July 2009
IMF Country Report No. 09/205

Senegal: Third Review Under the Policy Support Instrument and First Review and Augmentation of Access Under the Exogenous Shocks Facility—Staff Report; Staff Supplement; Staff Statement; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Senegal

In the context of the third review under the Policy Support Instrument and the first review and augmentation of access under the Exogenous Shocks Facility for Senegal, the following documents have been released and are included in this package:

- The staff report for the Third Review Under the Policy Support Instrument and First Review and Augmentation of Access Under the Exogenous Shocks Facility, prepared by a staff team of the IMF, following discussions that ended on April 26, 2009, with officials of Senegal on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on June 8, 2009. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- A staff supplement on the joint IMF/World Bank debt sustainability analysis.
- A staff statement of June 19, 2009, updating information on recent economic developments.
- A Press Release summarizing the views of the Executive Board as expressed during its June 19, 2009, discussion of the staff report that completed the reviews.
- A statement by the Executive Director for Senegal.

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

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

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

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INTERNATIONAL MONETARY FUND

SENEGAL

Third Review Under the Policy Support Instrument and First Review and Augmentation of Access Under the Exogenous Shocks Facility

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

Approved by Roger Nord and Anthony R. Boote

June 8, 2009

PSI/ESF Review. Staff supports the request for a waiver and recommends completion of the reviews.

ESF Access. Staff recommends augmentation from 30 to 75 percent of quota (SDR 121.35 million) and extension of the arrangement from 12 to 18 months to help Senegal address the impact of the global crisis.

Political Developments. Smooth municipal elections saw the President's party lose all but one major city on March 22, 2009. The Prime Minister and other government ministers were replaced in early May, with no changes for the financial portfolios.

Program Discussions. Held in Dakar during March 24–April 2, 2009 and Washington after the Spring Meetings. The team comprised Messrs. Mueller (head), Lakwijk, Gitton (all AFR), Ms. Sancak (FAD), Mr. Painchaud (SPR), and Mr. Segura-Ubiergo (resident representative). The mission met with President Wade, Finance Minister Diop, Budget Minister Sow, BCEAO Governor Dacoury-Tabley, BCEAO National Director Diop, other senior government officials, and representatives of development partners, the private sector, and banks.

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EXECUTIVE SUMMARY

The budgetary slippages, which had seriously affected the economy and put Senegal's PSI-supported program at risk, have been successfully addressed. In line with program commitments, the government's unpaid bills have been substantially reduced and far-reaching PFM reforms launched. All quantitative program targets have been met, except for the end-2008 assessment (performance) criterion on the basic fiscal deficit which was exceeded due to sharply lower revenues, despite significant underspending. Staff recommends a waiver in light of the prudent stewardship of the budget in late 2008 and the corrective actions that allowed the end-March 2009 basic fiscal balance target to be met. Structural performance has been good, although two audits were delayed due to tender procedures.

These achievements come at a critical juncture, as Senegal is being affected by the global economic crisis. Main transmission channels are remittances, FDI, and exports, while the financial sector is vulnerable to indirect effects. This second exogenous shock, following the surge in food and oil prices in 2008, will substantially worsen Senegal's short-term external outlook and justifies augmentation of access under the ESF. Beyond 2010, the balance of payments is expected to recover, illustrating the sudden and temporary nature of the two shocks.

A temporary fiscal easing relative to earlier program targets is envisaged for 2009 to help counter the impact of the external shock. This would, in the presence of a substantial revenue shortfall, enable the authorities to maintain spending close to programmed levels, thus safeguarding key social spending and infrastructure investment. Over the medium term, the fiscal policy stance will continue to be geared towards safeguarding debt sustainability.

The program continues to aim at deepening structural reforms, mainly related to PFM and tax administration. Budget preparation, monitoring, and execution would be further improved and the traditionally strong revenue performance safeguarded.

Staff recommends completion of the program reviews and augmentation and extension of access under the ESF. This will allow Senegal to face the global economic crisis in a stronger position than just a few months ago.

I. A SUCCESSFUL TURNAROUND—PROGRAM BACK ON COURSE

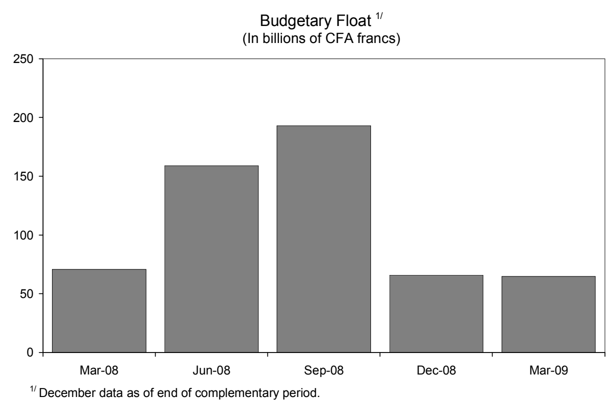
1. **The Senegalese authorities have successfully addressed the budgetary slippages and brought their economic program back on course.** The government's unpaid bills that have plagued the Senegalese economy have been reduced as planned through prudent use of borrowed resources (including from donors) and a constrained pace of budget execution. In addition, the integrity of the budget system is well on its way to being restored. As a result, the country is now in a stronger position to handle the effects of the international economic crisis.

MEFP ¶4

2. **The budgetary float is expected to return to normal levels by mid-year** (Box 1). The private sector, banks, and development partners have expressed their satisfaction with the progress that has been made.

Box 1. Government Payment Delays and Extrabudgetary Spending

Settlement is on track in all areas:[1]



- The stock of unpaid bills within the expenditure chain was reduced from CFAF 175 billion in October 2008 to CFAF 65 billion (1 percent of GDP) at end-March 2009—below the program ceiling and just ⅓ percent of GDP above the normal budgetary float to be reached by end-June.[2]
- Cash flow provided by the Treasury allowed agencies to reduce their unpaid bills by half, to less than ½ percent of GDP at end-April 2009, but has risen again since, as the road agency has submitted bills for several infrastructure projects, which are awaiting payment.
- A preliminary report by the external auditor identified CFAF 73 billion of spending without budgetary appropriations. This is consistent with earlier estimates in IMF Country Report No. 09/5. The full audit report is expected to be completed in June. As envisaged earlier, the authorities will decide what to pay in the context of the 2010 budget.

This overall improvement notwithstanding, cash flow management continues to be difficult, as more frequent access to the regional financial market is hindered by limited market liquidity and bills for large investment projects and donor resources are unevenly distributed throughout the year. No donor budget support was disbursed during the first five months of 2009, as donors are awaiting the full normalization of the government's financial relations with the private sector. These factors, together with remaining deficiencies in the monitoring of all phases of the expenditure chain, largely explain the remaining volatility in the budgetary float and agencies' cash flow. The structural measures related to the SIGFIP and ASTER monitoring systems (see below) should facilitate cash flow management.

[1] See IMF Country Report No. 09/5, Box 1, for background on the payment delays.

[2] Now that the government is close to normalizing its relations with the private sector, the assessment (performance) criterion (AC) on the float is raised to CFAF 45 billion, which approximates the relative level prevailing earlier; this implies that the government would have three weeks on average to pay a verified bill.

3. **The program's structural conditionality has been met, except for two measures that are still in progress**. Despite some initial difficulties, all PFM reforms, which were designed to address the root causes of past budgetary slippages and misreporting and prevent their recurrence, were adopted.

MEFP ¶5

Structural Conditionality: A Good Performance

PFM reforms

Budget preparation procedures were improved (structural assessment criterion).

Rules were specified to regulate the budgetary carryover from one year to the next (structural assessment criterion).

The 2008 budget and accounting year was closed on time (structural assessment criterion), and the complementary period respected. However, while permissible under existing public regulations, the authorities issued payment orders related to 2008 after December, which is undesirable.

The audit of extrabudgetary spending (a structural benchmark) is expected to be completed with a delay of 3 months in June, as tender procedures to select the independent auditor took longer than expected. A preliminary progress report by the external auditor confirms earlier estimates.

Other structural reforms

A decree implementing the new law on microfinance institutions was adopted (structural benchmark).

The respective rights and duties of tax, customs, and supervisory agencies were specified for the special economic zone that is under development (structural benchmark).

An external audit of the new procurement framework (an end-May benchmark) was delayed as auditor selection and obtaining World Bank financing took longer than expected; a draft audit report is expected for September 2009.

4. **The end-2008 fiscal deficit assessment (performance) criterion was not met despite significant underspending.** The ceiling was exceeded by ⅓ percent of GDP, while tax revenue was 1¼ percent of GDP below programmed levels. The revenue shortfall was due to shrinking petroleum tax receipts in late 2008 (¼ percent of GDP) and the postponement to 2009 of tax payments (⅔ percent of GDP) by SENELEC (the electricity company); the company faced cash-flow difficulties related to the high oil prices and unpaid government bills. The end-March indicative target on the basic fiscal balance was met, as were all other quantitative program targets for end-2008 and end-March 2009.

II. Economic Outlook and Risks—Repeated Shocks and Fund Role

A. A Challenging Economic Environment

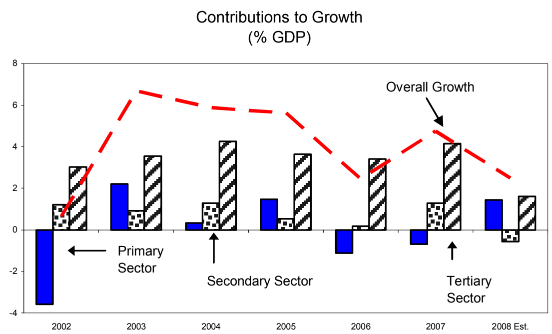
5. **Growth outside agriculture slowed sharply in 2008** (Figure 1). This was due to the government's payment delays to the private sector and the effect on household consumption of high food and fuel prices during most of the year. Agriculture performed well due primarily to favorable rains; government measures increased acreage for rice

GDP, 2007-12

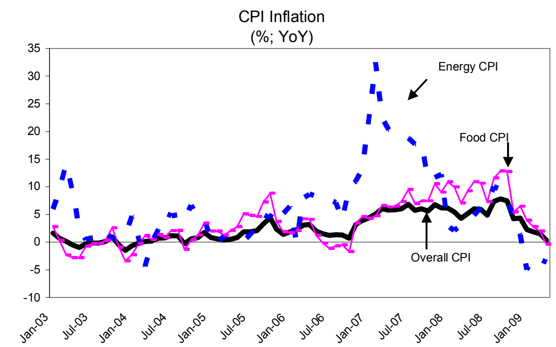
	2007	2008	2009	2010	2011	2012
		Est.	Proj.			
	(Percent)					
GDP growth	4.7	2.5	3.1	3.4	4.3	4.8
Nonagriculture GDP growth	6.2	1.3	3.1	3.4	4.4	4.9
ICS contribution to GDP growth	0.1	-0.2	0.6	0.6	...	...

Figure 1. Senegal: Recent Macroeconomic Developments, 2002–08

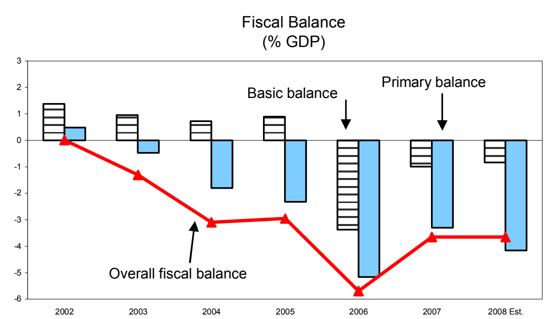
Senegal's economic growth slowed in 2008 as government payment delays and lower household demand hit the nonagricultural economy.



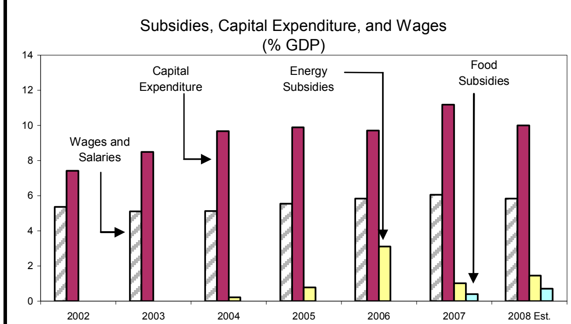
Inflation was relatively high for 2 years but is now rapidly easing as food and energy prices decline.



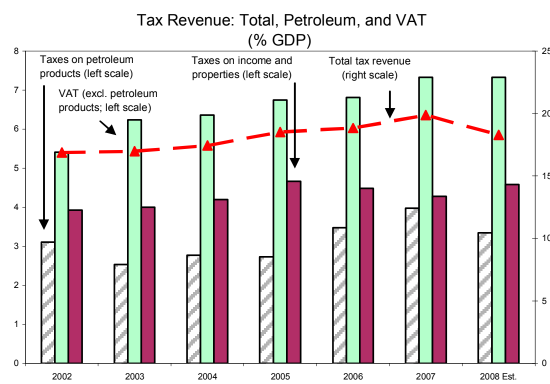
The basic fiscal deficit was contained in 2008 to help settle government payment delays …



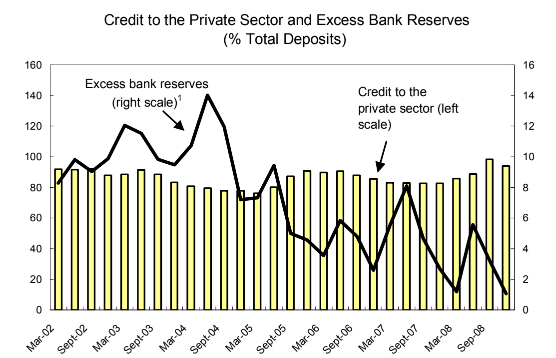
… as food and energy subsidies were phased out in the second part of the year and public investment declined, …



….while tax collection fell sharply after years of ascent.



Large government borrowing in the WAEMU zone, including by Senegal, has reduced excess bank reserves.



Sources: BCEAO; and IMF staff estimates.

[1] Difference between actual and required reserves, which are a percentage of deposits, short-term credit, and gross foreign claims.

cultivation by half. Production by ICS shrank in 2008, but its rehabilitation was initiated.[1] Construction was flat—after several years of double-digit growth—because of unpaid government bills and cutbacks in government orders. Senegal's growth and fiscal performance have lately fallen behind that in other WAEMU countries (Figure 2).

6. **In late 2008/early 2009, the global economic crisis began to affect the Senegalese economy.** Remittances, export prices, and FDI appear to be the main transmission channels (Box 2). The implications are as follows:

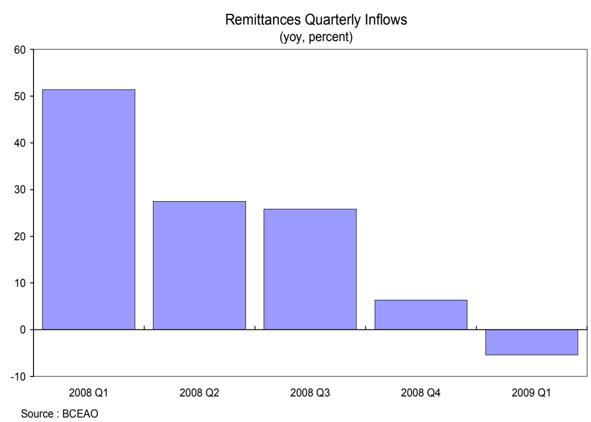
Box 2. Main Transmission Channels of the International Crisis

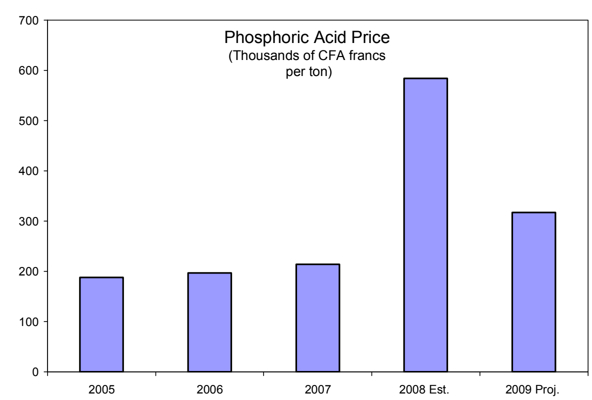
Remittances grew strongly for several years, reaching 8 percent of GDP in 2008. However, with two-thirds originating in the USA, France, Spain, and Italy, inflows slowed in 2008 and declined sharply (year-on-year) in the first quarter of 2009. If this trend continues, household consumption and construction would be adversely affected.

Export prices are projected to be significantly lower in 2009 than in 2008. The price of Senegal's main export, phosphoric acid, is projected at half its 2008 level.

Foreign direct investment (FDI) for a number of specific projects is expected to increase more slowly as demand and access to financing by foreign companies has fallen. An iron ore project, which was to account for half of total FDI over the next several years, has been delayed, and other projects (e.g., the port expansion and special economic zone) may also be developed more slowly.

Tourism is also affected as illustrated by falling arrivals.

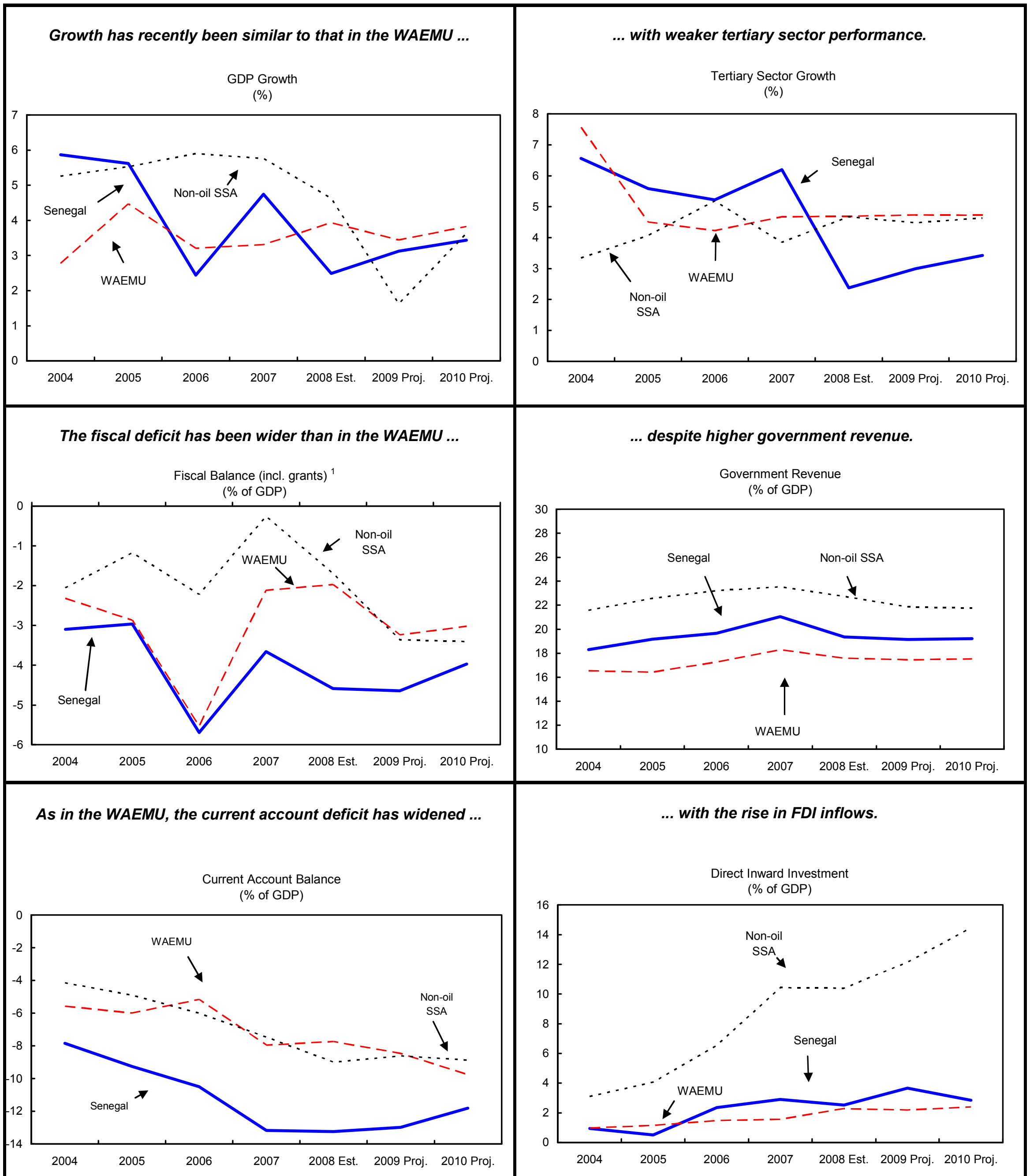




- The **economic rebound** in 2009 is projected to be weak, even as government payment delays are eliminated and ICS production accelerates. Similarly, projected medium-term growth, at around 5 percent, is lower than previously foreseen due to a more constrained external environment (Figure 3).

[1] *Industries Chimiques du Sénégal* is Senegal's largest company. It produces phosphoric acid and in 2008 received a capital injection of $100 million from the foreign majority owner.

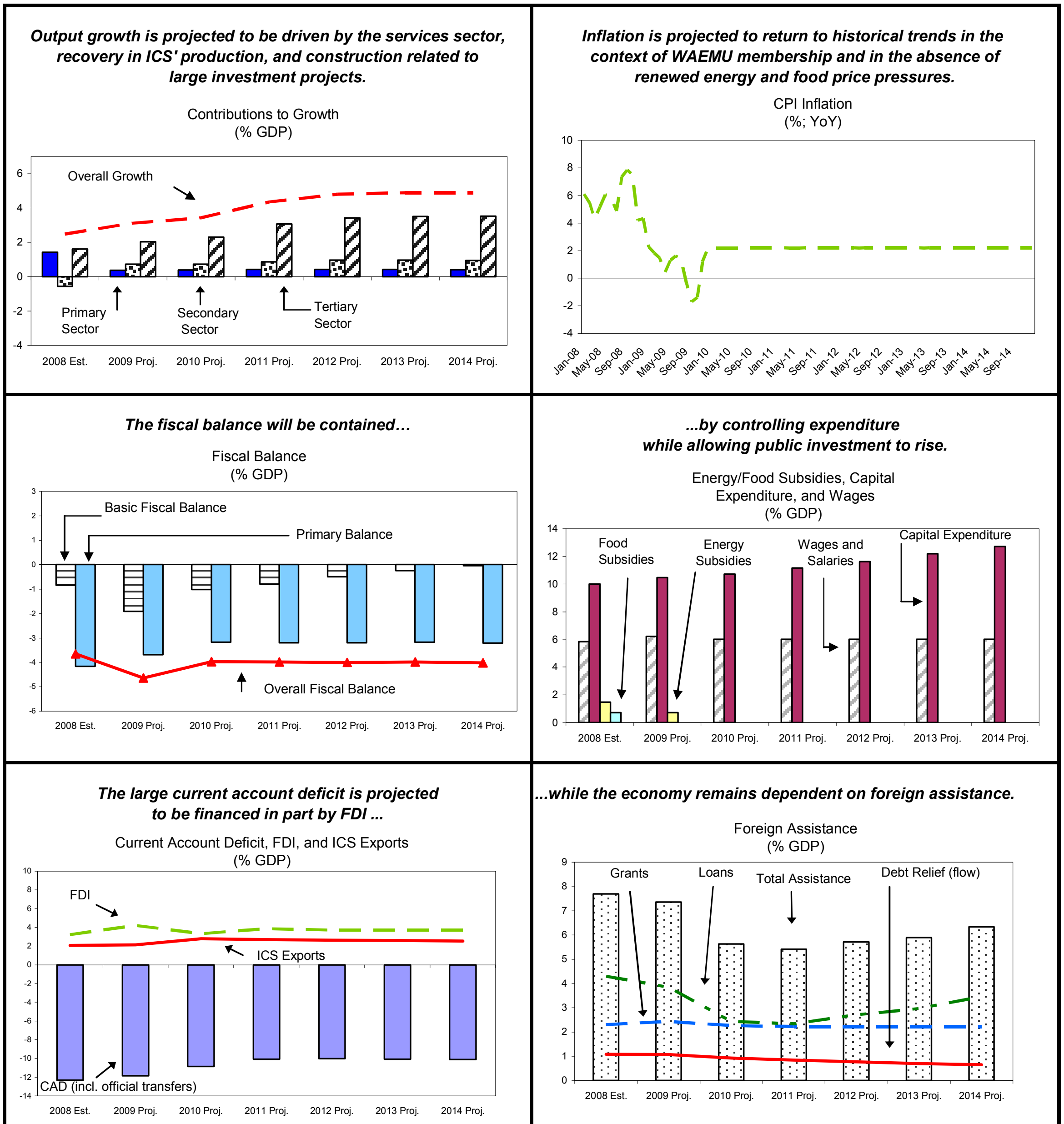
Figure 2. Senegal, WAEMU, and SSA: Macroeconomic Developments and Outlook, 2004–10



Sources: WEO; and IMF staff estimates.

