IMF Country Report No. 16/144

SENEGAL

June 2016

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

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

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on May 25, 2016 following discussions that ended on March 14, 2016, 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 May 9, 2016.
- A **Statement by the Executive Director** for Senegal.

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

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

*Also included in the Staff Report

The 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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May 26, 2016

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IMF Executive Board Completes Second Review Under the Policy Support Instrument (PSI) for Senegal

The Executive Board of the International Monetary Fund (IMF) completed the second review of Senegal's economic performance under a program supported by the Policy Support Instrument (PSI)[1].

The PSI for Senegal was approved on June 24, 2015 (see Press Release No. 15/297).

Following the Executive Board discussion, Mr. Mitsuhiro Furusawa, Deputy Managing Director and Acting Chair, made the following statement:

"The Policy Support Instrument has buttressed strong macroeconomic performance, with growth increasing from 4.3 percent in 2014 to 6.5 percent in 2015 and 2016. Inflation remains low, and maintaining the 2016 fiscal deficit target of 4.2 percent of GDP will support reaching the West African Economic and Monetary Union's convergence criteria of 3 percent of GDP one year earlier than the mandated 2019.

"The authorities recognize that raising growth rates to 7 to 8 percent over the 20-year period of the *Plan Sénégal Emergent* requires steadfast action to reduce patronage and rent-seeking so as to open economic space to small and medium enterprises (SMEs) and foreign direct investment (FDI). Accordingly, they have cancelled Senegal Airlines' flying rights, closed five public agencies with no formal existence, taken steps to improve the business environment, promoted agricultural development, and reformed university scholarships. The elimination of energy subsidies in the 2016 budget should become the norm as reforms to boost electricity generation and lower costs accelerate. These reforms signal improving economic governance while positively impacting public finances.

[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).

"The authorities are also rebalancing public expenditure towards investment in human capital and public infrastructure, accelerating efforts to curtail tax expenditures, and strengthening the efficiency of public expenditure, including by controlling subsidies and the wage bill.

"The authorities are establishing a special economic zone to promote good economic governance where SMEs and FDI could thrive. They are exploring the appropriate governance structure to ensure the required business-friendly regulatory framework and a tax regime that is easy to comply with and has reasonable tax rates as well as limited and rules-based tax expenditures.

"Risks remain to the planned fiscal consolidation, together with external risks of slow growth in partner countries, continued volatility in oil prices, and potential spillovers from regional shocks. These risks are mitigated with a planned strengthening of fiscal anchors and expansion of the precautionary reserve envelope."

INTERNATIONAL MONETARY FUND

SENEGAL

May 9, 2016

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

KEY ISSUES

Macroeconomic performance during 2015 was strong but sustaining the momentum requires steadfast implementation of reforms to create space for SMEs and FDI aimed at globally competitive production. Economic growth of 6.5 percent is the highest in 12 years and is projected at 6.6 percent in 2016. Inflation is expected to stay within the 1–2 percent range over the medium term. Better exports and lower oil prices helped the current account narrow by 1.3 percentage points to 7.6 percent of GDP. A further improvement is projected in 2016.

Program performance through December was broadly satisfactory. All end-December 2015 quantitative assessment criteria were met but the end-December indicative target on the share of the value of public sector contracts signed by single tender was missed. Implementation of structural reforms has been slow: with several structural benchmarks, particularly those aimed at improving economic governance, not implemented by end-December 2015.

Discussions focused on economic policies and structural reforms to sustain growth. The authorities committed to taking corrective action to accelerate structural reforms and improve economic governance. They re-affirmed their commitment to the fiscal deficit target for 2016. This requires continued strengthening of public finances by further mobilizing revenue and rebalancing public expenditure towards investment in human capital and social infrastructure. The authorities agreed that the limits of public sector driven growth are being reached. Sustaining the growth momentum to achieve the Plan Senegal Emergent (PSE) targets requires steadfast implementation of reforms. In particular, action is needed to reduce patronage and rent-seeking and open economic space to SMEs and FDI, thereby creating economic opportunities for all.

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

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

Discussions were held in Dakar, March 1–14, 2016. The mission comprised Messrs. Ali Mansoor (head), Salifou Issoufou, Sébastien Walker (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. Other contributors included Ms. Yanmin Ye and Ms. Sandrine Ourigou. The mission met with the President, Mr. Sall; the Prime Minister, Mr. Dionne; the Minister of Finance and Economic Planning, Mr. Ba; the Minister of Higher Education and Research, Mr. Niane; the Minister of Agriculture and Rural Equipment, Mr. Seck; the Minister of Civil Service, Mr. Seck; the Minister in charge of PSE, Mr. Tall; the National Director of the Central Bank, Mr. Camara; other senior officials; and development partners.

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RECENT DEVELOPMENTS AND OUTLOOK

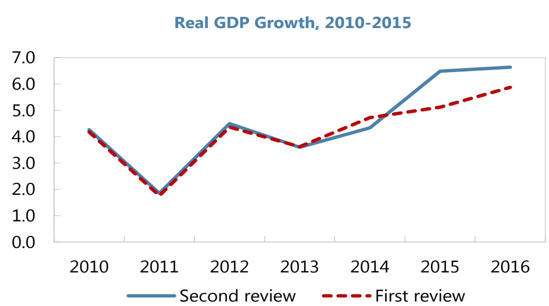
1. **Government proposals for constitutional reforms were approved by 63 percent of the vote in a referendum held on March 20, 2016**. The changes include a reduction in President's term of office from seven to five years; an age-limit for presidential candidates (between 35 and 75 years); and a prohibition of dual citizenship for candidates. However, these changes will apply for the next term following a related decision by the Constitutional Court. This means that the next Presidential elections will be in 2019 and gives the authorities room to accelerate reforms.

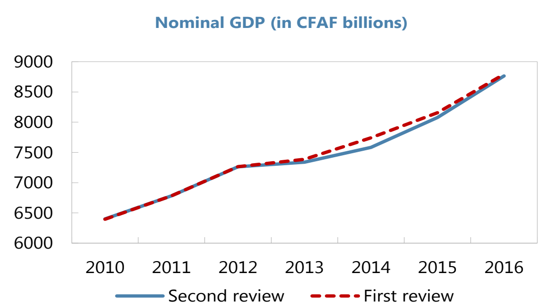
2. **Growth was robust at 6.5 percent in 2015 and is projected to continue at a similar level this year.** This is an increase from 4.3 percent in 2014 and reflects the initiation of Plan Sénégal Emergent (PSE)-related projects; the buoyant performance in agriculture thanks to good weather and higher productivity in the sector; and renewed dynamism in the secondary sector due to refining, chemicals, cement, energy, and construction. Provided decisive action is taken to tackle rent-seeking and accelerate reforms to stimulate SMEs and FDI, the prospects for higher economic growth are strong. In that spirit, real growth is projected at 6.6 percent in 2016 and around 7 percent in the medium term, as reforms under the PSE begin to yield results.

3. **Inflation remains low.** Reflecting lower oil and food prices, inflation is low: 0.4 percent y-o-y at end-December 2015 and 0.1 percent yearly average in 2015.[1] Inflation is expected to remain low over the medium term.

Box 1. Senegal: Revisions of National Accounts

The *Agence nationale de la statistique et de la démographie* (ANSD) revised GDP estimates for 2010–14 as part of its annual revisions procedure. The key change pertains to 2014. Value added growth was revised to 4.3 percent (down from 4.7) largely driven by downward revisions of agricultural production. The change in deflator for 2014 was revised to -1.0 percent (compared with 0.1 percent). The changes mean a lower base for 2015-16 GDP as the 2014 real and nominal GDP are lower than previous estimates and the estimated deflators for 2015-16 are also lower.





[1] The GDP deflator is revised to 0.0 percent in 2015 and 1.7 percent in 2016 (from 0.2 and 1.8 percent, respectively.

4. The 2015 fiscal deficit target of CFAF 389 billion (4.8 percent of revised GDP) was met, and the 2016 deficit target of CFAF 372 billion (4.2 percent of GDP) remains as programmed under the PSI. In 2015, revenue was 0.7 percentage points of GDP higher than projected, of which tax revenue accounted for 70 percent.[2] The payroll policy has achieved some success in that the wage bill was as projected, at CFAF 526 billion in 2015.[3] In the 2016 budget, there is provision for transferring the personnel costs of institutions (CESE: The Economic, Social and Environmental Council; and the National Assembly) to the current expenditure account. The wage bill was revised to CFAF 573 billion, for an increase of about CFAF 34 billion in absolute terms and 6.4% in proportional terms.[4]

5. The current account balance has narrowed to 7.6 percent of GDP in 2015 (compared with 8.9 percent in 2014) due to lower oil prices and higher export volumes.[5] Projected oil prices in 2016 are 30 percent lower than last year's. Accordingly, the current account is projected to continue improving to 6 percent of GDP in 2016. Workers' remittances in 2015 amounted to 11.9 percent of GDP and they are projected to decline in the medium term reaching 10 percent of GDP by 2020. Foreign direct investment remained low relative to other developing countries but is estimated to have increased from 2 percent of GDP in 2014 to 2.4 percent of GDP in 2015, owing partly to Chinese investments and a capital injection by Indorama in the phosphate industry.[6]

6. Public debt has increased but remains on a sustainable path. In 2015, public debt reached 56.8 percent of GDP, higher than initially projected, due to the downward revision in GDP and to a nominal increase in both external and domestic debt.[7] In 2016, public debt is estimated to increase to 57.3 percent of GDP. Thereafter, a downward trend in the debt-to-GDP ratio is expected over the

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[2] The increase in tax revenues is mainly explained by a higher than projected collection of corporate income taxes which reflects the stronger economic activity in 2015 (in particular in construction and retail commerce). The other 30 percent come from higher than expected non-tax revenue justified by higher collection of arrears, higher public concessions, higher dividends from SONATEL and BCEAO and higher s sales of public property.

[3] The authorities froze 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. However, those measures, while they succeeded in containing the wage bill at CFAF 526 billion, were not sufficient to resolve the structural problems in controlling the wage bill: in some cases, they postponed certain effects, particularly with regard to the financial impact of the agreements concluded between the government and the teachers' unions as they relate to integration into the State payroll, and back pay.

[4] The wage bill was initially set in the 2016 budget law at CFAF 556 billion (including the National Assembly and the Economic, Social and Environmental Council) and CFAF 538 billion (excluding the National Assembly and the Economic, Social and Environmental Council).

[5] The volume of exports increased by 16.6 percent in 2015, compared to 6.9 percent in 2014, thanks to the favorable dynamics of groundnut, phosphates, and cement sectors. The volume of imports also sharply increased (+13 percent), especially because of higher imports of capital and intermediate goods, and of many food items. Among the latter, imports of rice stagnated and are projected to steadily decline in following years as the country will increasingly shift to domestic production.

[6] The average FDI for low income SSA is 4 percent of GDP.

[7] In particular, the government re-negotiated a commercial loan of 150 million euros contracted in 2014 with a one-year maturity, extending the maturity to five years, plus a two-year grace period, at 5.1 percent plus the Euribor.

medium term, reaching 50 percent in 2021. Using the current framework, updated DSA results are broadly unchanged confirming Senegal's low risk of debt distress.[8]

7. The financial sector remains sound and progress has been made in restructuring non-performing loans (NPLs). All components of broad money grew faster than projected due notably to the launch of three new banks in 2015 and stronger than expected economic activity; this trend is expected to continue on the back of sustained economic growth.[9] Progress has been made in the restructuring of NPLs, which have fallen from 23 percent (as a proportion of total loans) at end-June 2015 to 18.8 percent at end-December 2015.

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

9. Program performance under the PSI remains satisfactory. While four indicative targets (ITs) were missed at end-September, all end-December assessment criteria (AC) were met, together with all but one IT. End-September ITs were narrowly missed on tax revenues, the budgetary float, and net borrowing. The IT on the share of the value of public sector contracts signed by single tender was also missed in September and December. This reflected the use of unsolicited bids to accelerate the rural electrification program. The PSE calls for electrification of 60 percent of rural households by 2017 (from about 25 percent in 2012). However, the time to prepare tenders and other delays compromise this target. The authorities viewed the risks of higher prices and lower quality from unsolicited bids as worth taking in light of the high economic and social benefits of bringing electricity to rural areas. Staff have highlighted the importance of transparent tenders and the authorities have reiterated their commitment to favor transparent tenders and continue monitoring/adhering to this indicative target going forward. Structural reforms progressed more slowly than envisaged. Six out of ten 2015 structural benchmarks (SBs) were met; of the four unmet end-December 2015 benchmarks, one was met with delay and the other three are expected to be met between end-May and end-October 2016. Two benchmarks relating to the politically difficult reform of agencies have been or are being implemented with a delay: five agencies with no formal existence were eliminated by end-April 2016 and performance contracts for five agencies and three public institutions have been signed by the Minister of Finance, with additional performance

[8] Debt and debt service ratios follow patterns similar to the ones discussed in the previous DSA, with debt declining over time and debt service ratios showing two spikes in correspondence to the repayment of the outstanding Eurobonds. Debt ratios worsen in the historical scenario, because of the significant differences between the projected current account-to-GDP ratio and the historical ratios.

[9] Growth of net foreign assets (NFA) in 2015 (14.4 percent) was faster than projected as a result of rapid growth in lending by commercial banks to other parts of the sub-region. Domestic credit also grew faster than expected in 2015 (11.2 percent) as a consequence of high growth in net credit to the government and despite slower than anticipated growth in credit to the economy.

contracts with three agencies expected to be signed by end-May 2016. A further benchmark was almost met with delay in April 2016, with collection at end-December of 47 percent of unpaid 2014 taxes (against the target of 50 percent). Technical difficulties in isolating 2014 from other unpaid taxes contributed to missing the target and the goal is expected to be achieved by end June 2016. The last unmet benchmark relates to the debt anchor that was included in the 2016 budget but without language on corrective actions to be taken in the event of debt slippages. This inadvertent omission, will be addressed in the next corrective budget in October 2016. The structural benchmark concerning the development of a management strategy for government and public enterprise investment portfolios for end-March 2016 is being pushed back to end-September 2016 to give time for building consensus.

