INTERNATIONAL MONETARY FUND

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SENEGAL

July 2017

FOURTH REVIEW UNDER THE POLICY SUPPORT INSTRUMENT AND REQUEST FOR AN EXTENSION OF THE POLICY SUPPORT INSTRUMENT—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR SENEGAL

In the context of the fourth review Under the Policy Support Instrument and request for an extension of the Policy Support Instrument, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 26. 2017, following discussions that ended on April 12, 2017, with the officials of Senegal on economic developments and policies underpinning the IMF arrangement. Based on information available at the time of these discussions, the staff report was completed on June 8, 2017.
- A **Statement by the Executive Director** for Senegal.

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

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

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

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INTERNATIONAL MONETARY FUND
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Press Release No. 17/250
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June 26, 2017

International Monetary Fund
Washington, D.C. 20431, USA

IMF Executive Board Completes Fourth Review Under the Policy Support Instrument (PSI) and Extends Arrangement for Senegal

- The program aims to implement economic policies and structural reforms needed to sustain strong growth and ongoing fiscal consolidation to meet the regional fiscal criteria.
- The Policy Support Instrument with Senegal has supported the authorities' reform efforts to increase growth
- Under the *Plan Sénégal Emergent* (PSE), growth has increased steadily to 6.7 percent in 2016, while inflation has remained low and the fiscal deficit fell to 4.2 percent of GDP in 2016.

The Executive Board of the International Monetary Fund (IMF) completed the fourth review of Senegal's economic performance under a program supported by the Policy Support Instrument (PSI).[1] The aim of the program is to implement economic policies and structural reforms needed to sustain strong growth and ongoing fiscal consolidation to meet the regional fiscal criteria.

In completing the review, the Board also approved the authorities' request for a one-year extension of the PSI arrangement. The PSI for Senegal was approved on June 24, 2015 (see Press Release No. 15/297).

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

Executive Board Assessment [2]

"The Policy Support Instrument with Senegal has supported the authorities' reform efforts to increase growth, while maintaining economic stability. Under the *Plan Sénégal Emergent*

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

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

(*PSE*), growth has increased steadily to 6.7 percent in 2016, while inflation has remained low. The fiscal deficit fell to 4.2 percent of GDP in 2016 and Senegal is projected to meet the West African and Monetary Union convergence criteria of 3 percent of GDP in 2018, one year earlier than mandated. Continued implementation of sound policies reforms is important to sustain high growth and meet Senegal's development objectives.

"To achieve the PSE goals of sustaining high growth and reducing poverty over the medium term, the authorities are committed to undertaking further reforms to facilitate private investment. This requires implementation of high quality infrastructure projects and strengthening the business environment through continued efforts to reduce energy costs, strengthen governance and implement judicial and land reforms. A Special Economic Zone (SEZ) with high standards of economic governance and low tax rates could act as a catalyst to attract high levels of private investment.

"The authorities have implemented important fiscal reforms to support ongoing consolidation while increasing public investment. This has been achieved through containment of public consumption, including the wage bill. To create further fiscal space for much needed infrastructure spending, the authorities are committed to increasing revenues through improving revenue administration and lowering tax exemptions.

"The authorities recognize the importance of strengthening debt management to support fiscal sustainability. This requires reforms to address weaknesses in Treasury operations and contain additional financing needs from the Post Office and civil service pensions, as well as improving public financial management.

"Senegal's economic outlook is broadly positive and risks remain manageable. However, to enhance growth prospects, it is important to strengthen the implementation of reforms to improve the quality of public investment and promote private investment. Priority should also be given to addressing weakness in Treasury operations to ensure fiscal sustainability."

INTERNATIONAL MONETARY FUND

SENEGAL

June 8, 2017

FOURTH REVIEW UNDER THE POLICY SUPPORT INSTRUMENT AND REQUEST FOR AN EXTENSION OF THE POLICY SUPPORT INSTRUMENT

EXECUTIVE SUMMARY

Fiscal policy. The authorities remain committed to achieving the 3 percent of GDP WAEMU fiscal deficit target one year early in 2018. Containment of current public expenditure and reforms to increase revenues have created space for an increase in public investment, while staying on the planned fiscal consolidation path. Weakness in Treasury operations has required additional borrowing and could undermine fiscal sustainability if not addressed through structural reforms of the Postal system, civil service pensions, as well as measures to strengthen public financial management.

Reforms to support economic activity. GDP growth has been over 6 percent since 2015. For this to be sustained over the long term, as envisaged by the *Plan Sénégal Emergent* (PSE), domestic and foreign private investment needs to increase in sectors that are globally competitive. Moreover, pathways are required for SMEs to emerge from the informal sector. Reform to improve the business environment is underway, but faster progress is needed, including by strengthening governance and implementing judicial and land reform to facilitate credit to SMEs. Implementation of a transparent, rules-based Special Economic Zone (SEZ) with a transparent tax system could act as a catalyst.

Program implementation. Performance under the PSI-supported program has been satisfactory, with all end-December 2016 assessment criteria and indicative targets met and four of the seven end-March 2017 indicative targets met. Of the five structural benchmarks set for the period from December 2016 to March 2017, three were met. Of the two unmet SBs, one was implemented with delay and one—to establish accrual accounting for opening balances—has not yet been implemented.

Staff recommends completion of the fourth PSI review and approval of the one-year extension of the PSI.

Approved By
Roger Nord and Peter Allum

A staff team consisting of Messrs. Mansoor (head), Leichter and Issoufou (all AFR), Mr. Jalles (FAD), Mr. Presbitero (SPR), and Mr. Loko (resident representative) conducted the discussions in Dakar, March 30–April 12, 2017. The Executive Director (ED), Mr. Sembene, and the ED Advisor, Mr. Diakite, participated in this mission. The team met with President Sall, the ministers in charge of economy and finance, civil service, public administration and industry and mines, the National Director of the BCEAO, and other senior officials. The team also met with representatives of the private sector, civil society, and donor community.

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APPENDIX

RECENT DEVELOPMENTS, OUTLOOK AND RISKS

Political and Economic Context

1. **The government's development strategy underpins both near-term policies and longer-term reform objectives.** Implementation of the *Plan Sénégal Emergent* (PSE) has contributed to GDP growth above 6 percent since 2015. Fiscal consolidation places Senegal on a path to meeting the WAEMU 3 percent of GDP fiscal deficit criterion. Nonetheless, there are numerous challenges to sustaining the high growth without undermining fiscal sustainability. These include: (i) implementing fundamental and politically difficult institutional reforms which will open economic space for "outsiders",[1] whether SMEs or foreign investors who want to use Senegal for globally competitive activity; and (ii) strengthening the fiscal framework to ensure fiscal space is created for high quality public investment in human capital and public infrastructure, while containing the broad public sector borrowing requirement. The authorities are committed to implementing the necessary reforms, but this requires strong and sustained efforts to tackle vested interests at a late stage in the political election cycle.

2. **The shift from public- to private-sector led growth needs to be accelerated to support macroeconomic stability and sustained growth.** The current high level of GDP growth is being supported predominantly by public investment and, as demonstrated by the history of past growth episodes in Senegal, cannot be sustained unless economic space is opened up for the private sector. Progress on reducing energy costs and increasing its reliability is encouraging, but the broader business environment needs to reduce obstacles to private investment and increase predictability through a rules-based and transparent system, including for tax payments. A Special Economic Zone (SEZ) governed by high standards for economic governance and a low corporate tax rate paid by all could act as a catalyst for Senegal to reach its high potential as a destination for private investment. High quality public investment also has an important role in promoting this transformation through improving infrastructure. Progress has been made to strengthen all stages of the project cycle, but rapidly growing debt and debt service suggest that attention should be paid to cost of financing.

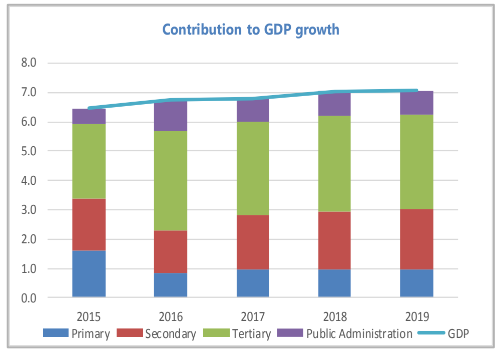
3. **Discussions with the authorities focus on the "how to" aspect of policy implementation both through technical assistance and program discussions.** Senegal has benefitted from an extensive amount of TA, including through innovative initiatives such as peer learning on public-private partnerships (PPPs) and the IMF's Fiscal Affairs Department (FAD) Hackathon on revenue administration solutions. These discussions have allowed a grass roots approach which is intended to formulate a practical agenda, with a focus on strategies to navigate political economy challenges. The PSI remains on track and provides an important signal of progress to development partners and markets. The authorities are requesting a one-year extension of the

[1] The term "outsiders" is used several times in this Report. It means those who are not well connected, or those lacking favored access.

PSI to June 2019 which will allow more time for implementation of envisaged reforms to eliminate additional financing needs from Treasury operations and meet WAEMU convergence criteria.

RECENT ECONOMIC DEVELOPMENTS

4. **Growth remains high with inflation contained.** GDP growth reached 6.7 percent in 2016, with strong contributions from extractive industries and services, including transport and telecommunications, tourism and financial services. Agriculture continued to contribute positively, although uneven rainfall caused some deceleration from previous high levels of growth. Looking ahead, growth is projected to increase further towards the PSE 7–8 percent objective, with public investment continuing to play an important role in the construction sector. The extractive industry is benefiting from the production of relatively new products such as zircon. Oil and gas production in about 5 years' time could also contribute in the medium term.



5. **The fiscal deficit continues to fall, but high public sector borrowing has increased debt and debt service indicators towards their thresholds**. In 2016 the fiscal deficit fell to the programmed 4.2 percent of GDP. An increase in revenues, including from higher tax revenue and issuance of 4G licenses, created space within the budget for increased domestically-financed capital expenditure.[2] Going forward, further increases in revenue to GDP ratios through administrative reforms and revision of existing tax exemptions, combined with contained public consumption (particularly the wage bill), will allow further increases in public investment and social expenditure. Progress in reducing the fiscal deficit was offset in 2016, however, by an increase in Treasury borrowing to meet "below-the-line" financing needs in respect of Postal operations, civil service pensions, carried-forward appropriations from previous budgets, and other transactions (Box 1). This boosted the central government's net financing requirements to 6.7 percent of GDP, pushing up debt-related vulnerability indicators. Debt to GDP was over 60 percent at end-2016 and the debt service to revenue ratio is near the DSA threshold at 13.6 percent. The authorities issued a $1.1 billion Eurobond in May 2017 which will shift financing from domestic to external sources relative to 2016.[3] The authorities are considering using a portion of the proceeds to pay down previously contracted non-concessional external debt.

[2] The one-off revenue increase from the 4G licenses could have been saved or partly used to reduce public sector borrowing.

[3] Moody's recently upgraded Senegal's rating from B1 to Ba3, with a stable outlook. The main reasons cited are improved growth performance, progress on fiscal consolidation and debt metrics in line with similarly rated sovereigns.

6. Senegal's current account balance improved, thanks to higher export growth and remittances, and lower oil prices. The current account deficit narrowed by 2.2 percent of GDP due to higher remittances and an increase of 13.3 percent in export volumes, while import volume growth decelerated, due to lower agricultural imports. Higher levels of external debt and debt service and falling reserves at the regional level have increased external vulnerabilities, underscoring the importance of implementing reforms to improve competitiveness, diversify the economy and attract higher levels of FDI. The real effective exchange rate remains broadly in line with fundamentals.

7. The outlook remains broadly positive and risks to Senegal's economy remain manageable. Growth is projected to increase slightly above 7 percent over the medium term provided space is opened for SMEs and FDI and reforms to improve competitiveness and the business environment are steadily implemented. The primary risks facing the economy are domestic. Reforms to open economic space for outsiders and to improve competitiveness and the business environment and the efficiency of public investment are urgent for Senegal to maintain its growth momentum. In addition, lack of progress on reforms to address weakness in Treasury operations and an increase in borrowing costs could also adversely impact debt dynamics. Security risks in the region could adversely affect investment and, hence, growth and exports.

POLICY DISCUSSIONS

8. Discussions centered on policies to sustain high growth and meet development objectives without undermining stability. Accordingly, discussions focused on policies and reforms to (i) continue on the fiscal consolidation path, while creating room for development needs; (ii) address weaknesses in public financial management (PFM), including in Treasury operations to support debt sustainability; and (iii) improve the business environment to increase domestic and external private investment.

A. Fiscal Policy: Consolidation and Reforms for Sustainability

9. Discussions focused on reforms necessary to allow a sustainable financing of the ambitious PSE public investment agenda. In the near term, the government is committed to contain public consumption and use the precautionary reserve envelope (PRE) to strengthen its reform agenda. Over the medium term, reforms will focus on increasing revenues (by enlarging the base and revising tax exemptions) and strengthening Treasury operations to ensure that meeting development objectives does not undermine long-run fiscal sustainability. These include: (i) higher revenue mobilization; (ii) improving the efficiency of public investment at different stages of the project cycle; (iii) addressing financing pressures from the postal system and civil service pensions; and (iv) strengthening PFM and Treasury cash management procedures and frameworks.

Fiscal policy for the near term

10. Fiscal consolidation remains on track to meet the WAEMU target. The fiscal deficit has been declining steadily from a recent high of 5.5 percent of GDP in 2013, reaching 4.2 percent of GDP in 2016. This has been achieved by increasing revenues by 1.4 percent of GDP in 2016 and lowering public consumption by 1 percent of GDP, which, in turn, created the needed fiscal space for further investment in both human capital (education, health and social safety nets) and critical public infrastructure projects (e.g. railways, roads, and energy). A combination of good performance of tax administration and efforts to improve customs tax collection, particularly during the second half of 2016, allowed end-year fiscal targets to be met.[4] To ensure that recent consolidation gains are durable and that the 3 percent of GDP WAEMU target is met in 2018, the authorities will continue their efforts to increase revenue collection and rationalize public consumption, including by controlling the wage bill.

11. Efforts to rationalize expenditures have focused on containing the wage bill and subsidies. The wage bill should continue to be contained and subsidies better targeted. The authorities are committed to imposing budget constraints on hiring, except for frontline staff in security and defense, and ensuring that all current contractuals in the education, health, and vocational training (totaling 40,000) will be gradually integrated into the civil service payroll. In addition, there is a commitment to improving the management of subsidies based on the recommendations of the working group's report which was finalized in September 2016.

