INTERNATIONAL MONETARY FUND

IMF Country Report No. 16/3

SENEGAL

January 2016

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

In the context of the First Review under the Policy Support Instrument (PSI) and request for modification of assessment criteria, the following documents have been released and are included in this package:

- A **Press Release.**
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on lapse of time basis, following discussions that ended on September 16, 2015, with the officials of Senegal on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on December 1, 2015.
- A **Debt Sustainability Analysis Update** prepared by the staffs of the IMF and the International Development Association (IDA).

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

Letter of Intent sent to the IMF by the authorities of Senegal*
Memorandum of Economic and Financial Policies by the authorities of Senegal*
Technical Memorandum of Understanding*

*Also included in Staff Report

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

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International Monetary Fund
Washington, D.C.

Press Release No.15/549
FOR IMMEDIATE RELEASE
December 15, 2015

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes First Review under the Policy Support Instrument (PSI) for Senegal

The Executive Board of the International Monetary Fund (IMF) completed the first review of Senegal's economic performance under the program supported by the Policy Support Instrument (PSI)[1] approved on June 24, 2015 (see Press Release No. 15/297). The Board's decision was taken on a lapse of time basis[2]

The macroeconomic outlook remains favorable insofar as reforms are accelerated to open up economic space, particularly to SMEs and FDI. Economic growth is projected at 5.1 percent in 2015 and 5.9 percent in 2016. Inflation remains low and is expected to stay within the 1–2 percent range over the medium term. The current account improved in the first half of 2015 partly owing to lower oil prices.

Program performance through September was broadly satisfactory. All end-June assessment criteria were met but the end-June indicative target on tax revenue was missed because of a shortfall in customs revenue. This shortfall was due to higher than anticipated tax expenditure, the January 2015 introduction of the ECOWAS common external tariff, and lower oil prices. Continued rationalization and better control of public expenditure helped meet the fiscal deficit target despite the shortfall in revenue. All structural benchmarks were met.

Going forward, mitigating risks related to tax revenue shortfalls and accelerating structural reforms to sustain the growth momentum are the main challenges. Meeting the fiscal deficit targets for 2015 and 2016 requires continued revenue raising efforts, streamlining of public consumption and raising the efficiency of public investment. Achieving the Plan Senegal Emergent (PSE) growth targets requires creating economic space for SMEs and FDI. This means accelerating reforms in the energy sector, tackling rent seeking, and improving the business environment.

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

[2] The Executive Board takes decisions under its lapse of time procedure when it is agreed by the Board that a proposal can be considered without convening formal discussions.

INTERNATIONAL MONETARY FUND

SENEGAL

December 1, 2015

FIRST REVIEW UNDER THE POLICY SUPPORT INSTRUMENT AND REQUEST FOR MODIFICATION OF ASSESSMENT CRITERIA

KEY ISSUES

The macroeconomic outlook remains favorable insofar as reforms are accelerated to open up economic space, particularly to SMEs and FDI. Economic growth is projected at 5.1 percent in 2015 and 5.9 percent in 2016. Inflation remains low and is expected to stay within the 1–2 percent range over the medium term. The current account improved in the first half of 2015 partly owing to lower oil prices.

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Discussions focused on mitigating risks related to tax revenue shortfalls and accelerating structural reforms to sustain the growth momentum. Meeting the fiscal deficit targets for 2015 and 2016 requires continued revenue raising efforts, streamlining of public consumption and raising the efficiency of public investment. Achieving the Plan Senegal Emergent (PSE) growth targets requires creating economic space for SMEs and FDI. This means accelerating reforms in the energy sector, tackling rent seeking, and improving the business environment.

Staff supports the authorities' request for the completion of the first PSI review.

Approved By
Roger Nord (AFR) and Peter Allum (SPR)

Discussions were held in Dakar, September 3–16, 2015. The mission comprised Messrs. Ali Mansoor (head), Alexei Kireyev (advance team and post-mission staff visit lead), Salifou Issoufou (all AFR); Andrea Presbitero (SPR); and João Jalles (FAD). Mr. Boileau Loko, resident representative, and Mr. Saidou Ba, local economist, participated in the discussions. The mission was assisted by Ms. Bintou Wane, local administrative assistant. The mission met with the Prime Minister, Mr. Dionne; the Minister of Finance and Economic Planning, Mr. Ba; the Minister of Energy, Mr. Sall; the Minister of Tourism and Transport, Mme. Ndoye Seck; the National Director of the Central Bank, Mr. Camara; other senior officials; and development partners.

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APPENDIX

RECENT DEVELOPMENTS AND OUTLOOK

1. **Growth remains robust and in line with PSI targets.** Economic activity strengthened during the first half of 2015 owing to good overall performance in industry and services. These developments mainly reflect initial implementation of the PSE, strengthened trade with Mali, and falling oil prices. The prospects for higher economic growth are strong, provided decisive action is taken to tackle rent seeking and accelerate reforms to encourage SMEs and foreign investment. The restructuring of the energy sector is ongoing with new and more efficient power plants expected to come on stream in 2016. This should improve supply, and may reduce the cost of electricity. With a relatively good rainy season, agriculture is expected to perform better than anticipated. As a result, the PSI growth target of 5.1 percent in 2015 and 5.9 percent in 2016 are well within reach.

2. **Inflation remains low.** Year-on-year inflation stood at 0.1 percent at end-August, largely driven by food inflation. Projections of average annual and end-of-period inflation for 2015 are -0.5 and 1.2 percent, respectively. Inflation is expected to remain within the 1–2 percent range over medium term. With the fall in the price of oil, the GDP deflator is revised to 0.2 percent in 2015 and 1.8 percent in 2016 (from 1.4 and 2.3 percent, respectively).

3. **The current account balance has improved owing to favorable terms of trade developments.** The trade balance improved at end-June with y-o-y exports increasing by more than imports. The terms of trade are projected to improve by 6.1 percent in 2015.[1] The increased imports are almost entirely composed of intermediate and capital goods, a positive sign of structural change. Remittances are expected to reach about 12 percent of GDP in 2015 but are projected to gradually decline to about 10 percent of GDP by 2020.[2] Foreign direct investment remains low relative to other developing countries but is projected to increase to 2.4 percent of GDP in 2015, owing partly to Chinese investment in Senegal and a capital injection in the phosphate industry.[3]

4. **Senegal remains at low risk of debt distress.** External public debt is projected at 39.3 percent of GDP in 2015, while total public debt amounts to 54.4 percent of GDP. Public debt ratios have been revised downwards in 2015, owing mainly to lower accumulation of domestic debt than previously estimated. Fiscal consolidation should result in declining debt ratios over the medium term. An updated DSA does not result in any breach of the policy dependent thresholds

[1] The strong export performance is mainly driven by an increase in volume rather than in prices. Exports of cement—one of the most important exports—is projected to increase at around 10-15 percent per year, thanks to new investment (Dangote cement opened a new plant in Pout in 2015 to expand its operations in Senegal). Exports of fish products, another important export, are projected to contract in 2016 because of lower prices and then to grow at moderate rates (3–5 percent) thereafter.

[2] The declining path of remittances is consistent with Senegal becoming closer to an emerging market and therefore receiving less remittances.

[3] Senegal averaged about 2.1 percent of GDP in FDI over 2010–14. Over the same period, the average for 47 LICs was 6.1 percent of GDP while that for 20 Sub-Saharan African LICs was 7 percent of GDP.

and the debt service profile is on a stable path, except for 2021 and 2024 when two Eurobonds will come to maturity.

5. The financial sector remains sound despite a higher end-June level of non-performing loans (NPLs). Net domestic credit (97 percent of which is credit to the private sector) expanded by about 7 percent y-o-y at end-June, on track to reach 9.1 percent in 2015. The sector expanded to 26 depository corporations including two new banks which began operations in June and July. Access to financial services rose to 10.4 percent in 2014 (from 8.6 in 2013) and reaches about 50 percent when including microfinance institutions. The relatively high level of NPLs at end-June 2015 (about 23 percent, gross) is partly due to a started but not yet finalized restructuring of loans linked to a few industries. Also, the largest share of these NPLs (provisions excluded) is concentrated in one major foreign bank. After the restructuring, NPLs should substantially decline to about 11 percent.

6. Program performance through October 2015 was satisfactory. All end-June assessment criteria (AC), including the budget deficit target, were met (Table 8). Of the three indicative targets, only the one on tax revenue was missed by about 0.4 percent of GDP. Moreover, all four structural benchmarks (SBs) were met (Table 9).[4]

7. Risks relate to the implementation of structural reforms and fiscal policy. There could be delays in expenditure rationalization as well as revenue shortfalls, if tax reform aimed at improving incentives fails to be revenue neutral. External downside risks include continued volatility in oil prices, which may affect revenue targets and subsidies; more pronounced spillovers from regional shocks, including extremism; and spillovers from slower growth in trading partners, which may affect exports. Furthermore, natural disasters could adversely affect agriculture. The Precautionary Reserve Envelope (PRE), which should be complemented by contingency plans to counter larger fiscal shocks, and the proposed debt anchor should mitigate the impact of these risks on the fiscal balance and preserve the low risk debt position.

Status of Structural Benchmarks for the First PSI Review

Measures	Test Date	Status
Conduct an ex ante, midterm, and ex post evaluation of all projects financed under a public-private partnership (PPP)	Continuous	Ongoing
Eliminate cash tax payments above CFAF 100,000	June 2015	Met
Institutionalize the precautionary management reserve	September 2015	Met
Submit at least 10 investment projects listed in the 2016 budget for cost–benefit analysis	October 2015	Met

[4] The continuous benchmark related to assessing projects financed by public-private partnerships (PPPs) involves assessing at least one project every 6 months starting on 1 July 2015. This is underway and expected to be met for the second review.

POLICY DISCUSSIONS

A. Fiscal Policies

Fiscal policies for 2015

8. The authorities are committed to achieving the 2015 fiscal deficit programmed under the PSI of CFAF 389 billion while continuing streamlining spending on public consumption to boost investment in human capital and infrastructure (MEFP ¶5–7). However, due to lower nominal GDP, as a result of oil price induced reductions in the deflator, the deficit is expected to be 4.8 percent of GDP versus 4.7 percent previously projected. Moreover, the revenue projections for 2015 have been revised downwards by 0.2 percent of GDP. The shortfall is due to (i) the impact of the introduction on 1 January 2015 of the Common External Tariff of the Economic Community of Western African States (ECOWAS); (ii) lower value added tax (VAT) from oil due to the fall in international prices; (iii) under-estimation of VAT credits to telecoms; and (iv) higher tax expenditures in Customs. The authorities are freezing the level of pay supplements at the 2014 level, tightening controls on overtime, capping the number of teachers integrated into the civil service at 4,000, consistent with available budgetary space, and freezing recruitment in non-priority areas. This allows limiting the wage bill to 6.3 percent of GDP in 2015. The deficit target will be achieved by reducing PRE expenditure by 0.2 percent of GDP. A reduction in direct subsidies to SENELEC of 0.2 percent of GDP because of lower oil prices will be offset by higher spending than initially budgeted on integration of teachers (corps émergent) into the Civil Service.

9. The Precautionary Reserve Envelope (PRE) has been institutionalized (MEFP ¶8) and will provide flexibility to accommodate revenue shortfalls. The envelope for 2015, set at 0.7 percent of GDP, was reported in the investment part of the 2015 initial budget law, and 0.5 percent of GDP has been mobilized to fund priority investments that are sufficiently mature (the Route des Niayes, the high-speed regional rail network, low-cost housing, integrated tourist zones). The remaining 0.2 percent of GDP will be used to offset the projected revenue shortfall.

Box 1. Tax Expenditure

Tax expenditures are defined as revenue losses due to preferential tax provisions that provide incentives for economic and social policies, e.g. special exemptions, allowances, deductions, credits, deferrals, reduced tax rates that shield certain taxpayers from tax rules. In Senegal, tax expenditures aim at funding poverty reduction programs and public investment projects under the Investment Code, Mining Code, and development programs.

Senegal is ahead in WAEMU in documenting and publishing tax expenditures. To achieve greater transparency, Senegal publishes tax expenditures and information has been compiled up to 2013). As a consequence the elements are in place to better assess costs and benefits and reform where required.

Since 2010 tax reforms in Senegal have aimed at making the tax system more effective and simpler. In January 2013 a new *Code Général des Impôts* came into force that eliminated almost all separate codes and enclosed tax incentives inside the general provisions of the tax code. However, while the new Tax Code represents a significant improvement from the previous patchwork of tax incentives, significant tax expenditures remain.

Tax expenditure has increased in recent years. After a decline in 2008–09, tax expenditures in 2013 reached 40 percent of revenue and 7.3 percent of GDP. About 60 percent of exemptions target social objectives, 26 percent target economic development, and about 8 percent are benefits granted under the Mining Code.

	Tax Expenditures (bn FCFA)			Percent of Revenue Collected			Percent of GDP		
	2008	**2009**	**2013**	**2008**	**2009**	**2013**	**2008**	**2009**	**2013**
Direct Tax	202	144	208	22.6	17.5	15.6	3.4	2.4	2.8
Indirect Tax	31	41	243	3.4	5.0	18.2	0.5	0.7	3.3
Custom Duties	56	25	61	6.2	3.0	4.6	1.0	0.4	0.8
Other Taxes	7	13	23	0.8	1.5	1.7	0.1	0.2	0.3
Total	**296**	**223**	**534**	**33.0**	**27.0**	**40.0**	**5.0**	**3.7**	**7.3**

It is more efficient for Senegal to improve the investment climate rather than granting tax exemptions. Despite generous incentives and large tax expenditure, FDI and productive private investment are low in Senegal compared with similar developing countries. This indicates that the benefit of each tax expenditure should be evaluated relative to the cost and reform of broader incentives (logistics, infrastructure and regulatory framework) contemplated. Paradoxically, such reforms could be largely financed by eliminating the tax expenditures which have failed to contribute to investment, jobs and growth.

Fiscal Policies for 2016

10. **The 2016 budget deficit target is 4.2 percent of GDP, in line with the program.** The budget submitted to the National Assembly is in line with the program. Public consumption is expected to decline from 17.2 percent of GDP in 2015 to 16.9 in 2016. Lowering public consumption would allow for more productive public investment in both human capital and public infrastructure and crowding in private investment, which in turn would boost growth. This is sufficient to achieve PSI growth targets but less than required to achieve PSE growth objectives which are about

1 percentage point higher. The wage bill will remain at 6.3 percent of GDP while the rest of current and capital expenditure will amount to 10.6 and 11.6 percent of GDP, respectively. Tax base control will be strengthened and revenue collection optimized (MEFP ¶16–17). The authorities will review implementation of the new General Tax Code (Code *général des impôts*) with support from an IMF technical assistance mission. In parallel, they are reviewing tax expenditures to see how these can be rationalized over the next three years to provide more effective incentives. These reviews will make it possible to further streamline and refine the Tax Code. The implementation of the single taxpayer identification number (NINEA) through direct involvement of the *Direction Générale des Impôts et Domaines* (DGID) will facilitate compliance.

11. Streamlining expenditure will continue in 2016 (MEFP ¶19). To control the wage bill, the authorities are (i) cleaning up allowances; (ii) conducting ad hoc audits of sensitive sectors, (iii) eliminating unjustified payments, (iv) computerizing payroll management, (v) taking steps to allow the introduction of performance-based pay, and (vi) strengthening oversight of public hospitals.

12. The PRE will be expanded to include both current and capital expenditure (MEFP ¶23). In the 2016 budget, the PRE amounts to 0.8 percent of GDP and includes both current (0.5 percent of GDP) and capital expenditure (0.3 percent of GDP). Access to these resources is subject to the ministerial departments implementing reforms in their respective areas, particularly higher education, national education, health and social welfare. For the investment budget, the PRE will only be utilized for projects where a feasibility study suggests net social/economic benefits.

13. Investment efficiency, including PPPs, will be strengthened (MEFP ¶20–22). The authorities will focus on improving feasibility studies and socio-economic assessments by establishing an integrated data-bank which will allow following and scrutinizing the lifecycle of all investment projects from ex-ante to ex-post assessments. On PPPs, the authorities will conduct ex-ante assessments of all projects financed under a PPP. Also, a database of existing projects will be compiled and FAD's PPPs Fiscal Risk Assessment Model (P-FRAM), transferred to the authorities during a staff visit, will be used to analyze the fiscal implications of PPP projects.

14. The implementation of the Treasury Single Account (TSA) will be accelerated in 2016 (MEFP ¶27). In the first quarter of 2016, the authorities plan to extend the first-generation TSA, which is limited to the bank accounts of the Treasury. Consolidation of the accounts of other public institutions (second-generation TSA) will be finalized in December 2017.

15. With the elimination of limits on external debt in the program, debt management capacity will be further strengthened (MEFP ¶25). The authorities will: (i) continue to develop a medium-term debt strategy to be appended to the budget; (ii) announce, for the 2016 budget, the planned central government debt ratio path over five years with a commitment to take corrective actions in the following budget (over four years) in case thresholds are exceeded; and (iii) introduce a database and establish a mechanism for monitoring all external and domestic debt by public enterprises.

16. The authorities will continue relying on non-concessional loans to close the financing gap (MEFP ¶24). The preferred course of the authorities is to borrow from development partners, including the AfDB and the World Bank, which not only has the advantage of lower costs and more flexibility on terms but could be accompanied by technical assistance to better prepare PSE projects. However, if these do not materialize or the sums are insufficient to meet the financing needs within the framework of the PSI, loans could be mobilized on international and/or regional financial markets. The resources are expected to be earmarked to investment projects in road infrastructure, energy, water and sanitation. To minimize exchange rate risk, the staff encourages the authorities to issue debt in local currency or Euro wherever possible.

Box 2. Reforms of the Energy Sector

A reform plan was approved in 2015 for the energy sector. It consists of three programs: (i) updating the plan for the generation, distribution and transport of electricity, (ii) reconfiguring the capital of the African Refining Company (SAR), and (iii) rural electrification.

With the appointment of a new CEO of SENELEC the reform plan is being updated with development partners who are expected to finance it. It comprises a new performance contract, a large-scale program of recruitment and voluntary departures and a restructuring of the departments and creating a fuels directorate to prepare a new rational framework for the purchase of petroleum products at the lowest cost. The provisional estimate for the new plan is CFAF 225 billion over three years. This three-year plan has already started with the implementation of an emergency program of almost CFAF 100 billion for the distribution and transport networks for electricity. The plan, combined with lower oil prices, means no direct subsidies to SENELEC next year and a halving of the budgeted subsidy this year, which was already about half the previous level.