10. The economic outlook remains favorable but downside risks remain. In its March 2016 Edition, Moody's rated Senegal as the only sub-Saharan African (SSA) country with a positive outlook. In addition, Senegal has one of the lowest sovereign bonds spread in SSA. However, downside risks remain. Main risks include slow implementation of reforms to roll back rents and patronage, continued unproductive public consumption, failure to raise expenditure efficiency, and risks stemming from growing regional security threats. The good results in agriculture could also be reversed in the event of lower than average rainfall and if land reform fails to move forward decisively to create the property rights required for maintenance of the investments being made to raise productivity. The program provides for increased security spending and the other risks are being mitigated by the precautionary cushion in the budget. External risks include tighter global conditions in 2016–17. Lower risk appetite among investors could reduce the availability of external financing and reduce capital inflows. However, with limited investment opportunities in the region, lower risk appetite would likely affect cost but not the availability of financing in the regional sovereign bond market. The downside risks could result in less favorable economic growth than assumed in the baseline.

POLICY DISCUSSIONS

11. Discussions focused on economic policies and structural reforms needed to sustain growth and continued fiscal consolidation to meet regional convergence criteria. To keep growth buoyant, make it more inclusive and to fortify the economy's resilience to internal shocks as well as those inherent in the international setting and the context of insecurity within the region, staff discussed with the authorities the need for steadfast action in the following areas: (a) improving the business environment to open economic room for SMEs and FDI (MEFP ¶12); (b) strengthening public financial management and governance; and (c) rebuilding the government's fiscal space.

A. Fiscal and Debt Policies

12. The authorities are committed to achieving the 2016 fiscal deficit of CFAF 372 billion (4.2 percent of GDP) as programmed under the PSI (MEFP ¶13). Public consumption is projected to decline from 18.6 percent of GDP in 2015 to 17.2 in 2016 allowing for more public investment in human capital and infrastructure. Spending on goods and services is expected to remain at

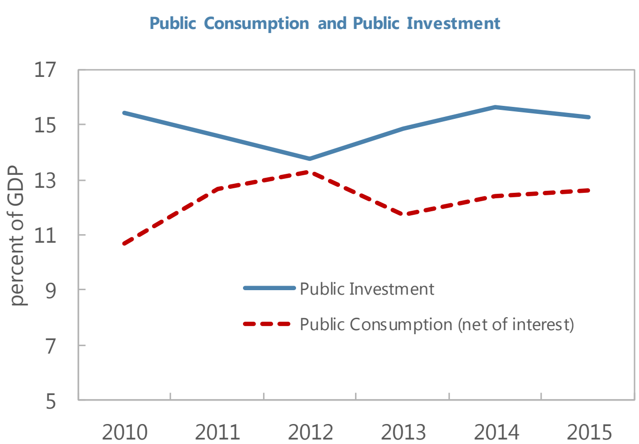
4.3 percent of GDP while the wage bill will be 0.2 percentage points higher than initially projected (at 6.5 percent of GDP), but is expected to decrease afterwards.10 On the revenue side, an additional 0.7 percentage points of GDP is expected from tax revenues mainly from VAT on oil products. To meet the fiscal consolidation objectives of 2016 and beyond, the authorities should continue improving revenue collection while rebalancing expenditure to achieve the PSE objectives of curtailing public consumption to create fiscal space for public investment in human capital and infrastructure. Staff believe that the current package of policies will allow Senegal to meet by 2018, a year early, the 3 percent of GDP fiscal deficit convergence criteria of the West African Economic and Monetary Union. This will require continued curtailment of subsidies and control of the growth of the wage bill through continuation of the policies already initiated (Box 2).

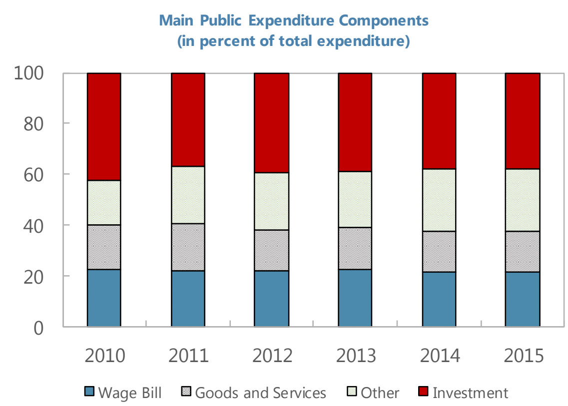
[10] Three fourths of this increase is explained by regularization of outstanding arrears related to benefits and other allowances while the remaining one fourth is due to automatic conversion of contractual to public servants as well as new hiring on security and defense.

Box 2. Senegal: Shifting from Public Consumption to Private Investment

Private investment in globally competitive activity is key to sustaining high growth over the PSE horizon to 2035. As discussed in Box 3, Senegal (and some forty other developing countries) have witnessed the limits of relying on the public sector to sustain long term growth. At the same time, to crowd in private investment to sustain long term growth, it is essential to boost investment in human capital and public infrastructure, particularly electricity, highways, water systems, sewers, ports and airports.

To create the space for such an increase in public investment, the PSE calls for a shift away from public consumption towards public investment so as to scale up the stock of both physical (infrastructure) and human capital (education, health and social protection to empower the most vulnerable). Despite efforts in this direction, public investment (in percent of GDP) fell in 2015 after three years of rising faster than public consumption.[11] Moreover, in 2014 and 2015 less than 50 percent of the growth in total government expenditure was attributable to growth in public investment. This suggests that more needs to be done to rationalize public consumption if the PSE objective is to be met. In parallel, action is needed to improve the overall quality of public investment which is relatively low in Senegal. This means that much more needs to be invested to manage the full project cycle and to ensure that investment projects are properly prepared.





13. Revenue collection will continue to improve in 2016 and beyond (MEFP ¶14–16). The control of the tax base will be strengthened and overall revenue collection optimized. The authorities will institute procedures for forced recovery of arrears while introducing case management units within each recovery unit. These actions are expected to ensure the recovery or settlement of at least 50 percent of the stock of outstanding assessment notices as of the end of each year. Further steps will be taken in 2017 to rationalize tax expenditures (see Box 4). Based on the 2013 report on tax expenditures and the conclusions of the working group established for this purpose, an action plan will be adopted by the government before the end of August 2016.

[11] Public investment includes acquisition of non-financial assets, wages and salaries of front-line staff in education and health (*titre 2*) and capital transfers to agencies (*titre 4*).

Moreover, the implementation of the single taxpayer identification number (NINEA) and continued close cooperation between the *Direction Générale des Impôts et Domaines* (DGID) and the *Direction Générale des Douanes* (DGD), will help broaden the tax base through better control over imports and better monitoring of the customs clearance of potentially revenue-yielding products.

14. Streamlining expenditure is expected to continue in 2016 and beyond (MEFP ¶17–18). The authorities intend to improve the management of subsidies based on the recommendations of the working group that is to report by September this year. Meanwhile action is already being taken to limit subsidies to the institutions of higher education. As of this year, appropriations not yet committed will be distributed by identified items in the functional classification and within the integrated public financial management system. For 2017, such distribution by functions will become mandatory and any release of subsidies will be subject to prior approval by technical and financial oversight bodies. To contain the wage bill, the authorities are committed to imposing budget constraints on hiring in all sectors and ensure that all current contractuals in the education, health, and vocational training will be integrated into the payroll by 2017.

15. The Precautionary Reserve Envelope (PRE) was institutionalized in 2015 and provided budgetary flexibility. The envelope for 2015, set at 0.6 percent of GDP (or CFAF 52bn), was reported in the investment part of the 2015 initial budget. At the end of 2015, 33 percent of the envelope (or CFAF 17bn) was mobilized to fund priority investments that were sufficiently mature (examples include the high-speed regional rail network Dakar-Aéroport International Blaise Diagne, the Route des Niayes, supply of low-cost housing; integrated tourist zones; the Tramway and the Business Park). In the 2016 budget, the PRE is extended to current operations: CFAF 18.7 billion (0.2 percent of GDP) for current operations and CFAF 44.4 billion (0.5 percent of GDP) for investment.

16. Investment efficiency, including PPPs, will continue to be strengthened (MEFP ¶19–22). The authorities will develop rigorous criteria for the selection and ranking of projects. All project proposals will be recorded in a project pipeline and will be subjected to rigorous feasibility analysis before inclusion in the budget. Also, they will conduct ex-ante analysis of all projects financed under public-private partnerships (PPPs) and the Ministry of Finance and Economic Planning (MFEP) will determine the modalities for financing PPPs to ensure that risks are properly accounted for.

17. The implementation of the Treasury Single Account (TSA) continues for completion by the end of 2017 (MEFP ¶26). The extension of the first-generation TSA to all bank accounts within the network of accounting staff in public institutions and agencies is completed in advance of the June 2016 completion date. The second-generation TSA will be deployed and operational as of June 2016 and the assessment criteria for the accounts that are to be "repatriated" will be established. The TSA will be finalized in December 2017.

18. Public financial management should continue to be strengthened. The authorities intend to step-up the supervisory control over agencies (MEFP ¶25). The creation of any new agency will be preceded by an impact study consistent with existing rules and regulations. In addition, the authorities plan to sign performance contracts with three additional agencies by end-May 2016.

19. Senegal's financing strategy is consistent with debt sustainability. The authorities will continue relying on non-concessional loans to finance investment projects, particularly transport infrastructure, energy, water and sanitation (MEFP ¶23). They have secured access to foreign concessional financing equivalent to about 6 percent of GDP (including grants), In addition, they are exploring about Euro 1 billion of non-concessional financing for 2016 from the African Development Bank (ADB) and the World Bank (WB). Whilst the preference is to tap these non-concessional facilities of multilateral donors, if these cannot be mobilized sufficiently rapidly they will use the international financial and regional markets to make up the shortfall. There should be no problem raising funds given ample liquidity on the regional market and strong appetite for Senegalese debt on international markets.

20. Debt management capacity should continue to be strengthened to help safeguard debt sustainability. To improve debt management capacity, the authorities: (i) will continue to develop a medium-term debt strategy to be appended to the budget; and (ii) for the next budget, it will announce the central government debt ratio deemed sustainable over five years with a commitment that, in case thresholds are exceeded, corrective measures (over four years) would be taken in the budget that follows (structural benchmark, October 2016); and (iii) will introduce a database and establish a mechanism for monitoring all external and domestic debt taken on by public enterprises and all collateral set aside by the government on this debt (MEFP ¶24). The National Public Debt Committee (CNDP) will also be strengthened and expanded to cover other government entities.

21. The thrust of the authorities' fiscal and debt policies for 2016 and beyond will ensure improved revenue collection, streamlined expenditure, and debt sustainability.

B. Financial Sector Policies

22. The financial sector remains broadly sound, and discussions focused on contributions to financial deepening through a financial inclusion strategy and the recent creation of a credit information bureau (CIB) (MEFP ¶31–32). The regional central bank (BCEAO) is working on a financial inclusion strategy aimed at deepening the sector. A private credit information bureau accredited by the BCEAO, Creditinfo VoLo, is in operation since February 1, 2015. Banks and micro-finance institutions must participate in the CIB, while customers must currently sign a consent form for their information to be made available to the CIB.

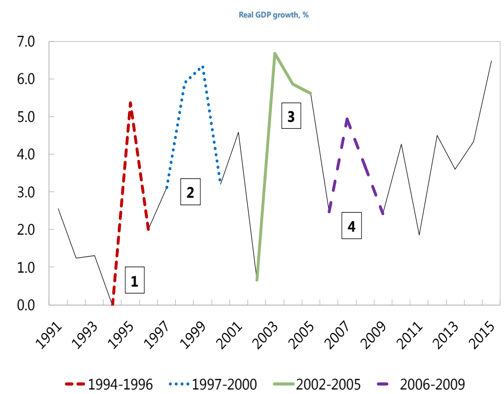
23. To strengthen the stability of the financial system, a National Financial Stability Committee has been created (MEFP ¶35). In 2015 the committee focused its work on the quality of the portfolio held by the banks and the *systèmes financiers décentralisés* (SFDs, "decentralized finance systems"). For the year 2016, the problems to be addressed will relate to the risk of concentration and the development of electronic money.

C. Structural Reforms

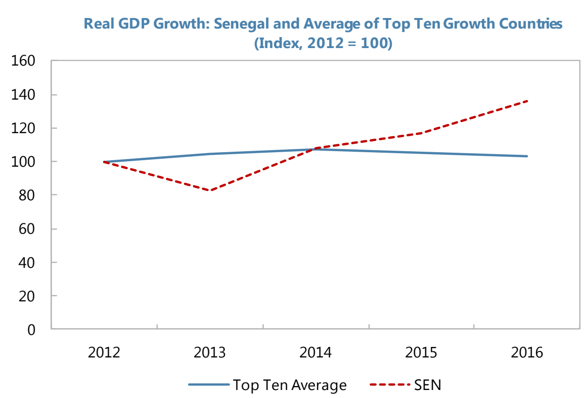
24. To sustain the growth that has been achieved over the PSE horizon to 2035, a steadfast implementation of structural reforms aimed at opening up space for SMEs and FDI will be required. In the past, Senegal has seen growth rising for a few years, at times reaching the 6.5 percent of 2015. However, this growth has been reversed in the absence of the strong reforms needed to encourage SMEs and FDI (Box 3).

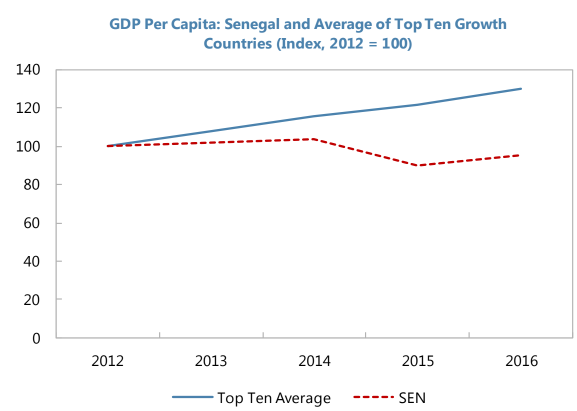
Box 3. Senegal: The Ups and Downs of Growth in Senegal

Real GDP growth in Senegal has not only been low with an average of 3.7 percent (0.7 percent per capita) over the last 25 years, but this growth has also been volatile. Between 1994 and 2014, growth has risen to 5 percent or more on four occasions (as highlighted in the chart), only to decline to below the average in the 1-3 years that follow. The most spectacular reversal was from 2001 to 2002, when growth of 4.6 percent collapsed to 0.7 percent – a drop of 3.9 percentage points. These ups and downs illustrate the limits of a public sector investment led growth strategy in the absence of reforms to tackle patronage and rent seeking so as to level the playing field for SMEs and FDI.[12]



Achieving the PSE's growth objectives will require going beyond public investment driven growth. Senegal's higher than projected 6.5 percent real growth of 2015 places it among the fastest growing countries in SSA. However, comparing Senegal with the top 10 fastest growing non-commodity exporters, one notes that although Senegal's real GDP has been growing faster, its per capita GDP has been falling behind. This calls for steadfast implementations of reforms to achieve the PSE's high, sustained, and inclusive growth.