Fiscal policy for the medium term

Revenue and expenditure reforms

12. Reforms of both revenue administration and policy are needed to increase the resource envelope (MEFP ¶9–13). A higher revenue to GDP ratio would reduce the public sector borrowing requirement. On tax administration, the authorities are committed to implement (i) the restructuring plan for DGID; (ii) regulations on e-declaration and e-payment; and (iii) recommendations of the recent FAD hackathon, including MTAX which allows payment of taxes via mobile phones. Improved use of Information Technology (IT) in the customs process is expected to increase efficiency and transparency, as well as coordination with DGID. On revenue policy, the authorities are planning to reduce tax exemptions and move to a system which limits discretion. Subsidies will be targeted to areas of high economic and social return such as improving productivity in the agriculture sector through high quality seeds, better irrigation and increased

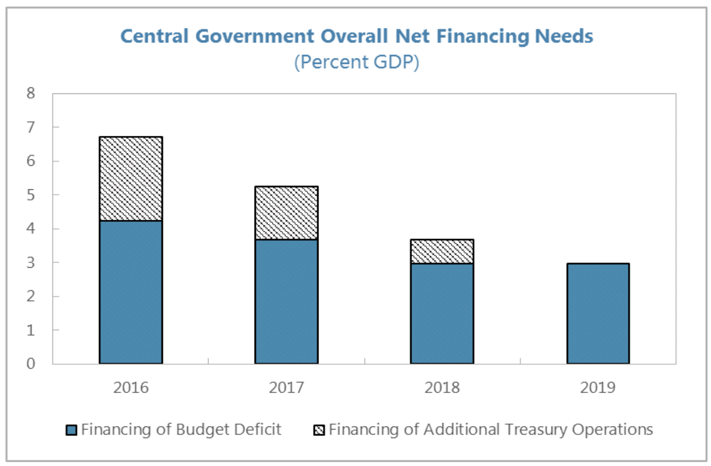
[4] Tax revenues increased 17 percent (year-on-year), with solid gains in major categories, including direct taxes and taxes on goods and services. In contrast, the Petroleum Product Imports Security Fund (FSIPP) fell short of the budget target by about 0.2 percent of GDP due to higher international prices. Customs revenues were slightly below target, with a good performance from non-oil related revenues (equally split between custom duties and VAT), but a poor performance from oil-related customs receipts (0.2 percent of GDP below target). The former benefitted from a higher level of imports of certain goods (e.g. sugar, vegetables), while the latter's shortfall is explained by a decline in the taxable base on oil products (17 percent lower base for custom duties and 25 percent lower base for VAT). Non-tax revenue increased due to higher mining sector-related revenues and from leasing of public building.

mechanization, with a reduction of support to state-owned enterprises envisioned. Over the medium term, reform of the tax regimes for the mining and telecommunications sectors are planned.

13. Reforms to strengthen the public investment process should be accelerated to ensure proper prioritization and coverage. The authorities have made good progress in improving public investment project evaluation, implementation and monitoring. The PRE, first implemented in 2016, continues to expand in the 2017 budget, with an increase in the size of the envelope, as well as the number of ministries covered. The recently created project bank will become operational, with the creation of a committee tasked with ensuring that high value public investment is given implementation priority.

Reforms to support Treasury operations

14. The authorities are committed to improving Treasury operations and reducing public sector borrowing (MEFP ¶22–24). The difficulties faced in Treasury cash management come from financing needs of (i) temporary sources related to timing of revenues; and (ii) permanent sources related to financing the broader public sector. While both sources create annual financing needs beyond those suggested by the fiscal deficit, it is the permanent sources that risk undermining debt sustainability over the longer term, if not addressed. Reforms discussed with the mission would reduce the additional financing need created by Treasury operations in 2017 (new quantitative assessment criterion) and eliminate it by 2019.



15. Reforms of the Post Office and civil service pensions are needed (MEFP ¶23). The Post Office and civil service pensions have been running deficits for a few years, requiring overdrafts at the Treasury and reducing liquidity for Treasury to meet other budgetary commitments (Box 1). The Post Office performs standard postal operations and provides financial services through a deposit taking institution, *Poste Finance*.[5] Eliminating the structural deficit at the Post Office will require reforms to reduce operating costs and develop new services which may require spinning off *Poste Finance*. The authorities are seeking the advice of the World Bank to develop corrective measures. The government is committed to addressing the sustainability of civil service pensions and outlined potential parametric and other reforms in the 2017 budget law. These were confirmed following consultations with stakeholders at a conference in April 2017. Reforms are expected to be implemented in 2018, contributing to a reduction in Treasury financing needs.

[5] The Treasury provides liquidity to *Poste Finance* for its financial operations much like a central bank would do for a bank.

Box 1. Treasury Operations

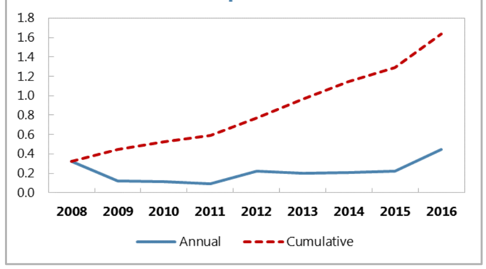
Despite being on a steady fiscal consolidation path for the past few years, the expected beneficial impact on debt dynamics has not materialized. Indeed, recently, Senegal's debt has grown faster than what would be predicted by its budget deficit. This observation led to a deeper analysis, in collaboration with Senegal's Treasury, to identify and quantify the sources of additional financing needs, and determine the correct statistical treatment of Treasury operations in the fiscal accounts.

The sources of additional financing needs highlight weaknesses in Treasury operations and cash management. The most significant challenges come from the need for Treasury to finance: (i) the Post Office *(Poste and Poste Finance);* (ii) Civil Service Pensions *(Fonds National de Retraites)*; and (iii) spending by ministries and other entities out of unutilized appropriations from past budgets, recorded as internal government liabilities in the "*comptes de dépôt.*"[1] Preliminary findings, including from the government's recent internal audit, revealed that the three main transactions do indeed require additional financing above and beyond the budget deficit. These transactions are appropriately classified in fiscal reporting as financing items rather than expenditures, given that they represent a change in intra-governmental debt. Financing a reduction of the "*comptes de dépôt*" would be recorded as a reduction of a past obligation towards a government ministry or agency. Treasury financing of the Post Office would increase its liabilities towards the Treasury and require settlement of these obligations at a future date following reforms, while contributions towards Civil Service Pensions adds to pension liabilities.

The estimated financing needs of the aforementioned operations[2] are as follows:

Post Office. Treasury financing of the Post Office averaged an annual 0.2 percent of GDP over 2008-2016 with a significant jump to 0.4 percent of GDP in 2016. Cumulatively, the Treasury financing of the Post Office amounted to 1.6 percent of GDP by end-2016.

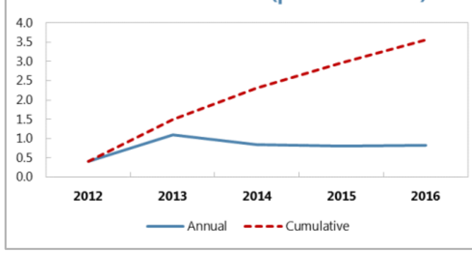
Estimated Treasury Financing of the Post Office (percent of GDP)



Civil Service Pension. The Civil Service Pension is a special account at the Treasury. This account had an annual surplus of 0.4 percent of GDP at end-2012 when pension contributions from civil servant and the government were higher than payments to retirees. The surplus began turning into deficit in 2014, when contributions were lower than payments, and reached -0.2 percent of GDP by end-2016.

***Comptes de dépôt*.** The largest single factor contributing to "below-the-line" Treasury financing needs in 2016 was the financing of unutilized appropriations from past budgets amounting to about 1 percent of GDP. The estimated cumulated stock of unspent appropriations in the *comptes de dépôt* averaged 4.7 percent of GDP over 2015–16.

Estimated Treasury Financing of Civil Service Pensions (percent of GDP)



To address structural issues and eliminate additional borrowing requirements by 2019, the authorities have decided to:

1. Separate the *Poste* from *Poste Finance* and restructure the latter to ensure it no longer constitutes a drain on Treasury and consider possible efficiency gains in Post Office operations. The authorities will seek assistance from the World Bank;
2. Put in place structural measures in 2018, including increasing the percentage of salary contributions from 35 percent to 38 percent, to ensure the actuarial viability of the pension fund over the medium term; and
3. Address both stock and the potential new flows into the *comptes de dépôt* by taking the following steps: (i) conduct an external audit to determine which obligations are valid and settle them through a time-bound plan; and (ii) separate current expenditure appropriations flows from capital expenditure appropriations flows into the *comptes de dépôt* and limit the rollover of budget commitments to capital expenditures with a three year horizon and a well-defined ceiling on the amount, consistent with budget rules. A decrease in settlement of past obligations in 2017 relative to 2016 will contribute to lower financing needs for Treasury operations.

These measures will ensure that additional borrowing above and beyond the deficit will be reduced from 2.5 percent of GDP in 2016 to 1.6 percent of GDP in 2017, 0.7 percent of GDP in 2018, and eliminated by 2019.

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[1] This includes illiquid revenues *(recettes d'ordre)* resulting from entities paying their taxes by drawing down their *comptes de dépôt* accounts.

[2] These are based on the government's recent internal audit and Treasury's own estimates.

16. Public financial management reforms are also needed to facilitate Treasury cash management (MEFP ¶22, 24). A significant part of budget implementation is done through a system of agency accounts called "*comptes de dépôt*" (Box 1). Over the years, this system has allowed the accumulation of unspent appropriations from past budgets totaling over 4 percent of GDP at end-2016. The settling of these commitments from past budgets has contributed to additional financing needs. To address both stock and the potential new flows into the *comptes de dépôt*, the authorities are committed to taking the following steps: (i) complete an external audit to determine which obligations are valid and settle them through a time-bound plan; and (ii) impose the same rules as for the budget on the *comptes de dépôt*. On the latter, this means limiting the rollover of budget commitments to capital expenditures within a well-defined ceiling and a maximum horizon of three years. In 2017, a reduction in the settlement of past obligation relative to 2016 will contribute to lower Treasury financing needs.

B. Improving Competitiveness and Preserving External Stability

17. The current account deficit has halved over the last 5 years and is projected to remain relatively stable in the medium term. Senegal's current account deficit decreased from 10.8 percent of GDP in 2012 to 5.3 percent in 2016. The key elements behind the improvement are strong export performance, an increase in current transfers, and lower oil prices. A recent double-digit growth in exports has been driven by chemicals (e.g. phosphates), food (e.g. peanuts) and metals, which have benefitted from the increased production of new items such as zircon. Import volumes have increased at a slower pace, in part from lower food imports due to the expansion of agriculture, particularly rice. Over the medium term, both exports and imports are expected to grow at about 8 percent per year, with further improvement in the trade balance being driven, in part, by projected positive dynamics for the terms of trade.

18. FDI inflows have increased slightly, but remain below levels in peer countries. FDI inflows have been on a slight upward trend in the past few years, reaching 3.1 percent of GDP in 2016, thanks to new investment in the mining industry. However, net foreign investment in Senegal remains below levels in peer countries at a projected 2.5 percent of GDP in 2017.[6] The outlook for FDI would benefit from faster implementation of reforms to improve governance and the business environment, as well as establishment of a transparent, rules-based SEZ.

19. Senegal remains at low risk of debt distress, but debt vulnerability has risen, requiring increased vigilance in debt management. The ratio of public debt over GDP has increased from 53.1 percent in 2014 to 60.6 percent in 2016, 1.3 percentage points higher than what was projected previously, mostly because of additional borrowing needs to finance Treasury operations. For the same reason, the debt-to-GDP ratio is projected to increase further in 2017, before beginning a downward trend in 2018. However, this positive outlook and associated falling debt over the medium term is predicated on reforms to (i) contain additional Treasury borrowing needs;

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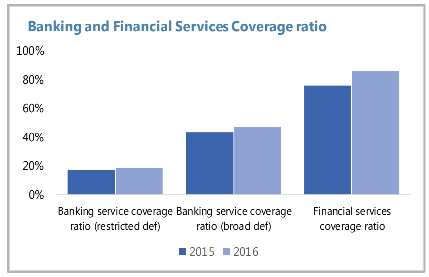
[6] In 2016, a large investment by the phone company SONATEL resulted in a fall in net FDI.

(ii) increase revenues; and (iii) sustain GDP growth by creating economic space for outsiders (SMEs and FDI). The ratio of debt service over revenues breaches the debt sustainability threshold, with spikes over the next decade from repayment of Eurobonds.[7] Increasing interest rates on WAEMU bonds following BCEAO tightening of monetary policy create additional debt management challenges. It will be essential that the authorities rely as much as possible on concessional resources and private equity investment to finance ambitious public infrastructure projects. In this context, PPPs could play an important role, provided the PPP framework is updated so that commercial risks are not passed on to the Treasury.[8]



20. Senegal's policies are contributing to regional stability. Substitution of food imports because of expanded agricultural output, strong export performance, a rise in current transfers, an increase in FDI inflows and the recent Euro dollar 1.1 billion issue have all contributed to improving Senegal's overall external position. Also, the authorities' commitment to reaching the WAEMU fiscal deficit convergence criterion of 3 percent of GDP in 2018, one year ahead of schedule, helps position Senegal as one of the WAEMU countries that is contributing to regional stability.

C. Promoting Private Investment

21. The financial sector remains stable. The ratio of NPLs to total loans has fallen 2.5 percentage points over the past two years to 17.3 percent. A new definition of NPLs to be implemented in 2018 at the WEAMU level[9] will consider loans that were non-performing, but have become performing, to be taken off the NPL list. The ratio of liquid assets to total assets and to deposits both increased, suggesting an adequate level of liquidity in the banking system. Credit to the private sector increased 6.6 percent in 2016, but so did the level of concentration of loans to large enterprises, again a signal that there is insufficient space for SMEs. Capital adequacy indicators fell in 2016 and two banks are below the required ratio. One new bank began operations in Senegal, bringing the total number of banks in the financial system to 24.

22. Further efforts are needed on financial sector reforms to support productive credit to SMEs. Credit to the private sector is concentrated in large firms, as SMEs seeking loans continue to face structural impediments. The credit bureau does not have access to sufficient data to play its proper role in credit creation. Staff has emphasized to the authorities the benefits of requiring banks to provide credit histories of potential borrowers, compared to the current voluntary system. The judicial and land reform necessary to facilitate the role of collateral in the credit creation process has

[7] The authorities issued a $1.1 billion dollar Eurobond at 6.25 percent interest with 16-year maturity in May 2017.

[8] The IMF's Fiscal Affairs Department organized a peer-learning event on PPPs in Dakar in April 2017. This allowed experts from four countries to share their country's experience in creating the legal and policy structure for PPP implementation and discuss with the authorities how lessons learned could be useful in the context of Senegal.

