline the importance of making continuous efforts to reduce the fiscal deficit, including through strong private sector-led growth and subsequently increasing revenues, as well as strictly controlling the volumes and terms of non-concessional borrowing.

18. The public DSA highlights vulnerabilities related to debt service. Debt service is estimated to decline from about 39.5 percent of total revenues in 2018 to about 28 percent of total revenues in 2019 as the performance of revenue collection improves. It is projected to decline further to an average of 23 percent during 2020-2028 as the improvement in revenue collection continues, gross financing needs decrease, and some large Eurobonds mature. Despite the decline, debt service continues to absorb a sizable portion of fiscal revenues, thus limiting room for other expenditures in critical areas such as 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 revenues to finance economic development in a sustainable manner.

RISKS TO THE ASSESSMENT

19. Risks to the assessment are balanced. On the upside, additional mining revenue and higher-than-anticipated gas exports could boost exports, government revenue and growth further. On the downside, the slowdown observed in the first half of 2019 could prove more protracted, especially if private investment fails to pick up. Slippages on structural reforms to improve the business environment or on fiscal consolidation—including clearing unmet government obligations to suppliers—could worsen the

[6] The public sector debt to GDP breach of the threshold under a shock to GDP has a large and sustained effect throughout the projection period by creating a large permanent increase in the primary deficit—about 4 percentage points of GDP higher than the baseline in 2021 and beyond. The historical scenario is well below the most extreme shock scenario and the primary balance shock does not result in breaches of the debt ratio, providing further evidence that the risks associated with the most extreme scenario may be overstated in the case of Senegal.

debt situation. Additional investment needs and/or delays in the start of, or changes in oil and gas production could affect the profile of hydrocarbon revenues. On the external front, terrorism and large swings in energy prices could weigh on growth and the overall assessment.

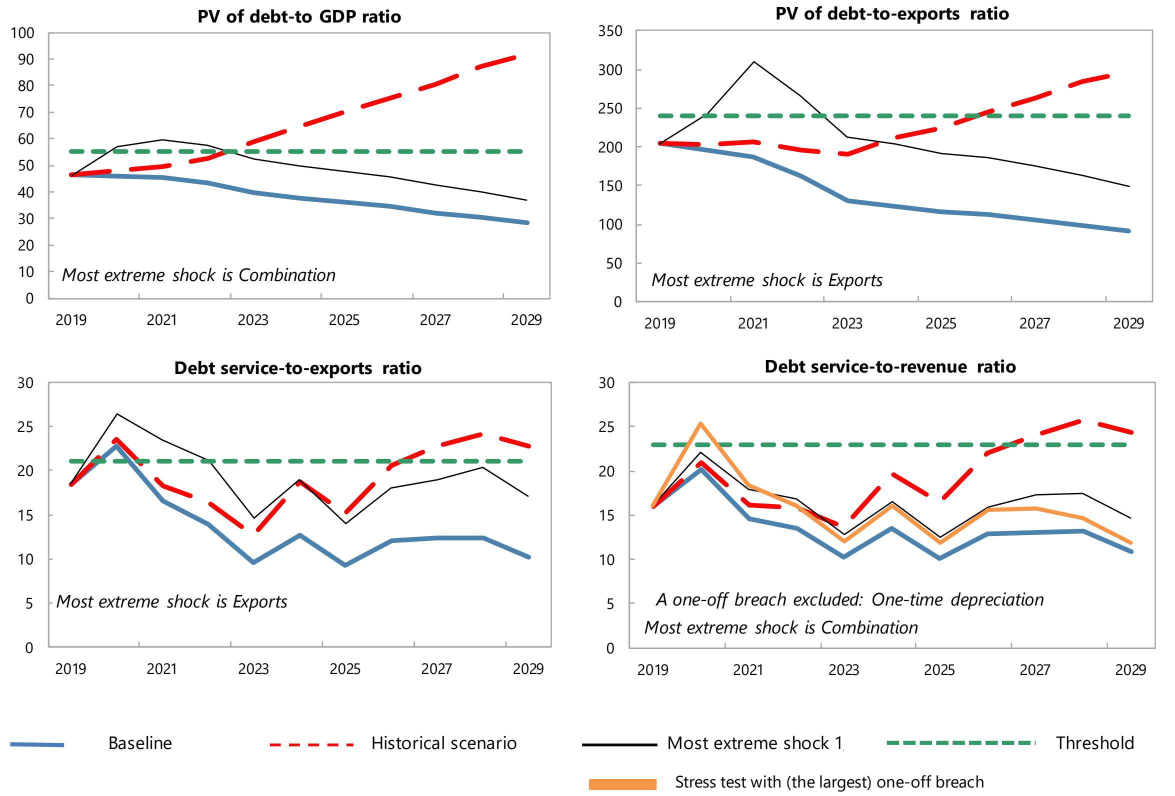
CONCLUSION

20. Senegal's risk of debt distress has moved from low to moderate mainly owing to the temporary large investments in hydrocarbon production and a significant shift in debt composition toward non-concessional external debt, but with substantial borrowing space over the long run. Most of the debt indicators breach their thresholds under the stress tests. The current projections highlight that rising levels of debt and debt service—particularly for external debt— require a cautious approach to commercial borrowing. Debt service ratios are projected to remain somewhat high despite their decline over the medium term, signaling that a further deterioration in borrowing terms could increase debt-related vulnerabilities. On the other hand, full implementation of the authorities' fiscal policies anchored by the WAEMU convergence criteria, together with careful debt management, would lead to favorable debt dynamics. In this context, staff recommends a careful and continuous monitoring of financing needs and borrowing plans, the development of a transparent pipeline of bankable projects, and a strengthening of debt management. In particular, enhanced coordination between the Ministry of Finance and Budget and the Ministry of Economy, Planning and Cooperation on assessing new external financing options would be important. To minimize borrowing costs and reduce risks associated with external debt, greater resort to regular issuances on the regional bond market would be helpful.

21. The authorities are committed to reduce debt ratios over the medium term. They aim to achieve this through further fiscal consolidation, improvements in the current account and a strengthening of debt management policies—including more attention to the terms and volume of non-concessional external financing. Address fiscal risks from the broader public sector, including the energy sector, will also be important.

22. Authorities' view. The authorities emphasized that public borrowing had allowed to provide first-rate infrastructure and, by allowing to develop hydrocarbon production, would deliver significant additional resources to future generations. They noted that they would have preferred the rating to remain low, pointing out that the debt-to-GDP ratio would be on a firm downward trajectory after 2019. They also stressed that they were committed to limit non-concessional borrowing and concurred with staff on the need for a prudent debt management strategy. They plan to continue efforts to expand the coverage of public sector debt.

