INTERNATIONAL MONETARY FUND

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SENEGAL

July 2020

FIRST REVIEW UNDER THE POLICY COORDINATION INSTRUMENT AND REQUEST FOR MODIFICATION OF QUANTITATIVE TARGETS—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR SENEGAL

In the context of the First Review Under the Policy Coordination Instrument and Request for Modification of Quantitative Targets, 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 July 17, 2020 following discussions that ended on June 12, 2020 with the officials of Senegal on economic developments and policies underpinning the IMF arrangement under the Policy Coordination Instrument. Based on information available at the time of these discussions, the staff report was completed on June 29, 2020.
- A **Statement by the Executive Director** for Senegal.

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

Program Statement*
*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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PRESS RELEASE

PR20/263

IMF Executive Board Completes First Review Under the Policy Coordination Instrument for Senegal

FOR IMMEDIATE RELEASE

- The Covid-19 pandemic is taking a heavy toll on the economy with growth projected at 1.1 percent in 2020 compared to 5.3 percent in 2019.
- The authorities have taken significant actions to contain the pandemic and mitigate its economic fallout, supported by additional financing from Senegal's development partners and participation in the G20 and Paris Club-supported Debt Service Suspension Initiative.
- Effective and transparent implementation of measures to address the crisis is the key challenge in the near term.

Washington, DC – July 17, 2020: The Executive Board of the International Monetary Fund (IMF) today completed the first review under the Policy Coordination Instrument (PCI) for Senegal.

The PCI for Senegal was approved on January 10, 2020 (see Press Release N0 20/06) to support the second phase of the authorities' national development strategy "Plan Senegal Emergent". It is articulated around three main pillars: achieving high, sustainable, and inclusive growth; consolidating macroeconomic stability through prudent fiscal policy, including through increasing revenues and spending efficiency, and sound debt management; and managing the oil and gas sector in a sustainable and transparent manner.

The Covid-19 pandemic has significantly altered the outlook envisaged at the time of the PCI's approval, ending a period of buoyant growth averaging about 6 ½ percent over the last 6 years. Containment measures, lower external demand, reduced remittances, and the sudden stop of travel and tourism are taking a significant toll on the economy. GDP growth is now projected at 1.1 percent for 2020 compared to 5.3 percent in 2019, with significant uncertainty and downside risks on the strength of the recovery.

The authorities have taken significant actions to contain the pandemic and mitigate its economic fallout, supported by additional financing from Senegal's development partners and participation in the G20 and Paris Club Debt Service Suspension Initiative. The IMF disbursed SDR 323.6 million (about US$ 442 million, 100 percent of quota) under the Rapid Financing Instrument and Rapid Credit Facility in April to help Senegal meet the urgent balance of payment needs stemming from the pandemic.

Staff and the authorities agreed on a revised 2020 budget reflecting the Covid-19 response with substantially higher health spending, targeted support to the vulnerable, and significant economic stabilization measures. The fiscal deficit will temporarily increase to 6.1 percent of GDP and is expected to decline back to 3 percent of GDP by 2022, in line with regional fiscal convergence criteria, as the situation normalizes.

Program implementation has been good with all but one quantitative target met as of end-December 2019, and good progress achieved on structural reforms. PCI quantitative targets for end-June and end-December 2020 are being recalibrated to reflect the impact of the pandemic, and reform objectives are being streamlined to allow the authorities to focus on the crisis.

At the conclusion of the Board discussion on the first PCI for Senegal, Mr. Mitsuhiro Furusawa, Deputy Managing Director and Acting Chair made the following statement:

“The Covid 19 pandemic is taking a heavy toll on Senegal’s economy. Lower external demand, a sudden stop of travel and tourism, declining remittances and the effects of domestic containment measures are weighing on activity. The near term outlook is subdued and highly uncertain. A gradual recovery is expected in the second half of 2020 and 2021 while downside risks prevail.

“The authorities have acted promptly to mitigate the impact of the pandemic by increasing health spending and providing targeted support to vulnerable households and firms. The authorities’ commitment to ensure full transparency and accountability of the emergency spending and financing under the Debt Service Relief Initiative is welcome and will support social cohesion and help mobilize external financial support. As the crisis continues to unfold, they should expand their support to the poorest and the informal sector, including small and medium sized enterprises.

“The temporary fiscal expansion in the revised 2020 budget should help finance the health response, protect livelihoods and support activity. Once conditions normalize, a well anchored and sound medium term fiscal policy will be key for debt sustainability and regional stability. In this context, the authorities’ commitment to return to a 3 percent of GDP deficit by 2022 is welcome.

“Policy implementation under the Policy Coordination Instrument has been good, notwithstanding the difficult circumstances. To pave the way for a strong and inclusive recovery going forward, the authorities should continue to focus on improving the business environment and boost private sector investment while pursuing ongoing reforms to enhance debt management, revenue mobilization and public financial management. Moreover, the slowdown exacerbates risks to financial stability which require close monitoring as the banking sector has a vital role to play in financing the recovery.”

Table 1. Senegal: Selected Economic and Financial Indicators, 2019–25[1]

	2019	2020	2021	2021	2022	2023	2024
	Prel.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	(Annual percentage change)						
National income and prices							
GDP at constant prices [1]	5.3	1.1	4.0	6.0	12.2	8.1	6.0
Of which: Non-hydrocarbon GDP	5.3	1.1	4.0	6.0	7.3	7.2	7.3
Of which: Hydrocarbon GDP	...	...	...	...	...	28.1	-16.1
Of which: Non-agriculture GDP	5.8	0.9	4.1	6.2	12.9	8.3	6.0
GDP deflator	1.7	2.5	1.7	0.8	4.2	1.6	1.5
Consumer prices							
Annual average	1.0	2.0	2.0	1.9	1.5	1.5	1.5
End of period	0.6	2.5	0.9	2.8	0.4	2.4	0.7
External sector							
Exports, f.o.b. (CFA francs)	12.3	-11.9	12.7	21.6	76.4	13.3	8.6
Imports, f.o.b. (CFA francs)	4.7	-8.2	12.1	15.8	20.5	9.2	9.4
Export volume	12.7	-6.3	12.7	17.1	101.7	11.1	5.8
Import volume	9.0	0.8	16.1	11.6	14.7	7.7	7.5
Terms of trade ("–" = deterioration)	3.7	3.2	3.6	0.1	-16.8	0.6	0.9
Nominal effective exchange rate	-1.3	...	...	...	...	...	...
Real effective exchange rate	-4.5	...	...	...	...	...	...
	(Changes in percent of beginning-of-year broad money)						
Broad money	8.2	8.4	8.0	...	...	...	...
Net domestic assets	7.5	7.1	2.0	...	...	...	...
Credit to the government (net)	1.7	7.5	1.4	...	...	...	...
	(Percent of GDP, unless otherwise indicated)						
Government financial operations							
Revenue	20.2	21.0	20.0	20.6	21.1	21.3	22.0
Grants	1.6	3.5	2.5	2.4	2.0	1.7	1.7
Total expenditure	24.0	27.1	24.5	23.7	24.1	24.3	25.0
Net lending/borrowing (Overall Balance)							
excluding grants	-5.5	-9.6	-7.0	-5.4	-4.9	-4.7	-4.7
including grants	-3.8	-6.1	-4.5	-3.0	-3.0	-3.0	-3.0
Net lending/borrowing (excl. SENELEC op.)	-3.1	-6.1	-4.5	-3.0	-3.0	-3.0	-3.0
Primary fiscal balance	-1.9	-4.0	-2.6	-1.0	-1.1	-1.1	-1.0
Savings and investment							
Current account balance (official transfers included)	-7.7	-8.8	-10.2	-11.0	-3.9	-3.9	-4.5
Current account balance (official transfers excluded)	-7.8	-10.5	-11.0	-11.7	-4.3	-4.1	-4.7
Gross domestic investment	31.7	29.7	32.5	34.6	35.7	33.8	33.6
Government [2]	7.3	8.7	8.3	8.4	9.2	9.7	9.7
Nongovernment	24.4	21.0	24.2	26.2	26.6	24.1	23.9
Gross national savings	24.0	20.9	22.3	23.6	31.8	29.9	29.1
Government	6.6	7.3	6.2	6.7	8.8	10.0	10.6
Nongovernment	17.4	13.6	16.0	16.8	22.9	19.9	18.5
Total public debt [3]	64.1	68.6	70.4	70.5	64.5	62.3	61.3
Domestic public debt [4]	10.9	11.0	12.8	13.6	14.1	15.7	16.9
External public debt	53.2	57.7	57.6	56.8	50.4	46.6	44.3
Total public debt service [3]							
Percent of government revenue	23.0	23.7	22.4	28.0	24.7	29.6	24.2
Memorandum items:							
Gross domestic product (CFAF billions)	13,815	14,307	15,123	16,164	18,890	20,753	22,341
of which non-hydrocarbon (CFAF billions)	13,815	14,307	15,123	16,289	17,681	19,174	20,990
Gross domestic product (USD billions)	23.6	...	...	...	...	...	...
Share of hydrocarbon in total GDP (%)	...	...	...	...	6.4	7.6	6.0
National Currency per U.S. Dollar (Average)	586	...	...	...	...	...	...

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

[1] Based on new national accounts rebased to 2014.

[2] Reflects reclassification of public investment.

[3] Starting in 2017 debt level, debt service and government revenue include preliminary data covering the broader public sector.

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

INTERNATIONAL MONETARY FUND

SENEGAL

June 29, 2020

FIRST REVIEW UNDER THE POLICY COORDINATION INSTRUMENT AND REQUEST FOR MODIFICATION OF QUANTITATIVE TARGETS

EXECUTIVE SUMMARY

Context. The Covid-19 pandemic has ended a period of buoyant growth averaging about 6 ½ percent over the last 6 years. Containment measures, lower external demand, reduced remittances, and the sudden stop of travel and tourism are taking a significant toll on the economy. Without forceful policy measures, the current crisis could unravel development gains over the last decade. The authorities have taken strong actions to contain the pandemic and mitigate its economic fallout, supported by significant additional external financing from Senegal's development partners. The IMF disbursed US$442 million (100 percent of quota) under the RFI/RCF in April.

Outlook and risks. Growth is expected to fall to 1.1 percent this year assuming a gradual recovery takes hold in the 2nd half of the year. Growth would continue to recover in 2021 but would remain below pre-pandemic levels given lasting scars from the crisis. Risks are tilted to the downside. If the pandemic's impact is stronger-than-envisaged, the economy could shrink this year and recover more gradually.

Program implementation. Program implementation has been good with all but one quantitative targets (QTs) met as of end-December 2019. Good progress has also been achieved on important structural reforms; however, progress toward QTs for 2020 was interrupted by the pandemic, and these QTs need recalibration.

Policy discussions. Staff and the authorities agreed on a revised 2020 budget reflecting the Covid-19 response with substantially higher health spending, targeted support to the vulnerable, and significant economic stabilization measures. The deficit will temporarily increase to 6.1 percent of GDP and is expected to decline back to 3 percent of GDP by 2022, in line with regional fiscal convergence criteria, as the situation normalizes. Effective and transparent implementation of measures to address the crisis is the key challenge in the near term. The government's measures are supported by the BCEAO's accommodative monetary policy stance aiming at maintaining sufficient liquidity in the regional WAEMU market.

Staff supports the completion of the first PCI review as well as the authorities' request for modification of quantitative targets.

Approved By
Annalisa Fedelino (AFR) and Chad Steinberg (SPR)

Discussions were held remotely during June 2–12, 2020. The mission comprised C. Deléchat (head), B. Versailles, D. Stenzel (AFR), A. Fotiou (FAD) and E. Yéhoué (SPR), assisted by C. Sancak (Resident Representative), S. Ba and A. Fame (local economists). O. Diakite (OED) also attended mission meetings. H. Devine and N.-K. Quartey (both AFR) also contributed to this report.

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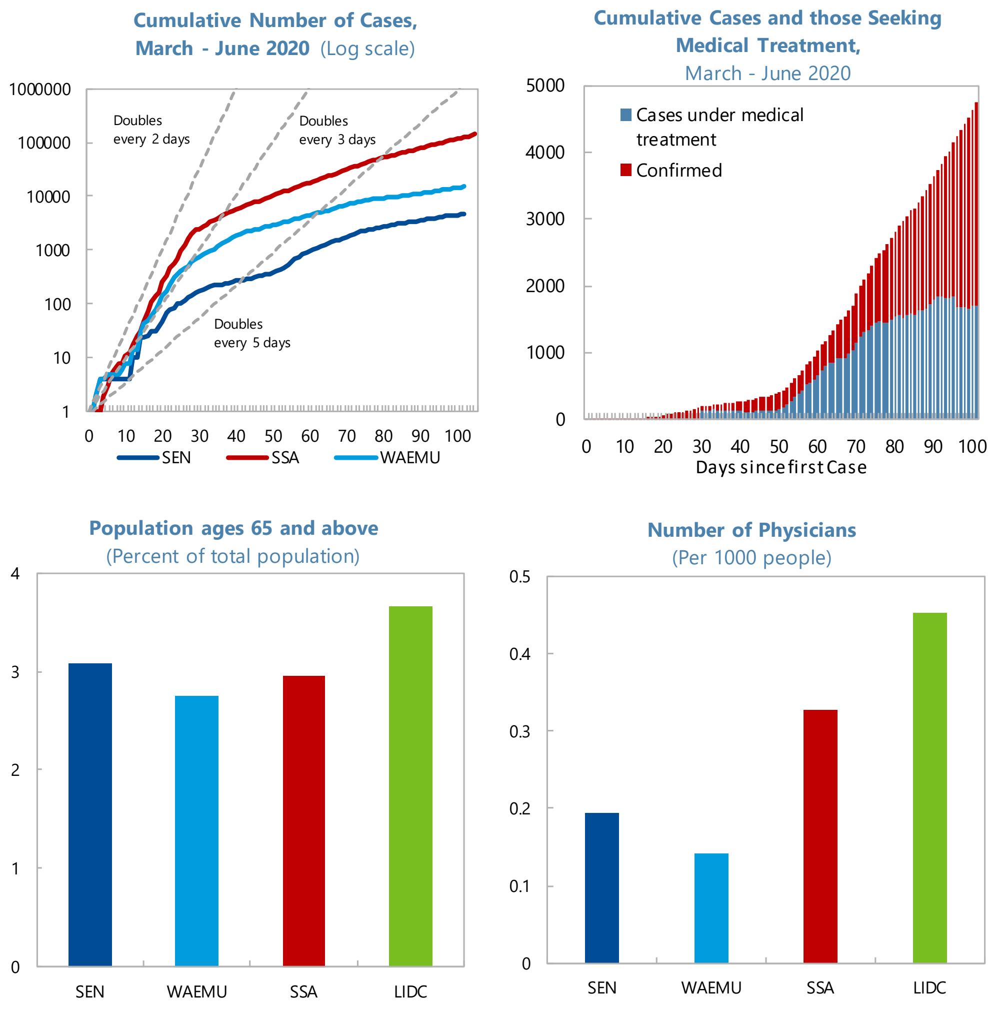
ANNEXES

APPENDIX

RECENT DEVELOPMENTS

1. **The COVID-19 pandemic risks unravelling development gains over the past decade.** While the pandemic's progression has been slower in Senegal than in other SSA countries, health spending and the health system's capacity remain limited (Text Figure 1). The authorities have started to gradually ease containment measures by shortening the curfew, lifting inter-regional travel restrictions, and re-opening markets. The World Bank estimates that up to one million people could fall into poverty if the pandemic causes severe and prolonged economic disruption.