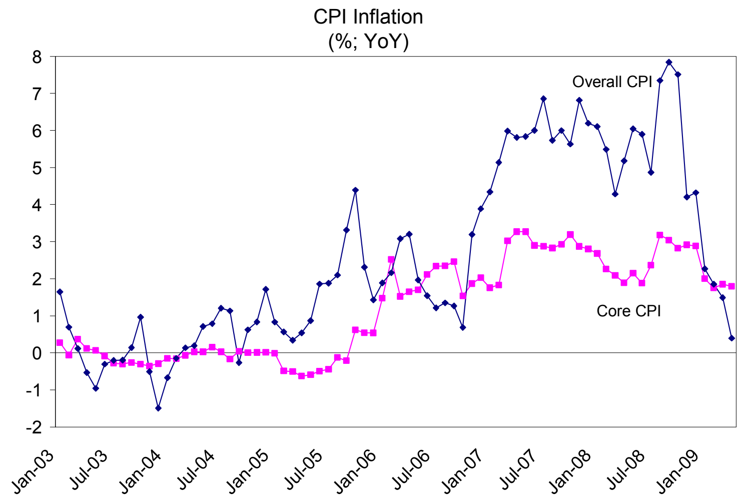
[1] For 2006, fiscal balance excluding grants for WAEMU and non-oil SSA to eliminate effect of MDRI relief.

Figure 3. Senegal: Medium-Term Outlook, 2008–14



Sources: BCEAO; and IMF staff estimates.

- **Inflation** should be low on average in 2009, given the sharp decline in food and energy prices and absence of domestic demand pressures. Inflation is poised to return to historical levels over the medium term consistent with inflation trends in the WAEMU.



- The **external current account deficit** is projected to narrow slightly in 2009 (though less than previously foreseen) and more strongly over the medium term, as ICS gradually reaches its former export capacity while subdued economic growth and FDI will contain imports. Reflecting more depressed financial inflows, especially FDI, **reserves** should hover just above three months of imports.

- The **banking sector** is not directly affected by the global crisis as it has, by all accounts, no toxic assets. However, indirect effects could arise, such as on credit quality (Box 3 below).

- The **outlook** is characterized by uncertainties about the international environment and the extent of pass-through. Lower-than-projected exports, remittances, FDI, or aid could further depress growth. Other longstanding risks remain, such as adverse weather and pest conditions affecting agriculture and commodity price shocks. In addition, the erosion of popular support for the ruling party (with the decisive loss of the ruling party at the recent municipal elections), institutional weaknesses (including the large number of cabinet portfolios and overlapping government agencies), and governance and transparency concerns (such as in the energy sector) may trouble development partners and increase the risk of backtracking on program commitments.

B. Exogenous Shocks Facility

7. **The Senegalese authorities request augmentation and extension of their ESF to help them cope with the impact of the global economic crisis.** The ESF was approved in December 2008 for the food and fuel price shock and amounted to 30 percent of quota (SDR 48.54 million), of which the first tranche (15 percent of quota) was drawn at the time of approval. The requested augmentation would raise Senegal's access to 75 percent of quota

(SDR 121.35 million, or about CFAF 90 billion), and the requested extension would be from 12 to 18 months. The undrawn balance of 60 percent of quota (SDR 97.08 million, or about CFAF 72 billion) would be disbursed in three equal tranches at the time of the third, fourth, and fifth (last) PSI reviews. The last PSI/ESF review in mid-2010 could then be used to assess the future form of Fund engagement with Senegal.

8. **The ESF would thus be provided for two successive sudden and exogenous external shocks:** the oil and food price shock in 2008 and the impact of the global economic crisis in 2009–10. The combination of both shocks has led to a balance of payments need that is larger and longer than initially expected, extending into 2010. Beyond 2010, however, Senegal's balance of payments is expected to recover, illustrating the sudden and temporary nature of the two shocks (see Table 2 and Figure 4).

9. **Relative to the pre-crises year 2007, the cumulative impact of the two shocks is estimated at CFAF 389 billion during 2008–10.** The food and fuel crisis dominates in 2008, while the global crisis is becoming the lead cause in 2009–10. As a result, Senegal's overall balance of payments is projected to deteriorate by a cumulative CFAF 419 billion during the period, significantly affecting reserve levels.

Balance of Payments, 2008-10
(Billions of CFA francs)

	Change relative to 2007			Cumulative for	
	2008	2009	2010	2009-10	2008-10
External shocks, total	-132	-114	-143	**-257**	**-389**
Food and fuel prices	-205	-20	-73	-93	-298
Food imports, net	-114	-67	-75	-142	-256
Of which: Rice	-116	-65	-66	-131	-247
Oil imports, net	-91	47	3	49	-42
International crisis	74	-95	-70	-165	-91
Remittances, net[1]	42	-47	-55	-102	-61
Travel receipts	-39	-60	-65	-126	-165
Phosphoric acid export price	81	32	32	65	146
Direct investment, net[1 2]	-11	-19	18	-1	-12
Other, residual	-25	7	-12	-6	-30
Overall balance of payments (change)	-156	-107	-155	**-263**	**-419**
Memorandum items:					
Overall balance of payments	-105	-56	-104	-160	-266
Gross reserves, change (without ESF)	-8	-46	-137	-137	-137
Gross reserves, change (with ESF)	9	19	-48	-48	-48
Gross reserves, eop level (with ESF)	744	754	687	687	687
(months of GNFS imports)	3.2	3.5	3.1	3.1	3.1

[1] Net of induced imports.
[2] Excluding privatization in 2009.

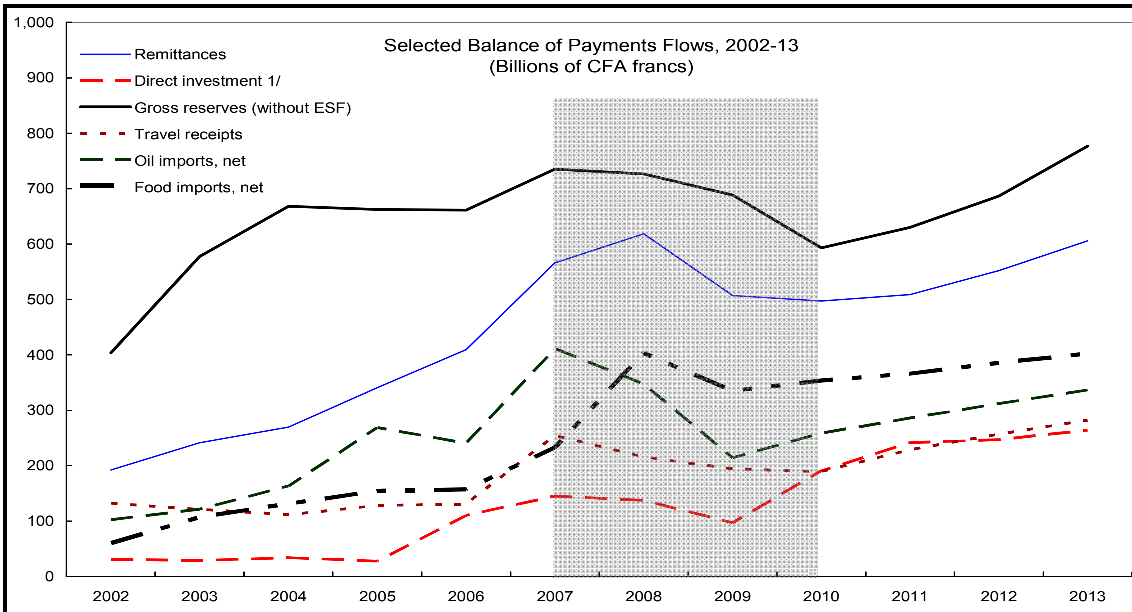
10. **The impact of the global crises is also worse than projected at the time of the ESF approval (IMF Country Report No. 09/5).** This reflects the little concrete evidence of that impact which was available at that time. Main transmission channels have turned out to be remittances, FDI, and exports (see Box 2 above). All in all, compared to past projections, the overall balance of payments over 2008–10 is worse by CFAF 330 billion.

Balance of Payments, 2008-10

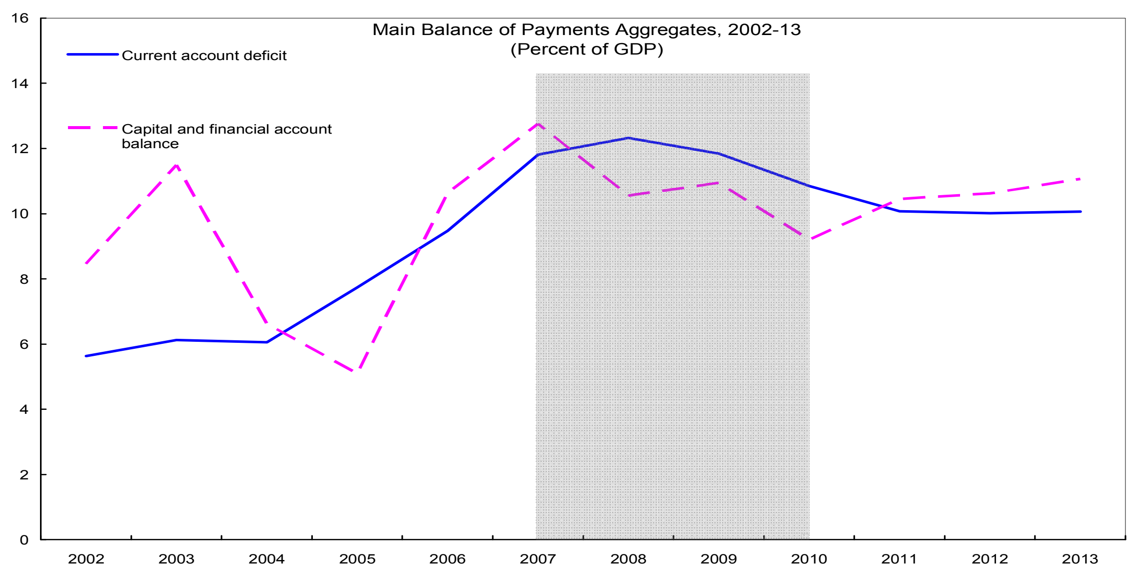
	Change relative to ESF approval (IMF Country Report N0. 09/5)				
				Cumulative for	
	2008	2009	2010	2009-10	2008-10
	(Billions of CFA francs; (+) = improvement)				
Total crises-related flows	**78**	**-62**	**-140**	**-203**	**-124**
Fuel and food	-13	17	22	39	26
Imports of oil and oil products, net	44	95	97	191	236
Imports of food, net	-57	-78	-75	-152	-210
International crisis	91	-79	-162	-242	-150
Remittances, net[1]	99	13	-26	-12	87
Travel receipts	28	-3	-19	-22	7
Phosphoric acid exports	17	-78	-57	-135	-118
Direct investment, net[1]	-54	-12	-60	-72	-126
Other, residual	-155	-86	36	-50	-206
Overall balance of payments	**-77**	**-149**	**-104**	**-253**	**-330**
Memorandum items:					
Reserves, eop (without ESF)	6	-141	-244	-244	-244
Reserves, eop (with ESF)	5	-113	-193	-193	-193
(in months of imports)	0.0	-0.2	-0.4	-0.4	-0.4

[1] Net of induced imports.

Figure 4. Senegal: Balance of Payments, 2002–13



1/ Excluding sale of Sonatel shares and privatization of Hotel Le Meridien.



11. **The proposed access would help to partially, but not fully, offset the deterioration in the overall balance of payments.** This reflects several considerations, including a remaining uncertainty on the dynamics of the global crisis, an anticipated scaling up of support from other development partners, and the need for a prudent approach to safeguard Fund resources in light of the authorities' past difficulties in implementing their economic program. Nonetheless, the proposed access level would help stabilize Senegal's contribution to the WAEMU's international reserves. Given the expected decline in the value of imports resulting from lower international prices and domestic demand, the import coverage of reserves would remain above 3 months in 2009-10, with a spike projected for 2009 due to one-off privatization receipts and financing for the toll highway. An adjustment to access levels, if needed, could be considered at a future review in light of developments.

12. **The Fund's and Bank's support is expected to serve as a catalyst for stepped-up donor support.** The Bank is expected to approve a fast-track budget support operation of US$60 million in mid-June 2009. The authorities intend to approach other development partners after completion of the third PSI review to solicit additional support. Donors indicated that they would consider scaling up their assistance only after a successful PSI review so as to ascertain that the past budgetary slippages have successfully been addressed.

13. **Senegal's capacity to repay the Fund is strong** (Table 11)**.** In addition, the accompanying updated DSA confirms that Senegal is at a low risk of debt distress, provided that prudent macroeconomic policies are being pursued.

III. Program Discussions

A. Overview

14. **The authorities want to continue to base their economic program on the PSI's four pillars.** Although program implementation was tainted by the emergence of budgetary slippages in 2008, the pillars have been sufficiently flexible to allow the authorities to address those slippages and make significant headway in key reform areas, including in particular fiscal governance and transparency. PSI reforms to date have focused on public procurement, the energy sector, the management of, and fiscal risks related to, large infrastructure projects (e.g., airport, special economic zone), and, more recently, PFM as a result of the budgetary slippages.

The PSI Program's Four Pillars

Containing the *fiscal deficit* to underpin macroeconomic stability and safeguard debt sustainability.

Improving *fiscal governance and transparency* so as to enhance policy credibility and sustain external assistance.

Encouraging *private sector activity* by improving the business environment and addressing structural impediments to higher economic growth.

Limiting *financial sector vulnerabilities* and raising the sector's contribution to the economy.

15. **The program's focus in 2009 will be on helping Senegal weather the impact of the global economic crisis while completing the normalization of the government's financial relations with the private sector.** The authorities reiterated their intention to pursue a prudent fiscal policy stance, with temporary flexibility to avoid large cuts in spending, given falling tax receipts. Structural conditionality will focus on deepening PFM reforms and strengthening tax administration, which should also help shore up the fiscal policy stance.

B. Macroeconomic Policies

Eliminating payment delays

16. **The authorities intend to settle all payment delays by mid-year.** This will support economic activity. External and domestic financing that will become available in the next few weeks will facilitate achieving this goal. In the meantime, budget implementation is being tightly managed.

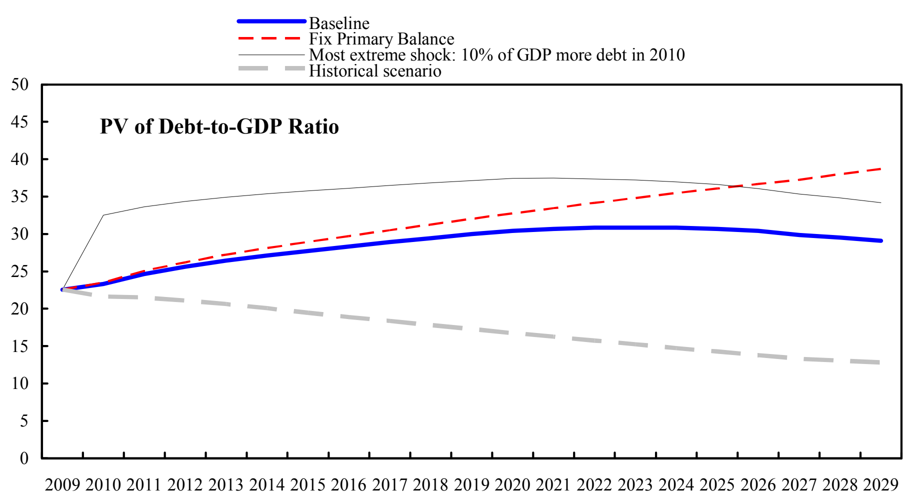
MEFP ¶8

17. **Based on the completed audit of extrabudgetary spending, the government will decide by end-July on how to deal with the identified claims (structural benchmark).** Any claims it intends to pay will be included in the 2010 budget.

MEFP ¶19

Fiscal policy stance

18. **The authorities reiterate their comm itment to a fiscal policy stance aimed at preserving medium-term debt sustainability while**



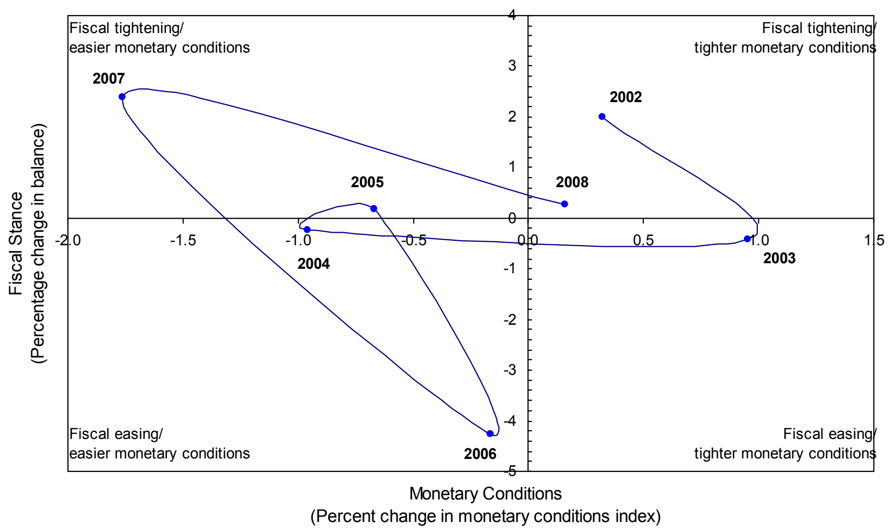
providing sufficient resources for priority social sectors and infrastructure investment. This supports macroeconomic stability, progress toward meeting the MDGs, poverty alleviation, and raising growth. The updated DSA confirms that an overall fiscal deficit of 4 percent of GDP over the medium term preserves debt sustainability.[2]

MEFP ¶9

19. **Following tighter macroeconomic policies in 2007–08, scope exists for a temporary easing of 1¾ percent of GDP in 2009 relative to earlier program targets, with an overall fiscal deficit of 4½ percent of GDP.** With subdued tax revenues due to lower growth, maintaining the original deficit target of 2¾ percent of GDP would have necessitated significant spending reductions. However, with spending already cut by 1½ percent of GDP in 2008, such reductions would be procyclical and put social and developmental objectives at risk. The higher deficit will provide some support to economic activity.

MEFP ¶10

Macroeconomic Policy Environment [1]
(Percent)



[1] The fiscal stance is represented by changes in the basic balance—which the authorities control—as a percent of GDP. Monetary conditions are measured by an index of the average of the real policy interest rate (refinance rate minus inflation) and (the log of the) real effective exchange rate.

20. **The higher fiscal deficit is feasible, as the authorities are progressing in settling unpaid bills and lining up the necessary financing.** The financing comprises a mixture of donor financing, regular securities issues in the regional market, bank financing with SONATEL shares as collateral, and privatization receipts.[3] Nonetheless, a mid-year supplementary budget is still necessary and has been submitted to parliament (prior action). The law regularizes spending carryover from

MEFP ¶11

[2] See *Joint IMF/IDA Debt Sustainability Analysis*, June 2009.

[3] A tender for the divestiture of the Hotel Méridien was recently launched and the sale should be completed in 2009.

2008, incorporates appropriations for the donor-supported Dakar-Diamniadio toll highway, and shaves off some nonpriority spending.

C. Structural Reforms

PFM and tax administration

21. **Reforms in PFM and tax administration remain at the core of the authorities' program.** The agenda includes six macro-relevant structural benchmarks in these areas (MEFP Table 2).[4]

Structural Reform Agenda

PFM	MEFP ¶
An audit of the budget monitoring system SIGFIP aimed at improving its reliability, coverage, and ability to produce periodic budget execution data.	17
Improving the flexibility and presentation of the budget to increase its transparency and enhance expenditure control.	16
Making the accounting system ASTER operational to improve the reliability of treasury accounts.	18
Following external audit, deciding on extrabudgetary spending to be rejected or regularized in 2010 budget law, which should restore the integrity of the budget system and complete normalization of financial relations with the private sector.	19
Tax administration	
A study to identify the level of, and justification for, tax exemptions to help safeguard tax revenues and tax system coherence.	21
Assign collection of a specific gasoline tax (FSAPP) to the tax authority instead of SAR (the oil refinery) so as to raise transparency and the state's revenue take.	22

Energy sector

22. **The energy sector, critical to raising economic growth, is being reformed, but continues to pose public finance risks.** This is illustrated by the 2008 SENELEC tax arrears and financial and governance problems of the petroleum refinery SAR. Energy sector reform, supported by the World Bank and other donors, aims to restore SENELEC's financial equilibrium and allow the company to settle its tax and private sector arrears in 2009. Going forward, the authorities committed to having SENELEC make tax payments on a quarterly basis,[5] made possible by adjusting electricity tariffs to market prices in quarterly intervals. They also reiterated their commitment to phase out as planned the last energy subsidy—on butane gas—by mid-year.

MEFP ¶22

[4] Based on a February 2009 FAD TA report.

[5] As of end-May, two-thirds of SENELEC's back taxes have been settled.

Staff emphasized the need to tackle SAR’s problems and will continue to liaise with the World Bank in this regard.

Private sector

23. **The authorities are pursuing reforms in several areas to further improve Senegal’s ranking in the World Bank’s “Doing Business” indicators.** These include enhancing the judicial system for commercial disputes, accelerating transfer of property ownership and issuance of construction permits, and further relaxing restrictions on fixed-term labor contracts.

MEFP ¶23

Financial sector

24. **In response to recent developments, the national and regional authorities have stepped up their monitoring of the financial sector to help safeguard its stability** (Box 3). They are scrutinizing bank balance sheets, using a wide range of indicators and stress tests, to detect credit risks and address solvency and liquidity problems. The focus is on identifying additional provisioning needs, reducing excessive risk concentration and asset-liability mismatches, and anticipating potential spillovers from problems in parent companies abroad.

MEFP ¶24-26

IV. Staff Appraisal

25. **The Senegalese authorities have made good use of the opportunity accorded to them to bring the program back on course.** The reduction in the stock of payment delays by three-fourths since the end-October 2008 peak goes a long way towards full normalization of the government’s financial relations with the private sector within the next few weeks. Recent reforms in budget preparation, execution, and monitoring should limit the risk of a recurrence of the past budget slippages, although further scope exists to improve cash flow management.

26. **These achievements come at a critical juncture and should help shore up economic activity at a time when Senegal is beginning to feel the impact of the global economic crisis.** As a result of the corrective actions taken, Senegal is facing the crisis in a much stronger position than only a few months ago. Nonetheless, the outlook for economic growth has worsened substantially and downside risks have increased. In addition, following the impact of the 2008 food and energy price surge, the global economic crisis is expected to further weaken Senegal’s external position in the short run. The ESF augmentation should help support Senegal’s balance of payments during this crucial period.

Box 3. Banking Sector Stability

The banking system has structural weaknesses. Several banks are persistently noncompliant with prudential requirements. Weaknesses could be exacerbated if low growth results in reduced credit quality—nonperforming loans already worsened in 2008 due to the government's payment delays (Table 8).

