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Senegal: 2004 Article IV Consultation and Second Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Requests for Waiver of Nonobservance of Performance Criteria and Rephasing of the Arrangement—Staff Report; Press Releases on the Executive Board Discussion; and Statement by the Executive Director for Senegal

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of a combined discussion of the 2004 Article IV consultation with Senegal and second review under the three-year arrangement under the Poverty Reduction and Growth Facility and requests for a waiver of nonobservance of performance criteria and rephasing of the arrangement, the following documents have been released and are included in this package:

- the staff report for the combined 2004 Article IV Consultation and Second Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Requests for Waiver of Nonobservance of Performance Criteria and Rephasing of the Arrangement, prepared by a staff team of the IMF, following discussions that ended on November 19, 2004, 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 February 15, 2005. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- Press Releases summarizing the views of the Executive Board as expressed during its March 7, 2005, discussion of the staff report on issues related to the Article IV consultation and the IMF arrangement.

- 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*
Selected Issues Paper and Statistical Appendix
Technical Memorandum of Understanding*
*Also included in Staff Report

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SENEGAL

Staff Report for the 2004 Article IV Consultation and Second Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Requests for Waiver of Nonobservance of Performance Criteria and Rephasing of the Arrangement

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

Approved by Saul Lizondo and Carlos G. Muñiz

February 15, 2005

- President Abdoulaye Wade and separatist leaders from Casamance region signed a cease-fire agreement on January 6, 2005 to end a decades-old armed conflict.
- Discussions for the second review of the PRGF-supported program were held in February and November 2004 in Dakar and in August 2004 at HQ. The 2004 Article IV consultation discussions were held in Dakar during November 5–19, 2004.
- The principal Senegalese representatives included Mr. Diop, Minister of Economy and Finance, Mr. Soumaré, Minister of Budget, and Mr. Ndiaye, National Director of the BCEAO. The staff also met with the Prime Minister, Mr. Sall, the Minister of Energy, Mr. Niang, the Minister of Commerce, Mr. Diop and representatives of the diplomatic community, NGOs, trade unions, business community, and international institutions. The staff team for the November 2004 discussions comprised Mr. Vaez-Zadeh (head), Messrs. Josz, and Anne, Ms. Méndez (all AFR), Mr. Segura-Ubiergo (FAD), and Ms. Antoinette Kanyabutembo (Assistant, AFR). Mr. Doré, the Fund Resident Representative in Senegal, and Mr. Fiator, Senior Advisor at the office of the Executive Director for Senegal, participated in the discussions.
- Senegal's three-year PRGF arrangement in an amount equivalent to SDR 24.27 million (15 percent of quota) was approved on April 28, 2003. Together with other members of the West African Economic and Monetary Union (WAEMU), Senegal has accepted the obligations of Article VIII, Section 2, 3, and 4 of the Fund's Articles of Agreement.
- The last Article IV consultation was concluded on April 28, 2003, the first review of the PRGF-supported program was completed in February 2004, and Senegal reached its completion point under the enhanced HIPC Initiative on April 19, 2004. In accordance with the recent decision of the Executive Board regarding PRSP documentation, Senegal's first annual PRSP progress report and the Joint Staff Advisory Note were submitted to the Executive Boards of IDA and the IMF for information in November and December 2004, respectively.
- In concluding the 2003 Article IV consultation and the first review, Executive Directors urged the authorities to continue to build on their prudent fiscal management of recent years, and to strengthen the transparency of the expenditure process. Directors stressed the need to implement the structural reform agenda with greater determination to enhance the efficiency of the economy and eliminate recourse by public enterprises to budgetary support.
- In the attached letter of intent and memorandum on economic and financial policies (MEFP) dated February 4, 2005 (Appendix II), the Minister of Economy and Finance reviews progress under the 2004 program, outlines the government's economic program and the policies for 2005 and the medium term, and requests waivers for nonobservance of two performance criteria and a rephasing of the arrangement.

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EXECUTIVE SUMMARY

Program implementation during 2003 and the first nine months of 2004 was uneven. The majority of quantitative targets were met, but there were delays in implementing structural reforms and slippage in fiscal transparency that led to postponement of the conclusion of the second review. The performance criteria on the basic fiscal balance for end-2003 and non-concessional external borrowing were not observed. The authorities are requesting waivers for the nonobservance of these criteria.

Macroeconomic performance in 2004 was satisfactory and the program's growth and inflation objectives for the year are likely to have been achieved. Real GDP growth is estimated to have reached about 6 percent, despite the impact of the locust invasion, with inflation remaining subdued. The overall fiscal deficit (including grants) is likely to have doubled to 2.7 percent of GDP in 2004, but the basic fiscal balance (excluding HIPC expenditure) is estimated to have remained at the 2003 level.

The macroeconomic objectives for 2005 include real GDP growth of about 6.5 percent and consumer price inflation of about 1.6 percent on average, barring any major supply-side shocks. A relatively low level of public domestic and external debt (6 percent and 41 percent of GDP, respectively), and a low primary deficit indicate that the fiscal position will be sustainable in 2005. Analysis by the staff and the authorities further indicate that debt sustainability can be preserved in the medium term under reasonable assumptions.

To ensure fiscal transparency and good governance and to prevent budgetary irregularities, the authorities will revamp the procurement regulations, limit the share of contracts that are not subject to tender procedures, and reduce the scope for firms to get compensation for work performed under invalid contracts. All resources provided to the public sector by the Islamic Conference Organization or the Millennium Challenge Account will be subject to budgetary procedures.

The financial system is generally sound but burdened by bad loans, credit concentration, and inadequate regulatory and judicial framework. The authorities will prepare an action plan for financial sector development and soundness to be agreed with staff during the third review.

The sale of the state-owned groundnut processing company, SONACOS, will be finalized by June 2005, and the pricing policy for the electricity company will be made more flexible. The monitoring of other public enterprises and the debt management capacity will be strengthened to enhance the assessment and control of the government's contingent liabilities.

Structural reforms to reduce production costs in the export sector are essential to prevent the erosion of external competitiveness, especially in the face of continuing appreciation of the euro (to which the CFA franc is pegged) against the U.S. dollar.

The authorities would prefer to exit from the PRGF arrangement on its expiration in April 2006. They would like to explore options for other types of arrangements with the Fund based on the outcome of the Board discussions on the financial instruments for Fund support to low-income countries.

I. Introduction

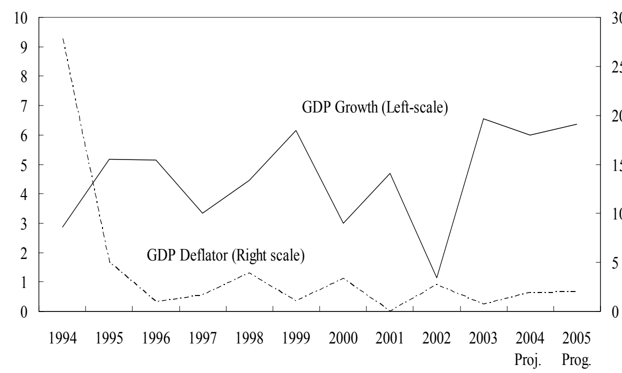
1. **Executive Board consideration of the second review, the first PRSP progress report, and the Joint Staff Assessment (JSA), originally scheduled for June 30, 2004,[1] was delayed due to a serious breach of budgetary discipline and transparency**. The government signed contracts for infrastructure projects in Thiès, the second largest city, without budgetary appropriation. Work on the projects, valued at 1 percent of GDP, started in 2003 and continued in 2004. Contractors were promised payment with future budgetary resources, and provided with letters of comfort to facilitate borrowing from banks.

2. **The Board meeting was postponed to allow the staff to reach understandings with the authorities on remedial actions to restore discipline and prevent similar problems in the future**. Discussions on these issues were held in Washington in August 2004 but were not conclusive. As a result, it was not possible to complete the review before end-October 2004. The delay in the completion of the second review meant that the Article IV consultation had to take place earlier than at the end of the usual 24-month cycle (ending in April 2005).

II. Recent Economic Developments and Program implementation

3. **Economic performance in 2003 and the first nine months of 2004 was satisfactory.** Real GDP growth reached 6.5 percent in 2003 and consumer price inflation was virtually absent (Table 4), as the recovery of agricultural output dampened food prices, and the appreciation of the exchange rate reduced import prices. Preliminary data indicate that economic performance during the first nine months of 2004 was broadly in line with the macroeconomic and structural reform objectives and policies agreed with the staff earlier in the year, with strong economic growth and subdued inflation (Figure 1).

Figure 1. Senegal: GDP Deflator and Real GDP, 1994-2005
(Annual Percentage Change)

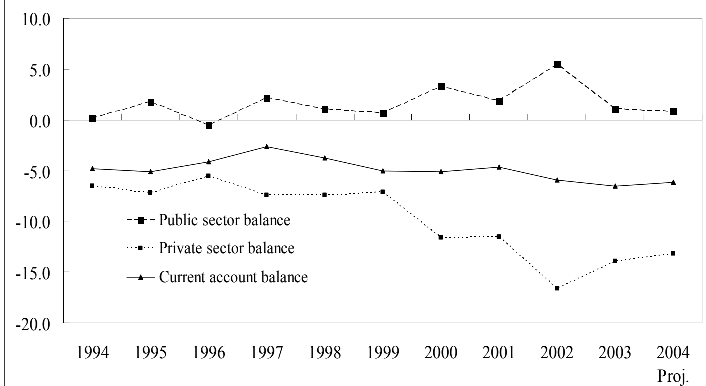


Source: Senegalese authorities; and staff estimates and projections.

[1] IMF Country Report No. 05/114 and IMF Country Report No. 05/115 respectively.

4. **Economic growth has been associated with a widening of the current account deficit since the 1994 devaluation (Figure 2), driven by strong domestic demand, mainly from the private sector (Table 5), and lackluster export performance.** In 2003, problems in the export sector, including lack of inputs for groundnut production, and a high level of food and oil imports, led to an increase in the current account deficit (including official transfers) from 5.9 percent of GDP in 2002 to 6.5 percent in 2003 (Table 10). However, substantial private capital inflows, combined with debt relief, led to an increase of 36 percent in the net international reserves of the central bank (Table 9).[2]

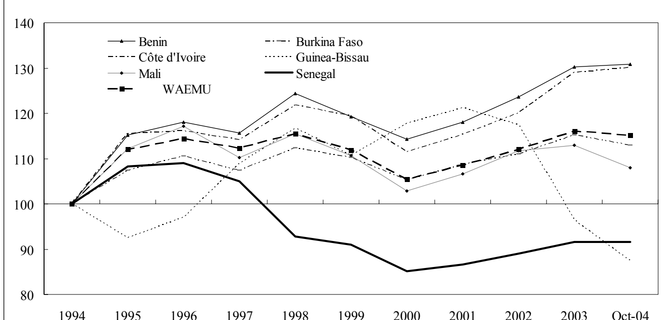
Figure 2. Senegal: Public, Private and External Sector Balance, 1994-2004



Source: Senegalese authorities; and staff estimates and projections.

5. **The real effective exchange rate (REER) appreciated by about 12 percent during November 2000-October 2004, reflecting mainly the appreciation of the euro (to which the CFA franc is pegged) against the U.S. dollar** (Figure 3). However, since 1994 (when the CFAF was devalued), Senegal's REER has depreciated by about 8 percent, compared to an appreciation of the REER in almost all other countries of the West African Economic and Monetary Union (WAEMU).

Figure 3.WAEMU: Real Effective Exchange Rates, 1994- October 2004
(Index, 1994=100)



Sources: WAEMU authorities; and staff estimates and projections.

[2] The central bank net foreign assets and the broad money are not analytically meaningful concepts measured at the individual WAEMU country level. The broad money aggregate includes only the CFAF banknotes issued by the Senegal branch of the BCEAO. However, CFAF banknotes issued by BCEAO branches in other WAEMU countries are also legal tender and circulate in varying degrees in Senegal (although the volume in circulation in each country is not known). These banknotes are recorded as Senegal's foreign assets when they are returned to the BCEAO branch in Senegal. Thus not only are the estimates of the broad money and net foreign assets subject to measurement errors, the methodology for compilation of broad money data blurs the concept of domestic liquidity.

6. **The overall fiscal deficit (including grants) widened from 0.1 percent of GDP in 2002 to 1.4 percent of GDP in 2003, driven by a substantial increase in expenditures.** Revenue performance strengthened throughout the period. Tax revenue increased slightly but remained below the program objective (Tables 6 and 7).

7. **The end-December 2003 performance criterion on the basic fiscal balance (program definition) was not observed** (Table 1)**.** The breach of this performance criterion was foreseen at the time of the first review (February 2004).[3] It was attributed to a fiscal stimulus introduced in mid-2003—and supported by the Executive Board—involving additional drought-related expenditure and accelerated spending of resources accumulated in the government's HIPC Initiative account. As foreseen at the time of the first review, the authorities have requested a waiver for the nonobservance of this criterion. The staff supports this request, given that the fiscal outcome involved a minor deviation from the original target and resulted from an appropriate fiscal stimulus.

8. **On the monetary front, banks' excess reserves increased during the first three quarters of 2004[4] and net domestic credit contracted slightly, owing to a reduction in government net indebtedness to the banking sector** (Table 9)**.** In an effort to stimulate credit growth, the BCEAO lowered its key lending rates by two percentage points during July 2003-March 2004. Banks' interest rates remained practically unaffected, however, because banks' large excess reserves obviated their need for central bank credit.

9. **The staff estimates the NPV of debt-to-export ratio at about 114 percent, following the attainment of the completion point and after enhanced HIPC Initiative relief.** The ratio is well below the HIPC Initiative threshold of 150 percent and the ratio projected at the decision point.[5] In its meeting of June 2004, the Paris Club revised downward the NPV of Senegal's debt to the Paris Club as of end-1998, and agreed to grant Senegal debt relief of US$ 94 million in NPV terms, compared to US$ 126 million

Senegal: Key Debt Indicators after HIPC Assistance (end-2004)[1/]

	HIPC Completion Point Document Est.	Updated DSA Est.
NPV of external debt		
In percent of GDP	29.0	31.4
In percent of exports	114.8	113.6
In percent of government revenue	150.7	141.9
Debt service ratio		
In percent of exports	13.1	6.9
In percent of government revenue	18.5	19.5

Sources: HIPC Completion Point Document (IMF Country Report No. 04/130) and staff estimates.
1/ The difference between the two data sets mainly reflects updated national accounts, differences in export projections, and revised exchange rates.

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[3] See IMF Country Report No. 4/131, para. 30.

[4] At end-September 2004, banks' reserves amounted to 19 percent of their deposits, twice the minimum required (9 percent).

[5] HIPC debt relief amounted to US$488 million in net present value (NPV) terms. See Senegal—Enhanced Initiative for Heavily Indebted Poor Countries—Completion Point Document and Request for Waiver of Conditions (IMF Country Report No. 4/130).

committed to at the Decision Point. However, the Paris Club creditors also agreed to provide additional debt relief of US$ 336 million in NPV terms. The authorities have initiated contacts with all creditors with a view to increasing the rate of participation in the Initiative and securing greater debt relief (Table 14).

10. **The implementation of structural reforms in 2004 was uneven**. A new investment code was introduced, the real estate registry was digitized, and the audited accounts of the state-owned electricity company were published (Table 3). However, the submission of budgets to the Audit Court for verification was delayed and monthly reports on taxes due and collected were not issued. Most other reforms in the area of public expenditure management were implemented on time, but the spending irregularities in Thiès (para. 1) constituted a setback in fiscal governance.

11. **Some progress has been made on the implementation of the poverty reduction strategy since early 2003.** The business environment has been improved through regulatory reform (para. 41), the administrative capacity has been strengthened, project implementation accelerated, and structural reforms in the water, telecommunication, and electricity sectors implemented, albeit with delays. However, few policy initiatives targeting vulnerable groups have been introduced and the establishment of committees monitoring PRSP implementation has been delayed. Although spending for social sectors increased in 2003, health expenditure declined, owing to low implementation capacity. While recent poverty data are not available, the latest household survey (2001-02) suggests that poverty decreased from 68 percent in 1994 to 57 percent in 2001. The decrease was larger in urban centers than in rural areas.[6]

III. Policy Discussions

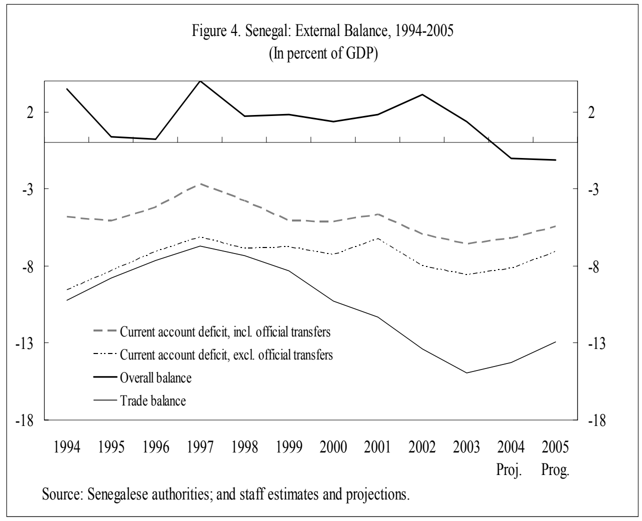
12. **The discussions focused on the implementation of the program in 2004,[7] the annual program for 2005, and the medium-term objectives, policies, outlook, and risks.**

A. Macroeconomic Outcome and Program Implementation in 2004

13. **The macroeconomic outcome for 2004 is expected to have been favorable**. Real GDP growth is estimated to have reached about 6 percent, despite a locust invasion, with an average annual CPI inflation rate below ½ percent. Despite oil price increases, the external current account deficit (including official transfers) is estimated to have declined slightly

[6] IMF Country Report No. 05/114 and IMF Country Report No. 05/115.

[7] The program was not discussed by the Board because of the postponement of the second review, but served as a reference for the staff's assessment of the policy performance in 2004.



owing to a pick-up in exports, while capital inflows are estimated to have declined. The resulting overall balance of payments deficit is estimated to have been more than financed by exceptional financing, including debt relief under the HIPC Initiative, allowing an increase in net international reserves (Table 10 and Figure 4).

14. **The overall fiscal deficit (including grants) is likely to have almost doubled to about 2.7 percent of GDP in 2004** (Tables 6 and 7). The deterioration is explained by the postponement to 2004 of costs associated with structural reforms that had been initially programmed for 2003, lower grants, and higher HIPC-related expenditures on rural development and locust eradication. Moreover, the supplementary budget enacted in September 2004 allocated additional resources to fund fully the irregular expenditure in Thiès. With external financing exceeding the deficit, net government position with the banking sector is estimated to have improved (Table 9).

15. **The basic fiscal balance—the fiscal objective subject to program conditionality—is estimated to have remained at the 2003 level**. The authorities committed to ensuring that the additional financing of Thiès-related expenditures included in the 2004 supplementary budget (CFAF 9 billion) would have no effect on the basic fiscal balance.[8] To this end, they took a number of compensatory measures, including cutbacks in non-priority expenditure and reduction of domestically-financed capital expenditures.

16. **The revenue target for 2004 is estimated to have been attained**. The authorities expected the tax policy measures implemented in 2004 to be revenue-neutral[9] but direct tax collections for the year as a whole are estimated to have been higher than expected because of the ongoing improvements in administration of the large tax payer unit.

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[8] The entire cost of Thiès-related projects was CFAF 40 billion (1 percent of GDP). The 2004 budget included CFAF 31 billion of these expenditures, which had been committed before the budget was approved.

[9] The measures included a new corporate income tax law that: (i) lowers the marginal effective tax rate from 35 to 33 percent, (ii) reduces exemptions, and (iii) simplifies small business taxation by subsuming numerous taxes in one synthetic tax. The new investment code streamlining the incentive structure also went into effect.

17. **The ceiling on non-concessional borrowing (continuous performance criterion) was not observed**. In October 2004, the Port of Dakar (a public enterprise) contracted a non-concessional loan from the regional development bank (BOAD). The authorities have requested a waiver for the breach of this performance criterion. The staff supports the request on the grounds that: (a) urgent repairs were needed as the dilapidated state of the port had become a major bottleneck for export and import activities, and (b) the authorities' request is consistent with the staff's proposal to exclude CFAF loans from the institutions within the WAEMU region from the ceiling on nonconcessional borrowing under the program.

B. The Macroeconomic Framework for 2005

18. **The macroeconomic objectives for 2005 include real GDP growth of about 6.5 percent and CPI inflation of about 1.5 percent on average, barring any major supply shocks.** The external current account (including official transfers) deficit is projected to narrow to about 5.5 percent of GDP, partly reflecting favorable terms of trade developments. The projected primary deficit of about 1.9 percent of GDP and a relatively low level of domestic and external debt (6 percent and 41 percent of GDP, respectively, at end 2004), indicate that fiscal sustainability will not be an issue in 2005. Senegal will also comfortably meet all but one of the WAEMU fiscal convergence criteria.[10] The main risks to the short-term economic outlook include the continuing and sustained rise in oil prices, lower recovery of the agricultural sector from the locust invasion, and the slackening of political resolve to follow through with the reform agenda and implement appropriate macroeconomic policies.

C. Fiscal Policy and Reform

19. **The overall fiscal deficit (including grants) is expected to increase slightly to about 3 percent of GDP in 2005, almost entirely financed by external resources** (Figures 5 and 6). Given the favorable macroeconomic conditions, low debt levels, absence of central bank financing, and little risk of crowding out the private sector from the credit market,[11] the

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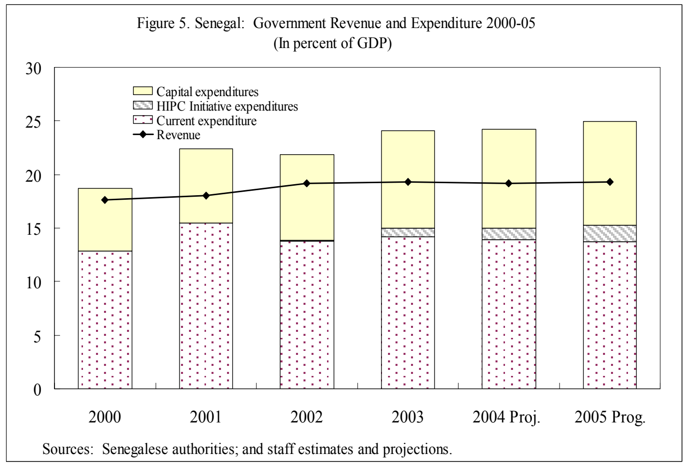
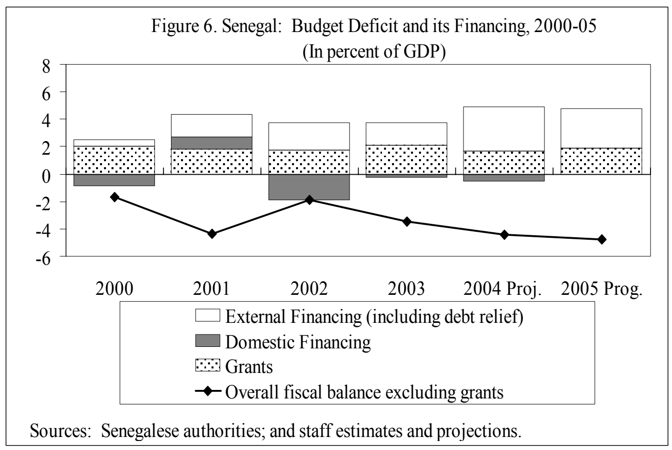
[10] The basic fiscal balance, as currently defined by WAEMU, will slip below the required balanced position, but the balance excluding social expenditure financed by HIPC (WAEMU's proposed new definition of basic balance) should be in surplus.

[11] The likelihood of crowding out is small, given the excess liquidity in the banking system.

projected larger fiscal deficit can be accommodated without undermining macroeconomic stability.





20. **The increase in the government's net indebtedness to the banking system will be contained in 2005 as the government repays statutory advances from the central bank falling due in 2005** (Figure 6). The authorities intend to issue government securities on the WAEMU regional market to finance specific projects. The staff encouraged the authorities to issue government securities to repay the statutory advances ahead of schedule and provide liquidity to the government securities market. The authorities were not prepared to do so at this stage in view of the likely increase in the cost to the budget.

21. **Capital outlays are projected to rise by 0.5 percent of GDP**. The 2005 budget includes an ambitious list of projects to improve the country's physical infrastructure,[12] which, if implemented in their entirety, could pose a risk to the fiscal outlook. The authorities have agreed to scale back the 2005 capital expenditure in line with the country's expected projects implementation capacity. Therefore, the 2005 fiscal program assumes that investment spending will not exceed 75 percent of the amounts budgeted. This rate is slightly higher than the historical implementation ratio and assumes an expansion of the capacity to implement projects.

22. **Current expenditure is projected to decline by 0.1 percent of GDP**. The new compensation policy for the civil service, announced recently, together with the expected increase in recruitment will raise the wage bill relative to GDP, but this increase will be

[12] The main projects aim at reducing traffic congestion in the Dakar region and expanding the rural road and irrigation networks. The World Bank staff concurs that most of the projects are productive.

compensated by a reduction in interest expenditure and transfers. The public sector wage bill would rise to 29 percent of fiscal revenue.[13]

23. **The staff welcomed the authorities' intention to link salary increases to performance, but expressed concern about the delays in the recruitment of new civil servants for priority sectors**. As of end-October 2004, net recruitment reached no more than 70 percent of the target. The authorities indicated that they did not intend to use the margin provided by delayed recruitment to raise salaries.

Revenue reforms

24. **The staff urged faster implementation of the long overdue improvements in tax administration**. The authorities noted that the electronic data sharing between the customs administration, the tax administration, and the Treasury—which is essential for monitoring tax evasion and assessing the performance of each tax agency—is expected to become fully operational before end-June 2005. Implementation of a new software for management of the property tax base and the digitization of land and forest registry are proceeding (MEFP para. 33). These improvements would allow proper assessment of property tax and may facilitate mortgage lending.

25. **The transfer of direct tax collection responsibilities from the Treasury to the Tax Administration Agency (recommended by FAD technical assistance missions) has not been achieved yet.** The authorities expressed concern that combining the responsibilities for tax collection and tax assessment could provide opportunities for corruption. However, they agreed to revisit the issue once the computer link between the three tax agencies (including the Treasury) becomes effective.

26. **No progress has been made on the harmonization and reduction of excises for oil products**. The authorities argued, and the staff agreed, that reducing the excise tax would induce undesirable revenue losses in the short term. However, given the possible benefits of a lower excise tax for the economy, they agreed to consider the measure at a later stage.

Public expenditure management and fiscal transparency

27. **The agenda of fiscal structural reforms focuses on improvements in public expenditure management, fiscal transparency and reporting, and public procurement**.[14]

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[13] This ratio is below the WAEMU convergence criterion ceiling (35 percent of revenue), but it excludes transfers to autonomous public agencies for payment of wages and salaries, which are included in the WAEMU criterion.

[14] Senegal is an FAD pilot case for enhanced treatment of structural fiscal issues. Additional details on the fiscal structural reforms are provided in the accompanying Selected Issues Paper.

The specific reforms will be based on the recommendations of (i) the World Bank's Country Financial Accountability Assessment (CFAA) and the review of Country Procurement Practices (CPAR), (ii) the Assessment and Action Plan (AAP) of April 2004, and (iii) the fiscal ROSC of January 2005.

28. **The procurement laws, regulations, and procedures will be revamped with the assistance of the World Bank, to ensure transparency and good governance, and prevent budgetary irregularities** (MEFP, para. 43-44). In the meantime, the following measures have been taken or planned: (a) the 2005 budget law—which was enacted in December 2004—includes a provision (drafted with IMF assistance) that permanently limits the scope of any provision in the State's Obligations Code and other laws that allow firms to get compensation for work performed under invalid contracts; (b) the share of contracts signed under special provisions that bypass competitive tender procedures will be subject to a ceiling (proposed as a quantitative performance criterion—PC, MEFP, Table 1); and (c) no government contracts will be signed before the required budget allocations are approved by the parliament (proposed PC).

29. **The government agreed with the staff's recommendation that the use of any funds received for the preparation of the Islamic Conference in Dakar in 2006 or from the U.S.-funded Millennium Challenge Account (MCA) should be subject to the usual budgetary procedures.** These resources are expected to be in the form of grants, but their amounts and specific nature (cash or non-cash) were not known at the time of the preparation of the 2005 Budget Law. Therefore, a supplementary budget will be prepared to reflect the projected use of any cash grants in a transparent manner.

30. **Expenditure tracking and fiscal reporting are other areas of concern.** The recent introduction of the SIGFIP software could ameliorate tracking of expenditure, but a number of technical problems remain.[15] The delays in the preparation of the monthly Treasury balances exceed two months (one of the longest in the WAEMU zone). The Government Financial Operations Table (TOFE)—the main instrument of budgetary control—is not prepared on a monthly basis, and the quarterly table is frequently revised, sometimes after several months. These deficiencies make it difficult to verify fiscal data and monitor fiscal developments on a timely basis. The authorities attribute these delays to technical problems. However, they have now committed to the preparation of a monthly TOFE beginning with the January 2005 accounts (proposed PC).

31. **There have been delays in the transmittal of Treasury accounts and budget execution laws to the Audit Court and the review of the documents by the Court prior to transmittal to the Parliament has been slow.** Owing to these delays, the last budget

[15] The system can only track domestically financed expenditure, there are substantial delays in processing wage bill data, and delays between payment orders and actual payments cannot be monitored.

execution law voted by the Parliament is that of 1996. The authorities have now committed to send the 2003 accounts to the Audit Court in early February 2005 (prior action). The ability of the Audit Court to properly exercise its ex-post review role and impose accountability on the Treasury is constrained by a lack of resources. The authorities noted that the Court's resources will be augmented with the support of international partners.

32. **Progress has been made with the preparation of a medium-term expenditure framework in four ministries.** The framework will be gradually extended to all ministries, but it needs to be improved, particularly to permit reconciliation of PRSP priorities with the annual budget. The staff pointed out that the rising level of capital expenditure made it more urgent to put in place effective procedures for medium term investment planning and the assessment of recurrent costs associated with capital expenditure.

D. Monetary Policy and Financial Sector Issues

33. **The authorities noted that the current monetary arrangement within the WAEMU has served Senegal well**. The staff agreed that the elimination of central bank financing of the budget, the repayment of the BCEAO's statutory advances over the next nine years, and adherence to WAEMU convergence criteria should contribute to monetary stability in the WAEMU region and help enhance the effectiveness of monetary policy. It pointed out, however, that the existence of substantial excess reserves in the banking system impedes the ability of the central bank to influence interest rates, and the differentiated reserve requirement system inhibits financial integration within the region. It encouraged the authorities to raise these issues at the WAEMU Council of Ministers' meetings.

34. **The recent FSAP mission found that the banking system is reasonably sound (Table 15), but vulnerable to excessive credit concentration and a large stock of nonperforming loans**.[16] At end-June 2004, gross non performing loans amounted to 14 percent of total loans. Some banks are also in noncompliance with the prudential norms. To address these weaknesses, the staff proposed raising the capital adequacy ratio above 8 percent to account for the specific risks inherent in the Senegalese economy. The staff stressed that the regulatory framework for loan recovery and collateral seizure should be simplified and the efficiency of the judicial system enhanced, along the lines recommended by the FSAP report, to facilitate the reduction of nonperforming loans. These measures, together with stringent enforcement of prudential norms, will enhance the soundness of the system and reduce banking risks, thereby improving credit availability.