Text Figure 1. Senegal: COVID-19 Cases and Health System



Source: Johns Hopkins CSSE; World Bank, WDI: and IMF staff calculations.

2. **Economic activity is slowing down** (Text Figure 2). Senegal is grappling with a severe shock to external demand and remittances, albeit partly mitigated by a positive terms of trade shock, while domestic demand and supply are affected by pandemic containment measures. The general activity index, excluding agriculture and forestry, suggests a possible decline in Q12020. The services sector, which accounts for half of GDP, is particularly affected. Air traffic and tourism have come to a standstill and visits to restaurants, cafes, and supermarkets have fallen by about

40 percent compared to the pre-pandemic baseline.[1] Average annual inflation remained stable at 1.7 percent in May. Nominal exports are up 2 percent and imports 17.5 percent from January to April compared to the same period in 2019, although exceptionally strong groundnut exports in January mask weakening export dynamics

3. The pandemic is negatively impacting revenue collection while spending has been accelerating. Revenue objectives were met comfortably in early 2020. Performance was still relatively good in March and April at 88 percent of initial targets, to some extent helped by pre-payments of some taxes. However, in May, tax receipts only reached 65 percent of targets (Text Figure 2). At end-April, the fiscal deficit stood at CFAF 703 billion (4.9 percent of GDP), as resources to combat COVID-19 were released fast, while a large share of the additional external financing is expected in 2020H2.

4. Banking system's liquidity remains adequate so far and there has been no sharp cutback in bank lending. Deposits rose by 7.3 percent y-o-y in April and credit to the economy increased by 2 percent y-o-y, while declining 4.2 percent since December. Broad money was broadly stable (-1 percent y-t-d) propelled by increasing credit to the government. Gross non-performing loans (NPLs) as of end-April have declined to 13.5 percent from 13.9 percent at end-December.[2] Nevertheless, the banking system is exposed to the particularly affected services sector as hospitality, transport and retail account for almost one third of total credit outstanding.

5. The authorities are implementing a comprehensive plan to address the crisis. Urgent additional health spending is being complemented by a broader economic package (Annex I). The IMF disbursed US$442 million (100 percent of quota) under the RFI and the RCF on April 15 to address the urgent balance-of-payments and fiscal needs stemming from the crisis.[3] This helped catalyze additional concessional donor support and grants sufficient to close the projected remaining financing gap, alongside with the authorities' request for G-20 debt service relief under the Debt Service Suspension Initiative (DSSI). The government's *Plan Senegal Emergent (PSE),* supported by the new three-year PCI approved in January 2020 continues to anchor the country's economic policies. The authorities indicated that the investment program related to the *PSE* will undergo a re-prioritization in the light of the COVID-19 shock.

6. The authorities have requested debt service suspension under the DSSI supported by the G-20 and Paris Club (PS, ¶21). The suspension of debt service to Paris Club and G20 creditors between June and December 2020 amounts to about CFAF 90 billion (0.6 percent of GDP), of which about 30 billion in interest. Debt service savings will support spending on COVID-19 related health or economic relief, which the authorities have committed to closely monitor, with transparent reporting. The authorities are committed to the disclosure of debt by public

[1] Google's community mobility report.

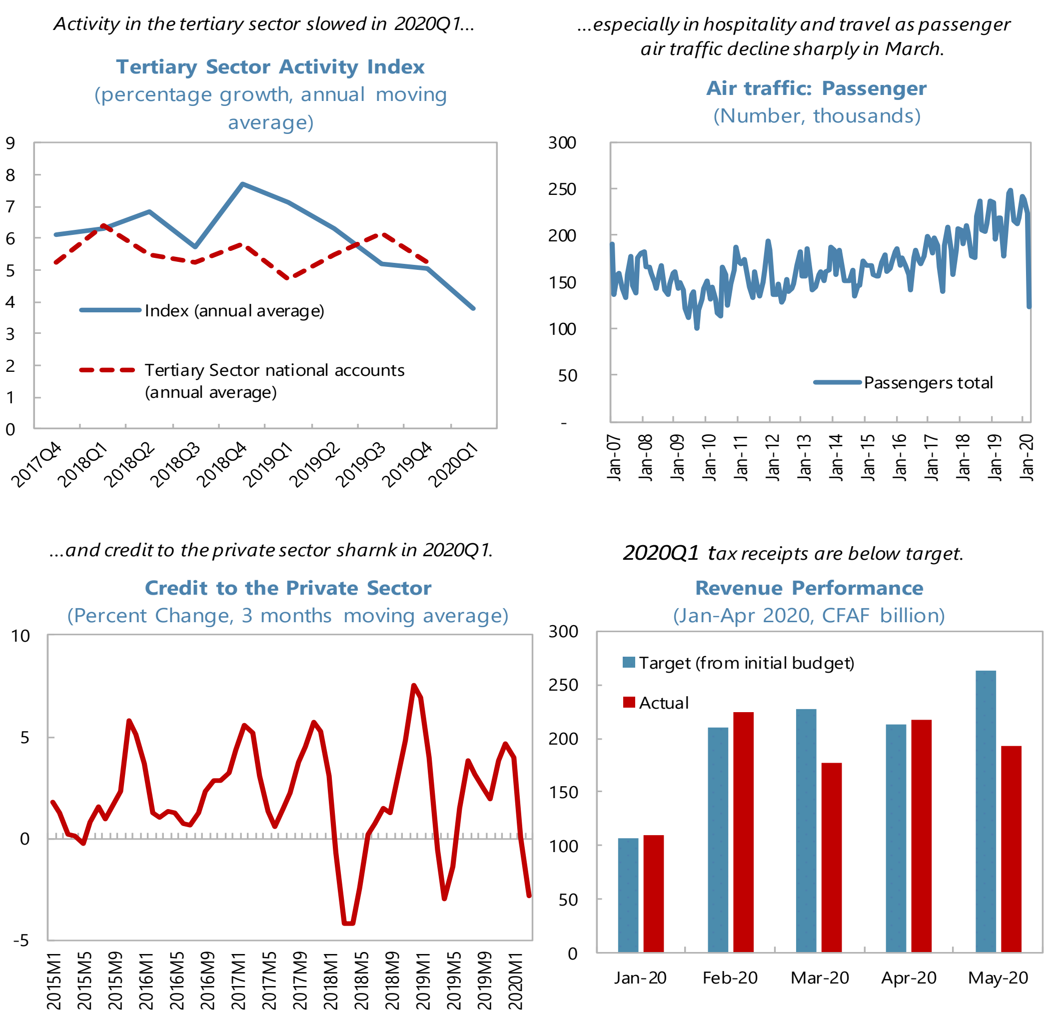
[2] Any crisis-related impact would only be observable with a delay given the backward looking nature of the NPL definition (90 days delay) and the crisis-related option to delay debt service payments by three months and up to a maximum of sixth months without banks having to classify the claims as NPLs.

[3] IMF Country Report 20/108.

sector borrowing entities (as per GFSM 2014) to the IMF/WBG within 3 months, but no later than September 1 to allow time for the anticipated end-year review. They are also committed to adhere to the debt limit under the PCI-supported program.

7. Regional institutions support WAEMU members' pandemic response. WAEMU heads of state temporarily suspended regional convergence criteria, anticipating large revenue shortfalls and additional spending pressures. The BCEAO announced measures to preserve financial stability and provide additional liquidity, supplemented by a special short-term refinancing window allowing member-states to access liquidity on the regional financial market.[4]

Text Figure 2. Senegal: Economic Activity Indicators



Sources: Ministry of Finance Budget; DPEE; ANSD; and IMF staff estimates.

[4] These COVID-19 bonds have a maturity of 3 months, and are explicitly designed to address WAEMU countries' liquidity position as donor financing was being mobilized.

PROGRAM PERFORMANCE

8. Program performance has been satisfactory (PS, ¶15). All end-2019 and continuous quantitative targets (QTs) were met except the ceiling for public contracts signed by single tender, which was missed by a small margin. The authorities are working on improving the public investment process and are committed to relying less on unsolicited bids going forward. The stock of outstanding *comptes de dépôt,* a source of below-the-line financing needs in the past, was reduced by CFAF 101.2 billion, in line with the relevant QT. The remaining CFAF 121 billion are programmed to be cleared this year.[5] Revenue performance and budget execution through end-May are in line with the proposed revised end-June targets (Appendix Table 1a). All continuous quantitative targets have also been met (Appendix Table 1b).

9. There has been good progress towards reforms supported under the program (PS, ¶16). The continuous reform target (RT) regarding the retail fuel and electricity price adjustment mechanism was met as international oil prices declined. The recurring RT on quarterly reports on the cooperation between the customs and tax administrations was not met as the second report, due in April, was delayed owing to the crisis, and staff supports the authorities' request to move to biannual reports (Appendix Table 2).[6] The end-June RTs to identify policy options to enhance secondary education attendance, adopt a medium-term revenue strategy (MTRS), and study the expenditure chain (supported by IMF TA) were all met. The revised PPP law has been mostly finalized and will be submitted to Parliament in the coming weeks (RT, June 2020). Some other reforms (June RTs) have experienced greater delays due to the crisis and are proposed to be either reset or dropped to streamline the reform agenda.

OUTLOOK AND RISKS

10. Staff's baseline scenario assumes that the main impact of the pandemic will be felt in 2020Q2 followed by a slow recovery in 2020H2 and throughout 2021 (Text Table 1). Growth is expected to moderate to 1.1 percent in 2020 (from a projected 6.8 percent pre-pandemic and 3 percent in April in the RCF/RFI request). The downward revision reflects recent high-frequency data indicating that the pandemic's impact will be more severe than envisaged, together with a weaker external environment. The hardest-hit sectors will be hospitality/restaurants, transport and retail, while agriculture should benefit from government support and favorable rainfall. Growth will remain subdued in 2021 (4 percent) as scars from the pandemic such as reduced travel and deteriorated balance sheets will affect economic activity. Inflation should remain low, anchored by the CFAF/Euro peg, and weaker aggregate demand should balance any price pressures from reduced supply.

[5] See IMF Country Report 19/27 which reports on the approval of a decree that prohibits the carry-over of balances on *comptes de dépôt* from one year to the next, except for balances related to investment, for which a carry-over of 5 percent is allowed. Only transfers from the central government budget are subject to these carry-over rules.

[6] The first report was received in January 2020, as agreed with the authorities.

11. The pandemic will have important effects on hydrocarbon production prospects, the balance of payments and the fiscal outlook. Some hydrocarbon-related activities are delayed by at least one year, with knock-on effects on growth and investment-related imports. The current account deficit is projected at 8.8 percent of GDP in 2020 (vs. 11.3 percent of GDP in the RFI/RCF request), owing to lower equipment and services imports, additional budget grants, and a reduced bill for fuel imports. In the medium term, the current account deficit is expected to temporarily increase to 10 percent of GDP due to hydrocarbon-related investments before declining sharply when oil and gas exports set in. The 2020 fiscal deficit is set to reach 6.1 percent of GDP, before gradually declining to 3 percent in 2022. Public sector debt would peak at about 70 ½ percent of GDP in 2021-22, before resuming its downward trajectory. The PCI is fully financed, with additional financing needs (relative to pre-COVID-19 baseline) almost entirely covered by external concessional financing and DSSI participation, the residual being covered by issuances on the regional market (which are now lower relative to what was envisaged in the initial 2020 budget). Projections for 2020 indicate that the regional market can accommodate planned sovereign funding demand without crowding out the private sector. The WAEMU's external position is set to deteriorate but the reserve cover would remain adequate at about 3 months of imports in the medium term, assuming member countries seek to return to a 3 percent of GDP deficit by 2022 and that financing needs starting in 2021 are entirely covered by borrowing on the regional market.