The *Société Africaine de Raffinage* (*SAR*) is running its refinery operations at a loss. It receives budgetary subsidies through forgone customs duties on oil products and a margin of support from the Petroleum Product Imports Security Fund (FSIPP). The government, via Petrosen, is currently the major shareholder with 40 percent, followed by the Saudi Ben Laden group with 34 percent and Total with 26 percent. SAR produces only 0.8 million tons of oil products to meet a local demand of 1.8 million tons. An investment project is in preparation to increase its production capacity from 1.2 million tons to 1.6 million tons and SAR intends to call on the government to maintain the margin of support to fund this extension project. Over the last ten years it has only been able to export about CFAF 20 billion a year of distillates while there is a captive annual re-export market to the region of CFAF 200 billion that is has failed to capitalize on.

The program for rural electrification will gain new momentum as part of the Emergency Program for Community Development (EPCD). Coverage in rural areas currently stands at 30 percent, but should reach 60 percent in 2017 and 100 percent by 2025.

B. Financial Sector Policies

17. The financial sector is broadly sound and discussions focused on facilitating access to bank lending, supporting Small- and Medium-Sized Enterprises (SMEs), and ensuring overall stability and deepening of the sector (MEFP ¶30–33). The authorities are committed to (i) developing and implementing a financial education program for SMEs; (ii) putting in place a national financial inclusion strategy in 2016; (iii) continuing to promote the use of banking facilities and non-cash methods of payments; (iv) finalizing the introduction of credit information bureaus in

2015; (v) consolidating the gains made in supporting SMEs through increased involvement of the recently created National Economic Development Bank (*Banque Nationale de Développement Économique – BNDE*) and the Priority Investment Guarantee Fund *(Fonds de Garantie des Investissements Prioritaires – FONGIP)* in supporting SMEs; and (vi) starting to present financial stability indicators on the basis of the latest version of the Manual of Financial and Banking Statistics. The new indicators will improve transparency, allow better monitoring of the stability of the sector and non-performing loans, and prevent unexpected banking difficulties.

18. The authorities were encouraged to accelerate the steps being taken to upgrade the regulatory framework to international standards and to enhance prudential supervision. The steps are aimed at strengthening the resilience of the financial sector including micro-finance institutions. Staff also reinforced the recommendation made by the 2015 regional consultation mission with WAEMU institutions that the authorities proceed expeditiously with plans to raise banks' capital requirements and subject bank holding companies incorporated in the WAEMU to appropriate banking regulation and consolidated supervision. The authorities also should make the deposit insurance operational as a matter of priority and establish a single and independent administrative resolution mechanism to ensure prompt and effective resolution of banks with negative capital.

C. Structural Reforms

19. Progress has been made on key structural reforms under the program but more decisive measures are required if the PSE growth targets are to be met (Box 3). The government agreed in July to take over the troubled Senegal Airlines, largely owned by the private sector, with potential impact on the budget. The authorities will take a decision by end-November 2015 (MEFP ¶12) that will involve either setting up a new airline and liquidating Senegal Airlines or developing a restructuring plan which does not compensate private shareholders for their losses, nor will they receive a share of the company beyond their new capital contribution. Furthermore, the government will look for strategic partners to ensure the successful operation and profitability of the restructured or newly created airline. Such restructuring, or the creation of a new airline, would not involve any fiscal outlay in 2016 and beyond, unless the Government takes responsibility for operational losses, which further argues for a market-based solution.

20. With the objective of strengthening the effectiveness of the public sector, the agency restructuring plan will be updated and strengthened (MEFP ¶9–10). The closure of the 16 agencies identified in the initial reform plan and the merger of 8 other agencies into 3 agencies has not been implemented. Currently, a decree caps the level of pay by category for directors general and executives. By end-December 2015, the authorities will set the maximum levels of pay for the rest of agency staff and update the agency restructuring measures. For those that are to be maintained, agency performance contracts (PCs) will be introduced by 2020. With support from the World Bank, at least (8) PCs will be signed by December 2015 and their implementation will be closely monitored by the authorities. By end-2015, staff at the agencies earmarked for closure will be redeployed and useful functions transferred to other agencies.

Box 3. Reforms Required to Achieve PSE Growth Targets

Senegal's PSE seeks to promote sustained strong growth through economic reforms designed to boost private investment in key strategic sectors. This box highlights key reforms targeted under the PSE and the role that the IMF and World Bank can play in supporting these steps. The (non-exhaustive) list of reforms provided below could add as much as 3–4 percentage points to Senegal's growth potential, setting the country on the path to high, sustained and inclusive growth. Sustained strong growth is feasible, but will require a determined implementation of the PSE and a break with the status quo. Partial implementation of the package could result in a low impact on growth, as a critical mass of reforms is required to unlock the growth rates targeted by the PSE.

Reforms supported by the PSI

- Foster the macroeconomic stability needed for higher levels of private investment.
- Create budget space for required public investment in human capital and public infrastructure. Savings can be found, for example, by reducing subsidies for loss-making enterprises, such as Senegal Airlines and Agencies.
- Improve PFM to promote the effectiveness of public investment.
- Promote reforms to the tax system designed to make it simple and easy to comply with. This will encourage informal SMEs to join the formal sector and will support overall investment and job creation.

Reforms to be supported by the World Bank and other development partners

- Reform the energy sector by: (i) accelerating the restructuring of SENELEC to increase the level of electricity supply and reduce the costs of production; (ii) reorganizing and clarifying the status of the African Refining Company (*Société Africaine de Raffinage*—SAR); and attracting more private investment by making the structure of the sector more transparent.
- Reform the peanut sector in accordance with the development objectives of the PSE and PRACAS (Accelerated Program for Agriculture in Senegal), by rebuilding a competitive oil milling sector involving the introduction of increased competition, the structuring and regulation of smallholders, bringing small-scale oil manufacturing units up to standard, and the implementation of seed legislation to promote the creation of small processing companies and curb exports of unprocessed seeds. The potential ways and means of achieving these outcomes are outlined in the following World Bank study: "*Etude diagnostique de la chaîne de valeurs arachide au Sénégal: Proposition de réformes*".
- Pass a comprehensive land reform, based on best practices but adapted to the realities of the country, in order to establish property rights that would encourage loans and private investment in the agricultural sector. Introduce additional measures to mobilize resources for irrigation and mechanization.
- Labor market reform to protect workers instead of jobs by making it easy to rotate labor for economic reasons whilst supporting job search and training and an unemployment benefit system. Create an investment regime that is based on rules and that emphasizes ex-post verification over ex ante approval so that FDI and SMEs can flourish.
- Finalize the implementation of the tourism sector's reforms, including (i) diversifying supply through the development and enhancement of the tourism potential, (ii) improving the quality of services and labor (iii) improving the promotion of Senegal as popular tourist destination, (iv) developing micro tourism; and (v) improving connectivity to targeted markets.

21. The authorities' oil price policy is to stabilize pump prices. As long as oil prices remain in the range of USD 40 to USD 60 per barrel, the authorities plan not to change prices at the pump. They fixed the margins for intermediaries at the January 2015 level. Price fluctuations outside this band will be passed on to consumers. Staff encourages the authorities to bring transparency to the taxation of petroleum products by abolishing special levies in favor of transfers transparently shown in the budget. These proposals will be discussed at the next review.

22. Finalization of land reform will be expedited (MEFP ¶34) and local governments will be supported to promote investment opportunities. Comprehensive land reform proposals are expected by year end from an independent commission. Meanwhile, the Program for the Inclusive and Sustainable Development of Agribusiness (*Programme de développement inclusif et durable de l'agrobusiness* – PDIDAS) provides for technical assistance for rural communities to enable them to allocate land to private operators according to an inclusive, transparent, and competitive process.

23. Implementation is supported through peer-learning. The authorities have begun working with peer countries to learn from their successes and failures. They have had meetings with their Mauritian counterparts to identify reforms that would help attract FDI and have also signed an agreement in this area with the Board of Investment of Mauritius. In January 2016, Fund staff will facilitate a continuation of the dialogue with Cape Verde, Mauritius and Seychelles, and perhaps extend this to other middle-income countries if authorities and IMF funding is available.

PROGRAM MONITORING

24. Quantitative ACs for 2015 and 2016 remain broadly as initially programmed and understandings were reached with the authorities on new SBs as well as on modification of existing SBs. The new SBs relate to establishing an integrated projects bank that will cover the lifecycle of projects (end-June 2016 SB), and the introduction of a medium-term budget framework (end-March 2017 SB). The benchmarks on PPP evaluations and on the establishment of the Treasury Single Account (TSA) have also been clarified to remove ambiguities of interpretation.

25. In line with the Fund's new debt limits policy, the authorities are requesting to remove the AC on external non-concessional borrowing (ENCB). Senegal remains at low risk of debt distress, has adequate debt monitoring capacity, and comprehensive and reliable fiscal data for monitoring the program. The authorities are committed to gradually lowering the overall deficit, which is subject to an AC. Moreover, a debt anchor will be enshrined in the budget process starting with the 2016 budget (end-December 2015 SB). Furthermore, no government guarantee can be authorized without the signature of the Minister of Finance and all information on guaranteed external debt is available and published by the Ministry of Finance. Staff recommends a better recognition and control of contingent liabilities arising from PPP projects.

26. The authorities propose to eliminate the continuous benchmark on evaluation of PPP projects going forward. Risks from PPPs remain an area of concern and the authorities are committed to ensuring that PPP projects are properly evaluated. Consistent with the benchmark, the authorities have evaluated one PPP project, the *Train Express Regional*, and are committed to continuing the practice. To support this goal, the government has adopted the IMF's new P-FRAM tool for analyzing the fiscal impact of PPPs. This tool will be applied to new PPPs, including in the context of the newly introduced PRE. Given these institutional advances, the broad goals of the benchmark have been achieved, and staff will continue to discuss and support the implementation of the PPP evaluation policy rather than requiring continuous monitoring of its application. This will free up resources for other PFM goals, including the establishment of an integrated project bank which describes the lifecycle of the projects and the introduction of the medium-term budget framework.

27. On finalizing the TSA, the authorities propose to modify the benchmark to better reflect the practicality of its implementation. Finalizing the TSA requires multiple steps, and the earlier benchmark to "finalize" the TSA in December 2015 referred only to the start of the process. The authorities intend to accelerate implementation of the TSA to the extent possible. More specifically, in the first quarter of 2016, the authorities plan to extend the first generation TSA, which is limited to the bank accounts of the Treasury: As a result, by end-June 2016, TSA coverage will include the bank accounts of the network of accounting officials of public agencies and institutions. Consolidation of the accounts of other public institutions (second-generation TSA) will be finalized in December 2017.

STAFF APPRAISAL

28. Senegal's macroeconomic performance has been favorable and the PSI objectives are within reach. Growth has begun to break with the historical average of 3–3.5 percent of the last 30 years to stand at 4.7 percent in 2014 and 5.1 percent in 2015. The 5.9 percent growth rate targeted under the PSI is realistic provided action on tackling rents and opening up the economy can be accelerated. Inflation remains contained and fiscal deficits are declining and expected to reach the WAEMU convergence criteria of 3 percent of GDP by 2018, a year ahead of schedule.

29. Staff welcomes the authorities' intention to keep the 2015 and 2016 fiscal deficit targets in line with the program. For 2015, the commitment to use the space created by the PRE to adjust expenditure in the event of an end-year shortfall in tax revenue is welcome and the authorities are encouraged to continue with their prudent execution of the budget. The shortfall in tax revenue registered at end-June suggests that strong policy responses to raise revenue and control expenditure are needed to ensure continued fiscal consolidation. Action on tax expenditures will be important to safeguard revenues and to open up the economy to achieve the high growth targets of the PSE. For the 2016 budget, the measures envisaged to raise revenue and control expenditure will need to be solidified to ensure meeting the 4.2 percent of GDP deficit target. Energy subsidies should be kept at the level realized through June 2015 and eliminated altogether in 2016.

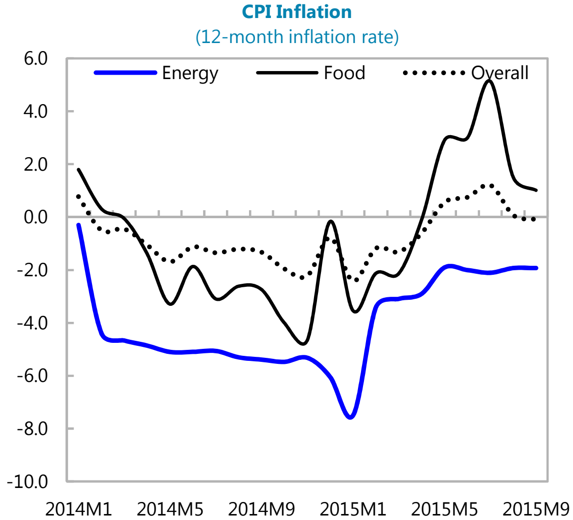
30. The authorities' decision to expand and institutionalize the PRE, adopt a debt anchor, and operationalize the P-FRAM toolkit is commendable. These instruments will ensure more efficient public investment, better productivity, and overall macroeconomic stability. However, their successful implementation will require concerted efforts involving all concerned departments within the key ministries. Also, the collaborative hands-on work started on the PRE, the P-FRAM toolkit and debt anchor between Fund staff and the authorities will need to continue so as to sustain the gains achieved so far in program implementation and monitoring.

31. It is critical to tackle rent seeking and continue to reform agencies, the energy sector and enterprises in difficulty. The success of fiscal consolidation plans and achieving the growth targets of the PSE will partly depend on the transparency and accountability under which government agencies and other public enterprises function. It will also depend on whether the ailing energy sector becomes efficient and viable to fully be at the service of promoting the growth of SMEs and FDI. The plan to restructure Senegal Airlines needs to be implemented forcefully and as announced. Effectively resolving the issue without imposing an unnecessary burden on taxpayers will have a positive impact on public finances and enhance the authorities' credibility on governance.

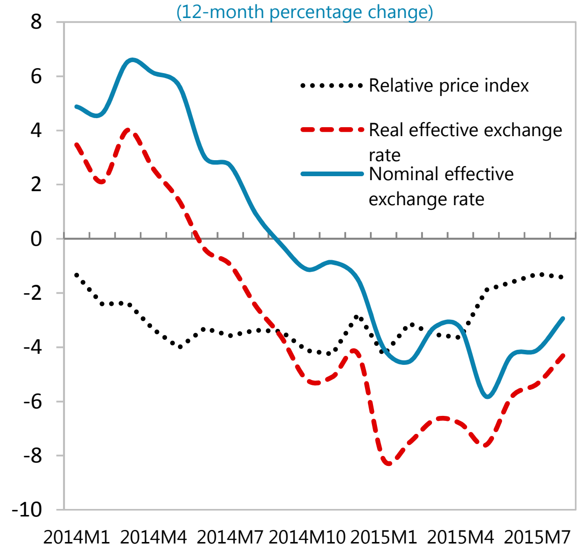
32. Staff recommends completion of the first PSI review and supports the authorities' request for modification of the Assessment Criterion on external non-concessional borrowing.

Figure 1. Senegal: Recent Developments: High Frequency Indicators

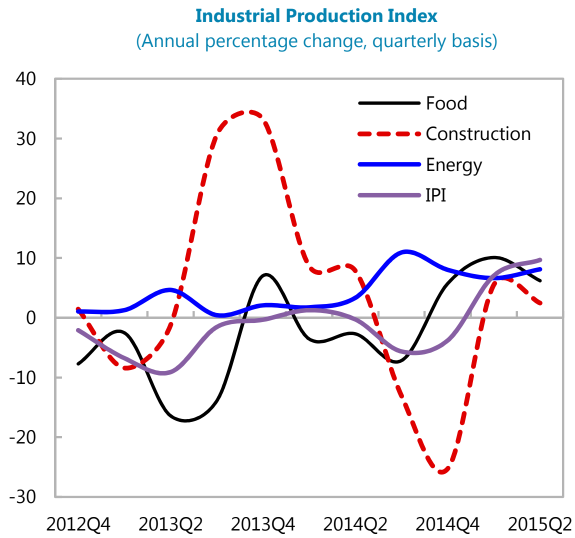
After being in the negative territory for more than a year, inflation picked up in May and June of 2015, driven by food price inflation.

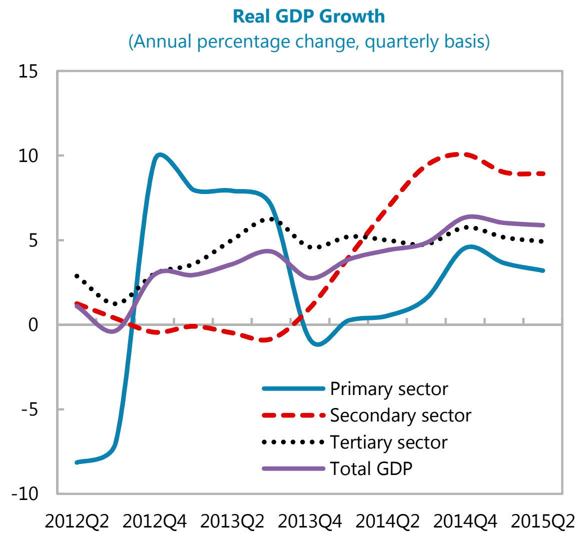


Senegal gained some price competitiveness owing to real depreciation.