Figure 6. Senegal: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2019-29



Customization of Default Settings	Size	Interactions
Tailored Tests		
Combined CLs	Yes	
Natural Disasters	n.a.	n.a.
Commodity Prices [2/]	n.a.	n.a.
Market Financing	No	No

Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

Borrowing Assumptions for Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	4.0%	4.0%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	17	17
Avg. grace period	6	6

* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Senegal authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2029. Stress tests with one-off breaches are also presented (if any), while these one-off breaches are deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

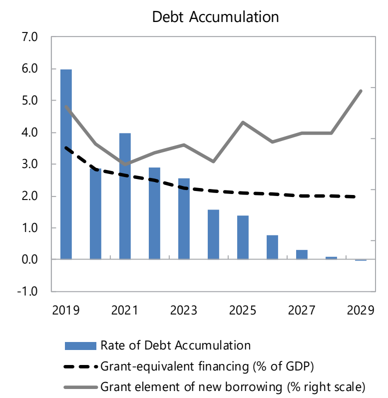
2/ The magnitude of shocks used for the commodity price shock stress test are based on the commodity prices outlook prepared by the IMF research department.

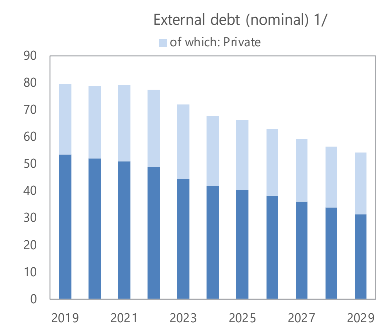
Table 4. Senegal: External Debt Sustainability Framework, Baseline Scenario, 2016-39

(Percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/	
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029	2039	Historical	Projections
External debt (nominal) 1/	**56.1**	**65.1**	**70.2**	**79.6**	**79.0**	**79.1**	**77.5**	**71.9**	**67.5**	**54.2**	**41.6**	**53.2**	**68.5**
of which: public and publicly guaranteed (PPG)	**32.4**	**39.8**	**48.5**	**53.5**	**51.9**	**51.0**	**48.8**	**44.5**	**42.0**	**31.5**	**21.3**	**30.1**	**42.9**
Change in external debt	-1.2	9.0	5.1	9.4	-0.6	0.1	-1.6	-5.6	-4.4	-2.1	-0.9		
Identified net debt-creating flows	**-1.1**	**-0.2**	**-0.9**	**1.3**	**0.9**	**0.8**	**-2.6**	**-8.0**	**-5.5**	**-4.4**	**-2.8**	**3.0**	**-3.1**
Non-interest current account deficit	**2.6**	**6.1**	**6.8**	**6.7**	**8.1**	**8.2**	**5.3**	**1.6**	**1.5**	**-0.6**	**0.4**	**5.4**	**3.0**
Deficit in balance of goods and services	11.0	13.9	15.2	15.6	17.1	18.1	13.2	7.0	7.5	4.3	7.1	**14.1**	**9.6**
Exports	21.5	21.9	21.8	22.7	23.5	24.1	26.9	30.8	30.4	31.0	32.1		
Imports	32.5	35.8	36.9	38.2	40.6	42.2	40.1	37.8	37.9	35.3	39.2		
Net current transfers (negative = inflow)	-9.5	-9.4	-8.6	-9.1	-9.5	-10.1	-9.7	-8.6	-9.1	-8.7	-8.4	**-9.5**	**-9.1**
of which: official	-0.4	-0.4	-0.1	-0.2	-0.2	-0.3	-0.3	-0.3	-0.2	-0.2	-0.3		
Other current account flows (negative = net inflow)	1.2	1.6	0.3	0.2	0.5	0.2	1.8	3.3	3.1	3.8	1.8	**0.8**	**2.5**
Net FDI (negative = inflow)	**-1.3**	**-2.4**	**-2.6**	**-3.7**	**-4.8**	**-4.7**	**-4.3**	**-4.0**	**-4.0**	**-2.6**	**-2.2**	**-1.8**	**-3.8**
Endogenous debt dynamics 2/	**-2.3**	**-3.9**	**-5.1**	**-1.7**	**-2.4**	**-2.7**	**-3.7**	**-5.6**	**-2.9**	**-1.2**	**-1.0**		
Contribution from nominal interest rate	1.4	1.2	2.0	2.5	2.6	2.3	2.3	2.1	2.3	1.6	0.9		
Contribution from real GDP growth	-3.4	-3.6	-3.9	-4.2	-5.0	-5.0	-6.0	-7.8	-5.2	-2.8	-1.9		
Contribution from price and exchange rate changes	-0.4	-1.4	-3.3	...	...	...	...	...	...	...	...		
Residual 3/	**-0.1**	**9.2**	**6.0**	**8.1**	**-1.5**	**-0.7**	**1.0**	**2.5**	**1.1**	**2.3**	**1.9**	**0.6**	**1.7**
of which: exceptional financing	2.3	0.6	1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	**...**	**...**	**41.1**	**46.4**	**45.8**	**45.2**	**43.4**	**39.9**	**37.5**	**28.1**	**18.8**		
PV of PPG external debt-to-exports ratio	**...**	**...**	**188.7**	**204.5**	**195.1**	**187.6**	**161.2**	**129.5**	**123.4**	**90.8**	**58.6**		
PPG debt service-to-exports ratio	**10.4**	**8.9**	**17.5**	**18.5**	**22.7**	**16.5**	**14.0**	**9.5**	**12.7**	**10.2**	**6.2**		
PPG debt service-to-revenue ratio	**12.0**	**7.8**	**15.6**	**16.0**	**20.1**	**14.5**	**13.5**	**10.2**	**13.4**	**10.9**	**6.8**		
Gross external financing need (Billion of U.S. dollars)	0.9	1.4	2.1	2.1	2.7	2.6	1.9	0.6	1.1	0.5	0.8		
Key macroeconomic assumptions													
Real GDP growth (in percent)	6.4	7.1	6.7	6.0	6.8	7.0	8.4	11.6	8.0	5.3	4.7	**4.8**	**6.8**
GDP deflator in US dollar terms (change in percent)	0.7	2.6	5.3	-4.2	0.7	2.9	2.3	3.3	2.3	2.0	2.0	**-1.2**	**1.5**
Effective interest rate (percent) 4/	2.7	2.4	3.4	3.6	3.5	3.2	3.2	3.2	3.5	3.0	2.3	**2.2**	**3.3**
Growth of exports of G&S (US dollar terms, in percent)	2.9	12.2	11.5	5.7	11.2	13.1	23.8	31.9	9.1	8.1	7.7	**4.2**	**12.2**
Growth of imports of G&S (US dollar terms, in percent)	-1.8	21.3	15.8	5.1	14.1	14.5	5.4	8.5	10.7	5.4	9.5	**3.2**	**8.0**
Grant element of new public sector borrowing (in percent)	...	...	...	18.1	14.4	12.4	13.6	14.4	12.8	19.7	18.0	**...**	**15.3**
Government revenues (excluding grants, in percent of GDP)	18.5	25.1	24.4	26.1	26.5	27.4	27.9	28.7	28.8	28.9	29.1	**18.1**	**28.2**
Aid flows (in Billion of US dollars) 5/	0.9	1.0	1.0	0.8	0.6	0.6	0.7	0.7	0.8	1.0	1.7		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	3.5	2.8	2.7	2.5	2.2	2.1	2.0	1.7	**...**	**2.4**
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	33.2	34.7	33.4	37.6	41.7	38.9	54.2	52.2	**...**	**41.6**
Nominal GDP (Billion of US dollars)	19	21	23	24	26	28	31	36	40	57	112		
Nominal dollar GDP growth	7.1	10.0	12.3	1.6	7.5	10.0	10.8	15.3	10.4	7.4	6.8	**3.5**	**8.4**
Memorandum items:													
PV of external debt 7/	...	...	62.8	72.5	72.8	73.3	72.1	67.3	63.1	50.8	39.1		
In percent of exports	...	...	288.5	319.7	310.5	304.2	268.0	218.5	207.3	164.0	121.8		
Total external debt service-to-exports ratio	14.6	13.0	21.6	23.2	28.8	21.9	17.9	13.1	17.0	13.1	7.6		
PV of PPG external debt (in Billion of US dollars)			9.7	11.1	11.7	12.8	13.6	14.4	15.0	16.0	21.1		
(PVt-PVt-1)/GDPt-1 (in percent)				6.0	2.9	4.0	2.9	2.6	1.6	0.0	0.6		
Non-interest current account deficit that stabilizes debt ratio	3.7	-3.0	1.7	-2.7	8.7	8.1	7.0	7.2	5.9	1.6	1.3		