[9] This change is driven by the move towards Basel III and is expected to further reduce Senegal's NPL ratio.

not progressed sufficiently. On financial inclusion, micro credit institutions increased deposits (17 percent) and credit (13 percent) in 2016.[10]

23. Progress with energy sector reform is encouraging (MEFP ¶31). The authorities continue to pursue their strategy of diversifying sources of energy, including renewable sources, to reduce the relatively high cost of electricity for households and businesses. Two new solar plants came on line in 2016, with four more planned for 2017, for a total of 120MW of additional capacity. Low global oil prices contributed significantly to the decision to lower electricity tariffs in early 2017 by an average of 10 percent, and further reductions would depend on reforms to increase efficiency at the electricity company SENELEC, as well as continued progress on diversification of energy sources. An announcement in early May 2017 of another major gas find offshore in Northern Senegal highlights the potential for increased oil and gas production in Senegal to alter significantly the country's energy landscape over the medium to long term.

24. Strengthening the business environment and governance, including in the SEZ, would boost domestic and foreign private investment (MEFP ¶26-28). The PSE recognizes the need to create an enabling environment for private investment through public investment in infrastructure and reforms. While some progress has been made on the former, to achieve sustained private investment and growth, faster progress is needed on the latter, given Senegal's current ranking of 147 out of 190 countries on the World Bank Doing Business Index. The second phase of the strategy to strengthen the business environment and competitiveness (PREAC 2016–18) provides a good roadmap. In the near term, the authorities are committed to using technology to facilitate the logistics of starting a business and getting permits, as well as land and judicial reforms, including creation of a commercial court. While implementation of broad reforms may take time, revamping the rules governing SEZs offers an opportunity to rapidly establish the business environment which could attract substantial domestic and foreign investors in the short term.[11]

[10] All standard indicators of the rate of financial inclusion increased in 2016. Efforts to introduce electronic money have been particularly notable. With the assistance of development partners, the authorities plan to implement the WAEMU regional strategy on financial inclusion, as well as giving decentralized financial systems access to BCEAO liquidity and promoting Islamic banking microfinance products.

[11] The key is to shift the emphasis from 50-year tax holidays to a regulatory regime that is rules-based and transparent. In the SEZs, since the special interests are limited, it should be possible to have a regime that allows businesses to begin operations based on ex-post verification, rather than ex-ante authorization. The tax regime should have reasonable rates paid by all in a system that is transparent, easy to comply with and easy to enforce. The enabling legislation to move in this direction has now been passed and the mission urged the authorities to accelerate implementation.

PROGRAM ISSUES

25. The previously agreed quantitative Assessment Criteria (ACs) for 2017 remain as initially programmed and understandings were reached with the authorities on new structural benchmarks and a new AC on government borrowing. All end-December 2016 ACs and four of the seven end-March 2017 Indicative Targets (ITs) were met. Of the three unmet end-March 2017 ITs, the net/lending borrowing preliminary data and analysis shows that it was missed by a wide margin due to frontloading of capital spending and the authorities remain committed to meeting their 2017 fiscal deficit target. Of the five SBs to be implemented from December 2016 through end-March 2017, three were met, with the finalization of the draft decree establishing the National Debt Committee implemented with delay and the establishment of accrual based accounting not yet implemented. The latter objective, part of Senegal's WAEMU commitments, is being given lower priority by the authorities in view of the urgency to control Treasury operations. A new timeframe will be established next year as part of a review of implementation of Senegal's WAEMU commitments. For end-March 2017, the medium-term budget framework and the internal audit of Treasury operations were implemented. Six new SBs are proposed for the fifth and sixth reviews of the PSI. They relate to: (i) expanding and finalizing the end-March 2017 audit of Treasury operations and adoption of a decree establishing the conditions for the opening, operation and closing of *comptes de dépôt* (fifth review); (ii) implementing the new DGID organization (fifth review); (iii) adopting a statutory instrument enabling tele-declaration and tele-payment of taxes for medium-sized enterprises by 2018 (sixth review); (iv) selecting the IT service providers for the implementation of the basic infrastructure of the MTAX (sixth review); (v) establishing the public investment selection committee (sixth review); and (vi) implementing the tax expenditure reduction action plan (sixth review). To ensure that public debt is consistent with the fiscal consolidation path, a new AC on total gross government borrowing is proposed. This new AC is measured on an annual basis and puts a ceiling on the government's total borrowing requirement which consists of net borrowing to finance the deficit and Treasury operations [12] (**TMU ¶20-23)**.

26. The implementation of the authorities' Economic Development Document (EDD) is on track. Staff has conducted a Poverty Reduction Strategy (PRS) Implementation Review as part of the fourth review under the PSI. Senegal's PRS is provided by the PSE, the authorities' strategy to increase growth and reduce poverty while preserving macroeconomic stability and debt sustainability. The PSE goal of reaching high growth is on track with rates above 6 percent real GDP growth since 2015. Progress has been made on increasing tax revenues and on rationalizing current expenditures to create fiscal space for financing infrastructure and social expenditure. Inter alia, this has opened space to first introduce and then expand a conditional cash transfer program that was designed with assistance from the World Bank. The gradual shift from public consumption to public investment in infrastructure and human capital has allowed for the implementation high social-content projects including rural electrification and for the equalization of rural rates with urban ones. Progress has also been made in improving the quality of expenditure, including

[12] Staff will discuss with the authorities reporting capacity for a move to semi-annual targets starting in 2018.

investment, and in strengthening public financing, transparency, and economic governance. The authorities continue to be committed to accelerating structural reforms to foster a more attractive business environment including creating space for SMEs to emerge from the informal sector, thereby creating employment opportunities for young people. Whilst it is too early to have precise estimates of the impact on poverty reduction, the package of policies has unlocked inclusive growth including in agriculture. We would, therefore, expect the next Household Survey to show that a significant reduction in poverty has been achieved.

STAFF APPRAISAL

27. Sustaining high levels of growth over the medium term will require steadfast implementation of structural reforms. The roadmap to high growth outlined in the PSE requires implementation of high quality infrastructure projects and reforms to facilitate domestic and foreign private investment. Progress has been made on public investment, including in the energy sector, but faster progress is needed on reforms to strengthen the business environment and governance. Judicial and land reform, combined with greater access to data for the credit bureau could help boost credit to SMEs. A Special Economic Zone (SEZ) governed by high standards for economic governance and a low corporate tax rate paid by all could act as a catalyst for Senegal to reach its high potential as a hub for globally competitive production.

28. Fiscal consolidation remains on track, but efforts to strengthen Treasury operations are needed to ensure long-term fiscal sustainability. The authorities remain committed to their fiscal consolidation path with the aim of meeting the WAEMU 3 percent of GDP fiscal deficit target in 2018. This has been achieved by increasing revenue collection, while containing current expenditures, including the wage bill. Continued efforts to raise revenues through revenue administration reforms and a reduction of tax expenditures will create space to increase much needed public investment, while meeting WAEMU targets. In addition, reforms to address weaknesses in Treasury operations are needed to contain additional financing needs and ensure fiscal sustainability. In this context, immediate reforms to reduce the structural deficits of the Post Office and civil service pensions are needed, as well as PFM reforms to limit the carry-over of unutilized appropriations from previous budgets.

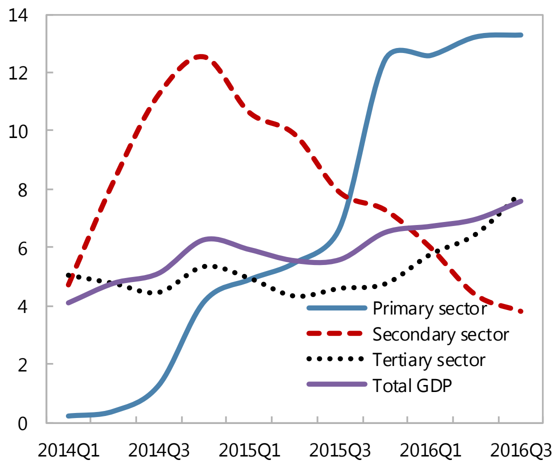
29. The outlook is broadly positive and risks to Senegal's economy remain manageable. Growth is projected to increase slightly above 7 percent over the medium term, if the necessary reforms are implemented. The primary risks facing the economy are domestic. If reforms to increase the efficiency of public investment and promote private investment are not implemented in a sustained and timely manner, Senegal could lose its growth momentum. In addition, reforms to address weakness in Treasury operations and higher borrowing costs could also adversely impact debt dynamics. Security risks in the region could adversely affect investment and, hence, growth and exports.

30. Staff recommends completion of the fourth PSI review and approval of the one-year extension of the PSI. All quantitative assessment criteria and indicative targets for end-December 2016 and four of the seven end-March 2017 ITs were met.

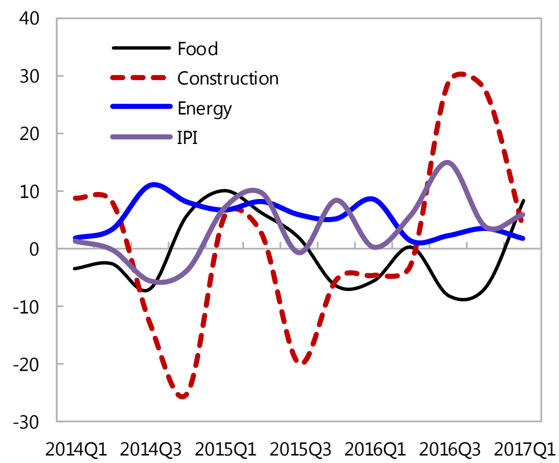
Figure 1. Senegal: High Frequency Indicators

Indicators suggest relatively broad based contribution to high growth.

Real GDP Growth
(Annual percentage change, quarterly basis)

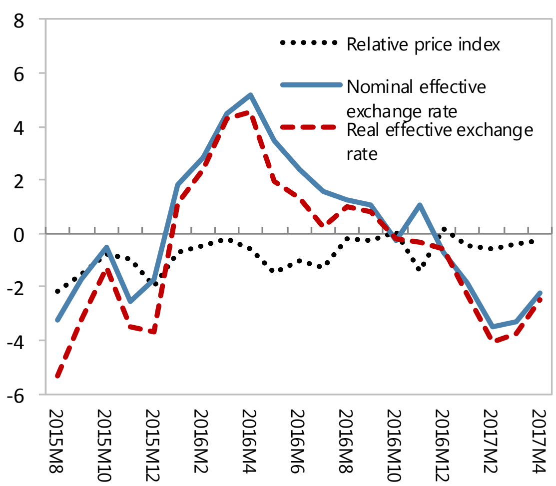


Industrial Production Index
(Annual percentage change, quarterly basis)



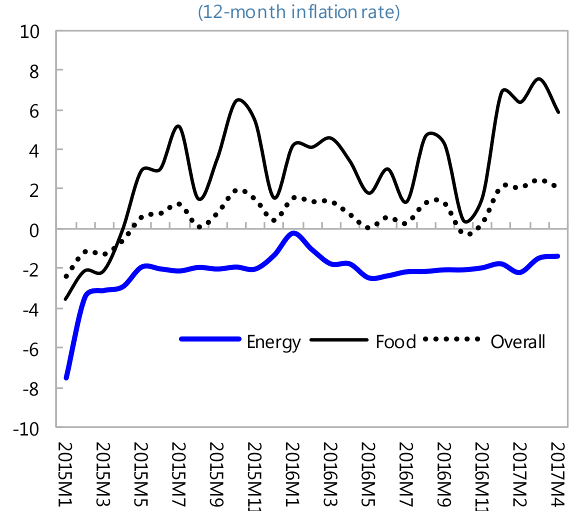
Recent gains in price competitiveness have been only partially reversed in the past few months

Effective Exchange Rate
(12-month percentage change)



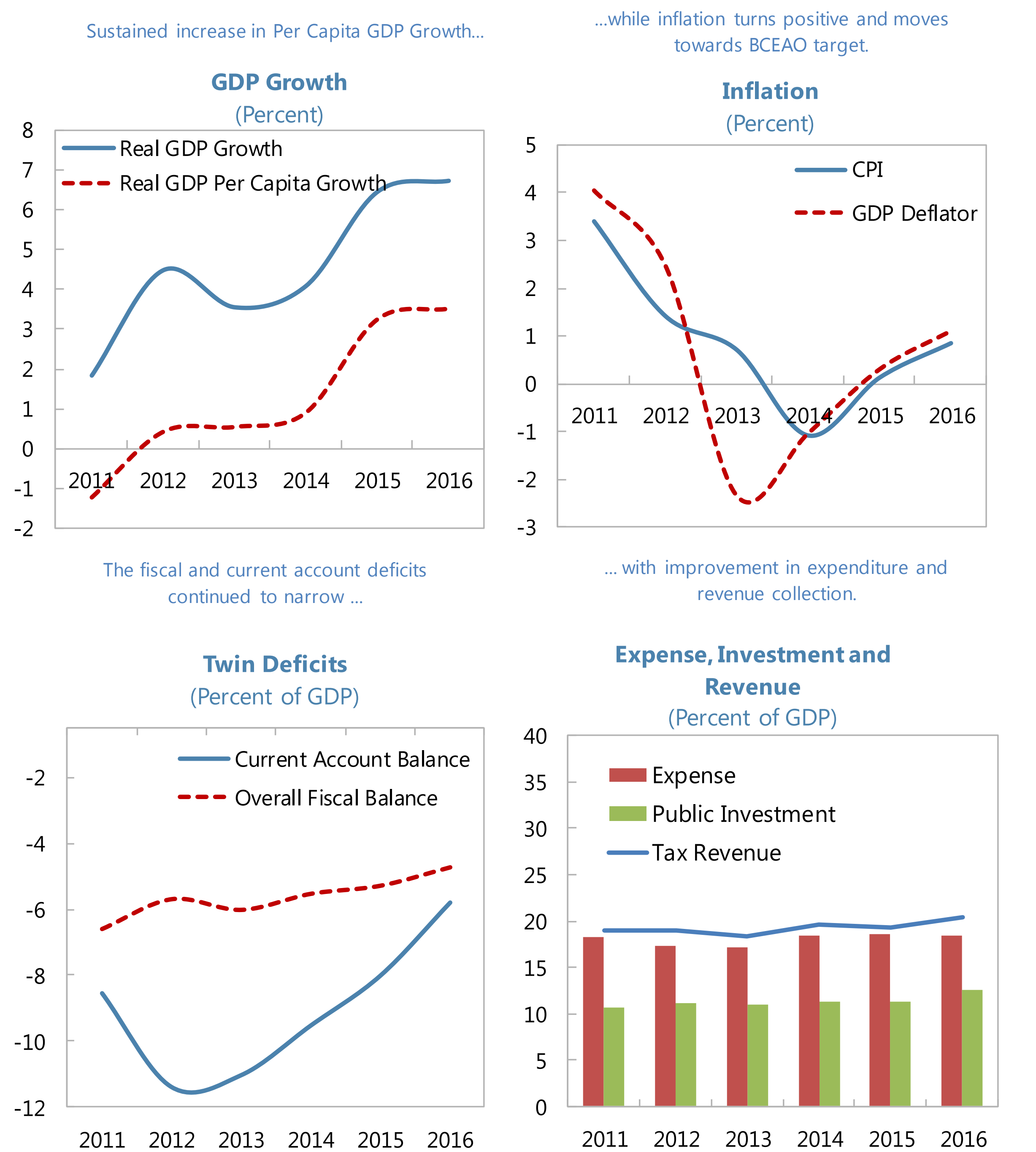
After being negative for more than a year, inflation became positive last year driven by food price increases