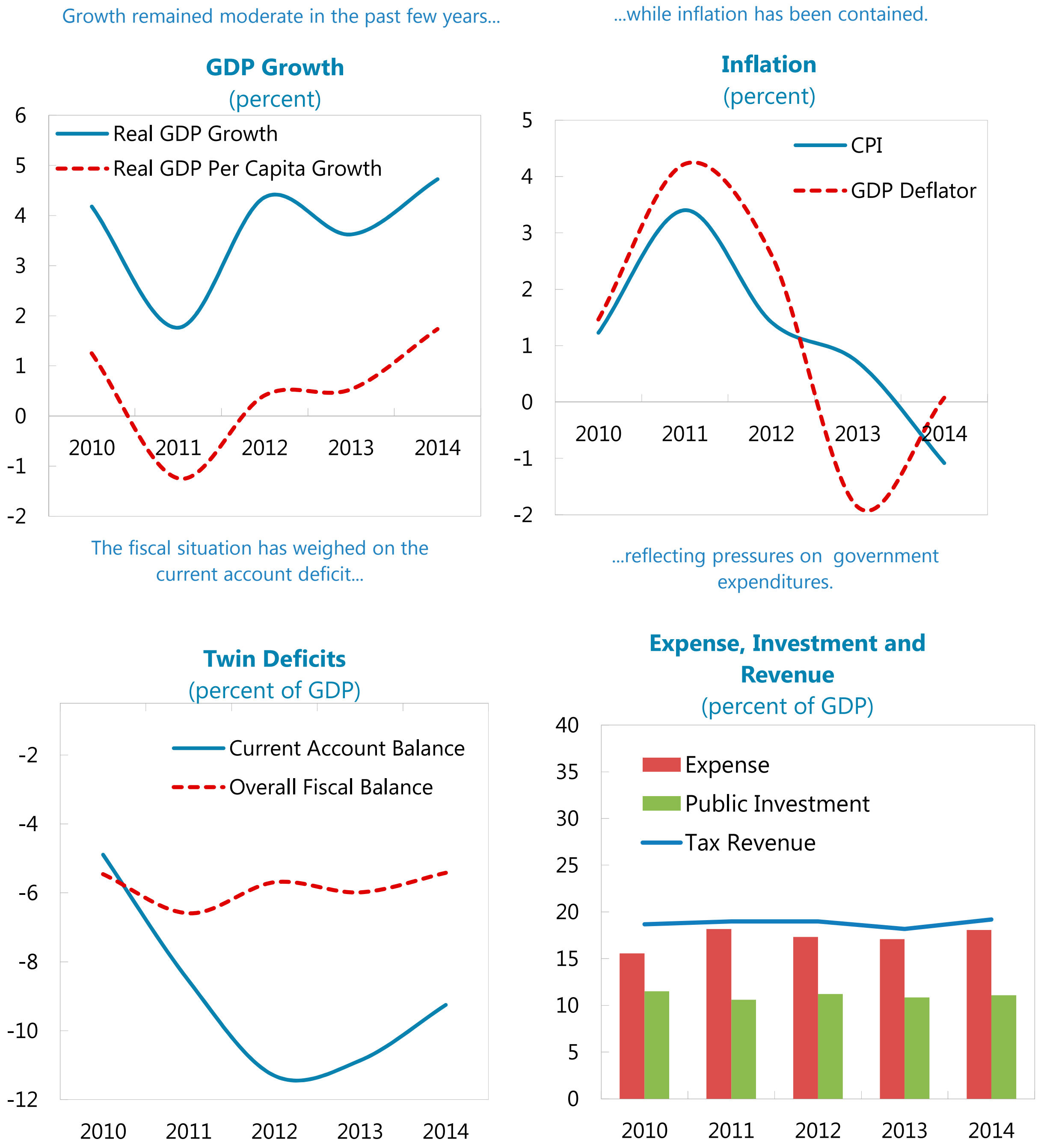
Growth is driven by the secondary and tertiary and, more recently, the primary sectors.





Sources: Senegal authorities; and IMF staff calculations.

Figure 2. Senegal: Recent Developments

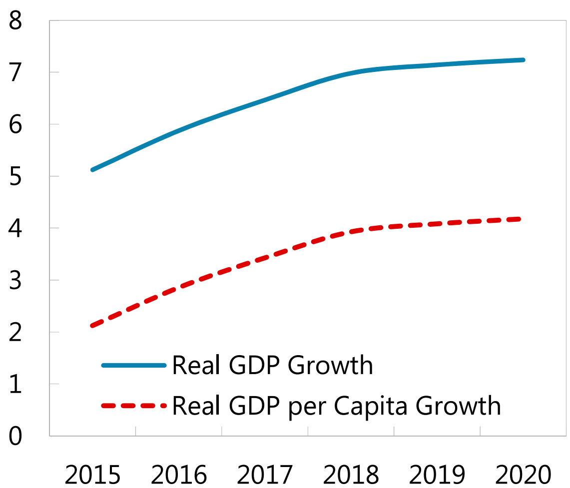


Sources: Senegal authorities; and IMF staff calculations.

Figure 3. Senegal: Near and Medium-Term Projections

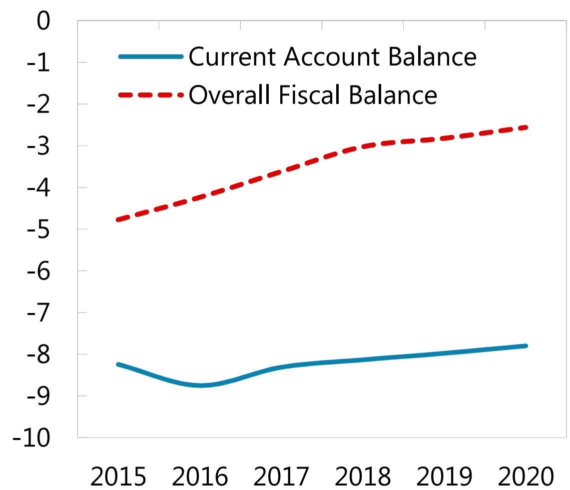
Growth is expected to pick up gradually while inflation would remain moderate.

GDP Growth
(percent)



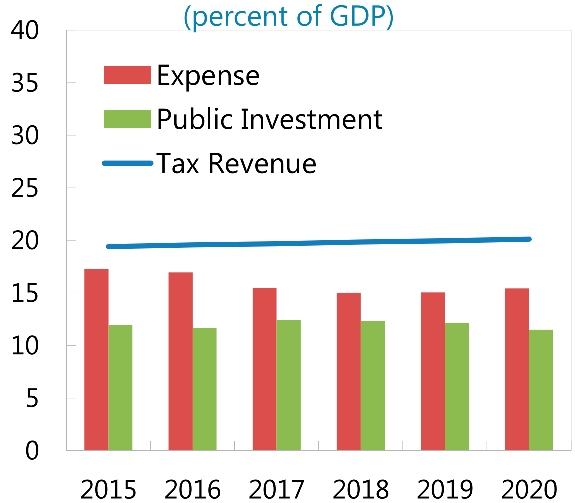
Fiscal consolidation would help reduce external vulnerability.

Twin Deficits
(percent of GDP)



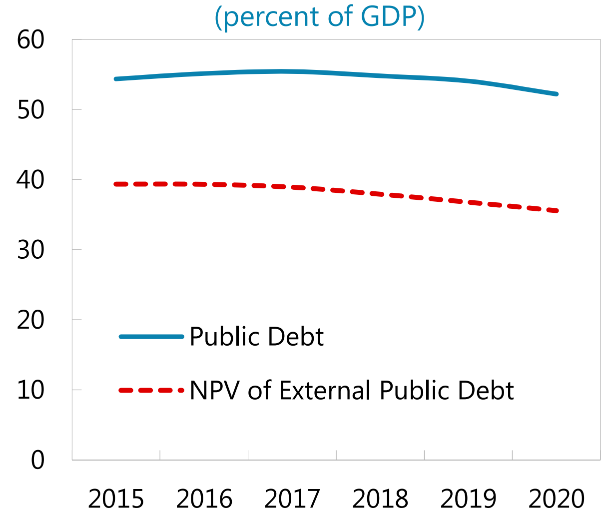
Fiscal consolidation is predicated on expenditure and revenue measures...

Expense, Investment and Revenue
(percent of GDP)



...which would keep Senegal at low risk of debt distress.

Debt
(percent of GDP)



Sources: Senegal authorities; and IMF staff calculations.

Table 1. Senegal: Selected Economic and Financial Indicators, 2013–20

	2013	2014	2015		2016		2017	2018	2019	2020
			CR		CR					
	Act.	Est.	15/273	Proj.	15/273	Proj.	Projections			
	(Annual percentage change)									
National income and prices										
GDP at constant prices	3.6	4.7	5.1	5.1	5.9	5.9	6.4	7.0	7.1	7.2
Of which: nonagriculture GDP	3.9	4.7	5.0	5.3	5.8	5.8	6.4	7.0	7.1	7.1
GDP deflator	-1.9	0.1	1.4	0.2	2.3	1.8	1.5	1.6	1.7	1.8
Consumer prices										
Annual average	0.7	-1.1	-0.9	-0.5	1.5	1.3	1.3	1.3	1.3	1.3
End of period	-0.1	-0.8	0.8	1.2	1.4	1.3	1.3	1.3	1.3	1.3
External sector										
Exports, f.o.b. (CFA francs)	1.5	3.5	3.8	3.1	5.3	3.6	8.1	7.9	7.5	9.5
Imports, f.o.b. (CFA francs)	0.8	-1.1	4.1	2.4	5.6	5.8	6.4	6.7	7.0	6.1
Export volume	9.3	5.7	6.0	5.9	7.3	5.5	6.6	6.5	5.9	7.7
Import volume	2.1	3.9	6.8	9.6	5.7	6.4	6.1	7.1	7.2	6.5
Terms of trade ("–" = deterioration)	-6.0	2.9	0.5	4.2	-1.8	-1.3	1.1	1.7	1.7	2.1
Nominal effective exchange rate	4.1	2.5	...	...	...	...	...	...	...	...
Real effective exchange rate	2.2	-0.7	...	...	...	...	...	...	...	...
	(Changes in percent of beginning-of-year broad money, unless otherwise indicated)									
Broad money	8.0	11.4	7.7	6.5	7.7	7.1	...	...	...	...
Net domestic assets	8.8	6.1	7.3	4.5	10.2	8.4	...	...	...	...
Domestic credit	11.3	2.8	9.4	9.4	7.5	7.1	...	...	...	...
Credit to the government (net)	2.0	-2.6	0.5	0.5	-1.1	-1.1	...	...	...	...
Credit to the economy (net) (percentage growth)	12.6	6.4	9.0	9.1	9.2	8.7	...	...	...	...
	(Percent of GDP, unless otherwise indicated)[1]									
Government financial operations										
Revenue	22.5	24.2	24.3	24.4	24.2	24.3	24.3	24.3	24.4	24.4
Grants	2.5	3.3	2.9	2.9	2.9	3.0	2.9	2.8	2.8	2.5
Total expenditure	27.9	29.2	29.0	29.2	28.4	28.6	27.9	27.3	27.2	27.0
Net lending/borrowing (Overall Balance)										
excluding grants	-8.0	-8.3	-7.4	-7.1	-6.6	-7.6	-7.0	-6.4	-6.0	-2.9
including grants	-5.5	-4.9	-4.7	-4.8	-4.2	-4.2	-3.6	-3.0	-2.8	-2.6
Primary fiscal balance	-3.9	-3.2	-2.9	-2.9	-2.4	-2.4	-1.9	-1.3	-1.3	-0.5
Savings and investment										
Current account balance (official transfers included)	-10.4	-8.8	-8.0	-8.2	-7.2	-8.7	-8.3	-8.1	-8.0	-7.8
Current account balance (official transfers excluded)	-11.1	-9.6	-9.1	-9.2	-8.4	-9.7	-9.3	-9.1	-8.9	-8.6
Gross domestic investment	27.9	27.9	26.9	26.9	27.1	27.0	27.7	27.9	27.1	27.5
Government[1]	6.1	7.4	6.8	6.8	7.3	7.1	7.5	7.4	7.3	6.4
Nongovernment	21.8	20.5	20.1	20.2	19.8	19.9	20.1	20.6	19.8	21.0
Gross national savings	17.5	19.1	18.8	18.7	19.9	18.3	19.4	19.8	19.1	19.7
Government	0.6	1.7	2.4	2.4	2.8	2.7	3.8	4.4	4.5	4.3
Nongovernment	16.9	17.4	16.5	16.3	17.1	15.5	15.5	15.4	14.7	15.3
Total public debt	46.6	53.2	55.0	54.4	56.0	55.1	55.4	54.8	57.3	55.1
Domestic public debt[2]	14.3	13.8	19.2	15.0	18.2	15.8	16.5	16.9	11.7	9.4
External public debt	32.4	39.5	35.7	39.3	37.8	39.3	38.9	37.9	45.6	45.7
External public debt service										
Percent of exports	6.5	7.4	9.7	9.6	10.0	10.0	9.7	10.3	10.6	11.4
Percent of government revenue	9.2	10.4	12.8	12.8	12.8	12.9	12.4	13.0	12.9	13.6
Memorandum item:										
Gross domestic product (CFAF billions)[2]	7,387	7,742	8,251	8,157	8,946	8,792	9,497	10,322	11,243	12,273

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

[1] Reflects reclassification of public investment.

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

Table 2. Senegal: Balance of Payments, 2014–20
(in Billions of CFAF)

	2013	2014	2015	2016	2017	2018	2019	2020
	Act.	Est.	Projections					
	(Billions of CFAF, unless otherwise indicated)							
Current account	-766	-678	-672	-769	-789	-839	-897	-957
Balance on goods	-1,471	-1,390	-1,414	-1,530	-1,603	-1,689	-1,797	-1,839
Exports, f.o.b.	1,423	1,473	1,518	1,573	1,700	1,834	1,972	2,159
Imports, f.o.b.	-2,893	-2,863	-2,932	-3,103	-3,303	-3,523	-3,768	-3,998
Services and incomes (net)	-216	-257	-282	-313	-324	-341	-357	-445
Credits	797	817	834	867	904	945	989	1,034
Debits	-1,013	-1,074	-1,116	-1,179	-1,227	-1,286	-1,346	-1,479
Of which: interest on public debt	-65	-76	-93	-101	-94	-96	-92	-150
Unrequited current transfers (net)	921	970	1,023	1,074	1,137	1,191	1,257	1,326
Private (net)	878	917	964	996	1,053	1,112	1,174	1,240
Public (net)	43	53	58	77	85	79	83	86
Of which: budgetary grants	20	40	45	58	62	66	70	74
Capital and financial account	744	897	788	822	814	878	939	1,019
Capital account	176	218	204	209	220	232	245	257
Private capital transfers	7	7	7	7	8	8	8	8
Project grants	168	213	200	204	215	227	240	252
Debt cancellation and other transfers	1	-2	-3	-3	-3	-3	-3	-3
Financial account	569	679	584	613	594	646	694	761
Direct investment	152	163	196	216	208	228	203	207
Portfolio investment (net)	-81	360	59	42	-43	-44	18	-221
Of which: Eurobond issuance	0	250	0	0	0	0	0	0
Other investment	498	156	329	355	429	461	473	775
Public sector (net)	209	97	205	277	255	234	217	239
Of which: disbursements	273	207	279	358	371	366	382	398
program loans	53	54	68	73	79	85	93	100
project loans	167	54	211	214	222	230	239	248
other	53	98	0	70	70	50	50	50
amortization	-80	-109	-74	-81	-116	-132	-165	-160
Private sector (net)	215	-105	124	78	173	227	256	536
Errors and omissions	74	164	0	0	0	0	0	0
Overall balance	-21	220	116	52	25	39	42	61
Financing	21	-220	-116	-52	-25	-39	-42	-61
Net foreign assets (BCEAO)	11	-100	-116	-52	-25	-39	-42	-61
Net use of IMF resources	-3	-9	-19	-21	-20	-20	-13	-3
Purchases/disbursements	0	0	0	0	0	0	0	0
Repurchases/repayments	-3	-9	-19	-21	-20	-20	-13	-3
Other	14	-92	-97	-31	-4	-19	-29	-59
Deposit money banks	10	-119	0	0	0	0	0	0
Residual financing gap	0	0	0	0	0	0	0	0
Memorandum items:								
Current account balance								
Including current official transfers (percent of GDP)	-10.4	-8.8	-8.2	-8.7	-8.3	-8.1	-8.0	-7.8
Excluding current official transfers (percent of GDP)	-11.1	-9.6	-9.2	-9.7	-9.3	-9.1	-8.9	-8.6
Gross official reserves (imputed reserves, billions of US$)	2.2	2.1	2.1	2.2	2.3	2.4	2.5	2.6
(percent of broad money)	33.1	32.6	33.7	32.8	30.9	29.3	27.7	26.3
WAEMU gross official reserves (billions of US$)	13.6	13.2	…	…	…	…	…	…
(percent of broad money)	40.6	41.8	…	…	…	…	…	…
Gross domestic product	7,387	7,742	8,157	8,792	9,497	10,322	11,243	12,273

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

Table 3. Senegal: Balance of Payments, 2013–20
(in Percent of GDP)

	2013	2014	2015	2016	2017	2018	2019	2020
	Act.	Est.	Projections					
	(Percent of GDP, unless otherwise indicated)							
Current account	-10.4	-8.8	-8.2	-8.7	-8.3	-8.1	-8.0	-7.8
Balance on goods	-19.9	-18.0	-17.3	-17.4	-16.9	-16.4	-16.0	-15.0
Exports, f.o.b.	19.3	19.0	18.6	17.9	17.9	17.8	17.5	17.6
Imports, f.o.b.	-39.2	-37.0	-35.9	-35.3	-34.8	-34.1	-33.5	-32.6
Services and incomes (net)	-2.9	-3.3	-3.5	-3.6	-3.4	-3.3	-3.2	-3.6
Credits	10.8	10.6	10.2	9.9	9.5	9.2	8.8	8.4
Debits	-13.7	-13.9	-13.7	-13.4	-12.9	-12.5	-12.0	-12.1
Of which: interest on public debt	-0.9	-1.0	-1.1	-1.2	-1.0	-0.9	-0.8	-1.2
Unrequited current transfers (net)	12.5	12.5	12.5	12.2	12.0	11.5	11.2	10.8
Private (net)	11.9	11.8	11.8	11.3	11.1	10.8	10.4	10.1
Public (net)	0.6	0.7	0.7	0.9	0.9	0.8	0.7	0.7
Of which: budgetary grants	0.3	0.5	0.6	0.7	0.7	0.6	0.6	0.6
Capital and financial account	10.1	11.6	9.7	9.3	8.6	8.5	8.4	8.3
Capital account	2.4	2.8	2.5	2.4	2.3	2.2	2.2	2.1
Private capital transfers	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Project grants	2.3	2.8	2.5	2.3	2.3	2.2	2.1	2.1
Debt cancellation and other transfers	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	7.7	8.8	7.2	7.0	6.3	6.3	6.2	6.2
Direct investment	2.1	2.1	2.4	2.5	2.2	2.2	1.8	1.7
Portfolio investment (net)	-1.1	4.7	0.7	0.5	-0.4	-0.4	0.2	-1.8
Of which: Eurobond issuance	0.0	3.2	0.0	0.0	0.0	0.0	0.0	0.0
Other investment	6.7	2.0	4.0	4.0	4.5	4.5	4.2	6.3
Public sector (net)	2.8	1.3	2.5	3.1	2.7	2.3	1.9	1.9
Of which: disbursements	3.7	2.7	3.4	4.1	3.9	3.5	3.4	3.2
program loans	0.7	0.7	0.8	0.8	0.8	0.8	0.8	0.8
project loans	2.3	0.7	2.6	2.4	2.3	2.2	2.1	2.0
other	0.7	1.3	0.0	0.8	0.7	0.5	0.4	0.4
amortization	-1.1	-1.4	-0.9	-0.9	-1.2	-1.3	-1.5	-1.3
Private sector (net)	2.9	-1.4	1.5	0.9	1.8	2.2	2.3	4.4
Errors and omissions	1.0	2.1	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-0.3	2.8	1.4	0.6	0.3	0.4	0.4	0.5
Financing	0.3	-2.8	-1.4	-0.6	-0.3	-0.4	-0.4	-0.5
Net foreign assets (BCEAO)	0.2	-1.3	-1.4	-0.6	-0.3	-0.4	-0.4	-0.5
Net use of IMF resources	0.0	-0.1	-0.2	-0.2	-0.2	-0.2	-0.1	0.0
Purchases/disbursements	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repurchases/repayments	0.0	-0.1	-0.2	-0.2	-0.2	-0.2	-0.1	0.0
Other	0.2	-1.2	-1.2	-0.4	0.0	-0.2	-0.3	-0.5
Deposit money banks	0.1	-1.5	0.0	0.0	0.0	0.0	0.0	0.0
Residual financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum item:								
Gross domestic product (CFAF billions)	7,387	7,742	8,157	8,792	9,497	10,322	11,243	12,273