35. **The authorities were not prepared to commit to the measures proposed by the staff and the recent FSAP report to enhance the soundness of banks and the**

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[16] See "Senegal-Financial System Stability Assessment-Update" (IMF Country Report No. 05/126).

development of the financial market. They argued that some of the measures had to be endorsed by the WAEMU regional authorities before they could commit to them. The staff urged the authorities to put forward these reforms at the WAEMU Council of Ministers' meetings. To this end, the authorities will prepare an action plan for financial sector development to be agreed with the staff during the third review. Regarding measures to combat money laundering and the financing of terrorism (AML/CFT), the authorities explained that a draft law criminalizing the financing of terrorism is under preparation at the WAEMU level with a view to its adoption in 2005, and that a financial intelligence unit is being set up, in order to strengthen implementation of AML legislation.

36. **The staff urged caution in the establishment of the postal savings bank**. It argued that this new agency should be created only with majority private capital. The authorities explained that even if the postal bank is created, it will not extend credit until the majority of its capital is privately owned. In the meantime, they expect to recapitalize the Post Office and separate its financial operations (deposit collection) from postal services. The staff urged the authorities to complete the separation in 2005.

37. **The authorities disagreed with the staff's advice against the establishment of a subsidiary for the Regional Solidarity Bank (BRS)**.[17] They argued that the BRS could play a useful role in making credit available to clients without access to bank credit. The staff pointed out, and the authorities agreed, however, that the main mechanism for channeling credit to these groups should be the microfinance institutions, which already exist and are expanding their operations.

E. Public Enterprise Reforms and Governance

38. **After two failed privatization attempts in 1995 and 1999, and following several months of negotiation, the authorities have decided to sell the groundnut processing and vegetable oil refining company (SONACOS) to the only bidder that made an offer in June 2004**. The transfer of ownership will be completed by end-June 2005. The staff will follow up on this commitment during the next review mission and, if needed, agree on steps to ensure the completion of privatization. The authorities agreed that, while it remains in public ownership, SONACOS will not have recourse to budgetary transfers, and its borrowing and arrears will be subject to ceilings.[18] The preliminary results of an FAD study presented in the accompanying Selected Issues Paper indicate that privatization of

[17] The BRS was created in May 2004. Its capital of US$45 million has been paid by the WAEMU states and, indirectly, the BCEAO. The original plan to raise 90 percent of the capital from the private sector has not yet been realized. The next step is the establishment of a subsidiary in each WAEMU country. The BRS is expected to lend primarily to microfinance institutions and small enterprises.

[18] Budgetary transfers to SONACOS amounted to 2 percent of GDP in 2001.

SONACOS would have little adverse impact on the net income of groundnut farmers. The authorities also agreed to eliminate the tax on vegetable oil protecting SONACOS to provide a level playing field for the operators in this sector. The revenue impact of this measure is negligible.

39. **Despite some improvements, the financial position of the electricity company (SENELEC) remains fragile, constituting a serious contingent liability for the government**.[19] Its profitability has been affected by the 5 percent cut in electricity prices announced in July 2004, in application of a rigid pricing formula (which is based on historical prices and weights, and is applied once a year), administered by the electricity sector regulatory commission. The authorities are committed to adopting a new market-oriented formula by October 2005 in consultation with the World Bank (structural benchmark). They also agreed that SENELEC will not receive any current budgetary transfers and both its arrears and indebtedness to the banking system will be subject to ceilings. The company's financial position and prospects will be monitored by the World Bank. The authorities indicated that their medium-term strategy for SENELEC, agreed with the World Bank, consisted in attracting a partner to take over its management.

40. **The government intends to tighten surveillance of the companies in which the state holds substantial equity, to better monitor and control contingent liabilities.**[20] The 28 public enterprises, in which the government is the majority owner, have a combined outstanding debt of about 3 percent of GDP (Table 16). In 2005, the authorities will launch a tender to privatize the state lottery company, LONASE, which had accumulated losses amounting to 0.6 percent of GDP by end December 2003. The *Industries Chimiques du Sénégal* (ICS), the largest company in which the state owns a substantial minority stake, made losses amounting to about 1 percent of GDP in 2003 and has accumulated debt equivalent to 3 percent of GDP. The government has agreed not to make any budgetary transfer to the company in 2005 and to press for cost cutting, management improvement, and other remedial measures that would entail little impact on public finances in later years.

41. **The staff welcomed the steps taken to improve the business environment and urged further simplification of regulations affecting private sector activities.** On the recommendation of the Presidential Investors' Council (PIC), a new corporate income tax code and a streamlined investment code became effective in 2004. A law on build-operate-transfer (BOT) procedures for large projects was adopted in February 2004. Steps are also being taken to accelerate the administrative process for registration under the investment code and, more generally, for business authorization and licenses, with the Investment Promotion Agency (APIX) serving as a facilitator for investors. The authorities noted that the

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[19] In 2001, SENELEC received budgetary transfers of about one percent of GDP.

[20] Eleven public enterprises were privatized or liquidated in the run up to the completion point under the enhanced HIPC Initiative.

recent creation of the National Council Against Corruption and Extortion should also alleviate investors' concerns. The staff pointed out that the Council should propose credible reforms soon to correct the persistent perception of a high level of corruption in Senegal.[21]

F. External Competitiveness, Trade, and Payments

42. **The authorities agreed with the staff on the need for reinforcing Senegal's external competitiveness.** Senegal's export performance has not been a major impetus to economic growth, even since the devaluation of 1994, mainly because of structural weaknesses that have raised export production costs and the absence of export diversification (Box 1). Going forward, the authorities consider the agriculture and agro-food industry, fishing, tourism, telecommunications, and textile as promising export sectors. However, the development of these sectors is impeded by the problems of soil erosion, depletion of fish stocks, and inefficiencies in the groundnut, and electricity sectors. The staff emphasized and the authorities agreed that, apart from addressing these impediments, the key element of the government strategy should be creating an environment that would promote private sector activities in these sectors.

43. **Senegal continues to maintain an exchange system free of restrictions on making payments and transfers for current international transactions, and its trade regime broadly conforms to the provisions of the WAEMU common regional trade policy**. Intraregional trade is essentially free, whereas imports from third countries are subject to the common external tariff (CET). The authorities reiterated their strong commitment to the process of WAEMU economic convergence and their support of the regional integration efforts, in particular in the areas of tax harmonization and the implementation of the customs union.

44. **The staff stressed the need for further trade liberalization.** It noted that Senegal should take a leading role in trade liberalization efforts, rather than await other WAEMU countries to join the effort. The authorities expressed concern that the subsidies in the industrial countries dampened the political will for liberalization. The staff agreed that the subsidies were not helpful, but noted that they did not eliminate the benefits of further trade liberalization. It encouraged adherence to the revised timetable for the phase-out of the temporary *taxe dégressive de protection* (TDP), and urged that the number of imported commodities for which the import duty is calculated on the basis of administrative prices be brought in line with WAEMU rules. The authorities noted their intention to apply the procedure to fewer products from July 2005, when the WTO's temporary approval of the number of administrative prices expires.

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[21] In 2004, Senegal ranked 85th among 146 countries in the corruption perception index of Transparency International (11th least corrupt among 31 African countries). Its score was the second worst since appearing on the list (1998).

Box 1. Senegal's Export Performance and External Competitiveness

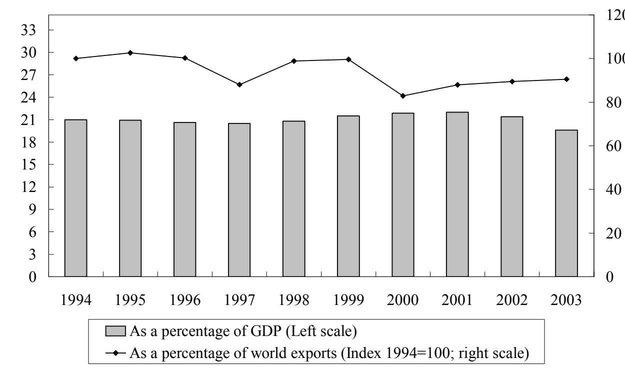
Senegal's export performance has been relatively weak over the past ten years, with the share of exports in GDP remaining relatively constant (Figure 7). Exports grew by about 3 percent in volume terms, on an average annual basis during 1995-2003. Furthermore, the concentration of exports—as measured by Gini coefficient—has remained broadly stable over the period, indicating that export diversification has been minimal.

Senegal's export performance has been weaker than most other WAEMU countries (Figure 8), although it is the only country in WAEMU where the REER has persistently depreciated relative to its post 1994 devaluation level (Figures 3 and 9). This development would imply that structural weaknesses, common to all WAEMU countries, may have affected Senegal's export performance more than the other WAEMU members These weaknesses—highlighted by the authorities and the private sector—include erratic electricity supply, large production costs arising from high electricity, water, telecommunication, labor, and real estate costs, Dakar's saturation as an industrial production site, burdensome administrative procedures, and the inefficient judicial system.

The declining trend in the terms of trade and export prices indicates that the profitability of the sector may have also been a factor constraining export growth during 1998–2003 (Figure 9).

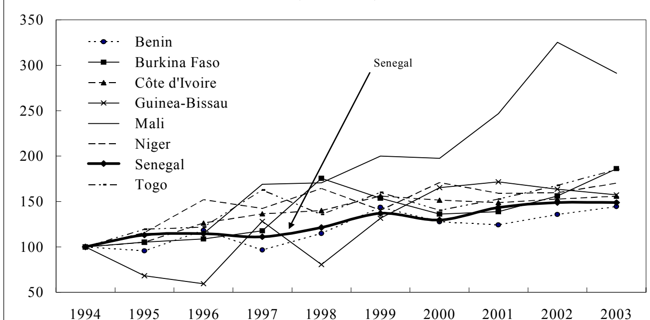
Export market share developments (Figure 7) suggest that during 2000–03, competitiveness may not have been affected by the appreciation of the REER resulting from the depreciation of the U.S. dollar against the euro. Nevertheless, the continuation of the euro appreciation is likely to be detrimental to competitiveness. In this light, ameliorating the structural weaknesses noted above has taken on more urgency as a means to prevent the erosion of competitiveness.

Figure 7. Senegal: Exports of Goods, 1994-2003



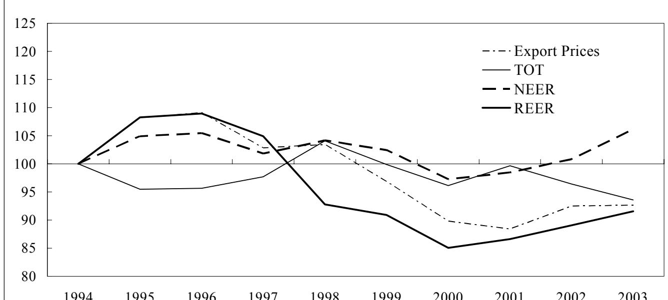
Sources: Senegalese authorities; and IMF, Direction of Trade Statistics (DTTS).

Figure 8. Senegal's and WAEMU Countries' Export Volume Growth (1994 = 100)



Source: WAEMU authorities; and staff estimates.

Figure 9. Senegal: Terms of Trade, Export Prices and Effective Exchange Rates, 1994-2003 (Index 1994=100)



Sources: Senegalese authorities; and staff estimates.

G. Medium-Term Outlook and Policies

45. **With monetary and exchange rate policies determined at the regional level, fiscal policy will remain the main instrument of macroeconomic policy in Senegal, supported by structural reforms.** Over the recent years, fiscal policy has been conducted in a prudent manner, leading to low primary deficits. This fiscal stance has been buttressed by the cautious monetary policy of the BCEAO, which is aimed at underpinning the exchange rate anchor, and delivering low inflation. On the structural front, reforms have been implemented with delays and occasional backtracking on initial plans, hindering the realization of the country's growth potential and its poverty reduction goals. Nevertheless, the government has privatized many public enterprises, enhanced the environment for private sector activities, and made some improvements in the country's infrastructure. Looking forward, the authorities agreed with the staff that the prudent fiscal stance should continue, and priority should be given to addressing the structural bottlenecks in order to enhance the efficiency of the economy, particularly in the export sector.

46. **The staff's medium-term scenario is based on real GDP annual growth of about 5 percent and continued low inflation during 2006-2010 (Table 11).**[22] This growth rate is about one percentage point higher than the average growth rate since the devaluation of the CFAF in 1994 (Box 2).[23] Its attainment would require implementation of sound macroeconomic policies, market-oriented structural reforms, and an efficient government investment program.

47. **The baseline scenario allows for a narrowing of the resource gap over the medium term.** Private savings should strengthen moderately, facilitated by rising real per capita income and financial sector development. Reflecting these trends, the external current account deficit (including official transfers) would decline marginally from the projected 5 percent of GDP in 2005 to around 4.5 percent by 2010 (Table 12). The current account deficit is relatively large and has been on a rising trend in recent years, but it does not constitute a serious sustainability risk over the medium term, assuming the policies outlined in this report, including the stance of medium-term fiscal policy, and continued flow of development and budgetary aid. The pooling of reserves by WAEMU member countries and

[22] Assuming that the elasticity between poverty reduction and growth observed during 1994–2001 holds, a real GDP growth rate of 7 percent per year would be needed to attain the Millennium Development Goal of reducing the poverty rate to 34 percent by 2015.

[23] The introduction of the 1993 System of National Accounts and a shift in the base year from 1987 to 1999 in early 2003 led to a downward revision of average annual real GDP growth rate during 1997–2003 from 4.8 to 4.2 percent.

Box 2. Senegal : Contribution to Growth

	1997-03 1/	2004-10	Difference
	(In percent)		
Real GDP growth	4.2	5.3	1.1
Contribution to real GDP growth			
Primary sector	0.4	0.7	0.3
Secondary sector	1.0	1.2	0.1
Tertiary sector	2.7	3.4	0.7
Consumption	4.4	4.3	-0.1
Private	4.2	3.6	-0.6
Public	0.2	0.6	0.5
Gross fixed investment	1.1	1.3	0.1
Private 2/	0.7	0.8	0.1
Public	0.4	0.4	0.0
Net exports	-1.3	-0.3	1.0
Exports of goods and non-factor services	1.2	1.1	-0.1
Imports of goods and non-factor services	-2.6	-1.5	1.2
Labor force 3/	1.5	1.5	0.0
Physical capital 3/	1.8	2.4	0.6
Total factor productivity 3/	0.8	1.3	0.5

Source: Senegales authorities, Staff estimates and projections.

1/ Reference period choosen as the new SNA National Accounts are only available from 1996.
2/ Including change in inventories.
3/ Growth accounting assuming a standard Cobb-Douglas production function with the elasticity of output with respect to the capital input equal to 40 percent.

the convertibility guarantee by the French Treasury further diminish the risk of external current account sustainability.[24]

48. **Senegal exits from the enhanced HIPC Initiative with a good basis for maintaining sustainable external debt levels over the medium term, especially if borrowing remains at concessional terms.** This result, which is consistent with the analysis underlying the HIPC completion point document, is confirmed by the preliminary conclusions of the authorities' first post completion point debt sustainability analysis (DSA) (Box 3) and the staff's updated assessment of external debt sustainability (Appendix I).

49. **The authorities are committed to maintaining a prudent borrowing policy in the post-HIPC Initiative period, and to strengthening their debt management capacity**. The need for efficient domestic debt management procedures has heightened, given growing reliance on issuance of government securities for budgetary financing and increasing borrowing by public enterprises on the regional market. The staff emphasized that the capacity to identify, measure, and monitor existing and future contingent liabilities—including those arising from public enterprise borrowing—should be strengthened. The staff noted, and the authorities agreed, that the proposed Public-Private Partnerships (PPP) for the implementation of large projects could also entail contingent liabilities for the government and need to be carefully assessed.

50. **In support of the medium-term objectives, the staff suggested that the basic fiscal balance (excluding HIPC expenditure) should be kept positive in the medium term and the overall fiscal deficit contained to 2–2.5 percent of GDP** (Table 11)**.** While a larger fiscal deficit could still be consistent with fiscal sustainability, a more prudent fiscal stance is warranted in light of the country's limited absorptive capacity and the government's growing contingent liabilities. To this end, the strong tax performance should be sustained through improvements in tax administration and continued fight against tax evasion and fraud. The baseline scenario assumes that capital expenditure will return to the trend in 2006, increasing gradually in later years to accommodate higher spending in the infrastructure, health and education sectors. The wage bill is assumed to stabilize at 5.6 percent of GDP, taking into account the compensation policy recently announced, while other current expenditure would rise to accommodate higher recurrent costs of investment projects.

51. **The medium-term outlook is subject to a number of downside risks**. Senegal's economy remains vulnerable to exogenous shocks, including higher oil prices, severe

[24] In the context of the WAEMU, the issue of current account sustainability is more meaningfully examined from a regional perspective, as reserves are pooled.

droughts, and locust invasion, and severe political strife in the WAEMU region.[25] There is also a risk that the political resolve to continue with key structural reforms would slacken. Moreover, the steady flow of external financing—on which the robust growth of the economy depends[26]—will largely hinge on the authorities' ability to maintain a high level of credibility in formulating their fiscal policy and implementing structural reforms. The authorities saw little risk in this regard. They pointed to the increase in private sector investment projects approved by the investment promotion agency since 2001, the rising level of remittances (about 6.5 percent of GDP in 2003), and their recent qualification for the U.S. MCA as indications of confidence in the Senegalese economy and government policies.

[25] While it is difficult to quantify these risks, staff estimates indicate that a US$5 per barrel increase in oil prices above the current WEO projections would cut average annual GDP growth rate by about 0.6 percentage points during 2005–2010, and worsen the external current account deficit by about 0.6 percent of GDP per year during the same period. The recent locust invasion may have lowered economic growth by about 0.8 percent in 2004.

[26] Official flows of loans, grants, and debt relief have averaged 7 percent of GDP since the 1994 devaluation.

Box 3. First Post HIPC Completion Point Debt Sustainability Analysis

The authorities' first post HIPC completion point debt sustainability analysis (DSA) concludes that Senegal's external public debt remains sustainable over the medium to long term. The DSA was carried out by the National Committee on Economic Policy with the support of Debt Relief International. It is based on a loan-by-loan exercise for the end-2003 debt stock. The report presents three different scenarios. The key debt indicators (after debt relief) are reported in the table below.

The baseline scenario assumes unchanged debt relief compared with the HIPC completion point and an average annual real GDP growth rate of 6 percent.

The optimistic scenario envisages debt relief beyond HIPC completion point terms (including bilateral debt cancellations), real GDP growth rate of 7 percent, and larger borrowing over the medium term.

The pessimistic scenario, which serves as a stress test, rests on more unfavorable assumptions regarding debt relief received and real economic growth (averaging 3 percent per year), and allows for terms of trade shocks.

Senegal: Authorities' Debt Sustainability Analysis
(In percent)

	2004	2005	2006	2007	2008	2009	2010	2020
Baseline								
NPV of debt-to-exports	131.7	117.8	115.3	112.2	109.3	106.3	103.3	84.6
NPV of debt-to-revenue	171.7	160.0	154.6	148.8	143.3	137.9	133.0	105.3
Debt service-to-exports	5.9	6.1	5.8	6.3	5.6	5.1	5.2	4.0
Pessimistic								
NPV of debt-to-exports	140.0	128.5	127.7	127.8	129.3	131.5	132.3	146.8
NPV of debt-to-revenue	182.5	178.1	176.7	180.0	179.1	179.2	179.0	188.3
Debt service-to-exports	5.8	6.0	6.1	7.0	6.5	6.4	7.1	8.7
Optimistic								
NPV of debt-to-exports	110.2	100.4	99.4	97.8	97.0	96.2	94.7	94.5
NPV of debt-to-revenue	143.7	136.4	133.4	130.4	127.5	124.3	120.8	111.4
Debt service-to-exports	4.9	4.7	4.5	5.1	4.6	4.2	4.6	3.7

Source: Senegalese authorities.

H. Relations with the Fund, Capacity to Repay, and Program Monitoring

52. **The authorities indicated that they would not request an extension of the current PRGF arrangement (beyond its current expiration date of April 2006) to compensate for the delays in the completion of the first and second reviews.** They expressed preference for exiting from the PRGF in favor of an arrangement without access to Fund resources for signaling purposes. The staff explained that the Fund's current procedures preclude a no-access arrangement. However, alternative options could be discussed during

future review missions based on the outcome of the Board discussions on the financial instruments for Fund support to low-income countries. The authorities further requested that the remaining resources committed under the current PRGF arrangement be rephased to allow drawing of the full amount on the completion of the remaining three reviews. The staff supports the request as the program is now broadly on track to achieve the original macroeconomic and structural reform objectives, including the privatization of SONACOS, rehabilitation of SENELEC, and strengthening of public expenditure management.

53. **The program will be monitored by quantitative and structural performance criteria, structural benchmarks, and indicative targets as indicated in the MEFP,** Tables 1 and 3 (see also Box 4 below). Progress under the program will be further assessed in the context of the third and fourth reviews (Table 17), which will include the examination of an action plan to strengthen the financial sector.

54. **Senegal has an excellent record in meeting its debt obligations to the Fund.** Given the trajectory of its external and fiscal positions, Senegal should not have any difficulty discharging its future obligations to the Fund (Table 13) in a timely manner.

Box 4. Senegal: Structural Conditionality

Coverage. Structural conditionality proposed for the 2005 program (MEFP, Annex, Table 3) focuses on (i) tax administration, public expenditure management and control, and fiscal transparency and (ii) completion of reforms in the groundnut sector, which is critical for safeguarding public finances and enhancing conditions for economic growth and poverty reduction.

Prior actions not yet implemented comprise the submission of the end-year budget and treasury accounts of fiscal years 2002 and 2003 to the Audit Court.

Performance criteria comprise (i) the preparation of monthly tables of government's financial operations (TOFE); and (ii) the elimination of the tax on vegetable oil.

The four structural benchmarks refer to tax administration, public expenditure management and fiscal transparency.

Structural areas covered by World Bank lending. The World Bank's Country Assistance Strategy for the fiscal years 2003–05 envisages conditionality in infrastructure, electricity sector development, rural development, health, education, private sector development, and public financial management. The Bank has taken the lead role in supporting technical and policy work, including with technical assistance and investment lending, for envisaged reforms in the electricity and groundnut sectors, and for postal and pension systems; all these reforms have a systemic impact on the public finances and on macroeconomic stability and are also included in the PRGF-supported program. The Bank and Fund staffs also coordinate their approach in the area of public expenditure reform.

Structural areas for future conditionality. In the context of subsequent reviews of the program, conditionality will be also considered in the area of financial sector reform.

I. Statistical Issues and Disclosure

55. **Overall, Senegal's economic database is comprehensive and adequate for program monitoring, but there are weaknesses in the data on national accounts, production, international trade, and social indicators.** The authorities are committed to improving the quality and availability of economic, financial, and social indicators, with technical assistance from the Fund and other international organizations. To strengthen the quality of Senegal's statistical database, a National Statistical Institute is being set up, as recommended by a 2001 STA mission.

56. **Senegal participates in the General Data Dissemination System (GDDS)**. Its metadata have been posted on the Fund's Dissemination Standards Bulletin Board since September 2001, but should be updated for virtually all sectors.

IV. Staff Appraisal

57. **Senegal has attained macroeconomic stability and debt sustainability, accompanied by robust economic growth, but the economy remains fragile and vulnerable to shocks.** In the short term the staff does not foresee any substantial risk on the macroeconomic front—barring supply shocks, and assuming the policies outlined above. However, the financing need and rising recurrent costs of the large infrastructural projects, the limited scope for tax revenue growth (in light of the strong performance in recent years), and the growing contingent liabilities of the government could pose a problem in the medium term, especially if the flow of aid tapers off.

58. **The fiscal stance for 2005 is in line with the macroeconomic objectives.** The fiscal program allows for modest increases in current expenditure, keeps the investment outlays in line with the absorptive capacity of the economy and foreign financing, and aims at an ambitious, but feasible, revenue target. The staff welcomes the planned measured increase in the wage bill relative to GDP.

59. **Over the medium term, fiscal policy should be focused on maintaining the trends in the past two years, with low budget deficits, a strong revenue effort, and tight control on current expenditure.** This strategy would allow measured increases in capital and pro-poor spending. The authorities should ensure that capital spending remains consistent with the absorptive capacity and fiscal sustainability.

60. **Improving public expenditure management and fiscal transparency remains a key program objective.** There have been substantial delays in implementing reforms in these areas, and the Thiès-related budgetary irregularities amounted to a serious set back in fiscal transparency and governance. The staff urges the authorities to move forcefully to enhance transparency and good governance, particularly in procurement. It also stresses the need to ensure that the use of any funds received from the MCA or Islamic Conference Organization is subject to transparent budgetary procedures.

61. **The privatization and rehabilitation of public enterprises are essential for improving the efficiency of the economy, enhancing export prospects, and reducing the contingent liabilities of the government.** The staff welcomes the sale of the state-owned groundnut processing company, after many years of delay, and urges the completion of the transfer of ownership by end June 2005. The fragile financial position of other enterprises also needs urgent attention. The authorities should take steps to improve the efficiency of the electricity company, and modify the procedures for setting its electricity prices to take into account costs and market conditions in a timely fashion. The government's capacity to identify, measure, and monitor existing and future contingent liabilities—including those arising from public enterprise borrowing—should be strengthened.

62. **Preserving competitiveness will pose a challenge in the period ahead.** So far, the appreciation of the euro against the U.S. dollar has not had a major impact on Senegal's external competitiveness, but further appreciation could pose a problem. Structural reforms and infrastructural development are essential to lower the cost of production, raise the productivity of the export sector, and prevent the erosion of competitiveness.

63. **The staff welcomes the plans for the issuance of additional government securities on the WAEMU regional market.** This initiative could spearhead the development of the securities market. To further encourage financial market development (and improve the effectiveness of monetary policy) the excess liquidity in the banking system should be reduced and the country-specific reserve ratios unified.

64. **The large nonperforming loans and credit concentration in the banking system are potential sources of vulnerability.** The staff urges the authorities to simplify the loan recovery procedures to allow a reduction in bad loans. Consideration should also be given to raising the capital adequacy ratio above 8 percent to account for the specific risks inherent in the Senegalese economy. The authorities should remain vigilant in detecting fragility in the banking system and impose timely corrective action on banks facing difficulties or in non-compliance with prudential norms. These and other measures should be included in the government's action plan for the financial sector, to be agreed with the staff during the next review.

65. **The staff commends the authorities for the production of their first post HIPC completion point DSA**. This analysis and that of the staff indicate that there is little risk to debt sustainability over the medium term, assuming the policies outlined in this report.

66. **Policy credibility is critical for the continued support of the development partners on which the success of the growth and poverty reduction policies depend.** Repeated slippages in the reform agenda and in fiscal governance, such as the fiscal irregularities in 2003, would erode policy credibility and serve as a disincentive to the flow of aid and investment.

67. **The staff recommends the completion of the second review under the PRGF arrangement.** It also recommends that waivers be granted for the non observance of the

floor on the end-December 2003 basic fiscal surplus and the continuous ceiling on the contracting of non-concessional debt. The staff also supports the request for rephasing of the arrangement, as the program is now back on track to achieve the original macroeconomic and structural reform objectives. The main risk to the program stems from the possibility of policy reversals if the political will for reform slackens. However, against this risk should be set the strength of the authorities' 2005 program—including the steps being taken to improve governance and ensure budgetary discipline—and their commitment to take additional measures as needed.

68. **It is expected that the next Article IV consultation with Senegal will be held in 24 months subject to provisions applying to countries under Fund arrangements.**

Table 1. Senegal: Quantitative Performance Criteria and Indicative Targets for 2003 1/
(In billions of CFA francs, cumulative from the beginning of the year; unless otherwise specified)

	March 31, 2003				June 30, 2003				September 30, 2003				December 31, 2003			
	Indicative Target	Indicative Target after adjusters	Actual	Status	Performance criteria	Criteria after adjusters	Actual	Status	Indicative Target	Indicative Target after adjusters	Actual	Status	Performance criteria	Criteria after adjusters	Actual	Status
Performance Criteria and Indicative Targets																
Floor on the basic fiscal balance, excluding temporary costs of structural reforms and spending financed with HIPC-related resources 2/	12.2		40.9	yes	45.2		83.5	yes	61.8		68.3	yes	58.1		49.3	no
Ceiling on the cumulative change in net bank credit to the government	7.8	15.2	-29.6	yes	-12.2	-10.8	-74.2	yes	-11.7	-5.4	-65.1	yes	3.5	-17.1	-42.3	yes
Ceiling on government domestic payments arrears 3/	0.0		0.0	yes	0.0		0.0	yes	0.0		0.0	yes	0.0		0.0	yes
Ceiling on government external payments arrears 3/	0.0		0.0	yes	0.0		0.0	yes	0.0		0.0	yes	0.0		0.0	yes
Ceiling on the contacting or guaranteeing of new nonconcessional external debt by the government 3/ 4/	0.0		0.0	yes	0.0		0.0	yes	0.0		9.0	no	0.0		9.0	no
Ceiling on the stock of arrears of SENELEC	0.0		3.8	no	0.0		0.0	yes	0.0		0.0	yes	0.0		0.0	yes
Indicative Targets																
Floor on tax revenue	166.1		156.3	no	353.2		343.3	no	521.7		498.6	no	698.5		677.0	no
Ceiling on the amount of current non-wage non-interest expenditures and domestically financed capital expenditures executed through exceptional procedures	28.2		23.9	yes	28.2		26.6	yes	28.2		31.8	no	28.2		17.1	yes
Ceiling on the wage bill	51.8		50.2	yes	103.6		100.8	yes	154.4		151.7	yes	207.4		203.7	yes
Floor on the creditor flow in the treasury accounts of the postal service	-2.0		-0.9	yes	-2.0		0.6	yes	0.0		-2.5	no	0.0		2.0	yes
Ceiling on the stock of net deposits in the correspondent accounts of the treasury, excluding the correspondent accounts of local authorities, public agencies, SN La Poste, IPRES, and deposit and guarantee accounts	20.0		22.2	no	20.0		28.8	no	20.0		33.8	no	20.0		14.8	yes
Ceiling on guarantee deposits of the government	2.5		4.5	no	2.5		4.5	no	0.0		4.5	no	0.0		3.0	no
Ceiling on the stock of debt of SONACOS 5/	22.3		16.1	yes	11.0		10.2	yes	0.0		0.0	yes	0.0		10.9	yes
Floor on the basic balance of SENELEC	7.0		4.0	no	14.1		5.8	no	22.5		17.9	no	30.1		31.6	yes
Memorandum items:																
External budgetary assistance, excluding IMF	7.4		0.0		12.6		0.0		22.1		1.3		43.2		17.6	
Grants	7.4		0.0		12.6		0.0		22.1		1.3		29.4		17.6	
Loans	0.0		0.0		0.0		0.0		0.0		0.0		13.9		0.0	
Programmed spending of HIPC debt relief	1.5		1.4		3.1		1.4		12.3		2.4		32.4		28.3	

1/ Criteria, indicative targets and adjusters are defined in the Technical Memorandum of Understanding (TMU) (Country Report No. 03/167).
2/ Overall fiscal balance, excluding foreign-financed investment expenditure and on-lending. Fiscal revenue excludes privatization receipts, which are treated as a financing item.
3/ This criterion will be monitored on a continuous basis.
4/ At end-July 2003, the electricity parastatal SENELEC contracted a CFAF 9 billion non-concessional loan from the West African Development Bank (BOAD). On the occasion of the first review in February 2004, the Executive Board granted a waiver for this breach of the zero ceiling on the contacting or guaranteeing of new nonconcessional external debt by the governement.
5/ The ceiling relates to the financing of the 2002/03 crops, which had been fully repaid by end-September 2003. The CFAF 10.9 billion at end-December 2003 are financing for the 2003/04 crop season.