CPI Inflation
(12-month inflation rate)



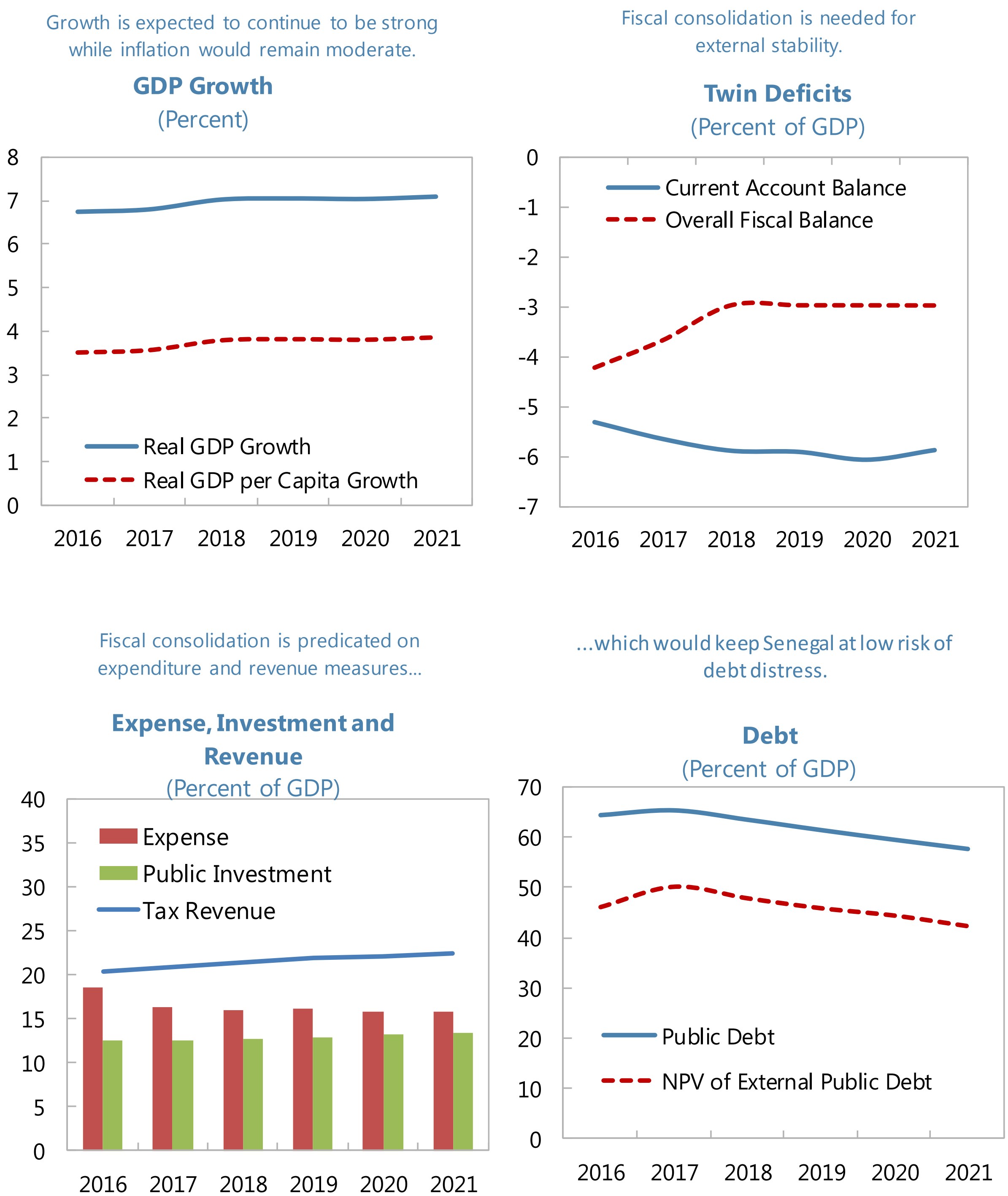
Sources: Senegal authorities; and IMF staff calculations.

Figure 2. Senegal: Recent Developments



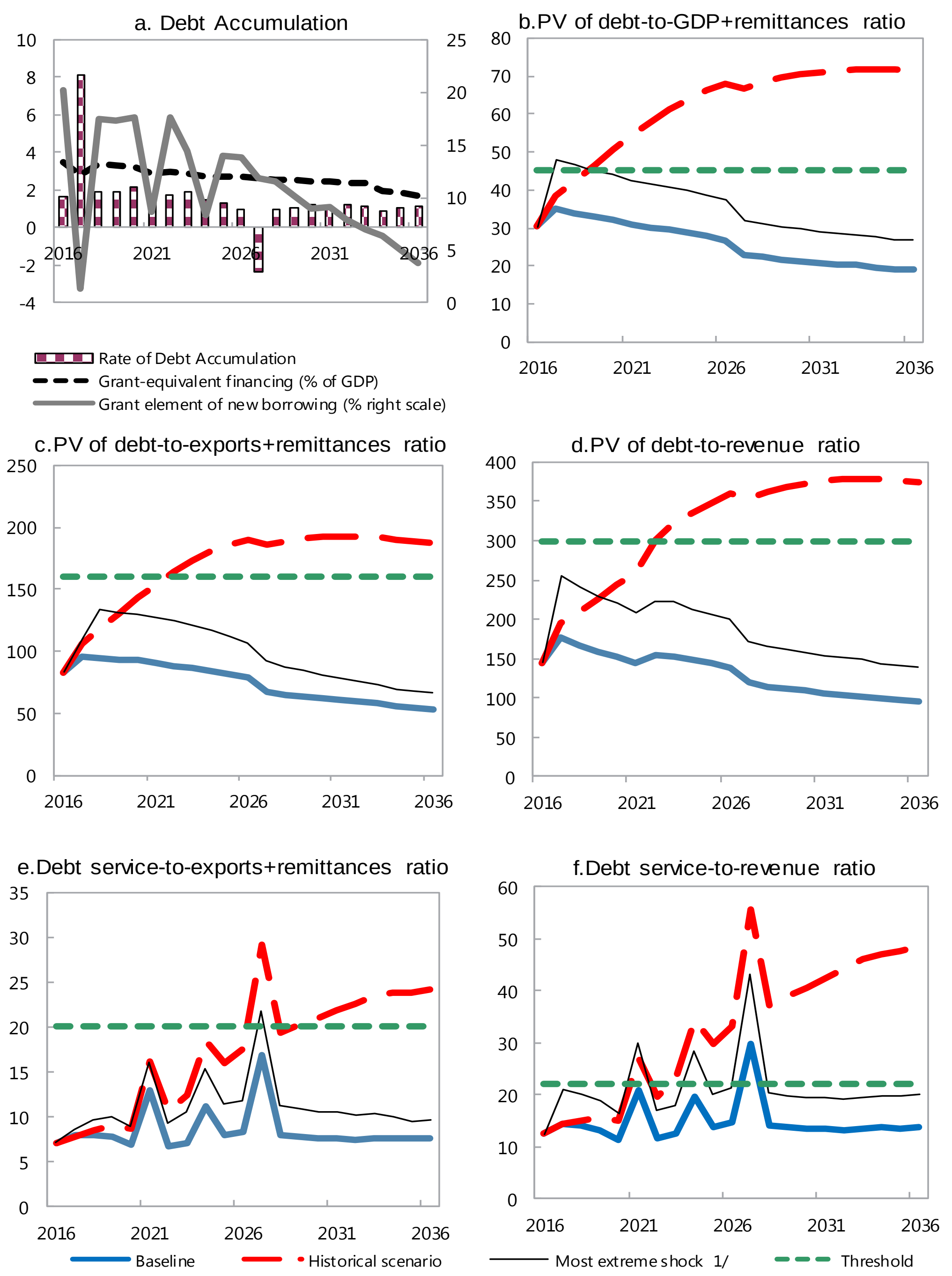
Sources: Senegal authorities; and IMF staff calculations.

Figure 3. Senegal: Medium-Term Projections



Sources: Senegal authorities; and IMF staff calculations.

Figure 4. Senegal: External Debt Sustainability



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2026. In figure b. it corresponds to a One-time depreciation shock; in c. to a Exports shock; in d. to a One-time depreciation shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

Table 1. Senegal: Selected Economic and Financial Indicators, 2015–21

	2015	2016		2017	2018	2019	2020	2021
	Act.	CR 17/1	Prel.	Projections				
	(Annual percentage change)							
National income and prices								
GDP at constant prices	6.5	6.6	6.7	6.8	7.0	7.1	7.1	7.1
Of which: nonagriculture GDP	5.2	6.1	6.8	6.6	6.8	6.9	6.9	7.0
GDP deflator	0.3	1.8	1.1	1.9	1.9	1.7	1.7	1.8
Consumer prices								
Annual average	0.1	1.1	0.9	2.1	2.2	2.2	2.2	2.2
End of period	0.4	1.5	2.1	2.0	2.2	2.2	2.2	2.2
External sector								
Exports, f.o.b. (CFA francs)	13.3	2.8	-0.8	15.4	7.9	8.8	9.9	10.2
Imports, f.o.b. (CFA francs)	2.9	2.4	-4.3	12.1	8.2	8.0	8.2	8.2
Export volume	15.5	7.8	13.3	4.8	6.2	7.2	8.2	8.4
Import volume	13.3	8.6	6.2	7.0	7.1	8.0	8.4	8.5
Terms of trade ("–" = deterioration)	8.0	1.2	-2.8	5.1	0.6	1.6	1.8	1.9
Nominal effective exchange rate	-3.9	…	2.0	…	…	…	…	…
Real effective exchange rate	-5.9	…	1.4	…	…	…	…	…
	(Changes in percent of beginning-of-year broad money)							
Broad money	13.4	8.5	12.0	10.0	…	…	…	…
Net domestic assets	9.0	10.7	11.1	6.1	…	…	…	…
Domestic credit	8.5	9.9	12.1	7.8	…	…	…	…
Credit to the government (net)	3.7	0.2	7.6	0.5	…	…	…	…
Credit to the economy (net)	4.8	10.3	4.6	7.3	…	…	…	…
	(Percent of GDP, unless otherwise indicated)[1]							
Government financial operations								
Revenue	25.1	26.4	26.8	25.1	25.7	26.0	26.0	26.3
Grants	2.9	2.7	2.8	2.6	2.7	2.7	2.6	2.5
Total expenditure	29.9	30.7	31.0	28.8	28.7	29.0	29.0	29.3
Net lending/borrowing (Overall Balance)								
Excluding grants	-7.7	-7.0	-7.0	-6.3	-5.7	-5.6	-5.6	-5.4
Including grants	-4.8	-4.2	-4.2	-3.7	-3.0	-3.0	-3.0	-3.0
Primary fiscal balance	-2.8	-2.4	-2.1	-1.5	-0.8	-0.8	-0.8	-0.9
Savings and investment								
Current account balance (official transfers included)	-7.5	-6.5	-5.3	-5.6	-5.9	-5.9	-6.1	-5.9
Current account balance (official transfers excluded)	-8.3	-7.3	-6.2	-6.4	-6.7	-6.7	-6.8	-6.6
Gross domestic investment	25.2	27.2	26.9	27.1	27.4	27.8	28.1	28.4
Government[1]	6.8	7.7	7.5	7.5	7.6	7.7	7.9	8.1
Nongovernment	18.4	19.4	19.3	19.6	19.8	20.0	20.2	20.3
Gross national savings	17.7	20.7	21.5	21.5	21.5	21.9	22.0	22.5
Government	2.0	3.5	3.3	3.8	4.6	4.8	4.9	5.1
Nongovernment	15.7	17.2	18.3	17.6	16.9	17.1	17.1	17.4
Total public debt	56.9	59.3	60.6	62.1	60.6	58.7	57.0	55.3
Domestic public debt[2]	15.8	19.3	14.6	12.1	12.8	13.0	12.7	13.1
External public debt	41.1	39.9	46.0	50.0	47.7	45.7	44.3	42.1
External public debt service								
Percent of exports	8.8	8.9	11.5	13.4	10.8	10.4	8.7	16.7
Percent of government revenue	12.8	11.0	14.0	16.1	13.1	12.6	10.7	19.9
Memorandum item:								
Gross domestic product (CFAF billions)	8,082	8,763	8,722	9,494	10,353	11,273	12,277	13,385
Gross domestic product (USD billions)	13.7	14.8	14.7	…	…	…	…	…
National Currency per U.S. Dollar (average)	591	593	593	…	…	…	…	…

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

[1] Reflects reclassification of public investment.