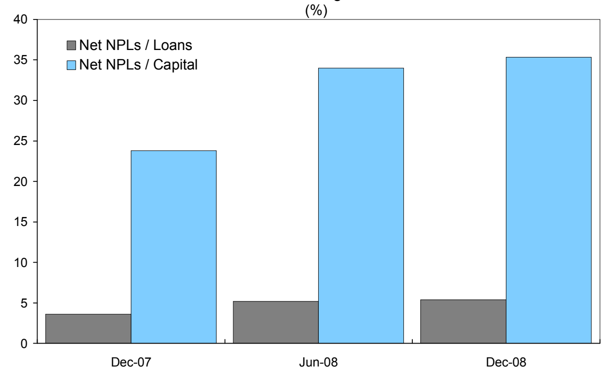
Number of Banks Non-Compliant with Prudential Standards

	Dec-02	Dec-03	Dec-04	Dec-05	Dec-06	Dec-07	Sep-08	Dec-08
Minimum capital	2	1	1	1	1	1	1	0
Capital adequacy	2	2	2	2	2	2	2	2
Large exposures and concentration	2	6	6	8	5	6	8	8
Liquidity	1	3	1	4	4	4	8	4
Transformation (stable resources)	5	3	4	3	4	6	6	6
Number of Banks	11	11	12	14	17	17	17	17

Source: BCEAO and BC-WAMU annual report

Stress tests by the authorities suggest some vulnerability to credit shocks. While credit concentration has trended down in recent years, more than half of the banks do not comply with the relatively generous ceiling on exposure to a single borrower. Bank-by-bank stress tests suggest that major write-offs on the largest borrowers could raise solvency concerns.

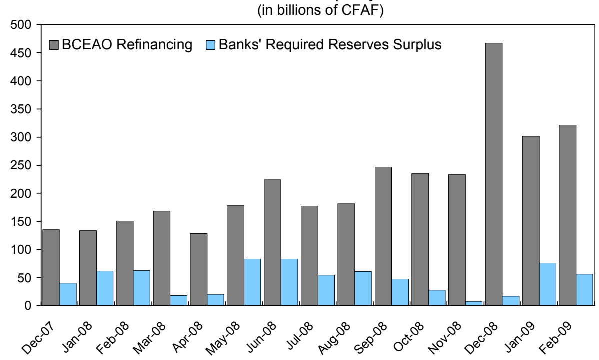
Non-Performing Loans1/
(%)



1/ Excluding loans to ICS on which provisioning is not compulsory.

Liquidity tensions in the banking system intensified in 2008. Banks' excess reserves reached a three-year low, and BCEAO refinancing operations surged, as the government's demand for liquidity increased to help settle its payment delays.

Banks' Liquidity
(in billions of CFAF)



Source : BCEAO

Enhanced liquidity support by the BCEAO to the financial system is key in light of public and private financing needs. This could include a relaxation of monetary conditions, given exchange rate developments and the monetary policy stance adopted in the euro area. While past evidence suggests that a reduction in key policy rates may not substantially affect retail rates, stepped up liquidity injections could help accommodate public financing needs without crowding out the private sector. To this end, the BCEAO has recently launched new liquidity support operations, including at new maturities. Lower reserve requirements could also be considered, as well as an expansion of eligible good-quality collateral for discount and open market operations.[1]

[1] Staff's analysis and policy suggestions for the WAEMU zone as a whole were shared with the regional authorities (see Staff Position Note, *forthcoming*).

27. **A temporary fiscal easing in 2009 is appropriate to help Senegal face the impact of the economic slowdown.** With a low risk of debt distress and the availability of financing, and confronted with a noticeable slowdown in tax collections, the authorities appropriately aim to keep spending close to planned levels while protecting social spending and reprioritizing expenditure toward growth-enhancing infrastructure investment. The staff also welcomes the reiteration of the authorities' commitment to speedily return to a fiscal policy stance that would help preserve Senegal's debt sustainability over the medium term. In the same vein, the prudent stewardship of the budget in late 2008 allowed the authorities to largely compensate an unexpected shortfall in tax revenues. While staff regrets that the 2008 deficit turned out higher than programmed and stresses the importance of avoiding such overruns in the future, the underspending in 2008, together with the authorities' meeting the end-March fiscal balance target and committing to regular SENELEC tax payments, form a strong basis for the staff to recommend a waiver for the nonobservance of the end-2008 assessment (performance) criterion on the basic fiscal deficit.

28. **The structural reform agenda, focusing on measures to further strengthen PFM and tax administration, supports the authorities' fiscal objectives.** The reforms will help safeguard macroeconomic stability and allow Senegal to get full closure on the past budgetary slippages. Staff attaches particular importance to a timely decision on how to deal with the extrabudgetary spending identified in the external audit report. In addition, the reform of the energy sector, undertaken with the support of the World Bank and other development partners, will be key to further containing fiscal risks and helping raise Senegal's growth potential.

29. **Staff recommends the waiver, completion of the program reviews, and request for augmentation and extension of the ESF.** The progress made in settling the unpaid bills and implementing key PFM reforms has helped restore the integrity of the budget system. This, together with the authorities' intention to complete the PFM reform agenda and pursue prudent economic policies going forward, augur well for the country being able to weather the impact of the global crisis, provided that the political commitment remains strong.

Table 1. Senegal: Selected Economic and Financial Indicators, 2006–14

	2006	2007	2008	2009		2010	2011	2012	2013	2014
			Est.	Prog.	Proj.			Proj.		
	(Annual percentage change)									
National income and prices										
GDP at constant prices	2.4	4.7	2.5	5.2	3.1	3.4	4.3	4.8	4.9	4.9
Of which: nonagriculture GDP	4.0	6.2	1.3	5.5	3.1	3.4	4.4	4.9	5.0	5.0
GDP deflator	4.0	5.5	7.4	2.3	2.1	2.1	2.1	2.1	2.1	2.1
Consumer prices										
Annual average	2.1	5.9	5.8	3.3	0.8	2.2	2.2	2.2	2.2	2.2
End of period	3.9	6.2	4.3	2.2	2.2	2.2	2.2	2.2	2.2	2.2
External sector										
Exports, f.o.b. (CFA francs)	0.1	-3.7	14.1	5.6	-12.1	13.8	6.6	4.6	4.5	4.8
Imports, f.o.b. (CFA francs)	9.6	19.5	9.8	1.0	-7.8	5.4	4.7	6.4	6.3	6.5
Export volume	-12.3	-1.2	-4.0	12.6	9.0	8.6	3.9	4.0	4.1	4.1
Import volume	6.5	11.3	-0.3	8.2	2.5	1.8	2.9	4.8	5.4	5.4
Terms of trade ("–" = deterioration)	10.9	-9.4	8.4	0.4	-11.0	1.2	0.7	-1.0	-0.5	-0.3
Nominal effective exchange rate	0.2	1.9	3.3	…	…	…	…	…	…	…
Real effective exchange rate	-0.2	5.3	5.3	…	…	…	…	…	…	…
	(Changes in percent of beginning-of-year broad money, unless otherwise indicated)									
Money and credit										
Net domestic assets	5.0	8.6	6.2	5.0	5.1	10.6	12.7	11.3	10.5	9.1
Domestic credit	5.8	11.5	7.3	5.3	5.5	11.0	13.1	11.7	10.9	9.4
Credit to the government (net)	3.0	4.9	-3.5	-1.7	-1.6	2.8	4.4	3.0	2.2	1.0
Credit to the economy (percentage growth)	4.2	10.5	17.2	10.9	10.0	11.0	11.4	11.6	11.8	11.8
	(Percent of GDP, unless otherwise indicated)									
Government financial operations										
Revenue	19.7	21.1	19.4	20.7	19.2	19.3	19.7	20.1	20.3	20.6
Grants	1.5	2.6	2.3	2.4	2.4	2.3	2.2	2.2	2.2	2.2
Total expenditure and net lending	27.2	27.6	26.5	25.9	26.3	25.6	26.0	26.3	26.5	26.8
Overall fiscal surplus (+) or deficit (–)										
Payment order basis, excluding grants	-7.2	-6.2	-6.9	-5.1	-7.1	-6.2	-6.2	-6.2	-6.2	-6.2
Payment order basis, including grants	-5.7	-3.7	-4.6	-2.7	-4.6	-4.0	-4.0	-4.0	-4.0	-4.0
Primary fiscal balance 1/	-5.2	-3.3	-4.2	-2.0	-3.7	-3.2	-3.2	-3.2	-3.2	-3.2
Basic fiscal balance 2/	-3.4	-1.0	-0.8	0.1	-1.9	-1.0	-0.8	-0.5	-0.2	0.0
Gross domestic investment	28.2	30.9	30.2	31.2	27.6	27.8	28.4	29.3	30.2	31.0
Government	9.7	11.2	10.0	10.8	10.4	10.7	11.2	11.6	12.2	12.7
Nongovernment	18.5	19.7	20.2	20.4	17.1	17.1	17.2	17.6	18.0	18.3
Gross domestic savings	10.7	8.5	7.7	12.7	7.8	9.8	11.5	12.2	12.9	13.6
Government	3.4	7.1	5.0	8.7	6.3	7.7	8.1	8.6	9.1	9.6
Nongovernment	7.3	1.4	2.7	4.0	1.5	2.1	3.3	3.7	3.7	4.0
Gross national savings	18.7	19.1	17.9	20.6	15.7	17.0	18.3	19.3	20.1	20.9
External current account deficit (–)										
Including current official transfers	-9.5	-11.8	-12.3	-10.6	-11.8	-10.9	-10.1	-10.0	-10.1	-10.1
Excluding current official transfers	-10.5	-13.2	-13.3	-12.0	-13.0	-11.8	-11.0	-11.0	-11.0	-11.1
Central government domestic debt 3/	4.3	5.6	5.0	5.9	3.7	4.1	6.0	7.3	8.2	8.4
External public debt (nominal) 3/ 4/	17.7	17.9	19.7	22.0	23.4	24.7	24.8	25.2	25.9	27.2
External public debt service 4/										
Percent of exports	4.2	3.4	2.7	3.8	4.8	4.6	7.5	7.2	6.8	5.6
Percent of government revenue	5.4	4.1	3.4	4.6	5.2	5.1	8.3	7.8	7.2	5.8
Gross domestic product (CFAF billions)	4,893	5,408	5,950	6,450	6,264	6,614	7,048	7,544	8,080	8,655

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

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

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

3/ Debt outstanding at year-end.

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

Table 2. Senegal: Balance of Payments, 2006–14

	2006	2007	2008	2009	2010	2011	2012	2013	2014
			Est.			Proj.			
	(CFAF billions, unless otherwise indicated)								
Current account	-464	-638	-733	-742	-718	-710	-755	-813	-876
Balance on goods	-837	-1,193	-1,275	-1,215	-1,212	-1,253	-1,352	-1,456	-1,568
Exports, f.o.b.	833	803	916	805	917	977	1,022	1,068	1,119
Imports, f.o.b.	-1,670	-1,996	-2,191	-2,021	-2,129	-2,230	-2,374	-2,524	-2,688
Services and incomes (net)	-65	-64	-109	-82	-43	-8	-2	-15	-16
Credits	512	671	665	654	672	744	807	868	930
Debits	-577	-735	-775	-736	-715	-752	-809	-883	-946
Of which: interest on public debt	-36	-24	-24	-36	-38	-39	-37	-35	-34
Unrequited current transfers (net)	437	618	651	556	538	551	599	658	706
Private (net)	409	566	618	507	497	509	552	606	649
Public (net)	28	52	33	48	41	42	47	52	57
Of which: budgetary grants	9	53	36	51	43	43	46	49	53
Capital and financial account	520	690	628	685	614	737	801	894	978
Capital account	1,234	182	105	109	114	122	130	139	149
Private capital transfers	7	7	7	7	7	8	8	8	9
Project grants	64	86	101	101	107	114	122	131	140
Debt cancellation and other transfers 1/ 2/	1,163	89	-4	0	0	0	0	0	0
Financial account	-714	507	523	577	499	615	671	755	829
Direct investment 3/	110	145	137	227	190	241	247	264	286
Portfolio investment	-11	29	0	20	22	49	61	71	77
Other investment	-812	333	385	330	287	325	363	420	466
Public sector (net)	-1,018	116	268	243	151	128	171	213	282
Of which : disbursements	147	156	262	299	204	217	264	308	355
program loans	39	19	70	64	28	25	27	29	31
project loans	107	138	192	155	177	208	253	295	340
other	0	0	0	80	0	-16	-16	-16	-16
amortization	-1,166	-54	-44	-56	-54	-90	-93	-95	-73
Private sector (net)	173	254	140	87	136	197	192	208	184
Errors and omissions	33	-37	-23	0	0	0	0	0	0
Overall balance	57	51	-105	-56	-104	27	46	81	101
Financing	-57	-51	105	8	81	-27	-46	-81	-101
Net foreign assets (BCEAO)	-83	-75	-8	-9	68	-38	-58	-92	-111
Net use of Fund resources	-66	0	17	0	0	-2	-3	-3	-9
Purchases/disbursements	11	0	17	0	0	0	0	0	0
Repurchases/repayments	-77	0	0	0	0	-2	-3	-3	-9
Other	-16	-75	-25	-9	68	-37	-56	-89	-103
Deposit money banks	-37	3	98	-5	-6	-6	-6	-7	-7
Payments arrears ("–" = reduction)	0	0	0	0	0	0	0	0	0
Exceptional financing 2/ 4/	63	21	16	22	18	17	18	17	17
Residual financing gap 5/	0	0	0	48	24	0	0	0	0
Memorandum items:									
Current account balance									
Including current official transfers (percent of GDP)	-9.5	-11.8	-12.3	-11.8	-10.9	-10.1	-10.0	-10.1	-10.1
Excluding current official transfers (percent of GDP)	-10.5	-13.2	-13.3	-13.0	-11.8	-11.0	-11.0	-11.0	-11.1
Gross official reserves (CFAF billions)	661	735	744	754	687	724	781	872	976
(months of imports of GNFS)	3.8	3.4	3.2	3.5	3.1	3.1	3.1	3.3	3.4
Gross domestic product	4,893	5,408	5,950	6,264	6,614	7,048	7,544	8,080	8,655

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

1/ Includes receipts from sale of a telecom license in 2007.
2/ Reflects MDRI stock debt relief in 2006. Debt relief from the Fund is recorded as a capital transfer. Debt relief from the IDA and the AfDB on the amount falling due in 2006 is shown as exceptional financing; debt relief on amounts due in 2007 and beyond is recorded as a capital transfer.
3/ Includes projected receipts from privatization in 2009.
4/ Until 2005, HIPC flow debt relief granted by the IMF is recorded as a grant, and that granted by the World Bank, the African Development Bank, Paris Club creditors, and Kuwait is recorded as exceptional financing.
5/ Financing gap in 2009 and 2010 to be filled with ESF drawings.

Table 3. Senegal: Balance of Payments, 2008-10

(Billions of CFA francs, unless otherwise indicated)

					Change Relative to Previous Year[1]								
					2008			2009			2010		
	2007	2008 Est.	2009 Proj.	2010 Proj.	value change	price change	volume change	value change	price change	volume change	value change	price change	volume change
Current account	-638	-733	-742	-718	-95			-9			24		
Trade balance	-1,193	-1,275	-1,215	-1,212	-82			60			3		
Exports, f.o.b.	803	916	805	917	113			-110			111		
Of which: Phosphoric acid	47	107	116	159	60	81	-21	9	-49	58	42	0	42
Of which: Refined petroleum	143	181	120	151	38	42	-4	-61	-72	11	32	25	7
Of which: Fish	153	154	146	145	2	-1	3	-9	-12	4	-1	-5	4
Of which: Groundnuts	39	9	7	7	-30	15	-45	-2	-2	0	0	-1	0
Imports, f.o.b	-1,996	-2,191	-2,021	-2,129	-195			170			-108		
Of which: Rice, wheat, and sugar	-256	-342	-280	-276	-86	-127	41	62	62	1	4	-3	7
Rice	-174	-258	-205	-197	-84	-116	32	54	51	2	8	-1	9
Of which: Oil and oil products	-554	-528	-334	-410	26	-134	160	194	210	-16	-76	-69	-8
Services and incomes (net)	-64	-109	-82	-43	-46			27			39		
Of which: Travel receipts	255	216	194	189	-39			-22			-5		
Unrequited current transfers (net)	618	651	556	538	33			-95			-18		
Of which : Private (net)	566	618	507	497	52			-111			-10		
Capital and financial account	690	628	685	614	-61			57			-72		
Of which: FDI, excl. 2009 privatization	145	119	97	190	-26			-22			94		
Overall balance	51	-105	-56	-104	-156			49			-48		
Memorandum items:													
Gross official reserves	735	744	754	687	9			10			-67		
(months of imports of GNFS)	3.4	3.2	3.5	3.1									

Sources: BCEAO; and Fund staff estimates and projections.

[1] Price change: change in price from previous year times previous year's volume. Volume change: difference between value change and price change.

Table 4. Balance of Payments, 2008-10

	3rd PSI review/1st ESF review				ESF approval (IMF Country Report No. 09/05)				Change relative to ESF approval (IMF Country Report No. 09/05)				
												Cumulative for	
	2007	2008	2009	2010	2007	2008	2009	2010	2008	2009	2010	2009-10	2008-10
	(Billions of CFA francs; (+) = improvement)												
Total crises-related flows	**169**	**122**	**258**	**209**	**85**	**44**	**320**	**350**	**78**	**-62**	**-140**	**-203**	**-124**
Fuel and food	-644	-750	-549	-612	-562	-737	-566	-634	-13	17	22	39	26
Imports of oil and oil products, net	-411	-347	-214	-259	-368	-392	-309	-355	44	95	97	191	236
Imports of food, net	-233	-403	-335	-354	-193	-345	-257	-279	-57	-78	-75	-152	-210
International crisis	813	872	807	822	647	781	886	984	91	-79	-162	-242	-150
Remittances, net[1]	453	495	406	398	395	395	392	423	99	13	-26	-12	87
Travel receipts	255	216	194	189	139	187	197	208	28	-3	-19	-22	7
Phosphoric acid exports	47	107	116	159	45	90	195	215	17	-78	-57	-135	-118
Direct investment, net[1]	58	55	91	76	68	109	102	137	-54	-12	-60	-72	-126
Other, residual	-117	-227	-314	-313	-34	-72	-228	-349	-155	-86	36	-50	-206
Overall balance of payments	**51**	**-105**	**-56**	**-104**	**51**	**-28**	**92**	**0**	**-77**	**-149**	**-104**	**-253**	**-330**
Memorandum items:													
Reserves, eop (without ESF)		726	688	598		720	830	842	6	-141	-244	-244	-244
Reserves, eop (with ESF)		744	754	687		739	867	879	5	-113	-193	-193	-193
(in months of imports)		3.2	3.5	3.1		3.2	3.7	3.4	0.0	-0.2	-0.4	-0.4	-0.4

[1] Net of induced imports.

Table 5. Senegal: Government Financial Operations, 2006–14

	2006	2007	2008		2009		2010	2011	2012	2013	2014
			Prog.	Est.	Prog.	Proj.			Proj.		
	(Billions of CFA francs, unless otherwise indicated)										
Total revenue and grants	1,036	1,277	1,341	1,293	1,493	1,354	1,429	1,548	1,682	1,822	1,974
Revenue	963	1,139	1,209	1,153	1,337	1,201	1,280	1,391	1,514	1,642	1,782
Tax revenue	922	1,088	1,161	1,088	1,302	1,172	1,254	1,364	1,485	1,611	1,748
Income tax	219	232	274	273	302	302	328	359	391	427	466
Taxes on goods and services	533	628	645	616	742	648	697	758	831	905	987
Taxes on petroleum products	170	215	242	199	258	222	229	247	263	279	295
Nontax revenue	41	51	48	65	35	30	26	28	29	32	34
Grants	73	138	132	140	156	153	150	157	168	180	193
Budgetary	9	53	34	38	39	51	43	43	46	49	53
Budgeted development projects	64	86	99	101	117	101	107	114	122	131	140
Total expenditure and net lending	1,331	1,491	1,541	1,579	1,668	1,645	1,692	1,829	1,985	2,144	2,323
Current expenditure	829	881	994	979	974	988	981	1,041	1,105	1,158	1,220
Wages and salaries 1/	286	327	358	348	389	389	397	423	453	485	519
Interest due	42	34	35	39	45	60	52	56	61	66	71
Of which : external 2/	36	24	24	24	34	36	38	39	37	35	34
Other current expenditure	500	519	601	593	540	540	532	563	592	608	630
Transfers and subsidies 3/	308	287	359	333	270	270	250	266	277	272	271
Of which : SAR and butane subsidy	66	55	73	69	23	44	0	0	0	0	0
Of which: SENELEC	86	0	48	30	0	18	0	0	0	0	0
Of which: Food subsidies	0	21	43	46	0	0	0	0	0	0	0
Goods and services	186	217	229	239	256	256	269	285	303	325	348
HIPC and MDRI current spending	7	15	13	21	14	13	12	12	12	11	11
Capital expenditure 4/	475	605	550	595	698	655	709	786	877	984	1,100
Domestically financed	337	392	324	314	438	408	436	475	514	571	634
HIPC and MDRI-financed	26	60	66	63	56	54	49	48	47	46	46
Non-HIPC/MDRI financed	311	331	258	251	382	354	387	427	467	525	588
Externally financed	138	213	226	281	260	247	273	311	363	413	466
Net lending	27	5	-3	5	2	2	0	0	0	0	0
Of which : On-lending	33	10	5	12	10	10	0	0	0	0	0
Selected public sector entities balance 5/	16	16	0	13	0	0	0	0	0	0	0
Primary fiscal balance 6/	-236	-163	-165	-235	-130	-231	-210	-226	-242	-257	-278
Overall fiscal balance (including grants)	-279	-198	-200	-273	-175	-291	-263	-281	-302	-322	-348
Overall fiscal balance (excluding grants)	-352	-336	-332	-413	-331	-444	-412	-438	-470	-502	-541
Basic fiscal balance 7/	-165	-54	-21	-50	10	-119	-67	-56	-37	-19	-3
Financing	279	198	200	273	175	291	263	281	302	322	348
External financing	121	131	198	224	260	263	179	182	223	257	317
Drawings	146	156	230	262	206	219	204	233	280	324	371
Program loans	39	19	97	70	53	64	28	25	27	29	31
Project loans	107	138	133	192	153	155	177	208	253	295	340
Amortization due	-58	-54	-41	-44	-59	-56	-54	-90	-93	-95	-73
Debt relief and HIPC Initiative assistance	41	21	21	16	27	22	18	17	18	17	17
T-bills and bonds issued in WAEMU	-8	8	-12	-9	7	-2	10	37	34	27	17
Nonconcessional loans for infrastructure development	0	0	0	0	80	80	0	-16	-16	-16	-16
Domestic financing	158	58	67	40	-12	46	60	99	79	65	32
Banking system	128	98	-21	-45	-37	-33	60	100	80	66	32
Of which : T-bills and bonds	23	136	-13	-16	-28	-57	41	122	102	82	53
Nonbank financing 8/	30	-40	88	85	24	78	-1	-1	-1	-1	-1
Settlement of previous year's payment delays	0	0	-84	-84	-92	-66	0	0	0	0	0
Errors and omissions	-1	9	0	9	0	0	0	0	0	0	0
Financing gap 9/	0	0	19	0	19	48	24	0	0	0	0
Memorandum items:											
Budgetary float (program definition)	58	55	92	66	30	45	45	45	45	45	45
New issues of government securities	...	183	127	131	113	80	127	...	...	...	...
Airport travel tax earmarked for new airport (RDIA)	18	36	18	18	19	19	20	21	22	23	24
HIPC expenditure 10/	14	...	...	...	27	22	18	17	18	17	17
Priority expenditure (percent of total expenditure) 11/	31	32	36	33	38	36	40	…	…	…	…
Gross domestic product	4,893	5,408	5,993	5,950	6,450	6,264	6,614	7,048	7,544	8,080	8,655

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

1/ Excludes project-related wages and salaries, which are included in capital spending, and the salaries of autonomous agencies and health and education contractual workers, which are included in transfers and subsidies.

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

3/ Excludes subsidies aimed at sector development policies, which are included in capital spending.

4/ Includes recapitalization of SENELEC. The government provided CFAF 65 billion in 2007 under domestically-financed capital expenditure, while budget support by the World Bank and France in 2008 (CFAF 37 billion) and 2009 (CFAF 9 billion) specifically earmarked for the recapitalization is being provided under externally-financed capital expenditure. The latter amounts had been classified under domestically-financed capital spending in IMF Country Report No. 09/05.

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

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

7/ Total revenue minus total expenditure and net lending, excluding externally financed capital expenditure, on-lending, and HIPC/MDRI expenditure.

8/ Includes receipts from sale of telecom license in 2007 and Sonatel shares and Hotel Le Meridien in 2009.