Table 2. Senegal: Proposed Quantitative Conditionality for 2004 1/
(In billions of CFA francs, cumulative from the beginning of the year; unless otherwise specified)

	March 31				June 30				Sept 30				Dec. 31
	Targets 2/	Target after adjusters	Actual	Status	Targets 2/	Target after adjusters	Actual prov.	Status	Targets 2/	Target after adjusters	Actual prov.	Status	Targets 2/
Targets 2/													
Floor on the basic fiscal balance, excluding temporary costs of structural reforms and spending financed with HIPC-related resources 3/	19.3		20.8	yes	44.8		83.8	yes	39.8		57.8	yes	54.3
Ceiling on the cumulative change in net bank credit to the government	2.5	0.2	3.3	no	-22.1	-16.7	-37.3	yes	-17.7	-40.5	-45.3	yes	-31.7
Ceiling on government domestic payments arrears 4/	0.0		0.0	yes	0.0		0.0	yes	0.0		0.0	yes	0.0
Ceiling on government external payments arrears 4/	0.0		0.0	yes	0.0		0.0	yes	0.0		0.0	yes	0.0
Ceiling on the contracting or guaranteeing of new nonconcessional external debt by the government 4/ 5/	0.0		0.0	yes	0.0		0.0	yes	0.0		6.0	no	0.0
Ceiling on the stock of arrears of SENELEC	0.0		0.0	yes	0.0		0.0	yes	0.0		0.0	yes	0.0
Targets 2/													
Floor on tax revenue	170.0		169.0	no	371.5		377.0	yes	556.0		549.3	no	737.2
Ceiling on the amount of current non-wage non-interest expenditures and domestically financed capital expenditures executed through exceptional procedures	18.0		9.0	yes	18.0		15.8	yes	18.0		18.4	no	18.0
Ceiling on the wage bill	53.1		52.4	yes	107.6		105.6	yes	162.5		158.7	yes	225.9
Floor on the creditor flow in the treasury accounts of the postal service	0.0		-2.3	no	0.0		-4.8	no	0.0		-3.0	no	0.0
Ceiling on the stock of net deposits in the correspondent accounts of the treasury, excluding the correspondent accounts of local authorities, public agencies, SN La Poste, IPRES, and deposit and guarantee accounts	15.0		20.5	no	15.0		35.0	no	15.0		16.6	no	15.0
Ceiling on guarantee deposits of the government	0.0		0.0	yes	0.0		0.0	yes	0.0		0.0	yes	0.0
Ceiling on the stock of debt of SONACOS	15.8		15.2	yes	10.5		10.5	yes	5.3		6.9	no	0.0
Floor on the basic balance of SENELEC	11.6		9.4	no	19.0		22.1	yes	31.8		26.2	no	46.1
Memorandum items:													
External budgetary assistance, excluding IMF	0.0		0.0		10.9		0.0		10.9		22.1		54.7
Grants	0.0		0.0		2.6		0.0		2.6		18.5		12.8
Loans	0.0		0.0		8.3		0.0		8.3		3.6		41.9
Programmed spending of HIPC debt relief	2.0		0.0		5.0		0.0		16.1		0.0		35.6

1/ Proposed by the authorities in their MEFP of May 18, 2004 but not considered by the Executive Board.
2/ Targets and adjusters are defined in the Technical Memorandum of Understanding (TMU).
3/ Defined as total revenue minus total expenditure and net lending, excluding externally financed capital expenditure and on-lending.
4/ This criterion will be monitored on a continuous basis.
5/ In October 2004, the Port of Dakar (a public enterprise) contracted a CFAF 6 billion non-concessional loan from the West African Development Bank (BOAD). The authorities are requesting a waiver for this breach of the continuous zero ceiling on the contacting or guaranteeing of new nonconcessional external debt by the governement.

Table 3. Senegal: Proposed Structural Conditionality
for the Program Under the PRGF Arrangement in 2004 1/

Measures	Timetable	Status
Prior actions for the second review		
• Issue the decree and circular for the implementation of the investment code that are compatible with the principles of rationalization, nondiscrimination and public finance sustainability.		Implemented
• Link the Treasury to the data-sharing system used in the Budget Directorate and the Debt and Investment Directorate, and produce a report on commitments, payment orders and payment reports by major spending lines for the month of March 2004, with a maximum lag of 45 days.		Implemented
Benchmarks		
• Submit the end-year budget and treasury accounts of fiscal years 1999–2002 to the Audit Court by end-July 2004.	July 31, 2004	Not implemented
• Publish audited financial accounts of SENELEC as of June 30, 2004 with a maximum lag of three months.	September 30, 2004	Implemented
• Activate the network connection between the Tax and Customs Directorates and the Treasury and produce a report on taxes due and collected, for the month of September 2004, with a maximum lag of 30 days.	October 31, 2004	Not implemented
• Install the software "*Système Intégré de Gestion des Finances Publiques*" (SIGFIP), and produce a report on commitments and payment orders by major spending lines for the month of July 2004, with a maximum lag of 30 days.	August 31, 2004	Implemented
• Produce a report on the execution of capital expenditures at end-June 2004, with a maximum lag of 60 days. This report will include the total of credits from the capital expenditure budget for which payments are authorized by the Debt and Investment Directorate and made to the investment projects accounts opened in the banking system; the external funding allocated to these projects (grants, loans); and the amounts of money deposited in these accounts.	August 31, 2004	Not implemented
• Complete the digitization of the real estate registry for the largest 40 urban zones before end-December 2004.	December 31, 2004	Implemented

1/ Proposed by the authorities in their MEFP of May 18, 2004, but not considered by the Executive Board.

Table 4. Senegal: Selected Economic and Financial Indicators, 2001-06

	2001	2002	2003		2004		2005	2006
			Prog. 1/	Est.	Target 2/	Proj.	Prog.	Prog.
	(Annual percentage change, unless otherwise indicated)							
National income and prices								
GDP at constant prices	4.7	1.1	6.6	6.5	6.0	6.0	6.4	5.2
Of which : nonagriculture GDP	4.9	4.9	5.7	4.4	5.4	6.4	6.1	5.2
GDP deflator	0.0	2.7	2.5	0.7	1.4	1.9	2.0	2.0
Consumer prices								
Annual average	3.0	2.3	2.0	0.0	0.8	0.4	1.6	1.9
End of period	3.9	1.5	2.0	-1.4	1.3	0.6	1.6	1.9
External sector								
Exports, f.o.b. (in CFA francs)	5.4	1.1	1.6	-1.7	5.9	5.1	6.2	5.5
Imports, f.o.b. (in CFA francs)	10.0	6.8	7.8	7.4	2.6	4.4	2.3	5.5
Export volume	2.9	1.6	-0.5	-1.9	4.8	4.4	4.3	4.3
Import volume	12.0	7.4	7.8	4.1	6.0	2.0	5.4	4.6
Terms of trade (deterioration -)	4.2	0.2	1.9	-2.9	4.4	-1.8	4.1	0.7
Nominal effective exchange rate 3/	1.2	2.4	…	5.2	…	1.6	…	…
Real effective exchange rate 3/	1.8	2.8	…	2.8	…	0.0	…	…
	(Changes in percent of beginning-of-year broad money, unless otherwise indicated)							
Money and credit								
Net domestic assets	4.3	-6.4	5.7	5.4	1.7	1.0	3.8	4.2
Domestic credit	6.6	-4.9	6.4	5.7	3.6	1.3	4.2	4.4
Credit to the government (net)	2.7	-8.3	-0.3	-4.3	-2.9	-2.8	0.2	-0.9
Credit to the economy (percentage growth)	4.9	4.7	9.5	14.3	9.1	5.9	5.7	7.7
Broad money (M2)	14.5	7.6	8.8	14.6	7.8	7.4	8.5	6.3
Velocity (M2/GDP; end of period)	3.7	3.6	3.6	3.3	3.5	3.4	3.4	3.4
Interest rates (end of period; in percent)								
Discount rate	6.50	6.50	…	5.00	…	4.50	…	…
Money market rate	4.95	4.95	…	4.95	…	4.95	…	…
	(In percent of GDP)							
Government financial operations								
Revenue	18.0	19.1	18.8	19.3	19.1	19.2	19.3	19.3
Grants	1.8	1.8	2.7	2.1	2.1	1.7	1.9	2.2
Total expenditure and net lending	22.4	21.0	22.8	22.8	23.8	23.6	24.1	22.9
Overall fiscal surplus or deficit (-)								
Payment order basis, excluding grants	-4.3	-1.9	-4.0	-3.5	-4.8	-4.4	-4.8	-3.5
Payment order basis, including grants	-2.5	-0.1	-1.3	-1.4	-2.6	-2.7	-2.9	-1.4
Primary fiscal balance 4/	-1.6	1.0	-0.3	-0.2	-1.5	-1.6	-1.9	-0.4
Basic fiscal balance, program definition 5/	-0.8	2.0	1.5	1.3	1.3	1.4	0.7	0.8
Gross domestic investment	19.2	16.7	20.2	20.7	21.0	22.4	23.4	22.6
Gross domestic savings	9.5	5.6	9.7	7.7	10.9	10.0	12.1	11.6
Gross national savings	14.5	10.8	14.6	14.2	15.3	16.2	17.9	17.5
External current account deficit (-)								
Excluding current official transfers	-6.3	-8.0	-7.6	-8.6	-7.4	-8.2	-7.1	-6.9
Including current official transfers	-4.6	-5.9	-5.6	-6.5	-5.6	-6.2	-5.4	-5.1
External public debt (nominal) 6/	67.3	66.1	45.9	54.5	37.6	41.4	38.3	35.4
	(In percent of exports of goods and nonfactor services, unless otherwise indicated)							
External public debt service 6/	9.0	9.2	8.8	8.3	7.5	5.1	6.4	7.1
In percent of government revenue	15.3	14.8	13.1	12.3	11.3	7.4	9.0	9.6
GDP at current market prices (in billions of CFA francs)	3,343	3,473	3,881	3,725	4,049	4,024	4,364	4,682

Sources: Senegalese authorities; and staff estimates and projections.

1/ Request for a three-year PRGF arrangement, April 14, 2003 (Country Report No. 03/167).
2/ Proposed by the authorities in their MEFP of May 18, 2004, but not considered by the Executive Board.
3/ First 10 months in 2004.
4/ Defined as total revenue and grants minus total expenditure and net lending, excluding interest expenditure.
5/ Defined as total revenue minus total expenditure and net lending, excluding externally financed capital expenditure, on-lending, temporary costs of structural reforms and expenditure financed with HIPC Initiative assistance.
6/ After HIPC debt relief.

Table 5. Senegal: Savings-Investment Balances and National Accounts 2001-06

	Composition of GDP in 1999 (In percent)	2001	2002	2003 Prog. 1/	2003 Est.	2004 Target 2/	2004 Proj.	2005 Prog.	2006 Prog.
	(Annual percentage change at constant prices, unless otherwise indicated)								
Primary sector	18.1	3.3	-20.6	10.8	19.8	8.6	2.3	7.3	3.8
Agriculture	9.9	3.0	-32.2	18.0	36.3	11.6	2.0	9.5	5.3
Livestock	5.1	4.5	-6.4	4.0	4.2	5.0	5.0	5.0	4.0
Forestry	0.8	3.0	2.3	3.3	4.0	4.0	4.0	3.0	3.0
Fishing	2.4	2.3	-6.4	2.5	4.9	5.5	-5.0	4.0	-5.0
Secondary sector	18.7	4.3	9.8	7.9	6.4	7.0	6.7	6.2	6.5
Mining	1.3	0.7	11.3	18.3	28.0	8.0	-5.2	4.3	4.0
Industry	11.6	6.1	11.5	6.8	1.4	6.2	7.4	4.3	5.0
Oil milling	0.2	6.2	-9.6	-21.4	-22.8	-3.0	-16.1	10.0	10.0
Energy	1.9	6.7	-2.7	13.5	18.4	5.0	3.4	5.0	5.7
Construction and public works	3.6	-1.0	12.4	11.9	10.5	10.0	13.0	13.0	11.6
Tertiary sector	63.2	5.2	4.8	5.1	3.7	5.0	6.7	6.2	5.1
Transportation and telecommunications	6.3	14.1	5.8	7.2	7.0	7.4	10.6	9.0	7.5
Commerce	18.5	1.7	5.9	5.4	4.2	5.0	6.7	6.7	4.0
Public administration	19.7	7.5	3.0	2.7	2.2	7.8	5.2	5.4	4.8
Other	18.7	2.9	5.1	4.4	3.5	4.1	6.7	5.3	5.3
GDP	100.0	4.7	1.1	6.6	6.5	6.0	6.0	6.4	5.2
Nonagriculture GDP	90.1	4.9	4.9	5.7	4.4	5.4	6.4	6.1	5.2
GDP deflator	...	0.0	2.7	2.5	0.7	1.4	1.9	2.0	2.0
Consumer price index (period average)		3.0	2.3	2.0	0.0	0.8	0.4	1.6	1.9
	(In percent of GDP)								
Gross domestic investment		19.2	16.7	20.2	20.7	21.0	22.4	23.4	22.6
Government 3/		6.9	7.9	8.7	9.1	9.2	9.2	9.7	8.9
Nongovernment		12.2	8.8	11.5	11.6	11.8	13.2	13.7	13.7
Gross domestic savings		9.5	5.6	9.7	7.7	10.9	10.0	12.1	11.6
Government		8.8	13.4	6.3	10.1	6.3	10.0	10.0	9.8
Nongovernment		0.7	-7.8	3.4	-2.4	4.6	0.0	2.1	1.8
Savings - investment balance		-9.7	-11.2	-10.5	-13.0	-10.1	-12.4	-11.2	-11.0
Government		1.9	5.5	-2.4	1.0	-2.8	0.8	0.3	0.9
Nongovernment		-11.5	-16.6	-8.1	-14.0	-7.2	-13.2	-11.5	-11.9
External current account balance 4/		-4.6	-5.9	-5.6	-6.5	-5.6	-6.2	-5.4	-5.1
Gross national savings		14.5	10.8	14.6	14.2	15.3	16.2	17.9	17.5
Memorandum item:	(In billions of CFA francs)								
GDP at current prices		3,343	3,473	3,881	3,725	4,049	4,024	4,364	4,682

Sources: Senegalese authorities; and staff estimates and projections.

1/ Request for a three-year PRGF arrangement, April 14, 2003 (Country Report No. 03/167).
2/ Proposed by the authorities in their MEFP of May 18, 2004, but not considered by the Executive Board.
3/ Includes capital expenditure financed with HIPC Initiative assistance.
4/ Includes current official transfers.

Table 6. Senegal: Government Financial Operations, 2001-06

(In billions of CFA francs)

	2001	2002	2003		2004		2005	2006
			Prog. 1/	Est.	Target 2/	Proj.	Prog.	Prog.
Total revenue and grants	664.4	726.7	832.6	797.8	857.0	839.7	922.4	1,006.1
Revenue	602.7	664.6	728.3	720.1	771.6	771.6	841.0	905.1
Tax revenue	576.8	629.2	698.5	677.0	737.2	736.2	802.1	862.7
Nontax revenue	25.9	35.4	29.8	43.1	34.4	35.4	38.9	42.4
Grants	61.7	62.1	104.4	77.7	85.4	68.1	81.4	101.0
Budgetary	0.0	1.9	29.4	17.6	12.8	21.8	14.8	29.1
Budgeted development projects	61.7	60.2	75.0	60.1	72.6	46.3	66.6	71.9
Total expenditure and net lending	748.1	730.3	883.6	850.1	964.2	948.7	1,049.8	1,071.2
Current expenditure	516.6	478.2	509.8	529.5	556.5	559.5	600.4	647.5
Wages and salaries	177.3	199.4	207.4	203.7	225.9	223.9	247.3	267.1
Interest due	30.3	39.8	38.9	44.6	45.8	44.6	43.2	47.0
Of which : external	23.7	35.4	30.6	40.0	38.2	38.9	37.9	36.0
Other current expenditure	309.0	239.0	263.5	281.2	284.8	291.0	309.9	333.5
Transfers and subsidies	178.5	…	131.0	140.9	138.5	138.5	142.9	152.9
Goods and services	130.5	…	132.5	140.3	146.3	146.3	157.0	180.6
HIPC current spending						6.2	10.0	0.0
Capital expenditure	232.3	275.9	342.8	338.5	370.8	370.8	422.9	415.7
Domestically financed	133.6	147.9	192.8	190.3	205.3	211.6	279.0	259.0
HIPC financed	15.1	4.1	32.4	28.4	35.6	38.7	49.6	30.5
Non HIPC financed	118.5	143.8	160.4	161.9	169.7	172.9	229.4	228.6
Externally financed	98.7	128.0	150.0	148.2	165.5	159.2	143.9	156.7
Treasury special accounts and correspondents (net)	3.8	-18.2	8.0	-11.1	0.8	0.8	0.0	0.0
Net lending	-4.6	-5.6	8.0	-6.8	6.3	6.3	8.0	8.0
Lending	5.7	2.7	16.0	2.7	16.0	16.0	28.0	30.0
Reimbursements	-10.3	-8.3	-8.0	-9.5	-9.7	-9.7	-8.0	-8.0
Temporary costs of structural reforms	0.0	0.0	15.0	0.0	29.8	11.3	18.5	0.0
Primary fiscal balance 3/	-53.4	36.2	-12.1	-7.7	-61.3	-64.4	-84.2	-18.1
Overall fiscal balance (including grants)	-83.7	-3.6	-51.0	-52.3	-107.1	-109.0	-127.5	-65.1
Overall fiscal balance (excluding grants)	-145.4	-65.7	-155.4	-130.0	-192.5	-177.1	-208.8	-166.1
Basic fiscal balance (program definition) 4/	-25.9	69.1	58.1	49.3	54.3	54.3	29.2	37.1
Financing	83.7	3.6	51.0	52.3	107.1	109.0	127.5	65.1
External financing	54.9	68.4	50.2	60.9	147.1	129.1	127.1	92.4
Drawings	103.3	112.7	91.0	90.8	150.8	128.9	148.6	127.8
Program loans	60.6	42.2	0.0	0.0	41.9	0.0	55.3	27.0
Project loans	42.7	70.5	91.0	90.8	108.9	128.9	93.3	100.8
Amortization due	-64.2	-81.0	-65.5	-73.9	-125.9	-119.2	-127.1	-128.4
Debt relief and HIPC Initiative assistance 5/	15.8	36.7	24.7	44.0	103.0	119.4	105.7	93.1
Domestic financing	17.4	-70.7	-19.1	-8.5	-40.0	-20.1	0.3	-27.3
Banking system	21.8	-75.4	-2.5	-42.3	-31.7	-31.5	2.5	-11.3
Of which : issuance of new treasury bills	…	…	23.0	15.0	3.1	18.9	3.6	-19.7
Nonbank financing 6/	-4.4	4.7	-16.6	33.8	-8.3	11.4	-2.2	-16.1
Of which : privatization	-44.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Of which : T-bills issued in WAEMU region	0.0	0.0	0.0	8.0	19.2	3.4	12.1	-14.4
Errors and omissions	11.4	5.9	0.0	-0.2	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	19.9	0.0	0.0	0.0	0.0	0.0
Memorandum items:								
HIPC Initiative expenditure 7/	15.1	4.1	32.4	28.4	35.6	44.9	59.6	30.5
Gross domestic product	3,342.7	3,472.7	3,881.1	3,725.4	4,049.3	4,023.7	4,364.3	4,682.1

Sources: Senegalese authorities; and staff estimates and projections.

1/ Request for a three-year PRGF arrangement, April 14, 2003 (Country Report No. 03/167).

2/ Proposed by the authorities in their MEFP of May 18, 2004, but not considered by the Executive Board.

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

4/ Defined as total revenue minus total expenditure and net lending, excluding externally financed capital expenditure, on-lending, cost of structural reforms and HIPC expenditure.

5/ Includes from 2000 to 2003 interim HIPC Initiative debt relief accorded by the IMF, the World Bank, the African Development Bank, and Paris Club. 2002 and 2003 figures include the deferral of debt payments to Paris Club creditors in anticipation of the HIPC completion point in 2004. 2004 assumes debt relief on KWD 30 million (CFAF 52 billion) loan principal repayment falling due in late 2004. Negotiations are going on between the authorities of Kuwait and Senegal.

6/ Includes offsetting adjustements for movements in net bank credit to account for the coverage discrepancy between fiscal and monetary data.

7/ Refers to HIPC-financed current spending in 2000 and 2001, and, for 2002-06, HIPC-financed capital and other expenditure authorized in the supplementary budgets of 2001, 2003 and 2004, and expenditures expected in 2005-06.

Table 7. Senegal: Government Financial Operations, 2001-06
(In percent of GDP)

	2001	2002	2003		2004		2005	2006
			Prog. 1/	Est.	Target 2/	Proj.	Prog.	Prog.
Total revenue and grants	19.9	20.9	21.5	21.4	21.2	20.9	21.1	21.5
Revenue	18.0	19.1	18.8	19.3	19.1	19.2	19.3	19.3
Tax revenue	17.3	18.1	18.0	18.2	18.2	18.3	18.4	18.4
Nontax revenue	0.8	1.0	0.8	1.2	0.8	0.9	0.9	0.9
Grants	1.8	1.8	2.7	2.1	2.1	1.7	1.9	2.2
Total expenditure and net lending	22.4	21.0	22.8	22.8	23.8	23.6	24.1	22.9
Current expenditure	15.5	13.8	13.1	14.2	13.7	13.9	13.8	13.8
Wages and salaries	5.3	5.7	5.3	5.5	5.6	5.6	5.7	5.7
Interest payments	0.9	1.1	1.0	1.2	1.1	1.1	1.0	1.0
Other current expenditure	9.2	6.9	6.8	7.5	7.0	7.2	7.1	7.1
Goods and services	3.9	...	3.4	3.8	3.6	3.6	3.6	3.9
Transfers and subsidies	5.3	...	3.4	3.8	3.4	3.4	3.3	3.3
Capital expenditure	6.9	7.9	8.2	9.1	8.7	9.2	9.7	8.9
Domestically financed	4.0	4.3	4.3	5.1	4.6	5.3	6.4	5.5
Externally financed	3.0	3.7	3.9	4.0	4.1	4.0	3.3	3.3
Treasury special accounts and correspondents (net)	0.1	-0.5	0.2	-0.3	0.0	0.0	0.0	0.0
Net lending	-0.1	-0.2	0.2	-0.2	0.2	0.2	0.2	0.2
Temporary costs of structural reforms	0.0	0.0	0.4	0.0	0.7	0.3	0.4	0.0
Primary fiscal balance 3/	-1.6	1.0	-0.3	-0.2	-1.5	-1.6	-1.9	-0.4
Overall fiscal balance								
Payment order basis, excluding grants	-4.3	-1.9	-4.0	-3.5	-4.8	-4.4	-4.8	-3.5
Payment order basis, including grants	-2.5	-0.1	-1.3	-1.4	-2.6	-2.7	-2.9	-1.4
Basic fiscal balance (program definition) 4/	-0.8	2.0	1.5	1.3	1.3	1.4	0.7	0.8
Financing	2.5	0.1	1.3	1.4	2.6	2.7	2.9	1.4
External financing	1.6	2.0	1.3	1.6	3.6	3.2	2.9	2.0
Domestic financing	0.5	-2.0	-0.5	-0.2	-1.0	-0.5	0.0	-0.6
Errors and omissions	0.3	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.5	0.0	0.0	0.0	0.0	0.0
Memorandum items:			(In percent of GDP, unless otherwise notified)					
Basic fiscal balance (WAEMU definition) 5/	-1.2	1.9	0.3	0.6	-0.3	0.0	-1.1	0.1
HIPC Initiative expenditure	0.5	0.1	0.8	0.8	0.7	1.1	1.4	0.7
Health expenditure	1.3	1.6	…	1.8	2.2	…	…	…
Education expenditure	3.8	3.9	…	4.9	4.9	…	…	…
Wages and salaries (in percent of fiscal revenue)	29.4	30.0	29.7	28.3	30.6	29.0	29.4	29.5
Gross domestic product (in billions of CFA francs)	3,343	3,473	3,881	3,725	4,049	4,024	4,364	4,682

Sources: Senegalese authorities; and staff estimates and projections.

1/ Request for a three-year PRGF arrangement, April 14, 2003 (Country Report No. 03/167).
2/ Proposed by the authorities in their MEFP of May 18, 2004, but not considered by the Executive Board.
3/ Defined as total revenue and grants minus total expenditure and net lending, excluding interest expenditure.
4/ Defined as total revenue minus total expenditure and net lending, excluding externally financed capital expenditure, on-lending, cost of structural reforms and HIPC expenditure.
5/ Defined as total revenue minus total expenditure and net lending, excluding externally financed capital expenditure, and on-lending.

Table 8. Senegal: Quarterly Government Financial Operations, 2004
(In billions of CFAF)

	2004							
	March		June		Sept.		Dec.	
	Target 1/	Est.	Target 1/	Est.	Target 1/	Est.	Target 1/	Proj.
	(In billions of CFA francs, cumulative since the beginning of the year)							
Total revenue and grants	188.1	191.1	413.0	422.0	628.2	642.7	857.0	839.7
Revenue	173.6	172.6	377.7	392.9	574.8	581.6	771.6	771.6
Tax revenue	170.0	169.0	371.5	377.0	556.0	549.3	737.2	736.2
Nontax revenue	3.6	3.6	6.2	15.9	18.8	32.3	34.4	35.4
Grants	14.5	18.5	35.3	29.1	53.4	61.1	85.4	68.1
Budgetary	0.0	0.0	2.6	0.0	2.6	18.5	12.8	21.8
Budgeted development projects	14.5	18.5	32.7	29.1	50.8	42.6	72.6	46.3
Total expenditure and net lending	192.6	200.7	417.2	403.8	675.7	676.4	964.2	948.7
Current expenditure	124.9	123.5	275.3	269.9	425.1	418.5	556.5	559.5
Wages and salaries	53.1	52.4	107.6	105.6	162.5	158.7	225.9	223.9
Interest due	9.3	8.8	25.7	24.1	33.2	35.0	45.8	44.6
Of which : external	7.7	7.5	21.7	22.1	27.2	30.1	38.2	38.9
Other current expenditure	62.5	62.3	142.0	140.2	229.4	224.8	284.8	291.0
Transfers and subsidies	34.8	...	72.0	...	115.2	...	138.5	138.5
Goods and services	27.7	...	70.0	...	114.2	...	146.3	146.3
HIPC current		...		...	...	...		6.2
Capital expenditure	68.8	76.9	141.1	148.4	244.4	253.5	370.8	370.8
Domestically financed	33.0	33.3	68.0	65.4	132.4	120.6	205.3	211.6
Non HIPC financed	31.0	33.3	63.0	65.4	116.3	120.6	169.7	172.9
HIPC financed	2.0	0.0	5.0	0.0	16.1	0.0	35.6	38.7
Externally financed	35.8	43.6	73.1	83.0	112.0	132.9	165.5	159.2
Treasury special accounts and correspondents (net)	-1.1	-2.6	-2.2	-21.0	-0.8	-7.7	0.8	0.8
Net lending	0.0	2.9	0.0	6.5	4.0	12.1	6.3	6.3
Temporary costs of structural reforms	0.0	0.0	3.0	0.0	3.0	0.0	29.8	11.3
Overall fiscal balance (including grants)	-4.5	-9.6	-4.2	18.2	-47.5	-33.7	-107.1	-109.0
Overall fiscal balance (excluding grants)	-19.0	-28.1	-39.5	-10.9	-100.9	-94.8	-192.5	-177.1
Primary balance 2/	4.8	-0.8	21.5	42.3	-14.3	1.3	-61.3	-64.4
Basic fiscal balance (program definition) 3/	19.3	20.8	44.8	83.8	39.8	57.8	54.3	54.3
Financing	4.5	9.6	4.2	-18.2	47.5	33.7	107.1	109.0
External financing	12.3	21.8	37.9	50.8	57.3	91.8	147.1	129.1
Drawings	21.8	30.4	51.9	65.6	79.1	113.6	150.8	128.9
Program loans	0.0	0.0	8.3	0.0	8.3	3.6	41.9	0.0
Project loans	21.8	30.4	43.6	65.6	70.8	110.0	108.9	128.9
Amortization due	-12.6	-12.0	-35.3	-33.7	-47.5	-57.0	-125.9	-119.2
Debt relief and HIPC Initiative assistance 4/	3.1	0.3	21.3	7.6	25.7	20.6	103.0	119.4
Domestic financing	-3.8	-15.2	-29.7	-73.8	-29.0	-56.0	-40.0	-20.1
Banking system	2.5	3.3	-22.1	-37.3	-17.7	-45.3	-31.7	-31.5
Of which : issuance of new treasury bills	-7.5	-7.5	-7.5	-7.5	3.1	18.9	3.1	18.9
Nonbank financing	-10.2	-18.5	-11.6	-36.5	7.9	-10.7	-8.3	11.4
Of which : privatization receipts	0.0	0.0	0.0	0.0	1.1	0.0	1.1	1.1
Of which: Treasury bills issued in WAEMU	-4.0	-4.0	-4.0	-4.0	19.2	3.4	19.2	3.4
Errors and omissions	0.0	3.0	0.0	4.8	0.0	-2.1	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:								
Total HIPC spending 5/	2.0	0.0	5.0	0.0	16.1	0.0	35.6	44.9
Basic fiscal balance (WAEMU definition) 6/	17.3	20.8	36.8	83.8	20.7	57.8	-11.0	-1.9

Sources: Senegalese authorities; and staff estimates and projections.

1/ Proposed by the authorities in their MEFP of May 18, 2004, but not considered by the Executive Board.
2/ Defined as total revenue and grants minus total expenditure and net lending, excluding interest expenditure.
3/ Defined as total revenue minus total expenditure and net lending, excluding externally financed capital expenditure, on-lending, cost of structural reforms and HIPC expenditure.
4/ Assumes debt relief on KWD 30 million (CFAF 52 billion) loan principal repayment falling due in late 2004. Negotiations are going on between the authorities of Kuwait and Senegal.
5/ Refers to HIPC-financed capital expenditures authorized in the supplement budgets of 2001 and 2003 and expenditures authorized in the supplement budget of 2004.
6/ Defined as total revenue minus total expenditure and net lending, excluding externally financed capital expenditure, and on-lending.