Definition of external/domestic debt	**Currency-based**
Is there a material difference between the two criteria?	**Yes**





Sources: Senegal 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/ Current-year interest payments divided by previous period debt stock.

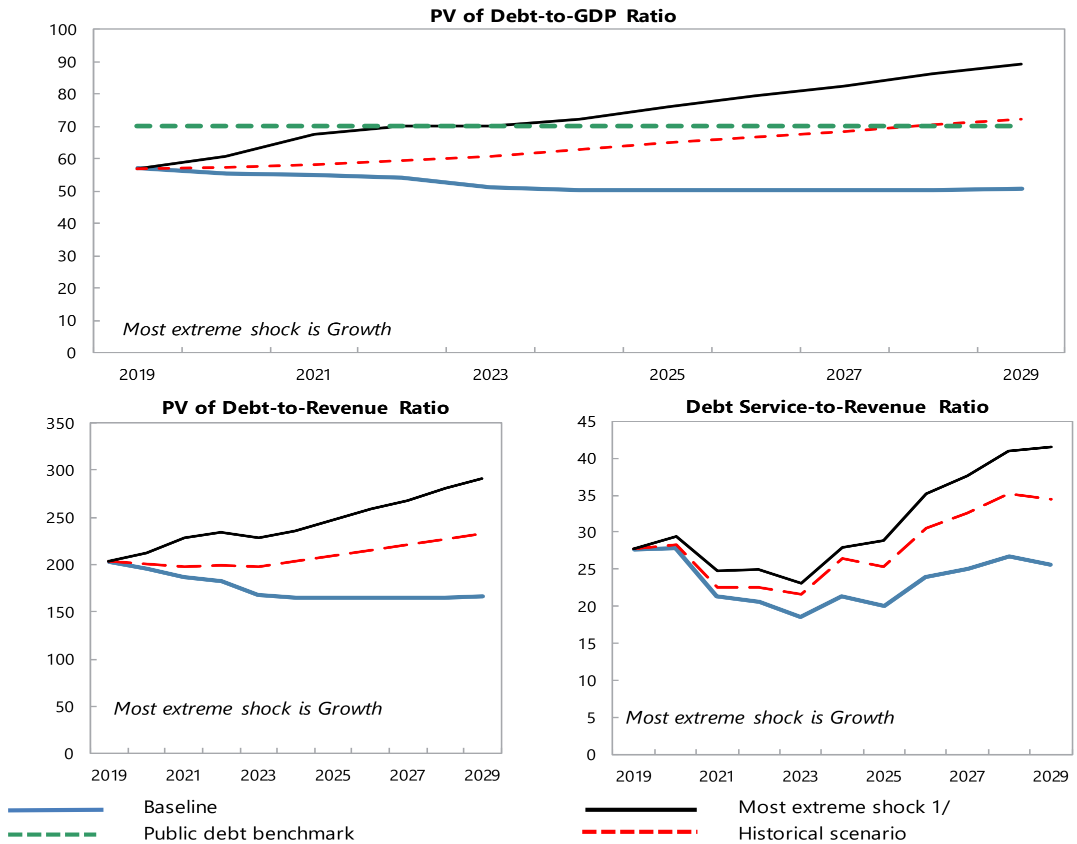
5/ Defined as grants, concessional loans, and debt relief.

6/ 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).

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

8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Figure 7. Senegal: Indicators of Public Debt Under Alternative Scenarios, 2019-29



Borrowing Assumptions for Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	48%	48%
Domestic medium and long-term	45%	45%
Domestic short-term	5%	7%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	4.0%	4.0%
Avg. maturity (incl. grace period)	17	17
Avg. grace period	6	6
Domestic MLT debt		
Avg. real interest rate on new borrowing	4.1%	4.1%
Avg. maturity (incl. grace period)	5	5
Avg. grace period	3	3
Domestic short-term debt		
Avg. real interest rate	3%	3%

* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Senegal authorities; and staff estimates and projections.