[12] This is also the experience of about 40 other developing countries as documented in Senegal Selected Issues Paper, IMF Country Report No. 15/15 of January 2015.

25. There has been some notable progress, albeit slow, on structural reforms (MEFP 6–7). Five working groups have been set up to look closely at the following issues: (i) enterprises in difficulties; (ii) government subsidies to enterprises; (iii) integration of para-fiscal taxes into the budget; (iv) tax expenditures; and (v) the introduction of an independent accountants' network within the DGID. In addition, to improve transparency and streamline expenditure, the decree setting maximum pay levels for personnel (with the exception of directors general and members of the governance bodies) of agencies, and the decree on the closure of five agencies that have no staff and that exist only "on paper" have been signed.[13] The 5 agencies include the *Agence nationale de la Haute autorité du Désert, l'Agence nationale des Nouveaux Ports du Sénégal, l'Agence nationale de l'Energie solaire, l'Agence de Financement et de Promotion Economique des Jeunes, et l'Agence nationale des Grands Projets hospitaliers.* The government also intends to speed the process of privatization for SUNEOR, the leading enterprise in the groundnuts sector. Meanwhile, the target date for the development of a management strategy for government and public enterprise investment portfolios has been moved from March to September 2016 to give time to build consensus.

Box 4. Senegal: Tax Incentives and Attraction of Investment: Some Case Studies

The effectiveness of tax incentives varies between countries and sectors. In many countries, particularly in sub-Saharan Africa, tax incentives have resulted in little or no new investment. For example, the introduction of new investment codes in countries of the CFA franc zone including Senegal and the Economic Community of Central African States between 1994 and 2006, which provided more generous tax incentives, did not have any demonstrable effect on FDI (Van Parys and James, 2010).

In other countries however, tax incentives seem to have played an important role in attracting new investment and spurring economic growth when this has been part of an overall strategy to create space for SMEs and FDI to produce for export. As reported in the October 2015 IMF board paper on tax incentives, the relative effectiveness of tax incentives appears to depend on whether the incentives are geared toward export-oriented sectors and mobile capital. Examples include Korea and Singapore, where tax incentives and a focus on exports seem to have encouraged rapid industrialization (Tanzi and Shome, 1992). There is also evidence that simplifying tax systems to facilitate compliance may be more important than generous tax holidays. In Egypt, a new income tax law passed in 2005 phased out tax holidays while grandfathering current beneficiaries. Between 2005 and 2006, FDI into Egypt doubled (Keen and Mansour, 2010). In 2006, Mauritius normalized the taxation of its export processing zone and removed all provisions relating to tax credits and tax holidays while simplifying the system and unifying the corporate and personal income tax rate at a single rate of 15 percent. As part of a package of business facilitation measures including the promotion of online payment of taxes, more FDI was obtained in the following few years than in the previous 40 since independence. Similarly, China has essentially operated a 15 percent tax rate in its Special Economic Zones without this deterring investment or exports. In contrast the 50 year tax holidays offered by Senegal have had no discernible impact on FDI. Clearly incentives matter but a simple to comply with tax system with reasonable rates seems to provide a better incentive when combined with a regulatory framework that opens economic space than generous tax holidays.

[13] The decree fixing maximum wages was reversed due to implementation problems. Once these practical problems are addressed a new decree fixing maximum wages in agencies will be put into effect.

26. On Senegal Airlines, the authorities have cancelled the flying rights of the troubled company and taken back its air traffic rights. These are the first step to its liquidation. The company is largely owned by the private sector and no impact on the budget is expected in 2016 and beyond. The government is looking for strategic partners to ensure the successful operation and profitability of any newly created airline. The creation of a new airline, would not involve any significant fiscal outlay in 2016 and beyond.[14]

27. The authorities reaffirmed their intention to continue reforming SENELEC (the national electricity company) (MEFP ¶29–30). The cost of reforms is estimated at 2.4 percent of GDP between 2016 and 2018. The reform plan was submitted to development partners, in particular the World Bank and African Development Bank, in November 2015 for technical support and financing. The World Bank intends to field a production planning specialist to SENELEC in order to identify the best option for developing its production facilities. The development of the sector continues, with 250 MW of additional capacity expected to come on stream in 2016.[15]

28. The promotion of the private sector to support Senegal's emergence continues (MEFP ¶36–37). In that regard, the authorities will (i) create an economic space within a Special Economic Zone (SEZ) being developed in collaboration with the Government of Mauritius. The SEZ will have business-friendly regulations, including a tax regime with a moderate taxation rate and minimal tax expenditures; (ii) take further steps to streamline administrative procedures; and (iii) examine the possibility of creating a price-risk management fund in the cotton sector. In addition, work will continue on implementing the *Programme de Réformes de l'Environnement des Affaires et de la Compétitivité*, (PREAC, Program of Reforms to the Business Climate and Competiveness).

D. Program Issues

29. Quantitative ACs for 2016 remain broadly as initially programmed and understandings were reached with the authorities on new structural benchmarks. Assessment criteria and indicative targets for end-December 2016 are proposed. Staff supports the authorities' request for readjustment of the mid-year end of June 2016 deficit target and June 2016 indicative target on tax revenue, to reflect developments through March 2016.[16] The deficit target for the year is unchanged. Staffs also support the authorities' request that the target date for the SB related to the establishment of a platform which describes the lifecycle of the projects be moved to September

[14] There are risks that that the new airline requires costly subsidies like the now defunct Senegal Airlines if a strategic partner is not rapidly found to take the risks. Staff have pressed the authorities to launch a transparent process as rapidly as possible to find the best partner and, accordingly, to limit capital infusion into the new airline. Any expenditure on the airline will be within the agreed budget deficit. Thus, manifestation of these risks would result in a deviation of PSE objectives on rebalancing spending but not have major macro-fiscal consequences.

[15] That includes: The Taiba Ndiaye dual oil/gas-fired power station, for 105 MW; the Cap des Biches dual oil/gas-fired power station, for 85 MW; the Bokhole solar power plant, for 20 MW; and the import of energy from Mauritania, for an additional 40 MW of power.

[16] This partly reflects higher expenditure explained by regularization of outstanding arrears related to benefits and other allowances, conversion of contractual to public servants, and new hiring on security and defense.

2016, instead of June 2016, to provide time to gain the buy in of line ministries. Two new SBs are proposed. They relate to creating a structure responsible for recovering unpaid taxes (end-September 2016 SB), and adopting an action plan for reducing tax expenditure (end-September 2016 SB). Regarding the debt anchor, the announcement of a debt ratio for the budget was not met and staff proposes to reschedule it to October 2016.[17] Similarly staff supports the request of the authorities to push forward to September 2016 (from March 2016) the development of a management strategy for government and public enterprise investment portfolios as this will facilitate reaching consensus.

CAPACITY BUILDING

30. To continue supporting reform implementation, priorities and objectives of technical assistance (TA) were discussed. The authorities' TA priorities include improvements in project management, better managing fiscal risks from PPPs, fully implementing the single treasury account, enhancing tax administration, rebasing of national accounts, and adopting the SDDS. Guidance from the Fund and from peers on how best to implement improvements within prevailing political economy considerations would be welcome.

31. Reform implementation continues to be supported through peer-learning. A one-day seminar, chaired by the Prime Minister and including key Ministers in areas of reform covered in the "book on emergence" helped build a consensus on reforms.[18]

STAFF APPRAISAL

32. Senegal's macroeconomic performance continues to remain strong and progress has been made toward the PSE objectives. Increasing from 4.3 percent in 2014, growth was robust at 6.5 percent in 2015 and is projected to continue at a similar level this year reflecting the initiation of PSE-related projects, the buoyant performance in agriculture, and renewed dynamism in the secondary sector. Sustaining the positive growth momentum over a 20-year period will require steadfast implementation of reforms to reduce patronage and rent-seeking so as to open economic space to SMEs and FDI, thereby creating economic opportunities for all. In this regard staff welcome the initial steps taken to eliminate unnecessary agencies and to use performance contracts to improve the performance of those to be retained. Similarly, staff believes that the PSE growth rates of 7 to 8 percent over 20 years are feasible if SMEs and FDI are provided a space where good

[17] The commitment that in case thresholds are exceeded, corrective measures (over four years) would be taken in the budget that follows.

[18] The book was drafted in early January 2016 during a one-week workshop (or "book sprint"). The workshop brought together authors and experts from Senegal, the IMF, the World Bank, and peer countries including Mauritius, Morocco and Seychelles. The book describes how low-income countries such as Senegal can become middle-income emerging economies. The workshop was organized by the IMF Senegal team, in collaboration with Senegalese authorities and the World Bank, and with financial support from the European Union (EU) and the government of Senegal.

economic governance prevails. The collaboration with the Government of Mauritius on joint management of a special zone could open such space. This could produce the required business friendly regulatory framework and taxes that are reasonable, easy to comply with and with limited and rules based tax expenditure. Inflation remains low and fiscal deficits are declining and expected to reach the WAEMU convergence criteria of 3 percent of GDP one year earlier than the mandated 2019.

33. Staff welcomes the authorities' commitment to keep the 2016 fiscal deficit target in line with the program. 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. 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 in 2016. The elimination of energy subsidies in the 2016 budget should become the norm going forward and the efforts to rebalance public expenditure towards investment in human capital and public infrastructure, as enshrined in the PSE, are welcome.

34. The authorities' decision to cancel Senegal Airlines' flying rights and take back its traffic rights and to close 5 agencies is commendable. The action will have a positive impact on public finances and enhance the authorities' credibility on economic governance.

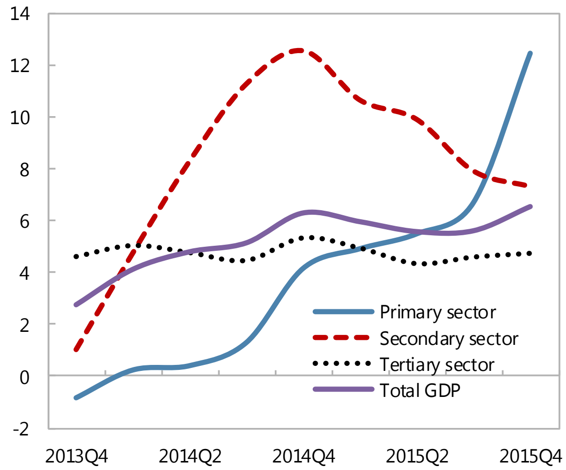
35. It is critical to continue tackling patronage and rent seeking, reforming agencies, the energy sector and enterprises in difficulty. The success of fiscal consolidation plans and achieving the growth targets of the PSE will partly depend on the transparency and accountability under which government agencies and other public enterprises function. It will also depend on whether the energy sector becomes more efficient and viable to fully be at the service of promoting the growth of SMEs and FDI.

36. Staff recommends completion of the second PSI review and supports the authorities' request for adjustment of the assessment criterion on the mid-year fiscal deficit at end-June 2016.

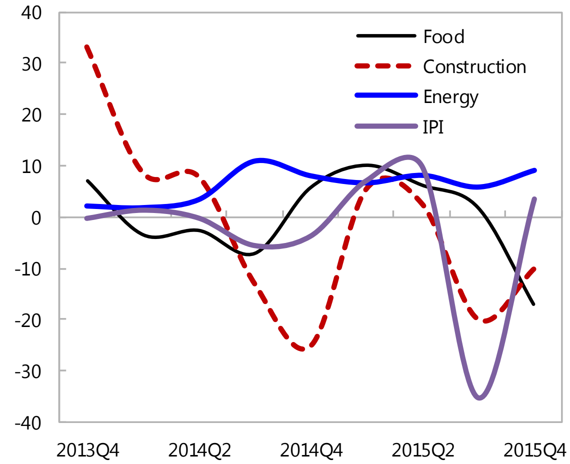
Figure 1. Senegal: Recent Developments: High Frequency Indicators

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

Real GDP Growth
(Annual percentage change, quarterly basis)

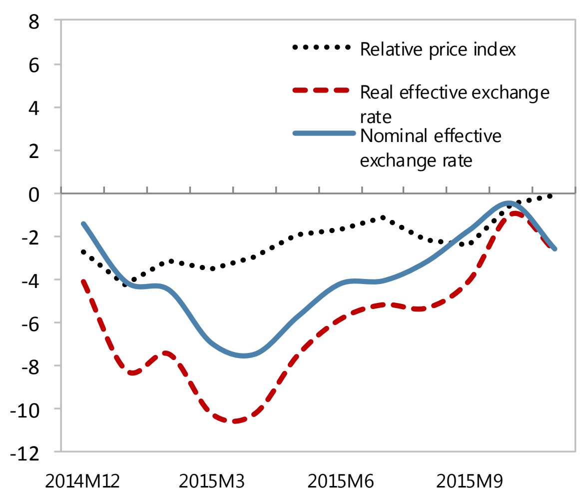


Industrial Production Index
(Annual percentage change, quarterly basis)



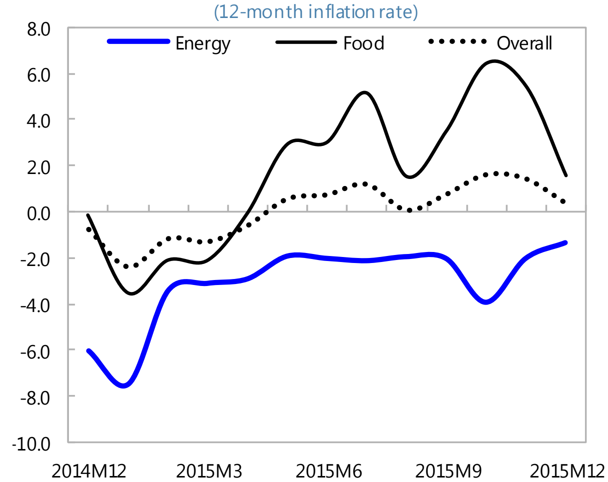
Senegal gained some price competitiveness owing to real exchange rate depreciation.