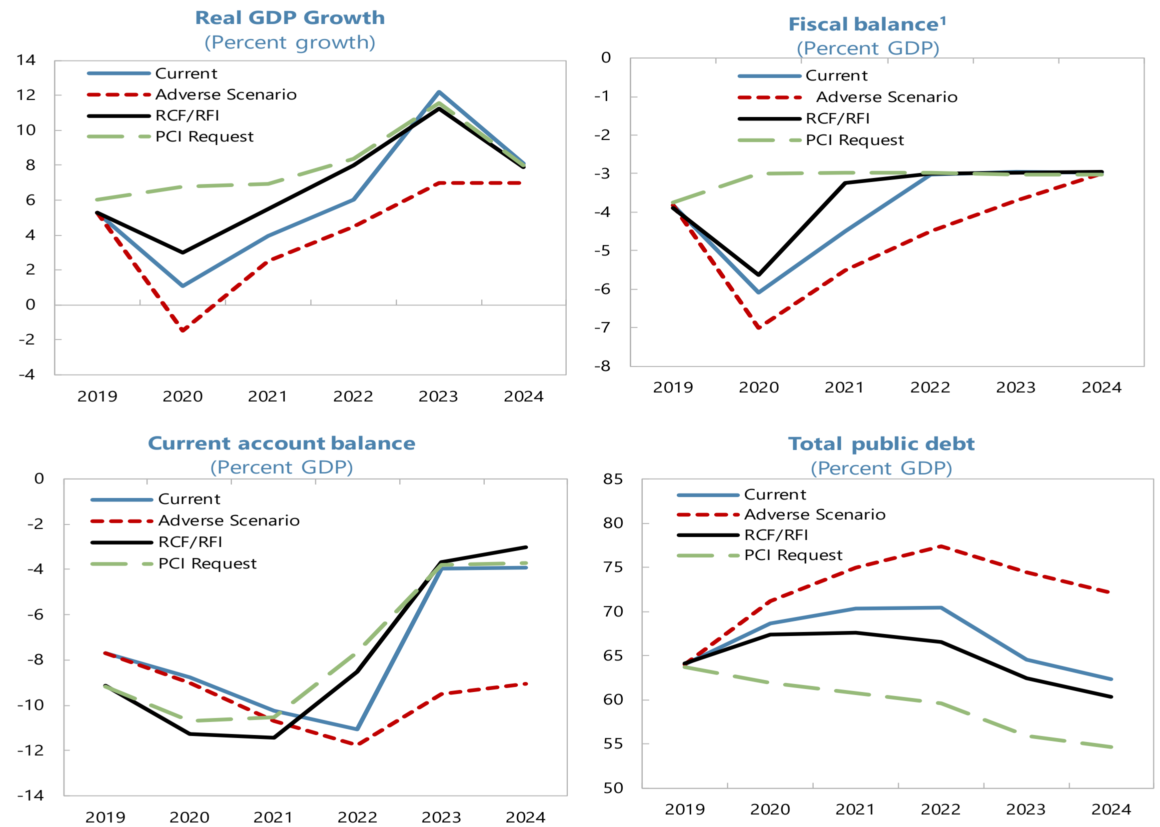
Text Table 1. Senegal: Macroeconomic Indicators, 2019–22

	2019	2020		2021		2022
	Prel.	EBS/20/40	Proj.	EBS/20/40	Proj.	Proj.
Real GDP (percent change)	5.3	3.0	1.1	5.5	4.0	6.0
CPI inflation, average (percent)	1.0	2.0	2.0	1.9	2.0	1.9
Net lending/borrowing, including grants (percent of GDP)	-3.8	-5.6	-6.1	-3.3	-4.5	-3.0
Current account balance (percent of GDP)	-7.7	-11.3	-8.8	-11.4	-10.2	-11.0

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

12. The outlook for 2020 and beyond remains highly uncertain and subject to significant downside risks, as illustrated in staff's alternative scenario. The main short-term risks are: (i) a more extensive domestic COVID-19 outbreak, with deeper human and economic consequences; and (ii) a more protracted or recurrent pattern of the pandemic, which could deepen the crisis, delay recovery and jeopardize hydrocarbon-related investments. In such a scenario, growth would drop to -1.5 percent in 2020, and pressure on fiscal and current accounts would mount, necessitating a combination of additional external financing including grants and cuts in domestically-financed investment and non-priority transfers to keep the fiscal deficit close to its current level. Potential financing sources could be the regional market, extra donor financing, and/or a Fund financial arrangement (Text Figure 3 and Annex II). The authorities welcomed the alternative scenario, acknowledging the risks to the baseline. Nonetheless, they were confident that a recession would be avoided in 2020 and that the economy's rebound would be stronger in 2021, boosted by the forceful implementation of the government's economic support package.

Text Figure 3. Senegal: Impact of COVID-19, 2019–24 and Adverse Scenario



[1] Fiscal path without additional policy measures.
Source: Senegal authorities; and IMF staff estimates.

POLICY DISCUSSIONS

Discussions for the first PCI review focused on an effective and well-targeted crisis response, enshrined in a revised 2020 budget, and a recalibration of the program to support a strong and inclusive economic recovery.

A. Maintaining Fiscal and Debt Sustainability in COVID-19 Times (PCI Pillar II)

The Authorities' COVID-19 Response

13. The authorities have announced a response package to help combat the COVID-19 crisis, the Economic and Social Resilience Program (PRES, PS, ¶19). Equivalent to about 7 percent of GDP, it aims at mitigating the human and economic fall-out of the pandemic and is organized around 4 pillars: (i) interventions in the health sector, (ii) social measures, (iii) direct (e.g. subsidies to companies in hard-hit sectors such as transport and tourism) and indirect (e.g. through a public-private guarantee fund) support to the economy, and (iv) interventions to secure the country's key health, food and energy supplies (Annex I and Text Table 2).[7] Resources, gathered in a special COVID-19 fund are expected to come from government, development partners, and the Senegalese private sector and diaspora and to be fully channeled through the revised 2020 budget.

Text Table 2. Senegal: Revised 2020 Fiscal Framework: Responding to COVID-19

	PCI Req. SR 20/11 [1]	RCF/RFI Req. SR 20/108 [2]	Diff. [2] - [1]	PCI 1st rev. [3]	Diff. [3] - [1]
In FCFA billion					
Revenue (incl. grants)	**3,122**	**2,808**	**-314**	**3,008**	**-114**
Tax Revenue	**2,675**	**2,370**	**-305**	**2,354**	**-321**
Impact of lower world oil prices			11		11
Impact of lower trade			-204		-204
Impact of lower growth			-91		-112
Impact of tax measures			-20		-15
Grants	**293**	**314**	**21**	**502**	**208**
Non-Tax Revenue	**154**	**124**	**-30**	**153**	**-1**
Of which exceptional revenues 1/	0	0	0	32	32
Expenditure	**3,574**	**3,626**	**52**	**3,881**	**307**
Expense	**2,131**	**2,288**	**157**	**2,453**	**322**
<u>Savings in response to Covid-19</u>			<u>-20</u>		<u>-20</u>
Savings in current spending			-20		-20
<u>Savings not related to Covid-19</u>			<u>-52</u>		<u>-46</u>
Electricity subsidy bill -- impact of lower world oil prices			-42		-29
Interest bill 2/			-10		-17
<u>Covid-19 support measures 3/</u>			<u>229</u>		<u>386</u>
Pillar I - COVID-19 health action plan			73		79
Pillar II - Social safety net (food kits, utility subsidy, diaspora)			121		103
Pillar III - Economic support (tax rebate, direct aid,..)			35		97
Pillar IV - Securing of key supplies (health, energy, food)					32
Accelerated payment of pre-2020 unmet obligations	92	92	0	167	75
Net acquisition of non-financial assets	**1,443**	**1,338**	**-105**	**1,428**	**-15**
<u>Savings in response to Covid-19</u>			<u>-105</u>		<u>-75</u>
<u>Covid-19 support measures</u>					<u>60</u>
Pillar III - Economic support (direct aid)					48
Accelerated payment of pre-2020 unmet obligations	21	21	0	33	12
Balance (nominal)	**-452**	**-818**	**-366**	**-872.7**	**-421**
Balance (% of GDP)	**-3.0%**	**-5.6%**		**-6.1%**	
p.m. nominal GDP	*15,085*	*14,516*		*14,307*	

Source: Ministry of Finance and Budget, Ministry of Economy and Planning, IMF staff estimates, donors.

1/ Includes voluntary contributions by Senegalese public to COVID-19 fund, contributions of oil professionals to construction of National Petrol and Gas Institute, and pay-out of the African Risk Capacity insurance fund.

2/ This is due to updated projections (relative to the initial 2020 budget), including impact of exchange rate fluctuations.

3/ Measures specified in brackets refer to the current framework (not necessarily same as in RCF/RFI request).

[7] As indicated in Annex I, the budgetary impact of the additional interventions is estimated at 3.1 percent of GDP.

14. The revised 2020 budget comprehensively takes into account the pandemic's impact on revenue collection and additional spending needs, temporarily bringing the overall deficit to 6.1 percent of GDP (PS, ¶20). Compared with the projected 5.6 percent of GDP deficit in the RCF/RFI request[8], this increase is explained by newly announced COVID-19 response measures, together with the downward growth revision, but fully financed by additional donor support and DSSI savings (Text Table 3). Staff noted that the temporary increase in the deficit was fully appropriate, but highlighted also the importance of ensuring a credible path to return to the regional convergence criterion by 2022, as conditions normalize. This would be key to maintaining fiscal and debt sustainability, for Senegal as well as the WAEMU. The authorities agreed that the return to the 3 percent of GDP deficit by 2022 hinges on a gradual normalization of economic activity, the related rollback of emergency tax and spending measures, and implementation of measures under the MTRS supported by continued efforts to rationalize and enhance the efficiency of spending, particularly investment. Staff cautioned that greater efforts on the spending side might be needed as the increase in tax-to-GDP ratios with MTRS implementation could be somewhat slower than initially envisaged.

Text Table 3. Senegal: Revised 2020 Fiscal Framework: Financing

	PCI Req. SR 20/11	RCF/RFI Req. SR 20/108	PCI 1st rev.
Revenue (incl. grants)	**3,122**	**2,808**	**3,008**
Tax Revenue	2,675	2,370	2,354
Grants	293	314	502
Budgetary grants 1/	33	54	241
BCEAO	0	13	4
Multilateral	20	28	156
Bilateral	13	14	81
Project grants	261	261	261
Non-Tax Revenue	154	124	153
Of which: Exceptional revenues 2/			*32*
Expenditure	**3,574**	**3,626**	**3,881**
Expense	2,131	2,288	2,453
COVID-19 related savings 3/		-62	-49
COVID-19 related spending		229	386
Net acquisition of non-financial assets	1,443	1,338	1,428
COVID-19 related savings		-105	-75
COVID-19 related spending		0	60
Balance (nominal)	**-452**	**-818**	**-873**
Balance (nominal, excl. grants)	**-746**	**-1,132**	**-1,374**
Balance (% of GDP)	**-3.0%**	**-5.6%**	**-6.1%**
Balance (% of GDP, excl. grants)	**-4.9%**	**-7.8%**	**-9.6%**
Financing	**-452**	**-818**	**-873**
IMF (RCF/RFI blend)	0	-266	-266
Budgetary loans from donors 4/	-82	-223	-356
Domestic (BOAD)		*-26*	*-27*
External (multilateral)		*-154*	*-280*
External (bilateral)		*-43*	*-49*
Exceptional Financing (DSSI)			-90
Other financing (net)	-370	-226	-160
(Remaining) financing gap	0	-103	0
p.m. nominal GDP	*15,085*	*14,516*	*14,307*

Source: Ministry of Finance and Budget, Ministry of Economy and Planning, IMF staff estimates, donors.

1/ For "PCI 1st rev." column, this is a preliminary estimate and includes contributions from World Bank, EU, Germany, Luxemburg, Spain, France, Japan, and Canada.

2/ Includes voluntary contributions by Senegalese public, pay-out from African Risk Capacity, and contributions from oil professionals to the construction of the National Institute for Oil and Gas.

3/ Includes savings related to lower subsidy bill because of lower world oil prices and maintenance of domestic energy prices at pre-COVID levels.

4/ For "PCI 1st rev." column, this is a preliminary estimate and includes contributions from World Bank, AFDB, ISDB, France, BADEA and EIB. It also includes BOAD.

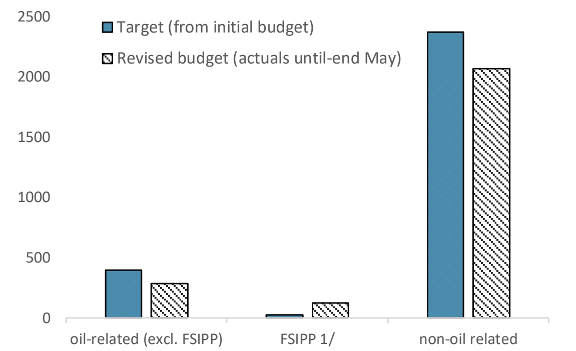
15. Relative to the original budget, fiscal revenues are now projected to be lower (by 2.2 percent of GDP), with trade taxes to be particularly affected. The authorities are also implementing a range of temporary and targeted tax measures. These are expected to have a limited impact on expected revenues, except for tax rebates which aim to incentivize companies

[8] IMF Country Report 20/108.

to keep their employees (CFAF 40 billion) and an extension of deadline for payment of suspended VAT (CFAF 15 billion).[9] Staff urged the authorities to ensure that these measures are well-targeted, and clearly communicated as temporary. Staff also welcomes the authorities' efforts to implement tax and customs administration measures to limit revenue shortfalls. Revenue departments have adapted swiftly to the new environment, including avoiding ad-hoc exemptions, supporting tele-work, and speeding up work on the digitalization of revenue services, including through putting in place M-tax tax payments via mobile phones (RT, end-December 2020) (**PS, ¶20**).

16. The fiscal impact of lower world oil prices is mixed. Lower world oil prices allow for savings on energy subsidies as the authorities have so far kept domestic energy prices fixed at end-2019 levels (captured through the Support Fund for Fuel Products' Imports or *FSIPP* tax in Text Figure 4), but lower volumes – due to reduced economic activity – have a negative effect on oil-related taxation. Given the temporary nature of the current shock, the authorities do not envisage further changes to domestic fuel and electricity prices in the short term. In 2019, both fuel prices and electricity tariffs were increased, but remain well-above what would be warranted if current low world oil prices were allowed to fully pass-through to consumers. The savings from energy subsidies, as captured by the FSIPP (see Text Figure 4) will reduce spending pressures. The authorities indicated that, in the post-COVID-19 period, moves towards a fuller pass-through of world energy prices into domestic prices can be contemplated. They indicated that they had initiated work to revamp the formula governing the fuel price structure.