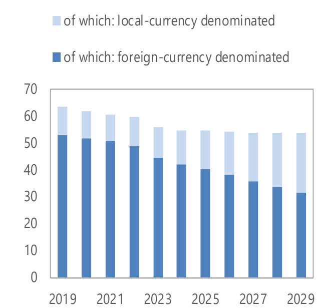
1/ The most extreme stress test is the test that yields the highest ratio in or before 2029. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

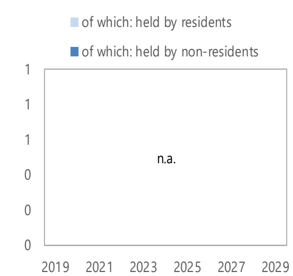
Table 5. Senegal: Public Sector Debt Sustainability Framework, Baseline Scenario, 2016-39
(Percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029	2039	Historical	Projections
Public sector debt 1/	47.5	61.2	61.4	63.7	61.9	60.8	59.6	56.0	54.7	54.0	51.4	41.6	57.0
of which: external debt	32.4	39.8	48.5	53.5	51.9	51.0	48.8	44.5	42.0	31.5	21.3	30.1	42.9
	15.1	21.4	13.0	10.2	10.0	9.8	10.9	11.5	12.7	22.5	30.1		
Change in public sector debt	3.0	13.7	0.2	2.3	-1.8	-1.1	-1.2	-3.6	-1.3	0.0	-0.2		
Identified debt-creating flows	1.2	-4.7	2.0	2.6	-0.6	-0.9	-1.2	-3.6	-1.3	-0.1	-0.2	2.2	-0.5
Primary deficit	1.6	0.6	2.2	2.7	1.9	2.3	2.4	2.1	1.7	1.4	0.7	2.5	1.8
Revenue and grants	20.7	27.3	26.3	28.0	28.4	29.3	29.7	30.5	30.5	30.5	30.5	20.2	29.9
of which: grants	2.2	2.2	2.0	1.9	1.9	1.9	1.8	1.7	1.6	1.6	1.4		
Primary (noninterest) expenditure	22.3	27.9	28.5	30.7	30.4	31.6	32.1	32.6	32.1	31.8	31.1	22.7	31.7
Automatic debt dynamics	-0.4	-5.3	-0.1	-0.2	-2.5	-3.2	-3.6	-5.7	-3.0	-1.4	-0.9		
Contribution from interest rate/growth differential	-1.4	-2.3	-2.4	-1.7	-2.5	-2.9	-3.5	-5.1	-3.1	-0.8	-0.5		
of which: contribution from average real interest rate	1.2	0.8	1.5	1.8	1.6	1.2	1.2	1.0	1.1	1.9	1.9		
of which: contribution from real GDP growth	-2.7	-3.2	-3.8	-3.5	-4.0	-4.0	-4.7	-6.2	-4.1	-2.7	-2.3		
Contribution from real exchange rate depreciation	1.0	-3.0	2.2	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	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 contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
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 debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	1.8	18.4	-1.8	1.2	-1.3	-0.5	-0.1	-0.6	0.1	-0.6	-0.4	2.1	-0.4
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	...	...	55.6	57.0	55.5	54.8	54.1	51.1	50.2	50.6	48.9		
PV of public debt-to-revenue and grants ratio	...	...	211.2	203.5	195.2	187.2	181.9	167.9	164.9	166.2	160.6		
Debt service-to-revenue and grants ratio 3/	35.6	26.0	39.5	27.7	27.8	21.4	20.7	18.5	21.4	25.6	28.1		
Gross financing need 4/	7.4	6.3	12.8	10.5	9.8	8.6	8.5	7.7	8.2	9.2	9.2		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	6.4	7.1	6.7	6.0	6.8	7.0	8.4	11.6	8.0	5.3	4.7	4.8	6.8
Average nominal interest rate on external debt (in percent)	3.2	2.6	4.1	4.4	4.0	3.7	3.7	3.6	3.7	3.7	3.5	2.6	3.8
Average real interest rate on domestic debt (in percent)	5.2	4.5	4.3	5.1	5.9	4.3	4.8	3.6	3.7	4.0	4.0	4.6	4.3
Real exchange rate depreciation (in percent, + indicates depreciation)	3.3	-9.8	5.9	...	...	...	...	...	...	...	...	2.9	...
Inflation rate (GDP deflator, in percent)	1.0	0.6	0.6	1.1	1.1	1.8	1.2	2.4	2.3	2.0	2.0	0.7	1.8
Growth of real primary spending (deflated by GDP deflator, in percent)	10.6	34.0	9.0	14.4	5.5	11.2	10.3	13.1	6.5	5.4	4.8	8.8	7.9
Primary deficit that stabilizes the debt-to-GDP ratio 5/	-1.4	-13.1	2.0	0.5	3.7	3.4	3.6	5.8	3.0	1.4	0.9	-4.2	2.5
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

Definition of external/domestic debt	**Currency-based**
Is there a material difference between the two criteria?	**Yes**

Public sector debt 1/





Sources: Senegal authorities; and staff estimates and projections.

1/ Coverage of debt: The central, state, and local governments plus extra budgetary funds, central bank, government-guaranteed debt, non-guaranteed SOE debt. Definition of external debt is Currency-based.

2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.

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

4/ 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 and other debt creating/reducing flows.

5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilizes the debt ratio only in the year in question.

6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Table 6. Senegal: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2019-29

(Percent)