Effective Exchange Rate
(12-month percentage change)



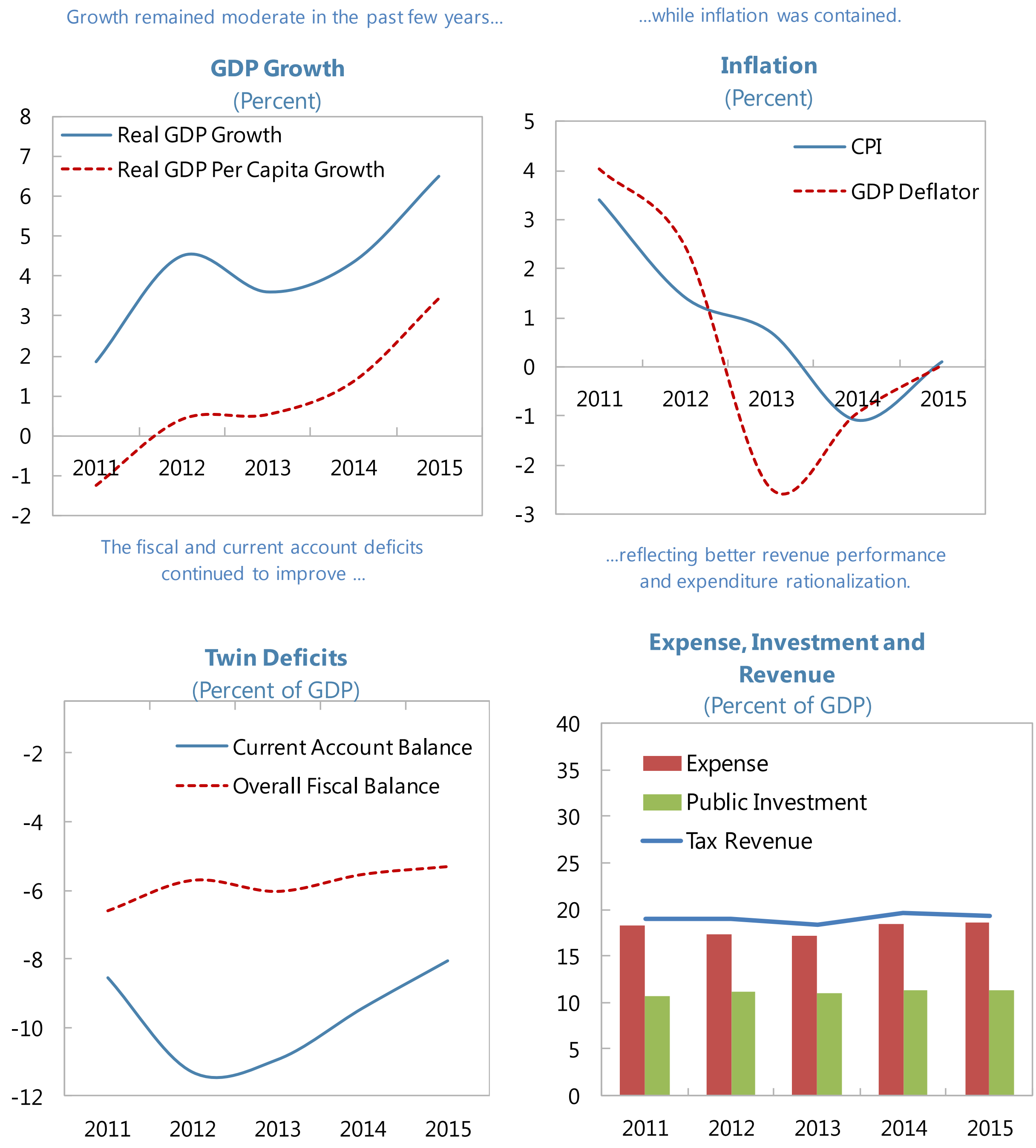
After being negative for more than a year, inflation picked up in May and June of 2015, driven by food price inflation.

CPI Inflation
(12-month inflation rate)



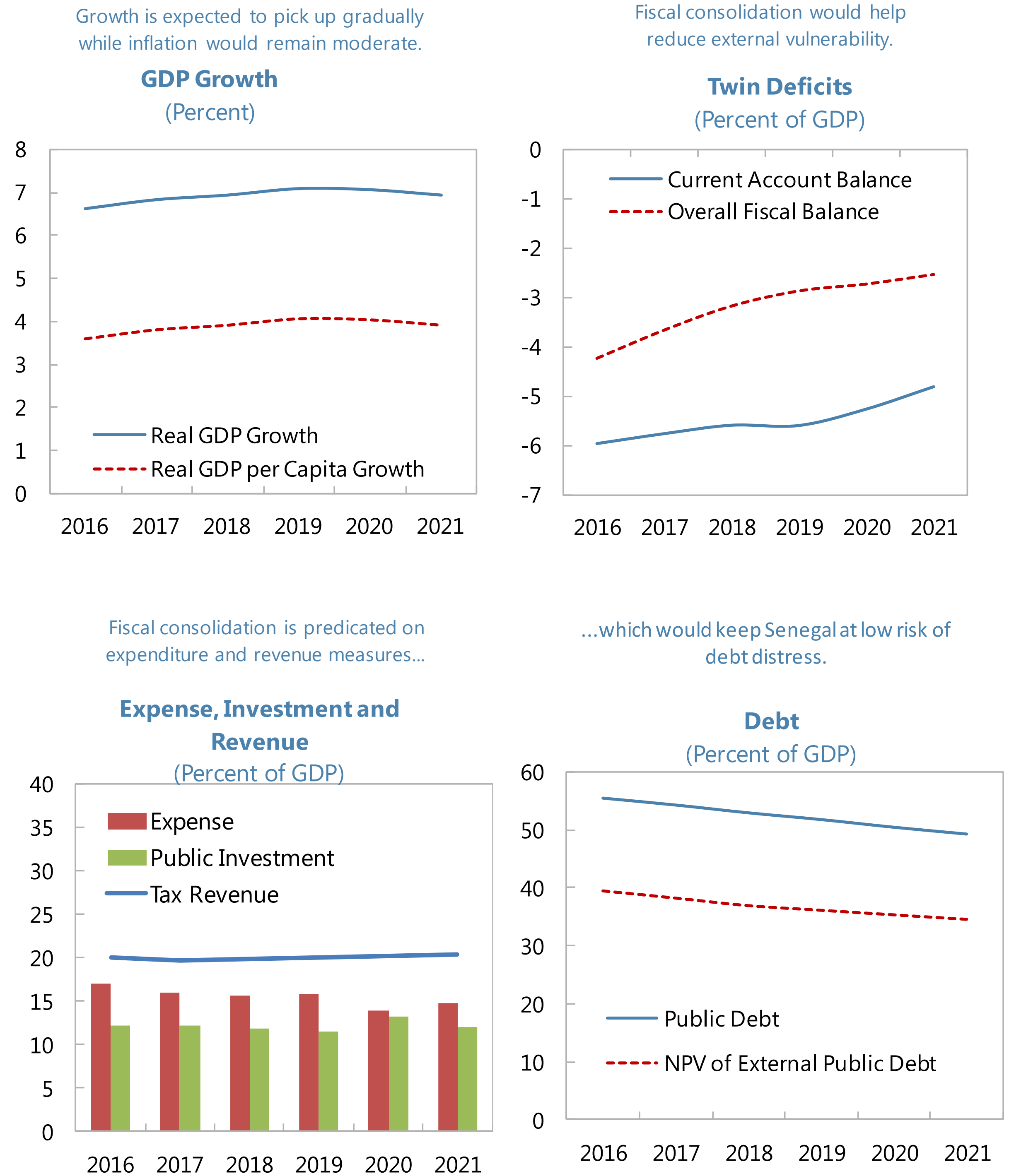
Sources: Senegal authorities; and IMF staff calculations.

Figure 2. Senegal: Recent Developments



Sources: Senegal authorities; and IMF staff calculations.

Figure 3. Senegal: Near and Medium-Term Projections



Sources: Senegal authorities; and IMF staff calculations.

Table 1. Senegal: Selected Economic and Financial Indicators, 2014–21

	2014		2015		2016		2017	2018	2019	2020	2021
	CR 16/3	Est.	CR 16/3	Prel.	CR 16/3	Proj.	Projections				
	(Annual percentage change)										
National income and prices											
GDP at constant prices	4.7	4.3	5.1	6.5	5.9	6.6	6.8	7.0	7.1	7.1	7.0
Of which: nonagriculture GDP	4.7	4.5	5.3	4.8	5.8	6.1	6.8	7.0	7.1	7.0	6.8
GDP deflator	0.1	-1.0	0.2	0.0	1.8	1.7	1.7	1.7	1.7	1.7	1.7
Consumer prices											
Annual average	-1.1	-1.1	-0.5	0.1	1.3	1.2	1.2	1.2	1.2	1.2	1.2
End of period	-0.8	-0.8	1.2	0.4	1.3	1.2	1.2	1.2	1.2	1.2	1.2
External sector											
Exports, f.o.b. (CFA francs)	3.5	3.5	3.1	13.0	3.6	-8.2	11.1	8.4	8.6	9.8	10.0
Imports, f.o.b. (CFA francs)	-1.1	-1.1	2.4	3.3	5.8	-4.9	8.2	6.6	6.9	6.6	6.8
Export volume	5.7	6.9	5.9	16.6	5.5	3.3	9.1	5.7	6.1	7.1	7.3
Import volume	3.9	4.1	9.6	13.1	6.4	6.8	6.2	6.3	6.6	6.7	6.2
Terms of trade ("–" = deterioration)	2.9	1.9	4.2	6.1	-1.3	-0.3	0.0	2.3	2.1	2.6	2.0
Nominal effective exchange rate	2.5	2.5	...	...	...	...	...	...	...	...	...
Real effective exchange rate	-0.7	-0.7	...	...	...	...	...	...	...	...	...
	(Changes in percent of beginning-of-year broad money, unless otherwise indicated)										
Broad money	11.4	11.4	6.5	13.4	7.1	7.4	7.4	...	...	...	...
Net domestic assets	6.1	6.1	4.5	13.0	8.4	9.3	9.4	...	...	...	...
Domestic credit	2.8	2.8	9.4	11.2	7.1	6.6	7.0	...	...	...	...
Credit to the government (net)	-2.6	-2.6	0.5	3.7	-1.1	-1.0	-0.9	...	...	...	...
Credit to the economy (net) (percentage growth)	6.4	6.4	9.1	6.5	8.7	8.5	8.6	...	...	...	...
	(Percent of GDP, unless otherwise indicated)[1]										
Government financial operations											
Revenue	24.2	24.8	24.4	25.1	24.3	24.8	24.4	24.3	24.4	24.4	24.3
Grants	3.3	3.3	2.9	2.9	3.0	2.7	2.9	2.8	2.7	2.5	2.5
Total expenditure	29.2	29.8	29.2	29.9	28.6	29.1	28.1	27.5	27.2	27.1	26.8
Net lending/borrowing (Overall Balance)											
excluding grants	-8.3	-8.5	-7.1	-7.7	-7.2	-7.0	-6.6	-6.0	-5.6	-5.3	-5.0
including grants	-4.9	-5.0	-4.8	-4.8	-4.2	-4.2	-3.7	-3.2	-2.9	-2.7	-2.5
Primary fiscal balance	-3.2	-3.3	-2.9	-2.8	-2.4	-2.4	-1.9	-1.3	-1.0	-0.9	-0.8
Savings and investment											
Current account balance (official transfers included)	-8.8	-8.9	-8.2	-7.6	-8.7	-6.2	-5.8	-5.6	-5.6	-5.3	-4.8
Current account balance (official transfers excluded)	-9.6	-9.8	-9.2	-8.4	-9.7	-7.0	-6.8	-6.5	-6.5	-6.0	-5.5
Gross domestic investment	27.9	25.1	26.9	25.3	27.0	26.6	27.1	27.2	26.4	28.3	27.7
Government [1]	7.4	7.4	6.8	6.8	7.1	7.1	7.5	7.4	7.3	6.4	7.2
Nongovernment	20.5	17.7	20.2	18.5	19.9	19.5	19.5	19.8	19.0	21.9	20.5
Gross national savings	19.1	16.1	18.7	17.7	18.3	20.4	21.3	21.6	20.8	23.1	22.9
Government	1.7	1.8	2.4	2.0	2.7	2.9	3.6	4.0	4.0	5.2	4.7
Nongovernment	17.4	14.4	16.3	15.7	15.5	17.5	17.7	17.6	16.7	17.8	18.2
Total public debt	53.2	54.2	54.4	56.8	55.1	57.3	56.2	54.2	53.1	51.5	50.0
Domestic public debt [2]	13.8	16.9	15.0	16.6	15.8	15.7	15.9	16.0	16.2	15.4	14.7
External public debt	39.5	37.3	39.3	40.2	39.3	41.6	40.3	38.2	36.9	36.1	35.3
External public debt service											
Percent of exports	7.4	7.4	9.6	11.0	10.0	9.6	9.5	10.7	11.3	11.3	7.2
Percent of government revenue	10.4	10.4	12.8	15.7	12.9	11.8	12.0	13.3	13.7	13.5	8.3
Memorandum item:											
Gross domestic product (CFAF billions)[2]	7,742	7,583	8,157	8,078	8,792	8,764	9,528	10,363	11,291	12,299	13,380

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, 2014–21

(in Billions of CFAF)