Text Figure 4. Senegal: Impact of Lower World Oil Price on Trade Taxes (CFAF billion)



1/ *Fonds de Soutien aux Importations des Produits Pétroliers.*
Source: Ministry of Finance and Budget, IMF staff estimates.

17. Staff supports the proposed reorientation of spending. Compared with the initial budget, the revised budget reflects the reprioritization of pre-COVID-19 planned expenditures, the PRES measures, and includes contingencies to address the high uncertainty regarding the evolution of the pandemic in 2020H2 (PS, ¶20). Key measures include (Text Table 2):

- *Prioritization of spending.* The authorities have identified about 0.7 percent of GDP in savings on current and capital expenditures, including a delay in some large commercially-financed projects. Together with the additional fiscal space provided by donor financing and DSSI debt service relief, these resources are reoriented towards the government's emergency response.
- *Acceleration of repayment of unmet obligations.* The PCI request included a gradual repayment of pre-2019 unmet obligations of the government vis-à-vis private suppliers. As part of the COVID-19-related support to companies, the settling of these obligations is being

[9] For a comprehensive overview, see Annex 1.

accelerated with a revised envelope of CFAF 200 billion (from an original CFAF 112.6 billion), with priority given to sectors such as health, construction and energy.

- *Contingency planning.* The revised budget includes a contingency for a potential revenue shortfall by identifying CFAF 40 billion (0.3 percent of GDP) in domestically-financed investment that will not be allocated unless the corresponding revenue materializes.

18. Staff and the authorities agreed on the importance of ensuring full transparency and accountability of COVID-19-related spending. The authorities have set up high-level coordination and technical committees with representation of key stakeholders of government and non-government institutions to design and execute the policy response.[10] Staff cautioned that strict ex-post spending controls should be implemented as a large part of the additional spending will be through simplified spending procedures (transfers to "*comptes de dépôt*"). The authorities have clarified that the financial management of COVID-19 related resources will follow rigorous PFM principles, with a focus on informing the public, transparent procurement practices and enhanced audit activities, the results of which will be published (**PS, ¶20)**.

19. Development partners are helping to finance the COVID-19 response strategy. New budgetary grants are expected to make up about two thirds of the projected revenue shortfall (relative to the original budget)—equivalent to an extra 1.6 percent of GDP, while external budgetary loans, all of which are on concessional terms, are projected to increase by 1.7 percent of GDP (Text Table 3), implying a lower need to issue on the regional market compared to the initial 2020 budget. International Financial Institutions are providing grants and concessional loans amounting to about 1.4 percent of GDP, highlighting the catalytic role of Fund support.

Staying the Course with Key Medium-Term Fiscal Reforms

20. Staff welcomes the finalization of the new medium-term revenue strategy (PS, ¶22). The overarching aim is to bring the tax-to-GDP ratio (excluding hydrocarbon related flows once these come online) to 20 percent by 2023, even though this target could be delayed by 1-2 years owing to the lower 2020 base and lingering impacts of COVID-19 on 2021 revenues. Key actions are focused on broadening the tax base by tackling widespread informality and improving compliance, including through digitalization (RT, end-June 2020, Annex III).[11] Staff encouraged the authorities to resolutely move towards implementation of the strategy starting in 2020H2 by (i) ensuring the implementing unit gets adequate human and IT resources, and (ii) adapting the 2020-21 action plan to the COVID-19 context.

21. Staff highlighted that fiscal risks, notably those related to SOEs, have increased. Driven by the PSE, Senegal has embarked on an ambitious public investment program, often implemented through state-owned enterprises and parastatals. These entities have borrowed to fund large infrastructure works, with debt stocks of this sector increasing from 7.6 to 8.3 percent

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[10] The policy committee is chaired by the President and consists of 18 Ministers while the technical committee is chaired by the Minister of Finance (or a representative) as well as representatives from all Ministries that are part of the policy committee.

[11] The COVID-19 crisis is forcing some adjustments, with the target date of 2023 likely to be delayed.

of GDP between 2018 and 2019. The COVID-19 crisis has increased fiscal risks related to these debts and the current operations of some strategic SOEs. The ambitious growth strategy of Air Sénégal has been sensibly put on hold, and the authorities explained that direct support to the company was being strictly limited [12] and contingent on drastic adjustment measures by the company (**PS, ¶19**), but more will likely needed to keep the company viable in the future. They noted that PETROSEN has put on hold efforts to finance its shares in the recently discovered oil and gas fields. The energy SOEs SENELEC (electricity) and SAR (refinery) are also impacted by the crisis, but the lower world oil prices are reducing their production costs. The authorities indicated that they had prioritized settlement of unmet obligations and subsidies owed to the sector so as to ensure a reliable supply of energy products.

22. Reforms to improve expenditure efficiency and controls are advancing (PS, ¶23). The switch to program budgeting experienced a delay and is now envisaged for the 2021 budget. A recent IMF TA report identified options to progressively reduce the reliance on simplified or exceptional spending procedures. To this end, the authorities plan to reduce the use on simplified spending procedures through "*comptes de dépôt*" by gradually eliminating over the next two years transfers to entities that are legally part of the state[13], and execute the corresponding spending under normal procedures, which would improve accountability and facilitate liquidity management (RT, end-December 2020). To strengthen the Treasury Single Account (TSA) the authorities are preparing an inventory of all bank accounts used by public institutions (new RT, end-December 2020), and are committed to integrate all these accounts into the TSA by 2022 (RT, end-December 2022). Considering the authorities' focus on the crisis, two PFM reforms deemed less critical at this stage are proposed to be streamlined under the PCI: (i) the preparation of an investment program consistent with ceilings for authorized commitments and (ii) the reform regarding budget commitment letters.

Preserving Debt Sustainability and Enhancing Debt Management

23. At the time of the RCF/RFI request, Senegal's debt was assessed as sustainable with a moderate risk of debt distress, but with increasingly limited space to absorb further shocks in the short term.[14] With the further deterioration in the growth outlook, a higher fiscal deficit, and the subsequent increasing financing need, the 2020 debt-to-GDP ratio is now projected at 68.6 percent in 2020 compared to 61.9 percent in the January DSA. Consequently, the initial 2020 debt limit of FCFA 9,563 billion at the PCI approval is proposed to be increased to FCFA 10,034 billion.[15] Compared to the latest DSA, growth is expected to decline by

[12] The authorities plan to grant Air Senegal direct financial support of CFAF 12 billion or 0.1 percent of GDP. This is part of the CFAF 100 billion foreseen to support the economy (see Annex I).

[13] As opposed to entities and agencies legally distinct from the state which are entitled to such transfers under the organic finance law. At least 25 percent of total comptes de depot, or 12 percent of total expenditure in 2019 is executed through transfers to deposit accounts of entities legally part of the central government.

[14] See updated April 2020 DSA using the RCF/RFI baseline scenario in IMF Country Report No. 20/108.

[15] This includes a buffer of 1 ½ percent of GDP as was done when setting the debt ceilings at the time of the PCI request (IMF Country Report No 20/11).

1.9 percentage points in 2020 and 1.5 percentage points in 2021, while the fiscal deficit is projected to deteriorate by 0.5 percent of GDP in 2020 and 1.2 percent in 2021. At the same time, the authorities took mitigating actions to delay 0.5 percent of GDP in drawings on externally-financed projects in 2020 and delayed some oil and gas projects (**PS ¶25**). Other sources of financing include highly concessional financing from the IMF, the World Bank, AfDB, EIB, EU, ISDB and BADEA and bilateral creditors, which help maintain the country's debt sustainability. Going forward, the authorities intend to rely more on such concessional borrowing.

24. Staff and the authorities agreed that further improvements in debt management remain critical (PS ¶26). The split in debt-related responsibilities across two ministries and 4-5 different entities continues to lead to inconsistencies in debt data reporting and lack of strong oversight over new borrowing, particularly by SOEs. Staff welcomes progress towards revitalizing the National Public Debt Committee (CNDP), including adoption of its operating procedures and forthcoming signing of the related ministerial decree (RT, end-June 2020, expected to be met). Staff noted that including SOE debt within the overall debt strategy is equally important, in line with the expanded debt perimeter to the public sector. Staff and the authorities concurred that an external audit of the debt database including SOE debt (proposed new RT, end-December 2020), together with additional IMF TA to establish a platform allowing for enhanced monitoring and communication across government units would be critical to support CNDP operations

25. The authorities are revamping the legal framework for public-private partnerships, which aims to help finance *PSE* infrastructure projects, while containing fiscal risks (PS ¶10). The new law, developed through a collaborative approach involving key stakeholders and drawing on expertise from the World Bank, aims at providing key competition safeguards via the requirement that all projects above CFAF 2 billion are to be subject to an ex-ante evaluation, while unsolicited bids will be subject to a counter-evaluation by the Ministry of Economy, Planning and Cooperation (RT, end-June 2020, reset for end-December 2020). Staff urged the authorities to continue to enhance their analysis of fiscal risks, notably through the setting up of a PPP database (RT, end-June 2021).

B. Inclusive and Private Sector-Led Growth (PCI Pillar I)

Enhancing Economic Resilience of the Most Vulnerable Households and Firms

26. An expansion of the social safety net could support vulnerable households during the crisis. Staff argued that expanding the existing cash transfer program through temporarily scaling up quarterly payments and widen the recipients base would be an effective way to support vulnerable households. The authorities are evaluating this option (**PS, ¶13**), in cooperation with the World Bank, and are committed to clean up their national register and double its coverage by end-2021. The authorities noted that they prioritized in-kind support to one million households and subsidizing of utilities' bills of the poorest, which they considered more effective forms of support. On the longer-term challenge of increasing secondary education enrollment, a recently completed study (RT, June 2020) highlighted several policy options, including increasing incentives in the existing cash transfer program to keep girls in the school and expanding public schools in rural areas (**PS, ¶15**).

27. Providing effective support to SMEs during the crisis is particularly critical (PS, ¶14).[16] Most SMEs are informal and hard-hit by the crisis, but the efficiency of existing support mechanisms is limited by a multitude of initiatives and a lack of coordination. Key support initiatives for SMEs include the partially guaranteed financing (of up to CFAF 100 billion), CFAF 5 billion for the support of micro-finance institutions, the accelerated payment of government arrears, and the reorientation of existing SME support schemes. The authorities are firmly committed to streamline these initiatives by providing a single-entry point for SMEs seeking support (PS, ¶13), thus boosting overall efficiency of the support.

28. The authorities are taking steps to support companies' access to financing (PS, ¶16). First, the BCEAO has extended the types of collateral eligible to refinancing. Second, the government is about to launch a liquidity support program to viable businesses affected by the pandemic. The program includes a partial guarantee in the form of a non-remunerated deposit of 20 percent (50 percent for the SME track) of the loan amount to ensure burden sharing with banks. The interest rate on such loan is capped at 3.5 percent per year, with 12-month interest payment holidays and 5-to-6-year maturity. Total loans under the scheme could reach CFAF 200 billion (1.4 percent of GDP). Staff welcomed the initiative and encouraged the authorities to swiftly clarify remaining operational details to ensure full utilization of the scheme, especially of the CFAF 100bn targeted at SMEs.

29. Notwithstanding the crisis, other reforms to address structural bottlenecks to private sector development are advancing and will support the economic recovery (PS, ¶11-12). Staff welcomed progress under the G-20 "Compact with Africa" initiative, with a focus on financial inclusion, professional education, and modernization of the legal framework for the labor market. A new start-up law has also been adopted, which should help spur entrepreneurism. The authorities noted that these reforms will help lay the foundation for a strong private sector-led recovery. To allow for enhanced focus on the near-term challenges under this PCI, staff and the authorities agreed to streamline the reform agenda under Pillar I by dropping the RTs related to the reform of the labor law, the establishment of a court of first instance, and expanding credit bureau's access. The authorities nonetheless indicated that they will continue to pursue these reforms as conditions allow.

Maintaining Financial Stability During the Pandemic

30. Near-term risks to financial stability appear manageable. The banking system entered the crisis with adequate capital and liquidity buffers, which could serve to absorb the immediate impact of the pandemic on the economy. Based on a stress test with end-June 2019 data, an NPL increase by 75 percent would generate additional regulatory capital requirements of 1.5 percent of GDP. Further, the BCEAO has swiftly adapted its operating framework to respond to liquidity pressure. Thus far, banks' credit portfolios have not shown signs of distress

[16] About 99 percent of firms in Senegal are SMEs, 97 percent of which are in the informal sector (National Statistics Agency, 2017).

as evidenced by the low levels of demand for loan restructuring and payment moratoria granted (about FCFA 30 billion).

31. Staff nonetheless urged the authorities to closely monitor developments in the banking sector (PS, ¶16-17). In particular, they should ensure that banks provide full reporting of relief measures granted to customers and their impact on their balance sheets. Once the crisis abates, a comprehensive diagnostic will need to be conducted to provide an accurate picture of the extent of banks' losses and guide the authorities' actions. In the meantime, the authorities should fulfill their commitment to inject funds (0.3 percent of the GDP) in the state-owned bank that had weaknesses prior to the Covid-19 crisis to bridge the period until the crisis stabilizes and a better and transparent way to address fundamental problems related to the bank's business model can be found.

32. Staff welcomed the authorities' efforts to accelerate expanded access to financial services, particularly mobile banking services (PS, ¶18). BCEAO and government measures aiming at reducing the cost and facilitating access of mobile payments and other financial transactions are being accelerated. The authorities noted that the work on the new financial inclusion strategy is ongoing and would continue, though its' finalization had been delayed (end-June RT). Staff suggested to nonetheless drop this measure from the RTs. The authorities also highlighted that they were in the process of incorporating utility companies' clients into the electronic platform on credit information, thus significantly expanding the database. They reiterated their commitment to implement a unique online collateral registry combining movable and immovable collateral (RT, end-December 2021).

33. Progress has been made to address AML/CFT deficiencies. Staff encouraged the authorities to address the remaining key shortcomings from the GIABA assessment report to prevent a potential gray listing by FATF, which could have significant repercussions on financing costs and correspondent banking relationships. The authorities stated that progress has been made to address deficiencies, notably banks have stepped up internal measures to improve compliance with the revamped regulatory framework.