	Projections 1/										
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
PV of debt-to GDP ratio											
Baseline	46	46	45	43	40	38	36	34	32	30	28
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2039 2/	46	48	50	53	**59**	**65**	**70**	**75**	**80**	**87**	**92**
B. Bound Tests											
B1. Real GDP growth	46	49	51	49	45	43	41	39	37	34	32
B2. Primary balance	46	46	47	45	41	39	38	36	34	32	30
B3. Exports	46	49	55	53	48	45	44	42	39	37	34
B4. Other flows 3/	46	49	52	50	46	43	42	40	37	35	32
B5. Depreciation	46	**58**	50	48	44	42	40	38	35	33	31
B6. Combination of B1-B5	46	**57**	**60**	**57**	53	50	48	46	43	40	37
C. Tailored Tests											
C1. Combined contingent liabilities	46	49	48	46	43	41	40	38	36	34	32
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	46	51	51	49	45	42	41	39	36	34	31
Threshold	55	55	55	55	55	55	55	55	55	55	55
PV of debt-to-exports ratio											
Baseline	204	195	188	161	129	123	116	112	105	98	91
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2039 2/	204	203	206	196	191	212	223	**245**	**263**	**283**	**297**
B. Bound Tests											
B1. Real GDP growth	204	195	188	161	129	123	116	112	105	98	91
B2. Primary balance	204	198	194	167	134	128	121	117	110	103	95
B3. Exports	204	**243**	**310**	**266**	213	203	191	186	175	162	149
B4. Other flows 3/	204	210	216	185	148	142	133	129	122	113	104
B5. Depreciation	204	195	164	141	114	108	102	98	92	86	80
B6. Combination of B1-B5	204	**247**	215	233	187	178	168	163	153	142	131
C. Tailored Tests											
C1. Combined contingent liabilities	204	208	201	172	138	134	127	124	117	110	102
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	204	195	188	162	131	125	117	112	105	98	90
Threshold	240	240	240	240	240	240	240	240	240	240	240
Debt service-to-exports ratio											
Baseline	18	**23**	17	14	10	13	9	12	12	12	10
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2039 2/	18	**24**	18	16	13	19	15	21	**23**	**24**	**23**
B. Bound Tests											
B1. Real GDP growth	18	**23**	17	14	10	13	9	12	12	12	10
B2. Primary balance	18	**23**	17	14	10	13	10	12	13	13	11
B3. Exports	18	**26**	**23**	**21**	15	19	14	18	19	20	17
B4. Other flows 3/	18	**23**	17	15	10	13	10	13	14	14	12
B5. Depreciation	18	**23**	17	13	9	12	9	12	12	11	9
B6. Combination of B1-B5	18	**25**	**22**	19	13	17	13	16	18	18	15
C. Tailored Tests											
C1. Combined contingent liabilities	18	**23**	17	14	10	13	10	13	13	13	11
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	18	**23**	17	15	11	16	15	17	13	11	8
Threshold	21	21	21	21	21	21	21	21	21	21	21
Debt service-to-revenue ratio											
Baseline	16	20	15	13	10	13	10	13	13	13	11
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2039 2/	16	21	16	16	14	20	16	22	**24**	**26**	**24**
B. Bound Tests											
B1. Real GDP growth	16	21	17	15	12	15	11	15	15	15	12
B2. Primary balance	16	20	15	14	10	14	10	13	13	14	11
B3. Exports	16	20	15	15	11	15	11	14	15	16	14
B4. Other flows 3/	16	20	15	14	11	14	11	14	14	15	13
B5. Depreciation	16	**25**	18	16	12	16	12	16	16	15	12
B6. Combination of B1-B5	16	22	18	17	13	16	13	16	17	17	15
C. Tailored Tests											
C1. Combined contingent liabilities	16	20	15	14	11	14	10	13	14	14	11
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	16	20	15	14	11	17	16	18	14	11	8
Threshold	23	23	23	23	23	23	23	23	23	23	23

Sources: Senegal authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the threshold.

2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

3/ Includes official and private transfers and FDI.

Table 7. Senegal: Sensitivity Analysis for Key Indicators of Public Debt, 2019-29
(Percent of GDP, unless otherwise indicated)

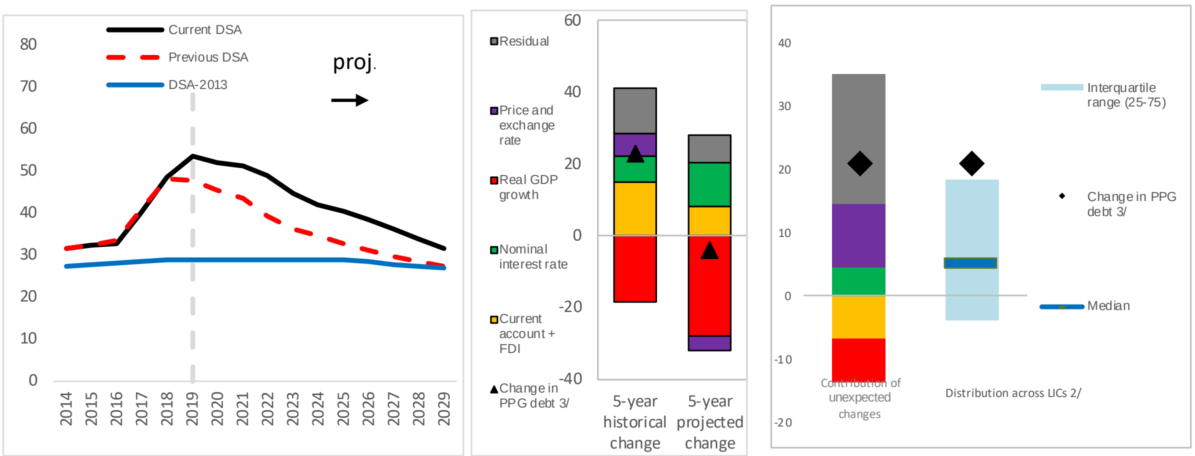
	Projections 1/										
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
PV of Debt-to-GDP Ratio											
Baseline	57	56	55	54	51	50	50	50	50	50	51
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2039 2/	57	57	58	60	61	63	65	67	68	70	72
B. Bound Tests											
B1. Real GDP growth	57	61	68	70	70	72	76	79	82	86	89
B2. Primary balance	57	57	58	57	54	53	53	53	52	53	53
B3. Exports	57	59	64	63	59	58	57	57	57	56	56
B4. Other flows 3/	57	59	62	61	57	56	56	56	55	55	55
B5. Depreciation	57	68	64	60	54	51	49	47	45	43	41
B6. Combination of B1-B5	57	56	57	57	55	54	55	55	56	57	57
C. Tailored Tests											
C1. Combined contingent liabilities	57	62	61	60	57	56	56	55	55	55	55
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	57	56	55	54	52	51	51	50	50	50	50
Public debt benchmark	70	70	70	70	70	70	70	70	70	70	70
PV of Debt-to-Revenue Ratio											
Baseline	204	195	187	182	168	165	166	165	165	166	166
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2039 2/	204	201	198	199	198	204	210	216	221	227	233
B. Bound Tests											
B1. Real GDP growth	204	213	229	234	228	236	248	259	268	281	291
B2. Primary balance	204	200	197	191	176	173	173	173	172	173	173
B3. Exports	204	206	218	210	193	189	189	188	186	185	184
B4. Other flows 3/	204	208	210	203	187	183	183	183	181	180	179
B5. Depreciation	204	239	219	204	179	168	162	154	147	141	135
B6. Combination of B1-B5	204	196	196	192	179	178	180	182	183	186	187
C. Tailored Tests											
C1. Combined contingent liabilities	204	219	209	203	187	183	183	182	181	182	182
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	204	195	188	183	169	166	167	166	164	165	165
Debt Service-to-Revenue Ratio											
Baseline	28	28	21	21	18	21	20	24	25	27	26
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2039 2/	28	28	23	23	22	27	25	31	33	35	34
B. Bound Tests											
B1. Real GDP growth	28	29	25	25	23	28	29	35	38	41	42
B2. Primary balance	28	28	22	21	19	23	22	25	26	28	27
B3. Exports	28	28	22	22	20	22	21	25	26	29	28
B4. Other flows 3/	28	28	22	22	19	22	21	25	26	28	27
B5. Depreciation	28	29	25	24	21	24	21	26	27	28	26
B6. Combination of B1-B5	28	27	23	23	20	23	22	26	28	30	29
C. Tailored Tests											
C1. Combined contingent liabilities	28	28	24	22	20	26	25	26	26	28	28
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	28	28	22	21	20	24	25	28	26	25	23

Sources: Senegal authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the benchmark.
2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.
3/ Includes official and private transfers and FDI.