9/ Financing gap in 2009 and 2010 to be filled with ESF drawings.

10/ Refers to HIPC-financed capital and other expenditure.

11/ Defined as expenditures on health, education, environment, the judiciary, social development, sewage, and rural irrigation.

Table 6. Senegal: Government Financial Operations, 2006–14

	2006	2007	2008		2009		2010	2011	2012	2013	2014
			Prog.	Est.	Prog.	Proj.			Proj.		
	(Percent of GDP)										
Total revenue and grants	21.2	23.6	22.4	21.7	23.1	21.6	21.6	22.0	22.3	22.6	22.8
Revenue	19.7	21.1	20.2	19.4	20.7	19.2	19.3	19.7	20.1	20.3	20.6
Tax revenue	18.8	20.1	19.4	18.3	20.2	18.7	19.0	19.4	19.7	19.9	20.2
Income tax	4.5	4.3	4.6	4.6	4.7	4.8	5.0	5.1	5.2	5.3	5.4
Taxes on goods and services	10.9	11.6	10.8	10.3	11.5	10.3	10.5	10.8	11.0	11.2	11.4
Taxes on petroleum products	3.5	4.0	4.0	3.3	4.0	3.6	3.5	3.5	3.5	3.5	3.4
Nontax revenue	0.8	0.9	0.8	1.1	0.5	0.5	0.4	0.4	0.4	0.4	0.4
Grants	1.5	2.6	2.2	2.3	2.4	2.4	2.3	2.2	2.2	2.2	2.2
Total expenditure and net lending	27.2	27.6	25.7	26.5	25.9	26.3	25.6	26.0	26.3	26.5	26.8
Current expenditure	16.9	16.3	16.6	16.5	15.1	15.8	14.8	14.8	14.7	14.3	14.1
Wages and salaries	5.8	6.1	6.0	5.8	6.0	6.2	6.0	6.0	6.0	6.0	6.0
Interest payments 1/	0.9	0.6	0.6	0.6	0.7	1.0	0.8	0.8	0.8	0.8	0.8
Other current expenditure	10.2	9.6	10.0	10.0	8.4	8.6	8.0	8.0	7.8	7.5	7.3
Of which: Goods and services	3.8	4.0	3.8	4.0	4.0	4.1	4.1	4.0	4.0	4.0	4.0
Of which: Transfers and subsidies	6.3	5.3	6.0	5.6	4.2	4.3	3.8	3.8	3.7	3.4	3.1
Of which: Energy and food subsidies	3.1	1.4	2.7	2.4	0.4	1.0	0.0	0.0	0.0	0.0	0.0
HIPC and MDRI current spending	0.1	0.3	0.2	0.3	0.2	0.2	0.2	0.2	0.2	0.1	0.1
Capital expenditure 2/	9.7	11.2	9.2	10.0	10.8	10.4	10.7	11.2	11.6	12.2	12.7
Domestically financed	6.9	7.2	5.4	5.3	6.8	6.5	6.6	6.7	6.8	7.1	7.3
Of which: Without transfers to PEs	6.9	6.0	4.8	4.7	6.7	6.5	6.6	6.7	6.8	7.1	7.3
Externally financed	2.8	3.9	3.8	4.7	4.0	3.9	4.1	4.4	4.8	5.1	5.4
Net lending	0.6	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Selected public sector entities balance 3/	0.3	0.3	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Primary fiscal balance 4/	-5.2	-3.3	-2.7	-4.2	-2.0	-3.7	-3.2	-3.2	-3.2	-3.2	-3.2
Overall fiscal balance											
Payment order basis, excluding grants	-7.2	-6.2	-5.5	-6.9	-5.1	-7.1	-6.2	-6.2	-6.2	-6.2	-6.2
Payment order basis, including grants	-5.7	-3.7	-3.3	-4.6	-2.7	-4.6	-4.0	-4.0	-4.0	-4.0	-4.0
Basic fiscal balance 5/	-3.4	-1.0	-0.4	-0.8	0.1	-1.9	-1.0	-0.8	-0.5	-0.2	0.0
Financing	5.7	3.7	3.3	4.6	2.7	4.6	4.0	4.0	4.0	4.0	4.0
External financing	2.5	2.4	3.3	3.8	4.0	4.2	2.7	2.6	3.0	3.2	3.7
Domestic financing	3.2	1.1	1.1	0.7	-0.2	0.7	0.9	1.4	1.1	0.8	0.4
Settlement of payment delays	0.0	0.0	-1.4	-1.4	-1.4	-1.1	0.0	0.0	0.0	0.0	0.0
Errors and omissions	0.0	0.2	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap 6/	0.0	0.0	0.3	0.0	0.3	0.8	0.4	0.0	0.0	0.0	0.0
Memorandum items:	(Percent of GDP, unless otherwise indicated)										
Airport travel tax earmarked for new airport (RDIA)	0.4	0.7	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Priority expenditure 7/	8.5	8.9	9.2	8.8	9.9	9.6	10.2	…	…	…	…
Wages and salaries (percent of revenue)	29.7	28.7	29.6	30.2	29.1	32.4	31.0	30.4	29.9	29.5	29.1

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

1/ From 2006 on, reflects post-MDRI debt service schedule.

2/ Includes SENELEC recapitalization. The government provided CFAF 65 billion in 2007 under domestically-financed capital expenditure, while earmarked budget support by the World Bank and France in 2008 (CFAF 37 billion) and 2009 (CFAF 9 billion) is being provided under externally-financed capital expenditure. The latter amounts had been classified under domestically-financed capital spending in IMF Country Report No. 09/5.

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

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

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

6/ Financing gap in 2009 and 2010 to be filled with ESF drawings.

7/ Defined as expenditures on health, education, environment, the judiciary, social development, sewage, and rural irrigation.

Table 7. Senegal: Monetary Survey, 2005–09

	2005	2006	2007	2008 Est.	2009 Proj.
	(CFAF billions)				
Net foreign assets	660	780	851	762	776
Central Bank of West African States (BCEAO)	487	569	644	653	661
Commercial banks	173	210	207	109	115
Net domestic assets	894	972	1,122	1,245	1,348
Net domestic credit	1,032	1,122	1,324	1,467	1,579
Net credit to the government	-35	11	96	28	-5
Central bank	84	45	55	-14	22
Commercial banks	-123	-46	21	33	-24
Other institutions	4	12	20	9	-3
Credit to the economy	1,067	1,111	1,228	1,440	1,583
Of which: crop credit	10	9	10	5	5
Other items (net)	-138	-151	-202	-223	-231
Broad money (M2)	1,553	1,751	1,973	2,007	2,124
Currency outside banks	378	453	485	474	495
Total deposits	1,176	1,298	1,488	1,532	1,629
Demand deposits	593	652	784	779	858
Time deposits	582	646	705	754	771
	(Change in percentage of beginning-of-period broad money stock)				
Net foreign assets	-1.2	7.7	4.1	-4.5	0.7
BCEAO	0.7	5.3	4.3	0.4	0.4
Commercial banks	-1.8	2.4	-0.2	-5.0	0.3
Net domestic assets	8.6	5.0	8.6	6.2	5.1
Net credit to the government	-4.1	3.0	4.9	-3.5	-1.6
Credit to the economy	14.5	2.9	6.7	10.7	7.2
Other items (net)	-1.8	-0.8	-2.9	-1.0	-0.4
Broad money (M2)	7.4	12.7	12.7	1.7	5.8
Memorandum items:	(Units indicated)				
Velocity (GDP/M2; end of period)	3.0	2.8	2.7	3.0	2.9
Nominal GDP growth (percentage growth)	8.3	6.5	10.5	10.0	5.3
Credit to the economy (percentage growth)	24.5	4.2	10.5	17.2	10.0
Credit to the economy/GDP (percent)	23.2	22.7	22.7	24.2	25.3
Variation of net credit to the government (from previous year; CFAF billions)	-59.2	46.3	85.1	-68.3	-32.8
Central bank refinance rate (end of period; percent)	4.00	4.25	4.25	4.75	...

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

Table 8. Financial Soundness Indicators for the Banking Sector, 2003–08
(Percent, unless otherwise indicated)

	2003 Dec.	2004 Dec.	2005 Dec.	2006 Dec.	2007 Dec.	2008 Dec.
Capital adequacy						
Capital to risk-weighted assets	12.1	11.9	11.1	13.1	13.6	13.9
Regulatory capital to risk-weighted assets	11.7	11.5	10.8	12.9	13.5	13.8
Capital to total assets	7.8	7.7	7.6	8.3	8.3	9.1
Asset composition and quality						
Total loans to total assets	59.6	57.1	64.0	63.8	58.8	62.8
Concentration: loans to 5 largest borrowers to capital	141.0	131.4	179.9	103.7	88.5	86.9
Sectoral distribution of loans						
Industrial	41.1	33.6	35.5	28.9	25.1	19.5
Retail and wholesale trade	19.9	19.3	17.0	18.9	14.4	18.5
Services, transportation and communication	17.2	27.4	28.0	30.0	29.6	31.1
Gross NPLs to total loans 1/	13.3	12.6	11.9	16.8	18.6	19.1
Of which: without ICS	…	…	…	…	12.7	14.2
Provisions to NPLs 1/	75.3	75.7	75.4	52.0	53.8	51.5
Of which: without ICS	…	…	…	…	74.6	62.9
NPLs net of provisions to total loans 1/	3.3	3.4	3.2	8.8	8.6	9.3
Of which: without ICS	…	…	…	…	3.6	5.4
NPLs net of provisions to capital 1/	27.8	25.1	27.2	67.9	60.7	63.9
Of which: without ICS	…	…	…	…	23.8	35.3
Earnings and profitability						
Average cost of borrowed funds	1.8	2.0	2.0	2.2	2.2	…
Average interest rate on loans	8.7	11.7	11.8	11.3	11.6	…
Average interest margin 2/	6.7	9.7	9.8	9.2	9.4	…
After-tax return on average assets	1.8	1.8	1.6	1.6	1.6	…
After-tax return on average equity	22.1	17.6	15.8	14.6	15.3	…
Noninterest expenses/net banking income	48.9	48.7	47.9	49.4	50.7	…
Salaries and wages/net banking income	21.8	21.5	21.2	21.7	22.2	…
Liquidity						
Total deposits to total liabilities	82.0	79.6	78.3	75.8	73.6	70.3

Source: BCEAO.

1/ NPL changes in 2006 due to ICS. In 2008, ICS was recapitalized and the government guarantee for its bank loans was lifted. However, the loans in question remain classified as non-performing for the time being, although without the need to provision.

2/ Excluding the tax on banking operations.

Table 9. Quantitative Assessment (Performance) Criteria and Indicative Targets, 2008–09 1/

(CFAF billions, unless otherwise specified)

	December 31, 2008			March 31, 2009		
	Criterion	Actual	Status	Indicative Target	Actual	Status
Assessment (performance) criteria						
Floor on the basic fiscal balance 2/	-21	-50	not met	2	15	met
Ceiling on the contracting or guaranteeing of new nonconcessional external debt by the government 3/ 4/	80 5/	0	met	80 5/	0	met
Ceiling on spending undertaken outside normal and simplified procedures 4/	0	0	met	0	0	met
Ceiling on government external payment arrears (stock) 4/	0	0	met	0	0	met
Ceiling on the amount of the float (*depenses liquidees non payees par le Tresor*) 6/	92	66	met	80	65	met
Indicative target						
Quarterly ceiling on the share of the value of public sector contracts signed by single tender (percent)	20	6	met	20	14	met

1/ Data for March are indicative targets, except for the assessment (performance) criteria monitored on a continuous basis.

2/ Defined as total revenue (excluding privatization receipts and sales of mobile telephone licenses and other government assets) minus total expenditure and net lending, excluding externally financed capital expenditure, on-lending, and HIPC and MDRI spending. Cumulative since the beginning of the year.

3/ Excludes government or government-guaranteed CFAF borrowing from WAEMU residents and external loans contracted by the airport project company (AIDB) to finance the construction of the new Dakar Airport.

4/ Monitored on a continuous basis.

5/ Cumulative since the approval of the second PSI review. The amount of up to CFAF 80 billion is to finance exclusively the Dakar-Diamniadio toll highway project.

6/ Defined as all expenditure for which a bill has been received and recognized (*depense liquidee*) but not yet paid by the treasury.

TABLE 10: STRUCTURAL CONDITIONALITY, DECEMBER 2008–MAY 2009

Policy Measures	Target Date for Implementation	Implementation Status
Prior Action		
1. Ensure passage by Parliament of the 2009 Budget Law, as described in paragraph 12 of the December 2008 MEFP.	Implemented on November 18, 2008	Completed
2. Adopt a decree amending the general regulations on government accounting (RGCP) to require use of only the normal and simplified procedures, and prohibiting the use of procedures of any other type, in particular Treasury advances, as described in paragraph 21 of the December 2008 MEFP.	Implemented on November 28, 2008	Completed
3. Set out in a manual the detailed procedures for reconciling the budget, the TOFE, the Treasury accounts, the NGP, and the SIGFIP; establish this reconciliation for end-2007 and selected months in 2008, and publish the results, as described in paragraph 24 of the December 2008 MEFP.	Implemented on November 30, 2008	Completed
Structural Assessment (Performance) Criteria		
1. Improve the budget procedure by adopting a decree to set the timetable and principal methods for compiling the budget, as described in paragraph 19 of the December 2008 MEFP.	January 31, 2009	Completed
2. Adopt a decree specifying the system for the reopening and carryover of budgetary appropriations and commitments, as described in paragraph 22 of the December 2008 MEFP.	February 28, 2009	Completed
3. Close the 2008 budget and accounting year by freezing and publishing the SIGFIP by April 30, 2009, as described in paragraph 23 of the December 2008 MEFP.	April 30, 2009	Completed

Policy Measures	Target Date for Implementation	Implementation Status
Structural Benchmarks		
1. Adopt the decree implementing the new law on microfinance institutions.	January 31, 2009	Completed
2. Conduct an external audit of all extrabudgetary commitments, based on terms of reference drawn up in consultation with IMF staff, as described in paragraph 26 of the December 2008 MEFP.	March 31, 2009	Under way
3. Draft memoranda of understanding specifying the respective rights and duties of the APIX, DGID, and DDI regarding the management of the DISEZ, as stated in paragraph 30 of the December 2008 MEFP.	March 31, 2009	Completed
4. Compile and publish the first audit report of the Government Procurement Regulatory Authority (ARMP), as described in paragraph 28 of the December 2008 MEFP.	May 31, 2009	Under way

Table 11. Senegal: Indicators of Capacity to Repay the Fund, 2008–20

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
	Est.	Projections											
Obligations to the Fund from existing drawings													
Principal (SDR millions)	0.0	0.0	0.4	2.1	3.5	3.5	8.3	8.0	6.2	4.9	4.9	0.0	0.0
Charges/Interest (SDR millions)	0.6	0.3	0.3	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.1	0.1	0.1
Obligations to the Fund from prospective drawings 1/													
Principal (SDR millions)	0.0	0.0	0.0	0.0	0.0	0.0	3.2	16.2	19.4	19.4	19.4	16.2	3.2
Charges/Interest (SDR millions)	0.1	0.1	0.4	0.5	0.5	0.5	0.5	0.5	0.4	0.3	0.2	0.1	0.0
Total outstanding and prospective obligations to the Fund 1/													
In millions of SDRs	0.6	0.4	1.1	2.9	4.3	4.2	12.3	24.8	26.2	24.7	24.6	16.4	3.4
In millions of U.S. dollars	1.0	0.6	1.6	4.2	6.3	6.2	18.2	36.7	38.7	36.5	36.3	24.2	5.0
In percent of exports of goods and services	0.0	0.0	0.1	0.1	0.2	0.2	0.5	0.9	0.9	1.0	0.9	0.5	0.1
In percent of debt service	0.6	0.3	0.8	1.5	2.1	2.1	6.6	10.7	10.8	9.7	9.1	6.1	1.3
In percent of quota	0.4	0.3	0.7	1.8	2.6	2.6	7.6	15.3	16.2	15.3	15.2	10.1	2.1
In percent of gross official reserves	0.1	0.0	0.1	0.3	0.4	0.4	0.9	1.8	1.8	1.6	1.5	0.9	0.2
Total Fund credit outstanding 1/													
In millions of SDRs	41.6	106.3	138.3	136.3	132.8	129.3	117.8	93.6	68.0	43.7	19.4	3.2	0.0
In millions of U.S. dollars	63.3	156.9	203.1	200.2	195.6	191.1	174.4	138.5	100.5	64.6	28.7	4.8	0.0
In percent of exports of goods and services	1.9	5.8	6.9	6.3	5.7	5.3	4.6	3.4	2.2	1.7	0.7	0.1	0.0
In percent of debt service	37.2	77.7	100.7	70.2	66.4	63.4	63.4	40.6	28.0	17.1	7.2	1.2	0.0
In percent of quota	25.7	65.7	85.5	84.2	82.1	79.9	72.8	57.9	42.0	27.0	12.0	2.0	0.0
In percent of gross official reserves	3.8	10.4	14.9	13.9	12.5	10.9	8.9	7.0	4.8	2.9	1.2	0.2	0.0
Memorandum items:													
Exports of goods and services (millions of US$)	3,330	2,706	2,945	3,200	3,409	3,619	3,828	4,096	4,506	3,706	4,043	4,410	4,807
Debt service (millions of US$)	170	202	202	285	295	301	275	341	359	377	398	398	388
Quota (millions of SDRs)	162	162	162	162	162	162	162	162	162	162	162	162	162
Gross official reserves (millions of US$)	1,668	1,505	1,367	1,443	1,561	1,745	1,952	1,986	2,099	2,240	2,403	2,619	2,895
GDP (millions of US$)	13,350	12,510	13,167	14,042	15,068	16,176	17,321	18,579	19,949	21,428	23,019	24,737	26,592

Sources: BCEAO; and Fund staff estimates and projections.

1/ Based on a disbursement schedule reflecting the ESF augmentation, as follows: SDR 32.36 million (20 percent of quota) upon completion of the first ESF review, June 2009; SDR 32.36 million (20 percent of quota) upon completion of the second ESF review, November 2009; and SDR 32.36 million (20 percent of quota) upon completion of the third ESF review, May 2010. In total: SDR 97.08 million (60 percent of quota) during 2009-10.

APPENDIX I

LETTER OF INTENT

Dakar, Senegal
June 5, 2009

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, D.C., 20431

Dear Mr. Strauss-Kahn,

1. The attached Memorandum of Economic and Financial Policies (MEFP) reviews implementation to date of the government of Senegal's macroeconomic and structural program under the country's three-year Policy Support Instrument (PSI), approved by the IMF Executive Board on November 2, 2007, and the Exogenous Shocks Facility (ESF) approved on December 19, 2008. Details of this program were set out in the initial MEFP of October 3, 2007 and in the MEFPs of May 30, 2008 and December 5, 2008. The attached MEFP builds on the previous Memoranda, with emphasis on measures and objectives for 2009.

2. The government requests the augmentation of the ESF from 30 to 75 percent of quota (SDR 121.35 million) and its extension from 12 to 18 months. Following the oil and food price shock in 2008, Senegal is being severely hit by the global economic crisis. The government is responding to the crisis through a wide range of measures geared at maintaining a prudent fiscal policy stance, preserving macroeconomic stability, and advancing structural reforms.

3. All except one quantitative assessment (performance) criteria for end-2008 and all quantitative indicative targets for end-March 2009 were met. Despite significant underspending, the basic fiscal balance ceiling could not be observed as a result of the sharp decline in tax revenue during the fourth quarter of 2008. The government has initiated corrective actions that should help prevent a recurrence in the future. As described in the attached MEFP, the government is pursuing an ambitious program of budget and tax administration reform and of strengthening tax compliance, including by companies in the energy sector. In light of these far-reaching structural measures and the circumstances of the nonobservance, the government requests a waiver for the missed criterion.

4. The government believes that the policies and measures set forth in the attached MEFP are sufficiently strong to achieve the objectives of the PSI program and ESF arrangement. It will promptly take any additional measures necessary for the achievement of the objectives of the program. The government will consult with the IMF—at its own initiative or whenever the Managing Director of the IMF requests such a consultation—before the adoption of any such measures or changes to the policies described in the attached Memorandum.

5. The government will provide the IMF with such information as the IMF may request in connection with the progress made in implementing the economic and financial policies and achieving the objectives of the program.

6. The government authorizes the IMF to publish this letter, the attached Memorandum, and the related Staff Report.

Sincerely yours,
/s/

Mamadou Abdoulaye Sow
Minister of Budget

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

MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

Dakar, June 5, 2009

I. INTRODUCTION

1. **In an unfavorable external environment characterized by a serious global economic and financial crisis, the government remains determined to preserve macroeconomic stability, strengthen growth driven by the private sector in a sustainable way, and make rapid progress toward achieving the Millennium Development Goals (MDGs).** To that end, the government will implement its economic and financial program, which is based on prudent macroeconomic policies and structural reforms.

2. **The government has demonstrated a stringent and determined approach to overcoming its budget execution problems.** The extent of these problems was uncovered in mid-2008 thanks to program measures. Decisive progress was made in correcting payment delays to the private sector and implementing ambitious reforms to improve the efficiency and transparency of public financial management. In this context, the government firmly believes that rigorous implementation of the economic program supported under the Policy Support Instrument (PSI) and Exogenous Shocks Facility (ESF), as described in the Memorandum of Economic and Financial Policies (MEFP) of December 5, 2008, should make it possible to regain the confidence of the private sector and strengthen ties with the donor community. The present MEFP describes recent economic developments, program performance, and the specific measures and objectives envisaged for the remainder of 2009.

II. RECENT ECONOMIC DEVELOPMENTS AND PROGRAM PERFORMANCE

3. **Macroeconomic performance in 2008 was less positive than expected.** This reflected an unfavorable international environment as well as domestic factors.

(a) *Real GDP growth declined sharply, from 4.7 percent in 2007 to only 2.5 percent in 2008.* The robust performance of the primary sector was due to a more active agricultural policy and favorable rainfall. The secondary sector registered a negative growth rate as a result of the delayed recovery of Industries Chimiques du Sénégal (ICS) and the negative effects of the government's payment delays to the private sector. The tertiary sector, a traditional driving force of the Senegalese economy, also registered poorer results with a growth rate of 3.5 percent, down 3.5 percentage points from 2007;

(b) *Consumer prices increased 5.8 percent on average.* Inflationary pressures, however, declined towards the end of the year as a result of the drop in oil and food prices;

(c) *The external current account deficit amounted to 12.3 percent of GDP.* This represents a deterioration of 0.5 percent of GDP relative to 2007, primarily as a result of the increase in oil and food prices for the year as a whole.

4. **All except one quantitative program criteria for end-2008 were met, and all indicative targets for end-March 2009 were observed.**

(a) At the close of the complementary period at end-February 2009, the budgetary float for the 2008 fiscal year had been reduced to CFAF 66 billion, against a program ceiling of CFAF 92 billion. At end-March 2009, the budgetary float amounted to CFAF 65 billion, below the ceiling of CFAF 80 billion;

(b) The government did not accumulate any external arrears;

(c) It did not contract or guarantee any nonconcessional borrowing since the second PSI review;

(d) It has not approved any Treasury advances since end-September 2008, as it has executed budget expenditure according to the normal and simplified procedures;

(e) It reduced single-tender contracts to only 6 percent of all government procurement in the fourth quarter of 2008 and 14 percent in the first quarter of 2009 (compared to a program ceiling of 20 percent);

(f) However, the basic fiscal balance ceiling could not be observed as a result of a sharp decline in budget revenue during the fourth quarter of 2008. The basic fiscal deficit amounted to CFAF 50 billion, compared to a program ceiling of CFAF 21 billion. Preliminary data indicate that the basic fiscal balance indicative target for end-March 2009 was observed.

5. **Significant progress was also made regarding structural reforms.** All structural assessment criteria were met. Delays, however, were observed in the completion of two audits that are structural benchmarks, as a result of the need to use time-consuming bidding procedures and obtain financing.