C. Transparent and Sustainable Management of Oil and Gas Revenue (PCI Pillar III)

34. COVID-19 has significantly increased uncertainty around the development of Senegal's budding hydrocarbon sector (PS, ¶27). Regarding the two projects that have reached final investment decision (Sangomar and GTA) for their initial phases, uncertainties regarding the size, cost and timing of production have increased, while the sharp drop in world oil prices is also jeopardizing these projects' longer-term prospects. The first oil/gas is now expected in 2023 from both fields. With major oil companies in the process of reassessing their investment strategies, staff encouraged the authorities to refrain from significant new borrowing by PETROSEN until there is more clarity on the projects' net revenue streams.

35. The authorities indicated that they were pursuing ongoing work to set up a sound framework to manage revenues, supported by IMF TA (PS, ¶28). Technical work on the draft laws for the allocation, management and control of hydrocarbon revenues (RT, initially for end-June and now reset for end-December 2020) and the organization of the institution serving as sovereign wealth fund (FONSIS) is well-advanced and the laws are expected to be finalized by end-2020.[17] Staff highlighted that the next step in the Fund TA would be to support work on a medium-term fiscal rule to anchor the path of non-oil primary deficits going forward.

PROGRAM MODALITIES AND CAPACITY DEVELOPMENT

36. Revised quantitative targets for end-June 2020 and end-December 2020 are proposed, based on the updated macro-economic framework. New targets are also proposed for end-June 2021. Furthermore, staff and the authorities concur that the reform agenda could be streamlined to allow for a continued focus on crisis-related needs. To this end several RTs are proposed to be dropped, while (i) the adoption of the new PPP law, (ii) the draft law on the allocation, management and control of hydrocarbon revenues and the (iii) raising prepayments on income taxes at customs, are proposed to be reset for end-December 2020 (Table 9) to allow more time for their completion. For the same reason, longer term fiscal reforms such as making ex-ante evaluations mandatory for including investments in the budget and the new fiscal framework reflecting hydrocarbon revenues are proposed to be delayed by one year. The report on the exchange of information between customs and tax departments shifts to a semi-annual frequency to better align it with operational procedures.

37. The program is fully financed while risks have increased. External partners have committed to provide substantial external financing in the form of grants and highly concessional loans over the next 12 months, leaving the program fully financed under the revised baseline scenario. However, the allocation of emergency aid, if perceived as lacking transparency or uneven, could undermine social and political stability. On a regional level, the pandemic could exert pressure on external reserves requiring a more restrictive overall macroeconomic policy stance which could be difficult to implement on a national level. Risks are mitigated by the authorities' timely response to the pandemic and strong track record in implementing Fund-supported programs. The BCEAO has only one recommendation outstanding from the 2018 safeguards assessment, which relates to the ongoing strengthening of the risk management function. The assessment found that overall the central bank has maintained a strong control culture.

38. Capacity development activities are closely linked to program priorities and have continued despite the crisis. Recent missions (including some conducted remotely) supported

[17] A remote March FAD mission launched the multi-year TA project to assist the Senegalese authorities with putting in place a strong framework for the transparent and sustainable management of hydrocarbon-related revenues.

the design of the legal framework for the management of hydrocarbon revenues and the set-up of a model to forecast hydrocarbon-related revenues, the operationalization of the national committee for public debt, and the preparation of the medium-term revenue and PFM strategies.

STAFF APPRAISAL

39. The Covid-19 pandemic is taking a heavy toll on Senegal. The recent strong growth spell has ended abruptly. The importance of remittances, tourism, and the services sector in driving economic activity makes Senegal vulnerable to the Covid-19 shock beyond the effects of domestic containment measures. Without a forceful policy response, the crisis risks increasing social tensions and unravelling the development gains made over the last decade.

40. The authorities' response to the crisis, as included in the revised budget for 2020, is impressive. The substantial increase in health spending and the swift move to provide in-kind support and subsidies for the use of electricity and water has helped meet urgent needs of vulnerable households. As a next step, the authorities should consider stepping up and broadening the reach of their cash transfer program. Economic stabilization measures including direct support to the most affected sectors, temporary tax relief, accelerated payments of unmet obligations, and partially guaranteed credit will support economic activity, prevent job losses, and avoid bankruptcies. It will now be essential to fully implement this package in the most targeted and cost-effective way. Stepped up support to SMEs, most of which are informal and hard-hit by the crisis, by reforming and streamlining the multitude of existing schemes is particularly critical.

41. The temporary loosening of the fiscal stance is well-justified. It is supported by spending reprioritization, substantial mobilization of concessional external financing, grants and the temporary suspension of debt service under the DSSI. The contingent spending envelope of 0.3 percent of GDP is appropriate given high uncertainty regarding revenue performance. Staff welcomes the authorities' commitment to a credible path toward a 3 percent of GDP deficit by 2022, as conditions normalize. A well-anchored and sound medium-term fiscal policy is also key for debt sustainability and regional stability.

42. Transparency and accountability of emergency spending are crucial. This will support its effectiveness and bolster social cohesion. In this regard, the authorities' commitment to publish all related tenders, beneficiaries, audit results and quarterly budget execution reports, and subject all spending to regular ex-post control mechanisms is commendable.

43. Staff welcomes progress towards key medium-term program objectives and supports the streamlining of the reform agenda. The authorities made substantial headway on their medium-term revenue strategy, the preparation of a sound framework to manage hydrocarbon revenues, and reforms to improve the business environment including the revised legal framework for PPPs. This progress on medium-term challenges will help pave the way for a strong post-crisis recovery. Staff supports the reduction in less-essential program targets, which will allow the authorities to focus on crisis management.

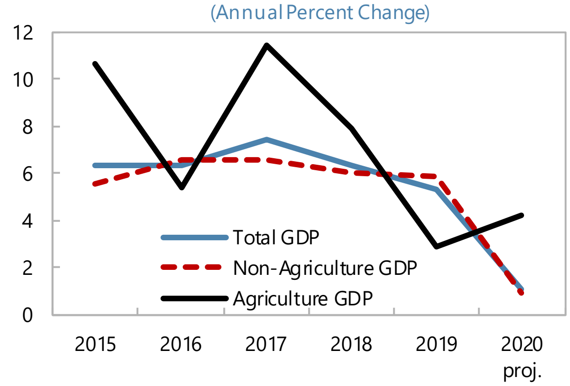
44. The economy could contract in 2020 if the crisis' impact proves stronger than expected. The authorities should prepare for such an adverse scenario, which would likely require a combination of adjustment and additional financing. On the expenditure side, consideration could be given to postponing domestically financed investment and cutting non-priority transfers to keep the fiscal deficit close to its current level. Potential financing sources could be the regional market and additional external support, including from the Fund.

45. Based on good program performance and the authorities' decisive response to the pandemic, anchored in the revised 2020 budget, staff supports the completion of the first review. Staff also supports the proposed modification of the end-June and end-December quantitative targets on the floor on net lending/borrowing and the floor on tax revenue and the end-December 2020 QTs on the ceiling on central government's overall net financing requirement and the ceiling on the total nominal public debt.

Figure 1. Senegal: Real and External Sectors, 2015–20

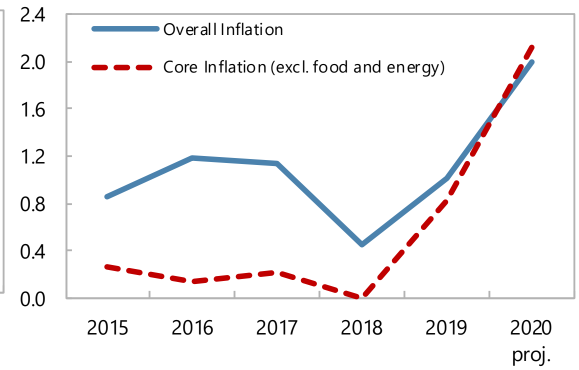
Growth is expected to slow to 1.1 percent in 2020…

Real GDP Growth
(Annual Percent Change)



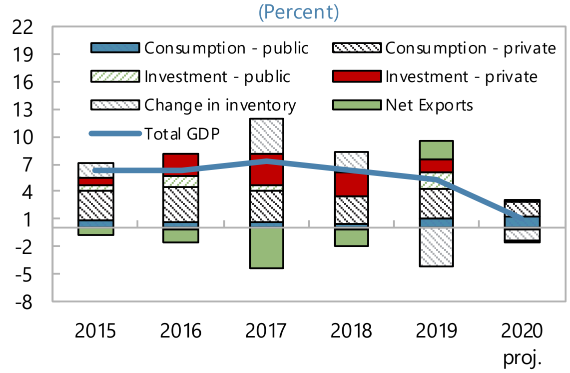
…and inflation to pick up to 2 percent.

CPI Inflation
(12 Month Average, Percent Change)



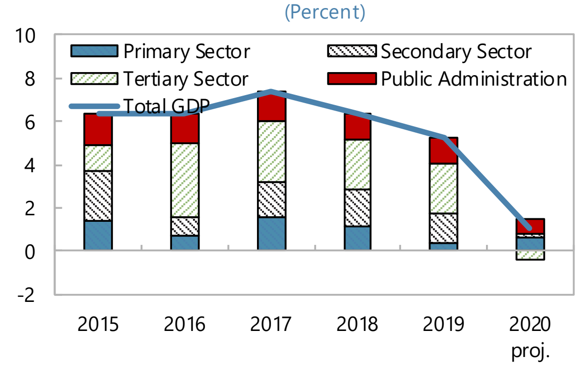
Private demand will be weak while expansionary fiscal policy will support economic activity.

Contributions to GDP Growth: Demand Side
(Percent)



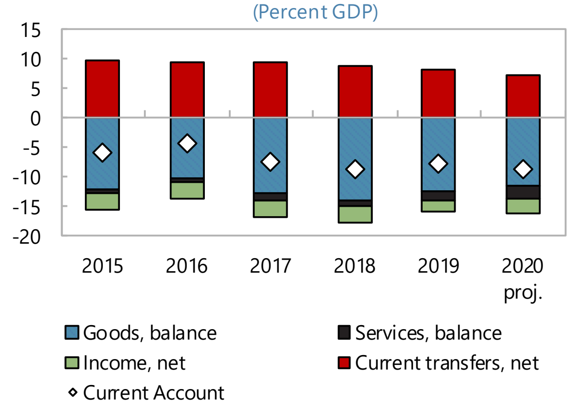
On the supply side, agriculture and public administration are expected to hold up.

Contributions to GDP Growth: Supply Side
(Percent)



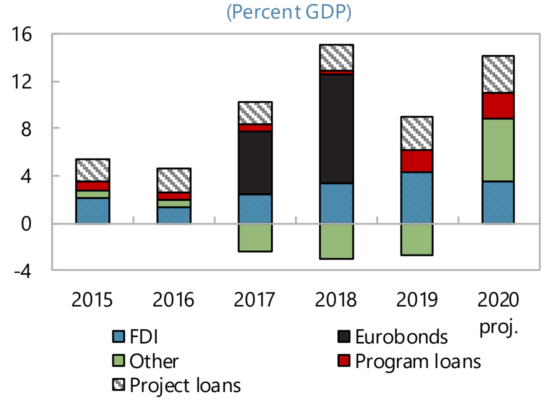
Substantial transfers, notably increasing budget grants, contain the current account deficit…

Current Account: Main Components
(Percent GDP)



…which is financed by FDI and mostly concessional financing.

Capital and Financial Account
(Percent GDP)

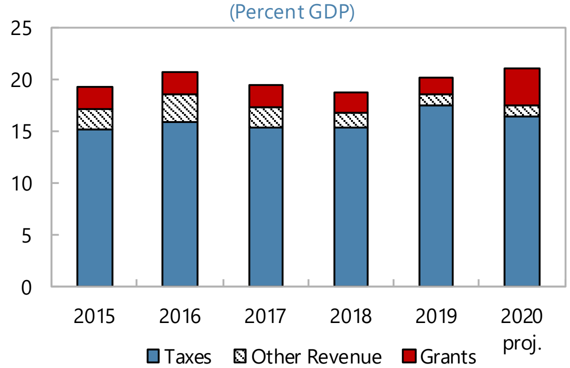


Sources: Senegal authorities; and IMF staff calculations.

Figure 2. Senegal: Fiscal and Financial Indicators, 2015–20

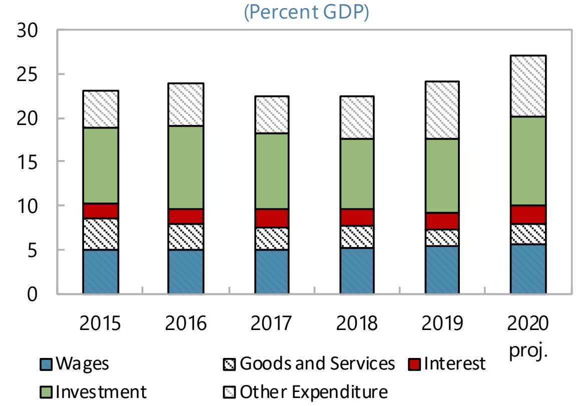
Tax revenues are expected to decline in 2020 while grants increase substanitally...

Revenue
(Percent GDP)



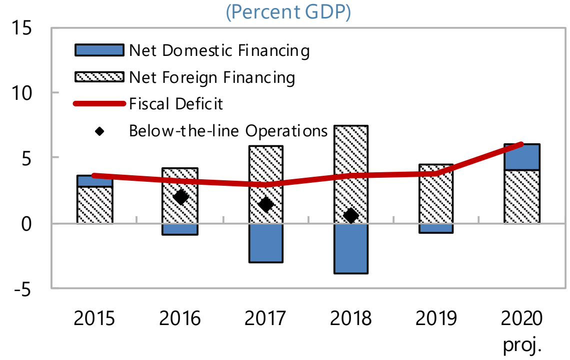
...and overall public spending will pick to address the Covid-19 crisis.