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

Table 4. Senegal: Central Government Operations, GFSM 2001 Classification, 2014–20[1]

(in Billions of CFAF)

	2014			2015	2016	2017	2018	2019	2020
	Act.	Budget	CR 15/273	Prog.	Proj.		Projections		
				(in CFAF billions)					
Revenue	1,877	1,978	2,004	1,991	2,141	2,304	2,511	2,739	2,994
Taxes	1,483	1,602	1,595	1,583	1,720	1,868	2,049	2,243	2,471
Taxes on income, profits, and capital gains	402	444	437	432	488	541	619	708	776
Taxes on payroll and workforce	21	18	18	18	20	20	22	25	34
Taxes on property	27	25	25	24	25	26	25	26	23
Taxes on goods and services	786	844	838	835	887	961	1,040	1,127	1,255
Taxes on international trade and transactions	219	243	226	222	244	263	273	289	309
Other taxes	28	28	52	52	57	57	69	67	74
Grants	253	229	240	240	262	277	293	310	305
Budget	40	35	40	40	58	62	66	70	53
Projects	213	194	200	200	204	215	227	240	252
Other revenue	141	147	169	168	158	159	168	187	218
Expenditure	2,258	2,353	2,393	2,380	2,513	2,648	2,823	3,056	3,308
Expense	1,400	1,391	1,417	1,407	1,490	1,469	1,550	1,693	1,896
Compensation of employees	490	510	526	526	556	570	619	675	736
Use of goods and services	361	371	375	368	375	361	392	427	466
Interest	131	148	151	151	164	164	173	172	258
Foreign	63	74	77	77	86	79	82	79	137
Domestic	68	74	74	74	79	85	91	94	122
Subsidies 2/	60	79	40	3	20	0	0	0	0
of which: subsidies to SENELEC financed by FSE	22	47	13	0	20	0	0	0	0
of which: SENELEC from budget	0	19	27	3	0	0	0	0	0
of which: Fuel subsidies	12	13	0	0	0	0	0	0	0
Grants (current excl. FSE)	174	177	177	198	206	189	171	199	200
Social benefits	30	26	26	26	27	29	32	35	37
Other expense	154	80	122	135	142	156	163	185	198
Net acquisition of nonfinancial assets	858	962	976	974	1,023	1,179	1,273	1,363	1,412
Net lending/borrowing *(Overall balance)*	-381	-376	-389	-389	-372	-344	-312	-317	-314
Transactions in financial assets and liabilities (Financing)	-381	-376	-389	-389	-372	-344	-312	-317	-314
Net acquisition of financial assets	120	-64	-87	-58	41	61	68	79	10
Domestic	120	-64	-87	-58	41	61	68	79	10
Currency and deposits	96	-74	-88	-88	10	10	10	10	10
Debt securities	13	10	0	0	0	0	0	0	0
Loans	0	0	0	0	0	0	0	0	0
Other accounts receivable	11	0	0	29	31	51	58	69	0
Net incurrence of liabilities	501	312	301	331	413	405	380	396	324
Domestic	-109	-8	-108	-108	-15	-26	8	-91	51
FMI and SDRs	-21	...	-27	-27	-30	-29	-29	-22	-11
Debt securities (net)	24		-39	-39	15	2	36	-69	62
Loans	46	-36	-42	-42	0	0	0	0	0
Other accounts payable	-159	-99	0	0	0	0	0	0	0
Foreign	610	320	410	439	428	431	372	488	273
Debt securities (net)	341	105	193	241	151	176	138	271	35
T-bills and bonds issued in WAEMU	91	...	193	241	151	176	138	271	35
Eurobond	250	...	0	0	0	0	0	0	0
Loans	112	215	217	205	277	255	234	217	238
Program loans	54	...	68	68	73	79	85	93	100
Project loans	54	...	211	211	214	222	230	239	248
Nonconcessional loans	98	...	0	0	56	42	12	-8	3
Other	-94	...	-62	-74	-67	-88	-94	-106	-113
Other accounts payable	157	...	0	-7	0	0	0	0	0
Errors and omisions	0	0	0	0	0	0	0	0	0
Memorandum items:									
Change in net worth: Transactions	477	587	587	584	651	835	961	1,046	1,098
Net lending /borrowing *(excluding grants)*	477	587	587	584	651	835	961	1,046	1,098
Nominal GDP	7,742	8,229	8,251	8,157	8,792	9,497	10,322	11,243	12,273

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

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

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

Table 5. Senegal: Central Government Operations, GFSM 2001 Classification, 2014–20[1]

(in Percent of GDP)

	2014	2015			2016		2017	2018	2019	2020
	Act.	Budget	CR 15/273	Prog.	CR 15/273	Proj.	Projections			
	(Percent of GDP, unless otherwise indicated)									
Revenue	24.2	24.0	24.3	24.4	24.2	24.3	24.3	24.3	24.4	24.4
Taxes	19.2	19.5	19.3	19.4	19.5	19.6	19.7	19.9	20.0	20.1
Taxes on income, profits, and capital gains	5.2	5.4	5.3	5.3	5.6	5.6	5.7	6.0	6.3	6.3
Taxes on payroll and workforce	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3
Taxes on property	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.2	0.2	0.2
Taxes on goods and services	10.2	10.3	10.1	10.2	10.0	10.1	10.1	10.1	10.0	10.2
Taxes on international trade and transactions	2.8	3.0	2.7	2.7	2.8	2.8	2.8	2.6	2.6	2.5
Other taxes	0.4	0.3	0.6	0.6	0.6	0.6	0.6	0.7	0.6	0.6
Grants	3.3	2.8	2.9	2.9	2.9	3.0	2.9	2.8	2.8	2.5
Budget	0.5	0.4	0.5	0.5	0.6	0.7	0.7	0.6	0.6	0.4
Projects	2.8	2.4	2.4	2.5	2.3	2.3	2.3	2.2	2.1	2.1
Other revenue	1.8	1.8	2.0	2.1	1.7	1.8	1.7	1.6	1.7	1.8
Expenditure	29.2	28.6	29.0	29.2	28.4	28.6	27.9	27.3	27.2	27.0
Expense	18.1	16.9	17.2	17.2	16.7	16.9	15.5	15.0	15.1	15.4
Compensation of employees	6.3	6.2	6.4	6.4	6.2	6.3	6.0	6.0	6.0	6.0
Use of goods and services	4.7	4.5	4.5	4.5	4.2	4.3	3.8	3.8	3.8	3.8
Interest	1.7	1.8	1.8	1.8	1.8	1.9	1.7	1.7	1.5	2.1
Foreign	0.8	0.9	0.9	0.9	1.0	1.0	0.8	0.8	0.7	1.1
Domestic	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.8	1.0
Subsidies 2/	0.8	1.0	0.5	0.0	0.2	0.2	0.0	0.0	0.0	0.0
of which: subsidies to SENELEC financed by FSE	0.3	0.6	0.2	0.0	0.0	0.2	0.0	0.0	0.0	0.0
of which: SENELEC from budget	0.0	0.2	0.3	0.0	0.2	0.0	0.0	0.0	0.0	0.0
of which: Fuel subsidies	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
of which: Food subsidies	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
other	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants (current excl. FSE)	2.3	2.1	2.1	2.4	2.4	2.3	2.0	1.7	1.8	1.6
Social benefits	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Other expense	2.0	1.0	1.5	1.7	1.5	1.6	1.6	1.6	1.6	1.6
Net acquisition of nonfinancial assets	11.1	11.7	11.8	11.9	11.7	11.6	12.4	12.3	12.1	11.5
Domestically financed	1.3	2.3	2.5	2.5	2.5	2.2	2.7	2.8	2.9	2.8
Government's grants financed	4.8	4.4	4.4	4.5	4.4	4.4	5.1	4.8	4.4	3.5
Externally financed	5.0	4.9	4.9	5.0	4.9	5.0	4.6	4.7	4.8	5.2
Net lending/borrowing *(Overall balance)*	-4.9	-4.6	-4.7	-4.8	-4.2	-4.2	-3.6	-3.0	-2.8	-2.6
Transactions in financial assets and liabilities (Financing)	-4.9	-4.6	-4.7	-4.8	-4.2	-4.2	-3.6	-3.0	-2.8	-2.6
Net acquisition of financial assets	1.6	-0.8	-1.1	-0.7	0.1	0.5	0.6	0.7	0.7	0.1
Domestic	1.6	-0.8	-1.1	-0.7	0.1	0.5	0.6	0.7	0.7	0.1
Currency and deposits	1.2	-0.9	-1.1	-1.1	0.1	0.1	0.1	0.1	0.1	0.1
Debt securities	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts receivable	0.1	0.0	0.0	0.4	0.0	0.3	0.5	0.6	0.6	0.0
Net incurrence of liabilities	6.5	3.8	3.7	4.1	4.3	4.7	4.3	3.7	3.5	2.6
Domestic	-1.4	-0.1	-1.3	-1.3	-0.2	-0.2	-0.3	0.1	-0.8	0.4
FMI and SDRs	-0.3	...	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.2	-0.1
Debt securities (net)	0.3	...	-0.5	-0.5	0.2	0.2	0.0	0.3	-0.6	0.5
Loans	0.6	-0.4	-0.5	-0.5	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts payable	-2.0	-1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign	7.9	3.9	5.0	5.4	4.5	4.9	4.5	3.6	4.3	2.2
Debt securities (net)	4.4	1.3	2.3	3.0	1.3	1.7	1.9	1.3	2.4	0.3
T-bills and bonds issued in WAEMU	1.2	...	2.3	3.0	1.3	1.7	1.9	1.3	2.4	0.3
Eurobond	3.2	...	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	1.5	2.6	2.6	2.5	3.2	3.1	2.7	2.3	1.9	1.9
Program loans	0.7	...	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Project loans	0.7	...	2.6	2.6	2.4	2.4	2.3	2.2	2.1	2.0
Nonconcessional loans	1.3	...	0.0	0.0	0.6	0.6	0.4	0.1	-0.1	0.0
Other	-1.2	...	-0.7	-0.9	-0.7	-0.8	-0.9	-0.9	-0.9	-0.9
Other accounts payable	2.0	...	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omisions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Change in net worth: Transactions	6.2	7.1	7.1	7.2	7.5	7.4	8.8	9.3	9.3	8.9
Net lending /borrowing *(excluding grants)*	6.2	7.1	7.1	7.2	7.5	7.4	8.8	9.3	9.3	8.9
Nominal GDP	7,742	8,229	8,251	8,156.70	8,946	8,792	9,497	10,322	11,243	12,273

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

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

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

Table 6. Senegal: Monetary Survey, 2012–16

	2012	2013	2014	2015	2016
			Act.	Proj.	
			(Billions of CFAF)		
Net foreign assets	879	858	1,078	1,193	1,246
BCEAO	776	764	865	980	1,033
Commercial banks	104	94	213	213	213
Net domestic assets	2,016	2,269	2,407	2,516	2,727
Net domestic credit	2,240	2,565	2,638	2,886	3,089
Net credit to the government[1]	97	151	70	86	46
Central bank	-38	21	-75	-14	-54
Commercial banks	130	124	142	100	100
Other institutions	5	5	13	13	13
Credit to the economy	2,144	2,414	2,568	2,800	3,044
Other items (net)	-224	-297	-231	-231	-231
Broad money	2,896	3,127	3,485	3,709	3,973
Currency outside banks	585	620	685	627	623
Total deposits	2,310	2,507	2,799	2,880	3,075
Demand deposits	1,192	1,358	1,430	1,574	1,711
Time deposits	1,118	1,150	1,370	1,306	1,364
	(Change in percentage of beginning-of-period broad money stock)				
Net foreign assets	-1.9	-0.7	7.0	3.3	1.4
BCEAO	1.8	-0.4	3.2	3.3	1.4
Commercial banks	-3.7	-0.3	3.8	0.0	0.0
Net domestic assets	8.7	8.8	4.4	3.1	5.7
Net credit to the government[1]	-2.0	2.0	-2.6	0.5	-1.1
Credit to the economy	6.9	9.3	4.9	6.7	6.6
Other items (net)	3.7	-2.5	2.1	0.0	0.0
Broad money	6.8	8.0	11.4	6.5	7.1
Memorandum items:			(Units indicated)		
Velocity (GDP/broad money; end of period)	2.5	2.4	2.2	2.2	2.2
Nominal GDP growth (percentage growth)	5.3	1.7	4.8	5.4	7.8
Credit to the economy (percentage growth)	9.6	12.6	6.4	9.1	8.7
Credit to the economy/GDP (percent)	29.8	32.7	33.2	36.2	37.3
Variation of net credit to the government (yoy; CFAF billions)	-53.7	151.1	-81.3	15.8	45.9
Central bank refinance rate (eop; percent)	4.0	3.5	2.5	…	…

Sources: BCEAO; and IMF staff estimates and projections.

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

Table 7. Senegal: Financial Soundness Indicators, 2008–14

	2008	2009	2010	2011	2012	2013	2014 Dec.	2015 June
	(Percent, unless otherwise indicated)							
Capital Adequacy								
Capital to risk-weighted assets	13.8	16.3	18.0	16.0	16.7	16.4	16.4	16.4
Regulatory capital to risk-weighted assets	13.9	16.5	18.2	15.9	16.3	15.9	15.9	15.9
Capital to total assets	9.1	9.3	10.0	9.8	9.6	9.4	9.0	8.6
Asset Composition and Quality								
Total Loans to Total Assets	62.8	59.5	57.5	60.6	61.4	60.1	58.3	57.3
Concentration: loans to 5 largest borrowers to capital	100.9	71.7	70.6	69.8	196.7	137.4	166.0	155.2
Sectoral distribution of loans								
Industrial	19.5	27.5	26.4	22.2	23.8	25.5	23.1	20.4
Retail and wholesale trade	18.5	24.5	23.8	19.2	21.6	23.8	23.7	23.6
Services, transportation and communication	31.1	34.1	41.9	34.0	30.6	35.9	41.0	40.4
Ratio of non-performing loans (NPLs) to total loans	17.4	18.7	20.2	16.2	18.4	19.1	20.8	23.0
Of which: without ICS	14.2	15.8	15.8	13.2	15.1	14.8	17.6	20.4
Ratio of provisions for NPLs to total NPLs	51.5	53.1	54.9	54.0	56.1	55.8	58.1	52.7
Of which: without ICS	65.7	64.7	65.3	68.3	63.0	66.8	60.7	53.1
NPLs net of provisions to total loans	9.3	9.7	9.1	8.1	8.2	8.6	9.0	11.3
Of which: without ICS	5.4	6.2	6.1	4.6	6.3	5.6	7.7	10.7
NPLs net of provisions to capital	63.9	62.3	52.3	50.4	51.4	54.7	57.8	75.3
Of which: without ICS	35.3	38.4	41.5	35.7	38.8	43.3	53.8	74.1
Earnings and profitability								
Average cost of borrowed funds	2.8	3.4	2.2	2.0	2.1	1.9	2.0	1.0
Average interest rate on loans[1]	13.9	15.4	8.1	8.4	8.6	8.1	7.8	8.0
Average interest margin[2]	11.1	12.0	5.9	6.4	6.6	6.2	5.1	7.0
After-tax return on average assets	1.4	1.3	1.6	2.2	1.7	1.3	0.6	5.3
After-tax return on average equity	13.0	16.0	15.4	22.6	17.4	13.7	6.8	58.6
Noninterest expenses/net banking income	51.3	60.3	56.7	56.0	57.0	57.6	58.6	68.4
Salaries and wages/net banking income	21.1	23.0	24.8	23.8	24.4	25.2	25.0	30.1
Liquidity								
Liquid assets to total assets	...	31.7	39.8	36.1	37.0	42.1	40.8	40.6
Liquid assets to total deposits	...	49.8	52.4	76.7	52.3	62.9	61.2	60.2
Total deposits to total liabilities	70.3	74.9	76.0	62.8	70.7	67.0	66.7	67.4

Source: BECAO.

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

[2]Excluding the tax on banking operations.

Table 8. Senegal: Quantitative Assessment Criteria and Indicative Targets for 2015–16

(GSFM 2014)

	2015						2016			
	Mar.	Jun.			Sep.	Dec.	Mar.	Jun.	Sep.	Dec.
		Assessment Criteria (AC)			IT	AC	IT	AC	IT	AC
	Act.	Prog.	Act.	Status	Prog.	Prog.	Prog.	Prog.	Prog.	Proj.
	(CFAF billions, unless otherwise specified)									
Assessment criteria[1]										
Floor on net lending/borrowing[2]	…	-144	-138	met	-255	-389	-52	-137	-244	-372
Ceiling on the contracting or guaranteeing of new nonconcessional external debt by the public sector (US$ millions)[3]	…	1,000	0	met	…	…	…	…	…	…
Ceiling on spending undertaken outside normal and simplified procedures[3]	…	0	0	met	0	0	0	0	0	0
Ceiling on public sector external payment arrears (stock)[3]	…	0	0	met	0	0	0	0	0	0
Ceiling on the amount of the budgetary float	…	50	28	met	50	50	50	50	50	50
Indicative targets										
Quarterly ceiling on the share of the value of public sector contracts signed by single tender (percent)	…	15	5	met	15	15	15	15	15	15
Floor on social expenditures (percent of total spending)	…	35	41	met	35	35	35	35	35	35
Floor on tax revenue	…	825	796	not met	1,181	1,583	396	889	1,283	1,720
Maximum upward adjustment of the overall deficit ceiling owing to										
Shortfall in program grants relative to program projections	…	15	0		15	15	15	15	15	15
Memorandum items:										
Program grants	…	15	15		28	40	5	21	40	58

Sources: Senegal authorities; and IMF Staff estimates.