Figure 8. Senegal: Driver of Debt Dynamics—Baseline Scenario, 2014-29

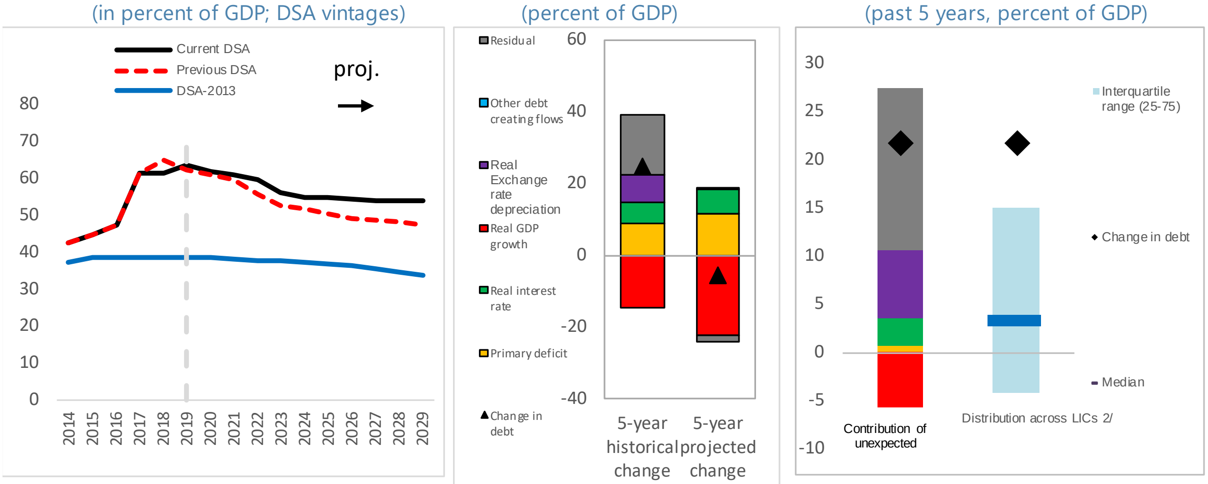
External debt

Gross Nominal PPG External Debt (in percent of GDP; DSA vintages) | **Debt-creating flows** (percent of GDP) | **Unexpected Changes in Debt 1/** (past 5 years, percent of GDP)



Public debt

Gross Nominal Public Debt (in percent of GDP; DSA vintages) | **Debt-creating flows** (percent of GDP) | **Unexpected Changes in Debt 1/** (past 5 years, percent of GDP)



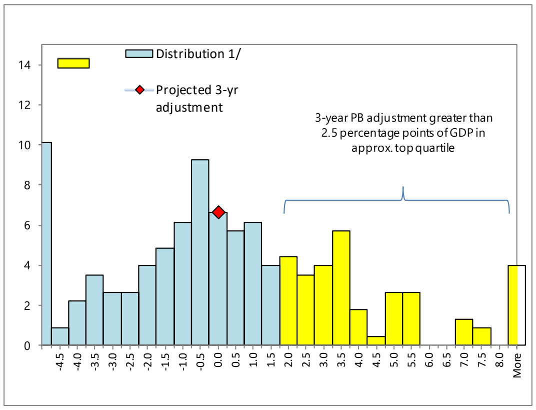
1/ Difference between anticipated and actual contributions on debt ratios.

2/ Distribution across LICs for which LIC DSAs were produced.

3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

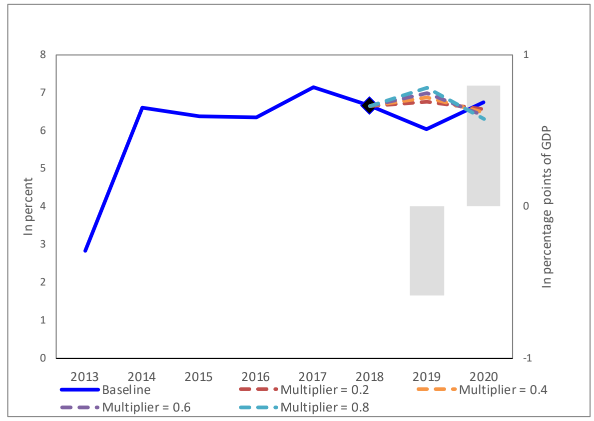
Figure 9. Senegal: Realism Tools, 2014-24

3-Year Adjustment in Primary Balance
(Percentage points of GDP)



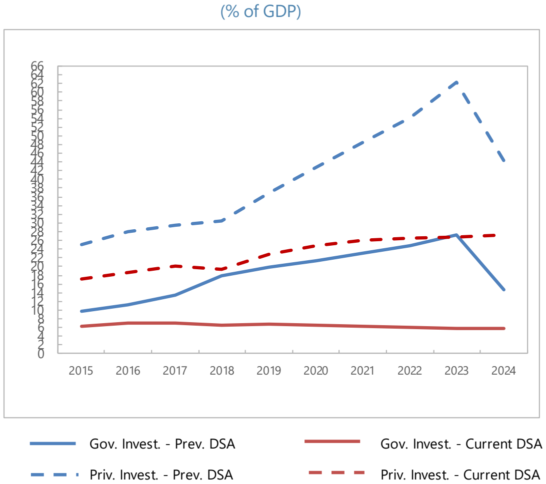
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/



1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates
(% of GDP)



Contribution to Real GDP growth
(percent, 5-year average)