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

Table 2. Senegal: Balance of Payments, 2015–21
(Billions of CFAF)

	2015	2016	2017	2018	2019	2020	2021
	Act.	Prel.	Projections				
	(Billions of CFAF, unless otherwise indicated)						
Current account	-607	-464	-536	-609	-665	-743	-785
Balance on goods	-1,281	-1,169	-1,255	-1,364	-1,457	-1,538	-1,616
Exports, f.o.b.	1,669	1,656	1,911	2,062	2,244	2,466	2,717
Imports, f.o.b.	-2,950	-2,825	-3,167	-3,425	-3,701	-4,004	-4,333
Services and incomes (net)	-342	-390	-408	-438	-470	-503	-533
Credits	875	892	902	942	984	1,027	1,071
Debits	-1,217	-1,281	-1,310	-1,380	-1,454	-1,529	-1,604
Of which: interest on public debt	-202	-223	-164	-189	-200	-209	-206
Unrequited current transfers (net)	1,016	1,095	1,127	1,193	1,262	1,297	1,363
Private (net)	964	1,022	1,086	1,139	1,195	1,230	1,291
Public (net)	52	72	41	54	67	67	72
Of which: budgetary grants	31	38	35	47	60	61	66
Capital and financial account	762	501	707	600	749	654	757
Capital account	207	210	222	234	247	259	273
Private capital transfers	8	8	10	10	11	11	11
Project grants	200	204	215	227	240	262	266
Debt cancellation and other transfers	-2	-3	-3	-3	-3	-3	-3
Financial account	556	291	485	366	502	395	483
Direct investment	223	143	236	301	339	371	400
Portfolio investment (net)	198	321	553	105	158	-10	83
Of which: Eurobond issuance	0	0	684	0	0	0	0
Other investment	134	-173	-304	-40	5	34	1
Public sector (net)	181	157	-78	209	225	273	198
Of which: disbursements	279	309	147	380	407	424	678
program loans	68	74	43	90	98	106	106
project loans	211	220	104	230	239	248	257
other	0	15	0	60	70	70	315
amortization	-98	-152	-225	-171	-182	-151	-478
Private sector (net)	-42	-244	-226	-248	-220	-239	-198
Errors and omissions	-6	-86	0	0	0	0	0
Overall balance	155	37	171	-9	83	-90	-29
Financing	-155	-37	-171	9	-83	90	29
Net foreign assets (BCEAO)	-99	-37	-171	9	-83	90	29
Net use of IMF resources	-19	-27	-27	-26	-18	-3	-1
Purchases/disbursements	0	0	0	0	0	0	0
Repurchases/repayments	-19	-27	-27	-26	-18	-3	-1
Other	-80	-10	-144	35	-65	93	29
Deposit money banks	-56	0	0	0	0	0	0
Residual financing gap	0	0	0	0	0	0	0
Memorandum items:							
Current account balance							
Including current official transfers (percent of GDP)	-7.5	-5.3	-5.6	-5.9	-5.9	-6.1	-5.9
Excluding current official transfers (percent of GDP)	-8.3	-6.2	-6.4	-6.7	-6.7	-6.8	-6.6
Gross official reserves (imputed reserves, billions of US$)	2.0	2.0	2.3	2.3	2.4	2.3	2.2
(Percent of broad money)	30.7	28.3	29.2	26.6	25.9	22.3	20.1
(Months of imports)	3.9	4.2	4.3	4.0	3.9	3.4	3.1
WAEMU gross official reserves (billions of US$)	12.4	…	…	…	…	…	…
(Percent of broad money)	45.0	…	…	…	…	…	…
(Months of WAEMU imports of GNFS)	4.6	3.7	3.5	3.9	4.0	4.0	4.0
Gross domestic product	8,082	8,722	9,494	10,353	11,273	12,277	13,385

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

Table 3. Senegal: Balance of Payments, 2015–21
(Percent of GDP)

	2015	2016	2017	2018	2019	2020	2021
	Act.	Prel.	Projections				
	(Percent of GDP, unless otherwise indicated)						
Current account	-7.5	-5.3	-5.6	-5.9	-5.9	-6.1	-5.9
Balance on goods	-15.9	-13.4	-13.2	-13.2	-12.9	-12.5	-12.1
Exports, f.o.b.	20.7	19.0	20.1	19.9	19.9	20.1	20.3
Imports, f.o.b.	-36.5	-32.4	-33.4	-33.1	-32.8	-32.6	-32.4
Services and incomes (net)	-4.2	-4.5	-4.3	-4.2	-4.2	-4.1	-4.0
Credits	10.8	10.2	9.5	9.1	8.7	8.4	8.0
Debits	-15.1	-14.7	-13.8	-13.3	-12.9	-12.5	-12.0
Of which: interest on public debt	-2.5	-2.6	-1.7	-1.8	-1.8	-1.7	-1.5
Unrequited current transfers (net)	12.6	12.5	11.9	11.5	11.2	10.6	10.2
Private (net)	11.9	11.7	11.4	11.0	10.6	10.0	9.6
Public (net)	0.6	0.8	0.4	0.5	0.6	0.5	0.5
Of which: budgetary grants	0.4	0.4	0.4	0.5	0.5	0.5	0.5
Capital and financial account	9.4	5.7	7.4	5.8	6.6	5.3	5.7
Capital account	2.6	2.4	2.3	2.3	2.2	2.1	2.0
Private capital transfers	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Project grants	2.5	2.3	2.3	2.2	2.1	2.1	2.0
Debt cancellation and other transfers	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	6.9	3.3	5.1	3.5	4.5	3.2	3.6
Direct investment	2.8	1.6	2.5	2.9	3.0	3.0	3.0
Portfolio investment (net)	2.5	3.7	5.8	1.0	1.4	-0.1	0.6
Of which: Eurobond issuance	0.0	0.0	7.2	0.0	0.0	0.0	0.0
Other investment	1.7	-2.0	-3.2	-0.4	0.0	0.3	0.0
Public sector (net)	2.2	1.8	-0.8	2.0	2.0	2.2	1.5
Of which: disbursements	3.5	3.5	1.5	3.7	3.6	3.5	5.1
program loans	0.8	0.8	0.5	0.9	0.9	0.9	0.8
project loans	2.6	2.5	1.1	2.2	2.1	2.0	1.9
other	0.0	0.2	0.0	0.6	0.6	0.6	2.4
amortization	-1.2	-1.7	-2.4	-1.7	-1.6	-1.2	-3.6
Private sector (net)	-0.5	-2.8	-2.4	-2.4	-2.0	-1.9	-1.5
Errors and omissions	-0.1	-1.0	0.0	0.0	0.0	0.0	0.0
Overall balance	1.9	0.4	1.8	-0.1	0.7	-0.7	-0.2
Financing	-1.9	-0.4	-1.8	0.1	-0.7	0.7	0.2
Net foreign assets (BCEAO)	-1.2	-0.4	-1.8	0.1	-0.7	0.7	0.2
Net use of IMF resources	-0.2	-0.3	-0.3	-0.3	-0.2	0.0	0.0
Purchases/disbursements	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repurchases/repayments	-0.2	-0.3	-0.3	-0.3	-0.2	0.0	0.0
Other	-1.0	-0.1	-1.5	0.3	-0.6	0.8	0.2
Deposit money banks	-0.7	0.0	0.0	0.0	0.0	0.0	0.0
Residual financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum item:							
Gross domestic product (CFAF billions)	8,082	8,722	9,494	10,353	11,273	12,277	13,385

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

Table 4. Senegal: Government and FSE Financial Operations, GFSM 2001 Classification,[1] 2015–21

(Billions of CFAF)

	2015	2016	2017	2018	2019	2020	2021
	Act.	Prel.	Projections				
	(CFAF billions)						
Revenue	2,026	2,335	2,384	2,662	2,931	3,198	3,519
Taxes	1,597	1,789	1,986	2,211	2,466	2,715	2,997
Taxes on income, profits, and capital gains	435	513	556	611	700	754	830
Taxes on payroll and workforce	20	17	23	23	25	25	27
Taxes on property	31	30	32	52	90	147	201
Taxes on goods and services	855	960	978	1,116	1,228	1,339	1,475
Taxes on international trade and transactions	228	235	260	310	325	334	366
Other taxes	27	34	137	100	98	116	99
Grants	232	244	250	284	300	323	332
Budget	31	38	35	47	60	61	66
Projects	200	204	215	227	240	252	266
Other revenue	197	302	148	167	166	160	190
Expenditure	2,413	2,704	2,733	2,969	3,265	3,562	3,916
Expense	1,504	1,613	1,543	1,659	1,811	1,945	2,117
Compensation of employees	526	572	584	633	685	734	818
Use of goods and services	384	322	343	383	443	496	535
Interest	160	188	204	221	245	266	270
Foreign	126	140	118	141	149	158	155
Domestic	34	48	86	80	96	108	115
Subsidies[2]	51	52	45	45	38	42	48
of which: subsidies to SENELEC financed by FSE	0	20	0	0	0	0	0
of which: SENELEC from budget	0	0	0	0	0	0	0
of which: Fuel subsidies	0	14	0	0	0	0	0
Grants (current excl. FSE)	216	284	244	238	221	241	276
Social benefits	60	6	5	7	7	7	9
Other expense	108	189	117	132	172	159	161
Net acquisition of nonfinancial assets	909	1,091	1,190	1,310	1,454	1,616	1,799
Net lending/borrowing *(Overall balance)*	-387	-369	-349	-307	-334	-364	-397
Transactions in financial assets and liabilities (Financing)	-387	-369	-349	-307	-334	-364	-397
Net acquisition of financial assets	-100	41	0	-21	10	10	10
Domestic	-145	41	0	-21	10	10	10
Currency and deposits	-128	10	0	-21	10	10	10
Debt securities	13	0	0	0	0	0	0
Loans	0	0	0	0	0	0	0
Other accounts receivable	-29	31	0	0	0	0	0
Net incurrence of liabilities	287	410	349	286	344	374	407
Domestic	-99	-72	-248	-49	-83	84	102
IMF and SDRs	-19	-27	-27	-26	-18	-3	-1
Debt securities (net)	33	171	-2	52	-65	87	102
Loans	-57	0	-69	0	0	0	0
Other accounts payable[3]	-56	-216	-150	-75	0	0	0
Foreign	385	483	597	336	427	290	305
Debt securities (net)	204	110	449	52	202	16	105
T-bills and bonds issued in WAEMU	204	326	-85	127	202	16	105
Eurobond	0	0	684	0	0	0	0
Loans	181	157	-3	209	225	274	200
Program loans	68	74	43	90	98	106	106
Project loans	211	220	104	230	239	248	257
Nonconcessional loans	0	15	0	60	61	54	293
Other	-98	-152	-150	-171	-173	-135	-456
Other accounts payable	0	0	0	0	0	0	0
Errors and omisions	0	0	0	0	0	0	0
Memorandum items:							
Total Financing (deficit +nonbudgetary additional borrowing)	...	585	499	382	334	364	397
Change in net worth: Transactions	522	722	841	1,003	1,120	1,253	1,402
Net lending /borrowing *(excluding grants)*	522	722	841	1,003	1,120	1,253	1,402
Nominal GDP	8,082	8,722	9,494	10,353	11,273	12,277	13,385

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

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

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

[3] Starting in 2016, Treasury operations to finance (i) Post office operations (Poste and Poste Finance), (ii) pensions (Fonds National de Retraites), and (iii) reduction of stock of comptes de dépôts.

Table 5. Senegal: Government and FSE Financial Operations, GFSM 2001 Classification[1], 2015–21

(Percent of GDP)

	2015	2016	2017	2018	2019	2020	2021
	Act.	Prel.	Projections				
		(Percent of GDP, unless otherwise indicated)					
Revenue	25.1	26.8	25.1	25.7	26.0	26.0	26.3
Taxes	19.8	20.5	20.9	21.4	21.9	22.1	22.4
Taxes on income, profits, and capital gains	5.4	5.9	5.9	5.9	6.2	6.1	6.2
Taxes on payroll and workforce	0.3	0.2	0.2	0.2	0.2	0.2	0.2
Taxes on property	0.4	0.3	0.3	0.5	0.8	1.2	1.5
Taxes on goods and services	10.6	11.0	10.3	10.8	10.9	10.9	11.0
Taxes on international trade and transactions	2.8	2.7	2.7	3.0	2.9	2.7	2.7
Other taxes	0.3	0.4	1.4	1.0	0.9	0.9	0.7
Grants	2.9	2.8	2.6	2.7	2.7	2.6	2.5
Budget	0.4	0.4	0.4	0.5	0.5	0.5	0.5
Projects	2.5	2.3	2.3	2.2	2.1	2.1	2.0
Other revenue	2.4	3.5	1.6	1.6	1.5	1.3	1.4
Expenditure	29.9	31.0	28.8	28.7	29.0	29.0	29.3
Expense	18.6	18.5	16.2	16.0	16.1	15.8	15.8
Compensation of employees	6.5	6.6	6.2	6.1	6.1	6.0	6.1
Use of goods and services	4.8	3.7	3.6	3.7	3.9	4.0	4.0
Interest	2.0	2.2	2.2	2.1	2.2	2.2	2.0
Foreign	1.6	1.6	1.2	1.4	1.3	1.3	1.2
Domestic	0.4	0.5	0.9	0.8	0.8	0.9	0.9
Subsidies [2]	0.6	0.6	0.5	0.4	0.3	0.3	0.4
Of which: subsidies to SENELEC financed by FSE	0.0	0.2	0.0	0.0	0.0	0.0	0.0
Of which: SENELEC from budget	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Of which: Fuel subsidies	0.0	0.2	0.0	0.0	0.0	0.0	0.0
Grants (current excl. FSE)	2.7	3.3	2.6	2.3	2.0	2.0	2.1
Social benefits	0.7	0.1	0.1	0.1	0.1	0.1	0.1
Other expense	1.3	2.2	1.2	1.3	1.5	1.3	1.2
Net acquisition of nonfinancial assets	11.2	12.5	12.5	12.7	12.9	13.2	13.4
Net lending/borrowing *(Overall balance)*	-4.8	-4.2	-3.7	-3.0	-3.0	-3.0	-3.0
Transactions in financial assets and liabilities (Financing)	-4.8	-4.2	-3.7	-3.0	-3.0	-3.0	-3.0
Net acquisition of financial assets	-1.2	0.5	0.0	-0.2	0.1	0.1	0.1
Domestic	-1.8	0.5	0.0	-0.2	0.1	0.1	0.1
Currency and deposits	-1.6	0.1	0.0	-0.2	0.1	0.1	0.1
Debt securities	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts receivable	-0.4	0.4	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	3.5	4.7	3.7	2.8	3.1	3.0	3.0
Domestic	-1.2	-0.8	-2.6	-0.5	-0.7	0.7	0.8
IMF and SDRs	-0.2	-0.3	-0.3	-0.3	-0.2	0.0	0.0
Debt securities (net)	0.4	2.0	0.0	0.5	-0.6	0.7	0.8
Loans	-0.7	0.0	-0.7	0.0	0.0	0.0	0.0
Other accounts payable[3]	-0.7	-2.5	-1.6	-0.7	0.0	0.0	0.0
Foreign	4.8	5.5	6.3	3.2	3.8	2.4	2.3
Debt securities (net)	2.5	1.3	4.7	0.5	1.8	0.1	0.8
T-bills and bonds issued in WAEMU	2.5	1.3	-2.5	0.5	1.8	0.1	0.8
Eurobond	0.0	0.0	7.2	0.0	0.0	0.0	0.0
Loans	2.2	1.8	0.0	2.0	2.0	2.2	1.5
Program loans	0.8	0.8	0.5	0.9	0.9	0.9	0.8
Project loans	2.6	2.5	1.1	2.2	2.1	2.0	1.9
Nonconcessional loans	0.0	0.2	0.0	0.6	0.5	0.4	2.2
Other	-1.2	-1.7	-1.6	-1.7	-1.5	-1.1	-3.4
Other accounts payable	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:							
Total Financing (deficit +nonbudgetary additional borrowing)	…	6.7	5.3	3.7	3.0	3.0	3.0
Change in net worth: Transactions	6.5	8.3	8.9	9.7	9.9	10.2	10.5
Net lending /borrowing *(excluding grants)*	6.5	8.3	8.9	9.7	9.9	10.2	10.5
Nominal GDP	8,082	8,722	9,494	10,353	11,273	12,277	13,385

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

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

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

[3] Starting in 2016, Treasury operations to finance (i) Post office operations (Poste and Poste Finance), (ii) pensions (Fonds National de Retraites), and (iii) reduction of stock of comptes de dépôts.