(a) A decree was adopted establishing a timetable and method for budget preparation (structural assessment criterion). The new procedures will be applied for the first time in the preparation of the 2010 budget;

(b) The system for reopening and carrying-over budgetary appropriations, which was excessively complex and overused, was redefined and simplified by decree (structural assessment criterion);

(c) The 2008 budget and accounting year was closed by the regulatory deadline and the budget execution data residing in the integrated expenditure tracking system (SIGFIP) were frozen and published by end-April 2009 (structural assessment criterion). This was made possible by respecting the end of the complementary period, i.e., no payment orders were issued and therefore no payment orders were accepted by the Treasury after February 28, 2009;

(d) An implementation decree for the new law on microfinance institutions was adopted (structural benchmark). This decree should strengthen financial intermediation and lead to better access to credit;

(e) To protect the integrity and performance of the tax system, memoranda of understanding were adopted to specify the respective rights and duties of the investment promotion agency (APIX), the Directorate General of Taxes and Property (DGID) and the Directorate General of Customs (DGD), regarding the management of the Dakar Integrated Special Economic Zone (DISEZ) (structural benchmark);

(f) Following the audit by the Financial Audit Inspectorate (IGF), an independent external audit is analyzing the conditions under which extrabudgetary expenditure had been undertaken (structural benchmark). The external auditor's progress report identified the total amount of such commitments at CFAF 73 billion, broadly in line with earlier estimates. The completion of the audit has been delayed and the audit is expected to be completed in June 2009 as the bidding procedures to select an auditing company required more time than foreseen;

(g) For the same reasons, as well as on account of a delay in mobilizing financing from the World Bank, the first audit report of the procurement regulatory agency (ARMP) has not yet been completed (structural benchmark), but the audit was launched. The preliminary reports from the selected firms are expected in September 2009. The reports will help enhance budget transparency and governance and assist in assessing the operation of the new government procurement framework. The decree to determine the modalities of recruitment, status and powers of the ARMP investigative unit agents was adopted in late May 2009, and the first quarterly surveys have been launched.

III. MACROECONOMIC POLICIES FOR 2009–10

6. **Despite a highly unfavorable international context, economic activity can be expected to increase slightly in 2009, with a growth rate of about 3 percent.** The projection assumes that the problem of government payment delays will be resolved and ICS output will accelerate. A low level of inflation (0.8 percent) is expected owing to the decline in oil and food prices, while the current account deficit is projected at 11.8 percent of GDP.

7. **These projections are subject to substantial risks.** Unfavorable developments in the international environment could negatively affect these projections. Declines in

remittances, official aid, exports, and/or foreign direct investment would have a negative impact on economic growth.

A. Elimination of Payment Delays

8. **The government respected its commitment to resolve the problem of domestic unpaid bills.** It decisively eliminated most payment delays in the regular expenditure chain through mobilization of resources in the West African Economic and Monetary Union (WAEMU) financial market, support from donors, and prudent and rigorous public expenditure management. At end-March 2009, the budgetary float was CFAF 65 billion, CFAF 15 billion below the program ceiling. The budgetary float will continue to decline to CFAF 45 billion by end-June 2009 (revised quantitative assessment (performance) criterion). This will make it possible to normalize relations with government suppliers once and for all, improve the business climate in key economic sectors such as construction, and lay the foundation for higher economic growth and protecting financial sector soundness.

B. Fiscal Policy Stance

9. **The government will maintain a prudent fiscal policy to preserve debt sustainability, limit demand pressures, and avoid crowding out the private sector.** In this connection, the government reiterates its commitment to limit the overall fiscal deficit to 4 percent of GDP over the medium term.

10. **Fiscal policy in 2009 will strike a balance between the needs to sustain economic activity in an unfavorable international context and constrain expenditure so as to stay within available resources and limit the risk of a new accumulation of payment delays to the private sector.** To this end, the government will limit the overall fiscal deficit to 4½ percent of GDP in 2009, while compensating the expected shortfall in revenue relative to the initial budget law with proceeds from the privatization of Hôtel Méridien and a bank loan collateralized with shares of the telecommunications company Sonatel. The government will closely monitor economic conditions and their fiscal impact, particularly with respect to revenue collection. The targeted overall fiscal deficit for 2009 corresponds to a revised basic fiscal deficit of CFAF 60 billion at end-June 2009 and CFAF 119 billion at end-December 2009 (revised quantitative assessment (performance) criteria).

11. **In line with commitments in the previous Memorandum, the government has submitted a supplementary budget to Parliament (prior action)**. It has the following objectives: (i) preserving the budgetary equilibrium given lower than programmed tax collections and based on the macroeconomic framework agreed with IMF staff; (ii) amending the budget to incorporate reopened and carried-forward appropriations from the 2008 budget; and (iii) changing investment priorities and include appropriations for the Dakar-Diamniadio toll highway (CFAF 55 billion), thus enabling the government to meet its commitments to the

private and development partners. The project's rate of return and its strategic importance as a prerequisite for the success of DISEZ and the new airport project (AIDB) made this reprioritization necessary.

12. **Budget execution will consider the composition of expenditure and protect social and capital outlays.** In the current unfavorable economic climate, it is essential to protect social expenditure to ensure more rapid progress towards the MDGs. Accordingly, this spending will be increased from 33 percent to 40 percent of total expenditure between now and 2010 (PRSP objective). Moreover, after a sharp decline in 2008 as a result of the fiscal adjustment to settle payment delays, public investment will increase by 0.4 percent of GDP over 2008 levels to 10.4 percent of GDP in 2009.

13. **To ensure debt sustainability, the government will continue to abide by the general principle of not contracting or guaranteeing external borrowing on nonconcessional terms**. To supplement resources from donors and the private partner, a loan of CFAF 80 billion earmarked for the Dakar-Diamniadio toll highway will be mobilized during 2009 (quantitative assessment (performance) criterion); the timing of financial market access will depend on international market developments. The government will consult with IMF staff well in advance regarding any other exceptions to this program criterion. In line with previous commitments, debt management will be strengthened and include the updating of the rolling two-year government issuance calendar on a quarterly basis or after each issuance, in cooperation with the Central Bank of West African States (BCEAO). The semi-annual public debt sustainability analysis will include a risk assessment for contingent liabilities arising from guarantees issued by the government to Public-Private Partnerships (PPPs) and operations of public enterprises.

IV. STRUCTURAL REFORMS

A. Budget Reforms

14. **The government is committed to pursuing its ambitious budget reforms to build on the substantial progress that has already been made.** These reforms, which are based on an overall fiscal reform program (specifically the IMF technical assistance report and the work of the budget support group of donors) are essential to enhance budget efficiency and transparency, and could also help protect macroeconomic stability. The following measures aim to meet these objectives.

15. **The government will limit expenditures that are not subject to firm spending limits (*crédit évaluatif*)**. An improved estimation methodology will be developed for such spending and current services (*services votés*). This will help contain spending pressures, enhance public expenditure control, and maintain budgetary balance. Estimated appropriations will be limited to the categories listed in Article 11 of the organic law: debt

service, legal expenses and compensation deriving from court decisions, tax relief and repayments, and will not include, under any circumstances, other expenditures except (i) salaries and fringe benefits, (ii) taxes on externally-financed government procurement, and (iii) embassy leases. Thus, the special budget law annex stipulated by Article 11 of the organic law will only include these three expenditure categories.

16. **The presentation of the budget will be improved to make it more flexible and information more understandable and transparent by moving towards international best practices.** To that end, the following adjustments will be made to the budget documentation associated with the 2010 budget law to be submitted to Parliament by October 15, 2009 (structural benchmark):

(a) In addition to the currently calculated fiscal deficit, the first part of the budget law will present the standard concept of the overall fiscal deficit (not including resources from loans and principal repayments), according to the standards of the *Government Finance Statistics Manual*;

(b) Budget execution data for the past year and the first six months of the current year will be presented in detailed revenue and expenditure tables;

(c) To increase flexibility in budget execution, as provided in Article 9 and 12 of the organic law, the budget will reserve five percent of total appropriations (excluding externally-financed capital expenditure and wages) in a contingency expenditure line (*dépenses imprévues ou accidentelles*) under shared costs (*charges communes*);

(d) An annex required for Parliament's information and oversight will present budget execution and forecast data (on expenditure and revenue) for each agency, para-public sector enterprise, and any other public body receiving budgetary allocations of more than CFAF 5 billion. The government will also provide this information in future budget laws.

17. **To improve fiscal accounting, the government undertakes to enhance the SIGFIP system and expand its coverage of budget operations.**

(a) SIGFIP will be audited to improve its efficiency, enhance the reliability of real-time data, expand its coverage of budget operations, and facilitate production of the government financial operations table (TOFE). To this end, the government has launched a bidding procedure for an external audit. This audit, which will be completed by end-September 2009, will focus on an examination of the budget execution database and the production of output tables covering several years, based on the terms of reference agreed with IMF staff (structural benchmark);

(b) SIGFIP workstations will be installed in the General Administration and Supplies Directorate (DAGE) and the General Administration and Supplies Service (SAGE) in ministries and institutions so as to enhance the monitoring of budget execution.

18. **The government is committed to using SIGFIP and the ASTER accounting software as complementary information instruments to improve fiscal and accounting operations and make the production of the financial operations table (TOFE) more reliable.** The IMF will provide technical assistance for that purpose. The interface between SIGFIP and ASTER will strengthen the linkages between fiscal and accounting operations and facilitate preparation of the general account of the financial administration, thereby shortening the time required to prepare the final budget laws (*lois de règlement*). The government is aware that the SIGFIP-ASTER interface is an essential operation to reinforce the expenditure chain and undertakes to complete it, with as a prerequisite the rollout of the ASTER system at all accounting workstations. The ASTER fiscal accounting module will be operational from end-October 2009 (structural benchmark). The auxiliary expenditure accounting modules (CAD) and auxiliary revenue accounting modules (CAR) will be operational by end-2009. To press ahead with these reforms, a high-level information systems steering committee will be established within the Ministry of Finance.

19. **The external audit of extrabudgetary commitments supplemented the analysis of the IGF audit.** Based on the results of the external audit, the government will decide by end-July 2009 on the amounts it intends to (i) propose to Parliament for regularization in the 2010 budget and (ii) reject as invalid claims that will not be paid (structural benchmark). The government will also impose penalties on appropriations administrators who illegally created a liability for the government. Moreover, such appropriations administrators, who are liable for knowingly undertaking expenditure commitment and execution in excess of established appropriations, will brought before the financial disciplinary chamber of the Audit Court.

B. Tax Administration

20**.** **The excellent performance of the Senegalese tax system must be preserved.** The resolution of the government’s payment delays and transfer of direct tax collection from the Treasury to the DGID can be expected to strengthen revenue collection. The government, however, is aware that, during crisis periods, the tax administration must intensify its efforts because enterprises and taxpayers may have difficulties paying their tax debts and the risk of tax evasion rises.

21. **The government will report the basis for, and current level of, tax expenditures by end-September 2009** (structural benchmark). Indications are that exemptions and other forms of tax expenditure have accelerated substantially in recent years. The current stability and performance of the Senegalese tax system could be jeopardized if the way such measures are adopted and implemented is not evaluated. An assessment of tax expenditures aimed at

enhancing the fairness, performance, and integrity of the tax system would therefore be useful. The study, overseen by the tax administration, will be conducted in collaboration with the customs administration and economic forecasting and statistics agencies. The study's objective, to be specified in the terms of reference that will be agreed with IMF staff, will be to assess the financial cost of tax expenditures and any economic and/or social impact they may have. Based on the study, the 2010 budget will include a report highlighting key tax expenditures and indicate for each its public policy objectives, duration, and beneficiaries.

C. Energy Sector

22. **The current energy sector reform aims to improve the security of the country's energy supply, conserve energy, and limit budgetary risks.** The government will apply the principle of market-based pricing and implement energy saving and efficiency measures. In support of this program, the government will:

(a) Modify the electricity price structure every three months and adjust the institutional price- setting process. SENELEC will not obtain any compensation from the government for insufficient price adjustment;

(b) Complete the recapitalization of SENELEC by end-June 2009. CFAF 7 billion has been appropriated for that purpose;

(c) In light of SENELEC's substantial tax arrears in 2008, ensure that SENELEC's tax obligations are included in the company's financial equilibrium calculations and tax payments transferred regularly (at least quarterly) to the government;

(d) In accordance with the government's energy sector reform program, carry out an unbundling of SENELEC's activities (production, transportation, and distribution) by end-October 2009 and offer equity stakes in SENELEC's subsidiaries and holding company to the private sector by end-March 2010. An investment bank will be selected as a consultant for these transactions by end-November 2009;

(e) Eliminate the butane gas subsidy by end-June 2009. In the interim, butane gas prices will be adjusted so that the total subsidy is limited to CFAF 6.5 billion in 2009;

(f) Transform the existing *Fonds de Sécurisation des Importations de Produits Pétroliers* (FSIPP) into a *Fonds de Sécurisation des Approvisionnements en Produits Pétroliers* (FSAPP) that will exist for three years. This is to allow the full repayment of the remaining debt of CFAF 27 billion of the petroleum refinery (SAR) and to urgently finance, through the budget, CFAF 10 billion needed for logistics and other investments in SAR, and for investments in the supply of hydrocarbon products;

(g) Use the FSIPP's financing mechanism for the FSAPP and strengthen its management, control and reporting aspects. In addition, the government is committed to adopt, by end-

October 2009, all the necessary provisions (legal, regulatory and/or administrative) to transfer the FSAPP collection from SAR to the DGID and ensure transparent monitoring and improved accounting. The DGID will exert control over the FSAPP, including with respect to the financial flows between other oil companies and SAR. To this end: (i) the FSAPP revenues related to imported finished petroleum products will be collected by the DGID directly from oil companies and deposited in a Treasury account; (ii) the FSAPP revenues related to refinery operations will be collected by SAR and transferred to the DGID, which will deposit the funds in a pledged Treasury account at the BCEAO; (iii) the FSAPP revenues collected on refinery operations will be used for investments in the petroleum sector and SAR; and (iv) any subsidy or transfer to SAR, or any strategic investment in the petroleum sector considered important by the government (such as strengthening SAR's refinery capacities, installing the sea line, etc.) will be transparently reflected in the state budget and be subject to government procurement rules (structural benchmark). SAR's reform will be carried out with support from donors and lenders.

D. Private Sector Development

23. **The government is determined to establish a business environment on par with international standards.** It undertakes to expedite reforms recommended by the Presidential Council on Investment (CPI) in November 2008 and incorporated in its monitoring committee's action plan. The government specifically agrees to achieve the following as soon as possible:

(a) Improved efficiency in the commercial justice system, by providing courts with the resources required for the expeditious handling of economic disputes and through implementation of a dozen administrative measures already identified in connection with the start of a new high-level court;

(b) Reduction of delays in the transfer of property rights as specified in office memoranda issued in April 2008, and reduction in the cost of such transfers;

(c) Extension of possibilities to renew fixed-term labor contracts;

(d) Adoption and effective implementation of the circular from the Prime Minister reducing the time it takes to issue construction permits and hook up water, sanitation, electricity, and telephones;

(e) Improving the Doing Business cross-border trade indicator by: (i) completing the 24-hour operation of port services initiated in January 2008; (ii) liberalizing container transport; (iii) fully deploying the portable customs computer system (GAINDE) and its interconnection with the Orbus system; (iv) testing and rolling out telepayment operations with the Corus system; and (v) having customs declarations filed prior to a ship's arrival through the electronic acceptance of manifests;

(f) Holding the second national forum on credit by end-2009, followed by implementation of its recommendations according to a timetable to be agreed.

E. Financial Sector Reforms

24. **The government recognizes that the financial sector was under substantial pressure at end-2008.** The government's payment delays to the private sector worsened banks' credit risk by impeding business activity and affected liquidity in the banking sector. Even though these tensions have subsided, the financial sector could sustain the negative effects of the world financial crisis in the medium term.

25. **Against this backdrop, the authorities are determined to make every effort to maintain stability in the financial sector.** In particular, they undertake to:

(a) Continue to monitor closely, as part of their normal duties, solvency and liquidity in the banking sector, including by analyzing bank assets and liabilities, the nature and concentration of financing sources, liquidity relationships with parent companies or establishments from the same group abroad, and the overall liquidity situation. They will also intensify exchanges between themselves, the WAEMU authorities, and supervisors from foreign institutions with a presence in Senegal;

(b) Focus on macro-financial risks arising from financing linkages between the government, private sector, and financial system. The BCEAO will intensify consultations with the government and banks to anticipate financing and cash requirements of the government and private sector. In this context, the government will regularly update its projected recourse to the financial sector, as indicated above, and the BCEAO will continue to provide adequate liquidity to the banking system to support the sound financing of the economy;

(c) Closely monitor, in consultation with the central bank, the enactment of new minimum capital rules by end-2010;

(d) Further strengthen capacity and resources of the directorate in charge of regulation and supervision of microfinance institutions within the Ministry of Economy and Finance;

(e) Accelerate implementation of the recommendations of the Financial Sector Assessment Program, jointly with the authorities of the Union.

26. **Finally, the government undertakes to improve the institutional, legal, and operational environment for private sector financing.** This will enhance household access to credit and financial intermediation and include:

(a) Implementation of an action plan to increase the rate of bank penetration to 20 percent by end-2012 through, *inter alia*, promotion of noncash means of payment by the government;

(b) Establishment of a supportive legal framework for credit information bureaus;

(c) Finalization of legislation governing venture capital to promote start-up and growth financing for innovative small- and medium-sized enterprises.

V. Program monitoring

27. Quantitative assessment (performance) criteria for end-June 2009 and end-December 2009 and quantitative indicators for end-September 2009 were set to monitor program implementation in 2009 (see Table 1 in the technical memorandum of understanding (TMU) below). The government and IMF staff also agreed on the prior actions and structural benchmarks listed in Table 2 of the TMU. The fourth PSI review and second ESF review are to take place by end-December 2009, and the fifth PSI review and the third ESF review are to take place by end-June 2010.

Attachment II

Technical Memorandum of Understanding

Dakar, June 5, 2009

1. This technical memorandum of understanding (TMU) defines the quantitative assessment (performance) criteria, indicative targets, and structural benchmarks on the basis of which the implementation of the Fund-supported program under the Policy Support Instrument (PSI) will be monitored in 2009. The quantitative program targets will also serve as performance criteria under the ESF. The TMU also establishes the terms and timeframe for transmitting the data that will enable Fund staff to monitor program implementation.

I. Program Conditionality

2. The quantitative assessment (performance) criteria for June 30, 2009 and December 31, 2009 and the quantitative indicative targets for September 30, 2009, are shown in Table 1. The prior actions and structural benchmarks established under the program are presented in Table 2.

II. Definitions, Adjusters, and Data Reporting

A. The Government

3. Unless otherwise specified below, the government is defined as the central administration of the Republic of Senegal and does not include any local administration, the central bank, or any government-owned entity with a separate legal personality (e.g., public universities and hospitals).

B. Basic Fiscal Balance (Program Definition)

Definition

4. The basic fiscal balance (program definition) is the difference between the government's budgetary revenue and total expenditure and net lending, excluding externally-financed capital expenditure (financed by donors), drawings on on-lent loans (except on-lent loans to the energy sector financed through donor budget support), and expenditure funded with HIPC- and MDRI-related resources. Budgetary revenue excludes privatization receipts and sales of mobile telephone licenses or other government assets. Government expenditure is defined on the basis of payment orders accepted by the Treasury (*dépenses prises en charge par le Trésor*). The assessment (performance) criterion is set as a floor on the cumulative basic fiscal balance since the beginning of the year.

Example

5. The floor for the basic balance (program definition) as at June 30, 2009 is minus CFAF 60 billion. It is calculated as the difference between budgetary revenue (CFAF 601 billion) and total expenditure and net lending (CFAF 823 billion), excluding externally financed capital expenditure (CFAF 124 billion), drawings on on-lent loans (CFAF 5 billion), and expenditure funded with HIPC- and MDRI-related resources (CFAF 33 billion).

Reporting requirements

6. During the program period, the authorities will report monthly to Fund staff provisional data on the basic fiscal balance (program definition) and its components with a lag of no more than 30 days. Data on revenues and expenditure that are included in the calculation of the basic fiscal balance, and on expenditure financed with HIPC- and MDRI-related resources, will be drawn from preliminary treasury account balances. Final data will be provided as soon as the final balances of the treasury accounts are available, but not later than two months after the reporting of the provisional data.

C. Budgetary Float

Definition

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

Reporting requirements

8. The authorities will report to Fund staff on a weekly basis (i.e., at the end of each week), and at the end of each month, a table from the expenditure tracking system (SIGFIP) showing all committed expenditures (*dépenses engagées*), all certified expenditures that have not yet been cleared for payment (*dépenses liquidées non encore ordonnancées*), all payment orders (*dépenses ordonnancées*), all payment orders accepted by the Treasury (*dépenses prises en charge par le Trésor*), and all payments made by the Treasury (*dépenses payées*). The SIGFIP table will exclude delegations for regions and embassies and treasury advances (separating regularized and nonregularized), which will be provided in a separate table. The SIGFIP table will also list any payments that do not have a cash impact on the Treasury accounts.

D. Spending Undertaken Outside of Simplified and Normal Procedures

9. This criterion is applied on a continuous basis to any procedure other than simplified and normal procedures to execute spending, including in particular Treasury advances. It only excludes spending undertaken on the basis of an advance decree for absolute urgency and need in the national interest, based on Article 12 of the Organic Budget Law. Such spending requires signatures by the President and Prime Minister. The criterion is monitored effective the time of the second PSI review.

10. The authorities will report to Fund staff on a monthly basis and with a maximum delay of 30 days any such procedure, together with the SIGFIP table defined in paragraph 8.

E. Government External Payment Arrears

Definition

11. External payment arrears are defined as the sum of payments owed and not paid on the external debt contracted or guaranteed by the government. The definition of external debt given in paragraph 13 is applicable here. The assessment (performance) criterion on external payment arrears will be monitored on a continuous basis.

Reporting requirements

12. The authorities will report to Fund staff any accumulation in external payment arrears as soon as the due date is passed.

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

Definition

13. This assessment (performance) criterion applies not only to debt as defined in Point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Executive Board Decision No. 6230-(79/140), last amended by Executive Board Decision No. 12274-(00/85), adopted August 24, 2000, but also to commitments contracted or guaranteed by the government for which funds have not been received. The criterion does not apply to:

(i) CFAF debt contracted or guaranteed by the government with WAEMU residents;

(ii) CFAF debt initially contracted or guaranteed by the government with WAEMU residents subsequently acquired by nonresidents;

(iii) CFAF government or government-guaranteed debt where the agreement is between the government and a resident WAEMU entity and there is no ensuing contractual obligation between the government and a nonresident entity, regardless of whether the resident WAEMU entity resells the debt to a nonresident;

(iv) debt rescheduling transactions of debt existing at the time of the approval of the PSI; and

(v) external debt contracted by the airport project company (AIDB) to finance construction of the new Dakar Airport.

14. This criterion is measured on a cumulative basis since the approval of the second program review and applies continuously. The ceiling is raised to accommodate CFAF 80 billion to finance exclusively the Dakar-Diamniadio toll highway project. No adjuster will apply to this criterion.

15. For purposes of this assessment (performance) criterion, government is understood to include the government as defined in paragraph 3 above, as well as public institutions of an industrial and commercial nature (EPIC), public administrative institutions (EPA), public institutions of a scientific and technical nature, public institutions of a professional nature, public health institutions, local administrations, public enterprises, and government-owned or controlled independent companies (*sociétés nationales*) (i.e., public enterprises with financial autonomy where the government holds at least 50 percent of the capital), and government agencies.

16. Any external debt of which the present value, calculated with the reference interest rates mentioned hereafter, is greater than 65 percent of the nominal value (grant element of less than 35 percent) is considered nonconcessional, with the exception of IMF lending. For

debt with a maturity of more than 15 years, the ten-year reference market interest rate, published by the OECD, is used to calculate the grant element. The six-month reference market rate is used for debt with shorter maturities.

Reporting requirements

17. The government will report any new external borrowing and its terms to Fund staff as soon as external debt is contracted or guaranteed by the government.

G. Public Sector Contracts Signed by Single Tender

Definition

18. Public sector contracts are administrative contracts, drawn up and entered into by government entities subject to the procurement code, for the procurement of supplies, delivery of services, or execution of work. Public sector contracts are considered single-tender contracts when the contracting agent signs the contract with the chosen contractor without competitive tender or award. The quarterly indicative target will apply to public sector contracts examined by the *Direction Centrale des Marchés Publics* (DCMP).