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

[2]GFSM 2014 definition. Cumulative since the beginning of the year.

[3]Monitored on a continuous basis. The PC is not applicable starting from December 2015.

Table 9. Senegal: Structural Benchmarks for 2015 and 2016		
Measures	**Target date**	**Status**
Conduct an ex-ante, midterm, and ex post evaluation of all projects financed under a public-private partnership (PPP)	Continuous	Ongoing
Sign performance contracts for eight agencies	December 2015	Ongoing
Eliminate cash tax payments above CFAF 100,000	June 2015	Completed
Operationalize the connection between the DGI and the DGID to facilitate the exchange of data based on the unique identification NINEA.	December 2015	Ongoing
Submit at least ten investment projects listed in the 2016 budget for cost–benefit analysis	October 2015	Completed
For the 2016 budget, announce the debt ratio sustainable over five years with the commitment that, in case thresholds are exceeded, corrective measures (over four years) would be taken in the budget that follows	December 2015	Ongoing
Expand the precautionary reserve envelope for the 2016 budget	December 2015	Completed
Collect at least 50 percent of taxes left unpaid in 2014	December 2015	Ongoing
Implement the agency reform plan by limiting budget resources, and restricting their use to the payment of wages, for the 16 agencies pending dissolution.	December 2015	Ongoing
Institutionalize the precautionary management reserve	September 2015	Completed
Finalize the government flow-of-funds table according to Government Finance Statistics Manual 2001/14	December 2015	Ongoing
2016		
Establish a platform (integrated projects bank) which describes the lifecycle of the projects	June 2016	
Develop a management strategy for government and public enterprise investment portfolios	March 2016	
Extend the first-generation TSA system to all of the bank accounts of the network of accounting officials of public agencies and institutions	June 2016	
2017		
Establish accrual basis accounting with the initiation of the government's opening balance	January 2017	
Introduce a medium-term budget framework	March 2017	

Appendix I. Letter of Intent

Dakar, Senegal

November 24, 2015

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

Madame Managing Director:

1. The Government of Senegal requests completion of the first review of its 2015–17 macroeconomic program supported by the Policy Support Instrument (PSI). The details of this program were set forth in the initial Memorandum of Economic and Financial Policies (MEFP) of May 8, 2015. In support of this request, the attached Memorandum of Economic and Financial Policies (MEFP) reviews the implementation of the program over the past six months and updates the government's short- and medium-term objectives and policies under the program.

2. These policies are consistent with the new economic and social policy reference framework for the medium to long term referred to as the *Plan Sénégal Emergent* (PSE). The PSE focuses on three strategic pillars: (i) structural transformation of the economy and growth; (ii) human capital, social protection, and sustainable development; and (iii) strengthening of governance, promotion of peace and security, and consolidation of the rule of law.

3. The program is intended to guide Senegal in implementing its new development strategy (PSE), which relies on high, sustainable, and inclusive growth to substantially reduce poverty while safeguarding macroeconomic stability and debt sustainability. The program responds to growth impediments, and will, in the short and medium term, result in the initiation of bold actions to stimulate private initiative and creativity in order to realize the people's aspirations towards well-being. Reforms are aimed at restoring the government's fiscal space and creating a more attractive business environment for private-sector development.

4. All end-June assessment criteria were met but the end-June indicative target on tax revenue was missed because of a shortfall in customs revenue. This shortfall was due to higher than anticipated tax expenditure, the January 2015 introduction of the ECOWAS common external tariff and lower oil prices. Continued rationalization and better control of public expenditure helped meet the fiscal deficit target despite the shortfall in revenue. All structural benchmarks were met.

5. The government believes that the policies and measures set forth in the attached MEFP are appropriate for achieving the objectives of the PSI-supported program. Given its commitment to macroeconomic stability, the government will promptly take any additional measures needed to achieve the program objectives. It will consult with the IMF—at its own initiative or whenever the Managing Director requests such consultation—before adopting any such measures or in advance of revisions to the policies contained in the attached MEFP. Moreover, 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 program objectives.

6. The government authorizes the IMF to publish this letter, the attached MEFP, and the related Staff Report, which includes a debt sustainability analysis.

Sincerely yours,

/s/

Amadou BA
Minister of Economy, Finance, and Planning

Attachments: I. Memorandum of Economic and Financial Policies (MEFP)
II. Technical Memorandum of Understanding (TMU)

Attachment I. Memorandum of Economic and Financial Policies, 2015–17

1. This Memorandum updates the Memorandum of May 8, 2015, on our economic and financial program supported by the Policy Support Instrument for 2015–17. It outlines the policies that we intend to pursue for the remainder of 2015 and during 2016 to achieve the objectives of Senegal's development strategy (*Plan Sénégal Emergent – PSE*).

RECENT ECONOMIC DEVELOPMENTS

2. The domestic economy benefitted from the initial implementation of the PSE. Economic activity consolidated during the first quarter of 2015, with GDP growth at 4.6 percent in the first quarter and 5.2 percent in the second quarter. This favorable development is attributable notably to the strong performance of the chemical industries, sugar production, refining, cement, construction and energy. We expect growth to exceed 5 percent in the course of this year and to be close to 6 percent in 2016. Inflation, measured in respect of average prices during the first six months of 2015 over those during the corresponding period of 2014, amounted to -0.7 percent and will stay below 2 percent. With the fall in the price of oil, the GDP deflator stands at 0.2 percent in 2015 and should be 1.8 percent in 2016. This has led to downward revisions of nominal GDP for 2015 and 2016.

Program Implementation remains satisfactory

3. Overall, all of the program's quantitative assessment criteria for end-June 2015 were achieved, including the budget deficit target. The indicative target for tax revenues was missed by 0.4 percent of GDP on account of higher than expected tax expenditures which impacted customs revenue. Progress was also recorded in structural reforms, with the achievement of three planned structural benchmarks. In particular, payments of tax amounts over CFAF 100,000 in cash have been eliminated **(structural benchmark June 2015).** We have institutionalized the Precautionary Reserve envelope in the draft budget 2016 **(structural benchmark September 2015)** and carried out cost-benefit analyses for more than ten projects that will be included in the 2016 budget (**structural benchmark October 2015**). As regards the other structural benchmarks to be achieved in 2015, some important milestones have been laid down, particularly with respect to establishing the TOFE in accordance with GFSM 2001/2014, but also in terms of assessing projects financed by public-private partnerships (PPP), thanks to the information now available, which will allow us to perform an assessment at the latest before the end of the second half of this year.

4. Regarding the other structural reforms, a mechanism designed to monitor whether public investment projects have been carried through to completion was created by decision of the Minister for the Economy, Finance and Planning. Furthermore, as part of measures to strengthen our staff's capacities in implementing and monitoring the program supported by the Policy Support Instrument (PSI), the Fund provided high-level training for experts from the Macroeconomic

Framework Committee on the use of DMX platform for the management of macroeconomic data pertaining to projections and program monitoring.

MACROECONOMIC POLICY AND STRUCTURAL REFORMS FOR THE REMAINDER OF 2015

A. Fiscal Policy

5. The budget deficit target of CFAF 389 billion (4.8 percent of the revised GDP) for 2015 remains unchanged. The gap in revenue may amount to 14 billion, attributable notably to customs revenue. To close the gap and keep the same level of deficit, the government will take measures that will include reducing tax expenditures. If, at end-year, revenue fails to reach the programmed levels, the deficit objective will be achieved by controlling expenditure, in particular expenditure related to the precautionary reserve. The government will undertake a comprehensive examination of parafiscal taxes, including those on petroleum products. These taxes will ultimately be included in the budget and, as a counterpart, the amounts of transfers will be treated as a subsidy.

6. The government will continue to streamline spending on public consumption to boost investment in human capital and public infrastructure. In 2015, the government froze pay supplements at the current level, tightened controls on overtime, capped the number of staff hired under the "*corps émergents*" recruitment program for integration into the civil service at 4,000, and froze recruitment in selected, non-priority areas (excluding security and front-line staff in the fields of education and health). As a result of these measures, it will be possible to limit the wage bill to CFAF 526 billion in 2015.

7. Streamlining of tax expenditure will continue. The government will take measures to reduce tax expenditure on the basis of the 2013 report on tax expenditure and the recommendations of the IMF Technical Assistance.

8. The precautionary reserve, already established, will be institutionalized. For 2015 an amount of CFAF 52 billion, reported in the investment part of the 2015 initial budget law, has been mobilized, of which CFAF 38.6 billion to fund priority investments that are sufficiently mature (the *Route des Niayes*, the high-speed regional rail network, low-cost housing, integrated tourist zones). The remaining CFAF 13.4 billion relates to projects that cannot be completed in 2015 because of incomplete technical, economic and financial studies (tramway, dredging of the Sine-Saloum delta, business park, "Green cities for jobs" special program). The available resources could be redirected towards other growth-enhancing projects provided that the revenue allows it. For 2016, the Reserve will also include a part linked to current expenditure, which will be mobilized on the basis of the progress made in implementing the reforms agreed with the technical ministries.

B. Remainder of the Reforms for 2015

9. We undertake to increase efforts to speed up the structural reforms.

10. We will update the agency restructuring plan. A decree caps the level of pay, according to category, for Directors General and members of the decision-making bodies. By end-December 2015, the Ministry of Economy, Finance and Planning will adopt a decision setting the maximum levels of pay for the rest of agency staff. A technical committee will be instituted to update the agency restructuring measures. For those that are to be maintained, agency performance contracts (PCs) will be widely used by 2020. With support from the World Bank, at least (8) PCs will be signed by December 2015 **(structural benchmark)** and their implementation will be closely monitored by the authorities. By end-2015, staff at the agencies earmarked for closure (in accordance with the decision taken) will be redeployed and useful functions transferred to other agencies.

11. We will continue efforts to improve accounting, fiscal and financial information. Thanks to a joint venture by the Directorate General of Taxes and Government Property (*Direction générale des impôts et domains — DGID*), the Directorate General of Customs (*Direction générale des douanes — DGD*) and the National Statistics and Demographics Agency (*Agence Nationale de la Statistique et de la Démographie — ANSD*), the national registration number for enterprises and associations (NINEA) will be finalized by end-2015 **(structural benchmark December 2015).**

12. The government undertakes to take a decision regarding Senegal Airlines by end-November 2015. This involves either setting up a restructuring plan that does not compensate private shareholders or, alternatively, closing Senegal Airlines and creating another airline. Private shareholders will, under no circumstances, be compensated for their losses, nor will they receive a share of the company beyond their new capital contribution. Furthermore, the government will look for strategic partners to ensure the successful operation and profitability of the restructured or newly created airline.

13. The government undertakes to establish, by end-December 2015, three working groups tasked with: (i) examining tax expenditures, (ii) analyzing troubled companies, and (iii) reviewing government subsidies to enterprises. In the first quarter of 2016, these working groups will put forward appropriate and fully transparent measures to provide suitable solutions to the problems identified. Any new tax exemption will be granted in line with the prevailing rules.

MACROECONOMIC POLICY AND STRUCTURAL REFORMS FOR 2016

14. The main objective is to establish conditions conducive to stronger, more inclusive growth for meaningful poverty reduction. Growth is expected to pick up to 5.9 percent in 2016 as reforms take hold. In fact, growth could be higher than 6 percent in 2016 with an acceleration, which the government is aiming at, in the implementation of major agriculture, mining, energy, infrastructure and tourism reforms set forth in the PSE. Inflation is expected to remain within the 1–2 percent range. The current account deficit (as a percentage of GDP) is expected to reach 8.7 percent of GDP in 2016 and decline thereafter.

15. To enable Senegal to build on the recovery in global growth and on the more buoyant subregional environment, the IMF-supported authorities' program will revolve around the following three aims: (i) rebuild the government's fiscal space; (ii) strengthen public financial management and governance; and (iii) improve the business environment.

C. Rebuild the Government's Fiscal Space

16. The target for the fiscal deficit is 4.2 percent in 2016. This target remains feasible in light of the developments noted (changes in the international environment, particularly in terms of barrel and commodity prices). It is essentially dependent on good revenue collection, proper current expenditure control, and higher investment spending to support growth. The DGID will mobilize revenue primarily by taking further steps to control the tax base. This will involve, first, a restructuring of the relevant units to focus them on the desired objective; to this end, a new organization chart for the DGID has been drafted and submitted to all domestic partners, and their recommendations are now being considered. The draft text, as validated, will be available by the end of the first quarter of 2016. This reform will constitute a reorganization of the DGID, involving:

- transforming the Large Taxpayers Center (CGE) into the Large Taxpayers Directorate (DGE), with subsequent elimination of the Specialized Tax Services Directorate;
- creating the Medium-Sized Taxpayers Directorate (DME), and at the same time
    - i) reducing the eligibility threshold for the Medium-Sized Taxpayers Center (CME) from CFAF 200,000,000 to CFAF 50,000,000;
    - ii) creating one or two new CMEs;
- More effective control, with the gradual transfer of tax controls from the Fiscal Control and Intelligence Directorate to the operational directorates (DGE, DME); the DCFR will now focus on defining the fiscal control policy and strategy, as well as on intelligence gathering. To this end, a data processing center will be implemented to provide input to a tax database (the tax database and the data processing center are in the course of implementation);

Improving revenue mobilization will also require other actions to reinforce revenue collection efforts:

- formation of a group of prosecution officers [*agents de poursuites*]: the officers have been recruited and are now being trained. They will be operational by March 2016 at the latest;
- other means of payment (e-cash [*monétique*]) now under study. These reflect the intention of the DGID to integrate into its network all the payment instruments in circulation in the monetary system. In the short term, the DGID is seeking to give effect to payment by bank transfer. This measure will initially apply to taxpayers covered by the CGE, within six months after the accounting units of the DGCPT become effectively connected to the Automated Interbank Clearing System of WAEMU (SICA–UEMOA) and

the Regional Real-Time Gross Settlement System (STAR–UEMOA), planned for the end of 2015.

The government will also deepen the reflection on the establishment of an independent accounting network in the DGID with the creation of a Senior Accountant who would be in charge of, inter alia, direct taxes, and payments of back taxes controlled by the DGID following tax audits.

17. Lastly, with respect to fiscal policy, the authorities are planning to review the implementation of the new General Tax Code (*Code général des impôts*) with the help of an IMF technical assistance mission. This review will make it possible to further streamline and refine the new Code. Discussions on the tax system in the financial and telecommunications sectors as well as on the imposition of a business license tax (*patente*) on factories and industrial facilities will be finalized in the first quarter of 2016. They should lead to the introduction, by September 2016 at the latest, of legislation designed to streamline taxation on telecommunications and in the financial sector**.**

18. The DGD will focus on simplifying tax revenue collection procedures. Each commitment is made operational by a series of reforms and measures. The DGD will become increasingly involved in the actual implementation of the NINEA, the governance of which is ensured by the ANSD, and the interconnected network of the financial agencies. To support the Senegal government's key investment projects, the DGD will establish simplified and personalized procedures for enterprises to whom contracts have been awarded.

19. Spending on public consumption will continue to be streamlined. Regarding the wage bill, in addition to control measures, the following will be transferred to current expenditure (heading 4): on the one hand, expenditure for staff of the institutions, and on the other, the "seed funds" of the military. Moreover, the necessary measures will be taken to clean up the records on allowances by eliminating amounts computed in error. Ad hoc audits will be conducted in certain sensitive sectors to ensure the proper functioning of the system established following the civil service audit. Finally, in 2016, the government intends to: (i) review the legal basis and eliminate unjustified payments; (ii) streamline the procedures for preparing and implementing administrative acts with a view to reducing the time elapsing between their date of signature, the date they come into force, and the date on which they are effectively implemented in the pay system; (iii) reform payroll management; rationalize consumption of goods and services and reallocate savings to operation and maintenance; (iv) reallocate wage bill savings in part; and (v) strengthen the oversight of public hospitals.

20. The government intends to increase investment effectiveness. To this end, actions will focus on improving feasibility studies and socio-economic assessments by establishing a platform (integrated projects bank) which describes the lifecycle of the projects. This platform will have the functionalities and interface necessary for communication between sectoral ministries and the Ministry of the Economy, Finance and Planning. The entire project assessment chain will be duly addressed, from the ex-ante assessment through to the ex post assessment.

21. Improved efficiency of investments in financial and nonfinancial assets is also one of the concerns identified by the authorities. Although the government portfolio includes many strategic assets, it is not managed holistically. To rectify this, a management strategy for government and public enterprise portfolios will be defined in the first quarter of 2016 (structural benchmark). Work to collect information has already begun with a census of financial assets held in the country. However, in the interests of ensuring overall consistency, a comprehensive review of assets held abroad will also be carried out.

22. The government will assess ex ante all projects financed under a public-private partnership (PPP), pursuant to Article 38 of Law No. 2014–09 on partnership contracts and in accordance with the decree implementing this law. These midterm assessments will be carried out periodically, at least once a quarter. The government will use the PFRAM, an instrument for analyzing the fiscal implications of PPP-type projects. The government will compile a database of existing projects, analyze their fiscal costs and integrate them in the fiscal projections. All new projects financed as PPPs will be subject to an analysis of the fiscal costs.

23. The government will introduce the precautionary management reserve for 2016. In the 2016 budget, the reserve, amounting to 45 billion, will included both current expenditure (including wages and salaries, goods and services, transfers and other expenditure) and capital expenditure. The precautionary reserve in the operating budget will be CFAF 10 billion. The mobilization of these resources is subject to the ministerial departments implementing the reforms in their respective economic sectors, particularly higher education, national education, health and social action. For the investment budget, the precautionary reserve, amounting to CFAF 35 billion, will only be mobilized for projects whose profitability has been demonstrated by a feasibility study.

24. The government will consider the possibility of mobilizing nonconcessional external loans in 2016. The government could intervene in international financial markets or use the nonconcessional facilities of multilateral donors, which are equipped to finance large projects within short timeframes. The resources would be earmarked for financing investment projects, particularly those involving road infrastructure, the energy sector, urban water, and sanitation.