Table 9. Senegal: Monetary Survey, 2001-06

	2001	2002	2003		2004			2005	2006
			Prog. 1/	Est.	Sept Est.	Dec. Target 2/	Proj.	Prog.	Prog.
					(In billions of CFA francs)				
Net foreign assets	169.6	296.8	309.9	386.5	447.2	419.0	457.5	513.2	540.5
Central Bank of West African States (BCEAO)	66.7	137.7	165.8	187.3	247.5	227.1	243.3	289.5	305.6
Commercial banks	102.9	159.1	144.1	199.2	199.7	191.9	214.1	223.8	235.0
Net domestic assets	735.6	677.4	756.6	729.8	735.0	754.7	741.0	786.7	841.7
Net domestic credit	837.4	793.0	857.0	848.8	821.1	887.7	863.2	913.5	970.2
Net credit to the government	182.0	106.5	105.1	64.2	18.9	32.6	32.7	35.1	23.9
Central bank	221.0	188.7	177.4	175.5	105.3	159.8	138.9	104.7	90.7
Commercial banks	-42.0	-82.9	-75.2	-117.2	-95.7	-128.0	-112.1	-75.5	-72.7
Other institutions	3.0	0.7	2.9	5.9	9.3	0.8	5.9	5.9	5.9
Credit to the economy	655.5	686.5	751.9	784.6	802.2	855.1	830.6	878.3	946.3
Of which : crop credit	5.0	0.9	8.0	3.6	2.8	2.2	2.2	2.2	2.4
Other items (net)	-101.8	-115.6	-100.4	-119.0	-86.1	-133.0	-122.2	-126.8	-128.5
Broad money (M2)	905.2	974.2	1,066.5	1,116.3	1,182.2	1,173.7	1,198.5	1,299.9	1,382.3
Currency outside banks	217.8	192.7	218.2	173.2	155.1	182.7	185.3	199.2	211.7
Total deposits	687.4	781.5		943.1	1,027.1	991.1	1,013.2	1,100.8	1,170.6
Demand deposits	323.5	372.6	424.6	503.5	...	472.5	483.1	524.8	558.1
Time deposits	363.9	408.9	423.7	439.6	...	518.5	530.1	576.0	612.5
			(Change in percentage of beginning-of-period broad money stock)						
Net foreign assets	10.2	14.1	3.1	9.2	5.4	6.0	6.4	4.7	2.1
BCEAO	9.1	7.8	2.1	5.1	5.4	5.4	5.0	3.8	1.2
Commercial banks	1.1	6.2	1.0	4.1	0.0	0.6	1.3	0.8	0.9
Net domestic assets	4.3	-6.4	5.7	5.4	0.5	1.7	1.0	3.8	4.2
Net credit to the government	2.7	-8.3	-0.3	-4.3	-4.1	-2.9	-2.8	0.2	-0.9
Credit to the economy	3.8	3.4	6.7	10.1	1.6	6.5	4.1	4.0	5.2
Other items (net)	-2.3	-1.5	-0.7	-0.3	2.9	-1.9	-0.3	-0.4	-0.1
Broad money (M2)	14.5	7.6	8.8	14.6	5.9	7.8	7.4	8.5	6.3
Memorandum items:					(in units indicated)				
Velocity (GDP/M2; end of period)	3.7	3.6	3.6	3.3	3.5	3.5	3.4	3.4	3.4
Nominal GDP growth (percentage growth)	4.7	3.9	9.3	7.3	8.5	7.4	8.0	8.5	7.3
Credit to the economy (percentage growth)	4.9	4.7	9.5	14.3	2.2	9.1	5.9	5.7	7.7
Credit to the economy/GDP (in percent)	19.6	19.3	19.4	21.1	19.1	21.1	20.6	20.1	20.2
Variation of net credit to the government (since the beginning of the year; in billions of CFA francs)	21.8	-75.5	-2.5	-42.3	-45.3	-31.7	-31.5	2.5	-11.3

Sources: Senegalese authorities; and staff estimates and projections.

1/ Request for a three-year PRGF arrangement, April 14, 2003 (Country Report No. 03/167).

2/ Proposed by the authorities in their MEFP of May 18, 2004, but not considered by the Executive Board.

Table 10. Senegal: Balance of Payments, 2001-06

	2001	2002	2003		2004		2005	2006
			Prog. 1/	Est.	Target 2/	Proj.	Prog.	Prog.
	(In billions of CFA francs, unless otherwise indicated)							
Current account	-155	-206	-216	-244	-228	-249	-236	-238
Balance on goods	-312	-375	-393	-470	-391	-486	-466	-492
Exports, f.o.b.	735	743	777	731	819	768	815	860
Imports, f.o.b.	-1,047	-1,118	-1,170	-1,201	-1,210	-1,253	-1,282	-1,352
Services and incomes (net)	-67	-91	-79	-87	-109	-89	-97	-94
Credits	341	365	367	400	387	398	414	429
Of which: tourism	128	132	141	121	137	128	134	140
Debits	-408	-456	-446	-487	-496	-487	-512	-522
Of which : interest on public debt	-24	-35	-32	-40	-39	-39	-38	-36
Unrequited current transfers (net)	223	260	256	313	272	325	327	348
Private (net)	173	192	182	241	207	251	260	270
Public (net)	50	68	74	72	65	75	67	78
Of which: budgetary grants	0	2	29	18	13	22	15	29
Capital and financial account	217	315	206	294	194	208	186	176
Capital account	64	66	78	67	79	53	74	80
Private capital transfers	2	6	3	7	7	7	7	8
Project grants	62	60	75	60	73	46	67	72
Debt cancellation	0	0	0	0	0	0	0	0
Financial account	153	249	129	227	115	155	112	96
Direct investment	29	31	61	29	60	49	63	70
Portfolio investment	10	2	-7	13	9	6	3	-20
Other investment	114	216	75	185	45	100	46	46
Public sector (net)	47	35	32	20	31	14	24	1
Of which : disbursements	108	113	96	91	156	131	151	130
program loans	61	42	0	0	42	0	55	27
project loans	43	71	91	91	109	129	93	101
other	5	0	5	0	5	2	2	2
amortization 3/	-62	-79	-64	-72	-125	-118	-127	-128
Private sector (net)	41	128	43	133	14	86	22	45
Errors and omissions	26	53	0	32	0	0	0	0
Overall balance	62	109	-10	50	-35	-41	-50	-62
Financing	-62	-109	-10	-50	35	41	50	62
Net foreign assets (BCEAO)	-72	-71	-21	-50	-55	-56	-46	-16
Net use of Fund resources	-2	-13	3	-20	-18	-23	-17	-13
Purchases	22	8	-24	3	8	3	6	7
Repurchases	-23	-21	0	-23	-26	-26	-24	-20
Other	-71	-58	-24	-30	-38	-33	-29	-3
Deposit money banks	-9	-56	-9	-40	-6	-15	-10	-11
Payments arrears (reduction -)	0	0	0	0	0	0	0	0
Exceptional financing 4/	19	18	20	40	97	112	106	89
Residual financing gap	0	0	20	0	0	0	0	0
Memorandum items:								
Current account balance								
As percentage of GDP (incl. current official transfers)	-4.6	-5.9	-5.6	-6.5	-5.6	-6.2	-5.4	-5.1
As percentage of GDP (excl. current official transfers)	-6.3	-8.0	-7.6	-8.6	-7.4	-8.2	-7.1	-6.9
Gross official reserves (in billions of CFA francs)	339	404	402	413	440	443	473	480
(in months of imports of GNFS)	3.0	3.3	3.2	3.2	3.4	3.3	3.4	3.3
Nominal GDP (in billions of CFA francs)	3,343	3,473	3,881	3,725	4,049	4,024	4,364	4,682

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

1/ Request for a three-year PRGF arrangement, April 14, 2003 (Country Report No. 03/167).

2/ Proposed by the authorities in their MEFP of May 18, 2004, but not considered by the Executive Board.

3/ 2004 includes scheduled repayment of KWD 30 million (equivalent to CFAF 52 billion) loan.

4/ HIPC Initiative debt relief is recorded as a grant for the IMF, and as exceptional financing for the World Bank, the African Development Bank and Paris Club creditors. 2004 assumes debt relief on KWD 30 million (CFAF 52 billion) loan principal repayment falling due in late 2004. Negotiations are going on between the authorities of Kuwait and Senegal.

Table 11. Senegal: Selected Medium-Term Economic and Financial Indicators, 2003-10

	2003	2004	2005	2006	2007	2008	2009	2010
	Est.	Proj.	Prog.	Prog.	Proj.			
	(Annual percentage change, unless otherwise indicated)							
National income and prices								
GDP at constant prices	6.5	6.0	6.4	5.2	5.0	4.9	5.0	4.9
Of which : nonagriculture GDP	4.4	6.4	6.1	5.2	5.1	4.9	5.1	5.0
GDP deflator	0.7	1.9	2.0	2.0	2.0	2.0	2.0	2.0
Consumer prices								
Annual average	0.0	0.4	1.6	1.9	1.9	1.9	1.9	1.9
End of period	-1.4	0.6	1.6	1.9	1.9	1.9	1.9	1.9
External sector								
Exports, f.o.b. (in CFA francs)	-1.7	5.1	6.2	5.5	5.9	5.8	6.4	9.2
Imports, f.o.b. (in CFA francs)	7.4	4.4	2.3	5.5	6.6	5.4	5.8	5.9
Export volume	-1.9	4.4	4.3	4.3	4.1	4.5	4.7	4.6
Import volume	4.1	2.0	5.4	4.6	5.1	4.2	4.4	4.1
Terms of trade (deterioration -)	-2.9	-1.8	4.1	0.7	0.6	0.3	0.3	2.5
Nominal effective exchange rate	5.1	…	…	…	…	…	…	…
Real effective exchange rate	2.8	…	…	…	…	…	…	…
	(In percent of GDP)							
Government financial operations								
Revenue	19.3	19.2	19.3	19.3	19.4	19.5	19.6	19.7
Grants	2.1	1.7	1.9	2.2	2.2	2.2	2.3	2.3
Total expenditure and net lending	22.8	23.6	24.1	22.9	23.3	23.7	24.1	23.9
Overall fiscal surplus or deficit (-)								
Commitment basis, excluding grants	-3.5	-4.4	-4.8	-3.5	-3.8	-4.2	-4.5	-4.2
Commitment basis, including grants	-1.4	-2.7	-2.9	-1.4	-1.6	-1.9	-2.3	-1.9
Primary fiscal balance 1/	-0.2	-1.6	-1.9	-0.4	-0.7	-1.0	-1.3	-1.0
Basic fiscal balance, program definition 2/	1.3	1.4	0.7	0.8	0.6	0.3	0.0	0.0
Gross domestic investment	20.7	22.4	23.4	22.6	22.7	22.8	22.9	22.8
Gross domestic savings	7.7	10.0	12.1	11.6	11.7	12.0	12.4	13.0
Gross national savings	14.2	16.2	17.9	17.5	17.3	17.5	17.7	18.1
External current account deficit (-)								
Excluding current official transfers	-8.6	-8.2	-7.1	-6.9	-7.0	-6.8	-6.7	-6.1
Including current official transfers	-6.5	-6.2	-5.4	-5.1	-5.4	-5.3	-5.2	-4.6
External public debt (nominal) 3/	54.5	41.4	38.3	35.4	33.0	31.1	29.6	28.6
	(In percent of exports of goods and nonfactor services, unless otherwise indicated)							
External public debt service 3/	8.3	5.1	6.4	7.1	7.7	7.0	6.6	5.8
In percent of government revenue	12.3	7.4	9.0	9.6	9.8	9.2	8.5	7.4
GDP at current market prices (in billions of CFA francs)	3,725	4,024	4,364	4,682	5,013	5,361	5,741	6,144

Sources: Senegalese authorities; and staff estimates and projections.

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

2/ Defined as total revenue minus total expenditure and net lending, excluding externally financed capital expenditure, on-lending, temporary costs of structural reforms and expenditure financed with HIPC Initiative assistance.

3/ After HIPC debt relief.

Table 12. Senegal: Medium-Term Balance of Payments, 2003-10

	2003	2004	2005	2006	2007	2008	2009	2010
	Est.	Proj.	Prog.	Prog.		Proj.		
	(In billions of CFA francs, unless otherwise indicated)							
Current account	-244	-249	-236	-238	-270	-283	-297	-284
Balance on goods	-470	-486	-466	-492	-530	-555	-582	-583
Exports, f.o.b.	731	768	815	860	911	963	1025	1119
Imports, f.o.b.	-1,201	-1,253	-1,282	-1,352	-1,441	-1,519	-1,607	-1,702
Services and incomes (net)	-87	-89	-97	-94	-96	-97	-100	-99
Credits	400	398	414	429	445	463	482	504
Debits	-487	-487	-512	-522	-541	-560	-582	-604
Unrequited current transfers (net)	313	325	327	348	357	370	384	398
Private (net)	241	251	260	270	280	291	303	314
Public (net)	72	75	67	78	76	79	81	84
Capital and financial account	294	208	186	176	217	258	280	312
Capital account	67	53	74	80	87	95	104	114
Private capital transfers	7	7	7	8	8	9	9	9
Project grants	60	46	67	72	78	86	95	104
Financial account	227	155	112	96	131	163	176	199
Direct investment	29	49	63	70	74	77	80	83
Portfolio investment	13	6	3	-20	2	2	2	1
Other investment	185	100	46	46	55	84	94	114
Public sector (net)	20	14	24	1	7	16	26	46
Of which : disbursements	91	131	151	130	137	148	160	175
program loans	0	0	55	27	25	25	25	27
project loans	91	129	93	101	110	121	133	146
other	0	2	2	2	2	2	2	2
amortization	-72	-118	-127	-128	-130	-132	-134	-129
Private sector (net)	133	86	22	45	48	68	68	68
Errors and omissions	32	0	0	0	0	0	0	0
Overall balance	50	-41	-50	-62	-53	-25	-18	28
Financing	-50	41	50	62	48	16	-4	-50
Net foreign assets (BCEAO)	-50	-56	-46	-16	-26	-57	-76	-120
Deposit money bank	-40	-15	-10	-11	-12	-12	-13	-14
Exceptional financing 1/	40	112	106	89	85	85	85	83
Residual financing gap	0	0	0	0	5	9	22	22
Memorandum items:								
Current account balance								
As percentage of GDP (incl. current official transfers)	-6.5	-6.2	-5.4	-5.1	-5.4	-5.3	-5.2	-4.6
As percentage of GDP (excl. current official transfers)	-8.6	-8.2	-7.1	-6.9	-7.0	-6.8	-6.7	-6.1
Gross official reserves	413	443	473	480	507	564	640	760
(in months of imports of GNFS)	3.2	3.3	3.4	3.3	3.3	3.5	3.8	4.2
Nominal GDP (in billions of CFA francs)	3,725	4,024	4,364	4,682	5,013	5,361	5,741	6,144

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

1/ Interim HIPC Initiative debt relief is recorded as a grant for the IMF, and as exceptional financing for the World Bank, the African Development Bank, and Paris Club creditors. 2004 assumes debt relief on KWD 30 million (CFAF 52 billion) loan principal repayment falling due in late 2004. Negotiations are going on between the authorities of Kuwait and Senegal.

Table 13. Senegal: Fund Position During the Period of the PRGF Arrangement, 2003-06 1/

	2003					2004					2005					2006				
	Jan.-Mar.	Apr.-June	Jul.-Sep.	Oct.-Dec.	TOTAL	Jan.-Mar.	Apr.-June	Jul.-Sep.	Oct.-Dec.	TOTAL	Jan.-Mar.	Apr.-June	Jul.-Sep.	Oct.-Dec.	TOTAL	Jan.-Mar.	Apr.-June	Jul.-Sep.	Oct.-Dec.	TOTAL
(In millions of SDRs)																				
Disbursements under PRGF	0.0	3.5	0.0	0.0	3.5	3.5	0.0	0.0	0.0	3.5	3.5	0.0	5.0	0.0	8.5	8.9	0.0	0.0	0.0	8.9
IMF HIPC assistance	0.0	1.4	1.9	1.8	5.1	0.5	2.8	3.5	3.2	10.0	3.6	2.6	2.1	1.7	10.0	2.8	0.6	1.2	0.6	5.2
Repurchases/repayments	7.6	5.5	7.6	7.3	27.9	7.6	9.0	7.6	9.0	33.3	7.4	9.0	7.4	7.4	31.2	7.4	5.0	8.8	5.0	26.2
Ordinary resources	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SAF / PRGF and SBA	7.6	5.5	7.6	7.3	27.9	7.6	9.0	7.6	9.0	33.3	7.4	9.0	7.4	7.4	31.2	7.4	5.0	8.8	5.0	26.2
Charges and interests	0.1	0.5	0.1	0.5	1.2	0.1	0.5	0.1	0.4	1.1	0.1	0.4	0.1	0.4	1.0	0.1	0.3	0.1	0.3	0.8
Ordinary resources	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SAF / PRGF and SBA	0.0	0.4	0.0	0.4	0.9	0.0	0.4	0.0	0.3	0.7	0.0	0.3	0.0	0.3	0.6	0.0	0.2	0.0	0.2	0.4
SDR charges	0.1	0.1	0.1	0.1	0.4	0.1	0.1	0.1	0.1	0.4	0.1	0.1	0.1	0.1	0.4	0.1	0.1	0.1	0.1	0.4
Total Fund credit outstanding (end of period)	178.2	176.2	168.5	161.3	161.3	157.1	148.1	140.5	131.5	131.5	127.6	118.5	116.2	108.8	108.8	110.3	105.3	96.5	91.5	91.5
Ordinary resources	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SAF / PRGF and SBA	178.2	176.2	168.5	161.3	161.3	157.1	148.1	140.5	131.5	131.5	127.6	118.5	116.2	108.8	108.8	110.3	105.3	96.5	91.5	91.5
Quota	161.8	161.8	161.8	161.8	161.8	161.8	161.8	161.8	161.8	161.8	161.8	161.8	161.8	161.8	161.8	161.8	161.8	161.8	161.8	161.8
(In percent of quota)																				
Total Fund credit outstanding (end of period)	110.1	108.9	104.2	99.7	99.7	97.1	91.5	86.8	81.3	81.3	78.8	73.3	71.8	67.2	67.2	68.2	65.1	59.6	56.5	56.5
Ordinary resources	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SAF / PRGF	110.1	108.9	104.2	99.7	99.7	97.1	91.5	86.8	81.3	81.3	78.8	73.3	71.8	67.2	67.2	68.2	65.1	59.6	56.5	56.5

Sources: International Monetary Fund, Finance Department; and staff projections.

1/ As the authorities do not intend to request an extension of the current arrangement after the delay in completing the second review, the last review of the program will be the 4th review scheduled for the first quarter of 2006, and the remaining PRGF resources committed to Senegal have been rephased over the remaining period of the arrangement.

Table 14. Senegal: Follow-up on HIPC Assistance
(As of November 15, 2004)

	Assistance agreed at the decision point (June, 2000)	Interim Assistance granted after the decision point	Assistance granted after the completion point (April, 2004)	Comments
Multilateral creditors				
IMF	yes	yes	yes	
IDA	yes	yes	yes	
BAD/FAD	yes	yes	no	
EU	yes	yes	yes	
BID	limited	no	no	
FIDA	yes	no	yes	
BOAD	yes	yes	no	
BADEA	limited	no	yes	
BCEAO	yes	no	no	
ECOWAS	limited	no	no	
OPEC Fund	yes	yes	yes	Refinancing assistance
Nordic Fund	yes	no	yes	
Paris Club Creditors				
France	yes	yes	yes	Finalized agreement awaiting signature
Germany	yes	yes	no	
Italy	yes	yes	yes	Finalized agreement awaiting signature
Japan	yes	no	yes	Finalized agreement awaiting signature
Spain	yes	yes	no	
United States	yes	yes	yes	Finalized agreement awaiting signature
Norway	yes	yes	yes	Finalized agreement awaiting signature
Denmark	yes	no	no	
The Netherlands	yes	yes	yes	Correspondence received for debt cancellation
Belgium	yes	yes	no	
Canada	yes	yes	yes	Agreement signed
United Kingdom	yes	yes	no	
Sweden	yes	no	no	
Bilateral creditors—Non Paris Club members				
Kuwait	no	no	yes	Finalized agreement awaiting signature
Saudi Arabia	no	no	no	
China	no	no	no	
Taiwan, Prov.	n/a	n/a	no	
Emirates	no	no	no	
Algeria	no	no	no	
Oman	no	no	no	
Iraq	no	no	no	

Source: Senegalese authorities.

Table 15. Financial Soundness Indicators for the Banking Sector, 2000–04

	2000	2001	2002	2003	2004	
	December				March	June
	(In percent, unless otherwise indicated)					
Capital Adequacy						
Capital to risk weighted assets	20.6	16.8	16.0	12.1	12.7	13.3
Regulatory capital to risk weighted assets	20.6	16.8	15.5	11.7	12.1	13.0
Capital to total assets	9.9	9.7	10.3	7.8	8.1	8.4
Asset composition and quality						
Total loans to total assets	62.8	59.4	58.3	59.6	57.6	57.0
Concentration: loans to 5 largest borrowers to capital	177.3	107.7	104.9	141.0	150.7	111.3
Sectoral distribution of loans						
Industrial	31.3	33.1	36.4	41.1	37.5	34.5
Retail and wholesale trade	28.6	23.6	22.2	19.9	19.8	20.1
Services, transport and communications	14.9	16.3	17.5	17.2	22.2	24.8
Gross NPLs to total loans	18.1	17.8	18.5	13.3	14.7	14.2
Provisions to NPLs	67.6	70.2	70.5	75.3	70.4	73.0
NPLs net of provisions to total loans	6.7	5.6	5.5	3.6	4.4	4.3
NPLs net of provisions to capital	51.3	34.3	30.7	27.8	34.4	29.0
Earnings and Profitability						
Average cost of borrowed funds	2.2	2.4	2.2	1.8	...	...
Average interest rate on loans	10.1	10.1	9.7	8.7	...	...
Average interest margin [1/]	7.9	7.7	7.6	6.7	...	...
After-tax return on average assets	1.7	1.6	1.8	1.8	...	...
After-tax return on average equity [2/]	20.3	18.6	21.1	22.1	...	...
Noninterest expenses/net banking income	45.7	44.5	45.4	48.9	...	...
Salaries and wages/net banking income	21.3	19.9	20.6	21.8	...	...
Liquidity						
Liquid assets to total assets	...	...	65.1	66.5	66.4	...
Liquid assets to total deposits	...	...	82.9	81.0	82.0	...
Total deposits to total liabilities	81.5	75.5	78.5	82.0	80.9	80.7

Source: Senegalese authorities.

1/ Excluding the tax on banking operations.
2/ Estimate for 2003.

Table 16. Senegal: Public Enterprises, 2003
(In millions of CFAF, unless otherwise indicated)

Company	Capital	Govt's share in capital 1/	Turnover	Value added	Debt	Employees
Electricity (SENELEC)	119,433	100	119,134	36,086	103,537	1,723
Groundnuts (SONACOS)	22,627	87	85,733	10,423	17,169	922
Radio and television (RTS)	7,000	100	n.a	n.a		n.a
Social housing (HLM)	6,000	100	1,678	881		n.a
Port authority (SN PAD)	5,000	100	18,169	9,494	3	416
Water (SONES)	3,927	100	n.a	n.a		n.a
Postal services (La Poste)	2,900	100	n.a	n.a		n.a
Housing (SICAP)	2,743	90	3,994	3,784	720	30
Agricultural services (SAED)	2,500	100	58	n.a		300
Ship repair (SIRN)	1,928	99	102	n.a		40
Urban transport (DAKAR DEM DIK)	1,500	77	2,576	673	135	n.a
Engineering (CEREEQ)	1,239	100	398	279		56
Sanitation (ONA)	1,200	100	3,013	2,676	222	119
Tourism (SAPCO)	1,200	99	933	537		60
Petroleum holding (PETROSEN)	1,200	99	567	284	6,938	40
Agricultural services (ISRA)	411	100	n.a	n.a		n.a
Vocational training (CNQP)	393	100	48	n.a		n.a
Vocational training (ONFP)	228	100	389	n.a		22
Car insurance trust fund (FGA)	200	50	n.a	n.a		n.a
Trade promotion (CICES)	140	59	n.a	n.a		n.a
Agricultural services (SODAGRI)	120	54	15	907		73
Lottery (LONASE)	110	100	n.a	n.a		n.a
Rural training (ANCAR)	91	51	n.a	n.a		n.a
Press (SSPP Soleil)	27	55	1,689	942		165
Credit collection (SNR)	25	100	n.a	n.a		62
Press agency (APS)	23	100	n.a	n.a		n.a
Craft manufacturing (MSAD)	17	100	25	n.a		62
Food technology (ITA)	5	100	n.a	n.a		n.a
Total	182,188		238,520	66,966	128,723	4,090

Source: Senegalese authorities.

1/ In percent.

Table 17. Senegal: Schedule of Projected Reviews and Disbursements
Under the PRGF Arrangement, 2003–06 1/

Date	Action	Disbursement
April 2003	Executive Board consideration of request for a three-year arrangement under the Poverty Reduction and Growth Facility (PRGF) and conclusion of the 2002 Article IV consultation.	SDR 3.47 million
End-June 2003	Quantitative performance criteria. Test date for the first review.	
End-December 2003	Quantitative performance criteria. Test date for the second review.	
February 2004	Executive Board consideration of the first review under the PRGF arrangement.	SDR 3.47 million
March 2005	Executive Board consideration of the second review under the PRGF arrangement and conclusion of the 2004 Article IV consultation.	SDR 3.47 million
End-March 2005	Quantitative performance criteria. Test date for the third review.	
August 2005	Executive Board consideration of the third review under the PRGF arrangement.	SDR 5.00 million
End-September 2005	Quantitative performance criteria. Test date for the fourth review.	
February 2006	Executive Board consideration of the fourth review under the PRGF arrangement.	SDR 8.86 million

1/ As the authorities do not intend to request an extension of the current arrangement after the delay in completing the second review, the last review of the program will be the 4th review scheduled for the first quarter of 2006, and the remaining PRGF resources committed to Senegal have been rephased over the remaining period of the arrangement.

Table 18. Senegal: Millennium Development Goals

	1990	1995	2001	2002	2015
Goal 1. Eradicate extreme poverty and hunger					
Target 1: Halve between 1990 and 2015, the proportion of people whose income is less than one dollar a day					
1. Population below US$1 a day (percent)	..	26.3	..	..	
2. Poverty gap at US$1 a day (percent)	..	7.0	..	..	
3. Share of income or consumption held by poorest 20 (percent)	..	6.4	..	..	
Target 2: Halve between 1990 and 2015, the proportion of people suffering hunger					
4. Prevalence of child malnutrition (% of children under 5)	21.6	22.3	22.7	..	[10.8]
5. Population below minimum level of dietary energy consumption (percent)	23.0	25.0	24.0	..	
Goal 2. Achieve universal primary education					
Target 3: Ensure that, by 2015, children will be able to complete a full course of primary schooling					
6. Net primary enrollment ratio (percent of relevant age group)	48.1	53.9	57.9	..	
7. Percentage of cohort reaching grade 5 (percent)	84.5	85.4	67.5	..	
8. Youth literacy rate (% ages 15-24)	40.1	45.4	51.8	52.9	
Goal 3. Promote gender equality and empower women					
Target 4: Eliminate gender disparity in primary and secondary education preferably by 2005 and to all levels of education by 2015					
9. Ratio of girls to boys in primary and secondary education (percent)	68.8	75.3	85.4	..	[100.0]
10. Ratio of young literate females to males (percent ages 15-24)	60.4	65.5	71.5	72.5	
11. Share of women employed in the nonagricultural sector (percent)	28.1	..	..	..	
12. Proportion of seats held by women in national parliament (percent)	..	12.0	..	..	
Goal 4. Reduce child mortality					
Target 5: Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate					
13. Under 5 mortality rate (per 1,000)	148.0	143.0	139.0	138.0	[49.3]
14. Infant mortality rate (per 1,000 live births)	90.0	84.0	80.0	79.0	
15. Immunization, measles (percent of children under 12 months)	51.0	80.0	48.0	54.0	
Goal 5. Improve maternal health					
Target 6: Reduce by three-quarters, between 1990 and 2015, the maternal mortality rate					
16. Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	690.0	..	[300]
17. Births attended by skilled health staff	..	47.2	57.8	..	
Goal 6. Combat HIV/AIDS, malaria and other diseases					
Target 7: Halt by 2015, and begin to reverse, the spread of HIV/AIDS					
18. Prevalence of HIV, female (percent ages 15-24)	..	..	0.5	..	
19. Contraceptive prevalence rate (percent of women ages 15-49)	7.1	12.9	10.5	..	
20. Number of children orphaned by HIV/AIDS	..	..	15000.0	..	

Table 18. Senegal: Millennium Development Goals (concluded)

	1990	1995	2001	2002	2015
Target 8: Halt by 2015, and begin to reverse, the incidence of malaria and other major diseases					
21. Prevalence of death associated with malaria	..	..	..	..	
22. Share of population in malaria risk areas using effective prevention and treatment	..	..	..	..	
23. Incidence of tuberculosis (per 100,000 people)	..	..	167.0	241.8	
24. Tuberculosis cases detected under DOTS (percent)	..	67.0	85.0	54.3	
Goal 7. Ensure environmental sustainability					
Target 9: Integrate the principles of sustainable development into policies and programs. Reverse the loss of environmental resources					
25. Forest area (% of total land area)	34.6	..	32.2	..	
26. Nationally protected areas (% of total land area)	..	11.3	11.3	11.6	
27. GDP per unit of energy use (PPP $ per kg oil equivalent)	3.7	4.0	4.8	..	
28. CO2 emissions (metric tons per capita)	0.4	0.4	0.4	..	
29. Proportion of population using solid fuels	...	...	...	...	
Target 10: Halve by 2015 proportion of people without access to safe drinking water					
30. Access to an improved water source (percent of population)	72.0	..	78.0	..	
Target 11: Halve by 2020 significant improvement for at least 100 million slum dwellers					
31. Access to improved sanitation (percent of population)	57.0	..	70.0	..	
32. Access to secure tenure (percent of population)	...	...	...	...	
Goal 8. Develop a Global Partnership for Development					
Target 12: Develop and implement strategies for productive work for youth					
33. Youth unemployment rate (percent of total labor force ages 15-24)	..	..	..	..	
34. Fixed line and mobile telephones (per 1,000 people)	6.0	9.8	55.0	77.2	
35. Personal computers (per 1,000 people)	2.5	7.2	18.4	19.8	

Sources: World Bank; and Fund estimates.

Assessing Senegal's External Debt Sustainability[1]

1. *External debt sustainability is preserved under the baseline scenario, and is robust to a series of plausible shocks, including a worsening of borrowing terms. There are little risks of unfavorable debt dynamics, especially if the authorities remain committed to a prudent debt management strategy in the post-HIPC period. The updated DSA yields estimates for the key debt indicators that are broadly consistent with those calculated at the time of the HIPC Completion Point.*

2. **The long-term macroeconomic scenario underlying the DSA is more conservative than the baseline of the April 2004 HIPC Completion Point document.** The key assumptions underlying the long-term macroeconomic framework are: (i) real GDP growth averaging 5.2 percent annually, or about ½ percentage point lower than in the HIPC baseline; (ii) export volume growth averaging 4.9 percent per year, compared to 5.6 percent in the HIPC document; (iii) a doubling of the fiscal deficit (averaging 2.8 percent of GDP) against 1.5 percent of GDP for the HIPC scenario; and (iv) larger new borrowing, reflecting the more expansionary fiscal stance.

3. **Under this macroeconomic scenario, Senegal can maintain a sustainable external debt with ratios well below the reference thresholds.** Senegal's key debt ratios would continue to decline over the medium to long term (Table 1a and Figure 1).

4. **Senegal's external debt remains sustainable over the long term, even in the presence of some exogenous shocks.** Stress tests show that a shock to export growth—with exports falling by about 10 percent in 2005 and 2006—would be the main risk. However, the debt indicators would return to a sustainable level after a temporary hike (Figure 1 and Table 1b). Besides, neither lower economic growth (set at 0.6 percent in 2005 and 2006) nor lower nondebt inflows (with current transfers falling to 2 percent of GDP in 2005 and 2006 from 8 percent in 2004) would lead to unsustainable debt dynamics. Likewise, the debt sustainability path is robust to a combination of moderate shocks involving lower economic growth, lower nondebt inflows and a devaluation (Table 1b). It is also shown that a scenario based on key variables set at their historical averages—the historical scenario—would display a sustainable debt path, thereby suggesting that the results of the baseline scenario are robust.