	2014	2015	2016	2017	2018	2019	2020	2021
	Est.	Projections						Proj.
	(Billions of CFAF, unless otherwise indicated)							
Current account	-678	-611	-546	-549	-579	-632	-647	-642
Balance on goods	-1,390	-1,292	-1,285	-1,344	-1,403	-1,466	-1,499	-1,531
Exports, f.o.b.	1,473	1,665	1,527	1,697	1,839	1,998	2,193	2,413
Imports, f.o.b.	-2,862	-2,956	-2,812	-3,042	-3,242	-3,464	-3,692	-3,943
Services and incomes (net)	-257	-332	-326	-349	-371	-423	-458	-491
Credits	817	833	860	900	940	981	1,025	1,071
Debits	-1,074	-1,165	-1,186	-1,249	-1,311	-1,405	-1,484	-1,563
Of which: interest on public debt	-76	-143	-101	-106	-114	-121	-128	-125
Unrequited current transfers (net)	969	1,013	1,065	1,144	1,194	1,258	1,311	1,380
Private (net)	917	964	1,005	1,059	1,115	1,175	1,237	1,303
Public (net)	53	49	60	85	79	83	73	77
Of which: budgetary grants	40	31	35	62	66	70	61	66
Capital and financial account	897	790	586	586	611	650	701	709
Capital account	218	207	210	222	234	247	259	272
Private capital transfers	10	10	10	10	10	11	11	10
Project grants	213	200	204	215	227	240	252	266
Debt cancellation and other transfers	-5	-2	-4	-3	-3	-3	-3	-3
Financial account	680	583	376	364	378	403	442	437
Direct investment	151	188	210	236	251	259	271	280
Portfolio investment (net)	505	142	-4	152	28	102	-57	3
Of which : Eurobond issuance	250	0	0	0	0	0	0	0
Other investment	24	252	169	-24	99	42	228	153
Public sector (net)	97	275	285	254	224	206	230	249
Of which : disbursements	207	349	359	373	368	385	402	656
program loans	54	68	75	81	88	96	104	104
project loans	54	211	214	222	230	239	248	257
other	98	70	70	70	50	50	50	295
amortization	-109	-74	-74	-119	-144	-178	-171	-405
Private sector (net)	-153	-23	-116	-279	-126	-164	-2	-95
Errors and omissions	80	0	0	0	0	0	0	0
Overall balance	220	180	40	36	32	18	55	67
Financing	-220	-180	-40	-36	-32	-18	-55	-67
Net foreign assets (BCEAO)	-100	-123	-40	-36	-32	-18	-55	-67
Net use of IMF resources	-9	-19	-27	-26	-26	-18	-3	0
Purchases/disbursements	0	0	0	0	0	0	0	0
Repurchases/repayments	-9	-19	-27	-26	-26	-18	-3	0
Other	-92	-105	-13	-10	-6	0	-52	-67
Deposit money banks	-119	-56	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)	-8.9	-7.6	-6.2	-5.8	-5.6	-5.6	-5.3	-4.8
Excluding current official transfers (percent of GDP)	-9.8	-8.4	-7.0	-6.8	-6.5	-6.5	-6.0	-5.5
Gross official reserves (imputed reserves, billions of US$)	2.1	2.1	2.2	2.2	2.3	2.3	2.4	2.5
(percent of broad money)	32.6	31.8	30.6	29.3	27.5	25.6	24.3	23.2
WAEMU gross official reserves (billions of US$)	13.2	12.4	…	…	…	…	…	…
(percent of broad money)	41.8	45.0	…	…	…	…	…	…
Gross domestic product	7,583	8,078	8,764	9,528	10,363	11,291	12,299	13,380

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

Table 3. Senegal: Balance of Payments, 2014–21
(In Percent of GDP)

	2014	2015	2016	2017	2018	2019	2020	2021
	Est.	Est.			Projections			
		(Percent of GDP, unless otherwise indicated)						
Current account	-8.9	-7.6	-6.2	-5.8	-5.6	-5.6	-5.3	-4.8
Balance on goods	-18.3	-16.0	-14.7	-14.1	-13.5	-13.0	-12.2	-11.4
Exports, f.o.b.	19.4	20.6	17.4	17.8	17.7	17.7	17.8	18.0
Imports, f.o.b.	-37.7	-36.6	-32.1	-31.9	-31.3	-30.7	-30.0	-29.5
Services and incomes (net)	-3.4	-4.1	-3.7	-3.7	-3.6	-3.7	-3.7	-3.7
Credits	10.8	10.3	9.8	9.4	9.1	8.7	8.3	8.0
Debits	-14.2	-14.4	-13.5	-13.1	-12.7	-12.4	-12.1	-11.7
Of which: interest on public debt	-1.0	-1.8	-1.2	-1.1	-1.1	-1.1	-1.0	-0.9
Unrequited current transfers (net)	12.8	12.5	12.1	12.0	11.5	11.1	10.7	10.3
Private (net)	12.1	11.9	11.5	11.1	10.8	10.4	10.1	9.7
Public (net)	0.7	0.6	0.7	0.9	0.8	0.7	0.6	0.6
Of which: budgetary grants	0.5	0.4	0.4	0.7	0.6	0.6	0.5	0.5
Capital and financial account	11.8	9.8	6.7	6.1	5.9	5.8	5.7	5.3
Capital account	2.9	2.6	2.4	2.3	2.3	2.2	2.1	2.0
Private capital transfers	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Project grants	2.8	2.5	2.3	2.3	2.2	2.1	2.0	2.0
Debt cancellation and other transfers	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	9.0	7.2	4.3	3.8	3.6	3.6	3.6	3.3
Direct investment	2.0	2.3	2.4	2.5	2.4	2.3	2.2	2.1
Portfolio investment (net)	6.7	1.8	0.0	1.6	0.3	0.9	-0.5	0.0
Of which : Eurobond issuance	3.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment	0.3	3.1	1.9	-0.3	1.0	0.4	1.9	1.1
Public sector (net)	1.3	3.4	3.3	2.7	2.2	1.8	1.9	1.9
Of which : disbursements	2.7	4.3	4.1	3.9	3.6	3.4	3.3	4.9
program loans	0.7	0.8	0.9	0.8	0.8	0.8	0.8	0.8
project loans	0.7	2.6	2.4	2.3	2.2	2.1	2.0	1.9
other	1.3	0.9	0.8	0.7	0.5	0.4	0.4	2.2
amortization	-1.4	-0.9	-0.8	-1.2	-1.4	-1.6	-1.4	-3.0
Private sector (net)	-2.0	-0.3	-1.3	-2.9	-1.2	-1.5	0.0	-0.7
Errors and omissions	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	2.9	2.2	0.5	0.4	0.3	0.2	0.4	0.5
Financing	-2.9	-2.2	-0.5	-0.4	-0.3	-0.2	-0.4	-0.5
Net foreign assets (BCEAO)	-1.3	-1.5	-0.5	-0.4	-0.3	-0.2	-0.4	-0.5
Net use of IMF resources	-0.1	-0.2	-0.3	-0.3	-0.2	-0.2	0.0	0.0
Purchases/disbursements	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repurchases/repayments	-0.1	-0.2	-0.3	-0.3	-0.2	-0.2	0.0	0.0
Other	-1.2	-1.3	-0.1	-0.1	-0.1	0.0	-0.4	-0.5
Deposit money banks	-1.6	-0.7	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)	7,583	8,078	8,764	9,528	10,363	11,291	12,299	13,380

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

Table 4. Senegal: Central Government Operations, GFSM 2001 Classification, 2014–21[1]

(in Billions of CFAF)

	2014	2015		2016	2017	2018	2019	2020	2021
	Act.	CR 16/3	Prel.	Prog.			Projections		
				(in CFAF billions)					
Revenue	1,877	1,991	2,026	2,176	2,325	2,521	2,751	3,001	3,249
Taxes	1,483	1,583	1,597	1,779	1,876	2,059	2,255	2,487	2,713
Taxes on income, profits, and capital gains	402	432	435	488	543	622	711	750	809
Taxes on payroll and workforce	21	18	20	20	21	22	25	25	27
Taxes on property	27	24	31	25	26	25	26	27	29
Taxes on goods and services	786	835	855	895	964	1,044	1,131	1,275	1,401
Taxes on international trade and transactions	219	222	228	244	265	276	293	336	366
Other taxes	28	52	27	107	57	69	68	74	80
Grants	253	240	232	239	277	293	310	313	332
Budget	40	40.00	31.23	35	62	66	70	61	66
Projects	213	200	200	204	215	227	240	252	266
Other revenue	141	168	197	158	171	169	187	200	205
Expenditure	2,258	2,380	2,413	2,548	2,674	2,849	3,074	3,334	3,586
Expense	1,400	1,407	1,504	1,504	1,516	1,619	1,776	1,706	1,972
Compensation of employees	490	526	526	573	576	622	689	726	789
Use of goods and services	361	368	384	376	362	394	429	437	475
Interest	131	151	160	164	167	190	209	227	224
Foreign	63	77	126	86	91	100	108	115	111
Domestic	68	74	34	79	76	90	102	113	112
Subsidies 2/	60	3	51	34	0	0	0	0	0
of which: subsidies to SENELEC financed by FSE	22	0	0	20	0	0	0	0	0
of which: SENELEC from budget	0	3	0	0	0	0	0	0	0
of which: Fuel subsidies	12	0	0	14	0	0	0	0	0
Grants (current excl. FSE)	174	198	216	207	216	201	206	173	238
Social benefits	30	26	60	27	29	32	35	37	39
Other expense	154	135	108	122	166	180	208	106	207
Net acquisition of nonfinancial assets	858	974	909	1,045	1,157	1,230	1,298	1,629	1,614
Net lending/borrowing *(Overall balance)*	-381	-389	-387	-372	-349	-328	-323	-334	-337
Transactions in financial assets and liabilities (Financing)	-381	-389	-387	-372	-349	-328	-323	-334	-337
Net acquisition of financial assets	112	-58	-89	-6	10	10	10	10	10
Domestic	112	-58	-89	-6	10	10	10	10	10
Currency and deposits	96	-88	-128	10	10	10	10	10	10
Debt securities	13	0	13	0	0	0	0	0	0
Loans	0	0	0	0	0	0	0	0	0
Other accounts receivable	3	29	27	-16	0	0	0	0	0
Net incurrence of liabilities	493	331	298	367	359	338	333	344	347
Domestic	-101	-108	-43	49	-94	38	-19	107	71
FMI and SDRs	-12	-27	-19	-27	-26	-26	-18	-3	0
Debt securities (net)	24	-39	33	76	-68	64	-2	110	72
Loans	46	-42	-57	0	0	0	0	0	0
Other accounts payable	-159	0	0	0	0	0	0	0	0
Foreign	594	439	341	318	453	300	352	236	276
Debt securities (net)	324	241	110	33	198	76	146	5	25
T-bills and bonds issued in WAEMU	74	241	110	33	198	76	146	5	25
Eurobond	250	0	0	0	0	0	0	0	0
Loans	112	205	275	285	254	224	206	231	251
Program loans	54	68	68	75	81	88	96	104	104
Project loans	54	211	211	214	222	230	239	248	257
Nonconcessional loans	98	0	70	70	60	20	0	-17	234
Other	-94	-74	-74	-74	-109	-114	-128	-103	-344
Other accounts payable	157	-7	-44	0	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	584	522	672	808	902	976	1,295	1,277
Net lending /borrowing *(excluding grants)*	477	584	522	672	808	902	976	1,295	1,277
Public consumption	941	…	1,018	1,013	1,021	1,078	1,182	1,109	1,321
Public investment	1,186	…	1,235	1,371	1,486	1,581	1,683	1,999	2,042
Nominal GDP	7,583	8,157	8,078	8,764	9,528	10,363	11,291	12,299	13,380

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, 2014–21[1]

(In Percent of GDP)