25. Senegal is now recognized as a country with the capacity to autonomously manage its debt. To improve debt management capacity in the absence of debt limits in the program, the government will: (i) continue to develop a medium-term debt strategy to be appended to the budget; (ii) announce, for the 2016 budget, the central government debt ratio, sustainable over five years, with a commitment in case thresholds are exceeded; corrective measures (over four years) would be taken in the budget that follows; and (iii) introduce a database and establish a mechanism for monitoring all external and domestic debt by public enterprises and all collateral set aside by the government on this debt. The National Public Debt Committee (*Comité National de la Dette Publique — CNDP*) will also be strengthened and expanded to cover other government departments.

D. Strengthen Public Financial Management

26. In the field of budget management, the government intends to organize high-level meetings between government members to discuss budget issues before the final budget decisions are made. Moreover, strict performance criteria for the allocation of additional budget resources will be defined in the circular letter on budget preparation.

27. The implementation of the Treasury Single Account (TSA) will be achieved. The plan for the first quarter of 2016 is to extend the first-generation TSA—limited to the bank accounts of direct Treasury accounting officers (*Comptables Directs du Trésor — CDT*)—to all bank accounts within the network of accounting staff in public institutions and agencies (second-generation TSA). The second-generation TSA will be deployed and operational in June 2016 **(structural benchmark**). The TSA will be finalized in December 2017 and the assessment criteria of the accounts that are to be "repatriated" will be established.

28. The National Governance Strategy (*Stratégie nationale de bonne gouvernance*) will continue to be implemented. The new reforms are based, in particular, on an inclusive mechanism for monitoring public transparency, one that involves instituting a national committee the tasks, organization and functioning of which will be defined by a decree (now circulating within the administration in draft form) and strengthening legislation and mechanisms on access to information. On this last point, the government will move to adopt a general law on access to information, in a manner complementary to the provisions of the transparency code.

E. Promote the Private Sector

Energy Sector

29. The government will continue to reform SENELEC. The cost of the reforms is estimated at CFAF 225 billion between 2016 and 2018. The reform plan will be submitted by end-November 2015 for technical support and financing from Senegal's development partners, in particular the World Bank and the African Development Bank.

Financial Sector

30. To promote the use of banking services and facilitate access to bank lending, the government is also committed to: (i) developing and implementing a financial education program for small- and medium-sized enterprises (SMEs); (ii) putting in place a national financial inclusion strategy in 2016; and (iii) Study the possibility of extending to the private sector and to equivalent employees the measure concerning the payment of wages in excess of CFAF 100,000 by direct deposit to their bank accounts or by any electronic means of payment . Furthermore, the effectiveness of introducing credit information bureaus (*bureaux d'informations sur le crédit — BIC*) in 2015 will help establish a healthy lending environment, promote the credit culture, contain bank indebtedness, and safeguard financial stability.

31. The gains made in supporting SMEs/SMIs will be consolidated. The government has created a unit for labeling SMEs in order to provide information and rating system for the banking system. From 2016, the National Economic Development Bank (*Banque nationale de Développement économique — BNDE*) will take all steps necessary to increase its contribution to the financing of SMEs/SMIs. Moreover, the BNDE will commit to providing, over time, the highest quality banking terms in the SME-SMI subsector (in particular an average annual rate of around 6.5 percent, below the local domestic market rate). As regards the Priority Investment Guarantee Fund (*Fonds de Garantie des Investissements Prioritaires — FONGIP*), in 2015–16, the guarantee activities it already has in place for SMEs/SMIs will be consolidated. In the context of its medium-term development, FONGIP must highlight the leverage stemming from the use of resources allocated to it by the government.

32. The government will continue to diversify financial instruments that are not necessarily bank-related. To that end, particular focus will be placed in 2016 on (i) producing an action plan for the development of factoring in Senegal, (ii) promoting the development of Islamic finance in Senegal, notably by establishing an Islamic microfinance institution, and (iii) developing capital markets. With a view to improving SME access to public procurement, the government will launch a strategy to establish a procurement fund.

33. The authorities are going to start to present financial stability indicators on the basis of the latest version of the Manual of Financial and Banking Statistics. With this aim in mind, the Central Bank of West African States (BCEAO) will compile and publish financial soundness indicators (FSIs) and complete the templates for FSM (metadata), FSD (FSIs), as well as FS1 (institutional coverage of FSIs) and FS2 (sectoral financial statements of the institutions). This will make it possible to improve transparency in the financial and banking sectors, monitor better the stability of the financial sector and nonperforming loans, and prevent banking difficulties.

Business climate

34. The government plans to expedite the finalization of work being carried out by the commission in charge of land reform. The government will erect investment platforms to support local governments in promoting investment opportunities in Senegal's eco-geographical areas. The Program for the Inclusive and Sustainable Development of Agribusiness (*Programme de développement inclusif et durable de l'agrobusiness — PDIDAS*) provides for technical assistance for rural communities to enable them to allocate land to private operators according to an inclusive, transparent, and competitive process.

NEW PROGRAM MONITORING INDICATORS

35. Quantitative assessment criteria have been defined for 2015 and 2016. Quantitative assessment criteria for end-December 2015, end-June 2016, and end-December 2016, as well as indicative targets for end-March 2016 and end-September 2016 have been proposed to monitor program implementation in 2015–16 (see Table 1 of the MEFP below). The government and Fund staff have reached understandings on structural benchmarks presented in Table 2 of the MEFP.

Reviews will take place every six months. The second review is expected to be completed by end-June 2016, the third by end-December 2016, and the fourth by end-June 2017.

36. In line with the Fund's new debt limits policy, the authorities are requesting elimination of the assessment criterion for nonconcessional external debt. Senegal remains at a low risk of debt distress, its debt management capacity is adequate, and its data for debt surveillance are comprehensive and reliable. Additional measures linked to the monitoring of possible liabilities in PPP projects and government guarantees have also been taken.

37. To improve program monitoring, the departments of the Ministry of the Economy, Finance and Planning have the DMX platform. The platform will be used to analyze data, sharing with the Fund and the forecasts of the program's key indicators.

Table 1. Senegal: Quantitative Assessment Criteria and Indicative Targets for 2015–16

(GSFM 2014)

	2015						2016			
	Mar.	Jun.			Sep.	Dec.	Mar.	Jun.	Sep.	Dec.
		Assessment Criteria (AC)			IT	AC	IT	AC	IT	AC
	Act.	Prog.	Act.	Status	Prog.	Prog.	Prog.	Prog.	Prog.	Proj.
	(CFAF billions, unless otherwise specified)									
Assessment criteria[1]										
Floor on net lending/borrowing[2]	...	-144	-138	met	-255	-389	-52	-137	-244	-372
Ceiling on the contracting or guaranteeing of new nonconcessional external debt by the public sector (US$ millions)[3]	...	1,000	0	met	...	...	...	...	...	...
Ceiling on spending undertaken outside normal and simplified procedures[3]	...	0	0	met	0	0	0	0	0	0
Ceiling on public sector external payment arrears (stock)[3]	...	0	0	met	0	0	0	0	0	0
Ceiling on the amount of the budgetary float	...	50	28	met	50	50	50	50	50	50
Indicative targets										
Quarterly ceiling on the share of the value of public sector contracts signed by single tender (percent)	...	15	5	met	15	15	15	15	15	15
Floor on social expenditures (percent of total spending)	...	35	41	met	35	35	35	35	35	35
Floor on tax revenue	...	825	796	not met	1,181	1,583	396	889	1,283	1,720
Maximum upward adjustment of the overall deficit ceiling owing to										
Shortfall in program grants relative to program projections	...	15	0		15	15	15	15	15	15
Memorandum items:										
Program grants	...	15	15		28	40	5	21	40	58

Sources: Senegal authorities; and IMF Staff estimates.

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

[2]GFSM 2014 definition. Cumulative since the beginning of the year.

[3]Monitored on a continuous basis. The PC is not applicable starting from December 2015.

Table 2. Senegal: Structural Benchmarks for 2015 and 2016		
Measures	**Target date**	**Status**
Conduct an ex-ante, midterm, and ex post evaluation of all projects financed under a public-private partnership (PPP)	Continuous	Ongoing
Sign performance contracts for eight agencies	December 2015	Ongoing
Eliminate cash tax payments above CFAF 100,000	June 2015	Completed
Operationalize the connection between the DGI and the DGID to facilitate the exchange of data based on the unique identification NINEA.	December 2015	Ongoing
Submit at least ten investment projects listed in the 2016 budget for cost–benefit analysis	October 2015	Completed
For the 2016 budget, announce the debt ratio sustainable over five years with the commitment that, in case thresholds are exceeded, corrective measures (over four years) would be taken in the budget that follows	December 2015	Ongoing
Expand the precautionary reserve envelope for the 2016 budget	December 2015	Completed
Collect at least 50 percent of taxes left unpaid in 2014	December 2015	Ongoing
Implement the agency reform plan by limiting budget resources, and restricting their use to the payment of wages, for the 16 agencies pending dissolution.	December 2015	Ongoing
Institutionalize the precautionary management reserve	September 2015	Completed
Finalize the government flow-of-funds table according to Government Finance Statistics Manual 2001/14	December 2015	Ongoing
2016		
Establish a platform (integrated projects bank) which describes the lifecycle of the projects	June 2016	
Develop a management strategy for government and public enterprise investment portfolios	March 2016	
Extend the first-generation TSA system to all of the bank accounts of the network of accounting officials of public agencies and institutions	June 2016	
2017		
Establish accrual basis accounting with the initiation of the government's opening balance	January 2017	
Introduce a medium-term budget framework in line with WAEMU directives.	March 2017	

Attachment II. Technical Memorandum of Understanding

1. This Technical Memorandum of Understanding (TMU) defines the quantitative assessment criteria, indicative targets, and structural benchmarks necessary to monitor the Fund-supported program under the Policy Support Instrument (PSI) in 2015–17. It also establishes the terms and timeframe for transmitting the information that will enable Fund staff to monitor the program.

PROGRAM CONDITIONALITY

2. The assessment criteria for end-June 2015, end-December 2015 and end-June 2016 and the indicative targets for end-March 2015 and end-September 2015 and end-March 2016 are set out in Table 1 of the Memorandum of Economic and Financial Policies (MEFP). The structural benchmarks established under the program are presented in Table 2.

DEFINITIONS, ADJUSTERS, AND DATA REPORTING

A. The Government and Public Sector

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

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

B. Net Lending/Borrowing (Program Definition)

Definition

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

Sample Calculation

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

Adjustment

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

Reporting Requirements

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

C. Social Expenditure

Definition

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

Reporting Requirements

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

D. Budgetary Float

Definition

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

Reporting Requirements

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

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

E. Spending Undertaken Outside Simplified and Normal Procedures

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

14. The authorities will report any such procedure, together with the SIGFIP table defined in paragraph 12, to Fund staff on a monthly basis with a maximum delay of 30 days.

F. Public Sector External Payments Arrears

Definition

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

Reporting Requirements

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

G. Contracting or Guaranteeing of External Debt by the Public Sector

Definition

17. **Debt.** The definition of debt is set out in Executive Board Decision No. 6230-(79/140), Point 9, as revised on August 31, 2009 (Decision No. 14416-(09/91).

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

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

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

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

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

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

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

H. Public Sector Contracts Signed by Single Tender

Definitions

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

Reporting Requirements

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

I. Tax Revenues

Definition

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

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

ADDITIONAL INFORMATION FOR PROGRAM MONITORING

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

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

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

    i) Tax receipts and tax and customs assessments by category, accompanied by the corresponding revenue on a monthly basis;

    ii) The monthly amount of expenditures committed, certified, or for which payment orders have been issued;

    iii) The monthly situation of checks issued by agencies from their deposit accounts at the Treasury but not paid to beneficiaries, with the dates of issuance of the checks.

    iv) The quarterly report of the Debt and Investment Directorate (DDI) on the execution of investment programs;

    v) The monthly preliminary government financial operations table (TOFE) based on the Treasury accounts;

vi) The provisional monthly balance of the Treasury accounts; and

vii) Reconciliation tables between the SIGFIP table and the consolidated Treasury accounts, between the consolidated Treasury accounts and the TOFE for "budgetary revenues and expenditures," and between the TOFE and the net treasury position (NTP), on a quarterly basis; and

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

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

26. The central bank will transmit to Fund staff:

viii) The monthly balance sheet of the central bank, with a maximum lag of one month;

ix) The monthly consolidated balance sheet of banks with a maximum lag of two months;

x) The monetary survey, on a monthly basis, with a maximum lag of two months;

xi) The lending and deposit interest rates of commercial banks, on a monthly basis; and

xii) Prudential supervision and financial soundness indicators for bank financial institutions, as reported in the table entitled *Situation des Établissements de Crédit vis-à-vis du Dispositif Prudentiel* (Survey of Credit Institution Compliance with the Prudential Framework), on a quarterly basis, with a maximum delay of two months.

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

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

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

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

INTERNATIONAL MONETARY FUND

SENEGAL

December 1, 2015

FIRST REVIEW UNDER THE POLICY SUPPORT INSTRUMENT AND REQUEST FOR MODIFICATION OF ASSESSMENT CRITERIA—DEBT SUSTAINABILITY ANALYSIS UPDATE

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

Senegal remains at low risk of debt distress, consistent with the Staff Report of December 2014 (Country Report No. 15/2) and the last Debt Sustainability Analysis (DSA) update in June 2015 (Country Report No. 15/273).[1] All debt burden indicators are well below their respective thresholds and only the debt service-to-revenue ratio shows two spikes that breach the threshold under stress scenarios, due to Eurobond rollover. However, these breaches are small and temporary reflecting the bullet payments, and the debt service ratio follows afterwards a stable path, even considering additional non-concessional borrowing to reimburse the Eurobonds. The public DSA does not point out significant weaknesses, but it highlights the critical role for fiscal consolidation and reforms to break with the past to generate the sustained growth required to preserve debt sustainability.

[1] Senegal's public debt statistics cover external and domestic debt issued by the central government (including debt guaranteed by the government). External debt is defined as debt borrowed or serviced in a currency other than the CFA franc, regardless of the residency of the creditor. The baseline DSA incorporates remittances, as they represent

BACKGROUND

1. **Public debt ratios have been revised upwards in 2015, but they remain on a declining path over the medium term.** Historical figures on the composition of the stock of external debt remain as published in the last DSA update (Country Report No. 15/273). Concerning the projections for 2015, external public debt in Senegal is estimated at 39.3 percent of GDP, compared to 35.7 percent projected in the previous DSA. The main reason for this difference is the exchange rate depreciation in 2015. Commercial debt stood at 20 percent of the stock of total external public debt in 2014 and, in the first seven months of 2015, there have not been new non-concessional loans. Domestic debt increased from FCFA 1,065.5 billion at end-2014 to FCFA 1,151.5 billion in July 2015 and it is projected at 15.0 percent of GDP, lower than 19.2 percent projected in the latest DSA. As a result, total public debt reaches US$7.52 billion or 54.4 percent of GDP, 0.6 percentage point less than what estimated in the previous DSA.

2. **The authorities are committed to reduce debt ratios over the medium term, by means of fiscal consolidation, improvements in the current account and a strengthening of debt management policies.** In particular, the authorities are increasingly financing government needs on the internal and regional markets, to mitigate exchange rate risks and the vulnerability to the volatility of external capital flows. Senegal has been able to lengthen the maturities and reduce borrowing costs on domestic debt. Medium and long term domestic financing has increased from 34.2 percent of total domestic debt in 2011 to 75 percent in 2014. Also, new instruments such as Islamic bonds have been introduced with FCFA 100 billion issued in 2014. Consequently, the implicit interest rate on domestic financing decreased from 3.6 to 3.3 percent between 2011 and 2014. The medium term debt management strategy is also aimed at preserving the predominance of concessional borrowing and at resorting to semi-concessional borrowing only in exceptional cases and for specific projects. Eurobond issuances will be considered if financing terms are favorable and if it is not possible to obtain non-concessional financing from development partners, particularly the African Development Bank and the World Bank.

UNDERLYING ASSUMPTIONS AND BORROWING PLAN

3. **The DSA is consistent with the macroeconomic framework outlined in the Staff Report and updates the previous DSA produced in Country Report No. 15/273, for the request for a three-year Policy Support Instrument (PSI).** In line with the previous DSA, the baseline scenario assumes the implementation of sound macroeconomic policies, structural reforms, and an ambitious investment plan, as outlined in the Plan Senegal Emergent (PSE). This scenario is expected to deliver strong and sustained economic growth and a narrowing fiscal deficit over the long term.

4. **Notwithstanding the downward correction of the output growth rate compared to the previous DSA, the average future growth rates are substantially higher than the historical rate (3.8 percent).** This higher growth rate represents the growth dividend of the planned structural reforms and ambitious investment program outlined in the PSE. In this update we do not explicitly present alternative scenarios. However, a staff review concludes that there are no changes to the alternative scenario which was explicitly modeled in the full DSA of December 2014 (Country Report No. 15/2). Under that scenario debt indicators remain below their policy-dependent thresholds, even though debt dynamics

depends on expected growth dividends to materialize. However, the historical scenario, which assumes historical low growth rates, highlights the importance of continuous reforms to unlock the high, sustained and inclusive growth targeted by the PSE and required to preserve debt sustainability.

5. The main assumptions are as follows:

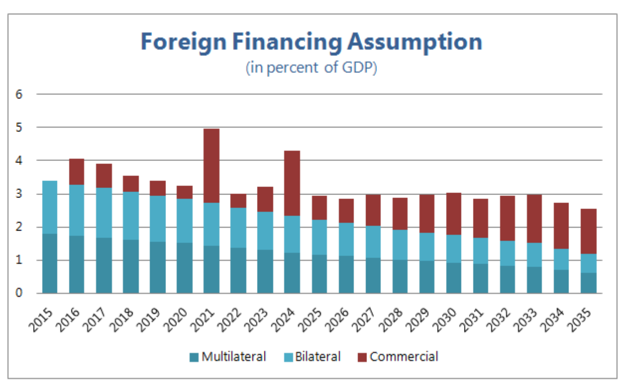
- **Real GDP growth** is estimated at 5.1 percent in 2015 and it will increase to 7.2 percent in 2020 to reflect the effects of investment and reforms under the PSE. Over the long run, real GDP growth has been revised downwards to 5.8 percent over the period 2021–35, from 7.8 percent estimated in the previous DSA. This is in line with the international experience that suggests that over a long period as economies converge to middle income status; a 6 percent growth rate is more achievable than continuing with the 7 to 8 percent achievable in the first part of a growth spurt.