5. **Senegal's external debt sustainability would also be preserved in the event of a measured deterioration of borrowing terms.** A three-percentage point increase in nominal interest rates for new borrowing—implying a grant element falling to below 20 percent—would lead to a significant deterioration of the debt indicators (Table 1b and Figure 2), but they remain below the indicative thresholds over the long term.

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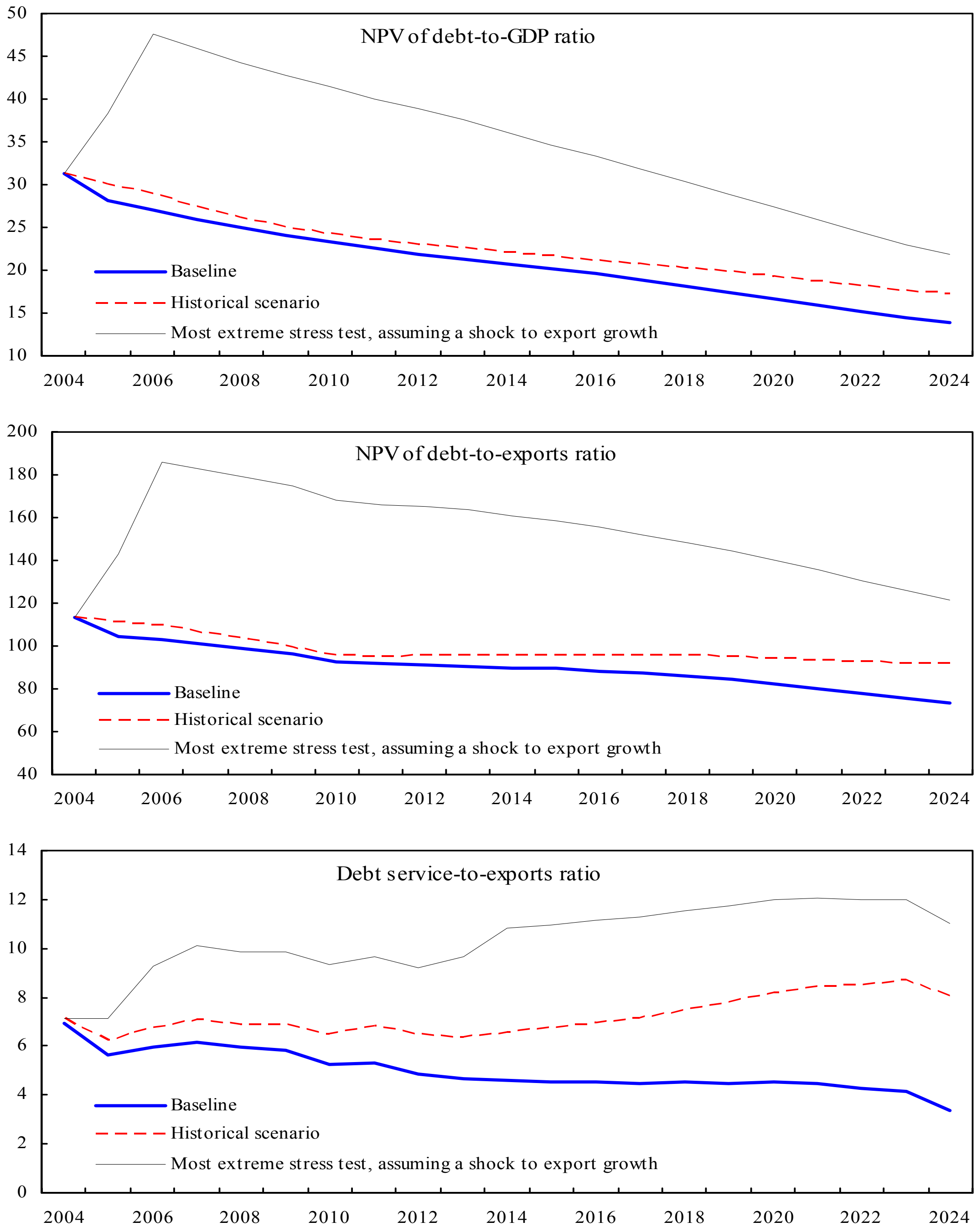
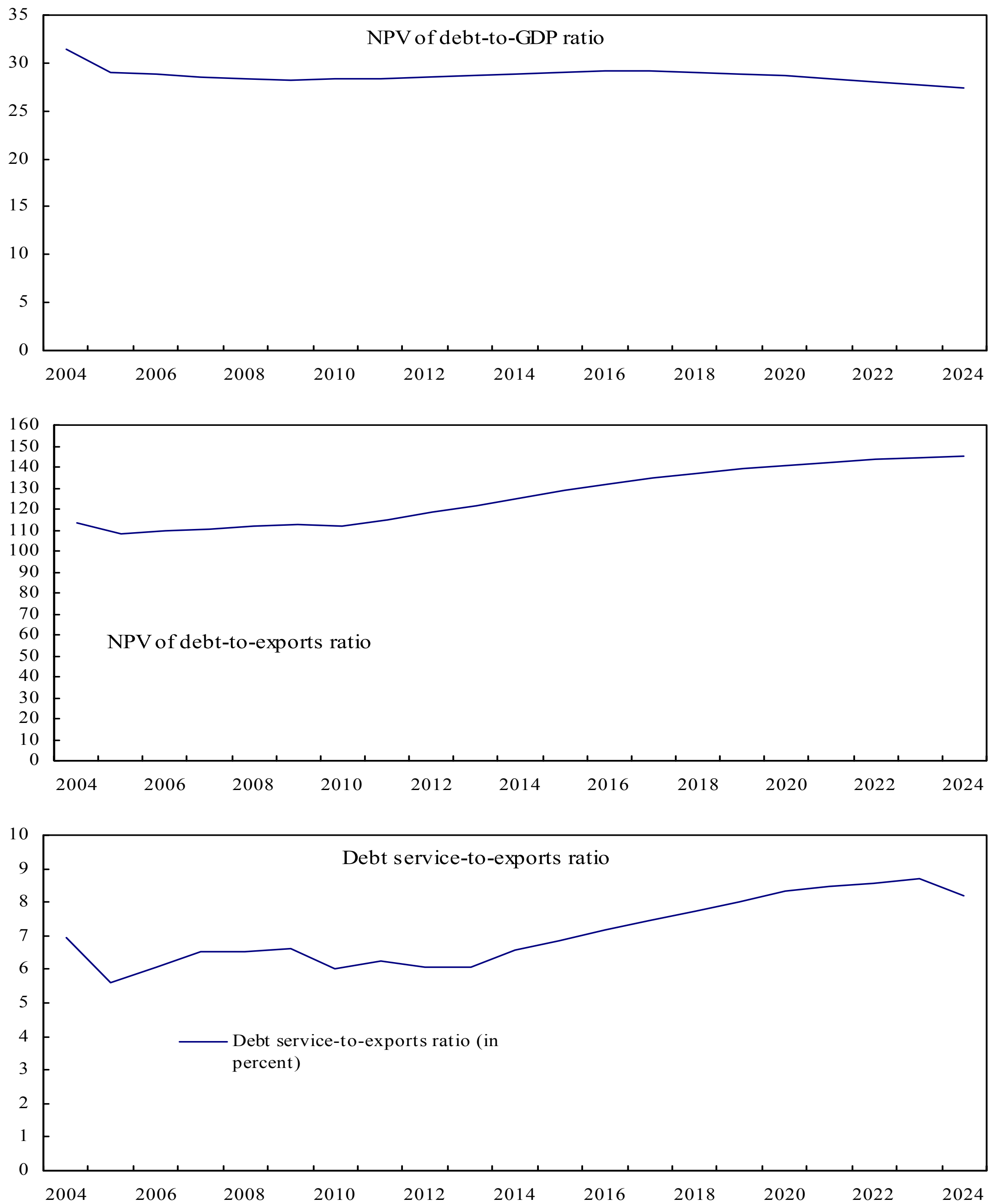
[1] The analysis is based on the DSA template for low-income countries. Senegal's debt sustainability is reviewed in relation to the following reference thresholds: (i) 150 percent for NPV of debt to exports; (ii) 40 percent for NPV of debt to GDP; and (iii) 20 percent for the debt service to exports ratio.

Figure 1. Senegal: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2004-2024



Source: Staff projections and simulations.

Figure 2. Senegal: Alternative Scenario 2 - Less favorable financing terms 2004-2024
(In percent)



Source: Staff projections and simulations.

Table 1a. Senegal: External Debt Sustainability Framework, Baseline Scenario, 2000-2024 1/
(In percent of GDP, unless otherwise indicated)

	Actual				Historical Average 6/	Standard Deviation 6/	Est.	Projections							
	2000	2001	2002	2003			2004	2005	2006	2007	2008	2009	2010	2024	2010-2024 Average
External debt (nominal) 1/	**69.5**	**67.3**	**66.1**	**54.5**			**41.4**	**38.3**	**35.4**	**33.0**	**31.1**	**29.6**	**28.6**	**22.9**	26.1
o/w public and publicly guaranteed (PPG)	69.5	67.3	66.1	54.5			41.4	38.3	35.4	33.0	31.1	29.6	28.6	22.9	26.1
Change in external debt	-4.7	-2.3	-1.2	-11.6			-13.1	-3.1	-2.9	-2.4	-1.9	-1.5	-1.0	-0.5	-0.4
Identified net debt-creating flows	10.1	2.7	-0.8	-8.9			2.2	1.7	1.7	2.3	2.3	2.3	1.9	1.1	1.5
Non-interest current account deficit	**3.5**	**3.3**	**4.9**	**5.4**	**3.6**	**1.7**	**5.4**	**4.9**	**4.6**	**4.9**	**4.9**	**4.8**	**4.2**	**2.9**	3.5
Deficit in balance of goods and services	8.4	9.7	11.2	13.0			12.4	11.2	11.0	11.1	10.8	10.5	9.7	5.8	7.8
Exports	30.5	30.7	30.6	28.5			27.6	26.9	26.3	25.8	25.4	25.1	25.3	18.8	21.8
Imports	38.8	40.4	41.7	41.5			40.1	38.1	37.2	36.9	36.2	35.5	35.0	24.6	29.5
Net current transfers (negative = inflow)	-5.1	-6.7	-7.5	-8.4	-4.9	2.2	-8.1	-7.5	-7.4	-7.1	-6.9	-6.7	-6.5	-4.0	-5.2
Other current account flows (negative = net inflow)	0.3	0.3	1.3	0.8			1.1	1.2	1.1	1.0	1.0	1.0	0.9	1.1	0.9
Net FDI (negative = inflow)	**-1.4**	**-0.9**	**-0.9**	**-0.8**	**-0.9**	**1.4**	**-1.2**	**-1.4**	**-1.5**	**-1.5**	**-1.4**	**-1.4**	**-1.4**	**-0.8**	-1.1
Endogenous debt dynamics 2/	**7.9**	**0.3**	**-4.8**	**-13.5**			**-2.0**	**-1.8**	**-1.4**	**-1.2**	**-1.1**	**-1.0**	**-0.9**	**-1.0**	-0.9
Contribution from nominal interest rate	1.6	1.4	1.0	1.2			0.8	0.5	0.4	0.4	0.4	0.4	0.4	0.2	0.3
Contribution from real GDP growth	-2.4	-3.2	-0.7	-3.4			-2.8	-2.3	-1.8	-1.7	-1.5	-1.4	-1.4	-1.2	-1.3
Contribution from price and exchange rate changes	8.8	2.2	-5.1	-11.3			…	…	…	…	…	…	…	…	
Residual (3-4) 3/	**-14.8**	**-5.0**	**-0.4**	**-2.7**			**-15.3**	**-4.8**	**-4.7**	**-4.7**	**-4.3**	**-3.8**	**-2.9**	**-1.6**	-1.9
o/w exceptional financing	-69.0	-418.5	-360.1	-620.5			-1467.6	-1204.3	-946.1	-842.6	-791.9	-733.8	-672.8	-209.3	-380.6
NPV of external debt 4/	...	...	...	35.5			31.4	28.2	27.1	26.0	25.0	24.1	23.3	13.8	18.7
In percent of exports	...	...	...	124.7			113.6	104.7	103.1	100.6	98.5	96.2	92.4	73.5	85.3
NPV of PPG external debt	**...**	**...**	**...**	**35.5**			**31.4**	**28.2**	**27.1**	**26.0**	**25.0**	**24.1**	**23.3**	**13.8**	18.7
In percent of exports	...	...	...	124.7			113.6	104.7	103.1	100.6	98.5	96.2	92.4	73.5	85.3
Debt service-to-exports ratio (in percent)	12.7	11.5	11.2	10.2			6.9	5.6	6.0	6.2	5.9	5.8	5.2	3.4	4.5
PPG debt service-to-exports ratio (in percent)	12.7	11.5	11.2	10.2			6.9	5.6	6.0	6.2	5.9	5.8	5.2	3.4	4.5
Total gross financing need (billions of U.S. dollars)	0.3	0.3	0.4	0.5			0.5	0.4	0.4	0.5	0.5	0.6	0.5	0.9	0.7
Non-interest current account deficit that stabilizes debt ratio	8.2	5.5	6.1	17.0			18.5	8.0	7.5	7.4	6.8	6.2	5.2	3.4	3.9
Key macroeconomic assumptions															
Real GDP growth (in percent)	3.0	4.7	1.1	6.5	4.1	3.3	6.0	6.4	5.2	5.0	4.9	5.0	4.9	5.3	5.1
GDP deflator in US dollar terms (change in percent)	-10.5	-3.0	8.3	20.7	2.4	15.8	11.9	8.3	2.0	2.0	2.0	2.0	2.1	2.3	2.1
Effective interest rate (percent) 5/	2.0	2.0	1.6	2.3	2.5	0.7	1.7	1.4	1.2	1.3	1.3	1.4	1.5	0.8	1.3
Growth of exports of G&S (US dollar terms, in percent)	-7.8	2.3	8.9	19.9	3.4	12.5	15.0	12.1	4.8	5.3	5.3	5.7	7.9	5.8	5.4
Growth of imports of G&S (US dollar terms, in percent)	-3.3	5.6	13.1	27.8	4.5	64.8	14.5	9.6	4.8	6.1	4.9	5.3	5.5	5.0	4.8
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	...	44.3	51.4	49.6	49.9	49.4	49.2	49.1	49.8	49.5
Memorandym item:															
Nominal GDP (billions of US dollars)	4.5	4.6	5.0	6.4			7.6	8.8	9.4	10.1	10.8	11.6	12.4	33.7	21.3

Source: Staff simulations.

1/ Includes both public and private sector external debt.
2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.
3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.
4/ Assumes that NPV of private sector debt is equivalent to its face value.
5/ Current-year interest payments devided by previous period debt stock.
6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability, except for the GDP deflator in dollar terms, for which the average was calculated from 1996 in order to remove the bias introduced by the large 1994 devaluation.

Table 1b. Senegal: Sensitivity Analyses for Key Indicators of Public and Publicly Guaranteed External Debt, 2004-24
(In percent)

	Est.	Projections							
	2004	2005	2006	2007	2008	2009	2010	**2014**	2024
NPV of debt-to-GDP ratio									
Baseline	31	28	27	26	25	24	23	**21**	14
A. Alternative Scenarios									
A1. Key variables at their historical averages in 2004-23 1/	31	30	29	27	26	25	24	**22**	17
A2. New public sector loans on less favorable terms in 2004-23 2/	31	29	29	28	28	28	28	**29**	27
B. Bound Tests									
B1. Real GDP growth at historical average minus one standard deviation in 2004-05	31	30	30	29	28	27	26	**23**	15
B2. Export value growth at historical average minus one standard deviation in 2004-05 3/	31	31	34	33	31	30	29	**26**	16
B3. US dollar GDP deflator at historical average minus one standard deviation in 2004-05	31	35	40	38	37	35	34	**31**	20
B4. Net non-debt creating flows at historical average minus one standard deviation in 2004-05 4/	31	32	34	32	31	30	29	**26**	16
B5. Combination of B1-B4 using one-half standard deviation shocks	31	38	48	46	44	43	41	**36**	22
B6. One-time 30 percent nominal depreciation relative to the baseline in 2004 5/	31	39	37	36	35	33	32	**29**	19
NPV of debt-to-exports ratio									
Baseline	114	105	103	101	99	96	92	**90**	73.5
A. Alternative Scenarios									
A1. Key variables at their historical averages in 2004-23 1/	114	111	110	106	103	100	96	**96**	92
A2. New public sector loans on less favorable terms in 2004-23 2/	114	108	110	110	112	113	112	**125**	145
B. Bound Tests									
B1. Real GDP growth at historical average minus one standard deviation in 2004-05	114	105	103	101	99	96	92	**90**	73
B2. Export value growth at historical average minus one standard deviation in 2004-05 3/	114	143	186	182	178	175	168	**161**	122
B3. US dollar GDP deflator at historical average minus one standard deviation in 2004-05	114	105	103	101	99	96	92	**90**	73
B4. Net non-debt creating flows at historical average minus one standard deviation in 2004-05 4/	114	117	129	126	123	121	116	**111**	84
B5. Combination of B1-B4 using one-half standard deviation shocks	114	139	172	169	165	162	156	**149**	110
B6. One-time 30 percent nominal depreciation relative to the baseline in 2004 5/	114	105	103	101	99	96	92	**90**	73
Debt service ratio									
Baseline	7	6	6	6	6	6	5	**5**	3
A. Alternative Scenarios									
A1. Key variables at their historical averages in 2004-23 1/	7	6	7	7	7	7	7	**7**	8
A2. New public sector loans on less favorable terms in 2004-23 2/	7	6	6	7	7	7	7	**8**	12
B. Bound Tests									
B1. Real GDP growth at historical average minus one standard deviation in 2004-05	7	6	6	6	6	6	6	**6**	7
B2. Export value growth at historical average minus one standard deviation in 2004-05 3/	7	7	9	10	10	10	9	**11**	11
B3. US dollar GDP deflator at historical average minus one standard deviation in 2004-05	7	6	6	6	6	6	6	**6**	7
B4. Net non-debt creating flows at historical average minus one standard deviation in 2004-05 4/	7	6	6	7	7	7	6	**7**	8
B5. Combination of B1-B4 using one-half standard deviation shocks	7	7	8	9	9	9	8	**10**	10
B6. One-time 30 percent nominal depreciation relative to the baseline in 2004 5/	7	6	6	6	6	6	6	**6**	7
Memorandum item:									
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	48	48	48	48	48	48	48	**48**	48

Source: Staff projections and simulations.

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

Dakar, February 4, 2005

Mr. Rodrigo de Rato
Managing Director
International Monetary Fund
Washington, D.C., 20431
U.S.A.

Dear Mr. de Rato,

1. The Executive Board of the International Monetary Fund on April 28, 2003 approved a three-year arrangement under the Poverty Reduction and Growth Facility (PRGF) in the amount of SDR 24.27 million, in support of Senegal's economic growth and poverty reduction program for 2003–05. The first review under this arrangement was completed on February 13, 2004. The attached Memorandum on Economic and Financial Policies (the "Memorandum") describes the results achieved in 2003 and during the first nine months of 2004, as well as the policies that the government of Senegal will pursue in 2005 to meet the program's objectives. It includes the measures taken to correct the shortcomings noted in the implementation of infrastructure works in Thiès in 2003 and 2004, which led to a postponement of the completion of the second review, initially scheduled for June 2004.

2. As stated in paragraph 5 of the Memorandum, all of the program's quantitative performance criteria were met as at end-December 2003, with the exception of the floor on the basic fiscal balance (program definition).This criterion was not met because of the emergency spending program adopted to cope with the adverse effects of the 2002 drought. In addition, the Autonomous Port of Dakar, faced with the looming breakdown of essential infrastructure, contracted a nonconcessional external loan of CFAF 6 billion from the West African Development Bank in October 2004 to carry out essential works, thereby exceeding the ceiling on nonconcessional public sector external borrowing. The extraordinary circumstances that led to the nonobservance of these criteria are explained in the attached Memorandum. Therefore, the government of Senegal hereby requests a waiver for the nonobservance of these two performance criteria.

3. The government of Senegal believes that the policies and measures set forth in the attached Memorandum, as well as the policies presented in the previous Memoranda of April 10, 2003, January 26, 2004, and May 18, 2004, will permit the achievement of its program objectives; however, it will promptly take any additional measures deemed necessary in this connection. The government of Senegal will consult the Managing Director of the IMF on the adoption of these measures and before making any amendments to the policies described in the Memorandum.

4. To facilitate the attainment of the objectives and the implementation of the above-mentioned policies, the government of Senegal hereby requests the completion of the second

review and the disbursement of the third loan under the three-year arrangement, in an amount equivalent to SDR 3.47 million.

5. It is expected that the third review under the PRGF-supported program, which will make available the disbursement of the fourth loan, be completed by end-August 2005. This review will include, among others, the examination of an action plan to strengthen the financial sector. The fourth and last program review, which will make available the disbursement of the fifth loan, is expected to be completed no later than end-February 2006.

6. In spite of the delay in concluding the second review, the government does not wish to extend the current arrangement under the PRGF beyond its expiration on April 27, 2006. It requests that the remaining PRGF resources committed to Senegal be rephased over the remaining period of the arrangement.

7. The government of Senegal consents to the publication of this letter, the memorandum on its economic and financial policies, and the report of Fund staff on the second review of the program.

Sincerely yours,

/s/

Abdoulaye Diop
Minister of Economy and Finance

Attachment: Memorandum on the Economic and Financial Policies of Senegal.

SENEGAL

Memorandum on Economic and Financial Policies for 2004–05

Dakar, February 4, 2005

I. Introduction

1. Senegal's commitment to achieving the Millennium Development Goals is spelt out in its Poverty Reduction Strategy Paper (PRSP). The medium-term economic and financial growth and development objectives will continue to be framed by the guidelines set out in the PRSP, in particular, the need to meet the strong demand for social services. The growth targets, which the government has set itself, fall within the framework of the Accelerated Growth Strategy, which seeks to raise the growth rate of real GDP, in the medium and long terms, to an annual average of 7 percent. A recent joint study by the government of Senegal and the World Bank showed that the incidence of poverty had declined by 16 percent between 1994 and 2002, as a result of the robust growth of the economy.

2. A national framework for monitoring and evaluation is in place to facilitate the implementation of the poverty reduction strategy. The report on the first year of PRSP implementation distributed to the IMF and World Bank Executive Boards in May 2004, takes account into the comments of the development partners. The procedure for updating the PRSP will be launched at the beginning of 2005. The new document will incorporate the new priorities, namely the development of infrastructure and the improvement of mobility in the capital, and the conclusions of the first and second annual PRSP progress reports. The second progress report will be completed by end-March 2005.

3. This memorandum updates the information in the memorandum of May 18, 2004 that describes the performance of financial policies and the implementation of structural reforms in 2003 and the program for 2004. The current memorandum reviews performance during the first nine months of 2004 and assesses the outlook for the rest of the year. It also presents the financial program for 2005, including the fiscal outlook.

A. Program Implementation in 2003

4. The quantitative performance criteria for end-December 2003 were met, except for the floor on the basic fiscal balance (program definition). Net credit to government declined by CFAF 42.3 billion more than expected; SENELEC did not accumulate any arrears to suppliers; and no government domestic or foreign payments arrears were accumulated; SENELEC incurred a new nonconcessional external loan from the West African Development Bank (BOAD) in July 2003, for which the IMF Executive Board granted a waiver. A government circular was issued in November 2003, requiring all public enterprises wishing to contract foreign debt to seek the prior consent of the Ministry of Economy and finance, which will verify the concessionality of the loan.

5. All quantitative indicators for end-December 2003 were observed, except for the floor on tax revenue and the ceiling on guarantee deposits. Tax revenue target was not achieved because of unfavorable trends in the tax base. Outstanding guarantee deposits slightly exceeded the program ceiling, mainly because of cash management problem at SENELEC, which prevented repayment of the remainder of a bank loan guaranteed by the government until March 2004. The other indicators, the ceilings on the wage bill, expenditure executed through exceptional procedures (cash advances and early payments), the stock of correspondent accounts (program definition), and the stock of SONACOS debt were all met. Similarly, the floors on credit flows in the correspondent accounts of the postal service and the Treasury were observed and the SENELEC met its basic balance target.

B. Structural Reforms

6. In the second half of 2003, the government implemented major reforms, in particular, in the tax system, recruitment policy, and public expenditure management. It also launched an ambitious program to build capacity in the energy and groundnut sectors and to make the regulatory framework and administrative procedures less burdensome for private sector operators.

7. Considerable progress was made in the selection of an Independent Power Producer (IPP) and the privatization of SONACOS. The call for bids on an IPP concession was sent out to potential bidders on November 5, 2003. Likewise, for the privatization of SONACOS, the tender documents were submitted to pre-qualified investors on January 13, 2004.

8. A key element of the first program review was formulating a medium-term civil service recruitment policy, to allow the government to accelerate compliance with the PRSP targets. These involve a 23 percent increase in staff over the level in 2002. Following the adoption of the plan in October 2003, a first wave of 1,356 employees was recruited in 2003, for the Education and Justice ministries.

II. ECONOMIC AND FINANCIAL DEVELOPMENTS AND PROGRAM PERFORMANCE IN 2004

A. Economic and Financial Developments in 2004

9. The economic and financial environment in 2004 was marked by a spike in oil prices, which exceeded US$50 per barrel in September 2004, and swarms of locusts invading Senegal. Despite these exogenous factors, the level of activity held steady. The impact of the locust infestation was contained through mobilization of domestic and external resources (both material and financial), effective protection of large production areas, especially those in the south, and the dynamism of the industry and services sectors. Nevertheless, primary sector is estimated to have grown by only 2 percent compared to 11.6 percent originally expected, reflecting a sharp decline in grain production. The secondary sector, affected by rising oil prices, is estimated to have grown a little less than expected in the program. The tertiary sector, which benefited from the effects of the good 2003 harvest, the development of

the electronic industry, and increased employment in the civil service, is estimated to have grown slightly more than planned. In the first nine months of 2004, the Industrial Production Index (IPI) rose more than 10 percent, the private service turnover index climbed to 20 percent, and the trade margin index grew by 8 percent. Real GDP is estimated to have grown by 6 percent as programmed.

10. Given the relatively high price of the barrel of oil on the world market, the inflation rate, measured by the GDP deflator, is expected to have been higher than originally expected. At end-November 2004, the Harmonized Index of Consumer Prices (HIPC) increased by 0.4 percent on a year-on-year basis.

11. At end-September 2004, the basic fiscal balance was better than expected despite a small underperformance in tax revenues. The tax revenue target for the year is estimated to have been reached thanks to higher expected performance of indirect taxes (particularly VAT on the Thiès projects) during the last quarter.

12. A supplementary budget law was adopted in September 2004 to allocate CFAF 31.5 billion in resources from debt relief under the enhanced HIPC Initiative. In conformity with PRSP guidelines, resources from the enhanced HIPC Initiative were allocated to the priority sectors (agriculture, education, health, sewerage and rural electrification) and to projects that impact poverty reduction (microfinance and creation of artisans' villages). CFAF 26.5 billion (i.e., 83 percent) has been allocated to rural areas. The supplementary budget law also allocated resources for completing the infrastructure work in Thiès, which had not been provided for in the initial appropriations of 2004 budget (see paragraph 18).

13. At end-December 2004, the basic fiscal balance (excluding HIPC expenditure and temporary structural reform costs) is registered to have a surplus of 1.4 percent of GDP and the overall fiscal deficit (including grants) is expected to amount to 2.7 percent of GDP.

14. Net foreign assets are estimated to have grown by CFAF 71 billion, and domestic credit to have increased by 14 billion, reflecting a tangible improvement in the government's net position and a 6-percent increase in credit to the rest of the economy. The money supply is expected to have therefore grown by 7 percent, or just a little less than the growth in nominal GDP.

15. The current deficit on the balance of payments (including current official grants) should be 6.2 percent of GDP, less than in 2003, the improvement in some export sectors, notably mining, and the decrease in food imports being stronger than the increase in imports of petroleum products.

B. Structural Reforms in 2004

16. The implementation of the reforms undertaken since 2003 continued in 2004. These reforms concern mainly the computerized management of fiscal operations, tax policy, hiring policy, the compensation strategy in the civil service, the groundnut and electricity sectors,

and a less burdensome regulatory framework and administrative procedures for private operators. The process of privatizing SONACOS was delayed. But the government has now accepted an offer for its sale. The transfer of ownership will be implemented by June 2005.

17. The government paid off the end-2002 arrears in social security contributions amounting to CFAF 11.3 billion owed by liquidated or bankrupt enterprises and local governments to the Senegalese pension institute (IPRES) (CFAF 8.2 billion) and social security fund (CSS) (CFAF 3.1 billion).

18. The government had expected that the infrastructure work in Thiès in 2004, totaling CFAF 40.1 billion, would be completed before April 4 2004 for the Independence Day celebration. Given the urgency, contracts with private-sector companies were signed in 2003 before budgetary appropriations were approved. The companies began work in 2003 based on bank pre-financing, prior to approval of the contracts by the competent authorities. The companies incurred CFAF 11 billion in expenditures in 2003 that were not invoiced until 2004. The 2004 budget included CFAF 31 billion of appropriations for the works in Thiès. However, to ensure full funding of the projects, the government included the remaining CFAF 9.1 billion in the draft 2004 supplementary budget voted by the assembly in October. The review of the compliance of contracts for the work in Thiès with the procurement code, conducted with assistance from the World Bank, showed that because of the urgency, some deadlines were shortened, raising the risk of errors in assessing the quality and cost of the offers.

19. The projects carried out in Thiès form part of the government's policy to create new regional focal points of development. Under this policy, starting in 2004 the government initiated an infrastructure investment program in the country's secondary cities. This investment program falls under the wealth creation policy, which is one of the priorities in the PRSP. The works in the secondary cities would (i) reduce the large economic development gap between these cities and the capital; (ii) create infrastructure that can help attract investors to these localities; (iii) develop public infrastructure that enables local government agencies to upgrade to the same level as the capital; and (iv) create conditions for local development through productive activities that help reduce poverty in these areas and excessive demographic pressures on the capital.

C. Performance Relative to Program Targets in 2004

20. At end-June 2004, all the quantitative objectives of the program had been met, except for the floor on net credit flows in the correspondent accounts of the SN La Poste at the Treasury. At end-September all the targets that had previously been proposed as PCs (but not established as such by the Board) were met. However, indicative targets for tax revenue, the stock of deposits in correspondent accounts, expenditures executed through exceptional payment procedures, the basic balance of SENELEC, and the stock of debt of SONACOS, were breached by small amounts. The Autonomous Port of Dakar borrowed CFAF 6.1 billion at an interest rate of 8.5 percent per year over 10 years with three years' grace from the West African Development Bank in October 2004. This loan was needed to make the necessary

urgent repairs to prevent the closing of the port, which would have had serious repercussions on the national economy.

21. The government took the prior actions initially envisaged for the second review including publication of the implementing decree and circular for the investment code, and production of a report on tracking expenditure execution by major line items. It also installed the SIGFIP software and published the audited accounts of SENELEC in the projected time frame. By contrast, the Treasury accounts for FY 2002 were not forwarded to the Audit Court on time, and the interconnection between the Tax Administration, the Customs Administration and the Treasury is still not functional due to delays in the computerization of the Treasury's aggregate database. A detailed report on public investment project execution is still to be produced.