Expenditure
(Percent GDP)



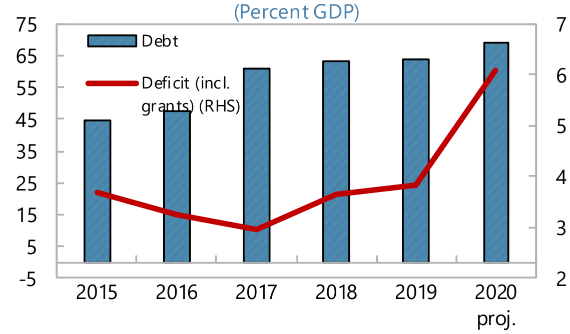
The increased fiscal deficit will be financed through a mix of domestic and concessional foreign financing...

Financing
(Percent GDP)



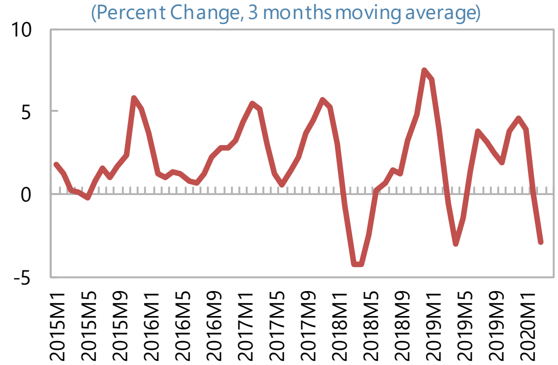
... while the debt ratio is increasing signifcantly.

Debt and Deficit
(Percent GDP)



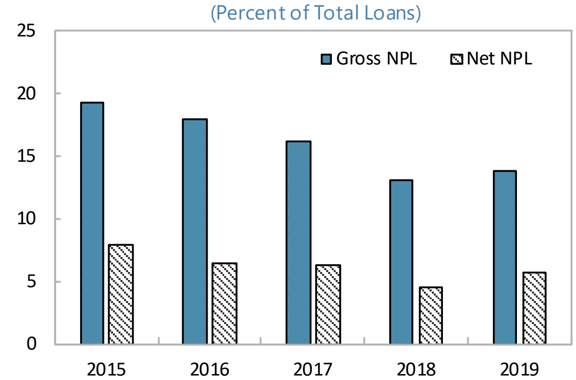
Credit to the private sector has slowed at the beginning of 2020...

Credit to the Private Sector
(Percent Change, 3 months moving average)



...while the level of NPLs has remained stable and, net of provisioning, is in single digits.

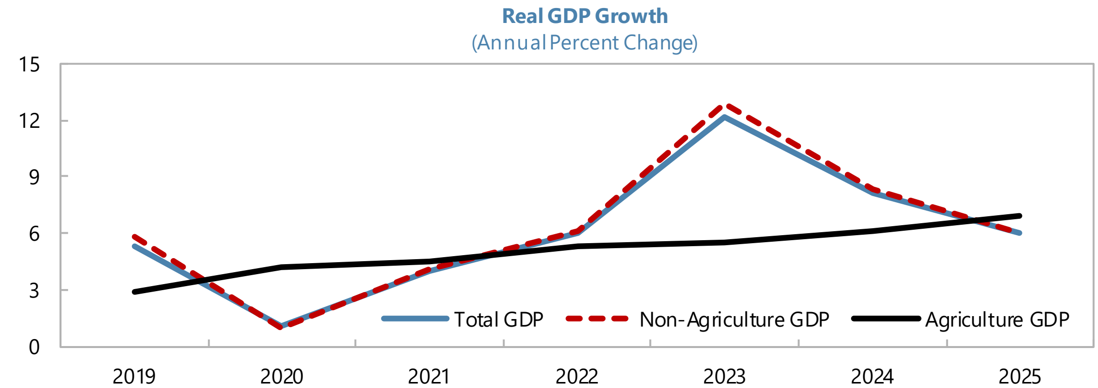
Non Performing Loans
(Percent of Total Loans)



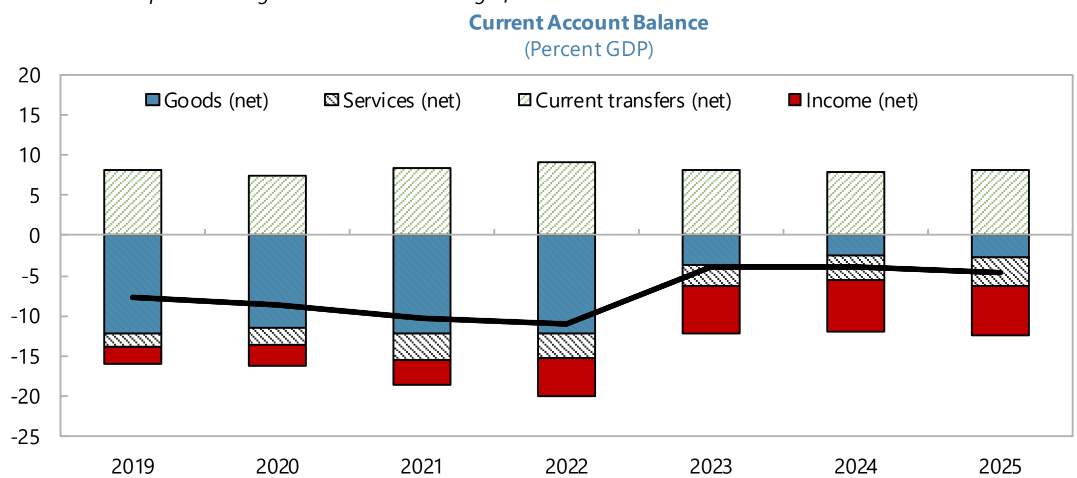
Sources: Senegal authorities; and IMF staff calculations.

Figure 3. Senegal: Outlook, 2019–25

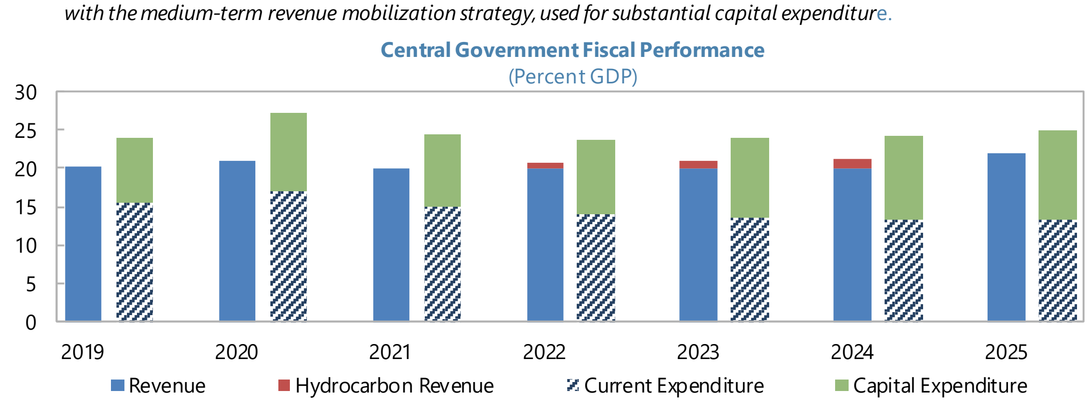
Growth will slow sharply in 2020 followed by a gradual recovery to growth rates seen in previous years. The level of GDP jumps in 2023 because of hydrocarbon production coming online.



Oil and gas related investments lead to a higher current account deficit before production until exports starting in 2023 will lead to a significant decline.



Total revenues, temporarily buoyed by grants in 2020, are expected to increase over the medium term in line with the medium-term revenue mobilization strategy, used for substantial capital expenditure.



Source: Senegal authorities; and IMF staff calculations.

Table 1. Senegal: Selected Economic and Financial Indicators, 2019–25[1]

	2019			2020			2021			2022	2023	2024	2025
	EBS/19/125	EBS/20/40	Prel.	EBS/19/125	EBS/20/40	Proj.	EBS/19/125	EBS/20/40	Proj.	Proj.	Proj.	Proj.	Proj.
	(Annual percentage change)												
National income and prices													
GDP at constant prices [1]	6.0	5.3	5.3	6.8	3.0	1.1	7.0	5.5	4.0	6.0	12.2	8.1	6.0
Of which: Non-hydrocarbon GDP	6.0	5.3	5.3	6.8	3.0	1.1	7.0	5.5	4.0	6.0	7.3	7.2	7.3
Of which: Hydrocarbon GDP	...	...	...	...	...	...	...	...	...	...	...	28.1	-16.1
Of which: Non-agriculture GDP	6.0	5.8	5.8	6.6	2.7	0.9	7.0	5.7	4.1	6.2	12.9	8.3	6.0
GDP deflator	1.1	1.7	1.7	1.1	2.0	2.5	1.8	1.7	1.7	0.8	4.2	1.6	1.5
Consumer prices													
Annual average	1.0	1.0	1.0	1.5	2.0	2.0	1.5	1.9	2.0	1.9	1.5	1.5	1.5
End of period	2.0	0.6	0.6	1.5	1.9	2.5	1.5	2.0	0.9	2.8	0.4	2.4	0.7
External sector													
Exports, f.o.b. (CFA francs)	13.8	13.5	12.3	13.8	-3.7	-11.9	13.4	12.3	12.7	21.6	76.4	13.3	8.6
Imports, f.o.b. (CFA francs)	7.8	9.4	4.7	11.4	-7.9	-8.2	10.8	13.2	12.1	15.8	20.5	9.2	9.4
Export volume	12.0	15.0	12.7	13.6	2.0	-6.3	12.0	12.8	12.7	17.1	101.7	11.1	5.8
Import volume	7.5	14.6	9.0	10.3	1.4	0.8	12.3	13.2	16.1	11.6	14.7	7.7	7.5
Terms of trade ("–" = deterioration)	1.4	3.4	3.7	-0.8	4.0	3.2	2.6	-0.4	3.6	0.1	-16.8	0.6	0.9
Nominal effective exchange rate	...	-1.3	-1.3	...	...	...	...	...	...	...	...	...	...
Real effective exchange rate	...	-4.5	-4.5	...	...	...	...	...	...	...	...	...	...
	(Changes in percent of beginning-of-year broad money)												
Broad money	9.1	8.2	8.2	6.6	2.9	8.4	...	4.1	8.0	...	...	...	...
Net domestic assets	4.9	7.5	7.5	9.1	7.4	7.1	...	5.7	2.0	...	...	...	...
Credit to the government (net)	3.4	1.7	1.7	3.0	7.0	7.5	...	1.4	1.4	...	...	...	...
Credit to the economy (net)	4.4	6.1	6.1	6.6	1.5	0.5	...	5.6	1.7	...	...	...	...
	(Percent of GDP, unless otherwise indicated)												
Government financial operations													
Revenue	20.3	20.2	20.2	20.7	19.3	21.0	21.5	19.5	20.0	20.6	21.1	21.3	22.0
Grants	1.9	1.6	1.6	1.9	2.2	3.5	1.9	2.0	2.5	2.4	2.0	1.7	1.7
Total expenditure	24.0	24.1	24.0	23.7	25.0	27.1	24.5	22.8	24.5	23.7	24.1	24.3	25.0
Net lending/borrowing (Overall Balance)													
excluding grants	-5.7	-5.5	-5.5	-4.9	-7.8	-9.6	-4.9	-5.3	-7.0	-5.4	-4.9	-4.7	-4.7
including grants	-3.7	-3.9	-3.8	-3.0	-5.6	-6.1	-3.0	-3.3	-4.5	-3.0	-3.0	-3.0	-3.0
Net lending/borrowing (excl. SENELEC op.)	-3.0	-3.2	-3.1	-3.0	-5.6	-6.1	-3.0	-3.3	-4.5	-3.0	-3.0	-3.0	-3.0
Primary fiscal balance	-1.8	-1.9	-1.9	-0.9	-3.5	-4.0	-1.1	-1.2	-2.6	-1.0	-1.1	-1.1	-1.0
Savings and investment													
Current account balance (official transfers included)	-9.2	-9.1	-7.7	-10.7	-11.3	-8.8	-10.5	-11.4	-10.2	-11.0	-3.9	-3.9	-4.5
Current account balance (official transfers excluded)	-9.4	-9.5	-7.8	-10.9	-11.6	-10.5	-10.9	-11.7	-11.0	-11.7	-4.3	-4.1	-4.7
Gross domestic investment	30.7	33.4	31.7	32.2	30.4	29.7	35.2	33.3	32.5	34.6	35.7	33.8	33.6
Government [2]	7.5	7.3	7.3	7.7	8.0	8.7	8.5	7.9	8.3	8.4	9.2	9.7	9.7
Nongovernment	23.2	26.1	24.4	24.5	22.4	21.0	26.8	25.4	24.2	26.2	26.6	24.1	23.9
Gross national savings	21.5	24.3	24.0	21.5	19.1	20.9	24.7	21.9	22.3	23.6	31.8	29.9	29.1
Government	7.9	6.6	6.6	8.6	5.8	7.3	8.9	6.1	6.2	6.7	8.8	10.0	10.6
Nongovernment	13.7	17.7	17.4	12.9	13.3	13.6	15.8	15.7	16.0	16.8	22.9	19.9	18.5
Total public debt [3]	63.7	64.2	64.1	61.9	67.4	68.6	60.8	67.6	70.4	70.5	64.5	62.3	61.3
Domestic public debt [4]	10.2	11.2	10.9	10.0	13.3	11.0	9.8	13.7	12.8	13.6	14.1	15.7	16.9
External public debt	53.5	52.9	53.2	51.9	54.2	57.7	51.0	53.9	57.6	56.8	50.4	46.6	44.3
Total public debt service [3]													
Percent of government revenue	29.8	27.6	23.0	29.8	31.2	23.7	22.8	28.5	22.4	28.0	24.7	29.6	24.2
Memorandum items:													
Gross domestic product (CFAF billions)	13,983	13,815	13,815	15,085	14,516	14,307	16,421	15,580	15,123	16,164	18,890	20,753	22,341
of which non-hydrocarbon (CFAF billions)	13,983	13,815	13,815	15,085	14,516	14,307	16,421	15,580	15,123	16,289	17,681	19,174	20,990
Gross domestic product (USD billions)	...	23.6	23.6	...	...	...	...	...	...	...	...	...	...
Share of hydrocarbon in total GDP (%)	...	...	...	...	...	...	...	...	...	...	6.4	7.6	6.0
National Currency per U.S. Dollar (Average)	...	586	586	...	...	...	...	...	...	...	...	...	...