Table 6. Senegal: Monetary Survey, 2014–17

	2014	2015	2016	2017
	Act.		Prel.	Proj.
	(Billions of CFAF)			
Net foreign assets	1,078	1,233	1,270	1,441
BCEAO	865	963	1,000	1,171
Commercial banks	213	270	270	270
Net domestic assets	2,407	2,720	3,158	3,428
Net domestic credit	2,638	2,933	3,413	3,759
Net credit to the government[1]	70	198	498	519
Central bank	-75	46	9	-17
Commercial banks	142	149	488	536
Other institutions	13	26	26	26
Credit to the economy	2,568	2,735	2,915	3,240
Other items (net)	-231	-213	-255	-331
Broad money	3,485	3,953	4,428	4,869
Currency outside banks	685	807	904	994
Total deposits	2,799	3,146	3,524	3,875
Demand deposits	1,430	1,737	1,946	2,140
Time deposits	1,370	1,409	1,578	1,735
	(Change in percentage of beginning-of-period broad money stock)			
Net foreign assets	7.0	4.4	0.9	3.9
BCEAO	3.2	2.8	0.9	3.9
Commercial banks	3.8	1.6	0.0	0.0
Net domestic assets	4.4	9.0	11.1	6.1
Net credit to the government[1]	-2.6	3.7	7.6	0.5
Credit to the economy (net)	4.9	4.8	4.6	7.3
Other items (net)	2.1	0.5	-1.1	-1.7
Broad money	11.4	13.4	12.0	10.0
Memorandum items:	(Units indicated)			
Velocity (GDP/broad money; end of period)	2.2	2.0	2.0	2.0
Nominal GDP growth (percentage growth)	3.0	6.8	7.9	8.8
Credit to the economy (percentage growth)	6.4	6.5	6.6	11.2
Credit to the economy/GDP (percent)	33.9	36.1	36.1	34.1
Variation of net credit to the government (yoy; CFAF billions)	-81.3	127.8	299.9	21.1

Sources: BCEAO; and IMF staff estimates and projections.

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

Table 7. Senegal: Financial Soundness Indicators for the Banking Sector, 2008–16

	2008	2009	2010	2011	2012	2013	2014	2015	2016
	December								
	(Percent, unless otherwise indicated)								
Capital Adequacy									
Capital to risk-weighted assets	13.8	16.3	18.0	16.0	16.7	16.4	16.4	16.7	14.8
Regulatory capital to risk-weighted assets	13.9	16.5	18.2	15.9	16.3	15.9	15.9	16.0	14.1
Capital to total assets	9.1	9.3	10.0	9.8	9.6	9.4	9.0	8.5	7.2
Asset Composition and Quality									
Total Loans to Total Assets	62.8	59.5	57.5	60.6	61.4	60.1	58.3	64.3	63.2
Concentration: loans to 5 largest borrowers to capital	100.9	71.7	70.6	69.8	196.7	137.4	166.0	159.8	170.9
Sectoral distribution of loans									
Industrial	19.5	27.5	26.4	22.2	23.8	25.5	23.1	19.8	21.2
Retail and wholesale trade	18.5	24.5	23.8	19.2	21.6	23.8	23.7	21.9	25.3
Services, transportation and communication	31.1	34.1	41.9	34.0	30.6	35.9	41.0	38.7	46.3
Ratio of non-performing loans (NPLs) to total loans	17.4	18.7	20.2	16.2	18.4	19.1	20.8	18.8	17.3
Of which: without ICS	14.2	15.8	15.8	13.2	15.1	14.8	17.6	18.3	17.1
Ratio of provisions for NPLs to total NPLs	51.5	53.1	54.9	54.0	56.1	55.8	58.1	57.9	56.7
Of which: without ICS	65.7	64.7	65.3	68.3	63.0	66.8	60.7	60.0	55.0
NPLs net of provisions to total loans	9.3	9.7	9.1	8.1	8.2	8.6	9.0	7.9	6.5
Of which: without ICS	5.4	6.2	6.1	4.6	6.3	5.6	7.7	8.2	6.3
NPLs net of provisions to capital	63.9	62.3	52.3	50.4	51.4	54.7	57.8	60.2	56.7
Of which: without ICS	35.3	38.4	41.5	35.7	38.8	43.3	53.8	58.1	55.0
Earnings and profitability									
Average cost of borrowed funds	2.8	3.4	2.2	2.0	2.1	1.9	2.0	1.0	2.0
Average interest rate on loans[1]	13.9	15.4	8.1	8.4	8.6	8.1	7.8	12.5	10.5
Average interest margin[2]	11.1	12.0	5.9	6.4	6.6	6.2	5.1	11.5	…
After-tax return on average assets	1.4	1.3	1.6	2.2	1.7	1.3	0.6	1.0	0.8
After-tax return on average equity	13.0	16.0	15.4	22.6	17.4	13.7	6.8	11.9	9.1
Noninterest expenses/net banking income	51.3	60.3	56.7	56.0	57.0	57.6	58.6	60.6	68.7
Salaries and wages/net banking income	21.1	23.0	24.8	23.8	24.4	25.2	25.0	26.1	27.0
Liquidity									
Liquid assets to total assets	…	31.7	39.8	36.1	37.0	42.1	40.8	54.7	57.5
Liquid assets to total deposits	…	49.8	52.4	76.7	52.3	62.9	61.2	80.6	88.1
Total deposits to total liabilities	70.3	74.9	76.0	62.8	70.7	67.0	66.7	75.7	71.9

Source: BCEAO.

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

[2]Excluding the tax on banking operations.

Appendix I. Letter of Intent

Dakar, Senegal
June 6, 2017

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

Madame Managing Director:

1. The government of Senegal requests completion of the fourth review and a one-year extension of support under the Policy Support Instrument (PSI) of its macroeconomic program. The details of this program were set forth in the initial Memorandum of Economic and Financial Policies (MEFP) of June 8, 2015, and in the MEFPs pertaining to subsequent program reviews. The attached MEFP takes stock of program performance at end-December 2016, defines the macroeconomic objectives for 2017, and 2018 and updates the structural reforms monitored under the program.

2. Program implementation remains satisfactory overall. All quantitative assessment criteria and indicative targets under the program at end-December 2016 were met, including the fiscal deficit target, and four of the seven end-March 2017 indicative targets were met. Progress was also made on structural reforms, although the implementation of some measures took a little longer than expected.

3. The fiscal deficit will continue to be reduced in 2017 and beyond. This objective is essentially based on satisfactory revenue collection, effective control of current expenditure, and increased social spending and investment expenditure to support growth. The government plans to address the challenge of mobilizing internal resources by strengthening the tax and customs administrations and by broadening the tax base.

4. Some changes in program monitoring are advisable. The attached memorandum proposes quantitative assessment criteria for end-December 2017 and end-June 2018 in addition to new structural benchmarks. We decided to propose a new assessment criterion on the financing requirement for greater control over debt development.

5. The government believes that the policies and measures set forth in the attached MEFP are appropriate to achieve the objectives of the PSI-supported program. Given its commitment to macroeconomic stability and debt sustainability, the government will promptly take any additional measures needed to achieve the program objectives. The government will consult with the IMF—at its own initiative or whenever the Managing Director of the IMF requests such a consultation—before the adoption of any such measures and in advance of revisions to the measures contained in the attached MEFP, in accordance with the Fund's policy on such

consultation. Moreover, the government will provide the IMF with such information as the Fund may request in connection with the progress made in implementing the economic and financial policies and achieving the program objectives.

6. The government authorizes the IMF to publish this letter, the attached MEFP, and the Staff Report relating to the current review.

Sincerely yours,

/s/

Amadou Ba
Minister of Economy, Finance, and Planning

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

Attachment I. Memorandum of Economic and Financial Policies 2015–18

1. This Memorandum updates the Memorandum of June 8, 2015, on our economic and financial program supported by the Policy Support Instrument (PSI) for 2015–2017. It reviews recent economic developments and describes the policies that the government plans to implement for the remainder of 2017 and in the short term to build on the good macroeconomic results achieved.

RECENT ECONOMIC DEVELOPMENTS

2. On the domestic front, implementation of the Emerging Senegal Plan (*Plan Sénégal Émergent* – PSE) has given a boost to the national economy. By end-2016, the real GDP growth rate was estimated to be 6.7 percent, compared to 6.5 percent in 2015, reflecting renewed momentum in the primary and tertiary sectors, combined with good performance in the secondary sector. In the primary sector, growth was buoyed by not only the performance observed in the fisheries subsector, but also by subsistence farming, affected to a lesser degree by the winter season owing mainly to the good performance of horticulture. In terms of inflation, price trends remained modest in view of the rise in the harmonized consumer price index (HCPI), assessed at 0.8 percent, in a climate of weak commodity prices on the world market. As for foreign trade, the current account deficit is improving from 2015 owing to the impact of declining barrel prices on petroleum product imports and the sharp increase in migrant remittances.

3. Program implementation continues to be satisfactory overall. All quantitative assessment criteria at end-December 2016 were met. The quarterly ceiling on treasury float (CFAF 50 billion) and direct contracting (15 percent), and the floor on social spending (35 percent) were all observed. Tax revenue improvements combined with a continued policy to streamline public consumption expenditure have helped contain the fiscal deficit within the CFAF 372 billion target set by the program. Of the seven indicative targets for end-March 2017, four were met. The three missed are the floor on net lending/borrowing, ceiling on share of public sector contracts signed by a single tender and floor on tax revenue.

4. Significant progress was also made in meeting structural benchmarks. Of the five structural benchmarks (SBs) set for the period from December 2016 to March 2017, three were met. Of the two unmet SBs, one was implemented with delay and one (to establish accrual accounting for opening balances) has not been implemented. The government thus managed to recover more than 50 percent of pending payments (*prises en charge*) recoverable in 2016, a mobilization totaling CFAF 46.5 billion against a target of CFAF 45 billion. This share was increased to more than 60 percent before end-March 2017. With respect to the 2016 financing audit identifying cash flow gaps, the audit report of the General Inspectorate of Finance (*Inspection Générale des Finances*—IGF) has been finalized. The draft text expanding the National Public Debt Committee (*Comité national de dette publique*—CNDP) to other members was also finalized. Compliance with the structural benchmark regarding the decree to create, within the Directorate General of Taxes and Government Property (*Direction générale des impôts et domains* – DGID), an office specializing in the recovery of problem tax claims was underpinned by the global reform of the Ministry of Economy, Finance, and Planning, adopted on March 15, 2017.

5. The government continues to place central focus on the private sector, the lever for consolidating economic growth. In that respect, in order to promote business development, particularly among SMEs, the government opted to create a one-stop shop (*Maison de l'entreprise*) with a view to streamlining and better coordinating the various agencies that provide support to SMEs. A feasibility study is being finalized to that end. In the same vein, tax measures contained in the draft law on SME development will be covered in the General Tax Code (*Code général des impôts*) to remain within the framework of the law on tax incentives and take account of the need to rationalize tax expenditures. Cooperation between the DGID and the Directorate General of Customs (*Direction générale des douanes* – DGD) was strengthened through information sharing owing to the development of an exchange platform, based on the single taxpayer identification number (NINEA), and the operationalization of the automatic exchange of tax data.

MACROECONOMIC POLICY AND STRUCTURAL REFORMS FOR 2018

6. The implementation of PSE reforms and priority projects will be a determining factor in the acceleration of growth. The real GDP growth rate is projected to be 6.8 percent in 2017, reflecting a favorable outlook in the agricultural subsector, industry, and services, in a context of continued government investment and reform, particularly in infrastructure and energy. Inflation is expected to remain moderate in 2017, despite upward trends in oil prices per barrel. The current account deficit should improve as a percentage of GDP, in particular through stronger goods exports and through the control of imports and good performance of worker remittances.

7. In order to keep growth buoyant, make it more inclusive, and fortify the economy's resilience, our program will continue to revolve around the following three pillars: (i) consolidating the government's fiscal space; (ii) strengthening public financial management and governance; and (iii) improving the business environment.

A. Consolidate the Government's Fiscal Space

8. The budget deficit target is set at CFAF 349 billion, or 3.7 percent of GDP in 2017. This target is based essentially on satisfactory revenue collection, effective control of current expenditure, and increased social spending and investment expenditure to support growth.

9. The government plans to address the challenge of mobilizing internal resources by strengthening the tax and customs administrations and broadening the tax base. Focus will be placed on continuing to modernize the tax and customs administrations, strengthening tax policy, and rationalizing tax expenditures. Legislative and/or regulatory measures will be taken to repatriate, in the budget under the 2018 initial budget law, the taxes, duties, fees, and contributions that are not deducted for the benefit of the government budget and that affect operations in the mining and telecommunications sector. In 2017, together with the Energy Support Fund (*Fonds de soutien à l'énergie*—FSE), the Regulatory Authority for Telecommunications and Posts (*Autorité de Régulation des Télécommunications et des Postes*—ARTP), the Government Procurement Regulatory Authority (*Autorité de Régulation des Marchés Publics*—ARMP), the Senegalese Shippers' Council (*Conseil Sénégalais des Chargeurs*—COSEC), and the Autonomous Road Maintenance Fund of Senegal (*Fonds d'Entretien Routier Autonome* *du Sénégal – FERA*), the government will explore the possibility of repatriating a portion of their surplus in the government budget. The DGID will also be involved in the settlement, control, and collection of fees and other mining and oil revenue.

10. DGID modernization continues. To that end, the following measures will be implemented: (i) give effect, prior to the fifth review, to the new DGID organizational structure under the decree approved in April 2017 (structural benchmark); (ii) adopt a statutory instrument by the sixth review making it possible, in 2018, for medium-sized enterprises to file and pay taxes online (structural benchmark); and (iii) launch the implementation of three priority applications selected during the Hackathon organized in 2016 to the benefit of the DGID. This will involve implementing the basic infrastructure of the MTAX platform (application that allows taxpayers to file and pay their taxes using their mobile phones, without Internet access), particularly equipment, a voice server in the local language, and licensing, before the sixth review (structural benchmark). Moreover, following the audit of outstanding payments conducted by the DGID, the government is committed to mobilizing at least 50 percent of tax debt deemed recoverable, with a floor of CFAF 45 billion, by end-December 2017.