Reporting requirements

19. The government will report quarterly to Fund staff, with a lag of no more than one month from the end of the observation period, the total value of contracts signed by all ministries and agencies and the total value of all single-tender contracts signed by these ministries and agencies.

III. Additional Information for Program Monitoring

20. The authorities will report to Fund staff the following, with the maximum time lags indicated:

(a) Effective immediately: any decision, circular, edict, decree, ordinance, or law having economic or financial implications for the current program;

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

- Tax receipts and tax and customs assessments by categories, accompanied by the corresponding revenue collected by the Treasury on a monthly basis;
- The monthly amount of expenditures committed, certified, and for which payment orders have been issued;
- The quarterly report of the Debt and Investment Directorate (DDI) on execution of investment programs;

- The monthly preliminary government financial operations table (TOFE), based on the Treasury accounts (*balances de compte*);
- The provisional balance of the Treasury accounts; and
- A reconciliation table between the fiscal reporting table (TOFE), the Treasury accounts (identifying the relevant accounts and amounts), the net government position (NGP), and the SIGFIP on a quarterly basis.

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

21. During the program period, the authorities will report to Fund staff provisional data on a monthly basis on current nonwage noninterest expenditures and domestically financed capital expenditures executed through advance payments and treasury advances, 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.

22. The government will report to Fund staff:

- The monthly balance sheet of the Central Bank, with a maximum lag of one month;
- The consolidated balance sheet of banks with a maximum lag of two months;
- The monetary survey, on a quarterly 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 and nonbank financial institutions, as reported in the Table entitled *Situation des Etablissements de Crédit vis-à-vis du Dispositif Prudentiel* [*Survey of Credit Institutions in Relation to the Prudential Framework*], on a quarterly basis.

23. The government will update monthly on the website used for this purpose the amount of airport tax—*redevance de développement des infrastructures aéroportuaires* (RDIA)—collected, deposited in the escrow account, and used for the repayment of the loan financing the construction of the new airport.

MEFP Table 1. Quantitative Assessment Criteria (Performance Criteria) and Indicative Targets for 2009 1/

(CFAF billions, unless otherwise specified)

	June 30, 2009		September 30, 2009	December 31, 2009
	Existing	Proposed		
Assessment (performance) criteria				
Floor on the basic fiscal balance 2/	5	-60	-90	-119
Ceiling on the contracting or guaranteeing of new nonconcessional external debt by the government 3/ 4/	80 5/	80 5/	80 5/	80 5/
Ceiling on spending undertaken outside normal and simplified procedures 4/	0	0	0	0
Ceiling on government external payment arrears (stock) 4/	0	0	0	0
Ceiling on the amount of the float (*depenses liquidees non payees par le Tresor*) 6/	30	45	45	45
Indicative target				
Quarterly ceiling on the share of the value of public sector contracts signed by single tender (percent)	20	20	20	20

1/ Indicative targets for September 2009, except for the assessment (performance) criteria monitored on a continuous basis.

2/ Defined as total revenue minus total expenditure and net lending, excluding externally financed capital expenditure, on-lending, and HIPC and MDRI spending. Cumulative since the beginning of the year. Total revenue excludes privatization receipts and sales of mobile telephone licenses.

3/ Excluding government or government-guaranteed CFAF borrowing from financial institutions within the WAEMU and external loans contracted by the airport project company (AIDB) to finance the construction of the new Dakar Airport.

4/ Monitored on a continuous basis.

5/ Cumulative since approval of second PSI review. The amount of up to CFAF 80 billion is to finance exclusively the Dakar-Diamniadio toll highway project.

6/ Defined as all expenditure for which a bill has been received and recognized (*dépense liquidée*) but not yet paid by the Treasury.

TABLE 2. STRUCTURAL CONDITIONALITY, June 2009-December 2009

Policy Measures	Implementation Date	Macroeconomic Rationale
Prior action		
1. Submit a supplementary budget to Parliament, as described in paragraph 11 of the MEFP.	June 5, 2009	Ensure that fiscal policy is consistent with macroeconomic conditions.
Structural benchmarks		
1. Decide whether extrabudgetary expenditure should be (i) proposed to Parliament for regularization in the 2010 budget; or (ii) rejected as invalid claims that will not be paid, as described in paragraph 19 of the MEFP.	July 31, 2009	Complete the normalization of the government's financial relations with the private sector and restore full integrity to the fiscal system.
2. Complete a study on the basis for, and current level of, tax expenditures, as described in paragraph 21 of the MEFP.	September 30, 2009	Protect government revenue and increase fairness, performance, and integrity of the tax system.
3. Complete an external audit of SIGFIP focused on the budget execution database and production of output tables, as described in paragraph 17 of the MEFP.	September 30, 2009	Enhance efficiency of the budget monitoring system, increase reliability of real-time data production, expand coverage of budget operations, and facilitate TOFE production.
4. Improve flexibility and presentation of the budget, as described in paragraph 16 of the MEFP.	October 15, 2009	Enhance fiscal transparency and public expenditure control.
5. Make the ASTER budget accounting module operational, as described in paragraph 18 of the MEFP.	October 31, 2009	Improve the accounting system for budget and accounting purposes, and make budget data and TOFE production more reliable.
6. Adopt provisions to transfer FSAPP tax collection to the DGID, as described in paragraph 22 of the MEFP.	October 31, 2009	Increase transparency and yield of government revenue.

INTERNATIONAL MONETARY FUND

AND

INTERNATIONAL DEVELOPMENT ASSOCIATION

SENEGAL

Joint IMF/IDA Debt Sustainability Analysis

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

Approved by Roger Nord and Anthony R. Boote (IMF)
and Sudhir Shetty and Carlos Braga (World Bank)

June 5, 2009

Senegal is at a low risk of debt distress. The debt sustainability analysis (DSA) indicates that debt remains well contained under the baseline and various shock scenarios. Both external debt, which reflects HIPC and MDRI debt relief, and domestic debt are projected to remain relatively low. The main vulnerabilities for public debt sustainability are sustained external borrowing at nonconcessional terms and sustained high fiscal deficits.

VI. BACKGROUND

1. **HIPC and MDRI debt relief lowered external public debt from 33 percent of GDP at end-2005 to below 20 percent of GDP at end-2008.**[1]

2. More than 60 percent of end-2008 external debt was owed to multilateral institutions (especially the World Bank and AfDB); Arab countries held 21 percent and Paris Club creditors 11 percent.

3. **Domestic public debt remains low at 5 percent of GDP at end-2008, or one-fifth of total debt.** [2] This debt is denominated in local currency and held by WAEMU banks. With bank liquidity tight, domestic debt issuance in 2008 (including one undersubscribed ten-year bond) was just sufficient to roll over maturing debt.

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[1] Details of the two debt initiatives for Senegal are provided in last year's DSA (see *Senegal: Joint IMF/IDA Debt Sustainability Analysis*, May 2008 in IMF Country Report No. 08/209 on www.imf.org and *IDA report number - IDA/SecM2008-0466* on www.worldbank.org*)*.

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

4. **Private sector exposure also appears relatively limited**. Private external debt was 22 percent of GDP at end-2006, whereas private sector external assets amounted to 13 percent of GDP,[3] which may help limit private sector exposure depending on their ownership and maturity structure. Three-quarters of the private external debt was trade credits, and the remainder primarily consisted of loans obtained abroad and Senegalese banks' liabilities to nonresidents.

VII. Underlying Assumptions

5. **Implementation of sound macroeconomic and structural policies and recourse to types of external financing that limit debt creation underpin the macroeconomic framework for 2009–29** (Box 1).

- Growth is projected to accelerate over the next few years, as the effects of the international economic and financial crisis dissipate and the authorities continue their structural reforms aimed at raising growth. The reforms involve pursuing sound macroeconomic policies, improving the business environment, developing infrastructure and providing for reliable energy provisioning, diversifying exports, and reforming labor markets.

- FDI (net), which is projected to pick up more slowly than foreseen earlier as projects are put on hold pending the resolution of the international crisis, could average 3½ percent of GDP in the long term.

- Most of Senegal's public financing needs are projected to be filled through external concessional borrowing, and any remaining needs will be covered in the regional market as liquidity conditions in the WAEMU are projected to improve. Gross external borrowing on concessional terms is projected to be around 3½ percent of GDP, with a slightly declining grant element over the projection period averaging around 50 percent; overall aid flows on a net basis could be close to 6 percent of GDP per year during the projection period. The primary fiscal deficit is projected to be unchanged at 3¼ percent of GDP through the end of the next decade, and subsequently to decline to 2 percent of GDP by the end of the projection period to steady the ratio of debt to GDP.

6. **Compared to the previous DSA, macroeconomic assumptions have been revised to reflect the impact of the ongoing crisis.** GDP growth, FDI, exports, and current transfers pick up over the medium term but are projected to remain lower than before. Imports have been reduced to reflect the lower FDI. Overall, this results in an improvement in the current account balance compared to the previous DSA.

[3] Latest BCEAO data on the International Investment Position.

Box 1. Macroeconomic Assumptions for 2009–29

Real GDP growth: 3¾ percent over 2009-11, 4¾ percent over 20012–14, and 5¼ percent over 2015–29.

Inflation: at historical level of just above two percent.

Current account deficit (including grants): a widening to over 10 percent of GDP by the middle of the next decade as FDI picks up, followed by a narrowing (to below 6 percent of GDP, or 5¼ percent of GDP without interest) as growth of exports overtakes that of imports. Net FDI inflow may approach 3½ percent of GDP.

Fiscal deficit: 4 percent of GDP till the end of the next decade (or about 3¼ percent of GDP without interest) and thereafter a gradual decline to under 3 percent of GDP (or 2 percent of GDP without interest) as public expenditure management—a reform focus under the program supported by the IMF Policy Support Instrument and the Bank's budget support operation (PFSC)—continues to be improved, and further efficiency gains are being made in tax administration.

Aid flows (grants and concessional loans): around 7 percent of GDP on a gross basis, and about a percentage point lower on a net basis.

Public domestic borrowing: its share would be less than one-third of the total public debt stock and largely held by commercial banks, with an assumed interest rate of 5½ percent and average maturity of five years.

Nonconcessional borrowing: to remain the exception. The DSA assumes that the government in 2009 will obtain the second tranche of the nonconcessional loan from France contracted at end-2008 and borrow CFAF 80 billion to help finance the Dakar-Diamniadio toll road.[1]

[1] Last year's DSA discussed the projected high return of the toll road.

VIII. External DSA

7. **External public debt indicators under the baseline scenario remain relatively stable over time and well below the policy-dependent thresholds**.[4] External public debt indicators decline early in the projection period and debt service ratios increase as the nonconcessional external loans taken out in 2008–09 are paid off (Figure 1). External debt burden indicators will decline further during the later part of the projection period with the narrowing of fiscal deficits. The decline is most pronounced in the PV of external public debt-to-exports ratio, because export

[4] The indicative external debt burden thresholds for Senegal are shown in Figure 1. They are based on Senegal's classification as a "medium" performer given its (three-year average) score of 3.71 on the World Bank's Country Policy and Institutional Assessment index (CPIA). The CPIA measures the quality of policies and institutions; weak performers score below 3.25, strong performers above 3.75.

growth is projected to outpace debt growth toward the end of the projection period. External public debt service increases slightly but remains very low. Overall external debt also remains contained and declines relative to GDP towards the end of the projection period (see Table 1) due to a narrowing of the current account deficit and continued FDI flows (which do not create debt).

8. **Stress tests do not reveal serious vulnerabilities for external public debt, as the various indicators remain below the thresholds** (Figure 1, Table 2)**.**

- The most extreme stress test for all indicators is an increase by 2 percentage points in the interest rate on new external public borrowing. This sharply reduces the concessionality of new debt and, without policy adjustments, leads to marked increases over time in debt ratios. However, they remain below thresholds.

- Given uncertainties about the current economic and financial environment and its impact on Senegal, an additional stress test was included in which exports and real GDP grow by 5 and 2 percentage points less, respectively, in 2009–10 than in the baseline (Table 2, scenario A.3). Under this scenario, which returns to the baseline's macroeconomic assumptions over the medium term, debt ratios also remain well short of thresholds.

IX. PUBLIC DSA

9. **Indicators of overall (external plus domestic) public debt and debt service are largely similar to those for external public debt alone.** After rising somewhat in the earlier part of the period, debt ratios in the baseline subsequently decline as the fiscal deficit is gradually reduced (Figure 2, Table 3).[5] The debt service-to-revenue ratio remains well contained after peaking early on due to the relatively rapid repayment requirements of the 2008–09 nonconcessional loans.

10. **Public debt sustainability hinges on containing the fiscal deficit.** If the fiscal balance were to remain at its 2009 level, with a primary deficit of 3½ percent of GDP over the entire projection period, the PV of overall public debt-to-GDP ratio would rise continuously and nearly double (Table 4). The financing needs created by such accumulating deficits would risk crowding out the private sector. The PV of debt-to-revenue ratio would also rise substantially, reinforcing the need for the prudent fiscal policy that is envisioned in the baseline.

[5] Baseline projections reflect the settlement of payment delays remaining at the beginning of 2009 as well as expected—larger—privatization receipts in 2009. Both are treated as budget financing items in the baseline but, by design, ignored in the stress tests—thereby on balance marginally worsening the results of the tests in this case.

11. **The public debt position remains vulnerable to unexpected shocks.**

- The most extreme stress test, which adds 10 percent of GDP to public debt in 2010 and results in the highest debt ratio in 2019 compared to other tests, illustrates the importance for debt sustainability of avoiding sudden, large increases in debt. Such an increase could, for example, result from a renewed build-up of payment delays in the future, which the authorities are well advised to prevent.

- The second most extreme stress test entails a reduction in 2010–11 GDP growth and illustrates the relevance of growth-enhancing policies for debt sustainability in particular and macroeconomic management in general.[6]

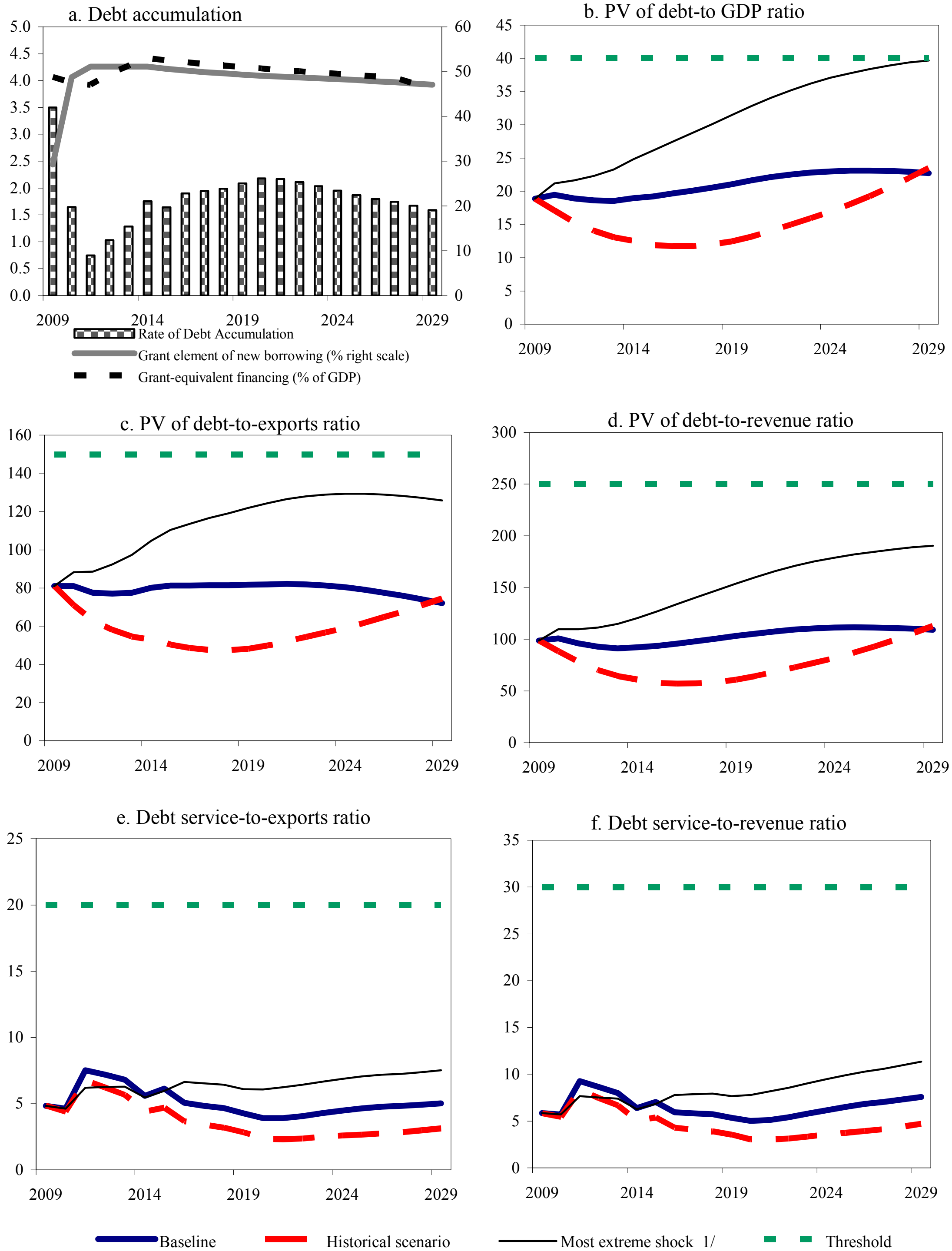
- In the additional stress test with a more severe impact of the global crisis on Senegal in 2009–10, GDP growth is 2 percentage points lower and the primary fiscal deficit 4 percentage points higher in 2009-10 than in the baseline (Table 4, scenario A.4). Under this scenario, the deterioration in public debt burden indicators is contained by the assumed return to baseline policies, illustrating the need for a prudent fiscal policy over the medium term.

X. CONCLUSION

12. **In sum, based on the staffs' analysis, Senegal's external debt burden is subject to a low risk of debt distress; in addition, Senegal's public debt remains sustainable even after considering domestic debt in the analysis.** The baseline projections and the associated standard stress tests show low risk related to external debt, as all of the indicators remain below the indicative debt burden thresholds. However, public debt sustainability is vulnerable to shocks, such as sharp increases in debt or declines in growth. Consequently, Senegal would benefit from continued fiscal discipline, prudent nonconcessional borrowing, and sensible debt management.

[6] Senegal's economy is prey to large fluctuations in real GDP growth, with a standard deviation of growth of 2 percentage points over the last 10 years. Real GDP growth dropped by 3 percentage points in 2006 as ICS production collapsed and 2¼ points in 2008 due to government payment delays.

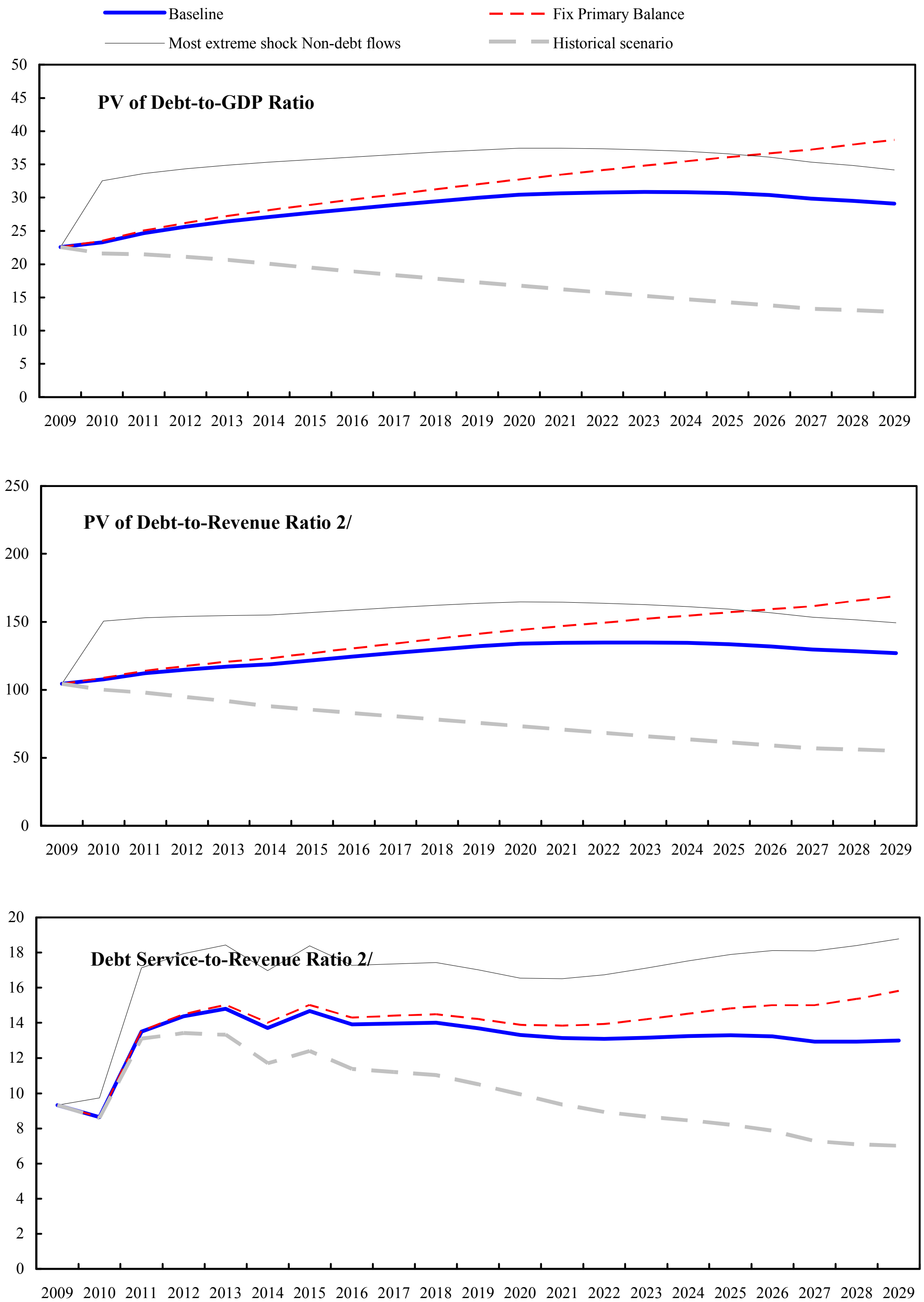
Figure 1. Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2009-2029 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2019. In figure b. it corresponds to a Borrowing terms shock; in figure c. to a Borrowing terms shock; in figure d. to a Borrowing terms shock; in figure e. to a Borrowing terms shock; and in figure f. to a Borrowing terms shock.

Figure 2. Indicators of Public Debt Under Alternative Scenarios, 2009-2029 1/



Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in 2019.
2/ Revenues are defined inclusive of grants.