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

[1] Based on new national accounts rebased to 2014.

[2] Reflects reclassification of public investment.

[3] Starting in 2017 debt level, debt service and government revenue include preliminary data covering the broader public sector.

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

Table 2. Senegal: Balance of Payments, 2019–25 (billions of CFAF)

	2019		2020		2021		2022	2023	2024	2025
	EBS/19/125	Prel.	EBS/19/125	Proj.	EBS/19/125	Proj.	Proj.			
	(Billions of CFAF, unless otherwise indicated)									
Current account	-1,284	-1,062	-1,612	-1,254	-1,731	-1,546	-1,785	-745	-812	-1,013
Balance on goods	-1,865	-1,700	-2,023	-1,655	-2,173	-1,841	-1,985	-691	-536	-633
Exports, f.o.b.	2,388	2,524	2,716	2,223	3,079	2,506	3,047	5,375	6,090	6,614
Imports, f.o.b.	-4,253	-4,224	-4,739	-3,878	-5,252	-4,346	-5,033	-6,066	-6,626	-7,247
Services (net)	-311	-208	-560	-295	-802	-514	-467	-492	-643	-781
Export	782	818	823	588	878	813	952	1,018	1,089	1,166
Import	-1,093	-1,027	-1,383	-883	-1,680	-1,327	-1,419	-1,510	-1,732	-1,947
Incomes (net)	-384	-292	-463	-362	-410	-446	-792	-1,116	-1,286	-1,391
Credits	226	224	243	203	218	242	260	273	290	301
Debits	-610	-516	-706	-565	-628	-689	-1,051	-1,389	-1,577	-1,692
Of which: interest on public debt	-242	-227	-281	-268	-258	-236	-256	-274	-293	-312
Current transfers (net)	1,275	1,139	1,434	1,059	1,655	1,255	1,459	1,553	1,653	1,791
Private (net)	1,246	1,149	1,407	843	1,601	1,165	1,374	1,503	1,631	1,767
Public (net)	30	-10	28	215	54	91	85	50	22	24
Of which: budgetary grants	20	20	21	241	44	103	85	52	24	26
Capital and financial account	1,528	1,036	1,495	1,253	1,655	1,940	1,990	1,901	2,113	2,233
Capital account	253	222	273	271	285	292	312	332	351	371
Private capital transfers	15	17	15	12	10	15	16	15	14	14
Project grants	240	208	260	261	279	279	298	319	338	359
Debt cancellation and other transfers	-2	-3	-2	-2	-3	-2	-2	-2	-2	-2
Financial account	1,275	815	1,221	983	1,370	1,648	1,678	1,568	1,762	1,862
Direct investment	523	584	718	502	773	767	801	818	905	1,003
Portfolio investment (net)	21	19	115	14	56	431	385	359	676	449
Of which : Eurobond issuance	0	0	0	0	131	0	0	0	208	0
Other investment	731	211	388	467	541	451	492	392	181	409
Public sector (net)	835	610	447	334	528	237	222	245	34	288
Of which : disbursements	1,005	780	869	756	832	541	536	480	510	533
program loans	285	263	82	330	81	141	71	56	86	86
project loans	401	392	501	426	426	400	405	364	364	382
other	319	125	286	0	325	0	60	60	60	65
amortization	-170	-170	-422	-422	-304	-304	-314	-235	-476	-245
Private sector (net)	-104	-399	-59	133	13	213	270	147	146	121
Errors and omissions	0	178	0	0	0	0	0	0	0	0
Overall balance	243	153	-117	-1	-76	394	205	1,155	1,407	1,326
Financing	-243	-153	117	1	76	-394	-205	-1,155	-1,407	-1,326
Net foreign assets [1]	-243	-304	117	-89	76	-394	-205	-1,155	-1,407	-1,326
Net use of IMF resources	-13	-13	-3	262	0	0	0	-44	-89	-53
Purchases/disbursements	0	0	0	265	0	0	0	0	0	0
Repurchases/repayments	-13	-13	-3	-3	0	0	0	-44	-89	-53
Other	-230	-291	120	-351	76	-394	-205	-1,111	-1,318	-1,272
Deposit money banks	0	151	0	0	0	0	0	0	0	0
Exceptional financing (debt relief)	0	0	0	90	0	0	0	0	0	0
Memorandum items:										
Current account balance (percent of GDP)										
Including current official transfers	-9.2	-7.7	-10.7	-8.8	-10.5	-10.2	-11.0	-3.9	-3.9	-4.5
Excluding current official transfers	-9.4	-7.8	-10.9	-10.5	-10.9	-11.0	-11.7	-4.3	-4.1	-4.7
Gross domestic product	13,983	13,815	15,085	14,307	16,421	15,123	16,164	18,890	20,753	22,341

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

[1] This is not indicative of the country's impact on WAEMU's aggregate external position or the pooled WAEMU reserves since the data contains intra-WAEMU flows from the current, capital and financial account.

Table 3. Senegal: Balance of Payments, 2019–25 (percent of GDP)

	2019		2020		2021		2022	2023	2024	2025
	EBS/19/125	Prel.	EBS/19/125	Proj.	EBS/19/125	Proj.	Proj.	Proj.	Proj.	Proj.
	(Percent of GDP, unless otherwise indicated)									
Current account	-9.2	-7.7	-10.7	-8.8	-10.5	-10.2	-11.0	-3.9	-3.9	-4.5
Balance on goods	-13.3	-12.3	-13.4	-11.6	-13.2	-12.2	-12.3	-3.7	-2.6	-2.8
Exports, f.o.b.	17.1	18.3	18.0	15.5	18.8	16.6	18.9	28.5	29.3	29.6
Imports, f.o.b.	-30.4	-30.6	-31.4	-27.1	-32.0	-28.7	-31.1	-32.1	-31.9	-32.4
Services (net)	-2.2	-1.5	-3.7	-2.1	-4.9	-3.4	-2.9	-2.6	-3.1	-3.5
Export	5.6	5.9	5.5	4.1	5.3	5.4	5.9	5.4	5.2	5.2
Import	-7.8	-7.4	-9.2	-6.2	-10.2	-8.8	-8.8	-8.0	-8.3	-8.7
Incomes (net)	-2.7	-2.1	-3.1	-2.5	-2.5	-2.9	-4.9	-5.9	-6.2	-6.2
Credits	1.6	1.6	1.6	1.4	1.3	1.6	1.6	1.4	1.4	1.3
Debits	-4.4	-3.7	-4.7	-4.0	-3.8	-4.6	-6.5	-7.4	-7.6	-7.6
Of which: interest on public debt	-1.7	-1.6	-1.9	-1.9	-1.6	-1.6	-1.6	-1.4	-1.4	-1.4
Current transfers (net)	9.1	8.2	9.5	7.4	10.1	8.3	9.0	8.2	8.0	8.0
Private (net)	8.9	8.3	9.3	5.9	9.7	7.7	8.5	8.0	7.9	7.9
Public (net)	0.2	-0.1	0.2	1.5	0.3	0.6	0.5	0.3	0.1	0.1
Of which: budgetary grants	0.1	0.1	0.1	1.7	0.3	0.7	0.5	0.3	0.1	0.1
Capital and financial account	10.9	7.5	9.9	8.8	10.1	12.8	12.3	10.1	10.2	10.0
Capital account	1.8	1.6	1.8	1.9	1.7	1.9	1.9	1.8	1.7	1.7
Private capital transfers	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Project grants	1.7	1.5	1.7	1.8	1.7	1.8	1.8	1.7	1.6	1.6
Debt cancellation and other transfers	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	9.1	5.9	8.1	6.9	8.3	10.9	10.4	8.3	8.5	8.3
Direct investment	3.7	4.2	4.8	3.5	4.7	5.1	5.0	4.3	4.4	4.5
Portfolio investment (net)	0.1	0.1	0.8	0.1	0.3	2.8	2.4	1.9	3.3	2.0
Of which : Eurobond issuance	0.0	0.0	0.0	0.0	0.8	0.0	0.0	0.0	1.0	0.0
Other investment	5.2	1.5	2.6	3.3	3.3	3.0	3.0	2.1	0.9	1.8
Public sector (net)	6.0	4.4	3.0	2.3	3.2	1.6	1.4	1.3	0.2	1.3
Of which : disbursements	7.2	5.6	5.8	5.3	5.1	3.6	3.3	2.5	2.5	2.4
program loans	2.0	1.9	0.5	2.3	0.5	0.9	0.4	0.3	0.4	0.4
project loans	2.9	2.8	3.3	3.0	2.6	2.6	2.5	1.9	1.8	1.7
other	2.3	0.9	1.9	0.0	2.0	0.0	0.4	0.3	0.3	0.3
amortization	-1.2	-1.2	-2.8	-2.9	-1.9	-2.0	-1.9	-1.2	-2.3	-1.1
Private sector (net)	-0.7	-2.9	-0.4	0.9	0.1	1.4	1.7	0.8	0.7	0.5
Errors and omissions	0.0	1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	1.7	1.1	-0.8	0.0	-0.5	2.6	1.3	6.1	6.8	5.9
Financing	-1.7	-1.1	0.8	0.0	0.5	-2.6	-1.3	-6.1	-6.8	-5.9
Net foreign assets [1]	-1.7	-2.2	0.8	-0.6	0.5	-2.6	-1.3	-6.1	-6.8	-5.9
Net use of IMF resources	-0.1	-0.1	0.0	1.8	0.0	0.0	0.0	-0.2	-0.4	-0.2
Purchases/disbursements	0.0	0.0	0.0	1.8	0.0	0.0	0.0	0.0	0.0	0.0
Repurchases/repayments	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	-0.2	-0.4	-0.2
Other	-1.6	-2.1	0.8	-2.5	0.5	-2.6	-1.3	-5.9	-6.4	-5.7
Deposit money banks	0.0	1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional financing (debt relief)	0.0	0.0	0.0	0.6		0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Gross domestic product	13,983	13,815	15,085	14,307	16,420.6	15,123	16,164	18,890	20,753	22,341

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

[1] This is not indicative of the country's impact on WAEMU's aggregate external position or the pooled WAEMU reserves since the data contains intra-WAEMU flows from the current, capital and financial account.

Table 4. Senegal: Budgetary Central Government Operations, GFSM 2001 Classification, 2019–25[1]
(billions of CFAF)

	2019		2020		2021		2022	2023	2024	2025
	EBS/19/125	Prel.	EBS/19/125	Proj.	EBS/19/125	Proj.	Proj.			
					(CFAF Billions)					
Revenue and Grants	**2,833**	**2,789**	**3,122.0**	**3,008**	**3,537**	**3,027**	**3,336**	**3,984**	**4,428**	**4,919**
Taxes	2,400	2,410	2,675	2,354	3,059	2,517	2,815	3,453	3,890	4,345
Direct taxes	746	760	785	730	920	677	833	1,126	1,299	1,485
Taxes on goods and services	1,269	1,247	1,412	1,273	1,593	1,434	1,545	1,811	2,020	2,204
Taxes on international trade and transactions	345	366	437	313	501	365	394	466	515	596
Other taxes	39	38	41	39	45	41	44	51	56	60
Grants	271	225	293	502	312	382	384	371	362	385
Budget	31	17	33	241	33	103	85	52	24	26
Projects	240	208	260	261	279	279	298	319	338	359
Other revenue	162	154	154	153	167	128	137	160	176	189
Expenditure	**3,349**	**3,317**	**3,575**	**3,881**	**4,026**	**3,708**	**3,823**	**4,543**	**5,048**	**5,580**
Expense	2,061	2,157	2,132	2,453	2,312	2,265	2,253	2,552	2,738	2,981
Compensation of employees	744	733	818	818	887	864	924	1,080	1,186	1,277
Use of goods and services	389	281	312	314	476	332	338	395	434	468
Interest	278	262	324	307	301	287	326	359	398	440
Subsidies	292	297	189	471	163	268	136	101	42	45
Grants (current excl. FSE)	212	364	315	377	261	315	315	368	405	435
Social benefits	25	15	31	31	53	33	35	41	45	71
Other expense	121	204	158	136	172	166	178	208	228	246
Net acquisition of nonfinancial assets [2]	1,295	1,160	1,443	1,428	1,713	1,443	1,571	1,991	2,310	2,599
Domestically financed	655	560	666	742	1,009	764	868	1,308	1,607	1,858
Externally financed	641	600	762	687	705	679	703	683	702	741
Net lending/borrowing *(Overall balance)*	-523	-528	-453	-873	-489	-681	-488	-559	-620	-661
Net lending/borrowing *(Excl. SENELEC one-of operation)* [3]	**-423**	**-428**	**-453**	**-873**	**-489**	**-681**	**-488**	**-559**	**-620**	**-661**
Transactions in financial assets and liabilities (Financing)	**-523**	**-528**	**-452**	**-873**	**-489**	**-681**	**-488**	**-559**	**-620**	**-661**
Net acquisition of financial assets	-36	-73	-130	-23	0	0	0	0	0	0
Domestic	-36	-73	-130	-23	0	0	0	0	0	0
Currency and deposits	-36	-73	-130	-93	0	0	0	0	0	0
Other accounts receivable	0	0	0	70	0	0	0	0	0	0
Foreign	0	0	0	0	0	0	0	0	0	0
Net incurrence of liabilities	487	455	322	850	489	681	488	559	620	661
Domestic	-167	-167	-40	277	148	27	-30	44	1	-30
IMF and SDRs	-13	-13	-3	263	0	0	0	-44	-89	-53
Debt securities (net)	1	1	159	160	194	78	17	137	139	69
BOAD	-7	-7	-9	12	-8	-19	-23	-24	-24	-20
Loans	-55	-7	-40	-37	-33	-44	-48	-25	-25	-25
Other accounts payable [4]	-100	-100	-121	-121	0	0	0	0	0	0
Foreign	647	622	352	573	341	654	518	515	619	691
Debt securities (net)	14	13	141	40	78	437	374	376	692	467
T-bills and bonds issued in WAEMU	14	13	141	40	-54	437	374	376	484	467
Eurobond	0	0	0	0	131	0	0	0	208	0
Loans	641	610	221	444	263	218	144	140	-73	224
Program loans	285	263	82	330	81	141	71	56	86	86
Project loans	401	392	501	426	426	400	405	364	364	382
Nonconcessional loans	125	125	-65	0	60	0	60	60	60	65
Other	-170	-170	-297	-312	-304	-324	-392	-340	-584	-309
Other accounts payable	0	0	0	0	0	0	0	0	0	0
Exceptional Financing[5]	…	0	…	90	…	0	0	0	0	0
Memorandum items:										
Total Financing (deficit +nonbudgetary additional borrowing)	623	628	574	994	489	681	488	559	620	661
Hydrocarbon revenues[6]	…	…	…	…	..	…	0	144	158	194
Nominal GDP	13,983	13,815	15,085	14,307	16,421	15,123	16,164	18,890	20,753	22,341

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] Public Investment differs from net acquisition of nonfinancial assets reported in the fiscal tables by including public spending in wages and salaries of frontline staff in education and health, both of which are considered as investment in human capital (in line with the spirit of the PSE).