	2014		2015		2016		2017	2018	2019	2020	2021
	CR 16/3	Act.	CR 16/3	Prel.	CR 16/3	Prog.	Projections				
	(Percent of GDP, unless otherwise indicated)										
Revenue	24.2	24.8	24.4	25.1	24.3	24.8	24.4	24.3	24.4	24.4	24.3
Taxes	19.2	19.6	19.4	19.8	19.6	20.3	19.7	19.9	20.0	20.2	20.3
Taxes on income, profits, and capital gains	5.2	5.3	5.3	5.4	5.6	5.6	5.7	6.0	6.3	6.1	6.1
Taxes on payroll and workforce	0.3	0.3	0.2	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Taxes on property	0.4	0.4	0.3	0.4	0.3	0.3	0.3	0.2	0.2	0.2	0.2
Taxes on goods and services	10.2	10.4	10.2	10.6	10.1	10.2	10.1	10.1	10.0	10.4	10.5
Taxes on international trade and transactions	2.8	2.9	2.7	2.8	2.8	2.8	2.8	2.7	2.6	2.7	2.7
Other taxes	0.4	0.4	0.6	0.3	0.6	1.2	0.6	0.7	0.6	0.6	0.6
Grants	3.3	3.3	2.9	2.9	3.0	2.7	2.9	2.8	2.7	2.5	2.5
Budget	0.5	0.5	0.5	0.4	0.7	0.4	0.7	0.6	0.6	0.5	0.5
Projects	2.8	2.8	2.5	2.5	2.3	2.3	2.3	2.2	2.1	2.0	2.0
Other revenue	1.8	1.9	2.1	2.4	1.8	1.8	1.8	1.6	1.7	1.6	1.5
Expenditure	29.2	29.8	29.2	29.9	28.6	29.1	28.1	27.5	27.2	27.1	26.8
Expense	18.1	18.5	17.2	18.6	16.9	17.2	15.9	15.6	15.7	13.9	14.7
Compensation of employees	6.3	6.5	6.4	6.5	6.3	6.5	6.1	6.0	6.1	5.9	5.9
Use of goods and services	4.7	4.8	4.5	4.8	4.3	4.3	3.8	3.8	3.8	3.6	3.6
Interest	1.7	1.7	1.8	2.0	1.9	1.9	1.8	1.8	1.9	1.8	1.7
Foreign	0.8	0.8	0.9	1.6	1.0	1.0	1.0	1.0	1.0	0.9	0.8
Domestic	0.9	0.9	0.9	0.4	0.9	0.9	0.8	0.9	0.9	0.9	0.8
Subsidies 2/	0.8	0.8	0.0	0.6	0.2	0.4	0.0	0.0	0.0	0.0	0.0
of which: subsidies to SENELEC financed by FSE	0.3	0.3	0.0	0.0	0.2	0.2	0.0	0.0	0.0	0.0	0.0
of which: SENELEC from budget	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
of which: Fuel subsidies	0.2	0.2	0.0	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0
Grants (current excl. FSE)	2.3	2.3	2.4	2.7	2.3	2.4	2.3	1.9	1.8	1.4	1.8
Social benefits	0.4	0.4	0.3	0.7	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Other expense	2.0	2.0	1.7	1.3	1.6	1.4	1.7	1.7	1.8	0.9	1.5
Net acquisition of nonfinancial assets	11.1	11.3	11.9	11.3	11.6	11.9	12.1	11.9	11.5	13.2	12.1
Domestically financed	1.3	1.3	2.5	1.5	2.2	2.2	2.8	2.8	2.9	4.5	3.4
Government's grants financed	4.8	4.9	4.5	4.8	4.4	4.7	4.8	4.7	4.4	4.5	4.8
Externally financed	5.0	5.2	5.0	5.0	5.0	5.0	4.6	4.4	4.2	4.3	3.9
Net lending/borrowing *(Overall balance)*	-4.9	-5.0	-4.8	-4.8	-4.2	-4.2	-3.7	-3.2	-2.9	-2.7	-2.5
Transactions in financial assets and liabilities (Financing)	-4.9	-5.0	-4.8	-4.8	-4.2	-4.2	-3.7	-3.2	-2.9	-2.7	-2.5
Net acquisition of financial assets	1.6	1.5	-0.7	-1.1	0.5	-0.1	0.1	0.1	0.1	0.1	0.1
Domestic	1.6	1.5	-0.7	-1.1	0.5	-0.1	0.1	0.1	0.1	0.1	0.1
Currency and deposits	1.2	1.3	-1.1	-1.6	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Debt securities	0.2	0.2	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts receivable	0.1	0.0	0.4	0.3	0.3	-0.2	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	6.5	6.5	4.1	3.7	4.7	4.2	3.8	3.3	2.9	2.8	2.6
Domestic	-1.4	-1.3	-1.3	-0.5	-0.2	0.6	-1.0	0.4	-0.2	0.9	0.5
FMI and SDRs	-0.3	-0.2	-0.3	-0.2	-0.3	-0.3	-0.3	-0.2	-0.2	0.0	0.0
Debt securities (net)	0.3	0.3	-0.5	0.4	0.2	0.9	-0.7	0.6	0.0	0.9	0.5
Loans	0.6	0.6	-0.5	-0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts payable	-2.0	-2.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign	7.9	7.8	5.4	4.2	4.9	3.6	4.8	2.9	3.1	1.9	2.1
Debt securities (net)	4.4	4.3	3.0	1.4	1.7	0.4	2.1	0.7	1.3	0.0	0.2
T-bills and bonds issued in WAEMU	1.2	1.0	3.0	1.4	1.7	0.4	2.1	0.7	1.3	0.0	0.2
Eurobond	3.2	3.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	1.5	1.5	2.5	3.4	3.1	3.3	2.7	2.2	1.8	1.9	1.9
Program loans	0.7	0.7	0.8	0.8	0.8	0.9	0.8	0.8	0.8	0.8	0.8
Project loans	0.7	0.7	2.6	2.6	2.4	2.4	2.3	2.2	2.1	2.0	1.9
Nonconcessional loans	1.3	1.3	0.0	0.9	0.6	0.8	0.6	0.2	0.0	-0.1	1.7
Other	-1.2	-1.2	-0.9	-0.9	-0.8	-0.8	-1.1	-1.1	-1.1	-0.8	-2.6
Other accounts payable	2.0	2.1	-0.1	-0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omisions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:											
Change in net worth: Transactions	6.2	6.3	7.2	6.5	7.4	7.7	8.5	8.7	8.6	10.5	9.5
Net lending /borrowing *(excluding grants)*	6.2	6.3	7.2	6.5	7.4	7.7	8.5	8.7	8.6	10.5	9.5
Public consumption	…	12.4	…	12.6	…	11.6	10.7	10.4	10.5	9.0	9.9
Public investment	…	15.6	…	15.3	…	15.6	15.6	15.3	14.9	16.2	15.3
Nominal GDP	7,742	7,583	8,157	8,078	8,792	8,764 #	9,528	10,363	11,291	12,299	13,380

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, 2013–17

	2013	2014	2015	2016	2017
		Act.	Est.	Proj.	
		(Billions of CFAF)			
Net foreign assets	858	1,078	1,233	1,273	1,309
BCEAO	764	865	963	1,003	1,039
Commercial banks	94	213	270	270	270
Net domestic assets	2,269	2,407	2,720	2,973	3,252
Net domestic credit	2,565	2,638	2,933	3,127	3,347
Net credit to the government[1]	151	70	198	158	122
Central bank	21	-75	46	9	-27
Commercial banks	124	142	149	149	149
Other institutions	5	13	26	26	26
Credit to the economy	2,414	2,568	2,735	2,969	3,224
Other items (net)	-297	-231	-213	-212	-212
Broad money	3,127	3,485	3,953	4,246	4,561
Currency outside banks	620	685	807	666	674
Total deposits	2,507	2,799	3,146	3,523	3,770
Demand deposits	1,358	1,430	1,737	1,977	2,146
Time deposits	1,150	1,370	1,409	1,545	1,623
	(Change in percentage of beginning-of-period broad money stock)				
Net foreign assets	-0.7	7.0	4.4	1.0	0.9
BCEAO	-0.4	3.2	2.8	1.0	0.9
Commercial banks	-0.3	3.8	1.6	0.0	0.0
Net domestic assets	8.8	4.4	9.0	6.4	6.6
Net credit to the government[1]	2.0	-2.6	3.7	-1.0	-0.9
Credit to the economy	9.3	4.9	4.8	5.9	6.0
Other items (net)	-2.5	2.1	0.5	0.0	0.0
Broad money	8.0	11.4	13.4	7.4	7.4
Memorandum items:		(Units indicated)			
Velocity (GDP/broad money; end of period)	2.3	2.2	2.0	2.1	2.1
Nominal GDP growth (percentage growth)	1.0	3.3	6.5	8.5	8.7
Credit to the economy (percentage growth)	12.6	6.4	6.5	8.5	8.6
Credit to the economy/GDP (percent)	32.9	33.9	36.1	36.8	33.8
Variation of net credit to the government (yoy; CFAF billions)	0.6	-81.3	127.8	-39.1	-36.3

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, 2008–15

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

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			
	Jun.			Sep.				Dec.			Mar.	Jun.	Sep.	Dec.
	Assessment Criteria (AC)			Indicative Target (IT)				AC			IT	AC	IT	AC
	Prog.	Act.	Status	Prog.	Adj.	Act.	Status	Prog.	Act.	Status	Prog.	Prog.	Prog.	Prog.
	(CFAF billions, unless otherwise specified)													
Assessment criteria[1]														
Floor on net lending/borrowing[2]	-144	-138	met	-255	-264	-271	not met	-389	-387	met	-52	-202	-276	-372
Ceiling on spending undertaken outside normal and simplified procedures[3]	0	0	met	0	…	0	met	0	0	met	0	0	0	0
Ceiling on public sector external payment arrears (stock)[3]	0	0	met	0	…	0	met	0	0	met	0	0	0	0
Ceiling on the amount of the budgetary float	50	28	met	50	…	65	not met	50	45	met	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	…	22	not met	15	31	not met	15	15	15	15
Floor on social expenditures (percent of total spending)	35	41	met	35	…	40	met	35	40	met	35	35	35	35
Floor on tax revenue	825	796	not met	1,181	…	1,146	not met	1,583	1,597	met	398	901	1,312	1,779
Maximum upward adjustment of the overall deficit ceiling owing to														
Shortfall in program grants relative to program projections	15	0		15	…	9	…	15	9	…	15	15	15	15
Memorandum items:														
Program grants	15	15		28	…	19	…	40	31	…	3	13	24	35

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.

Table 9. Senegal: Structural Benchmarks for 2015–17

Measures	Target date	Status	Observations	Authorities' Comments
2015				
Sign performance contracts for eight agencies	December 2015	Not met	Five contracts have already been signed, and the remaining three will be signed by the end of May 2016	The eight contracts have been submitted to the Minister of Finance for signature
Eliminate cash tax payments above CFAF 100,000	June 2015	Met		
Institutionalize the precautionary management reserve	September 2015	Met		
Expand the precautionary reserve envelope for the 2016 budget	December 2015	Met		
Launch the connection between the DGD and the DGID to facilitate data exchanges with the NINEA unique ID	December 2015	Met		
Submit at least ten investment projects listed in the 2016 budget for cost–benefit analysis	October 2015	Met		
For the 2016 budget, announce the 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	December 2015	Not met	The measure will be respected in the next budget law	A meeting is scheduled for mid-February to discuss the possibility of implementing the measure in a supplementary budget.
Recover at least fifty percent of taxes left unpaid in 2014	December 2015	Not met	47 percent has been recovered; the remaining 3 percent was recovered by the end of April 2016	A reformulation of the measure is proposed. The information system (IS) at the DGID does not distinguish between old and new unpaid taxes. As a result, collections for unpaid taxes for 2014 were not clearly identifiable.
Implement the agency reform plan by limiting allocated budget resources solely to the payment of wages for the 16 agencies whose dissolution is pending	December 2015	Not met	Five agencies with no formal existence will be eliminated by April 2016	The restructuring of the agencies is still envisaged in the short term as part of a revised reform plan. An assessment of the fiscal risks will be conducted and the results will be submitted to the relevant authorities for their consideration and action.
Finalize the government flow-of-funds table according to Government Finance Statistics Manual 2001/14	December 2015	Met		The minimum analytical framework is available although the final flow-of-funds table according to GFSM 2001/14 will only be finalized in 2016.
2016				
Establish a platform (integrated projects bank) which describes the lifecycle of the projects	September 2016			
Develop a management strategy for government and public enterprise investment portfolios	March 2016	Not met	This is being pushed back to end-September 2016 to give time for building consensus	
Extend the first-generation TSA to all bank accounts of the network of accounting agents of the agencies and public institutions	June 2016	Met		
For the next 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	October 2016			
Create a structure (specialized office, division, etc.) responsible for recovering problem tax claims	September 2016			
Adopt an action plan for reducing tax expenditures	September 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

May 6, 2016

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 modification of the end-June 2016 assessment criterion on net lending/borrowing and the end-June 2016 indicative target on tax revenue and the completion of the second review of its macroeconomic program supported by the Policy Support Instrument (PSI) for the period 2015–17. Details of this program were described in the initial Memorandum of Economic and Financial Policies (MEFP) of May 8, 2015. In support of this request, the attached MEFP reviews program implementation and updates the government's short- and medium-term objectives and policies under the program.

2. Progress has been recorded in the area of structural reform, with six (06) structural benchmarks achieved at end-2015 out of a total of ten (10). Of the four (04) benchmarks not met, one has been met and another will be met by June 2016. Indeed, the government has collected additional tax revenue arrears to reach the 50 percent of the stock of recoverable claims recorded as at December 31, 2014. This was done with a small delay in April 2016 instead of the envisaged December 2015. Furthermore, three (03) performance contracts involving government agencies will be added to the five (05) already signed. With regard to measure pertaining to the debt path and the corrective measures to be applied in the coming years in case this path is overshot, the measure in question will be observed at the time of the next budget law.

3. Going forward, two new benchmarks have been added—in particular, the establishment of an entity within the DGID [General Directorate of Taxes and Government Property] specializing in the recovery of difficult claims, and the implementation of an action plan to reduce tax expenditures. Other measures have been adopted in connection with: the signing of the decree closing five (05) agencies that have no personnel and which exist only in a legal sense; and the government's decision to make public its position on *Sénégal Airlines*. The decree on the remuneration of general directors and members of the decision-making bodies of agencies and comparable entities will also be signed.

4. 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 continue to take any additional measures needed to safeguard growth momentum and diversify its sources, to strengthen the economy's resilience in a difficult international environment and a subregional context vulnerable to security hazards, and to ensure the stability of the macroeconomic framework, consistent with program objectives. The government will consult with the IMF—at its own initiative, or whenever the IMF 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.

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

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 November 24, 2015 on our economic and financial program supported by the Policy Support Instrument for the period 2015-2017.** It reviews recent economic developments and describes the policies that we plan to implement during 2016, the third year of operations under the "Emerging Senegal Plan" (*Plan Sénégal Emergent*, PSE).

RECENT ECONOMIC DEVELOPMENTS

2. **On the domestic front, implementation of the Emerging Senegal Plan has given a boost to the national economy.** Economic activity revived significantly in 2015, with real GDP growth estimated at 6.5 percent, compared to 4.3 percent in 2014. This favorable development can be attributed essentially to the performance of agriculture, combined with a return to vigorous growth in the secondary sector. The agriculture sector has benefited from several factors, in particular: (i) implementation of the agriculture program, marked by the provision of inputs and better control of the technical systems of production; and (ii) abundant rainfall, which was well distributed both over time and geographically. The vigorous performance of the secondary sector reflects the healthy pace of activity in refining and in the chemical industries, cement factories, and the energy and construction sectors. The services sector, on the other hand, has performed less well, under the impact of a slowdown in posts and telecommunications and difficulties in the tourism area. In terms of inflation, the level of the consumer price index has remained low (-0.1 percent), reflecting the moderation in world prices. The current account deficit on the balance of payments has improved, thanks in particular to the strength of exports and the weakness in oil prices.

3. **Implementation of the program remains on the whole satisfactory.** All the end-December 2015 assessment criteria have been met. However, the indicative target on government procurement conducted under direct contracting was missed due to the speed-up in implementing the rural electrification program, which involved a special "spontaneous tenders" procedure.

4. **The fiscal deficit target of CFAF 389 billion (4.8 percent of revised GDP) was respected,** despite the sharp rise in interest charges on the external debt. The government has continued its efforts to rationalize expenditures on public consumption in order to encourage investment in human capital and in public infrastructure. The payroll policy has achieved some success: thus, wage costs were contained within a ceiling of CFAF 526 billion in 2015. Moreover, the 2016 budget makes provision for transferring the personnel costs of institutions (CESE [the Economic, Social and Environmental Council], National Assembly) to the current expenditure account. The "precautionary reserve" has been extended to operations in the 2016 budget (CFAF 18.7 billion for operations and CFAF 44.4 billion for investment).