Table 1. External Debt Sustainability Framework, Baseline Scenario, 2006-2029 1/
(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average 6/	Standard Deviation 6/	Projections									
	2006	2007	2008			2009	2010	2011	2012	2013	2014	2009-2014 Average	2019	2029	2015-2029 Average
External debt (nominal) 1/	**39.9**	**42.0**	**43.8**			**48.7**	**51.0**	**52.6**	**54.0**	**55.8**	**57.7**		**64.1**	**65.2**	
o/w public and publicly guaranteed (PPG)	17.7	17.9	19.7			24.4	26.0	26.4	27.0	27.9	29.4		34.9	38.3	
Change in external debt	-23.1	2.1	1.8			4.8	2.3	1.6	1.5	1.8	1.8		1.0	-0.5	
Identified net debt-creating flows	3.3	2.8	4.1			7.9	7.1	5.3	5.0	5.0	4.9		3.4	-0.3	
Non-interest current account deficit	**8.8**	**11.3**	**11.9**	**6.9**	**3.0**	**11.1**	**10.1**	**9.4**	**9.3**	**9.4**	**9.5**		**8.8**	**5.0**	7.7
Deficit in balance of goods and services	18.4	23.2	23.3			20.7	19.0	17.9	17.9	18.2	18.3		17.4	13.7	
Exports	27.5	27.2	26.6			23.3	24.0	24.4	24.2	24.0	23.7		25.8	31.5	
Imports	45.9	50.5	49.8			44.0	43.0	42.3	42.1	42.2	42.0		43.2	45.2	
Net current transfers (negative = inflow)	-8.9	-11.4	-10.9	-7.7	2.6	-8.9	-8.1	-7.8	-7.9	-8.1	-8.2		-7.9	-8.0	-7.9
o/w official	-0.6	-1.0	-0.5			-0.8	-0.6	-0.6	-0.6	-0.6	-0.7		-0.7	-0.8	
Other current account flows (negative = net inflow)	-0.7	-0.5	-0.5			-0.8	-0.7	-0.7	-0.7	-0.6	-0.6		-0.6	-0.7	
Net FDI (negative = inflow)	**-2.2**	**-2.7**	**-2.3**	**-1.5**	**0.9**	**-3.6**	**-2.9**	**-3.4**	**-3.3**	**-3.3**	**-3.3**		**-3.5**	**-3.1**	-3.4
Endogenous debt dynamics 2/	**-3.2**	**-5.8**	**-5.5**			**0.4**	**-0.1**	**-0.7**	**-1.0**	**-1.2**	**-1.3**		**-1.9**	**-2.2**	
Contribution from nominal interest rate	1.1	1.0	1.0			1.9	1.5	1.4	1.3	1.3	1.2		1.2	1.1	
Contribution from real GDP growth	-1.4	-1.6	-0.9			-1.5	-1.6	-2.1	-2.4	-2.5	-2.5		-3.1	-3.4	
Contribution from price and exchange rate changes	-2.9	-5.3	-5.6			…	…	…	…	…	…		…	…	
Residual (3-4) 3/	**-26.4**	**-0.7**	**-2.3**			**-3.1**	**-4.8**	**-3.7**	**-3.6**	**-3.2**	**-3.1**		**-2.4**	**-0.2**	
o/w exceptional financing	-48.1	-1.8	-0.6			-0.7	-0.6	-0.5	-0.5	-0.4	-0.4		-0.3	-0.1	
PV of external debt 4/	...	...	39.5			43.1	44.4	45.2	45.7	46.5	47.3		50.3	49.6	
In percent of exports	...	...	148.5			185.1	185.0	184.9	189.0	193.9	199.5		194.9	157.2	
PV of PPG external debt	**...**	**...**	**15.3**			**18.9**	**19.5**	**18.9**	**18.6**	**18.6**	**19.0**		**21.1**	**22.8**	
In percent of exports	**...**	**...**	**57.6**			**81.1**	**81.1**	**77.6**	**77.0**	**77.4**	**80.1**		**81.6**	**72.2**	
In percent of government revenues	**...**	**...**	**79.0**			**98.5**	**100.7**	**96.0**	**92.7**	**91.3**	**92.1**		**103.0**	**109.2**	
Debt service-to-exports ratio (in percent)	**12.0**	**10.6**	**9.3**			**15.9**	**15.2**	**18.1**	**18.3**	**18.4**	**17.6**		**17.0**	**14.3**	
PPG debt service-to-exports ratio (in percent)	**3.9**	**3.2**	**2.7**			**4.8**	**4.6**	**7.5**	**7.2**	**6.8**	**5.6**		**4.2**	**5.0**	
PPG debt service-to-revenue ratio (in percent)	**5.4**	**4.1**	**3.8**			**5.9**	**5.7**	**9.3**	**8.6**	**8.0**	**6.4**		**5.4**	**7.6**	
Total gross financing need (Billions of U.S. dollars)	0.9	1.3	1.6			1.4	1.4	1.5	1.6	1.7	1.8		2.4	3.3	
Non-interest current account deficit that stabilizes debt ratio	31.9	9.2	10.1			6.2	7.8	7.8	7.9	7.7	7.7		7.8	5.5	
Key macroeconomic assumptions															
Real GDP growth (in percent)	2.4	4.7	2.5	4.3	2.0	3.1	3.4	4.3	4.8	4.9	4.9	4.2	5.2	5.5	5.3
GDP deflator in US dollar terms (change in percent)	4.8	15.2	15.3	6.1	9.9	-9.1	1.8	2.2	2.4	2.4	2.1	0.3	2.1	2.2	2.2
Effective interest rate (percent) 5/	1.9	3.0	2.8	2.0	0.6	4.1	3.2	3.0	2.7	2.5	2.3	3.0	2.0	1.9	2.0
Growth of exports of G&S (US dollar terms, in percent)	0.5	19.5	15.2	9.3	10.4	-17.8	8.5	8.4	6.2	6.4	5.9	2.9	9.8	9.9	9.7
Growth of imports of G&S (US dollar terms, in percent)	7.3	32.6	16.6	14.0	11.0	-17.2	2.9	4.9	6.7	7.6	6.6	1.9	8.1	8.2	8.1
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	29.2	48.8	51.2	51.1	51.1	51.1	47.1	49.3	47.1	48.7
Government revenues (excluding grants, in percent of GDP)	19.7	21.1	19.4			19.2	19.3	19.7	20.1	20.3	20.6		20.5	20.8	20.6
Aid flows (in Billions of US dollars) 7/	0.4	0.6	0.9			0.7	0.7	0.7	0.9	1.0	1.1		1.5	2.7	
o/w Grants	0.1	0.3	0.3			0.3	0.3	0.3	0.3	0.4	0.4		0.6	1.1	
o/w Concessional loans	0.3	0.3	0.6			0.4	0.4	0.4	0.5	0.6	0.7		0.9	1.7	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			4.1	4.0	3.9	4.1	4.3	4.4		4.3	3.8	4.2
Memorandum items:															
Nominal GDP (Billions of US dollars)	9.4	11.3	13.3			12.5	13.2	14.0	15.1	16.2	17.3		24.7	51.8	
Nominal dollar GDP growth	7.4	20.6	18.1			-6.3	5.2	6.6	7.3	7.4	7.1	4.6	7.5	7.9	7.6
PV of PPG external debt (in Billions of US dollars)			1.9			2.4	2.6	2.7	2.8	3.0	3.3		5.2	11.8	
(PVt-PVt-1)/GDPt-1 (in percent)						3.5	1.6	0.7	1.0	1.3	1.8	1.7	2.1	1.6	1.9

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.
2/ Derived as [r - g - r(1+g)]/(1+g+r+gr) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and r = growth rate of GDP deflator in U.S. dollar terms.
3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.
4/ Assumes that PV of private sector debt is equivalent to its face value.
5/ Current-year interest payments divided by previous period debt stock.
6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.
7/ Defined as grants, concessional loans, and debt relief.
8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

Table 2. Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2009-2029
(In percent)

	Projections							
	2009	2010	2011	2012	2013	2014	**2019**	2029
PV of debt-to GDP ratio								
Baseline	19	19	19	19	19	19	**21**	23
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2009-2029 1/	19	17	15	14	13	13	**12**	23
A2. New public sector loans on less favorable terms in 2009-2029 2	19	21	22	22	23	25	**31**	40
A3. Additional scenario: lower GDP and export growth in 2009-10	20	22	22	21	21	22	**24**	25
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	19	19	19	18	18	18	**19**	19
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	19	20	22	21	20	20	**21**	20
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	19	20	20	20	19	19	**20**	21
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	19	22	24	23	23	23	**23**	21
B5. Combination of B1-B4 using one-half standard deviation shocks	19	22	25	24	23	23	**23**	21
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	19	27	26	25	24	24	**26**	27
PV of debt-to-exports ratio								
Baseline	81	81	78	77	77	80	**82**	72
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2009-2029 1/	81	71	63	58	55	53	**48**	75
A2. New public sector loans on less favorable terms in 2009-2029 2	81	88	89	92	97	105	**122**	126
A3. Additional scenario: lower GDP and export growth in 2009-10	90	101	96	93	94	96	**99**	85
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	81	79	74	72	71	73	**70**	60
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	81	92	106	103	102	103	**97**	76
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	81	79	74	72	71	73	**70**	60
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	81	92	99	96	95	95	**88**	65
B5. Combination of B1-B4 using one-half standard deviation shocks	81	94	106	103	102	103	**95**	71
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	81	79	74	72	71	73	**70**	60
PV of debt-to-revenue ratio								
Baseline	98	101	96	93	91	92	**103**	109
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2009-2029 1/	98	88	78	70	64	61	**61**	113
A2. New public sector loans on less favorable terms in 2009-2029 2	98	110	110	111	115	121	**154**	190
A3. Additional scenario: lower GDP and export growth in 2009-10	102	116	111	107	105	105	**115**	118
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	98	100	95	90	87	86	**92**	94
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	98	105	109	104	100	99	**102**	95
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	98	104	103	98	95	94	**100**	102
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	98	114	122	116	111	110	**111**	99
B5. Combination of B1-B4 using one-half standard deviation shocks	98	112	124	118	114	112	**114**	101
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	98	140	131	124	119	119	**126**	129

Table 2. Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2009-2029 (continued)
(In percent)

Debt service-to-exports ratio

Baseline	5	5	8	7	7	6	**4**	5
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2009-2029 1/	5	4	7	6	6	4	**3**	3
A2. New public sector loans on less favorable terms in 2009-2029 2	5	5	6	6	6	5	**6**	8
A3. Additional scenario: lower GDP and export growth in 2009-10	5	5	8	8	7	6	**5**	6
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	5	5	7	7	7	5	**4**	4
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	5	5	9	9	8	7	**5**	6
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	5	5	7	7	7	5	**4**	4
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	5	5	8	8	7	6	**4**	5
B5. Combination of B1-B4 using one-half standard deviation shocks	5	5	8	8	8	6	**5**	5
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	5	5	7	7	7	5	**4**	4

Debt service-to-revenue ratio

Baseline	6	6	9	9	8	6	**5**	8
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2009-2029 1/	6	5	8	7	7	5	**4**	5
A2. New public sector loans on less favorable terms in 2009-2029 2	6	6	8	8	7	6	**8**	11
A3. Additional scenario: lower GDP and export growth in 2009-10	6	6	10	9	8	7	**6**	8
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	6	6	10	9	8	6	**5**	7
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	6	6	9	9	8	7	**5**	7
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	6	6	10	10	9	7	**6**	8
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	6	6	10	9	9	7	**6**	8
B5. Combination of B1-B4 using one-half standard deviation shocks	6	6	10	9	9	7	**6**	8
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	6	8	13	12	11	9	**7**	10
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	45	45	45	45	45	45	**45**	45

Sources: Country authorities; and staff estimates and projections.

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

Table 3. Public Sector Debt Sustainability Framework, Baseline Scenario, 2006-2029
(In percent of GDP, unless otherwise indicated)

	Actual			Average	Standard Deviation	Estimate	Projections								
	2006	2007	2008			2009	2010	2011	2012	2013	2014	2009-14 Average	2019	2029	2015-29 Average
Public sector debt 1/	21.9	23.5	24.7			28.1	29.9	32.1	34.0	35.8	37.5		43.8	44.7	
o/w foreign-currency denominated	17.7	17.9	19.7			24.4	26.0	26.4	27.0	27.9	29.4		34.9	38.3	
Change in public sector debt	-23.7	1.6	1.2			3.4	1.8	2.2	1.9	1.8	1.7		1.0	-0.4	
Identified debt-creating flows	-2.1	-0.4	3.2			3.3	2.2	1.8	1.6	1.5	1.4		0.9	-0.7	
Primary deficit	5.2	3.2	4.1	1.6	2.3	3.7	3.2	3.3	3.3	3.2	3.3	3.3	3.2	1.9	2.7
Revenue and grants	21.2	23.6	21.7			21.6	21.6	22.0	22.3	22.6	22.8		22.7	22.9	
of which: grants	1.5	2.6	2.3			2.4	2.3	2.2	2.2	2.2	2.2		2.2	2.1	
Primary (noninterest) expenditure	26.4	26.9	25.8			25.3	24.9	25.2	25.6	25.8	26.1		25.9	24.8	
Automatic debt dynamics	-6.5	-3.3	-0.6			0.2	-0.7	-1.2	-1.4	-1.5	-1.6		-2.1	-2.5	
Contribution from interest rate/growth differential	-1.6	-2.4	-0.6			5.1	-2.9	-0.7	-0.9	-1.0	-1.0		-1.5	-1.7	
of which: contribution from average real interest rate	-0.5	-1.4	0.0			5.8	-1.9	0.5	0.6	0.6	0.7		0.7	0.6	
of which: contribution from real GDP growth	-1.1	-1.0	-0.6			-0.7	-0.9	-1.2	-1.5	-1.6	-1.7		-2.1	-2.4	
Contribution from real exchange rate depreciation	-4.9	-0.9	0.0			-4.9	2.1	-0.5	-0.6	-0.6	-0.6		...	...	
Other identified debt-creating flows	-0.8	-0.4	-0.3			-0.4	-0.3	-0.2	-0.2	-0.2	-0.2		-0.1	-0.1	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	-0.8	-0.4	-0.3			-0.4	-0.3	-0.2	-0.2	-0.2	-0.2		-0.1	-0.1	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	-21.6	2.0	-2.0			0.1	-0.5	0.4	0.3	0.3	0.3		0.2	0.2	
Other Sustainability Indicators															
PV of public sector debt	4.3	5.6	20.3			22.6	23.3	24.7	25.6	26.4	27.1		30.0	29.1	
o/w foreign-currency denominated	0.0	0.0	15.3			18.9	19.5	18.9	18.6	18.6	19.0		21.1	22.8	
o/w external	...	...	15.3			18.9	19.5	18.9	18.6	18.6	19.0		21.1	22.8	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	6.4	4.3	5.1			5.5	6.2	7.3	7.5	7.6	7.4		7.3	5.9	
PV of public sector debt-to-revenue and grants ratio (in percent)	20.1	23.6	93.6			104.4	107.9	112.2	114.9	117.2	118.9		132.1	127.0	
PV of public sector debt-to-revenue ratio (in percent)	21.6	26.5	104.9			117.6	120.5	124.9	127.7	130.1	131.7		146.4	139.6	
o/w external 3/	…	…	79.0			98.5	100.7	96.0	92.7	91.3	92.1		103.0	109.2	
Debt service-to-revenue and grants ratio (in percent) 4/	5.7	4.5	4.5			9.3	8.6	13.5	14.4	14.8	13.7		13.7	13.0	
Debt service-to-revenue ratio (in percent) 4/	6.1	5.0	5.1			10.5	9.7	15.0	16.0	16.4	15.2		15.2	14.3	
Primary deficit that stabilizes the debt-to-GDP ratio	28.9	1.7	2.9			0.3	1.5	1.1	1.4	1.4	1.5		2.1	2.4	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	2.4	4.7	2.5	4.3	2.0	3.1	3.4	4.3	4.8	4.9	4.9	4.2	5.2	5.5	5.3
Average nominal interest rate on forex debt (in percent)	1.0	1.4	1.6	1.4	0.3	2.6	2.2	2.0	1.7	1.5	1.3	1.9	1.2	1.2	1.2
Average real interest rate on domestic debt (in percent)	...	...	...	...	...	...	4.1	3.8	3.3	3.3	3.3	3.6	3.3	3.2	3.3
Real exchange rate depreciation (in percent, + indicates depreciation)	-11.9	-5.6	-0.2	-4.6	8.5	-19.6	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	4.0	5.5	7.4	2.9	2.3	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.2	2.2
Growth of real primary spending (deflated by GDP deflator, in percent)	0.2	0.1	0.0	0.1	0.1	0.0	0.0	0.1	0.1	0.1	0.1	0.0	0.1	0.0	0.0
Grant element of new external borrowing (in percent)	...	...	...	…	…	29.2	48.8	51.2	51.1	51.1	51.1	47.1	49.3	47.1	...

Sources: Country authorities; and staff estimates and projections.
1/ Includes central government domestic debt and public and publicly guaranteed external debt. Gross debt is used.
2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.
3/ Revenues excluding grants.
4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.
5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 4. Sensitivity Analysis for Key Indicators of Public Debt, 2009-2029

	Projections							
	2009	2010	2011	2012	2013	2014	2019	2029
PV of Debt-to-GDP Ratio								
Baseline	23	23	25	26	26	27	30	29
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	23	22	21	21	21	20	17	13
A2. Primary balance is unchanged from 2009	23	24	25	26	27	28	32	39
A3. Permanently lower GDP growth 1/	23	23	25	26	28	29	35	46
A4. Additional scenario: lower GDP growth, higher fiscal deficits in 2009-10	25	29	30	31	31	32	34	32
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2010-2011	23	24	26	28	29	30	36	39
B2. Primary balance is at historical average minus one standard deviations in 2010-2011	23	24	26	27	28	28	31	30
B3. Combination of B1-B2 using one half standard deviation shocks	23	23	24	25	26	27	31	32
B4. One-time 30 percent real depreciation in 2010	23	31	31	31	31	31	31	28
B5. 10 percent of GDP increase in other debt-creating flows in 2010	23	33	34	34	35	35	37	34
PV of Debt-to-Revenue Ratio 2/								
Baseline	104	108	112	115	117	119	132	127
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	104	100	98	95	92	88	76	55
A2. Primary balance is unchanged from 2009	104	109	114	118	121	123	141	169
A3. Permanently lower GDP growth 1/	104	109	114	118	122	126	155	199
A4. Additional scenario: lower GDP growth, higher fiscal deficits in 2009-10	128	146	137	138	140	140	150	139
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2010-2011	104	110	119	124	129	133	158	169
B2. Primary balance is at historical average minus one standard deviations in 2010-2011	104	111	118	120	122	124	136	130
B3. Combination of B1-B2 using one half standard deviation shocks	104	106	109	113	116	119	137	140
B4. One-time 30 percent real depreciation in 2010	104	142	142	141	139	136	137	124
B5. 10 percent of GDP increase in other debt-creating flows in 2010	104	150	153	154	155	155	164	149
Debt Service-to-Revenue Ratio 2/								
Baseline	9	9	13	14	15	14	14	13
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	9	9	13	13	13	12	11	7
A2. Primary balance is unchanged from 2009	9	9	14	14	15	14	14	16
A3. Permanently lower GDP growth 1/	9	9	14	15	15	14	15	18
A4. Additional scenario: lower GDP growth, higher fiscal deficits in 2009-10	10	10	15	16	16	15	15	14
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2010-2011	9	9	14	15	16	15	15	16
B2. Primary balance is at historical average minus one standard deviations in 2010-2011	9	9	14	15	15	14	14	13
B3. Combination of B1-B2 using one half standard deviation shocks	9	9	14	14	15	14	14	14
B4. One-time 30 percent real depreciation in 2010	9	10	17	18	18	17	17	19
B5. 10 percent of GDP increase in other debt-creating flows in 2010	9	9	15	18	19	17	15	16
Debt Service-to-GDP Ratio								
Baseline	2	2	3	3	3	3	3	3
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	2	2	3	3	3	3	2	2
A2. Primary balance is unchanged from 2006	2	2	3	3	3	3	3	4
A3. Permanently lower GDP growth 1/	2	2	3	3	3	3	3	4
A4. Additional scenario: lower GDP growth, higher fiscal deficits in 2009-10	2	2	3	4	4	3	3	3
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2008-2009	2	2	3	3	4	3	4	4
B2. Primary balance is at historical average minus one standard deviations in 2008-2009	2	2	3	3	3	3	3	3
B3. Combination of B1-B2 using one half standard deviation shocks	2	2	3	3	3	3	3	3
B4. One-time 30 percent real depreciation in 2008	2	2	4	4	4	4	4	4
B5. 10 percent of GDP increase in other debt-creating flows in 2008	2	2	3	4	4	4	3	4

Sources: Country authorities; and staff estimates and projections.
1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.
2/ Revenues are defined inclusive of grants.

INTERNATIONAL MONETARY FUND

SENEGAL

Third Review Under the Policy Support Instrument and
First Review and Augmentation of Access Under the Exogenous Shocks Facility—
Informational Annex

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

Approved by Roger Nord and Anthony R. Boote

June 5, 2009

- **Relations with the Fund.** Describes financial and technical assistance by the IMF and provides information on the safeguards assessment and exchange system. Outstanding purchases and loans amounted to SDR 41.6 million (25.71 percent of quota) at end-April 2009.

- **Relations with the World Bank.** Describes Bank and Fund work program.

- **Article VIII Status.** Senegal accepted the obligations of Article VIII of the Fund's Articles as of June 1, 1996 and maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions.

- **Statistical Issues.** Data provision has some shortcomings, but is broadly adequate for surveillance and program monitoring. There are weaknesses in data on national accounts, production, and social indicators.

Senegal: Relations with the Fund
(As of April 30, 2009)

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

II. General Resources Account:	**SDR Million**	**%Quota**
Quota	161.80	100.00
Fund holdings of currency	160.12	98.96
Reserve Position	1.70	1.05

III. SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	24.46	100.00
Holdings	0.05	0.21

IV. Outstanding Purchases and Loans:	**SDR Million**	**%Quota**
ESF Arrangements	24.27	15.00
PRGF Arrangements	17.33	10.71

V. Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ESF	Dec 19, 2008	Dec 18, 2009	48.54	24.27
PRGF	Apr 28, 2003	Apr 27, 2006	24.27	24.27
PRGF	Apr 20, 1998	Apr 19, 2002	107.01	96.47

VI. Projected Payments to Fund
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2009	2010	2011	2012	2013
Principal	0.00	0.35	2.08	3.47	3.47
Charges/Interest	0.29	0.31	0.31	0.29	0.27
Total	0.29	0.66	2.39	3.75	3.74

VII. Implementation of HIPC Initiative:

	Enhanced Framework
I. Commitment of HIPC assistance	
Decision point date	June 2000
Assistance committed by all creditors (US$ Million) [1]	488.30
Of which: IMF assistance (US$ million)	42.30
(SDR equivalent in millions)	33.80
Completion point date	April 2004
II. Disbursement of IMF assistance (SDR Million)	
Assistance disbursed to the member	33.80
Interim assistance	14.31
Completion point balance	19.49
Additional disbursement of interest income [2]	4.60
Total disbursements	38.40

VIII. Implementation of Multilateral Debt Relief Initiative (MDRI):

I. MDRI-eligible debt (SDR Million)[3]	100.32
Financed by: MDRI Trust	94.76
Remaining HIPC resources	5.56

II. Debt Relief by Facility (SDR Million)

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

[1] Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence these two amounts can not be added.

[2] Under the enhanced framework, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim period.

[3] The MDRI provides 100 percent debt relief to eligible member countries that qualified for the assistance. Grant assistance from the MDRI Trust and HIPC resources provide debt relief to cover the full stock of debt owed to the Fund as of end-2004 that remains outstanding at the time the member qualifies for such debt relief.

IX. Safeguards Assessments:

The Central Bank of West African States (BCEAO) is the common central bank of the countries of the West African Economic and Monetary Union, which includes Senegal. The most recent safeguards assessment of the BCEAO was completed on November 4, 2005. The assessment indicated progress has been made in strengthening the bank's safeguards framework since the 2002 assessment and identified some areas where further steps would help solidify it.

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

The results of continuous safeguards monitoring indicate that while certain vulnerabilities remain in internal control systems and legal structure, there has been some progress in other areas, including through: (i) improving the external audit process by adopting a multi-year audit program; (ii) establishing an audit committee; (iii) expanding disclosures on financial positions of WAEMU countries with the Fund in the notes to the annual financial statements; and (iv) further strengthening of the effectiveness of the internal audit function.

X. Exchange System:

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

The authorities confirmed that Senegal had not imposed measures that could give rise to exchange restrictions subject to Fund jurisdiction. They will inform the Fund if any such measure is introduced.

Aspects of the exchange system are also discussed in the May 2008 report on economic developments and regional policy issues of the WAEMU.

XI. Article IV Consultations:

The 2008 Article IV consultation was completed by the Executive Board on June 18, 2008 (IMF Country Report No. 08/209). The next consultation is expected to be held within 24 months. In concluding the 2008 Article IV consultation, Executive Directors encouraged the authorities to maintain prudent macroeconomic policies and persevere in implementing their structural reforms to encourage private-sector led growth. They considered that Senegal's sluggish export performance over the last decade was largely related to structural impediments in the economy, and encouraged the authorities to improve the business environment to make it more conducive to private-sector led growth, raise external competitiveness, and strengthen and diversify exports. They underlined that it was critical to contain the fiscal deficit to preserve debt sustainability, respect the limited financing capacity of the regional financial market, and help contribute to domestic stability in the WAEMU. Directors urged the careful review and expeditious settlement of payment delays, with a view to rigorously applying the existing budget framework. They welcomed the authorities' commitment to continue public financial management reform.