- **Fiscal deficit**. The overall fiscal deficit in 2015 is projected at 4.8 percent of GDP in 2015 and 4.2 percent in 2016, and it will gradually decline to 2.6 percent in 2020. The primary balance is estimated at 2.9 percent in 2015 and is projected to decline to 1.3 percent in the long-term.

- **Current account deficit**. The current account deficit in 2015 has been revised from 8.0 to 8.2 percent of GDP, and it will worsen to 8.7 percent in 2016 mainly because of changes in oil and commodity prices. In the medium term the current account is projected to gradually improve following the fiscal consolidation plan and the impact of reforms in diversifying exports based on globally competitive production. The deficit is projected at 7.8 percent of GDP in 2020 and over the long-term the average current account deficit should stabilize at about 7½ percent of GDP. Remittances remain a significant component of the current account but they are estimated to decline over the coming years, reaching about 10 percent of GDP in 2020.

- **Inflation**. Inflation has been revised downwards following the decline in commodity prices. The GDP deflator is projected at 0.2 percent in 2015 and to 1.8 percent in 2020, down from 2.3 percent in the previous DSA.

- **External financing mix and terms**. The DSA assumes that the financing mix will be consistent with a prudent borrowing strategy. Even though the non-concessional borrowing limit in Senegal will be unconstrained under the PSI, the authorities are engaged in pursuing a borrowing strategy that prioritizes concessional over non-concessional financing to reduce borrowing costs and extend maturities. Consistently, the DSA projects a moderate substitution between concessional and commercial borrowing—with two exceptions in 2021 and 2024 to rollover the outstanding 10-year Eurobonds issued in 2011 and 2014 with semi-concessional borrowing–



–and, as a result, only a gradual decline in the grant element of new disbursements (see Figure 1, first panel).[2] The average maturity of new debt is above 18 years, with 4.5 years of grace period. The average cost of new borrowing is assumed at 2.6 percent.

- **Domestic borrowing.** The composition between external and domestic debt assumes the latter to account for 30 percent of total public debt, 7.5 percent of which with maturity below one year. New medium and long term domestic debt is assumed to carry a real interest rate of 4 percent with average maturity of four years.
- **Discount rate**. The discount rate for this DSA is set at 5 percent.

Evolution of Selected Macroeconomic Indicators

	2012	2013	2014	2015	Long term 1/
Real GDP growth					
Current DSA	4.4	3.6	4.7	5.1	5.8
Previous DSA	4.4	3.6	4.7	5.1	7.8
Overall fiscal deficit (percent of GDP)					
Current DSA	5.2	5.5	4.9	4.8	2.6
Previous DSA	5.2	5.5	4.9	4.7	2.6
Current account deficit (percent of GDP)					
Current DSA	10.8	10.4	8.8	8.2	7.4
Previous DSA	10.9	10.4	8.8	8.0	6.1

1/ Defined as the last 15 years of the projection period. For the current DSA update, the long term covers the years 2021-2035.

EXTERNAL DSA

6. **External debt indicators are below the thresholds under the baseline scenarios and even under stress tests, with the exception of the ratio of debt service to revenue, which shows two spikes that marginally breach the threshold in two years (Figure 1).** The PV of public and publicly guaranteed (PPG) external debt is projected at 31.1 percent of GDP in 2015 and it is estimated to decline to 27.9 percent in 2020 and 18.8 percent in 2035. The ratios of the PV of PPG external debt show a declining trend under the baseline scenario and they are comfortably below the thresholds, which take remittances into account, even under the most extreme scenarios. Debt service ratios show two spikes that reflect the bullet repayment of the 2011 and 2014 Eurobonds, which are due, respectively, in 2021 and 2024. The financing plan assumed in the DSA already incorporates higher than usual semi-concessional borrowing in those years to rollover the Eurobonds. These two spikes do not breach the thresholds under the baseline

[2] Staff conducted an exercise under different assumptions consistent with a more rapid decline of the grant element, consistent with stronger shift from concessional to semi-concessional and commercial borrowing. The dynamics of total and external public debt is similar and conclusions are the same as the ones discussed below

scenario, but exclusively under the stress scenarios and when considering the ratio of debt service over revenue. In particular, there is one very minor breach of the threshold under the historical scenario and two moderate breaches under the assumption of 30 percent depreciation of the exchange rate. In both cases, the breaches are temporary and in the long term the debt service-to-revenue ratio remains below the thresholds under any scenario.

7. Notwithstanding the breaches of the debt service-to-revenue ratio under stress scenarios, there are several reasons suggesting that the requirements for a low risk of debt distress are met. First, the breaches in the debt service-to-revenue thresholds are moderate and temporary, as they are due exclusively to the bullet repayment of the Eurobonds. The rollover is assumed to be financed through semi-concessional borrowing and the re-financing plan does not point out any additional vulnerability, given that the debt service ratios will remain under the respective threshold in the long term. Assuming a more conservative borrowing plan—with a steeper decline in the grant element of new financing compared to what is assumed in the baseline—does not translate in any adverse debt dynamic or any additional breach of debt thresholds. In addition, the temporary breaches are observed under a currency depreciation scenario which may overstate the risk of debt distress in Senegal where external debt is denominated mostly in euro (41 percent of external public debt in 2014)—the pegged currency—or in US dollar (36 percent). However, the depreciation of the CFA franc remains a factor to be carefully taken into account going forward for debt management purposes. Authorities are engaged on this issue and a recent TA mission (July 2015) discussed measures and mechanisms to manage exchange rate risk, suggesting a strengthening of monitoring mechanisms and an improvement of the swap portfolio risk management. Finally, the share of non-resident holding of domestic debt is relatively low and stable at around 5–6 percent of GDP – mostly concentrated in the WAEMU – and, given the difference between the current debt ratios and the thresholds, it does not represent a significant source of risk, even though it is an element to consider and assess on a regular basis, especially in times of uncertainty on global financial markets.

PUBLIC DSA

8. Total (external and domestic) public debt indicators are projected to gradually decline, while the debt service-to-revenue ratio is projected to remain below 20 percent, with two moderate and temporary increases in 2021 and 2024, in correspondence with the repayments of the Eurobonds. Under the baseline scenario, the PV of total public debt is projected to moderately increase from 46.1 percent of GDP in 2015 to 47.3 percent in 2017 and then to decline to 44.5 percent of GDP in 2020 (see Figure 2 and Table 3). Over time, the ratio is projected to further decrease to get closer to 40 percent. Under the most extreme scenario of a 30 percent depreciation of the currency in 2016, debt ratios increase more than under the other scenarios until 2020, but in the long term the evolution of total public debt is similar to what is projected under the baseline scenario. The public debt outlook looks worse, as would be expected, in absence of further fiscal consolidation, but is still well below the public debt benchmark for strong performers. In fact, assuming that the primary balance will not improve compared to the value projected for 2015 implies a less favorable dynamics but with the PV of public debt-to-GDP ratio remaining well below the benchmark of 74 percent.

9. The debt outlook projected keeping real GDP growth and the primary deficit constant at their historical levels highlights the importance of fiscal consolidation and structural reforms to support strong growth and preserve debt sustainability. Under the historical scenario (which keeps real GDP growth and the primary balance at their historical levels), the PV of total public debt is on a growing path and in 2026 is projected to be above the benchmark of 74 percent of GDP. Similarly, the historical scenario is the one showing the most unfavorable patterns in relation to the PV of public debt-to-revenue ratio and the debt service ratio. A worsening of public debt sustainability under the historical scenario is expected and underscores the main goal of the PSE, namely to orchestrate a break with the past underperformance of the past 30 years. More mechanically, in the case of Senegal, the current baseline scenario has to be very different from historical averages given this necessity of moving to inclusive growth at rates that enable Senegal to transform into a middle income emerging economy over the next 30 years. Accordingly, freezing real GDP growth and the primary balance at their historical averages implies a decline in the capacity to repay together with an increase in indebtedness. This highlights why Senegal needs the PSE to move forward why historical scenarios may be too conservative. Whilst risks remain, it is encouraging that reforms have begun moving Senegal from the 3½ percent growth rates of the past to about 5 percent. With continued reform continued growth acceleration can be expected to reach the 7 to 8 percent PSE target within the next few years. To be conservative, the primary deficit is set at 3.3 percent, even if it is projected at 2.9 percent of GDP in 2015 and at 1.3 percent on average over the period 2016–20. Real GDP growth is also set at a value (3.8 percent) which is already well below the current projected growth rate of 5.1 percent and almost 3 percentage points lower than the average over the period 2016–21 projected under the baseline scenario consistent with PSE. Overall, risks for public debt sustainability remain low, but stress tests underline the importance of making continuous efforts to improve the fiscal stance and of strengthening economic growth. In turn this requires implementing structural reforms required for the PSE to succeed as highlighted in the staff report.

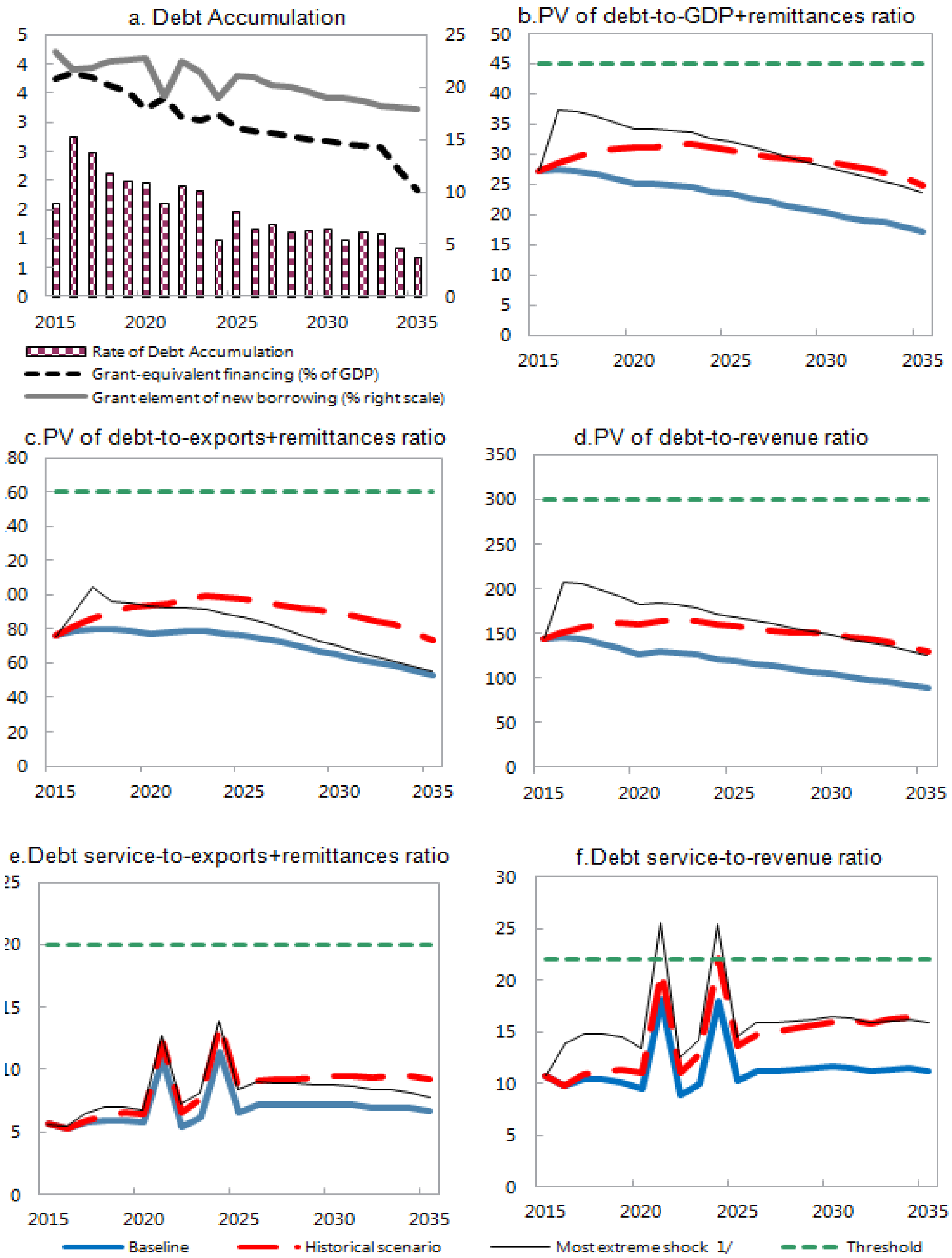
CONCLUSION

10. According to staff's assessment, Senegal continues to face a low risk of debt distress. The minor and temporary breaches of the debt service-to-revenue thresholds are exclusively related to bullet payments for the Eurobond issuances and the overall debt dynamic is under control under the baseline and stress scenarios. However, the stress tests conducted under the external and public debt sustainability analysis indicate that debt sustainability hinges on continuing and strengthening fiscal consolidation and on achieving high and sustained growth, as envisaged in the PSE. By contrast, given current debt levels and the strong debt management capacity, standard macroeconomic shocks seem to be of second order importance for external debt sustainability in Senegal. Thus, safeguarding debt sustainability will require a deepening and acceleration of the reforms as discussed in the staff report.

11. Preserving debt sustainability also requires a cautious approach to semi-concessional and commercial borrowing, also in light of the removal of the non-concessional borrowing limit. To this purpose, the staff recommends a careful and continuous monitoring of financing needs and of borrowing plans, since a rapid accumulation of commercial debt may undermine the low risk of debt distress. Moreover, to minimize exchange risks, debt strategy should focus on the costs and benefits of borrowing in Euro or from the regional market in CFAF.

12. The authorities concur with the analysis in this DSA. The conclusions of the DSA were shared with the authorities who broadly concurred with the assessment and with maintaining a "low" debt risk rating. They stressed that Senegal's strong debt management capacity, but reiterated the need for reinforcement of capacity in view of the country's gradual transition to market sources.

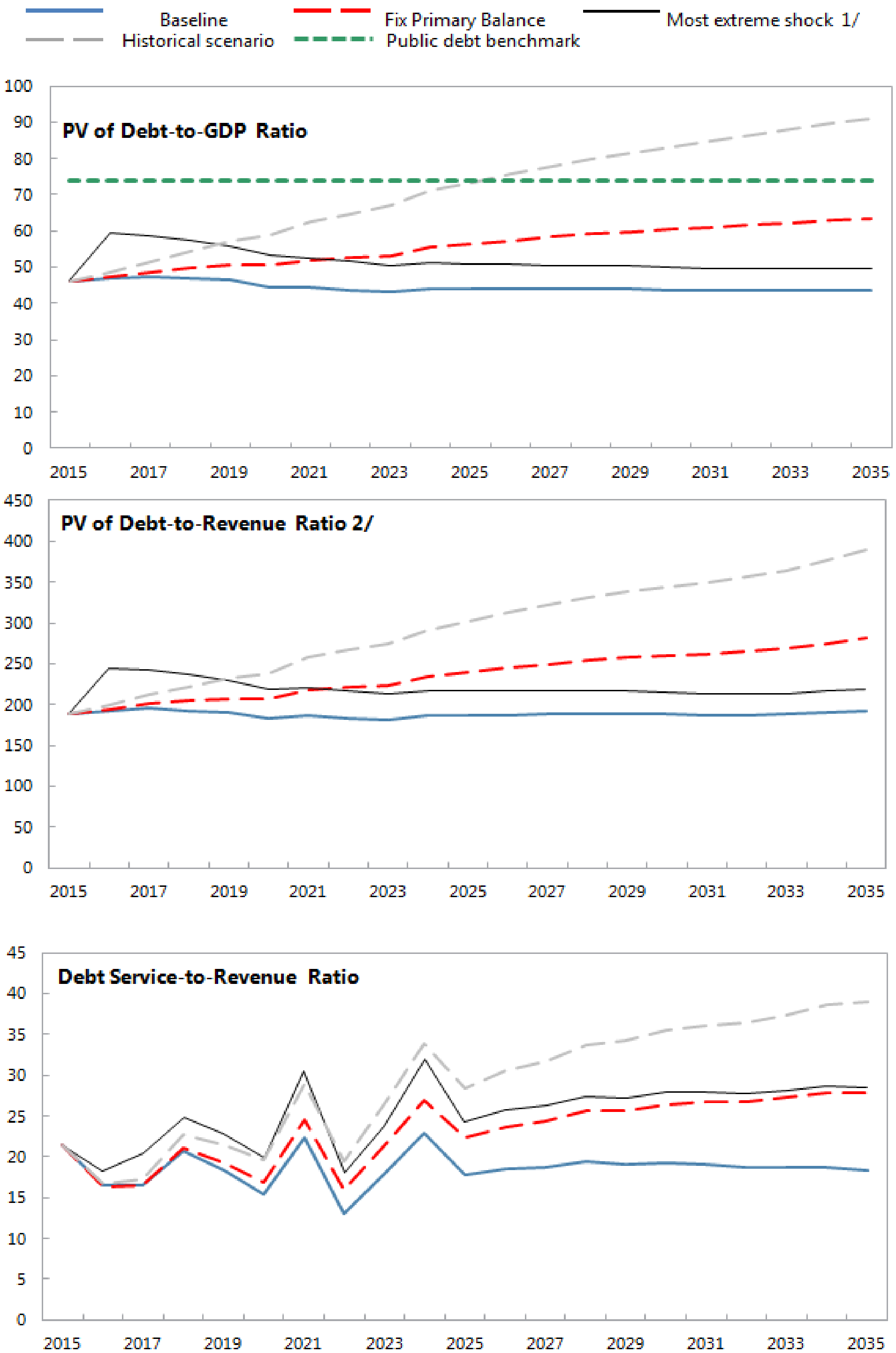
Figure 1. Senegal: Indicators of Public and Publicly Guaranteed External Debt under Alternative Scenarios, 2015–35[1/]



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2025. In figure b. it corresponds to a One-time depreciation shock; in c. to a Combination shock; in d. to a One-time depreciation shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

Figure 2. Senegal: Indicators of Public Debt under the Alternative Scenarios, 2015–35[1/]



Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio on or before 2025.
2/ Revenues are defined inclusive of grants.