5. **Progress has also been made in the area of structural reforms,** with the achievement of three structural benchmarks, for which the planned deadline was the end of 2015. In fact, the

platform for distribution of the NINEA ("National registration number for enterprises and associations") as the single identifier is now operational. The automatic sharing of fiscal data, which constitutes the second phase of the project, is now in the process of becoming operational. The TOFE (government financial operations table) is being produced in accordance with the 2001/2014 GFSM. To round out the minimum framework for preparing the TOFE, which depends on the introduction of a proper accruals-based accounting system for the State, the target date should be set at 2017. With respect to the other structural benchmarks, some important steps have been taken, especially those relating to the recovery of unpaid taxes, with the receipt of some CFAF 56 billion to the end of 2015. The target of collecting 50 percent of the stock of recoverable claims at end-December 2014 was met in April 2016. However, the computer system of the DGID [the General Directorate of Taxation and State Properties] is not yet able to distinguish automatically between recoveries against old and new claims. With respect to the plan for reforming the agencies, the restructuring process is continuing. Five performance contracts have been signed with the agencies, against an initial commitment of eight. Three performance contracts have also been signed with public institutions. The development of a management strategy for government and public enterprise investment portfolios is being pushed back from end-March 2016 to end-September 2016 to give time for building consensus.

Box 1. Senegal: Significant Improvement in Fiscal Management

i) The wage bill in the 2015 budget was projected at CFAF 526 billion. It is being rigorously monitored in order to avoid any slippage. A stepped-up system for controlling compensation for supplementary work and controls on overtime hours have been implemented in order to stay below the maximum authorized ceiling of 60 hours per agent per month, and it has succeeded in holding the cost to CFAF 11.7 billion, against budget forecasts of

ii) CFAF 18 billion. Similarly, the hiring [*mises en solde*"] on contract of professors and teachers with professional degrees employed in the public service or appointed and given tenure within a group of public servants has been capped at 4,210, consistent with the provisions of the 2015 budget law.

iii) When it comes to operating expenses, the strategy is to reduce their rate of growth, which will henceforth be limited to 5 percent, including inflation. Specifically, the strategy combines one-off measures (elimination or merger of administrative structures, cancellation of housing allowances) and permanent measures (reduction of the government telephone bill, identification and elimination of sources of points of wastage in the ongoing operation of services: reduction in grants for festivals and ceremonies, conferences, congresses and seminars, clothing and accessories, a cutback in credits for the purchase of furnishings, office materials, computer equipment, vehicles and other depreciable items).

iv) The budgetary programming of investment outlays is still dominated by the following strategic considerations:

- improving the quality of investment by making more systematic use of ex ante assessments using the cost-benefit method;
- refocusing of the investment budget on outlays that will have a high impact on gross fixed capital formation. To this end, a cap has been placed on the portion of operating expenditures in investment projects, which will be held to 10 percent versus 20 percent prior to 2015;
- elimination of all so-called "institutional support" projects that cannot be shown to be essential.

6. **There has also been some notable progress with other structural reforms.** Five working groups have been set up to look closely at the following issues: (i) problem enterprises; (ii) State subsidies to enterprises; (iii) integration of parafiscal taxes into the budget; (iv) tax expenditures; and (v) the introduction of an independent accountants' network within the DGID. This work has already yielded some preliminary conclusions.

Box 2. Senegal: Preliminary Conclusions of the Working Groups

- Establish a committee to oversee decisions on disbursements of transfers and subsidies: that committee should, among other things, track the planning of decisions on transfers. The committee will also constitute a framework for sharing information among the services involved in the preparation and execution of budgets relating to transfers.

- Establish a threshold fixing the ratio of the wage bill as a proportion of operating funds in the subsidized enterprises.

- Examine the appropriateness of establishing an independent accountants' network within the DGID. This network would, among other things, take over responsibility for the direct tax rolls of the State as well as the assessment notices that are issued subsequent to fiscal audits on taxes, duties, levies and royalties that are collected by the DGID. With such a device, authorized by WAEMU, a phased process could be initiated whereby the DGID accountants, after an appropriate training program, could establish their accounts in ASTER, before moving on to the establishment of a chief accountant.

- Create a virtual "problem-solving" window for enterprises.

- Establish a cash management mechanism for enterprises undergoing restructuring.

- Examine the modalities for allocating parafiscal taxes to the State budget.

7. **The decree fixing maximum levels of authorized remuneration of personnel of agencies and other assimilated structures; and the decree on the closure of five agencies that have no staff and that exist only "on paper"; have been signed**. In addition, the decree setting the maximum remuneration of the Directors General or Directors, Presidents and members of the supervisory boards of agencies and assimilated structures will also be signed. The government will make public its decision on the Senegal Airlines company before the end of April 2016. In order to monitor this reform more effectively, an ad hoc committee has been set up. The government also intends to speed the process of privatization for SUNEOR, the leading enterprise in the groundnuts sector.

8. **Progress has also been made in putting into effect the WAEMU directives,** in particular with the application of innovations concerning multiyear fiscal programming. In fact, the organic law of 2011 on budgets devotes an important section to work on multiyear programming, as a way of making the annual budgeting exercise more credible. Thus, in 2015, the production of documents on the budgetary programming of expenditures was generalized. In addition, the document on multiyear budgetary and economic programming has been produced on a timely basis, and the debate on budgetary orientation has been held within the legal time limit since 2013.

9. **There have also been some improvements in the process of formulating the program budget,** with the identification of budgetary programs on the basis of the existing sector policy letters and the mandate letters. A total of 129 programs, articulated with the three key components

of the Emerging Senegal Plan, have been identified in a participatory way in cooperation with all the technical units of the 30 ministries, and have been the object of a test run in the SIGFIP software.

MACROECONOMIC POLICY AND STRUCTURAL REFORMS FOR 2016

10. The main objective is to establish conditions conducive to stronger, more inclusive growth for meaningful poverty reduction. For 2016, GDP is projected to grow at 6.6 percent. To achieve this target, the government will have to step up the pace of implementation of the projects and reforms in the PSE, especially in energy, agriculture (rice and horticulture branches), tourism, mining and infrastructure. Moreover, implementation of the major projects announced at Diamniadio (exhibition grounds, five-star hotel, the "city of knowledge", the Amadou Moctar Mbow University, etc.) will have to be speeded up. In order to open economic room for SMEs and FDI (foreign direct investment), a governance structure will be created for the Special Economic Zones (ZES). The idea here is to promote a regulatory environment favorable to business, including a tax regime with a moderate tax rate and minimal tax expenditures.

11. Inflation should remain within the range of 1 to 2 percent. The current account deficit (as a percentage of GDP) should be 6.1 percent of GDP in 2016, and should decline thereafter.

12. In order to keep growth buoyant, to make it more inclusive and to fortify the economy's resilience to internal shocks as well as those inherent in the international setting and the context of insecurity within the subregion, the IMF-supported program will revolve around the following three aims: (a) rebuild the government's fiscal space; (b) strengthen public financial management and governance; and (c) improve the business environment.

A. Rebuild the Government's Fiscal Space

13. The target for the fiscal deficit in 2016 is set at CFAF 372 billion. However, revenues have been revised upwards by 35 billion, thereby making it possible to take on additional expenditures, notably with respect to the wage bill (incorporation of contractual teachers and professors into the payroll, backlog of pending compensation for appointments and promotions).

14. In its revenue collection efforts, the DGID. will rely essentially on close monitoring of taxpayers and broadening of the tax base. Cooperation between the DGID. and the DGD (General Directorate of Customs) will be strengthened through the exchange of information, in particular. With respect to outstanding balances, considering that "problem" assessment notices are concentrated in the hands of a minority of taxpayers who adopt increasingly complex means of avoidance, a specialized structure (an office or division) for the recovery of problem tax claims will be established by the end of September (structural benchmark). In the case of recoverable assessment notices, the DGID will institute procedures for forced recovery against debtors who have not signed, or are not complying with, a moratorium agreement. In addition, in order to handle the recovery of these assessments more effectively, the government plans to introduce case management units within each recovery office. These reforms are intended to ensure the recovery or settlement of an amount equal to at least 50 percent of the stock of outstanding assessment notices as of December 31 of each year. The amount to be recovered will be determined before the month of May and will be reported to the IMF. Withholdings linked to non-commercial profits [*bénéfices non commerciaux*] have also been the object of a diagnostic assessment, together with solutions for reversing their downward trend.

15. The contribution of the Customs Administration in mobilizing government tax revenues will be based on: (i) broadening the tax base through better control over imports by the informal sector; (ii) reprofiling and better monitoring of the customs clearance of potentially revenue-yielding products; (iii) stepping up the campaign against unfair competition, which affects the majority of problem companies.

16. Further steps will be taken to rationalize tax expenditures. Based on the 2013 report on tax expenditures and the conclusions of the working group established for this purpose, an action plan will be adopted by the government before the end of September 2016 (structural benchmark).

17. The government intends to enhance transparency in the management of State subsidies to university institutions. The financial management of public universities has not yet achieved the minimum level required to ensure transparency and honesty in the programming and execution of their budgets, and in particular the subsidies granted by the State. Non-mandatory expenditures are given priority to the detriment of salary costs. Many of these institutions are failing to make timely submission of their preliminary budgets for approval by the technical and financial oversight body prior to release of government subsidies. For 2016, the governance bodies that are supposed to adopt the preliminary budgets have not even met, with the exception of those for the universities of Bambey and Cheikh Anta Diop. For this reason, steps will be taken to ensure that, as of the 2016 budgetary amendment law, appropriations not yet committed will be distributed by heading, within the integrated public finance management system, among the different categories of expenditure, such as personnel (heading 2) and procurement of goods and services (heading 3). For the year 2017, this distribution by heading will be mandatory, and release of the government subsidy will be subject to prior approval of the preliminary budget by the technical and financial oversight bodies.

18. The government will impose budgetary constraints on hiring in all sectors. The instruments needed to implement this measure will be in place by September 2016. In this context, and applying rules that will guarantee the necessary balance among all sectors, contract personnel in education, health, social action and vocational training will be integrated into the payroll as of 2017.

19. The government intends to enhance the efficiency of investment. To this end, it will develop rigorous criteria for the selection and ranking of projects. All project proposals will be recorded in a project pipeline ["bank of projects"] and they will have to be subjected to a rigorous analysis before they can be included in the budget. Letters to this effect have been sent to the line ministries, asking them to select at least 20 projects for which feasibility studies will be performed in the course of the year. The projects thus examined will be given priority in the Consolidated Investment Budget (*Budget Consolidé d'Investissement,* BCI). Implementation of the platform (the integrated project database, a SB set for September 2016) describing the lifecycle of the projects is continuing, but has encountered delays. This platform will be equipped with the functionalities and interface features necessary for communication between the line ministries and the MEFP (Ministry of Economy, Finance and Planning).

20. Improving the 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 in a coherent manner. To rectify this, a management strategy for government and public enterprise portfolios will be finalized, together with an action plan, no later than the end of June 2016 (structural benchmark, June 2016).

21. The government will conduct an ex ante assessment of all projects financed under a public-private partnership (PPP), pursuant to the law on partnership contracts and in accordance with the decree implementing the law. The government will use the best criteria for analyzing the budgetary implications of all projects of this kind, and will ensure that they are fiscally sustainable. The MEFP will take the steps necessary to determine the modalities for financing the PPPs and will ensure that the operating risks for these projects are borne by the private operators under the contracts.

22. The government has established strict performance criteria for the allocation of the supplementary funds that will accompany the circular letters on budget preparation. The ministries in receipt of these resources will be required, in return, to undertake innovative structural reforms that will yield added value in terms of the quality of budgetary programming. However, with the advent of program budgeting now in sight, the new approach to budgeting will be based on an allocation of budgetary resources that reflects the way public policies are being implemented.

23. The government will consider the possibility of mobilizing nonconcessional external loans in 2016. It could turn to international financial markets or use the nonconcessional facilities of multilateral donors, which are equipped to finance large projects within short time frames. These resources would be earmarked for financing investment projects, particularly in infrastructure, energy, water and sanitation.

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

B. Strengthen Public Financial Management

25. Supervisory control over the agencies will be stepped up. The creation of any new agency will be preceded by an impact study, consistent with the law establishing the policy on agencies. As well, the government intends to sign performance contracts with three agencies no later than the end of May 2016.

26. Work on implementing the "Treasury single account", TSA (*compte unique du Trésor*, CUT) will be completed. The extension of the first-generation TSA to all bank accounts within the network of accounting staff in public institutions and agencies is completed. The second-generation TSA will be deployed and operational as of June 2016. The TSA will be finalized in December 2017, and the assessment criteria for the accounts that are to be "repatriated" will be established.

27. Work is continuing on the assessment of government assets. The sectoral technical committee is pursuing its work on accrual basis accounting with the initiation of the government's opening balance.

28. Budgetary and accounting reforms are continuing. The budgetary action plans place the emphasis on the process of implementing program budgets and on the decentralization of payment orders, among other matters. In 2016, all ministries will be expected to prepare their "multiyear expenditure programming document" (*Document de Programmation Pluriannuelle des Dépenses*, DPPD, of general application since 2015) for 2017-2019. With respect to the reform of accounting, the public finance statistics and reporting system is now being improved with the adaptation of the SIGFIP and ASTER to the new WAEMU directives. Bringing the dedicated applications up to standard in this way means that, by the end of 2016, support will be available for the preparation and execution of the program budget as well as for management of the new accounting system.

C. Promote the Private Sector

Energy

29. Development of the electricity sector is continuing. In 2016, additional power capacity totaling 250 MW is expected to come on stream: the Taiba Ndiaye dual oil/gas-fired power station, for 105 MW; the Cap des Biches dual oil/gas-fired power station, for 85 MW; the Bokhole solar power plant, for 20 MW; and the import of energy from Mauritania, for an additional 40 MW of power.

30. The government reaffirms its intention to continue the reform of SENELEC. Discussions have already been held with the World Bank for finalizing the production plan. The World Bank intends to field a production planning specialist to SENELEC in order to identify the best option for developing its production facilities for validation.

Financial sector

31. The credit information bureaus (*bureaux d'information cur le crédit*, BIC) have been operational as of February 1, 2016. A public communication strategy is now being prepared in order to facilitate the granting of consent by clients of the institutions concerned.

32. To facilitate access to financial services, the government is committed to: (i) launch a comprehensive program of financial education for small and medium-sized enterprises (SMEs); (ii) pursue discussions with the private sector and the labor unions for the payment of salaries in excess of CFAF 100,000, by direct deposit to bank accounts or by any means of electronic payment; (iii) in collaboration with the technical and financial partners and the BCEAO, continue efforts to promote financial inclusion through preparation of a national strategy for financial inclusion and the digitizing of certain government payments.

33. To support the revival of the tourism sector, the government will implement the "hotel and tourism credit" fund, which will be operational in 2016. The institutional framework for that fund has been finalized with signature of the inter-ministerial decree creating the mechanism and the ministerial decree creating the Technical Committee responsible for examining the eligibility of requests for financing, prior to examination by the credit committee.