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

A joint team of the World Bank and the International Monetary Fund conducted a mission under the FSAP program in November 2000 and January 2001. The Financial System Stability Assessment (FSSA) was issued in August 2001 (IMF Country Report No. 01/189). An FSAP update was undertaken in June 2004, focusing on development issues (in particular nationwide supply of basic financial services and access of SMEs to credit), in line with the priorities defined in the PRSP (IMF Country Report No. 05/126). A regional FSAP for the WAEMU was undertaken in the second half of 2007.

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

XIII. Technical Assistance:

A. AFRITAC West

	Area	*Focus*
2003	Debt management and financial markets	Upgrading of information systems; techniques of external debt management
	Microfinance	Initiate work with BCEAO and donors
2004	Public expenditure management	Workshop
	Debt management and financial markets	Evaluation of software for improving debt management; workshop on AFL/CFT
	Public expenditure management	Decentralization; evaluation of TA needs
	Debt management and financial markets	Assessing need for capacity improvement
2005	Macroeconomic statistics	Making fiscal data conform to WAEMU and other international norms

	Area	Focus
	Microfinance	Inspection and control; workshop on good governance; training of government supervisory personnel
2006	Customs administration	Software risks
	Tax administration	Reforms and TA needs
	Macroeconomic statistics	Evaluating implementation of prior TA and future needs
	National accounts	Work program for improvement and statistical action plan
	Microfinance	Supervision
2007	Customs administration	Risk analysis and control
	Tax administration	Modernization
	Debt management and financial markets	Assessing TA needs; regional workshop on external debt statistics
	Macroeconomic statistics	Public finance statistics
	National accounts	Institutional sectors and quarterly national accounts; regional workshop on government accounts
	Microfinance	Supervision
2008	Debt management and financial markets	DSA workshop
	National accounts	Institutional sector and quarterly national accounts
	Microfinance	Supervision and organization
2009	National accounts	Quaterly national accounts (QNA)
	Tax administration	Status of the reform and scope for further TA
	Debt management	Strengthening public debt management
	Microfinance	Strengthening microfinance supervision

B. Headquarters

Department	Date	Form	Purpose
Fiscal Affairs	September 2001	Staff/consultant	Assessment of capacity to track poverty-reducing expenditures
	February 2004	Staff	Fiscal reporting
	November 2004	Staff	PSIA—Poverty and social impact analysis
	January 2005	Staff	ROSC
	January 2008	Staff	Public-Private Partnerships
	February 2008	Staff	PSIA─Poverty and social impact analysis
	October 2008	Staff/AFRITAC	Public financial management

Department	Date	Form	Purpose
	April 2009	FAD Expert	Public financial management
Monetary and Capital Markets	September 2006	Staff	Bank supervision and regulation
Statistics	September 2001	Staff	ROSC assessment of data
	July 2002	AFRISTAT	Real sector statistics assessment under GDDS West Africa project
	August 2002	AFRISTAT	National accounts assistance under GDDS West Africa project.
	August 2002	Regional advisor	Continued assistance with fiscal sector data under GDDS West Africa project.
	December 2002	AFRISTAT	Continued assistance with national accounts and prices statistics under GDDS West Africa project
	February 2003	Regional advisor	Continued assistance with fiscal sector data under GDDS West Africa project.
	March 2006	Staff	Real sector statistics
	March 2006	Staff	Government finance statistics
	November 2008	Staff	SDDS assessment
	April 2009	Staff	Governement finance statistics

XIV. Resident Representative

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

XV. Anti Money Laundering / Combating the Financing of Terrorism

The onsite visit for Senegal's AML/CFT evaluation took place in July/August 2007 in the context of ECOWAS Inter-Governmental Action Group Against Money Laundering (GIABA). The report was adopted in early May 2008 by the GIABA Plenary held in Accra, Ghana**.** The report highlights several areas of weaknesses in the AML/CFT system, confirmed by the score of 12 Non-Compliant and 17 Partially Compliant ratings out of the 40+9 FAF AML/CFT recommendations. Table 2 annexed to the Report contains recommendations of the areas which the authorities should address in order to strengthen the AML/CFT system. Senegal is expected to present its first follow up report on the implementation of the recommendations contained in the Mutual Evaluation Report (MER) in May 2009.

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

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

**Senegal—Work Program of World Bank and International Monetary Fund,
May 2009-June 2010**

Title	Products	Provisional timing of missions	Expected delivery date
A. Mutual information on relevant work programs			
World Bank	Energy Development Policy Lending	December 2008	October 2009 (Board)
	Dakar-Diamniadio toll road	April, September 2008	June 2009 (Board)
	Public Finance Support Credit (DPO)	December 2008-May 2009	June 2009 (Board)
	Country Partnership Strategy Progress Report	February-April 2009	June 2009 (Board)
	Public Expenditure Review	Continuous	December 2009
	Poverty Reduction Support Credit IV	July 2009-April 2010	Board May 2010
International Monetary Fund	Third Review under the PSI and First Review under the ESF Arrangement	March-April 2009	June 2009 (Board)
	Fourth Review of PSI	September/October 2009	November/December 2009 (Board)
B. Requests for work program inputs			
Fund request to Bank (with summary justification)	...	...	...
Bank request to Fund (with summary justification)	...	...	...
C. Agreement on joint products and missions			
Joint products	DSA	March/April 2009	June 2009

Senegal: Statistical Issues

13. Data provision has some shortcomings, but is broadly adequate for surveillance and program monitoring. However, there are weaknesses in data on national accounts, production, and social indicators. The authorities are committed to improving the quality and availability of economic, financial and social indicators, partially relying on technical assistance from the Fund and other international organizations. A Report on the Observance of Standards and Codes was published on the IMF website on December 2, 2002.

14. The country has begun the process of regional harmonization of statistical methodologies within the framework of the West African Economic and Monetary Union (WAEMU). It participates in the General Data Dissemination System (GDDS), and its metadata were posted on the Fund's Dissemination Standards Bulletin Board on September 10, 2001. In September 2006, the authorities expressed their commitment to work toward subscription to the Special Data Dissemination Standard (SDDS) and have appointed a national SDDS coordinator. The November 2008 SDDS assessment mission evaluated dissemination practices against SDDS requirements for coverage, periodicity and timeliness and, in cooperation with the authorities, developed an action plan to address identified gaps.

Real sector statistics

15. The compilation of the national accounts generally follows the *System of National Accounts, 1993*. Despite staff's professionalism, the lack of adequate financial resources has constrained efforts to collect and process data. Data sources are deficient in some areas, particularly the informal sector. Owing to financial constraints, surveys of business and households are not conducted regularly. However, efforts are being made to improve data collection procedures, strengthen the coordination among statistical agencies, and reduce delays in data dissemination.

16. The Regional Technical Assistance Center for West Africa (West AFRITAC) has been assisting member countries, including Senegal, with the improvement of their real sector statistics, in particular annual and quarterly national accounts (QNA). Progress reported by the advisor includes: i) completion of national accounts for 1980–2004 with 1999 as the base year; ii) dissemination of the 1980–2003 series in hard copy and on the internet; iii) production of accounts by institutional sector (first series covers 2004 institutional sector accounts); and iv) production of national accounts in accordance with the dissemination schedule. The authorities plan to start production of quarterly national accounts in view of the country's intention to subscribe to the SDDS. The recent West AFRITAC missions have assisted with training to support compilation of the QNA and initiating their compilation for the period 1990-2007. During its November 2008 mission, the West AFRITAC expert agreed with the authorities on a detailed work program aimed at starting regular dissemination of the QNA in March 2010. An April 2009 mission focused on the methods used for their compilation at current prices.

Government finance statistics (GFS)

17. GFS are compiled by the Ministry of Economy and Finance from customs, tax, and treasury directorate sources. Data last reported to STA for electronic redissemination and publication in the 2007 *Government Finance Statistics Yearbook* were for fiscal year 2001. Higher frequency data are not provided for redissemination in *IFS*, but the ministry compiles and disseminates quarterly government financial operations tables (TOFE) in their own publications. However, weakenesses in the monitoring system for payment delays (including deficiencies in the Treasury computerization system) are being addressed under the PSI program.

18. An AFR team worked with the authorities in February 2004 to improve fiscal reporting in the context of the last PRGF-supported program. The team focused on (i) public accounts that are outside of the direct purview of the treasury; (ii) the treatment of correspondents' accounts in the TOFE; and (iii) ensuring consistency between treasury and banking system information concerning government transactions. The proposed changes are now being implemented. They have improved the presentation of government financial operations and are the first step toward bringing the TOFE more in line with the extended WAEMU TOFE. Other steps will include implementing the WAEMU fiscal directives that are being revised.

19. A regional advisor in GFS has been conducting technical assistance missions aimed at improving the consistency of fiscal reporting and migrating to the methodologies of the *Government Finance Statistics Manual 2001*. The regional advisor also supported efforts to resume reporting of annual and higher frequency data for publication in *International Financial Statistics (IFS)* and electronic dissemination of the *GFS Yearbook.*

Monetary and financial statistics

20. Preliminary monetary data are compiled by the national agency of the Central Bank of West African States (BCEAO) and officially released (including to the IMF) by BCEAO headquarters. The authorities are now reporting monetary data to STA on a regular basis, with a reduction in the lag from about six months to about three to four months. There has also been an improvement in the timeliness of reporting interest rate and main depository corporation data (central bank, commercial banks and postal checks center). An area-wide page for the WAEMU zone was introduced in the January 2003 issue of *IFS*.

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

22. In August 2006, as part of the authorities' continuing efforts to implement the statistical methodology recommended in the *Monetary and Financial Statistics Manual*, the BCEAO reported to STA test monetary data for June 2006 for all member countries using the Standardized Report Forms (SRF). In response to STA's comments, the BCEAO has provided a revised central bank report form (1SR) as well as test data on other depository corporations (2SR) for review by STA. The completion of the SRFs (1SR for central bank,

2SR for other depository corporations, and 5SR for monetary aggregates) will allow for publication of the data in the *IFS Supplement*. The publication contains data of those countries that regularly compile and report to the Fund monetary data in the SRF format.

External sector statistics

23. Balance of payments statistics are compiled by the Senegalese national agency of the BCEAO. With STA support over the past few years, several steps have been taken to address certain shortcomings, including: (i) implementation of the *Balance of Payments Manual, fifth edition*; (ii) modification and simplification of related surveys for companies and banks; (iii) improvement in the computerization of procedures; and (iv) significant strengthening of staff training. Nevertheless, further steps could be taken to enhance the quality and coverage of the balance of payments statistics.

24. Although definitive balance of payments statistics can now be provided with a delay of less than one year, there are some delays in reporting the data to STA.

Senegal: Table of Common Indicators Required for Surveillance
(As of June 5, 2009)

	Date of latest observation	Date received	Frequency of data[7]	Frequency of reporting[7]	Frequency of publication[7]	Memo Items:	
						Data Quality – Methodological soundness[8]	Data Quality Accuracy and reliability[9]
Exchange Rates	Current	Current	D	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	3/2009	5/2009	M	M	M		
Reserve/Base Money	3/2009	5/2009	M	M	M		
Broad Money	3/2009	5/2009	M	M	M		
Central Bank Balance Sheet	3/2009	5/2009	M	M	M	LO, LO, O, O	LO, O, O, LO
Consolidated Balance Sheet of the Banking System	3/2009	5/2009	M	M	M		
Interest Rates[2]	4/2009	5/2009	M	M	M		
Consumer Price Index	4/2009	5/2009	M	M	M	O, LO, O, O	LO, O, O, NA
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	NA	NA					
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	3/2009	5/2009	Q	Q	Q	O, LNO, LO, O	LO, LO, O, LO
Stocks of Central Government and Central Government-Guaranteed Debt[5]							
External Current Account Balance	2007	5/2008	A	A	A		
Exports and Imports of Goods and Services	2007	5/2008	A	A	A	O, O, O, O	O, O, O, O
GDP/GNP	2007	12/2008	A	I	A	LO, LO, LO, LNO	LNO, LNO, LNO, LNO
Gross External Debt	2007	5/2008	Q	I	A		
International Investment Position [6/]	2007	5/2009	A	A	A		

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Includes external gross financial asset and liability positions vis-à-vis nonresidents.
[7] Daily (D); Weekly (W); Monthly (M); Quarterly (Q); Annually (A); Irregular (I); Not Available (NA).
[8] Reflects the assessment provided in the data ROSC published in November 2002 and based on the findings of the mission that took place in September 2001 for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning (respectively) concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O), largely observed (LO), largely not observed (LNO), not observed (NO), or not available (NA).
[9] Same as footnote 7, except referring to international standards concerning (respectively) source data, statistical techniques, assessment and validation of source data, and revision studies.

Statement by the IMF Staff Representative on Senegal
June 19, 2009

1. This statement summarizes economic developments in Senegal since the issuance of the staff report. The information does not change the thrust of the staff appraisal

2. **Effective June 16, the BCEAO lowered its key policy rate and reserve requirements.** The policy rate was reduced by 50 basis points, to 4.25 percent, and the reserve requirement ratio applicable to Senegalese banks from 9 to 7 percent. The relaxation of monetary conditions is consistent with staff recommendations.

3. **Inflation continued to decline.** The consumer price index fell by 0.9 percent in May 2009 relative to the previous month, and by 0.4 percent year-on-year, in large part on account of lower prices for food and energy products. This development is consistent with the macroeconomic framework underlying the authorities' program, which projects average inflation of 0.8 percent in 2009.

4. **Standard & Poor's upgraded Senegal's outlook from negative to stable while affirming its ratings.** The ratings agency based this revision on the progress that has been made in the government's efforts to improve public financial management and settle unpaid bills to suppliers. It also welcomed the government's commitment to maintaining a fiscal deficit trajectory that should ensure debt sustainability. Senegal's long-term ("B+) and short-term ("B") credit ratings remained unchanged.

INTERNATIONAL MONETARY FUND
EXTERNAL RELATIONS DEPARTMENT

Press Release No. 09/223
June 19, 2009

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Approves Increase in Financial Support under Senegal's ESF, US$50 million Disbursement and Completes Third Review of PSI

The Executive Board of the International Monetary Fund (IMF) approved an increase in financial support for Senegal under the Exogenous Shocks Facility (ESF) by SDR 72.81 million (about US$112 million) to SDR 121.35 million (about US$186 million) and an extension of the ESF arrangement from 12 to 18 months to help finance the balance-of-payments impact of the global economic crisis. The approval enables Senegal to draw an amount of SDR 32.36 million (about US$50 million) from the IMF immediately, and equal amounts upon completion of the second and third reviews under the ESF arrangement.

The Executive Board has also completed the first review under the ESF and the third review under the Policy Support Instrument (PSI) and granted a waiver for the quantitative performance criterion on the basic fiscal balance for end-December 2008. The ESF for Senegal was approved on December 19, 2008 (see Press Release No. 08/334) to help finance the balance-of-payments impact of higher food and energy prices. The three-year PSI for Senegal was approved on November 2, 2007 (see Press Release No. 07/246) to support the country's economic reform efforts. It is aimed at consolidating macroeconomic stability, increasing the country's growth potential, and reducing poverty. The program focuses on maintaining a sound fiscal policy stance and enhancing fiscal governance and transparency. It also includes measures to develop the private sector and increase the financial sector's contribution to growth.

Following the Board's discussion on Senegal, Murilo Portugal, Deputy Managing Director and Acting Chair, made the following statement:

"The global economic crisis has begun to affect the Senegalese economy. Economic growth is expected to remain weak in 2009, reflecting falling remittances, lower export prices, and a contraction of foreign direct investment. Inflation is expected to fall sharply, reflecting the decline in international food and fuel prices and the absence of domestic demand pressures. The financial sector has weathered the crisis, and recent steps to strengthen financial stability monitoring are welcome.

"The government's economic program supported under the PSI and ESF aims to help Senegal address the effect of the global economic crisis. Scope exists for a temporary easing of fiscal policy. Over the medium term, it will be important that fiscal policy returns to a sustainable path, consistent with macroeconomic stability and debt sustainability, while preserving spending in priority social sectors and on public infrastructure.

“Significant steps have been taken to reduce payment delays to the private sector and modernize public financial management, with a view to improving budget planning, execution, and monitoring. These efforts need to be continued and deepened so as to prevent a recurrence of past budgetary slippages. It will also be essential to follow up expeditiously on the independent external audit of extrabudgetary spending and avoid any reoccurrence of such spending. Structural reforms aimed at developing the financial sector and improving the business climate are key to bolstering economic performance and boosting investor confidence,” said Mr. Portugal.

The IMF's framework for PSIs is designed for low-income countries that may not need IMF financial assistance, but still seek close cooperation with the IMF in preparation and endorsement of their policy frameworks. PSI-supported programs are based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners. This is intended to ensure that PSI-supported programs are consistent with a comprehensive framework for macroeconomic, structural, and social policies to foster growth and reduce poverty. Members' performance under a PSI is reviewed semi-annually, irrespective of the status of the program (see Public Information Notice No. 05/145).

The ESF is designed to provide policy support and financial assistance to low-income countries facing exogenous but temporary shocks. It is available to countries eligible for the Poverty Reduction and Growth Facility (PRGF)—the IMF's main instrument for financial assistance to low-income countries—but that do not have a PRGF-supported program in place. Financing terms are equivalent to a PRGF arrangement and are more concessional than under other IMF emergency lending facilities

Statement by Laurean Rutayisire, Executive Director
for Senegal
June 19, 2009

1 I would like to express my appreciation of the productive policy dialogue that the Fund continues to maintain with the authorities. During the first half of 2009, the Senegalese authorities have continued to make great strides in the implementation of their Fund-supported program. As a result, major achievements have been recorded. In particular, the bulk of the stock of unpaid bills to the private sector has been cleared. The degree of compliance with program conditionality remains high. Major improvements in public financial management have been made, earning the country improved rating from Standard & Poor's Ratings Services.

2. In March, transparent municipal elections were successfully organized and the ensuing results were broadly accepted by all involved political parties. That opposition parties won most major cities without incident reflects the strength of the country's institutions and perpetuates an established tradition of peaceful democratic elections. Although changes in the composition of the Cabinet have taken place since the elections, the authorities' commitment to the program objectives remains intact.

Performance under the PSI and ESF

3. Program performance on both the quantitative and structural fronts remains strong. On the quantitative front, the authorities took necessary steps to meet all but one end-December 2008 quantitative program targets. Notwithstanding their successful efforts to contain public expenditures well below budgeted levels, the criterion on the basic fiscal deficit was missed following a significant decline in tax revenues during the last quarter of 2008 stemming from lower petroleum tax receipts and delayed tax payments by the electricity company, SENELEC. Nevertheless, the authorities have since taken remedial actions to adhere to all quantitative and indicative targets set for end-March 2009, including the program criterion on the fiscal balance. In this light, my Senegalese authorities request a waiver for nonobservance of the end-December 2008 assessment criterion on the fiscal balance.

4. On the structural front, the authorities met all assessment criteria and most benchmarks. In particular, they adopted decrees enacting the timetable and procedures for compiling the budget, a streamlined system for reopening and carrying over budgetary appropriations, and the implementation of the new microfinance law. In addition, they complied with the regulatory deadline set for the closure of the 2008 budget and accounting year. However, the implementation of two end-March structural benchmarks related to the

external audit of extrabudgetary expenditures and the first audit report of the procurement regulatory authority (ARMP) has been delayed. The process of selecting the audit firm and mobilizing the related financing took more time than anticipated. Nevertheless, the audit firm has been selected and its report is expected to be completed later this month. Following the completion of the external audit, a decision will be made by end-July on the regularization of extrabudgetary expenditure in the 2010 budget. With regard to the ARMP audit, preliminary reports will be available in September 2009, providing key inputs to the assessment of the effectiveness of the new procurement framework.

Economic Outlook and Policy Reform Agenda for 2009-10

5. Prospects for the Senegalese economy are favorable. On May 26, 2009, Standard & Poor's Ratings Services revised its outlook on Senegal to stable from negative to take into account progress made in public finance management, as reflected in more rigorous spending and budget execution procedures. In 2009, real GDP growth is projected to bounce back and exceed slightly its estimated level for 2008, reflecting notably the progress made by ICS toward full recovery of its operations and the rebound of non-agricultural GDP growth. Average inflation is forecasted to be contained and the external current account deficit is expected to narrow slightly compared to its 2008 level, dropping below 12 percent of GDP.

Fiscal Policy and PFM Reforms

6. Going forward, prudence will continue to guide the authorities in the conduct of fiscal policy. Concretely, this will translate into efforts aimed not only at avoiding budgetary imbalances and reflecting government priorities in the budget, but also at containing the overall fiscal deficit in the neighborhood of 4 percent over the medium-term.

7. In 2009, the fiscal deficit is projected to exceed this target by one half percent of GDP. This level will help protect spending in social sectors and critical growth-promoting investment, notwithstanding the weakening of revenue performance. The authorities aim to increase social expenditures from its current level of 33 percent to 40 percent of GDP by 2010. At the same time, they will continue to exercise firm restraint over public expenditures, particularly those that are not subjected by law to firm ceiling (*crédits évaluatifs*). As part of the short-term measures aimed at strengthening tax collection and safeguard the efficiency and equity of the tax system, the authorities intend to finalize by end-September 2009 a study that will determine the magnitude and rationale of tax exemptions. In line with their commitment to fiscal transparency, the authorities will also transfer the responsibility of collecting the FSAPP tax from the petroleum refinery, SAR, to the tax department (DGID).

8. In light of the past incidence of the energy sector on public finances, the authorities will take a number of steps to reduce fiscal risks emanating from the sector, including the quarterly modification of the electricity price structure, elimination of butane gas subsidies, and regular tax payments of the electricity company, SENELEC.

9. Going forward, care will be taken by the authorities to continue the efforts previously made to extend the coverage of the budget management system, SIGFIP, and improve the efficiency and reliability of the system. To that resolve, the authorities will make use of the results of the external audit of SIGFIP which they plan to finalize by end-September. It is also the authorities' intention to make the budget accounting module of the Treasury accounting software (ASTER) operational by end-October 2009.

Financial Sector Reforms

10. Preserving financial stability will continue to rank high in the authorities' agenda. In this connection, they will continue to abide by the monetary stance set by the regional central bank, BCEAO. The authorities will also monitor the soundness of the banking system and take necessary actions to safeguard the health of the system in the face of the global financial crisis. In particular, they will ensure close monitoring of the solvency and liquidity of the system and the enactment of the new minimum capital ratios to take effect by 2010.

Private Sector Development

11. The authorities will continue to lay the basis for a private sector-led economy. They will continue to press ahead with their agenda aimed at enhancing the business environment, notably by strengthening the judicial system, quickening transfer of property rights and issuance of construction permits, and improving the Doing Business cross-border trade indicator. With the clearance of the stock of unpaid bills, private sector activity is expected to pick up, thus improving growth prospects. My authorities would like to express their appreciation to the donor community, and France in particular, for their financial support which largely contributed the settlement of government's payment delays to the private sector.

Augmentation of Access under the Exogenous Shocks Facility

12. As noted by staff, the impact of the successive global crises proved to be worse than anticipated at the time of the ESF approval. While the food and oil price shocks triggered the authorities' request for Fund's assistance under the ESF, the current global economic turmoil justifies the requested augmentation of access under the arrangement. The negative effects of the current crisis on the Senegal's economy and external position appears to channel mainly through the sharp decline in remittance inflows, the expected slowdown in foreign direct investment, and the lethargy of the tourism sector and related activities.

13. We are appreciative of the prompt follow-up staff has accorded to the authorities' request for an augmentation and extension of access under the ESF and we call on Directors to grant their support to this request.

Conclusion

14. Under the PSI-supported program, the authorities have made major policy achievements, particularly in fiscal areas where notable shortcomings have been identified. These achievements are all the more commendable that they were accomplished under difficult external circumstances, including two successive global shocks. However, the road ahead remains bumpy, especially in the event of a protracted global crisis. In this context, Senegal, like other low-income countries, will continue to value Fund's assistance in the design and implementation of the authorities' reform and policy agenda. My Senegalese authorities will appreciate Board support of the completion of the PSI and ESF reviews as well as the requested augmentation of access under the ESF