III. Key Targets and Components of the 2005 Economic and Financial Plan

22. In 2005, the poverty reduction strategy will be pursued on two levels in a context of maintaining financial stability. On the one hand, the government will seek to improve quality and expand availability of basic social services through its recruitment policy, particularly in the education and health sectors, and the compensation policy for the civil service. On the other hand, the government will continue its infrastructure investment program and the strategy to promote the growth of private investment.

23. The transparent and competition-friendly regulatory framework, established since February 2004 with the adoption of the Build-Operate-Transfer (BOT) law, will facilitate private sector involvement in building quality infrastructure. This law seeks to grant concessions in a transparent and competitive manner. An Infrastructure Council was created in February 2004, with representatives from civil society, government, parliament, and experts. It will be responsible for ensuring consensus during the management stage of major infrastructure projects. The government will pay special attention to the type of risk assumed in public/private partnership (PPP) operations, especially in the context of financing major infrastructure projects. Each PPP operation should clearly explain all financial liabilities, implicit or explicit, assumed by the government. To ensure that major projects are effectively managed, the government will request support from the World Bank for feasibility assessments. It will also request the staff of the International Monetary Fund to ensure that these projects are consistent with the macroeconomic framework of the program.

24. The new Investment Code, which took effect in 2004, and the new legislation on corporate taxation will introduce simpler regimes. The government will keep up close communication with the private sector, in particular through the Presidential Investment Council (CPI) and will continue its strategy of enhancing good governance.

25. Based on these policies, the 2005 program aims to: (i) achieve a real growth rate of about 6.4 percent; (ii) maintain price stability in line with the WAEMU multilateral

surveillance targets; and (iii) keep the fiscal and current balance of payments deficits at a sustainable level.

26. Real GDP growth in 2005 should reflect a sustained expansion of all sectors. Primary sector growth is expected to rise as a result of recovery of grain production after the decline in 2004. The growth of the secondary sector should be led mainly by construction and public works thanks to the implementation of a major program to improve urban mobility in Dakar and continued infrastructure development in the secondary towns.

27. The external current account deficit (including official transfers) should improve. Export growth will be sustained mainly by an increase in the volume of groundnut-based products and the recovery of phosphoric acid production.

A. Fiscal Policy, Tax Reform, Government Expenditure Management, Recruitment and Compensation Policy

Fiscal policy

28. Efforts to strengthen the structure of the budget will be continued and consolidated in 2005. The basic fiscal balance (program definition) will stand at 0.7 percent of GDP in 2005 compared with 1.4 percent of GDP in 2004. The overall deficit, including grants, will move from 2.7 percent of GDP in 2004 to 2.9 percent of GDP in 2005. The fiscal program is based on the following principal parameters: (i) tax revenue projected at CFAF 802.2 billion, a tax burden of 18.4 percent of GDP; (ii) a wage bill of CFAF 247.3 billion, incorporating the moderate financial impact of the recruitment program and compensation policy; (iii) the growth in other current expenditures (CFAF 309.9 billion) and capital expenditure from domestic resources (CFAF 279 billion); and (iv) the temporary costs of structural reforms are estimated at CFAF 18.5 billion, mainly to cover the recapitalization of the postal service (CFAF 15.5 billion).

29. The social (HIPC) expenditure that was the subject of a supplementary budget law in previous years was incorporated into the initial budget law in 2005, to accelerate the pace of expenditure on the social sectors. The expenditure under the HIPC Initiative in 2005 will amount to CFAF 59.6 billion, of which 49.6 billion was allocated to capital expenditure, and 10 billion to operating expenditure. Financing for these expenditures will include: (i) expected HIPC relief for 2005 of CFAF 51.1 billion; and (ii) CFAF 8.5 billion remaining from the supplementary budget laws of 2001 and 2003.

30. In executing the budget, the government will take into account revenue performance relative to program targets. Consequently, if there is a revenue shortfall, the government will take fiscal measures to keep the deficit in line with the program, including reductions in non-priority spending, if necessary.

31. Resources that may be received within the framework of the Millennium Challenge Account (MCA) program and the preparation of the summit of the Organization of Islamic

Countries are not reflected in the 2005 budget. The amounts and procedures for spending these resources are still not known. In the interest of strengthening fiscal discipline and transparency, the government will adopt a supplementary budget law to present the external funds made available to the government and all of its agencies, to finance any expenditure associated with these initiatives.

32. Starting with the 2006 budget, the government will ensure the consistency of the capital expenditure budget with the capital expenditure shown in the TOFE. In addition, in the process of preparing the public investment program under the budget law, the government will take account of capacity constraints, recurrent expenditures, such as operating and maintenance costs and the level of domestic and external debt that is compatible with public debt sustainability.

33. The government will keep up its efforts to expand the tax base and to improve efficiency in tax collection. The ongoing tax reform should support a lasting and sustainable level of fiscal revenue collection in 2005, while fostering a flexible and attractive environment for private enterprise. To this end, in step with the reform of the General Tax Code, the government has introduced several capacity-building measures in the Directorate General of Taxes and Government Property (DGID). These measures include recruitment of at least 105 employees (55 tax officers and 50 assessors) per year at the DGID during 2004–05; continuing computerization of the DGID, and digitizing the Land Registry. The electronic data-sharing system will become fully operational by June 2005. It will make it possible to prepare monthly reports on taxes assessed and collected with a maximum lag of one month. The digitization of the Land Registry will enhance the efficiency of land and government property management. The numerical mapping of the 40 largest urban areas was finished in December 2004.

34. Under the recent tax reforms, efforts have been stepped up to fight tax fraud and tax evasion. The key elements of the reform include a more proactive investigation of tax offenses, on-site audits in processing VAT reimbursement claims, a better control of exemptions, penalties for purchases made without delivery of an invoice, and enforcement of the use of the single taxpayer ID number (NINEA).

35. At the same time, the government has carried out a reform of the corporate tax, including the new Investment Code. Implementation decrees and a circular were issued in May 2004 with the objective of preserving fiscal neutrality and simplifying the tax regime.

36. With a view to liberalizing the oilseed industry, in particular the privatization of SONACOS, the special tax on imports of vegetable oils was suspended in June 2004 and the law eliminating the tax on vegetable oil protection was voted in July 2004. After agreement with the World Bank, the law was promulgated in December 2004. The tax will be completely phased out by December 31, 2005.

37. The government has decided to increase the percentage of gross wages that is exempted from the calculation of the tax base on earned income for the contribution to the retirement fund (the exempted wages pass from 10 to 13.2 percent) starting in January 2005,

thereby reducing the tax burden on wages. The negative impact of this measure on projected revenue collection in 2005 amounts to CFAF 5 billion (about 0.01 percent of GDP).

Public expenditure management

38. The draft 2005 budget was prepared in the context of a series of fiscal and financial reforms that were a necessary part of PRSP implementation. These reforms revolve around three pillars. First, a medium-term fiscal framework was prepared for four ministries. With this new expenditure planning system, the budgets were prepared for the Health, Education, Environment, and Justice sectors based on their sectoral programs. Second payment orders procedures were also decentralized for these four line ministries. Lastly, a single budget document was prepared, containing both the government's current and capital expenditure, based on a harmonized system of classification. The government will also take measures to reconcile current and capital expenditures with PRSP priorities, paying particular attention to Regional Operation Plans (POR) and the priority actions in the PRSP for vulnerable groups.

39. With a view to strengthening the decentralization process and improving absorptive capacity, the government plans to decentralize the consolidated investment budget (BCI) from 2006. To that end, it will take action in 2005 on the different standards (laws, conventions, and interministerial decrees), allowing fiscal decentralization to be implemented in 2006, after the testing done in 2005 in the education and health ministries. The goal in 2007 is to extend the decentralization of management of the BCI's internal resources to all the departments of the spending ministries with projects that the government has entrusted to local authorities.

40. The government will continue to implement the ambitious program of budgetary and public financial management reforms through action plans validated in July 2003 and designed to reinforce fiscal management (CFAA) and procurement procedures (CPAR).

41. With a view to computerizing the management of fiscal operations, the government installed the Integrated Government Finance management System (SIGFIP) in July 2004. The government is committed to increasing the effectiveness of this budget execution tracking system with an automatic link with personnel expenses. Similarly, in order to better track public expenditure execution and enhance fiscal transparency, the SIGFIP system will be modified in two ways. First, information on expenditure execution will be presented with the same level of detail as in the TOFE, making it possible to monitor the differences in the levels of payment orders and actual payments. Second, SIGFIP will also be used to track expenditure that have been committed and verified but for which no payment order has been issued. This procedure will help to reduce the duration of the expenditure cycle. All these changes should take effect in the first half of the year. This system is fully capable of interfacing with the ASTER accounting software that will be installed in the Treasury. The government has signed an agreement with France to install ASTER before January 1, 2007. The agreement includes a plan for training and technical assistance, given the operational complexity of the system.

42. To better monitor public finances, the DGCPT will produce a monthly TOFE based on monthly consolidated account balances, with a 60-day lag starting in 2005. The January 2005 TOFE will be prepared no later than March 31, 2005. Furthermore, the government will make the TOFE more transparent by: (i) establishing a correspondence table between the Treasury balance and the broad TOFE aggregates; (ii) improving the presentation of the Treasury's correspondent accounts in the TOFE; and (iii) ensuring the consistency between the net government position with the banking system derived from the monetary data and derived from the TOFE. All these measures will become effective by end-June 2005.

43. To limit the use of contracts granted to a single bidder, annual procurement plans will be established in the large spending ministries. The government will reduce the percentage of contracts granted to single bidders to 20 percent of the total contracts granted by government ministries. This performance criterion will be reexamined on the occasion of the third review on the basis of the most recent information about contracts signed by all ministries and government agencies.

44. The government will conduct a study by end-March 2005 to harmonize the Government Obligations Code and the Procurement Code and to improve the legal framework for procurement. The government has included in the draft budget law for 2005 an article limiting the terms of application of Article 45 of the Code of Government Obligations, which was approved with the passage of said budget law. This Article enables contracting parties with the government to benefit from financial compensation, even if the contracts were not approved by the competent authorities. Article 19 of the 2005 budget law has the legal hierarchy so as to amend Article 45 of the Obligations Code as the budget law has the same rank as the Code of Government Obligations, and may therefore amend the latter's provisions. Consequently, this article of the budget law permanently replaces the provisions of Article 45 of the Code of Government Obligations. Furthermore, there are currently no other provisions (in other laws) that permit contracting parties with the government to receive financial compensation under the terms set forth in Article 45 of the Government Obligations Code.

45. The government intends conduct a systematic audit of budget execution. The internal audit structures have been reorganized and revitalized. External audits of the government's management accounts by the Audit Court will continue and the parliamentary review of the budget execution laws will be enhanced. The treasury accounts for the year 2000 were submitted to the Audit Court in April 2004, while those of 2001 were submitted in July 2004, in compliance with the initial program timetable. However, the accounts for 2002 were submitted in November 2004, with a three-month delay. The accounts for 2003 will be submitted no later than end–February 2005. The government will also support the Audit Office in submitting the revised budget laws to the National Assembly by the deadlines set in the WAEMU directives. Capacity building in the Audit Office includes financing from the Multi-Donor Trust Fund managed by the World Bank to recruit assistants for auditing these accounts.

Civil service recruitment and compensation policy

46. A key component of the first program review was the formulation of a policy of recruiting 15,000 new employees into the civil service over three years. The objectives pursued are greater efficiency in the public service, to improve the quality and scope of basic social services, in addition to strengthening judiciary, security services, and revenue offices. Appointments in the first wave of hiring for 2003 were completed in June 2004. The final proposals for 2004 have already been made. The implementation of the recruitment strategy has suffered some delays. The hiring of 5,000 employees, planned initially for the last quarter of 2003, was staggered over 2003 (1,356 employees) and the first quarter of 2004 (3,186 employees). The final proposals for 2004 were made and the staff hired should be available to the units that need them by end-June 2005. As projected, 5,000 additional employees will be recruited to start work in the last quarter of 2005. The government will continue and accelerate the special recruitment program to meet all staff needs and improve the provision of public services in compliance with PRSP objectives.

47. The government has also implemented a new compensation strategy in the civil service, effective October 2004. The strategy seeks to make wage increases performance-related, provide additional incentives to staff to make civil service employment more attractive, and strengthen the quality of public services. This new compensation policy has been taken into account in the wage bill envelope for the 2005. A technical and financial audit of the payroll is under way and the final report is expected in June 2005.

B. Postal Service

48. The Government's sectoral policy letter, adopted in February 2003, set out the development objectives and strategy for the postal system. The objectives are to (i) improve the overall performance of the postal sector by opening it up to the private sector; (ii) upgrade the legal and regulatory framework of the sector and strengthen sectoral regulation; (iii) safeguard the right of citizens to communication; (iv) transform Post Office into a modern and effective enterprise by implementing a strategic plan; and (v) promote the sustainable development of postal financial services by creating a subsidiary bank. The implementation of the action plan attached to the policy letter, which includes recapitalization of the postal service, was delayed, but will be completed in 2005, except for the postal bank, which is scheduled to be established in 2006. The postal bank will not undertake any credit operations until private shareholders hold a majority interest.

C. Financial Sector Reform

49. After the success of the Treasury bill issue, the government will continue to issue securities on the regional financial market to meet its needs. It is also continuing to explore the possibility of deepening the government securities market in Senegal under the WAEMU Community Directives. In particular, it plans to resort to the bond market to finance the program to improve urban mobility in Dakar in 2005.

50. The improvement in access to credit for the establishment and growth of enterprises, in particular small and medium-sized enterprises, is a priority of the government's action program. A broad-based dialogue was launched in 2004 between the government, the private sector, the central bank, banks and financial institutions, microfinance institutions, and the regional stock market (BRVM), to foster the contribution of the financial sector to the development of economic activity. An action plan is being elaborated. It revolves around the following pillars: development of local financial intermediation; improvement of the framework, monitoring governance of enterprises; promotion of new financial products and nonbank financial intermediation (investment companies, risk capital companies, mortgage funds, etc.); reform of the legal and judicial environment; and tax incentives to increase the credit supply and mobilize long-term resources.

51. The government's actions will also include initiatives at the regional level to increase bank financing to the economy, promote the regional financial market, and enhance the soundness of the financial sector, and follow up the findings of the Financial Sector Assessment Program (FSAP) update. The action plan will be discussed during the third review program. Meanwhile, the government has already decided to hire 60 magistrates and to build the capacity of the courts through specialized training in economic and financial matters, to improve the enforcement of financial contracts and reduce the cost of financial intermediation.

52. The government will continue to actively participate in consultations with the BCEAO in the reform of the legal framework applicable to microfinance in WAEMU. The reforms consist of: tightening prudential standards with a view to consolidating the microfinance sector; intensifying the involvement of the BCEAO in inspection of the institutions and granting of licenses; and standardization of financial statements to reduce reporting lags and increase transparency of accounts.

53. The recent mission to update the FSAP confirmed the soundness of the financial system. The policy aimed at financial sector development and supervision will be continued in order to consolidate the gains so far. The authorities will continue to pay special attention to the exposure of banks to large enterprises, which is the main vulnerability facing the banking system.

54. To combat money laundering and the financing of terrorism, a law was adopted in July 2003 to implement the rules derived from the 40 FATF recommendations. A decree creating the National Financial Information Processing Unit (CENTIF) was also adopted in August 2004. A standard community law against financing terrorism is being prepared within WAMU for adoption by the community in 2005.

D. External Debt Policy

55. The government will not contract any guarantee foreign borrowings on nonconcessional terms (where the grant element is less than 35 percent of the actual amount borrowed) and it will not accumulate any arrears. The instructions regarding prior

authorization by the Minister of Finance for any foreign borrowing by public entities, as defined in the circular from the Prime Minister's Office dated November 24, 2003, will be strictly enforced. The government will also improve the management and monitoring of external public debt by: (i) making sufficient professional staff and logistical resources available to the Public Debt Division; and (ii) implementing an action plan of ongoing training in modern debt management techniques. To guarantee the reliability of the database on external public debt, cross checking data with all donors will be a priority task. The government will put in place a monitoring mechanism to ensure that public enterprises take due account of profitability and sustainability concerns before borrowing, within the framework of the close surveillance modalities described below

56. Incorporation of the debt sustainability analysis into the macroeconomic framework is now one of the responsibilities of the National Economic Policy Committee (CNPE). The first analysis has been available since October 2004 and will be updated every six months. These frequent analyses will continue to help define a borrowing policy consistent with the medium- and long-term macroeconomic framework. The preliminary results of the debt sustainability analysis confirm that the debt profile remains sustainable. The analysis also shows that high growth over the long term and a prudent fiscal policy will preserve sustainability and provide impetus towards attaining the millennium development goal of poverty reduction.

57. Under the HIPC Initiative, the government will continue its efforts to raise the rate of participation of its creditors in the initiative.

E. Public Enterprises

Groundnuts

58. Government policy for the groundnut industry was defined in the Policy Letter for Development of the Groundnut Industry (LPDFA) adopted in May 2003. Its main aim is to revitalize and diversify production, so as to increase the revenue of small farmers and reduce the vulnerability of growing a single crop, groundnuts. The policy deepens and consolidates the liberalization policy adopted, in particular by privatizing SONACOS and assigning responsibilities for production, collection, storage, distribution, transportation, and marketing of groundnut seeds to professionals, and rationalizing the judicial and regulatory framework.

59. The government has taken a decision to privatize SONACOS, and is taking the following steps to transfer ownership of the company:

- provisional sale to the buyer no later than one week after the government's decision on privatization of the company's announced;
- launch negotiations with the buyer one week after notification of the provisional sale;
- negotiation of all transaction documents (specifications, contract transferring shares, etc.) to clearly specify all the buyer's obligations;

- sign the share transfer contract, which officially establishes the actual privatization of the company;
- call the general assembly of shareholders of the privatized company; and
- convene the board of directors of the privatized company.

60. The privatization of SONACOS could give rise to social costs estimated at CFAF 3 billion. These charges will have to be charged to the budget in 2005.

61. The government intends to finalize this process by June 30, 2005. Pending the conclusion of the process of privatizing SONACOS, the government will grant no subsidies to the company, will ensure that it does not accumulate any payment arrears, and will limit its bank borrowing to the amount SONACOS needs to finance the 2004–05 harvest.

62. To guarantee the activity of the vegetable oil factories after privatization, the government has laid down a sectoral development strategy, which hinges on; (i) a seed policy tailored to the newly liberalized processes of production, harvesting, and marketing; and (ii) the replenishment of the stock of improved groundnut seeds. This policy is based on assigning responsibility for the production of certified seeds to associations of producers and farmers, capacity building in the planning and production of seeds by seed producers and their organizations, and building the supervisory and certification capacity of the seed control division of the Agriculture Department.

Electricity

63. In 2004, the monitoring of SENELEC was reinforced by the regular production of its financial statements. The audited accounts at December 31, 2003 and June 30 2004 were published, and the quarterly provisional statements at end-September 2004—which are subject to limited review by the auditors—were announced to the public in December 2004. The government is committed to continuing to publish the half-yearly audited accounts and to announcing the release of examined quarterly provisional statements within 60 days. SENELEC will furnish the IMF every quarter with all the data needed to closely monitor its financial situation.

64. The government will not make transfers to SENELEC for its current operation. It will ensure that the SENELEC does not accumulate payment arrears and that its indebtedness to banks remains below the level deemed reasonable by the Ministry of Economy and Finance. An action plan has also been prepared as part of the financial rehabilitation of SENELEC. This plan, which focuses on restoring short-term cash flow and profitability, rebuilding the company's image, and gradually meeting demand, will be implemented in 2005. In the medium term, the government will take action to restructure the company by progressively separating production activities from transportation and distribution functions. The government also intends to divest from SENELEC gradually and invite the private sector to manage and invest in SENELEC.

65. The Electricity Regulatory Commission lowered electricity prices by 5 percent starting in August 2004, based on a formula in effect since 1999 that expired on December 31, 2004. The process of revising the formula, which started in November 2003, has been delayed owing to the late receipt of the necessary documents. The new formula will be compatible with operator profitability and established in close collaboration with the World Bank. The new formula will be effective by July 1, 2005 or (October 1, 2005, in case an objection is raised by an interested party, as permitted under the regulations).

66. In keeping with the objectives of the PRSP, the government will implement a rural electrification policy to raise electricity coverage in the rural areas from 8 percent in 2003 to 15 percent in 2005. In that connection, the government will act on the guidelines listed in the development policy letter for the rural electricity sector and a SENELEC subsidiary for rural electrification has just been created. Most of the fixed capital expenditure of operators will be financed by the rural electrification fund, which will be established in 2005. This fund will receive contributions from donors and limited transfers from the government.

Other public enterprises

67. To prevent any adverse consequences for government finances, supervision of the financial situation of public enterprise will be tightened. The Government Portfolio Management and Supervision Unit, has already established a quarterly trend chart of management indicators to closely monitor the management of those enterprises and to alert the authorities if need be. One monitoring indicator will be the total debt of public enterprises, which will be the subject of a quarterly report available with a lag of no more than 45 days. The unit's resources will be increased for that purpose. These quarterly reports will include a clear opinion on the financial health of public enterprises and any recommended corrective measures needed, as well as a complete inventory of all financial obligations and guarantees extended by the government to these enterprises. In the case of public/private partnerships, a framework for assessment will be set up in 2005 to clarify the nature of the government's conditional obligations.

68. The government has placed the Senegal National Lottery (LONASE) on the list of enterprises to be privatized. The losses of the lottery have led the government to cancel the company's accumulated tax liabilities of CFAF 24 billion.

69. Although the Chemical Industries of Senegal (ICS) is not a public enterprise (the state holds 47 percent of the capital), the company will be closely monitored by the Government Portfolio Management and Supervision Unit. The company made losses amounting to CFAF 35 billion (0.9 percent of GDP) in 2003. The government will not to make any budgetary transfer to the company in 2005 and will press for cost cutting, management improvements, and other remedial measures that would entail little impact on public finances in later years.

F. Private Sector Development and Governance

70. The projects registered under the Investment Code increased in value from CFAF 196 billion in 2001 to CFAF 412 billion in 2002 and CFAF 579 billion in 2003. The APIX (Agency for Investment Promotion and Major Projects) will continue to play a key role in facilitating access by private sector operators to investment incentives, and coordinating the related administrative processes. To shorten the response time of the public institutions involved in applications for business licenses, a draft law on administrative procedure will be submitted to the Parliament in the first quarter of 2005. In keeping with the objective to improve the quality of the services offered to investors, APIX launched the procedure for one-stop-shop certification under the ISO 2000 standard.

71. The Presidential Investment Council has become a forum for effective dialogue and an instrument of reform, thanks to its close follow-up of implementation of the recommendations adopted by the government. An interministerial working group chaired by the Secretary General of the government is in charge of weekly tracking and presentation of a report on the measures adopted at the Council's half-yearly sessions. In particular, its efforts led to measures in 2003, which have relaxed the regulatory and administrative conditions that apply to the private sector.

72. Regarding the national program for good governance, the National Assembly passed a law in 2003 creating the National Council against Corruption and Extortion, which has been in place since April 2004. The Commission organized a workshop in December 2004, to launch its activities.

G. External Competitiveness and Trade Policy

73. Membership in the franc zone has enabled Senegal to consolidate its macroeconomic stabilization gains, in particular moderate inflation and low public deficits. Despite the sharp appreciation of the euro against the dollar in recent months, the competitiveness of the Senegalese economy has been relatively unaffected. The government intends to emphasize strengthened competitiveness, especially through structural reforms to reduce production costs, such as utility, transportation, and communications costs.

74. The government also plans to promote economic diversification, a determining factor in the success of sustained growth policy in the medium term. The sectors identified as potential engines of growth are, in particular, agriculture and agroindustry, telecommunications, tourism, manufacturing, textiles, and fisheries. Measures will be taken in these sectors to strengthen their competitiveness with a view to greater integration into the world economy.

75. Regarding trade policy, the government is committed to continuing its efforts to harmonize its practices with WAEMU regulations. In particular, the government will limit the number of products subject to reference values, as of July 1, 2005.

IV. Program Monitoring

76. To ensure effective implementation of the program, the government has reached understandings with Fund staff on the prior actions described in Table 3 of the annexed TMU concerning program monitoring. Implementation of Senegal's program during 2005 will be monitored using quantitative performance criteria (end-March and end–September, 2005) and indicators (end-June and end-December 2005), as well as structural performance criteria and benchmarks listed in Tables 1 and 3 of the TMU. It is expected that the third and fourth reviews, which would make available the disbursements of the fourth and fifth loans, respectively, be completed by end-August 2005 and end-February 2006, respectively.

SENEGAL

Technical Memorandum of Understanding

Dakar, February 4, 2005

1. This technical memorandum of understanding (TMU) defines the quantitative and structural performance criteria, indicative targets and structural benchmarks on the basis of which the implementation of the program supported by the Three-Year Arrangement under the Poverty Reduction and Growth Facility for Senegal will be monitored. in 2005. The TMU also establishes the terms and time frame for transmitting the data that will enable Fund staff to monitor program implementation.

I. Definition

2. Unless otherwise specified below, the government is defined as the central administration of the Republic of Senegal and does not include any local administration, the central bank, or any government-owned entity with separate legal personality.

II. Quantitative Performance Criteria

3. Quantitative performance criteria are proposed for March 31, 2005 and September 30, 2005 for: (i) the basic fiscal balance (program definition, see paragraph 4); (ii) the change in net bank credit to the government; (iii) the share of public contracts granted outside the normal tender procedures on a no-bid basis; (iv) the indebtedness of SENELEC to the banking system; and (v) the indebtedness of SONACOS to the banking system. For June 30, 2005, and December 30, 2005, indicative targets are proposed for the same items. The following performance criteria are proposed for monitoring on a continuous basis: (vi) the domestic payments arrears of the government; (vii) the external payments arrears of the government; (viii) the contracting or guaranteeing of new non concessional external debt by the government ; (ix) the government contracts signed without budgetary appropriation; (x) the budgetary transfers to SENELEC; (xi) the budgetary transfers to SONACOS; (xii) the payment arrears of SENELEC; and (xiii) the payment arrears of SONACOS.

A. Basic Fiscal Balance, Program Definition

Definition

4. The **basic fiscal balance (program definition)** is the difference between the government's budgetary revenue and total expenditure and net lending, excluding capital expenditure financed from abroad and drawings on loans to be on-lent, and the costs of structural reforms (as defined in Table below) and spending financed with HIPC-related resources. It includes the balance of special and correspondent accounts at the Treasury.

Indicative Costs of Structural Reforms in 2005

(In billions of CFA francs, cumulative from the beginning of the year)

	3/31/05	6/30/05	9/30/05	12/31/05
Groundnut Sector				
Recapitalization of SONACOS prior to sale				
Severance pay			3.0	3.0
Other costs pertaining to the privatization of SONACOS				
SN La Poste				
Recapitalization prior to measures to make the Post office autonomous from the treasury correspondent account		15.5	15.5	15.5
Other costs				
IPRES and CSS				
Payment of social security contribution arrears to IPRES				
Payment of social security contribution arrears to CSS				
Judicial system				
Specific training program for judges and clerks in commercial matters				
Other costs				
TOTAL		15.5	18.5	18.5

Basic Fiscal Balance (Program Definition)
(In billions of CFA francs, cumulative from the beginning of the year)

	12/31/04 Estimate	3/31/05 Criterion	6/30/05 Indicative Target	9/30/05 Criterion	12/31/05 Indicative Target
I. Budgetary revenue	771.6	179.2	392.1	628.5	841.0
II. Total expenditure and net lending	948.7	207.6	485.5	753.5	1,049.8
III. Capital expenditure externally financed	159.2	36.0	74.8	107.9	143.9
IV. Drawings on loans to be on-lent	16.0	0.0	8.3	8.3	16.0
V. Basic fiscal balance = I – (II – III – IV)	-1.9	7.6	-10.3	-8.8	-48.9
VI. Temporary costs of structural reforms	11.3	0.0	15.5	18.5	18.5
VII. Expenditures financed with HIPC-related resources	44.9	5.9	27.5	34.3	59.6
VII. Basic fiscal balance, excluding temporary costs of structural reforms and spending financed with HIPC-related resources = V + VI + VII	54.3	13.5	32.7	44.0	29.2

Performance criteria

5. The performance criteria for the basic fiscal balance (program definition) are **floors** set at CFAF 13.5.8 billion for March 31, 2005 and CFAF 44 billion for September 30, 2005. The indicative targets for June 30, 2005 and December 31, 2005 are floors set at CFAF 32.7 and CFAF 29.2 billion, respectively.

Adjusters

6. The floor for the basic fiscal balance (program definition) will be increased by the amount by which the stock of net deposits in correspondent accounts of **SN La Poste** at the Treasury could increase, as a consequence of its **recapitalization** by the government.

Reporting requirements

7. During the program period, the authorities will report monthly to Fund staff provisional data on the basic fiscal balance (program definition) with a lag of no more than 45 days. The data on: revenues, expenditures, special accounts and correspondent accounts

that are included in the calculation of the basic fiscal balance; expenditure financed with HIPC-related resources; and costs of structural reforms incurred will be drawn from preliminary treasury account balances. The costs of structural reforms incurred will also be provided by the authorities in the form of a table similar to the one above with a lag of no more than 45 days. Final data will be provided as soon as the final balances of the treasury accounts are available, but not later than two months after the reporting of provisional data.

B. Change in Net Bank Credit to the Government

Definitions

8. The definition of government for the purpose of calculating net bank credit to the government is the one applied by the BCEAO. It is broader than the definition of government in paragraph 2. Net bank credit to the government reflects the net credit position of the government—including postal checking accounts (CCP)—vis-à-vis the central bank and commercial banks. Net bank credit to the government is the difference between the government's gross indebtedness to the banking system and its claims on the banking system. Government claims include all deposits at the central bank and commercial banks, and secured claims (*obligations cautionnées*), as well as (for reporting purposes) Treasury cash holdings. The government's debt to the banking system includes central bank credit (mainly statutory advances, IMF net credit, refinancing of secured liabilities, the deposit by Kuwait, and government securities held by the central bank), commercial bank credit (including government securities held by resident commercial banks), ex-ONCAD securities, and private deposits at the CCP. Government securities held outside the Senegalese banking system are not included in net bank credit to the government. The net bank credit to the government as calculated by the BCEAO serves as the basis for program monitoring.

9. The change in net bank credit to the government as of the date for the quantitative performance criterion or benchmark is defined as the difference between the stock on the date indicated and the stock on December 31 of the preceding year.

Net Bank Credit to the Government
(In billions of CFA francs)

	12/31/04 Estimate	3/31/05 Criterion	6/30/05 Indicative Target	9/30/05 Criterion	12/31/05 Indicative Target
I. Net bank credit to the government	32.7	16.6	8.2	5.4	35.1
II. Change in net bank credit to the government, cumulative from beginning of the year	-31.5	-16.1	-24.5	-27.3	2.5

Performance criteria

10. The amounts set in the above Table on Net Bank Credit to Government for March 31, 2005 and September 30, 2005 are ceilings and constitute performance criteria. The amounts set in the above table for June 30 and December 31, 2005 are ceilings and constitute indicative targets.

Adjusters

11. The ceiling on the cumulative change in net bank credit to the government will be lowered (raised) by the amount by which disbursements of external budgetary assistance (defined as budgetary grants, program disbursements, and debt relief, excluding Fund resources, and HIPC Initiative debt relief) exceed (fall short of) program projections as set out in the Table 2. The adjustment will be for the full amount of any excess disbursement but will be limited to CFAF 20 billion in the event of a shortfall.