34. The government will take further steps to deepen the financial sector, by completing the procedures for the fielding of six licensed "treasury securities specialists" (SVT). These new financial market players should help to facilitate the placement of public securities issued by the Treasury, and to encourage a secondary market for such securities.

35. To strengthen the stability of the financial system, a National Financial Stability Committee has been created. In 2015 the committee focused its work on the quality of the portfolio held by the banks and the SFDs ("decentralized finance systems", *systèmes financiers décentralisés*). For the year 2016, the problems to be addressed will relate to the risk of concentration and the development of electronic money. IMF staff support to strengthen the committee's expertise may be requested.

Business climate

36. The government intends to promote the private sector as the vector for added value and for the country's emergence. To this end it will: (i) create an economic space within a ZES that will have business-friendly regulations, including a tax regime with a moderate taxation rate and minimal tax expenditures; (ii) take further steps to dematerialize administrative procedures and to make circulation within the industrial zone as rapid and easy as possible, and will review the constraints inherent in the process of registering new vehicles, prepare legal texts in the security sector, etc.; (iii) examine the possibility of creating a price risk management fund in the cotton sector; (iv) the support or contribution of the DGD in improving the business climate will continue with finalization of the project for the customs "release ticket" (*ticket libératoire*), in two aspects: signature of the ministerial decree, and creation of the computerized platform for implementing it.

37. Work will continue on implementing the Program of Reforms to the Business Climate and Competitiveness (*Programme de Réformes de l'Environnement des Affaires et de la Compétitivité*, PREAC). Senegal has revised and harmonized the main codes governing its legal framework (Customs Code, General Tax Code, Code of Civil Procedures) and the law governing public-private partnerships, to bring them into line with best practices. In addition to simplifying the texts and rationalizing administrative procedures, the government has worked to reduce transaction costs. Sector-specific reforms have also been pursued in the tourism area (with extension of the reduced VAT to all tourism activities, and the halving of the government royalties charged on airline tickets) and in agriculture (suspension of VAT to facilitate establishment of the "anchor investor"). The second phase of the PREAC, planned for the period 2016-2018, will offer an opportunity for completing the reforms intended to reduce factor and intermediation costs in this field, particularly for port services and electricity. It will also see the finalization of structural measures in the areas of real estate, commercial justice and labor legislation, in addition to consolidating and extending dematerialized procedures, with the generalized use of remote payment ["telepayment"] for boosting the efficiency of a renewed public service.

NEW PROGRAM MONITORING INDICATORS

38. Quantitative assessment criteria have been defined for 2016. At end of March, the indicative criterion for the budgetary balance was not being met, due to the urgency of committing funds that were already budgeted, but where execution delays could threaten their effectiveness. This is the case in particular with outlays related to security against the very specific terrorist threat, and expenditures for early distribution of high quality seeds and other farming inputs as the winter season approaches.

39. Quantitative assessment criteria for end-December 2016, and quantitative indicators for end-December 2016 are being proposed and the modification of the end-June 2016 AC on net floor borrowing/lending is requested (see table 1 of the MEFP, below). The government and IMF staff have also agreed on structural benchmarks presented in table 2 of the MEFP. Reviews will take place every six months. The third review should be completed by the end of December 2016, the fourth review by the end of June 2017, and the fifth review by the end of December 2017.

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

	2015										2016			
	Jun.			Sep.				Dec.			Mar.	Jun.	Sep.	Dec.
	Assessment Criteria (AC)			Indicative Target (IT)				AC			IT	AC	IT	AC
	Prog.	Act.	Status	Prog.	Adj.	Act.	Status	Prog.	Act.	Status	Prog.	Prog.	Prog.	Prog.
	(CFAF billions, unless otherwise specified)													
Assessment criteria[1]														
Floor on net lending/borrowing[2]	-144	-138	met	-255	-264	-271	not met	-389	-387	met	-52	-202	-276	-372
Ceiling on spending undertaken outside normal and simplified procedures[3]	0	0	met	0	...	0	met	0	0	met	0	0	0	0
Ceiling on public sector external payment arrears (stock)[3]	0	0	met	0	...	0	met	0	0	met	0	0	0	0
Ceiling on the amount of the budgetary float	50	28	met	50	...	65	not met	50	45	met	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	...	22	not met	15	31	not met	15	15	15	15
Floor on social expenditures (percent of total spending)	35	41	met	35	...	40	met	35	40	met	35	35	35	35
Floor on tax revenue	825	796	not met	1,181	...	1,146	not met	1,583	1,597	met	398	901	1,312	1,779
Maximum upward adjustment of the overall deficit ceiling owing to														
Shortfall in program grants relative to program projections	15	0		15	...	9	...	15	9	...	15	15	15	15
Memorandum items:														
Program grants	15	15		28	...	19	...	40	31	...	3	13	24	35

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.

Table 2. Senegal: Structural Benchmarks for 2015–17

Measures	Target date	Status	Observations	Authorities' Comments
2015				
Sign performance contracts for eight agencies	December 2015	Not met	Five contracts have already been signed, and the remaining three will be signed by the end of May 2016	The eight contracts have been submitted to the Minister of Finance for signature
Eliminate cash tax payments above CFAF 100,000	June 2015	Met		
Institutionalize the precautionary management reserve	September 2015	Met		
Expand the precautionary reserve envelope for the 2016 budget	December 2015	Met		
Launch the connection between the DGD and the DGID to facilitate data exchanges with the NINEA unique ID	December 2015	Met		
Submit at least ten investment projects listed in the 2016 budget for cost–benefit analysis	October 2015	Met		
For the 2016 budget, announce the 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	December 2015	Not met	The measure will be respected in the next budget law	A meeting is scheduled for mid-February to discuss the possibility of implementing the measure in a supplementary budget.
Recover at least fifty percent of taxes left unpaid in 2014	December 2015	Not met	47 percent has been recovered; the remaining 3 percent was recovered by the end of April 2016	A reformulation of the measure is proposed. The information system (IS) at the DGID does not distinguish between old and new unpaid taxes. As a result, collections for unpaid taxes for 2014 were not clearly identifiable.
Implement the agency reform plan by limiting allocated budget resources solely to the payment of wages for the 16 agencies whose dissolution is pending	December 2015	Not met	Five agencies with no formal existence will be eliminated by April 2016	The restructuring of the agencies is still envisaged in the short term as part of a revised reform plan. An assessment of the fiscal risks will be conducted and the results will be submitted to the relevant authorities for their consideration and action.
Finalize the government flow-of-funds table according to Government Finance Statistics Manual 2001/14	December 2015	Met		The minimum analytical framework is available although the final flow-of-funds table according to GFSM 2001/14 will only be finalized in 2016.
2016				
Establish a platform (integrated projects bank) which describes the lifecycle of the projects	September 2016			
Develop a management strategy for government and public enterprise investment portfolios	March 2016	Not met	This is being pushed back to end-September 2016 to give time for building consensus	
Extend the first-generation TSA to all bank accounts of the network of accounting agents of the agencies and public institutions	June 2016	Met		
For the next 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	October 2016			
Create a structure (specialized office, division, etc.) responsible for recovering problem tax claims	September 2016			
Adopt an action plan for reducing tax expenditures	September 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			

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 2015-2017. It also establishes the terms and timeframe for transmitting the information that will enable Fund staff to monitor the program.

Program conditionality

2. The assessment criteria for end-December 2016 and the indicative targets for end-December 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 immediately to Fund staff.

F. Public Sector External Payments Arrears

Definition

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

Reporting requirements

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

Definition

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

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

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

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

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

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

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

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

G. 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 buy 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:

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

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

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

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

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

The provisional monthly balance of the Treasury accounts; and

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

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

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:

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

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.

Statement by Ngueto Tiraina Yambaye, Executive Director for Senegal and Mohamed Sidi Bouna, Senior Advisor to the Executive Director
May 25, 2016

1. Introduction

My Senegalese authorities wish to express their deep appreciation to staff for the candid discussions and the constructive policy dialogue during the recent second review of the PSI.

Overall, Senegal's performance under the PSI remains satisfactory. The reforms under the Fund-supported program which are aligned with those set forth in the *Plan Sénégal Emergent* (PSE) are having a positive impact on the Senegalese economy. Growth rebounded last year to 6.5 percent from 4.3 percent in 2014 and is forecast to further strengthen, in line with the PSE medium-term growth objective.

At end-December 2015, all assessment criteria under the PSI were met. All indicative targets were also met with the exception of the "ceiling on the share of public sector contracts signed by single tender" due to efforts to accelerate the rural electrification program —a key objective of the PSE. The authorities also achieved progress in the area of structural reforms with 6 out of 10 structural benchmarks met at end-December 2015 (corrective measures have since been taken to address the remaining benchmarks).

Creating the conditions for stronger more inclusive growth while enhancing the economy's resilience to shocks remains one of the key objectives of the PSI and the PSE. To enhance the country's growth potential, the authorities will continue to rebuild fiscal space and strengthen PFM and governance by increasing the share of public investment in the budget, relative to public consumption, so as to raise the overall stock and quality of capital (both physical and human) and crowd in private investment. The authorities will also pursue their efforts to improve the business environment with a particular focus on restructuring the electricity sector so as to promote SMEs and attract much-needed FDIs.

While the authorities are aware of the potential downside risks to the outlook (highlighted in paragraph 10 of the report) they are also confident that the current policies and reforms under the PSI will enable Senegal to meet its PSE's long-term objective of sustained and inclusive growth within a more diversified economy.

2. Recent economic developments

Macroeconomic performance in 2015 was strong with real GDP growth rising to a solid 6.5 percent while inflation remained low at 0.1 percent. Senegal's growth is also broader-based, led by agriculture and industry. The distribution of agricultural equipment and input (measures envisaged under the PSE) contributed to last year's improvement in agricultural production and productivity. A good rainfall also helped. Investment and exports remain the main drivers of growth. Rising exports, in turn, along with low international oil prices have narrowed the current account deficit from 8.9 percent in 2014 to 7.6 percent in 2015.

The fiscal deficit improved in 2015 to 4.2 percent from 4.8 percent in 2014 thanks to higher fiscal revenues from a buoyant economic activity and also from the authorities' stepped up efforts to streamline public consumption, especially the wage bill which remained within the budgeted ceiling. Public debt stabilized at 56.3 percent of GDP —well below the WAEMU convergence ceiling of 70 percent.

3. Outlook and medium-term policies

a. Macroeconomic prospects and policies

Senegal's outlook remains favorable. Growth is forecast to increase over the medium-term and reach the 7 percent target of the PSE by 2018 amid a stabilized macroeconomic environment. Inflation is projected to remain moderate over the medium-term at 1.2 percent and the current account will steadily narrow to approximately 5 percent of GDP. Senegal's sound financial system and strong control environment will help support higher economic growth rates.

The authorities reiterate their commitment to the 2016 fiscal target. In this regard, they will pursue their efforts aimed at meeting the WAEMU fiscal deficit convergence criterion over the medium-term. To this end, they will continue to streamline public consumption (particularly subsidies and the wage bill) and reduce the public consumption's share in total budget spending in favor of public investment, as is currently projected for 2016. Additional efforts to raise revenues will focus on enhancing revenue collection and broadening the tax base. More specifically on revenue collection, a new structure for the recovery of problem tax claims will be put in place by end-September 2016. In an effort to broaden the tax base, the customs administration will exercise stricter control over external trade. Its recently established interconnection with the tax department will help boost revenue.

While Senegal's public debt rose last year to 56.3 percent of GDP, it is projected to steadily decline going forward and revert to 50 percent over the medium-term. The authorities remain committed to a prudent debt management strategy. For the next budget, they will announce a new debt anchor (the debt ratio considered to be sustainable over five years with a commitment to take corrective measures if the ratio is exceeded). The authorities will tap the international capital markets in 2016 or use the non-concessional facilities of multilateral donors for the financing of essential infrastructure investment projects including in energy water and sanitation.

b. Structural reforms

Along with pursuing a prudent debt management strategy, the authorities also intend to enhance the efficiency of their investment projects, including PPPs, and to improve the quality of public investment. Thus they will develop rigorous criteria for the selection and ranking of projects before they can be included in the budget. Strengthening PFM is also key to the authorities' structural reforms agenda. The first-generation "Treasury single account" (TSA) is being finalized and the second-generation TSA is expected to be operational in June 2016. The authorities will also strengthen PFM through enhanced supervision of government agencies. The signature of performance contracts with three additional agencies is expected by end-May 2016 (structural benchmark).

The authorities will also introduce by end-September 2016 (structural benchmark) a management strategy for the assets of the government and public enterprises. In addition, they will make arrangements to restructure and privatize public enterprises including Suneor, a key player in the groundnuts sector. Steps have been taken to liquidate Senegal Airlines and the authorities are seeking a strategic partner for the new airline that has been created.

The implementation of the Program of Reforms to the Business Climate and Competitiveness (PREAC) is underway with its first phase focusing on the tourism sector (with the extension of the reduced VAT to all tourism activities and the halving of government royalties charged on airline tickets) and on agriculture (with the suspension of the VAT to promote investment in the sector). The second phase of the PREAC, planned for the period 2016-2018 will focus on port services and electricity with the objective of reducing factor and intermediation costs in those sectors. Efforts to further improve the business climate and promote the private sector also include the creation of an economic space within a SEZ with business-friendly regulations. Accelerating the reform of the electricity sector is also key to improving the business climate. The authorities are making progress in this area with additional power capacity totaling 250 MW expected to come on stream in 2016. They are also considering various options for the reform of Senelec (the national electricity company) with the assistance of the World Bank and the AfDB.

In advancing their reform agenda, the authorities will make good use of their peer-to-peer learning activities which have served the country well. Following their interaction with peers from a number of countries, they have put in place a steering committee comprising representatives from line and sectoral ministries tasked with facilitating the implementation of lessons learnt from successful reform experience. In this endeavor, they will continue to work closely with Fund staff

Conclusion

The PSI remains an important instrument in helping Senegal to make good progress towards the PSE objectives. The authorities remain fully committed to the policies and measures under the PSI. They will continue to pursue steadfastly the measures under the arrangement and seek the Board's approval for the completion of the second review of the Fund-supported program, and for the modification of the end-June 2016 assessment criterion on net floor/borrowing lending.