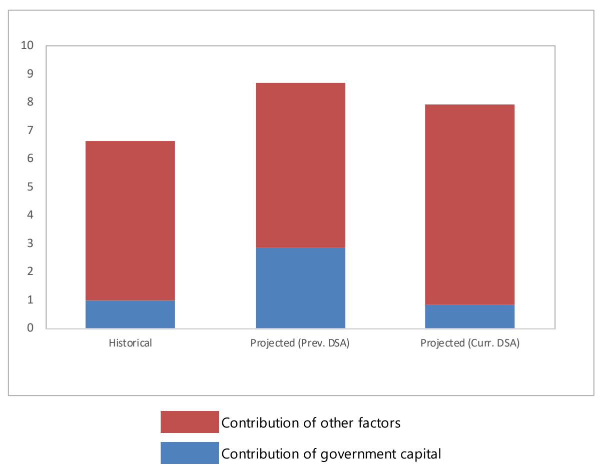
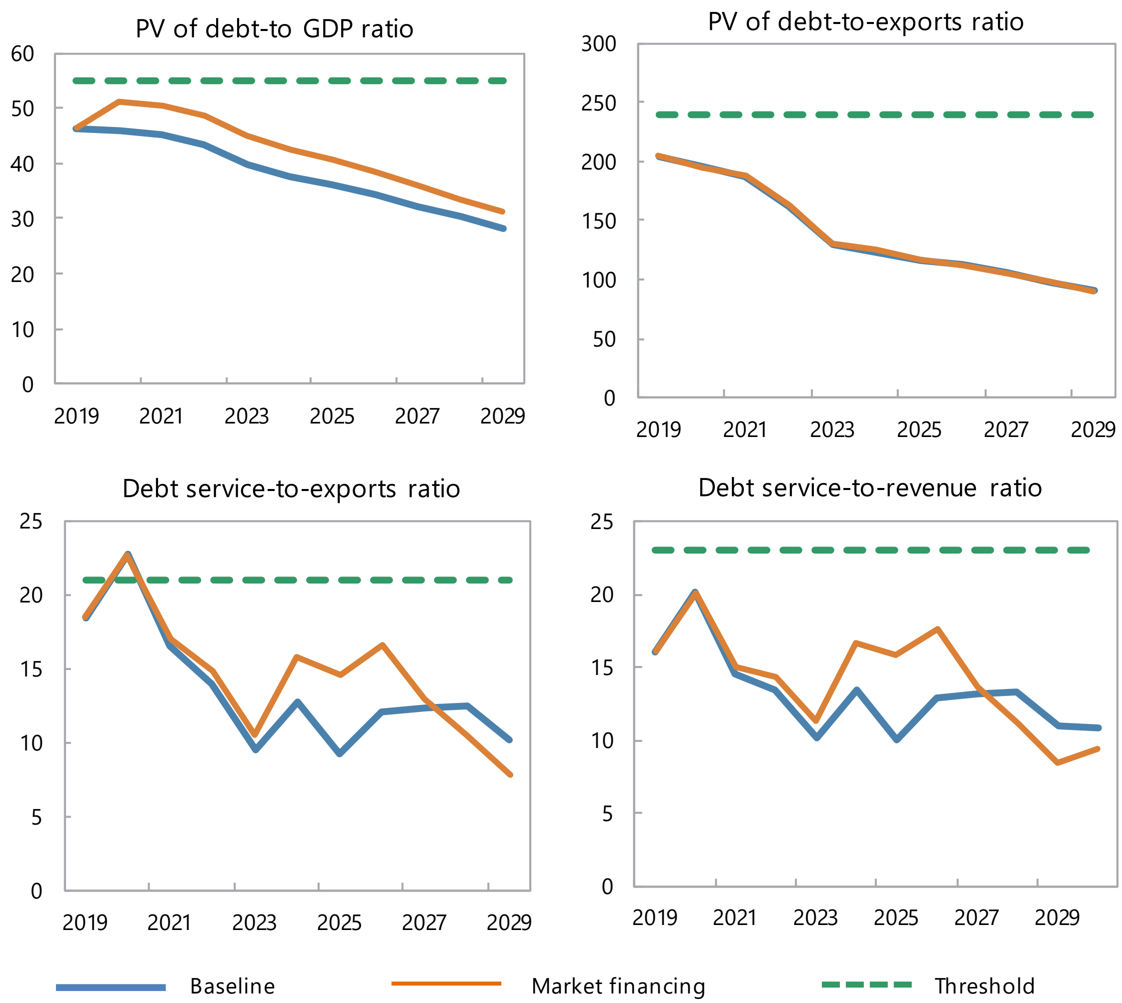


Figure 10. Senegal: Market-Financing Risk Indicators, 2019-29

	GFN 1/	EMBI 2/
Benchmarks	14	570
Values	10	470
Breach of benchmark	No	No
Potential heightened liquidity needs	Low	

1/ Maximum gross financing needs (GFN) over 3-year baseline projection horizon.
2/ EMBI spreads correspond to the latest available data.



Sources: Senegal authorities; and staff estimates and projections.

Figure 11. Senegal: Qualification of the Moderate Category, 2019-29[1]

Sources: Senegal authorities; and staff estimates and projections.

1/ For the PV debt/GDP and PV debt/exports thresholds, x is 20 percent and y is 40 percent. For debt service/Exports and debt service/revenue thresholds, x is 12 percent and y is 35 percent.

Statement by Mr. Mohamed-Lemine Raghani, Executive Director and Mr. Oumar Diakite, Advisor to the Executive Director, on Senegal
January 10, 2020

I. Introduction

1. Our Senegalese authorities would like to thank Management and staff for the quality policy dialogue held in the context of discussions for a three-year Policy Coordination Instrument (PCI), including the constructive meetings with the Managing Director on the margins of the international conference on development and debt sustainability organized in Dakar in early December 2019.

2. The strong track record of program implementation with Fund's policy support throughout the past few years has helped Senegal strengthen macroeconomic stability and preserve debt sustainability, while pursuing far-reaching reforms and structuring development projects under the "Plan Sénégal Emergent" (PSE). Senegal's economic growth has been consistently robust, above 6 percent over the last five years. The authorities are determined to consolidate hard-won economic and social gains through the implementation of their Priority Action Plan (PAP 2019-2023) in the context of PSE's Phase 2. To this end, they are requesting a new program under the PCI in support of their continued efforts to bolster private sector-led, sustainable and inclusive growth.

II. Recent Economic Developments and Outlook

3. The economic momentum buttressed by the implementation of the PSE continued in 2019, with growth estimated at 6 percent and inflation at 1 percent. The fiscal deficit (excluding the one-off transfer to the public electricity company SENELEC) is estimated to have reached the 3 percent-of-GDP convergence criterion of the West African Economic and Monetary Union (WAEMU). In the external sector, the current account deficit is expected to have widened to 9.2 percent of GDP on account of, notably, higher prices of petroleum products and increased imports of capital goods.

4. Senegal's economic prospects remain favorable. While acknowledging downside risks to the outlook stemming notably from rising security threats in the region, increasing trade barriers at the global level and large swings in energy prices, the authorities also see great upside risks. Beside the positive prospects for gold mining projects, they are confident that the implementation of their ambitious reform program, coupled with large positive spillovers expected from gas and oil production to the larger economy, will boost growth further in the medium term.

III. Policies and Reforms under the PCI

5. As the first phase of the PSE was marked with strong growth, the authorities seek to sustain the momentum while reducing inequalities and poverty in a significant manner. Consequently, their policies and reforms under the PCI will underpin the objectives of the second phase of the PSE (2019-2023) and be centered around three pillars: (i) promoting high, durable and inclusive growth driven by private sector development; (ii) strengthening macroeconomic stability through prudent fiscal and debt policies; and (iii) ensuring sound management of the hydrocarbon sector.