Table 1. Senegal: External Debt Sustainability Framework, Baseline Scenario, 2012–35[1/]

(In percent of GDP, unless otherwise indicated)

	Actual			Historical [6/] Average	Standard [6/] Deviation	Projections									
	2012	2013	2014			2015	2016	2017	2018	2019	2020	2015-2020 Average	2025	2035	2021-2035 Average
External debt (nominal) 1/	**59.2**	**66.0**	**66.9**			**70.0**	**71.2**	**71.5**	**71.2**	**70.2**	**71.2**		**74.7**	**69.6**	
of which: public and publicly guaranteed (PPG)	30.6	32.4	39.5			39.3	39.3	38.9	37.9	36.8	35.6		31.9	23.1	
Change in external debt	4.7	6.9	0.8			3.1	1.3	0.3	-0.3	-1.0	1.0		0.4	-0.4	
Identified net debt-creating flows	9.5	5.5	3.6			2.0	2.5	1.9	1.4	1.5	1.5		2.0	2.8	
Non-interest current account deficit	**9.9**	**9.4**	**7.8**	**8.3**	**2.8**	**7.0**	**7.6**	**7.1**	**7.0**	**6.9**	**6.7**		**7.1**	**7.2**	6.7
Deficit in balance of goods and services	21.0	20.7	18.8			18.2	18.3	17.8	17.2	16.8	15.8		13.5	14.7	
Exports	27.9	28.1	27.7			27.0	25.9	25.7	25.3	24.7	24.5		24.8	26.1	
Imports	48.9	48.8	46.5			45.2	44.2	43.5	42.5	41.5	40.3		38.3	40.8	
Net current transfers (negative = inflow)	-12.4	-12.5	-12.5	-11.5	1.5	-12.5	-12.2	-12.0	-11.5	-11.2	-10.8		-7.8	-8.4	-8.3
of which: official	-1.0	-0.6	-0.7			-0.7	-0.9	-0.9	-0.8	-0.7	-0.7		-0.5	-0.4	
Other current account flows (negative = net inflow)	1.3	1.2	1.5			1.4	1.5	1.3	1.3	1.3	1.8		1.4	0.9	
Net FDI (negative = inflow)	**-1.9**	**-2.1**	**-2.1**	**-2.0**	**0.5**	**-2.4**	**-2.5**	**-2.2**	**-2.2**	**-1.8**	**-1.7**		**-1.7**	**-1.7**	-1.7
Endogenous debt dynamics 2/	**1.5**	**-1.9**	**-2.1**			**-2.6**	**-2.6**	**-3.0**	**-3.4**	**-3.5**	**-3.5**		**-3.3**	**-2.7**	
Contribution from nominal interest rate	1.0	0.9	1.0			1.3	1.2	1.2	1.1	1.1	1.1		0.8	0.6	
Contribution from real GDP growth	-2.4	-2.0	-3.0			-3.9	-3.8	-4.2	-4.5	-4.6	-4.6		-4.1	-3.3	
Contribution from price and exchange rate changes	3.0	-0.8	-0.1			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**-4.8**	**1.4**	**-2.7**			**1.1**	**-1.2**	**-1.6**	**-1.7**	**-2.5**	**-0.5**		**-1.7**	**-3.1**	
of which: exceptional financing	-1.4	-0.1	1.5			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	55.2			61.7	63.0	63.4	63.3	62.5	63.5		68.2	65.3	
In percent of exports	...	...	199.3			228.7	243.0	246.8	250.6	252.5	259.5		274.6	249.8	
PV of PPG external debt	**...**	**...**	**27.8**			**31.1**	**31.1**	**30.7**	**30.0**	**29.0**	**27.9**		**25.4**	**18.8**	
In percent of exports	**...**	**...**	**100.3**			**115.3**	**119.9**	**119.8**	**118.7**	**117.2**	**113.8**		**102.1**	**72.0**	
In percent of government revenues	**...**	**...**	**132.5**			**144.9**	**145.7**	**144.1**	**139.6**	**134.1**	**127.2**		**119.2**	**88.7**	
Debt service-to-exports ratio (in percent)	**16.9**	**10.0**	**15.5**			**16.9**	**13.4**	**16.3**	**14.4**	**16.2**	**13.6**		**13.6**	**13.3**	
PPG debt service-to-exports ratio (in percent)	**7.0**	**6.5**	**8.0**			**8.5**	**8.0**	**8.7**	**8.9**	**8.9**	**8.5**		**8.8**	**9.1**	
PPG debt service-to-revenue ratio (in percent)	**9.5**	**9.2**	**10.6**			**10.7**	**9.8**	**10.4**	**10.4**	**10.2**	**9.4**		**10.3**	**11.2**	
Total gross financing need (Billions of U.S. dollars)	1.8	1.5	1.6			1.3	1.3	1.5	1.5	1.8	1.8		2.8	6.0	
Non-interest current account deficit that stabilizes debt ratio	5.2	2.6	6.9			4.0	6.3	6.9	7.3	7.8	5.7		6.7	7.5	
Key macroeconomic assumptions															
Real GDP growth (in percent)	4.4	3.6	4.7	3.8	1.2	5.1	5.9	6.5	7.0	7.1	7.2	6.5	6.0	5.1	5.8
GDP deflator in US dollar terms (change in percent)	-5.2	1.4	0.1	3.3	7.7	-16.1	2.0	2.6	2.6	2.4	3.4	-0.5	1.8	2.5	1.9
Effective interest rate (percent) 5/	1.7	1.6	1.5	1.8	0.4	1.7	1.8	1.8	1.8	1.7	1.7	1.7	1.2	1.0	1.2
Growth of exports of G&S (US dollar terms, in percent)	4.7	6.0	3.2	7.5	10.0	-14.1	3.8	8.0	8.0	7.5	9.8	3.9	8.2	8.4	8.2
Growth of imports of G&S (US dollar terms, in percent)	8.2	5.0	-0.1	9.9	17.3	-14.3	5.7	7.3	7.3	7.3	7.5	3.5	7.3	9.0	7.9
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	23.4	21.7	21.9	22.5	22.6	22.8	22.5	21.1	17.9	19.7
Government revenues (excluding grants, in percent of GDP)	20.5	19.9	21.0			21.5	21.4	21.3	21.5	21.6	21.9		21.3	21.2	21.2
Aid flows (in Billions of US dollars) 7/	0.4	0.8	0.7			0.5	0.5	0.5	0.6	0.6	0.6		0.8	1.0	
of which: Grants	0.4	0.4	0.5			0.4	0.4	0.5	0.5	0.5	0.5		0.7	0.9	
of which: Concessional loans	0.0	0.4	0.2			0.0	0.1	0.1	0.1	0.1	0.1		0.1	0.1	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			3.7	3.9	3.8	3.6	3.5	3.2		2.9	1.8	2.7
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			59.0	54.8	55.3	57.0	57.3	56.2		55.5	46.7	52.2
Memorandum items:															
Nominal GDP (Billions of US dollars)	14.2	15.0	15.7			13.8	14.9	16.3	17.9	19.6	21.8		31.7	66.9	
Nominal dollar GDP growth	-1.1	5.1	4.9			-11.8	8.0	9.2	9.8	9.7	10.9	6.0	7.9	7.7	7.8
PV of PPG external debt (in Billions of US dollars)			4.0			4.3	4.7	5.0	5.4	5.7	6.1		8.0	12.6	
(PVt-PVt-1)/GDPt-1 (in percent)						1.6	2.7	2.5	2.1	2.0	1.9	2.1	1.4	0.7	1.2
Gross workers' remittances (Billions of US dollars)	1.9	2.1	2.2			1.9	2.0	2.1	2.2	2.4	2.5		2.6	6.1	
PV of PPG external debt (in percent of GDP + remittances)	...	...	24.4			27.3	27.5	27.2	26.7	25.9	25.0		23.4	17.3	
PV of PPG external debt (in percent of exports + remittances)	...	...	66.6			76.1	79.4	79.8	79.6	79.0	77.4		76.5	53.4	
Debt service of PPG external debt (in percent of exports + remittanc	...	...	5.3			5.6	5.3	5.8	5.9	6.0	5.8		6.6	6.7	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

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

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

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

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

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

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

Table 2. Senegal: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2015–35

(In percent)

	Projections							
	2015	2016	2017	2018	2019	2020	**2025**	2035
PV of debt-to GDP ratio								
Baseline	31	31	31	30	29	28	**25**	19
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	31	32	34	35	35	35	**34**	27
A2. New public sector loans on less favorable terms in 2015-2035 2	31	32	32	32	32	31	**31**	27
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	31	32	33	32	31	30	**27**	20
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	31	33	35	34	33	32	**28**	19
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	31	33	35	34	33	32	**29**	22
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	31	34	36	35	34	32	**28**	19
B5. Combination of B1-B4 using one-half standard deviation shocks	31	36	42	40	39	37	**32**	21
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	31	44	44	43	41	40	**36**	27
PV of debt-to-exports ratio								
Baseline	115	120	120	119	117	114	**102**	72
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	115	125	131	137	141	143	**136**	105
A2. New public sector loans on less favorable terms in 2015-2035 2	115	123	126	127	129	128	**125**	105
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	115	121	120	119	118	115	**102**	72
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	115	133	162	160	158	153	**131**	86
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	115	121	120	119	118	115	**102**	72
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	115	131	139	137	135	131	**111**	73
B5. Combination of B1-B4 using one-half standard deviation shocks	115	132	154	152	150	145	**122**	78
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	115	121	120	119	118	115	**102**	72
PV of debt-to-revenue ratio								
Baseline	145	146	144	140	134	127	**119**	89
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	145	151	157	161	161	160	**158**	129
A2. New public sector loans on less favorable terms in 2015-2035 2	145	150	152	150	147	143	**146**	129
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	145	151	155	150	145	137	**128**	95
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	145	152	165	159	153	145	**129**	90
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	145	156	166	160	155	147	**137**	102
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	145	159	167	161	155	147	**130**	90
B5. Combination of B1-B4 using one-half standard deviation shocks	145	167	195	188	181	171	**150**	101
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	145	207	205	198	191	182	**169**	126

Table 2. Senegal: Sensitivity Analysis for Key Indicators of Public Guaranteed External Debt, 2015–35 (continued)

(In percent)

Debt service-to-exports ratio								
Baseline	9	8	9	9	9	8	**9**	9
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	9	8	9	10	10	10	**12**	13
A2. New public sector loans on less favorable terms in 2015-2035 2	9	8	8	9	9	8	**11**	13
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	9	8	9	9	9	8	**9**	9
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	9	9	10	11	11	10	**12**	11
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	9	8	9	9	9	8	**9**	9
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	9	8	9	9	9	9	**10**	9
B5. Combination of B1-B4 using one-half standard deviation shocks	9	8	10	10	10	10	**11**	10
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	9	8	9	9	9	8	**9**	9
Debt service-to-revenue ratio								
Baseline	11	10	10	10	10	9	**10**	11
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	11	10	11	11	11	11	**14**	16
A2. New public sector loans on less favorable terms in 2015-2035 2	11	10	10	10	10	9	**12**	16
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	11	10	11	11	11	10	**11**	12
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	11	10	11	11	11	10	**12**	11
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	11	10	12	12	12	11	**12**	13
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	11	10	11	11	11	10	**12**	11
B5. Combination of B1-B4 using one-half standard deviation shocks	11	10	12	13	12	11	**14**	13
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	11	14	15	15	14	13	**15**	16
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	19	19	19	19	19	19	**19**	19

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 an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Table 3. Senegal: Public Sector Debt Sustainability Framework, Baseline Scenario, 2012–35

(In percent of GDP, unless otherwise indicated)

	Actual					Estimate			Projections						
	2012	2013	2014	Average 5/	Standard Deviation 5/	2015	2016	2017	2018	2019	2020	2015-20 Average	2025	2035	2021-35 Average
Public sector debt 1/	42.8	46.6	53.2			54.4	55.1	55.4	54.8	54.1	52.2		50.5	47.9	
of which: foreign-currency denominated	30.6	32.4	39.5			39.3	39.3	38.9	37.9	36.8	35.6		31.9	23.1	
Change in public sector debt	2.1	3.8	6.6			1.1	0.8	0.3	-0.6	-0.7	-1.9		-0.5	-0.2	
Identified debt-creating flows	2.1	3.5	6.3			6.2	0.0	-0.9	-1.7	-2.1	-2.5		-0.8	-0.4	
Primary deficit	3.7	4.0	3.2	3.3	1.4	2.9	2.3	1.7	1.1	1.0	0.6	1.6	1.1	1.3	1.1
Revenue and grants	23.3	22.5	24.2			24.4	24.3	24.3	24.3	24.4	24.4		23.6	22.6	
of which: grants	2.8	2.5	3.3			2.9	3.0	2.9	2.8	2.8	2.5		2.3	1.4	
Primary (noninterest) expenditure	27.0	26.4	27.5			27.3	26.7	26.0	25.5	25.4	25.0		24.6	23.9	
Automatic debt dynamics	-1.1	-0.5	3.1			3.4	-2.4	-2.6	-2.8	-3.1	-3.1		-1.8	-1.6	
Contribution from interest rate/growth differential	-1.2	0.8	-0.5			-0.9	-2.0	-2.2	-2.5	-2.7	-2.6		-1.8	-1.6	
of which: contribution from average real interest rate	0.5	2.3	1.6			1.7	1.0	1.2	1.1	1.0	1.1		1.1	0.7	
of which: contribution from real GDP growth	-1.7	-1.5	-2.1			-2.6	-3.0	-3.3	-3.6	-3.7	-3.6		-2.9	-2.4	
Contribution from real exchange rate depreciation	0.1	-1.3	3.5			4.3	-0.4	-0.4	-0.3	-0.4	-0.5		...	...	
Other identified debt-creating flows	-0.5	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	-0.5	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	0.1	0.4	0.3			-5.1	0.8	1.2	1.1	1.4	0.7		0.2	0.2	
Other Sustainability Indicators															
PV of public sector debt	...	...	41.6			46.1	46.9	47.3	46.9	46.3	44.5		44.0	43.6	
of which: foreign-currency denominated	...	...	27.8			31.1	31.1	30.7	30.0	29.0	27.9		25.4	18.8	
of which: external	...	...	27.8			31.1	31.1	30.7	30.0	29.0	27.9		25.4	18.8	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	11.5	12.1	12.9			11.6	12.8	7.7	8.0	6.7	5.5		6.0	5.7	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	171.4			189.0	192.8	194.8	192.7	190.0	182.5		186.7	193.0	
PV of public sector debt-to-revenue ratio (in percent)	...	...	198.1			214.9	219.7	221.5	218.2	214.2	203.1		206.7	205.5	
of which: external 3/	...	...	132.5			144.9	145.7	144.1	139.6	134.1	127.2		119.2	88.7	
Debt service-to-revenue and grants ratio (in percent) 4/	16.1	17.0	20.3			21.4	16.4	16.4	20.7	18.4	15.4		17.8	18.2	
Debt service-to-revenue ratio (in percent) 4/	18.4	19.2	23.5			24.3	18.7	18.7	23.4	20.7	17.1		19.7	19.4	
Primary deficit that stabilizes the debt-to-GDP ratio	1.6	0.1	-3.4			1.8	1.5	1.4	1.7	1.7	2.5		1.6	1.5	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	4.4	3.6	4.7	3.8	1.2	5.1	5.9	6.5	7.0	7.1	7.2	6.5	6.0	5.1	5.8
Average nominal interest rate on forex debt (in percent)	2.5	2.5	2.5	2.5	0.6	2.4	2.8	2.8	2.8	2.9	2.9	2.8	2.4	2.6	2.5
Average real interest rate on domestic debt (in percent)	4.5	8.5	6.4	3.6	3.9	6.7	4.5	4.6	4.1	3.7	4.4	4.7	5.1	3.0	4.6
Real exchange rate depreciation (in percent, + indicates depreciatior	0.5	-4.3	11.1	1.2	8.8	11.2	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	2.6	-1.9	0.1	2.4	2.9	0.2	1.8	1.5	1.6	1.7	1.8	1.4	1.8	2.5	1.9
Growth of real primary spending (deflated by GDP deflator, in percer	3.5	1.2	8.9	1.4	2.9	4.4	3.5	3.6	4.9	6.8	5.7	4.8	5.6	4.1	5.5
Grant element of new external borrowing (in percent)	...	...	...	...	...	23.4	21.7	21.9	22.5	22.6	22.8	22.5	21.1	17.9	...

Sources: Country authorities; and staff estimates and projections.

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

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

3/ Revenues excluding grants.

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

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

Table 4. Senegal: Sensitivity Analysis for Key Indicators of Public Debt, 2015–35

	Projections							
	2015	2016	2017	2018	2019	2020	2025	2035
PV of Debt-to-GDP Ratio								
Baseline	46	47	47	47	46	45	44	44
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	46	49	52	54	57	59	73	91
A2. Primary balance is unchanged from 2015	46	47	49	50	51	50	56	64
A3. Permanently lower GDP growth 1/	46	47	48	48	47	46	47	54
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2016-20	46	49	53	53	54	53	58	64
B2. Primary balance is at historical average minus one standard deviations in 2016-201	46	49	52	51	50	48	47	46
B3. Combination of B1-B2 using one half standard deviation shocks	46	50	53	54	54	53	56	61
B4. One-time 30 percent real depreciation in 2016	46	59	59	57	56	53	51	49
B5. 10 percent of GDP increase in other debt-creating flows in 2016	46	56	55	55	53	51	49	47
PV of Debt-to-Revenue Ratio 2/								
Baseline	189	193	195	193	190	182	187	193
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	189	200	211	222	232	238	302	389
A2. Primary balance is unchanged from 2015	189	195	201	204	208	207	239	281
A3. Permanently lower GDP growth 1/	189	193	196	195	194	187	201	237
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2016-20	189	201	215	218	219	216	242	284
B2. Primary balance is at historical average minus one standard deviations in 2016-201	189	201	214	211	207	198	200	202
B3. Combination of B1-B2 using one half standard deviation shocks	189	203	218	220	220	216	237	271
B4. One-time 30 percent real depreciation in 2016	189	244	242	236	230	218	216	219
B5. 10 percent of GDP increase in other debt-creating flows in 2016	189	228	228	224	220	210	210	208
Debt Service-to-Revenue Ratio 2/								
Baseline	21	16	16	21	18	15	18	18
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	21	17	17	23	21	20	28	39
A2. Primary balance is unchanged from 2015	21	16	16	21	19	17	22	28
A3. Permanently lower GDP growth 1/	21	16	17	21	19	16	19	22
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2016-20	21	17	18	22	21	18	23	28
B2. Primary balance is at historical average minus one standard deviations in 2016-201	21	16	17	22	20	17	19	19
B3. Combination of B1-B2 using one half standard deviation shocks	21	17	17	23	21	18	22	27
B4. One-time 30 percent real depreciation in 2016	21	18	20	25	23	20	24	28
B5. 10 percent of GDP increase in other debt-creating flows in 2016	21	16	18	24	22	19	20	20

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.