11. Customs is continuing its modernization by enhancing automation. The roll-out of the new full version of the computerized customs system GAINDE will be completed by May 2017. This new version is part of the effort to make foreign trade formalities paperless and ultimately contributes to better revenue mobilization. Moreover, it will be used as an optimization lever and a security tool for the Customs IT platform across the region. The implementation of the customs release ticket, used to reduce customs clearance times, will be effective by August 2017 for the purpose of grouping all types of payments exclusive of duties and taxes (customs, port, consignment, etc.). This centralization of customs duty payments, to the exclusion of duties and taxes, also aims to enhance procedural transparency.

12. With respect to tax policy, the potentially identified areas fall under land and mining activities, financial services, and telecommunications. Considerations on the tax system applicable to these sectors should lead to the proposal of legislation on the rationalization and/or simplification of taxation.

13. Further steps will be taken to rationalize tax expenditures. Based on the most recent report (dated 2014) on tax expenditures and the conclusions of the working group established for this purpose, the action plan will be revised by the government. This action plan will be implemented in order to reduce tax expenditures. In this context, useful provisions will be taken to limit discretionary measures and foster a comprehensive approach based on rules published on the Internet applicable to everyone **(structural benchmark for the sixth review).**

14. The momentum to rationalize public consumption expenditures will continue. To that end, the government will continue to ensure strict control of wage bill increases by implementing a policy to revamp recruitment practices in the civil service for the time needed in order to meet the needs and requirements of projects, reforms, and actions contained in the PSE. The structure of the civil service workforce should therefore change with technical profiles and new competencies, in line with the plan to modernize the civil service, combined with the administration of service and results sought by the Head of State. Furthermore, the government will define, in the initial budget law for 2018, job ceilings by ministry and institution, in order to streamline the job creation process, set an overall job quota for all ministries, and oversee recruitment during the year by ministries.

15. Improvement of the quality of public spending financed using internal resources continues to be a major challenge. The government therefore plans, as of the second year of implementation of a project whose total cost is higher than or equal to CFAF 1 billion, to require that payment appropriations be included in the finance law upon production, by the ministry concerned, of a physical and financial implementation report for the previous year. Moreover, in order to steer expenditures toward gross fixed capital formation, the government undertakes to review Decree No. 2012-673 of July 4, 2012, regarding the government's budget nomenclature. Lastly, the integrated project bank will be operational, and a public investment selection committee will be established (**structural benchmark for the sixth review**). An action plan will be implemented to incorporate, into the platform, the flow of projects that are significant in terms of impact on growth.

B. Strengthen Public Financial Management and Governance

16. Public administration reform is ongoing. In the short term, it will focus on the following actions: (i) finalize jointly with the Ministry of Finance, as soon as possible, the development and implementation of the public administration modernization support program; (ii) start preparation of the second edition of the Forum scheduled for 2018; (iii) submit, for approval by the Council of Ministers, the draft regional administration framework law and the draft decree on the Deconcentration Charter (*Charte de la déconcentration*); (iv) accelerate the process of passing the draft law on the Code of Ethics for Public Officials (*Code de déontologie générale des agents publics*); (v) continue to develop the new civil service law, together with a balanced, fair, and attractive remuneration system; and (vi) initiate the process of adopting the Administration Quality Charter (*Charte Qualité de l'Administration*).

17. The government plans to finalize the fiscal and accounting reforms as well as the adjustment and re-engineering of financial information systems over the 2017–2019 period. However, drawing on its recent experience, it intends to find a more tried-and-true strategy, particularly in relation to administrative organization and training for officials. It is not just a matter of establishing the fiscal program structure, but also acting on the quality of public management and the performance of public action. Already, the creation of the Directorate General of Budget (*Direction générale du Budget*—DGB) in place of the Directorate General of Finance (*Direction générale des finances*—DGF) is part of this new approach favoring public spending efficiency.

18. The government will transpose the last two directives of the harmonized public finance framework on, respectively, the financial regime of local authorities and material accounting. They are of capital importance because of their usefulness, particularly in broadening the scope of the table of government financial operations (*Tableau des opérations financières de l'État*—TOFE) relative to the *Government Finance Statistics Manual*.

19. The modernization of the Treasury will continue. More specifically, payment systems and the process of digital transformation and automation of Treasury administration procedures will be modernized in accordance with the 2016–2018 performance contract and the Strategic Development Plan (*Plan de développement stratégique*).

20. The government will consolidate the effectiveness of the second-generation Treasury Single Account (TSA) and will thus finalize the TSA in December 2017. The TSA amplifier is now the Automated Interbank Clearing System (SICA) and Regional Real-Time Gross Settlement System (STAR), the central bank's automated clearing and settlement system whose gradual roll-out will consolidate, on the one hand, the automated settlement of government expenditures through the General Treasurer account at the BCEAO and, on the other hand, the closure of bank accounts for accounting items. Lastly, concerns regarding the account identification and closure process, for which reports are produced, are therefore taken into consideration systematically.

21. The Treasury strategic plan also poses the question of parapublic sector management, in the sense of public limited liability companies. At a time when public resources are increasingly steered toward investment with high value-added and/or strong social utility, it is realistic to turn parapublic sector enterprises into net government budget contributors, instead of entities that generate fiscal risk with negative impacts on the government budget. Every effort will therefore be made to operationalize the government portfolio management strategy through three strong actions: (i) identify government holdings abroad; (2) make the interministerial committee for the restructuring of struggling enterprises operational; and (3) put in place the financing mechanism for plans to restructure struggling enterprises. The government reaffirms its commitment to take every step necessary to privatize SONACOS in 2018 and to streamline the number of agencies.

22. Cash flow management problems persist and have been exacerbated by, in particular, the accumulation of deposit account credit balances and the financial challenges experienced by La Poste, Senegal's postal service. The audit mission conducted by the General Inspectorate of Finance made it possible to perform an exhaustive assessment of the situation, including identifying sources of current cash dispersion, and to draw up a plan for absorbing the gap. The recommendations made include: (i) restructuring SN La Poste; (ii) reforming the National Pension Fund (*Fonds National de Retraite* – FNR); and (iii) thoroughly analyzing the credit balances of deposit accounts and government debt burden-mitigating revenue (*recettes d'ordre*). Pending the restructuring of SN La Poste, the government will proceed with configuring in SICA the clearance of postal checks presented by the clientele, other than in La Poste internal accounts, in strict compliance with the provisions of the agreement binding the corporation to the Treasury.

23. The restructuring of La Poste will be a government priority in 2017. Restructuring action that is decisive but beneficial for both the government and the public service institution, based on a financial and operational diagnosis, will be taken and will essentially revolve around: (i) the signature of an agreement on cross-debt between the government and SN La Poste to clear the clearance arrears; (ii) the recapitalization of the corporation by finding a strategic partner capable of injecting the required resources; and (iii) the separation of Poste Finance from La Poste. The government undertakes to make correct payment for the public service provided by La Poste, and the latter undertakes to pay for postal checking account clearances backed by the Treasury.

24. As a follow-up to the audit on 2016 financing and its recommendations, a specific and detailed audit will be performed on the end-December 2016 credit balances of deposit accounts (comptes de dépôts). The credit balances of clearly identified entities will be subject to clearing over a period to be determined. Other deposit account balances that are unjustified or irrelevant would have to be cancelled. In order to prevent these balances from rebuilding in the future, the new regulatory framework henceforth regulating the conditions for the opening, functioning, and closure of deposit accounts (year-end) must be effective by the fifth review **(structural benchmark)** for application to the 2018 budget.

25. The promotion of good governance continues to be a priority. The national strategy on good governance expiring in 2017 will be revised. The government is committed to harmonizing the tools for measuring the state of governance and equipping Senegal with an objective basis on which to self-assess its governance policy.

C. Business Environment

26. The government organized, in of end-April 2017 jointly with the IMF, a workshop for exchanging best practices on public–private partnerships (PPPs). By the end of this workshop, [an action plan was produced] to facilitate the development of PPPs in Senegal.

27. The Business Environment and Competitiveness Reform Program (*Programme de Réformes de l'Environnement des Affaires et de la Compétitivité* – PREAC) continues to be enhanced with phase 2, covering the period 2016–2018. The first phase of the 2013–2015 PREAC led to significant progress in ranking the attractiveness of Senegal. PREAC II aims to accelerate this momentum and place Senegal among the top 100 countries on the "Doing Business" index and the top 70 on the Global Competitiveness Index of the World Economic Forum in Davos. It is divided into three components: (i) improvement in production and connectivity factors; (ii) continued conversion to electronic format of administrative procedures related to investment and trade; and (iii) a stronger legal and tax environment.

28. To improve the "Doing Business" ranking, the government is committed to: (i) making use of online payment more widespread for costs associated with the issuance of administrative documents that have already been converted to electronic format (business start-up, building permit, surety, and registry documents); (ii) making the land register paperless and setting up access to it online for notaries in the Dakar region as well as interconnecting services (land register, property); (iii) establishing a collateral registry correlating data on pledged movable property (registry) and mortgages (registrars); and (iv) creating and operationalizing the trade tribunal with automated procedures.

D. Promote the Private Sector

Local Private Sector

29. In a context marked by the signature of Economic Partnership Agreements (EPAs) and the entry into force of ECOWAS' common external tariff (CET), Senegal needs to ramp

up the establishment of a strong private sector and highly competitive, sufficiently resilient enterprises. The private sector's role in the PSE is crucial to the implementation of structuring projects in terms of creating wealth and jobs in order to support strong, inclusive, and sustainable growth. To succeed, particularly at the industrial level, deep changes and bold action in creativity and innovation are expected from employers.

30. The government plans to focus all its attention on the private sector, particularly the PREAC II preparatory phase, in which it must play a leading role. The unified action framework underpinned by measures arising from various Presidential Investment Councils (*Conseils présidentiels de l'investissement* – CPI) must be renewed taking account of new existing frameworks, such as the Digital Senegal 2025 strategy (*Sénégal numérique 2025*), and the results of the recent general census of enterprises. To boost the private sector, a new strategy will therefore be added to the agenda. Rather than relying solely on factual albeit evidence-based information, a study will be drawn up on the private sector development strategy, which should lead to the implementation of an action plan.

ENERGY

31. The implementation of the energy investment plan continues. Development of the electricity sector is accelerating, with particular emphasis on the diversification of sources in order to reduce production costs and, eventually, the rates applied to households and enterprises. Two 20 MW solar power plants in Bokhol and Malicounda were commissioned in 2016. In January 2017, the government proceeded with an average 10-percent decrease in electricity rates, focusing on the first bracket. Four other solar power plants (Sarréole, Tenergie, Energy resources, and Senergy) with a unit capacity of approximately 20 MW are planned in 2017.

New program monitoring indicators

32. Assessment criteria have been defined for 2017 and 2018. Assessment criteria for end-December 2017 and end-June 2018, and indicative targets (ITs) for end-September 2017 and end-March 2018 are proposed (Table 1 of the MEFP). The government and IMF staff also agreed on the measures and structural benchmarks shown in Table 2 of the MEFP. Reviews will occur at six-month intervals. The fifth review is expected to be completed by end-December 2017, the sixth review by end-June 2018 and the seventh review by end-December 2018.

33. A new end-December 2017 assessment criterion on financing need is being proposed for greater control over debt development. The authorities recognize that debt has developed faster than expected, particularly as a result of cash operations related to loans granted by the government to La Poste and to the National Pension Fund. The financing level is fixed having regard to the discussions and efforts made to finance public services provided by La Poste, the FNR reforms planned, and the provisions to be introduced for better deposit account control.

Table 1. Quantitative Assessment Criteria and Indicative Targets for 2016-18

	2016										2017							2018	
	Mar.	Jun.				Sep.	Dec.				Mar.				Jun.	Sep.	Dec.	Mar.	Jun.
	IT	AC				IT	AC				IT				AC	IT	AC	IT	AC
	Prog.	Prog.	Adj.	Act.	Status	Prog.	Prog.	Adj.	Prel.	Status	Prog.	Adj.	Act.	Status	Prog.	Prog.	Prog.	Prog.	Prog.
	(CFAF billions, unless otherwise specified)																		
Assessment criteria[1]																			
Floor on net lending/borrowing[2]	-52	-202	-195	-145	met	-276	-372	-372	-369	met	-49	-42	-298	not met	-189	-259	-349	-43	-167
Ceiling on spending undertaken outside normal and simplified procedures[3]	0	0	...	0	met	0	0	...	0	met	0		0	met	0	0	0	0	0
Ceiling on public sector external payment arrears (stock)[3]	0	0	...	0	met	0	0	...	0	met	0		0	met	0	0	0	0	0
Ceiling on central government's overall net financing	...	...				...	...				...		...		...	...	499	...	...
Ceiling on the amount of the budgetary float	50	50	...	46	met	50	50	...	29	met	50		33	met	50	50	50	50	50
Indicative targets																			
Quarterly ceiling on the share of the value of public sector contracts signed by single tender (percent)	15	15	...	5	met	15	15	...	1	met	15		25	not met	15	15	15	15	15
Floor on social expenditures (percent of total spending)	35	35	...	37	met	35	35		39	met	35		36	met	35	35	35	35	35
Floor on tax revenue	398	901	...	899	not met	1,312	1,779	...	1,789	met	445		396	not met	1,006	1,464	1,986	495	1,120
Maximum upward adjustment of the overall deficit ceiling owing to																			
Shortfall in program grants relative to program projections	15	15	...	0	...	15	15	...	1	...	15		0	...	15	15	15	15	15
Memorandum items:																			
Program grants	3	13	...	20	...	24	35	...	34	...	3		10	...	13	24	35	4	17

Sources: Senegal authorities; and IMF Staff estimates.

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

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

[3] Monitored on a continuous basis.