Promoting Private Sector Development and Inclusive Growth

6. The authorities are cognizant of the need for a strong private sector at the center of their development agenda to create more jobs and revenue. They will rely on strategic projects to boost private investment and further stimulate growth. Private sector promotion will include a series of reforms aimed at improving physical infrastructure, developing human capital, and enhancing the natural resources management framework.

7. Support to the private sector also entails continued enhancements in the role of the public sector, notably by fostering new financing mechanisms and simplifying administrative procedures. Furthermore, the tax policy reforms, and the efforts to improve public financial management, strengthen labor legislation and advance competition should contribute to create an environment conducive to private sector expansion. Actions are also underway to update the investment law and modernize the legal and judicial framework, including the creation of an appeals court, the digitalization of the registry of commerce and the establishment of legal procedures notably in the commercial court of Dakar.

8. Senegal's participation in the Compact with Africa (CwA) Initiative, launched under the German G20 Presidency in 2017 to increase private investment in Africa, is an opportunity to accelerate the implementation of sound reforms in the business environment, especially in the priority areas of labor legislation, access to land, access to finance, SMEs development, and vocational training.

9. The authorities will develop public-private partnerships (PPP) to accelerate investments while being mindful of associated fiscal risks. In this respect, the 2014

PPP law will be thoroughly reviewed and a database will be created to this effect. It is envisaged that all investment projects over CFAF two billion be subject to prior evaluation and counter-expertise by the Ministry of Economy, Planning and Cooperation when it comes to unsolicited bids. Emphasis will be placed on providing opportunities for domestic and regional private sector involvement.

10. The authorities' actions to foster inclusiveness will also focus on reducing disparities between urban and rural areas and strengthening economic prospects for women and the youth. With the introduction of program budgeting, the number of projects devoted to gender equality will be increased starting with the 2020 budget. The government is also implementing various social protection initiatives, including the emergency program for community development (*Programme d'Urgence de Dévéloppement Communautaire,* PUDC) and the national cash transfer program (*Programme National de Bourse de Sécurité Familiale, PNBSF).*

11. Expanding access to electricity is at the core of the Government's development agenda that will support private sector activities and improve the living conditions of the population. In this regard, the authorities plan to achieve an urban electrification rate of 95 percent and a rural electrification rate of 75 percent by 2022. To this end, a significant improvement in the quality and continuity of electricity supply will be pursued through notably the optimization of the energy mix with natural gas.

Prudent Fiscal Policy to Strengthen Macroeconomic Stability

12. The authorities remain committed to pursuing a cautious fiscal policy that relies both on greater domestic resource mobilization and efficient management of public expenditures. They are determined to meet all WAEMU convergence criteria, including attaining the fiscal deficit target of 3 percent of GDP going forward.

13. On the revenue side, short-term measures at the tax administration include enhancing the monitoring of tax declarations and enforcing compliance, expanding the scope of audits, and accelerating the collection of arrears. Regarding customs administration, the authorities plan notably to broaden the tax base, eliminate the flat rate for customs clearance, and streamline exemptions. In the medium term, the authorities' ambition is to reach a tax revenue-to-GDP ratio of 20 percent by 2023 from a projected 17 percent in 2019, with a view to creating adequate fiscal space to finance the second phase of the PSE. Starting in 2020, a revenue mobilization strategy will be implemented focusing on completing the digitalization of revenue administrations, adapting human resources to the current and future challenges of controlling the tax base, and reforming the institutional framework and governance of the revenue mobilization program.

14. On the spending side, a core objective of the supplementary budget submitted in October has been to change the composition of expenditures to ensure the full payment of unpaid obligations due in 2019, and those accumulated in the energy

sector in previous years. However, to address the recurrent liquidity shortages of SENELEC, the government decided a one-off transfer to SENELEC which, coupled with increases in electricity tariffs, should help restore the financial situation of this public enterprise. Over the medium term, the authorities will continue to improve the effectiveness and transparency of spending. In this respect, they will limit the expenditures eligible to simplified procedures and restrict the use of budget commitment letters only to the defense and security sectors. Furthermore, to generate substantial cost savings, the government will pursue the process of restructuring or merging 24 agencies and similar entities, and enhance the efficiency of the public investment program. The authorities are also committed to stepping up dissemination of budget information based on the recommendations of the 2018 Public Finance Transparency Assessment.

15. The modernization of cash management will continue. The consolidation of the Treasury single account (TSA) to integrate the accounts of 20 public entities in 2020 is advancing. The remaining accounts in commercial banks will be closed and their balances transferred to the TSA in 2021, except those for externally-financed projects. The process of eliminating compensation operations between the Treasury and the Post Office is also progressing well. To put the Post Office Group on a sound financial footing, the Government is considering various options, including the transformation of Post Finances into a financial institution.

Preserving Debt Sustainability

16. The authorities take note of the conclusions of the recent Debt Sustainability Analysis (DSA) conducted by staffs of the Fund and World Bank. They are of the view that the increased borrowing to finance their ambitious investment program has produced growth-enhancing infrastructure which will put the debt-to-GDP ratio on a downward path. In addition, the Government is committed to implement prudent debt policy and management that ensure the sustainability of public finances, while pursuing the country's economic and social development objectives. It will seek to mobilize resources to finance growth-enhancing projects, notably through innovative financial instruments, public-private partnerships and attracting foreign direct investments. The debt strategy will focus on reducing vulnerabilities and improving financing conditions and terms. Debt management will also be strengthened by establishing a formal process of regular exchange of information and coordination among entities involved in public debt management. With the widening of the scope of public debt to para-public entities, the authorities will also seek to better monitor the debt of these entities as well as government-guaranteed loans.

Sound Management of the Hydrocarbon Sector

17. The development of the hydrocarbon sector offers an additional source of economic growth, revenues and buffers which will be properly leveraged. To this end, the authorities envision to strengthen the legal and fiscal frameworks governing the

distribution and management of revenues from the sector, based on international best practices. A Petroleum Law governing the activities in the oil sector, as well as a Law on local content intended to maximize the positive externalities for the private sector were adopted in 2019. The Government will reinforce the management of hydrocarbon revenues notably by establishing an intergenerational fund as well as a stabilization fund to help smooth out the impact of potential exogenous shocks.

IV. Conclusion

18. Building on the progress made under the Policy Support Instrument (PSI), the Senegalese authorities remain strongly committed to implementing policies and reforms aimed at achieving the goals of the *Plan Sénégal Emergent*. In this endeavor, they seek the Executive Board’s approval of their request for a three-year Policy Coordination Instrument.