Programmed External Budgetary Assistance
(In billions of CFA francs, cumulative from the beginning of the year)

	3/31/05	6/30/05	09/30/05	12/31/05
Budgetary grants	3.7	7.7	11.1	14.8
Program disbursement	29.1	33.6	33.6	55.3
Debt relief	0	0	0	51.9
Total	32.8	41.3	44.7	122.0

12. The ceiling will be adjusted for the difference between programmed HIPC-related resources and actual HIPC-related resources. HIPC-related resources consist of debt relief under the HIPC Initiative received during the period under consideration and of the stock of resources in the Treasury's HIPC account at the BCEAO at the end of the preceding year. The ceiling will be lowered (raised) for HIPC-related resources exceeding (falling short of) programmed amounts as set out in Table 2.

13. The ceiling will be raised (lowered) for HIPC-related spending exceeding (falling short of) programmed amounts (as set out in Table 2). HIPC-related spending consists of expenditures in priority sectors that have been financed with HIPC-related resources.

14. The ceiling will be lowered (increased) for expenditures on structural reforms that fall short of (exceed) the programmed amount (as set out in Table above). The ceiling will be

raised only when these additional costs are not covered by additional, unforeseen, external budgetary assistance as defined in paragraph 12.

15. In addition, the ceiling on net bank credit to the government will be lowered (raised) for **government paper issued in 2005 held** by an entity or person **outside the Senegalese banking system** that exceed (fall short of) the programmed amount.

16. Moreover, the ceiling on net bank credit to the government will be lowered by the amount by which the stock of net deposits in correspondent accounts of **SN La Poste** at the Treasury could increase, as a consequence of its **recapitalization** by the government.

Reporting requirements

17. The BCEAO will report the provisional data on the net bank credit to the government to Fund staff on a monthly basis, with a lag of no more than one month after the end of each observation period. Final data will be reported with a maximum lag of two months.

C. Domestic Payments Arrears

Definition

18. Domestic payments arrears are duly certified domestic expenditure commitments cleared for payment (*dépenses ordonnancées*) but not paid during a period of 90 days after the date the payment order (*ordonnancement*) was cleared.

Performance criterion

19. Under the program, the government will not accumulate any domestic payments arrears. This performance criterion will be monitored on a continuous basis.

Reporting requirements

20. The authorities will report to Fund staff any accumulation of domestic payments arrears as defined above as soon as incurred. The government will also report to Fund staff on a monthly basis and with a 60 day delay all committed expenditure (*dépenses engagées*) and all certified but not yet cleared for payment expenditure (*dépenses liquidées non encore ordonnancées*).

D. External Payments Arrears

Definition

21. External payments arrears are defined as the sum of payments due but unpaid on outstanding external debt (as defined in paragraph 25) that has been contracted or guaranteed by the government, with the exception of external payment arrears arising from government debt being renegotiated with creditors including Paris Club creditors.

Performance criterion

22. Under the program, the government will not accumulate any external payments arrears. This performance criterion will be monitored on a continuous basis.

Reporting requirements

23. The government will report to Fund staff any accumulation of external payments arrears as soon as the due date has been missed.

E. Ceiling on the Contracting or Guaranteeing of New Non concessional External Debt by the Government

Definition

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

25. The definition of debt as specified in Point 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt reads as follows: ”(a) For the purposes of this guideline, the term “debt” will be understood to mean a current, i.e., not 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, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, including: (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 some time 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 debt set out in point 9(a), arrears, penalties, and judicially awarded damages 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."

26. Any external debt of which the present value, calculated with the reference interest rates mentioned hereafter, is superior to 65 percent of the nominal value (grant element of less than 35 percent) is considered nonconcessional, with the exception of IMF lending under the Poverty Reduction and Growth Facility, which is considered concessional even if it does not meet the 35 percent grant element threshold. For debt with a maturity of more than 15 years, the ten-year reference market interest rate, published by the OECD, is used to calculate the grant element. The six-month reference market rate is used for debt with shorter maturities.

27. For purposes of this performance criterion, government is understood to include the government as defined in paragraph 2 above, as well as public institutions of an industrial and commercial nature (EPIC), public administrative institutions (EPA), public institutions of a scientific and technical nature, public institutions of a professional nature, public health institutions, local administrations, public enterprises, and government-owned or controlled independent companies (i.e., public enterprises with financial autonomy of which the government holds at least 50 percent of the capital).

Performance criterion

28. The government as defined in paragraph 27 will not contract or guarantee nonconcessional external debt as defined in para. 26. This performance criterion is monitored on a continuous basis. It does not apply to: debt rescheduling and restructuring operations; import-related credit and pre-export financing secured on export contracts of less than one year maturity; and government or government-guaranteed CFAF borrowing from WAEMU residents.

Reporting requirements

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

F. Government Contracts Signed without Budgetary Appropriation

Definition

30. Government contracts are written contracts signed by the government to buy goods and services or to execute works.

Performance criterion

31. The government will not sign any contracts which create a financial obligation for the government without budgetary appropriation. This performance criterion is monitored on a continuous basis

Reporting requirements

32. The government will immediately report to Fund staff any contract signed without budgetary appropriation.

G. Government Contracts Signed by Single Tender

Definition

33. Government contracts are considered single-bid contracts when the government contracting agent, guided by the provisions of articles 76 to 79 of the Government Procurement Code, signs the contract with the contractor that he chooses without competitive tender.

Performance criteria

34. The share of government single-bid contracts granted by all the ministries will not exceed 20 percent of the total value of contracts signed by these ministries. This ceiling constitutes performance criteria for end-March and end-September 2005, and indicative targets for end-June and December 2005.

Reporting requirements

35. The government will report quarterly to the Fund staff, with a lag of no more than one month, the total value of contracts signed by all ministries as well as the total value of all single-bid contracts signed by these ministries, which are examined by the National Commission on the Administration's Public Contracts (CNCA).

H. Subsidies to SONACOS

Definition

36. Subsidies to SONACOS are current transfers paid by the government to that company.

Performance criterion

37. Until the finalization of the privatization of SONACOS, the government will not pay any subsidy to the company. This criterion will be monitored on a continuous basis as long as the government holds at least 50 percent of SONACOS's capital.

Reporting requirements

38. Until SONACOS is privatized, the government will immediately report to Fund staff any subsidy paid to SONACOS.

I. Subsidies to SENELEC

Definition

39. Subsidies to SENELEC are current transfers paid by the government to that company except those for fixed capital investment.

Performance criterion

40. The government will not pay any subsidy to SENELEC. This criterion will be monitored on a continuous basis.

Reporting requirements

41. The government will immediately report to Fund staff any subsidy paid to SENELEC.

J. Stock of Arrears of SONACOS

Definition

42. The stock of arrears of SONACOS includes all payments due by SONACOS and not paid within 60 days.

Performance criterion

43. The stock of arrears of SONACOS will remain nil at all times as long as the government holds at least 50 percent of SONACOS's capital. This performance criterion will be monitored on a continuous basis.

Reporting requirements

44. The government will immediately report to Fund staff any outstanding payment arrears of SONACOS, until it is privatized.

K. Stock of Arrears of SENELEC

Definition

45. The stock of arrears of SENELEC includes all payments due and not paid within 60 days.

Performance criterion

46. The stock of arrears of SENELEC will remain nil at all times. This performance criterion will be monitored on a continuous basis.

Reporting requirements

47. The government will immediately report to Fund staff any payment arrears incurred by SENELEC.

L. Stock of Debt of SONACOS

Definition

48. The stock of debt of SONACOS includes all loans contracted with local and foreign banks for the crop year 2004/05 as well as all other bank loans unrelated to that or subsequent crop years.

Performance criteria

49. The stock of debt of SONACOS will not exceed CFAF 35.5 billion on March 31, 2005, CFAF 25 billion on June 30, 2005, CFAF 14.5 billion on September 30, 2005, and CFAF 4 billion on December 31, 2005. The ceilings for March 2005 and September 2005 are performance criteria; those for June 2005 and December 2005 are indicative targets. These criteria and targets will apply as long as the government owns at least 50 percent of the capital of SONACOS.

Reporting requirements

50. The government and the BCEAO will report the stock of debt of SONACOS to Fund staff, on a monthly basis, with a lag of no more than one month.

M. Stock of Debt of SENELEC

Definition

51. The stock of debt of SENELEC includes all loans contracted with banks within the WAEMU region.[28]

Performance criteria

52. The stock of debt of SENELEC will not exceed CFAF 52.5 billion on March 31, 2005, CFAF 48.4 on June 30, 2005, CFAF 46.6 billion on September 30, 2005, and CFAF 42.5 billion on December 31, 2005. The ceilings for March 2005 and September 2005 are performance criteria; those for June 2005 and December 2005 are indicative targets.

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[28] The debt of SENELEC with banks outside the WAEMU region is subject to the continuous zero ceiling on non-concessional external debt defined in paras. 24–28.

Reporting requirements

53. The government and the BCEAO will report the stock of debt of SENELEC to Fund staff, on a monthly basis, with a lag of no more than one month.

III. Indicative Targets

Program indicative targets
(In billions of CFA francs, cumulative from the beginning of the year, unless otherwise indicated)

	3/31/05 Indicative target	6/30/05 Indicative target	9/30/05 Indicative target	12/31/05 Indicative target
Tax revenue	176.5	385.1	601.6	802.1
Wage bill	58.6	118.6	179.0	247.3
Current nonwage non-interest expenditures and domestically financed capital expenditures executed through exceptional payments procedures	21.0	21.0	21.0	21.0
Difference between the creditor flow in the treasury accounts of SN la Poste (postal service) and that in the deposit accounts at CCP and the saving accounts at CNE	0.0	0.0	0.0	0.0
Stock of net deposits in the correspondent accounts of the Treasury, excl. local authorities, public agencies, SN La Poste, IPRES and deposit and guarantee accounts	18.0	18.0	18.0	18.0
Stock of guarantee deposits of the government	0.0	0.0	0.0	0.0

A. Tax Revenue

Definition

54. Tax revenue is defined as reported in the government financial operations table (TOFE).

Indicative targets

55. Tax revenue will not fall below CFAF 176.5 billion for March 31, 2005, CFAF 385.1 billion for June 30, 2005, CFAF 601.6 billion for September 30, 2005, and CFAF 802.1 billion for December 31, 2005. These amounts are considered indicative targets under the program, for the respective dates.

Reporting requirements

56. The government will report to Fund staff preliminary tax revenue data monthly, with a lag of no more than one month, on the basis of actual collections as recorded in treasury accounts. Final data will be provided once the final treasury accounts are available, but not later than two months after the reporting of preliminary data.

B. Wage Bill

Definition

57. The wage bill is defined as all government expenditure on wages, other compensation, bonuses, allowances, and social benefits granted to or paid for the benefit of civil servants and other public employees.

Indicative targets

58. The wage bill will not exceed CFAF 58.6 billion for March 31, 2005, CFAF 118.6 billion for June 30, 2005, CFAF 179.0 billion for September 30, 2005, and CFAF 247.3 billion for December 31, 2005. These amounts are considered indicative targets for the respective dates.

Reporting requirements

59. The government will report the wage bill data on a monthly basis to Fund staff, with a lag of no more than 45 days after the end of the month under consideration.

C. Ceiling on the Amount of Current Nonwage Non interest Expenditures and Domestically Financed Capital Expenditures Executed Through Exceptional Budgetary Procedures

Definition

60. Current nonwage non-interest expenditures are all current expenditures other than wage and interest payments as reported in the TOFE. Domestically financed capital expenditures are all capital expenditures that have not been financed using external resources. Exceptional payments procedures are treasury advances (*avances de trésorerie*).

Indicative targets

61. The sum of current non-wage non-interest expenditures and domestically financed capital expenditures executed through exceptional budgetary procedures will not exceed CFAF 21 billion on March 31, June 30, September 30, and December 31, 2005. These amounts will be considered indicative targets for the respective dates.

Reporting requirements

62. During the program period, the authorities will report to Fund staff, provisional data on a monthly basis on current non-wage non-interest expenditures and domestically financed capital expenditures executed through advance payments and treasury advances, with a lag of no more than 45 days. The data will be drawn from preliminary treasury account balances. Final data will be provided as soon as the final balances of the treasury accounts are available, but no more than two months after the reporting of provisional data.

D. Ceiling on the Stock of Net Deposits in the Correspondent Accounts of the Treasury, Excluding the Correspondent Accounts of Local Authorities, of Public Agencies, of SN La Poste, of IPRES and the Deposit and Guarantee Accounts

Definition

63. The stock of net deposits in the correspondent accounts of the Treasury is defined as the sum of the net credit balance in the entry balance sheet (*balance d'entrée*) of the year in question and the net inflows in those accounts during the same period. The following correspondent accounts are excluded from this benchmark: the accounts of local authorities (numbered 431 through 436); the accounts of public agencies (numbered 442); the accounts of SN La Poste (numbered 440-001); the account of IPRES with the number 462.01; and the deposit and guarantee accounts (numbered 466.13).

Indicative targets

64. The net deposits in the correspondent accounts of the Treasury as defined above will not exceed CFAF 18.0 billion on March 31, June 30, September 30, and December 31, 2005. These amounts are considered indicative targets for the respective dates.

Reporting requirements

65. During the program period, the authorities will report to Fund staff provisional data on a monthly basis on net deposits in the correspondent accounts of the Treasury, as defined above, with a lag of no more than 45 days. The data will be drawn from preliminary treasury account balances. Final data will be provided as soon as the final balances of the treasury accounts are available, but no more than two months after the reporting of provisional data.

E. Difference between the Creditor Flow in the SN La Poste (Postal Service) Treasury Accounts and the Creditor Flow in the Deposit Accounts at the CCP and the Saving Accounts at the CNE

Definition

66. The net creditor flow on any date is defined as the difference between the cumulative amounts deposited on the accounts of SN La Poste at the Treasury and cumulative withdrawals from the same accounts since the beginning of the year under consideration. The net creditor flow of the deposit accounts at the Postal Check Office (CCP) and the saving accounts at the National Saving Office (CNE) on any date is defined as the difference between the cumulative amounts deposited on these accounts and cumulative withdrawals from the same accounts since the beginning of the year under consideration.

Indicative targets

67. The difference between the net creditor flow of the SN La Poste treasury accounts and the net creditor flow of the deposit accounts at the CCP and the saving accounts at the CNE will not become negative on March 31, June 30, September 30, and December 31, 2005. These amounts are considered indicative targets for the respective dates

Adjusters

68. The above amounts will be increased by the amount by which the stock of net deposits in correspondent accounts of **SN La Poste** at the Treasury could increase, as a consequence of its **recapitalization** by the government.

Reporting requirements

69. The government will report to Fund staff the provisional flows of the SN La Poste accounts and the flows of the deposit accounts at the CCP and the saving accounts at the CNE on a monthly basis, with a lag of no more than 45 days. Final data will be provided as soon as the final balances of the treasury accounts are available, but no more than two months after the reporting of provisional data.

F. Ceiling on Government Guarantee Deposits

Definition

70. Government guarantee deposits are defined as government deposits in local and foreign banks used to guarantee bank loans.

Indicative targets

71. The stock of guarantee deposits will be nil on March 31, June 30, September 30, and December 31, 2005. This amount is considered indicative target for the respective dates.

Reporting requirements

72. The government will report the stock of government guarantee deposits to Fund staff on a monthly basis, with a lag of no more than one month after the end of each observation period.

IV. Prior Actions and Structural Performance Criteria, and Benchmarks

73. The program conditionality includes prior actions and structural performance criteria and benchmarks as reported in Table 3.

V. Additional Information for Program Monitoring

74. The authorities will report to Fund staff the following, with a maximum lag of 45 days, unless otherwise indicated:

- the monthly preliminary government financial operations table (TOFE), established with the treasury accounts (*balance des comptes*), with a maximum lag of two months;
- tax and customs assessments by categories, accompanied by the corresponding revenue collected by the Treasury on a monthly basis;
- the monthly amount of committed expenditures and payment orders issued;
- preliminary treasury account balances, on a monthly basis, with a maximum lag of two months;
- the quarterly report of the Debt and Investment Directorate on execution of investment programs; and
- any decision, circular, edict, decree, ordinance, or law having economic or financial implications for the current program.

75. The central bank will report to Fund staff the following:

- the monetary survey, on a quarterly basis, with a lag of no more than two months;
- central bank and commercial bank loan and deposit rates, on a monthly basis; and
- prudential norms and soundness indicators for bank and nonbank financial institutions, as reported in *Situation des Etablissements de Credit vis-à-vis du Dispositif Prudentiel*, prepared by the BCEAO, on a quarterly basis.

Table 1. Senegal: Quantitative Performance Criteria and Indicative Targets for 2005
(In billions of CFA francs, cumulative from the beginning of the year; unless otherwise specified)

	March 31	June 30	Sept. 30	Dec. 31
	Performance Criteria	Indicative Targets	Performance Criteria	Indicative Targets
Performance Criteria and Indicative Targets 1/				
Floor on the basic fiscal balance, excluding temporary costs of structural reforms and spending financed with HIPC-related resources 2/	13.5	32.7	44.0	29.2
Ceiling on the cumulative change in net bank credit to the government	-16.1	-24.5	-27.3	2.5
Ceiling on government domestic payments arrears 3/	0.0	0.0	0.0	0.0
Ceiling on government external payments arrears 3/	0.0	0.0	0.0	0.0
Ceiling on the contracting or guaranteeing of new nonconcessional external debt by the government 3/ 4/	0.0	0.0	0.0	0.0
Ceiling on the amount of government contracts signed without budgetary allocation 3/	0.0	0.0	0.0	0.0
Ceiling on the share of government contracts signed by single tender (in percent)	20.0	20.0	20.0	20.0
Ceiling on budgetary transfers to SONACOS 3/	0.0	0.0	0.0	0.0
Ceiling on budgetary transfers to cover SENELEC operating losses 3/	0.0	0.0	0.0	0.0
Ceiling on the stock of arrears of SONACOS 3/	0.0	0.0	0.0	0.0
Ceiling on the stock of arrears of SENELEC 3/	0.0	0.0	0.0	0.0
Ceiling on SONACOS' debt to the banking system	35.5	25.0	14.5	4.0
Ceiling on SENELEC's debt to the banking system	52.5	48.4	46.6	42.5
Indicative Targets 1/				
Floor on tax revenue	176.5	385.1	601.6	802.1
Ceiling on the amount of current non-wage non-interest expenditures and domestically financed capital expenditures executed through exceptional procedures	21.0	21.0	21.0	21.0
Ceiling on the wage bill	58.6	118.6	179.0	247.3
Floor on the difference between the net creditor flow in the treasury accounts of the postal service and the net creditor flow in the deposit accounts at the Centre de Chèques Postaux (CCP) and the saving accounts at the Caisse Nationale d'Epargne (CNE)	0.0	0.0	0.0	0.0
Ceiling on the stock of net deposits in the correspondent accounts of the treasury, excluding the correspondent accounts of local authorities, public agencies, SN La Poste, IPRES, and deposit and guarantee accounts	18.0	18.0	18.0	18.0
Ceiling on guarantee deposits of the government	0.0	0.0	0.0	0.0
Memorandum items:				
External budgetary assistance, excluding IMF	32.8	41.2	44.6	70.0
Grants	3.7	7.7	11.1	14.8
Loans	29.1	33.6	33.6	55.3
Programmed spending of HIPC debt relief	5.9	27.5	34.3	59.6

1/ Performance criteria, indicative targets and adjusters are defined in the Technical Memorandum of Understanding (TMU).
2/ Defined as total revenue minus total expenditure and net lending, excluding externally financed capital expenditure and on-lending.
3/ This criterion will be monitored on a continuous basis.
4/ This criterion excludes governement or governement-guaranteed CFAF borrowing from financial institutions within WAEMU.

Table 2. Senegal: Quarterly Government Financial Operations, 2005

	2005			
	March	June	Sept.	Dec.
	Prog.	Prog.	Prog.	Prog.
	(In billions of CFA francs, cumulative since the beginning of the year)			
Total revenue and grants	199.5	434.4	689.5	922.4
Revenue	179.2	392.1	628.5	841.0
Tax revenue	176.5	385.1	601.6	802.1
Nontax revenue	2.7	7.0	26.8	38.9
Grants	20.3	42.3	61.0	81.4
Budgetary	3.7	7.7	11.1	14.8
Budgeted development projects	16.7	34.6	50.0	66.6
Total expenditure and net lending	207.6	485.5	753.5	1,049.8
Current expenditure	145.3	303.5	432.3	600.4
Wages and salaries	58.6	118.6	179.0	247.3
Interest due	9.2	23.8	31.0	43.2
Of which : external	7.9	21.0	27.1	37.9
Other current expenditure	77.5	161.1	222.4	309.9
o/w: HIPC current expenditure	2.5	5.2	7.5	10.0
Capital expenditure	62.3	162.3	298.5	422.9
Domestically financed	26.4	87.5	190.6	279.0
Non HIPC financed	23.0	65.2	163.8	229.4
HIPC financed	3.4	22.3	26.8	49.6
Externally financed	36.0	74.8	107.9	143.9
Treasury special accounts and correspondents (net)	0.0	0.0	0.0	0.0
Net lending	0.0	4.2	4.2	8.0
Temporary costs of structural reforms	0.0	15.5	18.5	18.5
Overall fiscal balance (including grants)	-8.1	-51.1	-64.0	-127.5
Overall fiscal balance (excluding grants)	-28.4	-93.4	-125.0	-208.8
Primary balance 1/	1.2	-27.3	-33.0	-84.2
Basic fiscal balance (program definition) 2/	13.5	32.7	44.0	29.2
Financing	8.1	51.1	64.0	127.5
External financing	42.2	71.5	80.1	127.1
Drawings	48.4	82.1	99.9	148.6
Program loans	29.1	33.6	33.6	55.3
Project loans	19.3	48.5	66.3	93.3
Amortization due	-12.4	-35.7	-49.4	-127.1
Debt relief and HIPC Initiative assistance 3/	6.2	25.1	29.6	105.7
Domestic financing	-34.1	-20.3	-16.1	0.3
Banking system	-16.1	-24.5	-27.3	2.5
Of which : issuance of new treasury bills	-17.0	-17.0	3.6	3.6
Nonbank financing	-18.0	4.2	11.2	-2.2
Of which : privatization receipts	0.0	0.0	1.1	1.1
Of which: Government bonds issued in WAEMU	-5.7	5.3	12.1	12.1
Errors and omissions	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0
Memorandum items:				
Total HIPC spending	5.9	27.5	34.3	59.6
Basic fiscal balance (WAEMU definition) 4/	7.6	-10.3	-8.8	-48.9

Sources: Senegalese authorities; and staff estimates and projections.

1/ Defined as total revenue and grants minus total expenditure and net lending, excluding interest expenditure.
2/ Defined as total revenue minus total expenditure and net lending, excluding externally financed capital expenditure, on-lending, cost of structural reforms and HIPC expenditure.
3/ Assumes debt relief on KWD 30 million (CFAF 52 billion) loan principal repayment falling due in late 2004. Negotiations are going on between the authorities of Kuwait and Senegal.
4/ Defined as total revenue minus total expenditure and net lending, excluding externally financed capital expenditure, and on-lending.

Table 3. Senegal: Proposed Prior Actions, Structural Performance Criteria and Benchmarks for the Program under the PRGF Arrangement in 2005

Measures	Timetable	Status
Prior action for the second review		
• Approval by the National Assembly of article 19 in the 2005 budget law limiting the scope of article 45 of the State's Obligations Code to contracts amounting to less than CFAF 50 million or contracts approved by the Minister of Finance.		Implemented
• Promulgate the law on the elimination of the specific tax on refined vegetable oil.		Implemented
• Submit the end-year budget and treasury accounts of fiscal years 2002-03 to the Audit Court.		
Structural performance criteria		
• As described in the MEFP (para. 42), submit to the IMF staff the monthly table of the government's financial operations (TOFE) for January 2005.	March 31, 2005	
• Eliminate the specific tax on refined vegetable oil.	December 31, 2005	
Benchmarks		
• Produce a report on direct and indirect taxes due and collected in January 2005.	March 31, 2005	
• Produce reports on the execution of capital expenditures at end-June, end September and end-December 2004. The reports will include (i) the payments authorized by the Debt and Investment Directorate for each project; (ii) the funds transferred to the accounts of these projects in the banking system by the Treasury; (iii) the external funding allocated to these projects (grants, loans); and (iv) the external funds deposited in these accounts.	March 31, 2005	
• Improve the transparency of the Government's Table of Financial Operations (TOFE) in line with the recommendations of the AFR/FAD technical mission of February 2004 concerning the treatment of correspondent accounts and the different government definitions used in the TOFE and the net bank credit to government.	June 30, 2005	
• Preparation of a report on commitments, verification, payment orders and payment by major spending lines for the months January-June 2005, using the software "*Système Intégré de Gestion des Finances Publiques*" (SIGFIP).	July 31, 2005	
• Implement a new formula for electricity prices compatible with operator profitability.	October 1, 2005	

Senegal: Relations with the Fund

(As of December 31, 2004)

I. Membership Status: Joined August 31, 1962; Article VIII as of June 1, 1996

II. General Resources Account:	SDR Million	Percent of Quota
Quota	161.80	100.00
Fund holdings of currency	160.27	99.05
Reserve position in the Fund	1.53	0.95

III. SDR Department:	SDR Million	Percent of Allocation
Net cumulative allocation	24.46	100.00
Holdings	4.71	19.23

IV. Outstanding Purchases and Loans:	SDR Million	Percent of Quota
Poverty Reduction and Growth Facility (PRGF) arrangements	131.47	81.26

V. Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR million)	Amount Drawn (SDR million)
PRGF	April 28, 2003	April 27, 2006	24.27	6.94
PRGF	April 20, 1998	April 19, 2002	107.01	96.47
ESAF/PRGF	August 29, 1994	January 12, 1998	130.79	130.79

VI. Projected Payments to Fund (with Board-approved HIPC Assistance)

(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2005	2006	2007	2008	2009
Principal	21.18	20.96	23.75	17.86	13.20
Charges/interest	1.02	0.87	0.75	0.65	0.57
Total	22.20	21.83	24.50	18.51	13.77

VII. Implementation of HIPC Initiative:[29]

	Enhanced Framework
I. Commitment of HIPC Initiative assistance	
Decision point date	June 2000
Assistance committed	
By all creditors (US$ million) 1/	488.30
Of which: IMF assistance (US$ million)	42.30
(SDR equivalent in millions)	33.80
Completion point date	Apr. 2004
II. Disbursement of IMF assistance (SDR Million)	
Assistance disbursed to the member	33.80
Interim assistance	14.31
Completion point[30]	19.49
Additional disbursement of interest income 2/	4.60
Total disbursements	**38.40**

IX. Safeguards Assessments:

The Central Bank of the West African States (BCEAO) is the common central bank of eight west African states, which include Senegal. An on-site safeguards assessment of the BCEAO completed on March 3, 2002, proposed specific remedies to alleviate vulnerabilities that were identified by staff. Based on the 2002 financial statements, the staff noted that the BCEAO has improved the explanatory notes to the financial statements and further changes are scheduled for the next fiscal year, with a view towards a gradual alignment with IAS accounting to the extent applicable to central banks by 2005. The external auditor has apprised the Board of Directors of the BCEAO of the quality of internal controls in June 2003, and the financial statements for the year 2002 were published on the bank's website. The staff will continue its follow up on the

[29] Senegal was not eligible for the HIPC Initiative under the original framework.

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

progress of the BCEAO in implementing the proposed recommendations as part of the ongoing safeguards monitoring process.

Financial reporting framework. The Fund staff recommended that the BCEAO formally adopt International Accounting Standards (IAS) and publish a complete set of financial statements, including detailed explanatory notes. It was agreed by the BCEAO and Fund staff that the BCEAO will strive to improve its financial and accounting reporting by aligning its practices with those recommended by IAS, which have been adopted internationally by other central banks.

Internal controls system. The staff noted that the absence of oversight of the bank's governance, financial reporting, and internal control practices by an entity external to the management of the BCEAO represented a significant risk. It was agreed y the BCEAO and Fund staff that, after seeking the opinion of the external auditor (Commissaire Contrôleur), the BCEAO staff will propose to the BCEAO Board of Directors that it adopt a resolution whereby the external auditor will be required to apprise the Board of Directors, during its annual review and approval of the financial statements, of the state and quality of internal controls within the bank.

The staff follows up regularly on the BCEAO's progress in implementing the recommendations in the context of the Fund's semiannual regional consultation missions.

X. Exchange System:

Senegal is a member of the West African Economic and Monetary Union (WAEMU). The exchange system, common to all members of the union, is free of restrictions on the making of payments and transfers for current international transactions. The union's common currency, the CFA franc, had been pegged to the French franc at the rate of CFAF 1 = F 0.02. Effective January 12, 1994, the CFA franc was devalued and the new parity set at CFAF 1 = F 0.01. Effective December 31, 1998, the parity was switched to the euro at a rate of CFAF 655.96 = €1. On October 31, 2004, the rate of the CFA franc in terms of the SDR was SDR 1 = CFAF 771.87.

Senegal has accepted the obligations of Article VIII and maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions.

XI. Article IV Consultations:

Senegal is on the 24-month Article IV consultation cycle, in accordance with the provisions of the decision on consultation cycles. The 2002 Article IV consultation was completed by the Executive Board on April 28, 2003 (IMF Country Report No. 03/167, and IMF Country Report No. 03/168). In concluding the Article IV consultation, Executive Directors urged the authorities to continue to build on their prudent fiscal management of recent years, and to implement the structural reform agenda with greater determination and urgency in order to stimulate broad-based economic growth, reduce poverty, and strengthen the public finances. They urged the authorities to take further measures to boost revenue in 2003 and the medium term, while pursuing the objective of creating a more efficient, transparent, and business-friendly tax system. They agreed that an increase in civil service employment may be appropriate to alleviate shortages of staff in social services, domestic security, and revenue administration but underscored the need for the increased hiring to be based on a careful assessment of staffing requirements, and to take into account the long-run impact on the public finances. Finally, they emphasized that decisive action needs to be taken to address the financial and operational problems facing the state-owned electricity and groundnut companies, including carefully-designed privatization of the electricity company (SENELEC) and the groundnut company (SONACOS).

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

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

A ROSC on the data module, based on a September 2001 mission, was published on December 2, 2002. An FAD mission will visit Senegal in January 2005 in order to conduct a ROSC on the fiscal transparency module.

XIII. Technical Assistance:

STA	Staff	September 2001	ROSC assessment of data.
FAD	Staff/consultant	September 2001	Assessment of capacity to track poverty-reducing expenditures.
STA	AFRISTAT	July 2002	Real sector statistics assessment Mission, under GDDS West Africa project.
STA	AFRISTAT	August 2002	National accounts assistance under GDDS West Africa project.
STA	Regional advisor	August 2002	Continued assistance with fiscal sector data under GDDS West Africa project.
STA	AFRISTAT	December 2002	Continued assistance with national accounts and prices statistics under GDDS West Africa project

STA	Regional advisor	February 2003	Continued assistance with fiscal sector data under GDDS West Africa project.
AFRITAC		2003 - Ongoing	Public external debt: Upgrading of information systems; techniques of external debt management.
AFRITAC		November 2003 - Ongoing	Assistance to strengthening the microfinance sector.

XIV. Resident Representative

Stationed in Dakar since July 24, 1984. The position has been held by Mr. Ousmane Doré since August 4, 2003.