Table 2: Structural Benchmarks for 2016-18

Measures	Review	Status	Observations
2016			
Establish a platform (integrated projects bank) which describes the lifecycle of the projects	September 2016	Met	
Develop a management strategy for government and public enterprise investment portfolios	March 2016	Not met	Implemented with delay. The strategy was approved by the Minister of Finance in early November.
Extend the first-generation TSA to all bank accounts of the network of accounting agents of the agencies and public institutions	June 2016	Met	
For the next budget, announce the debt ratio sustainable over five years with the commitment that, in case thresholds are exceeded, corrective measures (over four years) would be taken in the budget that follows	October 2016	Met	
Create a structure (specialized office, division, etc.) responsible for recovering problem tax claims	September 2016	Not met	The authorities are considering whether this should be part of a broader restructuring to be implemented in early 2017
Adopt an action plan for reducing tax expenditures	September 2016	Not met	Implemented with delay. The action plan was approved by the Minister of Finance in late October.
Collection of at least 50% of the CFAF 89.15 billion in tax claims considered recoverable, by 2016	December 2016	Met	The DGID recovered CFAF 46.5 billion, compared to a target of CFAF 45 billion
Finalization of the draft decree on the establishment, function, and organization of the National Public Debt Committee	December 2016	Not met	Implemented with delay.
2017			
Establish accrual basis accounting with the initiation of the government's opening balance	January 2017	Not met	
Introduce a medium-term budget framework	March 2017	Met	
2016 financial audit identifying the Treasury cash flow gaps	March 2017	Met	
Operationalize the DGD-DGID platform. Production of a report based on data cross-checks between the DGD and the DGID.	5th Review	Reset from end-June 2017 to 5th review	
Expand and finalize the IGF financing audit and adopt a decree setting out the conditions for the opening, functioning, and closure of deposit accounts.	5th Review		
Implement the new DGID organization.	5th Review		
Adopt a statutory instrument making online filing and payment of taxes for medium-sized enterprises possible in 2018.	6th Review		
Select the IT service providers (selection des prestataires) for the implementation of the basic infrastructure of the MTAX platform.	6th Review		
2018			
Establish the public investment selection committee.	6th Review		
Implement the action plan for the reduction of tax expenditures; in particular, limit discretionary measures and foster a comprehensive approach based on rules published on the Internet applicable to everyone.	6th Review		

Attachment II. Technical Memorandum of Understanding

1. This technical memorandum of understanding (TMU) defines the quantitative assessment criteria, indicative targets, and structural benchmarks necessary to monitor the Fund-supported program under the Policy Support Instrument (PSI) in 2015-2017. It also establishes the terms and timeframe for transmitting the information that will enable Fund staff to monitor the program.

Program conditionality

2. The assessment criteria for end-December 2017 and end-June 2018 and the indicative targets for end-September 2017 and end-March 2018 are set out in Table 1 of the Memorandum of Economic and Financial Policies (MEFP). The structural benchmarks established under the program are presented in Table 2.

Definitions, adjusters, and data reporting

A. The Government and Public Sector

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

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

B. Net lending/Borrowing (Program Definition)

Definition

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

Sample calculation

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

Adjustment

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

Reporting requirements

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

C. Social Expenditure

Definition

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

Reporting requirements

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

D. Budgetary Float

Definition

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

Reporting requirements

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

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

E. Spending Undertaken Outside Simplified and Normal Procedures

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

14. The authorities will report any such procedure immediately to Fund staff.

F. Public Sector External Payments Arrears

Definition

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

Reporting requirements

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

Definition

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

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

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

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

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

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

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

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

G. Annual Central Government Net Financing Requirement

Definition

20. The central government's net financing requirement is defined as the sum of the following two components: i) the overall fiscal balance, as defined above in the assessment criterion on net lending/borrowing; and ii) the additional borrowing by the Treasury to finance accounts payable, comprising (a) the operations of the post office (*Poste and Poste Finance*), (b) the pension system (*Fonds National de Retraites*), (c) spending by ministries out of unutilized appropriations from past budgets (drawdown of the "*comptes de dépôt*"), and (d) offsets for illiquid revenues (*"recettes d'ordre"*). For end-December 2017 this assessment criterion must be less than or equal to the amount indicated in Table 1 attached to the Memorandum of Economic and Financial Policies.

Sample calculation

21. The government's overall net financing requirement for fiscal year 2017 is CFAF 499 billion. It is calculated as the sum of the overall fiscal deficit (CFAF 349 billion), and additional borrowing to finance accounts payable, as defined above (CFAF 150 billion).

Reporting requirements

22. Data related to the additional borrowing by the Treasury to finance accounts payable will be sent annually within a period of one month from the end of the month of December. This comprises: (a) the operations of the post office (*Poste and Poste Finance*), (b) the pension system (*Fonds National de Retraites*), (c) spending by ministries out of unutilized appropriations from past budgets (drawdown of the "*comptes de dépôt*"), and (d) offsets for illiquid revenues (*"recettes d'ordre"*).

23. Data related to the overall financing requirement will be sent annually within a period of one month from the end of the month of December. These data must include: i) total gross government debt; (ii) total debt principal repaid by the government; and (iii) all guarantees granted by the government for domestic or external loans to its suppliers and contractors and any other public or private entity. The details regarding any government borrowing (including amounts on-lent and any guarantee granted by the government for domestic or external loans to its suppliers and contractors and any other public or private entity) will be reported monthly within six weeks of the end of the month. The data on borrowings will be grouped together as short-term (less than one year) or long-term (one year or more). This rule will also apply to amounts on-lent and guarantees granted by the government for domestic or external loans to its suppliers and contractors and any other public or private entity.

H. Public Sector Contracts Signed by Single Tender

Definitions

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

Reporting requirements

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

I. Tax Revenues

Definition

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

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

Additional information for program monitoring

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

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

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

- Tax receipts and tax and customs assessments by category, accompanied by the corresponding revenue on a monthly basis;
- The monthly amount of expenditures committed, certified, or for which payment orders have been issued;
- The monthly situation of checks issued by agencies from their deposit accounts at the Treasury but not paid to beneficiaries, with the dates of issuance of the checks.
- The quarterly report of the Debt and Investment Directorate (DDI) on the execution of investment programs;
- The monthly preliminary government financial operations table (TOFE) based on the Treasury accounts;
- The provisional monthly balance of the Treasury accounts; and
- Reconciliation tables between the SIGFIP table and the consolidated Treasury accounts, between the consolidated Treasury accounts and the TOFE for "budgetary revenues and expenditures," and between the TOFE and the net treasury position (NTP), on a quarterly basis; and

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

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

30. The central bank will transmit to Fund staff:

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

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

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

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

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

Statement by Mr. Daouda Sembene, Executive Director for Senegal, and Mr. Oumar Diakite, Advisor to Executive Director
June 26, 2017

Our Senegalese authorities appreciate staff's constructive engagement and valuable policy advice. They also welcome Fund's support for their capacity development efforts. The Policy Support Instrument (PSI) arrangement continues to play a critical role in supporting the authorities' efforts to maintain macroeconomic stability and achieve inclusive growth. The economic policies and reforms undertaken in recent years have contributed to improving significantly the performance of the Senegalese economy, despite a difficult international environment. Macroeconomic performance and program implementation in 2016 remain satisfactory, and progress was also made on structural reforms, although some of them were implemented with delay. The authorities request a one-year extension of the PSI to consolidate these achievements, further improve the efficiency of Treasury operations, and sustain progress toward regional convergence criteria.

The PSI-supported program is well aligned with the objectives of the strategy 'Plan Senegal Emergent" (PSE) which aims to accelerate growth, and improve the living conditions of the population. In this context, sound macroeconomic policies and strong reform efforts are being implemented with a view of transforming Senegal into a middle-income country by 2035. In recognition of the authorities' fruitful efforts to boost growth, sustain fiscal consolidation and improve debt management, Moody's upgraded Senegal's rating to Ba3 with a stable outlook in April 2017. It is against this background that Senegal successfully issued last month a $1.1 billion Eurobonds on favorable terms.

Recent Economic Developments and Performance under the PSI-Supported Program

The Senegalese economy continues to benefit from the implementation of the PSE. In 2016, real GDP grew by 6.7 percent, reflecting renewed momentum in the primary and tertiary sectors and good performance in the secondary sector. Price inflation remained subdued at 0.8 percent in a context of low international oil prices and increased supply of cereals products on the market.

In the fiscal area, the authorities continued their fiscal consolidation efforts, focusing on increasing revenue and rationalizing expenditures. As a result, the fiscal deficit was reduced further. In the external sector, the current account balance improved, notably on account of lower petroleum product prices, stronger exports, and increased workers' remittances.

The performance under the PSI-supported program remains satisfactory. All quantitative assessment criteria at end-December 2016 were met. The ceilings on treasury float and direct contracting and the floor on social expenditure were all observed. Improvements in tax collection combined with stricter controls over public consumption expenditure have helped contain the fiscal deficit within the target set by the program.

Significant progress was also made in meeting structural benchmarks. Three out of five structural benchmarks set for December 2016 and the first quarter of 2017 were met. In addition, one of the two unmet structural benchmarks related to the finalization of the decree expanding the National Public Debt Committee was subsequently implemented with delay. The authorities have successfully recovered more than 50 percent of tax claims considered recoverable in 2016. The financial audit identifying Treasury cash flows gaps was completed.

Medium Term Macroeconomic Policies and Structural Reforms

The outlook for 2017 remains favorable with growth expected to reach 6.8 percent. This strong performance is expected to be driven notably by the implementation of the PSE priority projects in agriculture, industry and services, and continued public investments in infrastructure. Inflation is forecast to remain moderate despite upward pressures on international oil prices. The external current account balance should continue to improve largely because of stronger exports and workers' remittances. Going forward, the authorities will sustain their reform efforts, notably with a view to expanding fiscal space, strengthening public financial management, and improving governance and the business climate.

Advancing Fiscal Policy and Reforms

The authorities will follow their fiscal consolidation path in compliance with WAEMU guidance. For 2017, they will strive to meet their fiscal deficit target of 3.7 percent of GDP, including by enhancing revenue collection, while streamlining and containing current expenditures.

On the revenue side, increasing domestic revenue mobilization is a challenge that will be addressed, notably by strengthening the tax and customs administrations and expanding the tax base. To this end, the authorities will operationalize the new organizational structure of the tax administration (DGID) and continue their efforts to develop electronic return filing procedures and electronic payment for medium enterprises. They intend to launch three major applications selected in the context of the "Hackhathon" organized in Senegal with the aim of improving significantly the managerial and operational capacities of the DGID and enabling it to take full advantage of technological innovations. These applications should help to improve compliance by allowing taxpayers with no access to the internet to file and pay their taxes through mobile phones, enable the digitalization of tax returns, and improve the quality of data. The Customs administration will also continue to upgrade its IT systems and automate the clearance procedure for international trade which will contribute to improve the collection of customs revenues. Efforts will also be made to centralize the payment of customs duties and enhance the transparency of customs procedures.

Priority will also be given to strengthening fiscal policy and rationalizing tax expenditures. In this regard, the authorities intend to focus their efforts on land and mining activities, financial services and telecommunications with the view to simplifying and rationalizing taxation in these areas. The rationalization of the tax expenditures will also be pursued based on the most recent report of 2014 and the conclusions of the working group established to this effect. The authorities will implement a revised action plan to reduce tax expenditures, notably by limiting discretionary measures and promoting a comprehensive approach based on transparent published rules applicable to everyone.

On the expenditure side, the authorities will continue their efforts to streamline current expenditures as envisaged in the PSE. Steps will be taken to reduce public consumption and control the evolution of the wage bill, while safeguarding social expenditures. On the latter, a policy of reprofiling recruitments in the public service will be necessary to meet the needs and requirements of projects, reforms and actions contained in the PSE.

Our authorities are mindful of the need to improve the quality of public spending financed with domestic resources. In this regard, they have created the national directorate of budget with a view to improving the effectiveness of public spending. To accelerate the implementation of public investment projects and improve their efficiency, they also intend to subject budgetary appropriations to the production of project financial and physical execution reports by each Ministry concerned. Moreover, the decree relating to the budget nomenclature will be revised to orient spending towards gross fixed capital formation and the authorities will operationalize the integrated bank of projects, as well as the selection committee on public investments.

Enhancing Treasury Operations and Restructuring the Post Office

The authorities are committed to strengthening treasury cash management. To this end, they will continue to modernize payment systems and computerize procedures, notably by implementing a performance contract with the Treasury administration and developing the strategic development plan. The effectiveness of the second-generation Treasury Single Account will be further consolidated and completed by end-December 2017. Cash management at the Treasury will also be improved using strong measures to reduce the balances on agencies' accounts (*comptes de dépôts*), and the advances that the government has made available to the national postal service and the national retirement fund for public employees (FNR) over the last few years. To this end, the end-December 2016 balances of the *comptes de dépôts* will be audited.

The authorities are fully committed to raise the management of public enterprises to modern standards. In this regard, the restructuring of the Post Office will remain a priority in 2017 with the assistance of the World Bank. Based on a financial and operational diagnostic, an agreement to clear cross arrears will be signed between the State and the Post Office. This should improve the financial situation of the Post Office and allow it to find a strategic partner which could inject new capital in the enterprise.

Promoting Good Governance and Private Sector Development

Actions to promote good governance and promote the private sector will also be pursued. The national strategy which is expiring in 2017 will be amended and a multiparty framework to monitor budget execution will be established, which will be comprised of representatives of the parliament, the administration, civil society, the private sector and local authorities. In addition, the authorities plan to improve their tools for measuring governance and the quality of self-assessment of governance policy. An annual report on the governance of the country will be published in this effect.

The authorities are determined to promote the development of a strong private sector, which plays a central role in the country's PSE. They will continue their efforts to improve the business climate, notably through the adoption of best practices in public-private partnerships with the assistance of the Fund. The implementation of the follow-on business climate and competitiveness reforms program (PREAC II, 2016–18) will be further strengthened, thus securing additional progress toward fostering the country's attractiveness. In this regard, our authorities' efforts will focus on improving the factors of production and connectivity, the rationalization of administrative procedures related to investment and trade, and strengthening the fiscal and judicial environment for the private sector. To further improve the country's "Doing Business" ranking, the authorities are committed notably to make use of online payment more widespread, make land register paperless, and operationalize commercial courts. The authorities have also created a one-stop window (*Maison de l'Entreprise*) to better coordinate their interventions in support of small and medium enterprises.

Civil Service Reforms

To achieve the modernization of the civil service combined with a service oriented and results-based administration, an emphasis will be put on changing the structure of employment in the civil service with technical profiles and new competencies. In the 2018 budget, the authorities will set recruitment ceilings by ministry and institution to better control the hiring process in the public administration. The professionalization of human resources management is part of the comprehensive reform of the public administration undertaken by the authorities which also includes the standardization and computerization of administrative procedures.

Conclusion

Our Senegalese authorities remain committed to the program supported by the PSI. In this regard, they will continue to implement the reforms aimed at achieving strong economic growth, preserving macroeconomic stability, and improving public financial management and the business environment.

In view of Senegal's satisfactory progress and the authorities' strong commitment to pursue reforms, we would appreciate Directors' support for the completion of the fourth review under the PSI and the one-year extension of the arrangement.