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

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

Senegal: Relations with the World Bank
(As of December 31, 2004)

Partnership in Senegal's development

1. In May 2002, the Government of Senegal outlined its development strategy in a poverty reduction strategy paper (PRSP). The PRSP was presented to the Bank and IMF Boards in December 2002. It covers the period 2003–05. The Government provided the first annual PRSP progress report in March 2004. The PRSP sets out the following pillars of the government's strategy: (i) creation of wealth within a healthy macroeconomic framework; (ii) capacity building and promotion of basic social services; (iii) improving the living conditions of vulnerable groups; and (iv) implementation and monitoring/evaluation.

2. Regarding the division of responsibilities between the Bretton Woods institutions, the IMF takes the lead in the policy dialogue on macroeconomic policies and monitors macroeconomic performance by way of quantitative performance criteria and indicators. In addition, the IMF's PRGF contains structural conditionality in areas such as electricity and groundnut sector reform, which have a direct bearing on macroeconomic stability and growth prospects.

3. The PRSP and its comprehensive poverty analysis have provided the framework for the Bank's new country assistance strategy (FY03–05). The Bank is currently supporting the implementation of the PRSP in the areas of health/nutrition, education, HIV/AIDS, rural development, transport, water, and urban development through the implementation of a portfolio of specific projects, as outlined more fully below.

World Bank Group strategy and portfolio

Lending

4. IDA has provided external assistance to Senegal since 1966. The main objective of the Bank's assistance strategy for Senegal has been to reduce the incidence of poverty and improve employment. In the current CAS, the Bank is working to (i) develop country ownership through policy dialogue; (ii) use public expenditure reviews with a focus on impacts at the levels of the consolidated central budget; (iii) monitor linkages between implementation and aggregate results; and (iv) emphasize investment in human capital through the lending and advisory services.

5. As of December 31, 2004, the World Bank had approved 131 credits for Senegal with a total amount of about US$2.6 billion. Past projects had supported agricultural diversification, irrigation, human resources development, institutional development, and expansion of the country's infrastructure, particularly its transport system. In recent years, the emphasis has shifted to better utilizing and maintaining existing facilities and to helping the government resolve some of the key issues hampering long-term development prospects. The current active portfolio has a commitment value of about US$706.5 million equivalent, with an undisbursed amount of about US$504.8 million. The portfolio is composed of 17 credits in various sectors (rural development, human resources: population/health/ nutrition/education/social

development, HIV/AIDS, infrastructure/urban development, energy/water, industry, and private sector development, budget support).

Sector issues

6. The implementation of the Health SIP has experienced delays as a result of (i) difficulties in making the information management system operational; and (ii) weak financial programming and monitoring capacities at the decentralized level. The Government is taking corrective measures to address these issues.

7. In 1999, the Government adopted a ten-year program (PDEF) with the ultimate objective of reaching universal primary education by the year 2008 (up from 60 percent of gross primary enrollment in 1999). A Quality Education For All Project (QEFA—Education SIP) covers the first three years of the ten-year program. Key issues in education include the need to (a) consolidate gains in expanding access while addressing the needs of the under- and un-served areas; (b) support quality improvements in education through interventions at the school and at local education structures; (c) improve sector management (in particular, financial and personnel management); and (d) prepare for smooth deconcentration, and eventual decentralization, to the regional and departmental levels.

8. Up until 1996, the urban water sector was facing two major issues: (i) a shortage of water production and distribution capacity in the Dakar area requiring substantial immediate investments, (ii) low managerial efficiency with no financial viability of the sector. To deal with these issues, the government adopted two Water Sector Projects in 1996 and 2001 supported by seven donors, including the World Bank as lead agency. The Water Sector is now closed. The Long-Term Water Sector project includes a large physical investment program and institutional reforms (PSP), which have increased access to potable water in the Dakar area and improved overall management of the sector.

In the transport sector, capacity constraints are being addressed with a program of new investments, especially in rehabilitating rail links between Senegal and Mali, as well as institutional reforms. The Transport SIP was launched in 1999 with support from several donors, including the World Bank. Key issues in transport include the need to strengthen institutional capacity, direct private sector involvement in investment and management of the sector, improving the condition of the priority road network and reducing the cost of road maintenance and rehabilitation.

9. Due to global difficulties in the energy sector, the two "privatization" efforts conducted over the last five years to bring private sector expertise and private financing into SENELEC were not successful. The Bank is now assisting the Government in a third effort taking into account the lessons learned and the overall international context where private sector interest in investing in Africa is reduced. A Rural Electrification Services project was approved in September 2004, and an Electricity Efficiency Enhancement project is currently under preparation.

10. As of, 2004, credits from the International Finance Corporation's (IFC) portfolio totaled US$37 million and included two ~~l~~arge investments (the GTI-Dakar power plant—the first

independent power producer of the country—and Ciments du Sahel—the country's second cement producer). Direct SME investments were made to finance a 130-room hotel, a private school, a microfinance institution, and expand a fishing fleet. Prior equity investments in the financial sector in housing and leasing are mature and IFC is seeking exit. IFC has been active in advisory work with FIAS assessments of investment red tape and the taxation system. IFC is also an active participant in the President's Investors' Advisory Council, a forum for high-level dialogue between the government and private sector (domestic and foreign).

Current and medium-term initiatives

11. A new Country Assistance Strategy (FY03–05) was approved in April 2003. The CAS supports the government's PRSP, based on the pillars of wealth creation and capacity building/development of social services. As regards infrastructure, the CAS proposes new lending services to support electricity sector development,[1] expand small-scale urban infrastructure, and develop key infrastructure through public/private partnership. With regard to private sector development, the CAS supports new lending for a private investment promotion operation,[2] a private sector adjustment credit,[3] and possibly an operation to strengthen the rural financial system (high lending case). New lending services for rural development would include the preparation of the second phase of the Agricultural Services and Producers Organizations project, a program to support appropriate rural development activities in the Casamance region,[4] and an operation on Agricultural Markets As regards social services, new lending services include the preparation of the second phase of the Quality Education for All project. A Coastal and Marine Biodiversity project (GEF/IDA) was approved in November 2004. A PRSC was approved in December 2004, and areas of focus include public finance management, health (policy reforms and transversal issues such as human resource management) and fiscal decentralization.

World Bank-IMF collaboration in specific areas

12. The IMF and the World Bank staff maintain a close working relationship, especially with respect to (i) the implementation of the Poverty Reduction Strategy; (ii) reforms in public finance management; and (iii) structural measures in specific sectors, such as electricity and groundnuts, which have systematic impact on the public finances and on macroeconomic stability.

13. The conditionality for the groundnut and electricity sectors in the new PRGF-supported program has been developed in close collaboration with World Bank staff, and the Bank takes the lead role in working out the technical details of the envisaged reforms. The IMF and the Bank also coordinate their activities and conditionalities in the area of public expenditure reform, an area in which both institutions have an interest.

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[1] An Electricity Services for Rural Areas project was approved in September 2004.
[2] Approved in May 2003.
[3] Approved in March 2004.
[4] Approved in September 2004.

Senegal: Statement of Loans/Credits/Grants
(As of December 31, 2004)

Loan/Credit/ Grant	Description	Principal	Available	Disbursed	Approval Date	Closing Date
		(Amount in millions of U.S. dollars)				
40250	Emergency Locust	10.00	10.38	0.00	16-Dec-04	30-Jun-09
39980	Girmac	10.00	10.69	0.00	11-Nov-04	1-Jun-10
39810	Rural Electrification Services	29.90	31.91	0.00	9-Sep-04	30-Jun-09
39820	Casamance	20.00	21.37	0.00	9-Sep-04	31-May-08
40100	PRSC	30.00	31.75	0.00	14-Dec-04	31-Dec-05
38750	Private Sector Adjustment	45.00	46.78	0.00	18-Mar-04	31-Dec-05
37620	Private Investment Promotion	46.00	46.80	5.32	20-May-03	31-Dec-08
36190	Nutrition Enhancement Prog.	14.70	7.66	9.82	14-Mar-02	15-Jan-06
36010	HIV/AIDS Prevention and Control	30.00	24.12	11.73	7-Feb-02	30-Sep-07
34700	Long-Term Water Sector Project	125.00	98.40	49.95	6-Mar-01	31-Dec-07
34460	Social Development Fund Prog.	30.00	17.19	17.64	20-Dec-00	31-Dec-04
33540	Urban Mobility Improvement Project	70.00	72.57	7.47	25-May-00	31-Dec-05
33330	Quality Education for All Prog.	50.00	9.65	42.11	11-Apr-00	31-Dec-03
33150	National Rural Infrastructure	28.50	10.57	19.52	27-Jan-00	30-Jun-05
32190	Agriculture Services & Prod. Org.	27.40	5.61	23.05	20-May-99	31-Dec-04
31830	Transport II	90.00	48.70	47.02	30-Mar-99	30-Jun-05
29850	Integrated Health Sector Development	50.00	10.66	39.72	4-Sep-97	31-Dec-04
	Total	706.50	504.83	273.35		

Statement of IFC's Held and Disbursed Portfolio
(As of 07/31/2004; in millions of U.S. dollars)

		Held				Disbursed			
FY Approval	Company	Loan	Equity	Quasi	Partic	Loan	Equity	Quasi	Partic
1996/97/98	AEF SERT	0	0.43	0	0	0	0.43	0	0
1980	BHS	0	0.46	0	0	0	0.46	0	0
1999	Ciments du Sahel	14.43	2.26	2.95	0	14.43	2.26	2.95	0
1997/98	GTI Dakar	8.56	1.67	0	10.33	8.56	1.51	0	10.33
1998	SEF Fanaicha	0.36	0	0	0	0.36	0	0	0
2001	SEF Royal Saly	1.34	0	0	0	1.34	0	0	0
Total portfolio:		24.69	4.83	2.95	10.33	24.69	4.67	2.95	10.33

AEF SERT = Africa Enterprise Fund - Société d'exploitation des ressources thonnères (fisheries).
BHS = Banque Habitat du Sénégal (financial).
CDS = Ciment du Sahel (cement factory).
GTI-DAKAR = Power project.
SEF Famocacja = Small Enterprise Fund - (private school).
SEF Royal Saly = Small Enterprise Fund (small tourist hotel).

Senegal: Statistical Issues
(As of January 12, 2005)

1. Overall, Senegal's economic database is comprehensive, but there are weaknesses in the data on national accounts, production, international trade, and social indicators. The authorities are strongly committed to improving the quality and availability of economic, financial and social indicators, and for this partially rely on technical assistance from the Fund and other international organizations. In order to strengthen the quality of Senegal's statistical database, a National Statistical Institute is being set up, as recommended by an STA mission (April 2001).

2. Senegal participates in the General Data Dissemination System (GDDS), and its metadata have been posted on the Fund's Dissemination Standards Bulletin Board since September 10, 2001. However, there is now a need to update the metadata for virtually all sectors.

3. A data Report on Observance of Standards and Codes (ROSC) mission, which took place in September 2001, carried out a review of Senegal's data dissemination practices against the GDDS, as well as an in-depth assessment of the quality of national accounts, consumer price, monetary, balance of payments, government finance, and income poverty statistics. The main findings of the mission were as follows: (i) Senegal generally follows the recommendations of the GDDS for the coverage, periodicity, and timeliness of all data categories; (ii) improvements need to be made in data coverage (especially national accounts by institutional sectors), periodicity (especially quarterly government financial statistics), and timeliness (especially balance of payments, monetary, and poverty); and (iii) plans for improvement in these areas should address resource constraints, reinforce the legal framework for data collection and coordination, and clarify the responsibilities for dissemination of government operations, public debt, and monetary data. The mission also found that, while statistics were generally established on the basis of acceptable sources, those relating to government finance were weakened as a result of the absence of an integrated accounting source and the practice of not investigating revisions.

4. On October 17, 2002, the authorities conveyed to the Fund their observations on the draft data ROSC and their consent to the publication of the final version on the Fund website. The data ROSC was published on December 2, 2002.

5. In discussions with the government in the context of the 2002 Article IV consultations and the monitoring of the PRGF-supported program, the staff has urged the authorities to address the lack of quarterly (or half-yearly) indicators for overall economic activity. The national accounts and balance of payments data are prepared only on an annual basis. The authorities publish a quarterly industrial production index and a semi-annual services sector output index.

Specific issues in various topical areas are discussed below.

Real sector

6. The national accounts compilation generally follows the *System of National Accounts, 1993*. While the staff demonstrates professionalism, the lack of adequate financial resources has constrained efforts to collect and process data. Data sources are deficient in some areas, particularly with respect to the informal sector. Owing to financial constraints, business and households surveys are not conducted regularly, which impedes the production of national accounts estimates (e.g., input-output tables and institutional sector accounts are not compiled annually). However, efforts are being made to improve data collection procedures, strengthen the coordination among statistical agencies, and reduce delays in data dissemination. A project to implement the *System of National Account 1993*, a shift in the base year from 1987 to 1999, and improvement of estimates of informal activities, was completed in early 2003 and revised data have already been published in the IFS. Other actions, as indicated in the February 2004–April 2005 AFRITAC West Work Program, are the redevelopment of the industrial production index, development of a statistical register, production of a CPI with national coverage, and completion of the labor-informal sector survey.

7. Senegal has embarked on a process of regional harmonization of statistical methodologies within the framework of the West African Economic and Monetary Union (WAEMU). A new harmonized consumer price index was introduced in January 1998. However, the coverage is limited to Dakar, the weights are based on a household budget survey conducted during only three months in 1996, and the regular provision of financial resources required for the price collection is not assured.

Public finances

8. Government finance statistics (GFS) data are compiled by the Ministry of Finance from the customs, tax, and treasury directorate sources. The authorities have not reported data to STA for the *2004 GFS Yearbook*, interrupting the delivery of summarized information that resumed in 2001. They do not report subannual data for publication in IFS, although this would be reasonably costless owing to the existence of reasonably detailed quarterly government financial operations tables (TOFE). In part to improve its GFS, Senegal started implementing recommendations made by a May 2000 FAD mission to correct a reported deterioration in the treasury accounts, as well as to integrate special accounts. Such groundwork could be instrumental for enhancing the compilation of a regional harmonized summary table of fiscal operations (TOFE).

9. An AFR team worked with the authorities in February 2004 on improving fiscal reporting in the context of the PRGF-supported program. The focus was on (i) public accounts that are outside of the direct purview of the treasury; (ii) the treatment of correspondents' accounts in the TOFE; and (iii) ensuring consistency between treasury and banking system information concerning government transactions. The mission found that the recent adoption by the authorities of the five WAEMU directives on public finances had set off a series of reforms, which should contribute to improving the overall government financial operations and bring the TOFE much in line with the extended WAEMU TOFE.

However, the full implementation of these reforms could take time because of delays in addressing the weakness in the computerization system at the treasury. In the interim, the mission proposed a number of specific recommendations for improvement of the fiscal accounting practices. The authorities will review with Fund staff the modalities for incorporating these recommendations.

Monetary data

10. Preliminary monetary data for Senegal are compiled by the national agency of the Central Bank of West African States (BCEAO) and released officially by the headquarters of the BCEAO. There has been an improvement in the timeliness of data provided on interest rates, monetary institutions, and deposit money banks. The authorities are now reporting monetary data to STA on a regular basis, with a reduction in the lag from about six months to three-four months. Most of the key monetary statistical issues have been resolved.

11. A monetary and financial statistics mission visited the headquarters of the BCEAO in Dakar in May 2001. The mission reviewed the procedures for collecting and compiling monetary statistics and addressed outstanding methodological issues that concern all the member countries of the WAEMU. The mission also briefed the BCEAO authorities on the methodology in the new *Monetary and Financial Statistics Manual (MFSM)* and discussed the modalities for introducing an *International Finance Statistics* (*IFS)* area-wide page for the WAEMU zone, which was subsequently introduced in the January 2003 issue of *IFS*.

12. The BCEAO organized a regional seminar on monetary and financial statistics with representatives from the BCEAO's headquarters and the national agencies in Dakar during April 22-25, 2003; STA staff also participated. Participants agreed to set up a working group consisting of representatives from the national agencies and various departments of the BCEAO's headquarters, which will follow up on the implementation of the seminar's recommendations to foster implementation of the *MFSM*.

Balance of payments data

13. Balance of payments data for Senegal are compiled by the national agency of the BCEAO. A long-term adviser from STA was posted at BCEAO headquarters to provide technical assistance to all BCEAO member countries (until July 1999). With his support, several steps were taken to tackle balance of payments deficiencies, including: (i) implementation of the *Balance of Payments Manual 5th edition methodology*; (ii) modified and simplified related surveys for companies and banks; (iii) improvement in the computerization of procedures and (iv) significant strengthening of staff training. Definitive balance of payments data can now be provided with a delay of less than one year. Further efforts are required to enhance the quality and coverage of Senegal's balance of payments data. In particular, their latest published data show significant inconsistencies between the balance of payments and the international investment position.

Senegal: Core Statistical Indicators

(As of January 12, 2005)

	Exchange Rates	International Reserves	Central Bank Balance Sheet	Reserve/ Base Money	Broad Money	Interest Rates	Consumer Price Index	Exports/ Imports	Current Account Balance	Overall Government Balance	GDP/GNP	External Debt
Date of latest Observation	Current	8/04	10/04	10/04	10/04	12/04	5/04	2003	2002	12/02	2002	06/02
Date received	Current	12/04	1/5/05	1/5/05	1/5/05	1/6/05	8/04	8/04	6/04	01/03	7/03	11/02
Frequency of data	Daily	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Annually	Annually	Monthly	Annually	Quarterly
Frequency of reporting	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Variable	Annually	Monthly	Variable	Variable
Source of update	EDSS 1//TRE	BCEAO 2/	BCEAO 2/	BCEAO 2/	BCEAO 2/	BCEAO 2/	Ministry of Finance	BCEAO 2/	BCEAO 2/	Ministry of Finance	Ministry of Finance	Ministry of Finance
Mode of reporting	On-line	Staff/ e-mail	Staff/ e-mail	Staff/ e-mail	Staff/ e-mail	Staff/ e-mail	Staff	Staff	Staff	Staff	Staff	Staff
Confidentiality	No	3/	3/	3/	3/	No	No	3/	3/	3/	3/	3/
Frequency of publication	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Annually	Annually	Quarterly	Annually	Annually

1/ Economic Information System, EDF, IMF.
2/ Central Bank of West African States, BCEAO.
3/ Preliminary data for staff use only; actual data unrestricted.

INTERNATIONAL MONETARY FUND
EXTERNAL RELATIONS DEPARTMENT

Press Release No. 05/54
FOR IMMEDIATE RELEASE
March 8, 2005

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Second Review Under Senegal's PRGF Arrangement and Approves US$5.3 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the second review of Senegal's economic performance under an SDR 24.27 million (about US$37 million) Poverty Reduction and Growth Facility (PRGF) arrangement. The completion of the review enables a further release of an amount equivalent to SDR 3.47 million (about US$5.3 million), which will bring the total amount disbursed under the arrangement to an equivalent of SDR 10.41 million (about US$15.9 million).

The Board also granted a waiver for the nonobservance of two performance criteria and approved the rephasing of the schedule of disbursements for the remainder period of the arrangement. The three-year PRGF arrangement was approved on April 28, 2003 and is scheduled to end on April 27, 2006 (see Press Release No. 03/62).

Following the Board discussion of Senegal, Mr. Agustín Carstens, Deputy Managing Director and Acting Chair, stated:

"The Senegalese authorities managed the economy well in 2003 and 2004, achieving robust economic growth and low inflation. The fiscal deficit and government indebtedness were maintained at sustainable levels. Progress in structural reforms continued, although its pace needs to be stepped up. Slippages in fiscal governance and transparency are being corrected to ensure budgetary discipline and strengthen procurement rules and practices.

"The macroeconomic outlook for 2005 appears favorable, with continued vigorous economic growth, low consumer price inflation, and a sustainable fiscal position. The fiscal program for 2005 allows for modest increases in current expenditure, keeps the investment outlays in line with the absorptive capacity of the economy and foreign financing, and aims at an ambitious but feasible revenue target.

"The prudent fiscal policy of recent years should be continued over the medium term. The authorities should strive to maintain low budget deficits, collect revenue efficiently, and tighten control on current expenditure to allow for measured increases in capital and pro-poor spending. They should also monitor and control the growth of contingent liabilities, including those arising from public enterprise borrowing and the proposed public private partnerships in the implementation of investment projects.

“Vigorous implementation of structural reforms, especially in the electricity and groundnut sectors, improvements in the business climate, and upgrades to the communication and transport infrastructure will be key to lowering the cost of production, raising the efficiency of the export sector, and preserving the external competitiveness of the economy.

“The authorities are preparing an action plan for the development and soundness of the financial system. The plan should include measures to simplify loan recovery procedures and improve the efficiency of the judiciary system to help reduce nonperforming loans and increase credit availability.

“The issuance of additional government securities on the WAEMU regional market is welcome, as it could spearhead the development of the securities market. However, the excess liquidity in the banking system and the differentiation of reserve requirement ratios across the WAEMU countries could hinder financial development. The authorities should work in a regional context to address some of these issues,” Mr. Cartens said.

The PRGF is the IMF's concessional facility for low-income countries. PRGF-supported programs are based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners, and articulated in a Poverty Reduction Strategy Paper, or PRSP. This is intended to ensure that each PRGF-supported program is consistent with a comprehensive framework for macroeconomic, structural, and social policies, to foster growth and reduce poverty. PRGF loans carry an annual interest rate of 0.5 percent, and are repayable over 10 years with a 5 ½-year grace period on principal payments.

INTERNATIONAL MONETARY FUND
EXTERNAL RELATIONS DEPARTMENT

Press Release No. 05/142
FOR IMMEDIATE RELEASE
June 16, 2005

International Monetary Fund
Washington, D.C. 20431 USA

IMF Statement on the Conclusion of the 2004 Article IV Consultation with Senegal

On, March 7, 2005, the Executive Board of the International Monetary Fund (IMF) concluded the 2004 Article IV consultation with Senegal.

Under Article IV of its Articles of Agreement, the IMF has a mandate to exercise surveillance over the economic, financial and exchange rate policies of its members in order to ensure the effective operation of the international monetary system. The IMF's appraisal of such policies involves a comprehensive analysis of the general economic situation and policy strategy of each member country aimed at helping member countries achieve orderly macroeconomic and financial conditions and sustainable economic growth. IMF economists visit the member country, usually once a year, to collect and analyze data and hold discussions with government and central bank officials. Upon its return, the staff submits a report to the IMF's Executive Board for discussion. The Board's views are subsequently summarized and transmitted to the country's authorities.

Statement by Damian Ondo Mañe, Executive Director for Senegal
March 7, 2005

On behalf of the Senegalese authorities, we would like to thank staff for their fruitful collaboration and appreciable work reflected in their well-written set of reports. We also wish to express our appreciation to the Executive Board and the donor community for their unfailing support that has contributed to warranting the success of the thrust of the authorities' vast program of macroeconomic and structural policies. The efforts of the authorities combined with donor technical and financial assistance have contributed to the sharp reduction in poverty over the past few years. According to the latest household survey poverty decreased significantly in the past few years, with the percentage of poor households dropping from 61.4 percent to 48.5 percent between 1994 and 2001.

Recent Economic and Financial Developments and Performance Under the PRGF

Against the backdrop of a locust invasion and sharp increases in oil prices, Senegal's macroeconomic performance was very strong in 2004. For the second time in a row, real GDP growth rate is expected to have reached about 6 percent.[1] Average annual CPI inflation was contained below one-half of one percent. The external current account deficit (including and excluding official transfers) is estimated to have declined as a result of strong export performance—albeit the appreciation of real exchange rate due to the U.S. dollar depreciation vis-à-vis the euro.

Fiscal performance was strong in 2004, with the basic fiscal balance kept to its 2003 level. The revenue target is expected to have been achieved, with a slight increase in tax revenues as a fraction of GDP compensating partly the reduction in the share of grants. On the expenditure side, current expenditures as a fraction of GDP are projected to have decreased slightly while capital expenditures are expected to have remained stable. Directors may recall that, in 2003, additional drought- and HIPC-related spending led to the increase in the overall fiscal deficit and the nonobservance of the performance criterion on the basic fiscal balance, one of the two missed performance criteria for which the authorities are requesting waivers.

The conduct of prudent monetary policies at the regional level explains the low inflation rate achieved. In particular, available estimates indicate that money supply grew less than nominal GDP and net foreign assets increased by about 6.4 percent, thereby leading to an improvement in the government's net position vis-à-vis the banking system. Other noteworthy developments on the monetary front include the reduction in banks' net credit to the government, and the lowering of the regional central bank's (BCEAO) key lending rates.

Most structural reforms were implemented satisfactorily, including the introduction of a new investment code, the digitization of the real estate registry, and the publication of the half-yearly audited accounts of the electricity company, SENELEC. In the area of budgetary and

[1] In 2003, real GDP growth rate was 6.5 percent.

public financial management, the implementation of the ambitious reform agenda has continued to proceed, although more slowly than initially planned in view of unanticipated technical difficulties.

The authorities also undertook urgently needed repairs to the Port of Dakar, as the poor conditions of the facilities were adversely affecting trade-related activities. The financing for the repairs came from a non-concessional loan from the regional development bank (BOAD). In view of the urgency of the situation, my authorities are requesting a waiver for the missed performance criterion related to this non-concessional loan.

Regarding the infrastructure work undertaken last year in Thiès, and which is consistent with the wealth creation pillar of the PRSP, the authorites agree that Thiès-related expenditures should have followed stricter budgetary procedures. However, in view of the rush to complete the project within a certain time framework, some deadlines were shortened, and not all budgetary procedures were followed. With the assistance of the World Bank, a review of the compliance of contracts with the procurement code has been made, and corrective measures have been taken. In this regard, they undertook all compensatory measures needed to make sure that these expenditures have no effects on the basic fiscal balance. In addition, they took appropriate remedial actions to avoid the occurrence of similar problems in the future, including the repeal of the provisions that permit contracting parties with the government to receive financial compensation, even without formal approval by the competent authorities.

Macroeconomic and Structural Policies for 2005

The outlook for the Senegalese economy is favorable, with real GDP, for 2005, projected to grow by more than 6 percent. Inflation is expected to be kept low; with average CPI inflation estimated to be about 1.5 percent. The current account deficit is expected to narrow further down to 5.5 percent of GDP. The fiscal position will be sustainable, with the primary fiscal deficit projected to amount to less than 2 percent of GDP.

Fiscal Policy and Reform

The overall fiscal deficit, including grants, is projected to be about 2.9 percent of GDP. On the expenditure side, the authorities have already taken measures aimed at accelerating the pace of HIPC-related social spending. The authorities are committed to strengthening fiscal discipline and transparency, particularly in managing resources that may be received from the Organization of Islamic Countries and within the framework of the Millennium Challenge Account (MCA). With a view to strengthening fiscal management and procurement procedures, they will continue the implementation of their program of budgetary and public management reforms according to a set of policy actions and measures adopted since mid-2003.

On the revenue side, the authorities will continue to work on expanding the tax base and improving tax collection. To date, numerous capacity-building projects have been initiated that aim at enhancing the capacities of the Tax Authority, including the recruitment of additional tax officers and assessors and the computerization of its operations. In parallel, the government has intensified the combat against tax fraud and evasion, most notably through on-site audits of tax reimbursement claims and strategic investigations of tax offenses.

Monetary Policy and Financial Sector Reform

Prudent monetary policy will continue to be conducted at the regional level by the BCEAO. The authorities will continue to commit to the monetary arrangement within the West African Economic and Monetary Union (WAEMU). Given the successful sale of treasury bills in 2003, the government intends to issue further securities on the regional market to cover its financing needs while strictly adhering to the WAEMU directives. The authorities will pursue their ongoing consultations with all relevant parties to stimulate the contribution of the financial sector to the development of economic activity.

The authorities welcome the conclusions of the 2004 Financial Sector Assessment Program-Update (FSAP) report. While they are particularly pleased that the report acknowledges that the stability of the financial sector has been preserved, they are aware of the need to address financial vulnerabilities related to the excessive exposure of banks to large corporations. As an illustration of their commitment to transparency, they have already expressed their consent to the publication of this FSAP report on the Fund's website. However, as Senegal belongs to the monetary union, WAEMU, the implementation of some of the measures recommended in the Report can only be done at the regional level, and the authorities will work closely with the regional authorities to that effect. With regard to measures to combat money laundering and the financing of terrorism, the authorities are also involved in the WAEMU's ongoing efforts to put in place a legal framework aimed at criminalizing the financing of terrorism.

Structural Reforms

As I noted during previous Board discussions on Senegal, the authorities' willingness to strengthen the ownership of the privatization program has explained partly delays in its implementation in the past. Since consensus has now been reached, the government is determined to press ahead with the privatization agenda. In this regard, the privatization of the groundnut processing and vegetable oil refining company, SONACOS, has been decided upon, and, subsequently, the transfer of ownership is expected to be completed by the midst of this year. As mentioned by staff, the authorities have taken actions to eliminate the tax on vegetable oil protection. Concerning the electricity company, SENELEC, the authorities' intention is to progressively increase the share of electricity produced by private investors under Independent Power Producer (IPP) arrangements and transfer its management to private agents. The government has made it clear that SENELEC will not benefit from any current budgetary transfers and that the company's indebtedness to banks will not exceed a certain level.

On the delays in the submission of budgets to the Audit Court for verification, we would like to reassure the Executive Board that the authorities have completed the prior action for the second review, namely the submission of the budget and treasury accounts of fiscal years

2002-03 to the Court. Capacity constraints continue to undermine the production of monthly reports on tax due and collected. However, the electronic data-sharing system expected to be operational by June 2005 will enable the preparation of such reports within a maximum lag of one month. In the meantime, such reports will be produced with the available information systems every month, starting with the month of January 2005.

Looking forward, the authorities intend to maintain the conduct of prudent fiscal policies, with a renewed focus on fiscal discipline and transparency. The authorities are convinced that higher long-run growth remains critical to sustain the remarkable progress achieved thus far in the fight against poverty. In this respect, the authorities launched early this year the Accelerated Growth Strategy (SCA) after consulting with representatives from the private sector, NGOs, civil society, and the donor community. Consistent with the wealth creation pillar of the PRSP, the SCA aims to define a road map for achieving growth rates above 7 percent and it is to be elaborated through broad-based consultations with all national stakeholders and international partners. The rationale for the SCA relates notably to the fact that higher-than-prevailing growth rates are critical for Senegal to achieve the MDGs by 2015. Technical committees comprising representatives from the private and public sectors have been put in place that are in charge of defining action plans for the implementation of the SCA. Based on these action plans, a validation workshop and a roundtable with donor representatives are scheduled in October and December 2005 successively.

Conclusion

My Senegalese authorities would like to reiterate their strong commitment to the adjustment process. They are appreciative of the assistance provided by donors and the multilateral institutions. It is their intention to pursue steadfastly the reform process. In view of the progress made in the implementation of the program, and the corrective actions taken, I would like to request Directors' support for the proposed decision.

Regarding the next steps in Senegal's relations with the Fund, my Senegalese authorities are of the view that PRGF programs have been critical in enabling Senegal to achieve macroeconomic stability, implement critical structural reforms and achieve external debt sustainability. My authorities' intentions in their next stage of development endeavors is to create an expanded and transformative private sector-led economy that would enable Senegal to attain high growth and reduce poverty. This, in turn, requires an increased access to global capital and money markets. In order to boost the credibility rating already achieved, my Senegalese authorities would, in place of PRGF, like to have a relationship that would allow them to continue to benefit from the Fund's signaling role. Accordingly, my Senegalese authorities intend in the near future to contact the Fund and the broader donor community regarding the strategy that would enable them to achieve this goal.