[3] One-off operation to allow clearance of central government unmet obligations vis-à-vis the national electricity company SENELEC. This is mostly linked to *compensation* for subsidized electricity tariffs dating from the period 2017-2018.

[4] Starting in 2016, Treasury operations to finance (i) Post office operations (Poste and Poste Finance), (ii) pensions (Fonds National de Retraites), (iii) reduction of stock of comptes de depots, (iv) arrears to energy sector.

[5] Suspended debt service under the debt service suspension initative (DSSI).

[6] This is total hydrocarbon revenues accruing to the Senegalese government and is higher than what is annually included in the budget of the central government.

Table 5. Senegal: Budgetary Central Government Operations, GFSM 2001 Classification, 2019–25[1](percent of GDP)

	2019		2020		2021		2022	2023	2024	2025
	EBS/19/125	Prel.	EBS/19/125	Proj.	EBS/19/125	Proj.	Proj.			
	(Percent of GDP, unless otherwise indicated)									
Revenue and Grants	**20.3**	**20.2**	**20.7**	**21.0**	**21.5**	**20.0**	**20.6**	**21.1**	**21.3**	**22.0**
Taxes	17.2	17.4	17.7	16.5	18.6	16.6	17.4	18.3	18.7	19.4
Direct Taxes	5.3	5.5	5.2	5.1	18.6	4.5	5.2	6.0	6.3	6.6
Taxes on goods and services	9.1	9.0	9.4	8.9	9.7	9.5	9.6	9.6	9.7	9.86
Taxes on international trade and transactions	2.5	2.6	2.9	2.2	3.0	2.4	2.4	2.47	2.48	2.67
Other taxes	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Grants	1.9	1.6	1.9	3.5	1.9	2.5	2.4	2.0	1.7	1.7
Budget	0.2	0.1	0.2	1.7	0.2	0.7	0.5	0.3	0.1	0.1
Projects	1.7	1.5	1.7	1.8	1.7	1.8	1.8	1.7	1.6	1.6
Other revenue	1.2	1.1	1.0	1.1	1.0	0.8	0.8	0.8	0.8	0.8
Expenditure	**24.0**	**24.0**	**23.7**	**27.1**	**24.5**	**24.5**	**23.7**	**24.1**	**24.3**	**25.0**
Expense	14.7	15.6	14.1	17.1	14.1	15.0	13.9	13.5	13.2	13.3
Compensation of employees	5.3	5.3	5.4	5.7	5.4	5.7	5.7	5.7	5.7	5.7
Use of goods and services	2.8	2.0	2.1	2.2	2.9	2.2	2.1	2.1	2.1	2.1
Interest	2.0	1.9	2.1	2.1	1.8	1.90	2.02	1.90	1.92	1.97
Foreign	1.7	1.6	1.9	1.9		1.6	1.6	1.4	1.4	1.4
Domestic	0.3	0.3	0.3	0.3		0.3	0.4	0.5	0.5	0.6
Subsidies	2.1	2.1	1.3	3.3	1.0	1.8	0.8	0.5	0.2	0.2
Grants (current excl. FSE)	1.5	2.6	2.1	2.6	1.6	2.1	1.9	1.9	1.9	1.9
Social benefits	0.2	0.1	0.2	0.2	0.3	0.2	0.2	0.2	0.2	0.3
Other expense	0.9	1.5	1.0	0.9	1.0	1.1	1.1	1.1	1.1	1.1
Net acquisition of nonfinancial assets [2]	9.3	8.4	9.6	10.0	10.4	9.5	9.7	10.5	11.1	11.6
Domestically financed	4.7	4.1	4.4	5.2	6.1	5.1	5.4	6.9	7.7	8.3
Externally financed	4.6	4.3	5.0	4.8	4.3	4.5	4.4	3.6	3.4	3.3
Net lending/borrowing *(Overall balance)*	-3.7	-3.8	-3.0	-6.1	-3.0	-4.5	-3.0	-3.0	-3.0	-3.0
Net lending/borrowing *(Excl. SENELEC one-of operation)* [3]	**-3.0**	**-3.1**	**-3.0**	**-6.1**	**-3.0**	**-4.5**	**-3.0**	**-3.0**	**-3.0**	**-3.0**
Transactions in financial assets and liabilities (Financing)	**-3.7**	**-3.8**	**-3.0**	**-6.1**	**-3.0**	**-4.5**	**-3.0**	**-3.0**	**-3.0**	**-3.0**
Net acquisition of financial assets	-0.3	-0.5	-0.9	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	-0.3	-0.5	-0.9	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	-0.3	-0.5	-0.9	-0.6	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts receivable	0.0	0.0	0.0	0.5	0.0	0.0	0.0	0.0	0.0	0.0
Foreign	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	3.5	3.3	2.1	5.9	3.0	4.5	3.0	3.0	3.0	3.0
Domestic	-1.2	-1.2	-0.3	1.9	0.9	0.2	-0.2	0.2	0.0	-0.1
IMF and SDRs	-0.1	-0.1	0.0	1.8	0.0	0.0	0.0	-0.2	-0.4	-0.2
Debt securities (net)	0.0	0.0	1.1	1.1	1.2	0.5	0.1	0.7	0.7	0.3
BOAD	0.0	0.0	-0.1	0.1	0.0	-0.1	-0.1	-0.1	-0.1	-0.1
Loans	-0.4	0.0	-0.3	-0.3	-0.2	-0.3	-0.3	-0.1	-0.1	-0.1
Other accounts payable [4]	-0.7	-0.7	-0.8	-0.8	0.0	0.0	0.0	0.0	0.0	0.0
Foreign	4.6	4.5	2.3	4.0	2.1	4.3	3.2	2.7	3.0	3.1
Debt securities (net)	0.1	0.1	0.9	0.3	0.5	2.9	2.3	2.0	3.3	2.1
T-bills and bonds issued in WAEMU	0.1	0.1	0.9	0.3	-0.3	2.9	2.3	2.0	2.3	2.1
Eurobond	0.0	0.0	0.0	0.0	0.8	0.0	0.0	0.0	1.0	0.0
Loans	4.6	4.4	1.5	3.1	1.6	1.4	0.9	0.7	-0.4	1.0
Program loans	2.0	1.9	0.5	2.3	0.5	0.9	0.4	0.3	0.4	0.4
Project loans	2.9	2.8	3.3	3.0	2.6	2.6	2.5	1.9	1.8	1.7
Nonconcessional loans	0.9	0.9	-0.4	0.0	0.5	0.0	0.4	0.3	0.3	0.3
Other	-1.2	-1.2	-2.0	-2.2	-1.9	-2.1	-2.4	-1.8	-2.8	-1.4
Other accounts payable	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional Financing[5]	...	0.0	...	0.6	...	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Total Financing (deficit +nonbudgetary additional borrowing)	4.5	4.5	3.8	6.9	3.0	4.5	3.0	3.0	3.0	3.0
Hydrocarbon revenues[6]	...	...	...	...	...	...	0.0	0.8	0.8	0.9
Non-hydrocarbon taxes / non-hydrocarbon GDP	...	...	...	...	...	...	17.3	18.9	19.6	20.0
Nominal GDP	13,983	13,815	15,085	14,307	16,421	15,123	16,164	18,890	20,753	22,341

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] Public Investment differs from net acquisition of nonfinancial assets reported in the fiscal tables by including public spending in wages and salaries of frontline staff in education and health, both of which are considered as investment in human capital (in line with the spirit of the PSE).

[3] One-off operation to allow clearance of central government unmet obligations vis-à-vis the national electricity company SENELEC. This is mostly linked to *compensation* for subsidized electricity tariffs dating from the period 2017-2018.

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

[5] Suspended debt service under the debt service suspension initative (DSSI).

[6] This is total hydrocarbon revenues accruing to the Senegalese government and is higher than what is annually included in the budget of the central government.

Table 6. Senegal: Monetary Survey, 2019–22

	2019		2020		2021	2022
	EBS/19/125	Proj.	EBS/19/125	Proj.	Proj.	
			(Billions of CFAF)			
Net foreign assets	2,063	1,973	1,946	2,062	2,456	2,661
BCEAO	1,410	1,471	1,293	1,560	1,955	2,159
Commercial banks	653	501	653	501	501	501
Net domestic assets	4,025	4,160	4,547	4,566	4,692	4,978
Net domestic credit	5,155	5,157	5,701	5,613	5,802	6,165
Net credit to the government[1]	651	560	822	989	1,074	1,174
Central bank	-151	-191	-23	165	165	165
Commercial banks	802	751	845	824	909	1,009
Other institutions	2	2	2	2	2	2
Credit to the economy	4,504	4,597	4,880	4,624	4,728	4,990
Shares and other equity	-769	-749	-829	-776	-820	-876
Other items (net)	-362	-247	-325	-271	-290	-310
Broad money	5,731	5,687	6,107	6,167	6,662	7,121
Currency outside banks	1,414	1,302	1,507	1,554	1,679	1,794
Total deposits	4,317	4,385	4,601	4,613	4,983	5,326
Demand deposits	2,637	2,666	2,810	2,891	3,123	3,338
Time deposits	1,680	1,718	1,791	1,722	1,860	1,988
Non-liquid Liabilities	357	446	386	461	486	518
			(Change in percentage of beginning-of-period broad money stock)			
Net foreign assets	4.6	2.9	-2.0	1.6	6.4	3.1
Net domestic assets	4.9	7.5	9.1	7.1	2.0	4.3
Net credit to the government[1]	3.4	1.7	3.0	7.5	1.4	1.5
Credit to the economy (net)	4.4	6.1	6.6	0.5	1.7	3.9
Broad money	9.1	8.2	6.6	8.4	8.0	6.9
Memorandum items:			(Units indicated)			
Velocity (GDP/broad money; end of period)	2.4	2.4	2.5	2.3	2.3	2.3
Nominal GDP growth (percentage growth)	7.2	7.0	7.9	3.6	5.7	6.9
Credit to the private sector (percentage growth)	6.0	6.7	9.3	0.7	2.6	6.3
Credit to the private sector/GDP (percent)	28.8	29.3	29.2	28.5	27.6	27.5

Sources: BCEAO; and IMF staff estimates and projections.

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

Table 7. Senegal: Financial Soundness Indicators for the Banking Sector, 2011–19

	2011	2012	2013	2014	2015	2016	2017	2018[1]	2019	2019
	Dec	Dec	Dec	Dec	Dec	Dec	Dec	Dec	June	Dec
Solvency ratios										
Regulatory capital to risk weighted assets	15.7	16.7	18.3	17.0	19.1	14.5	13.6	11.8	13.2	
Tier I capital to risk-weighted assets	15.5	17.0	17.9	16.4	16.3	13.8	13.2	11.4	12.7	
Provisions to risk-weighted assets	9.2	10.7	11.2	13.5	16.0	13.6	11.6	8.9	9.4	
Capital to total assets	9.9	9.8	10.3	9.0	8.3	7.2	7.6	7.9	8.4	
Composition and quality of assets										
Total loans to total assets	61.1	62.5	61.2	59.5	55.5	53.6	60.5	61.3	62.63	
Concentration: loans to 5 largest borrowers to capital	74.6	66.4	58.0	54.7	46.4	63.7	71.6	69.2	71.8	
Sectoral distribution of loans[2]										
Agriculture	2.3	2.1	1.6	2.1	2.6	2.2	2.4	2.4	2.3	
Extractive industries	1.1	0.8	0.8	0.9	0.8	0.8	0.8	1.2	1.2	
Manufacturing	23.8	24.9	22.9	22.7	21.1	18.7	17.2	15.3	16.2	
Electricity, water and gas	1.9	2.2	1.7	2.0	1.8	1.7	2.1	2.1	3.2	
Construction	5.4	5.1	6.5	7.1	3.9	4.9	5.7	4.5	5	
Retail and wholesale trade, restaurants and hotels	24.9	24.6	25.4	24.0	25.4	25.3	23.1	26.0	24.4	
Transportation and communication	8.2	7.1	8.1	7.8	10.0	12.0	12.9	12.8	11.8	
Insurance, real estate and services	6.1	6.3	6.3	6.7	7.0	7.1	8.6	7.5	7.9	
Other services	26.3	26.9	26.7	26.8	27.5	27.2	27.2	28.2	28	
Gross NPLs to total loans	15.9	16.4	17.5	18.6	19.3	18.0	16.2	13.1	13.6	13.9
Provisioning rate	54.0	55.4	53.5	57.5	57.7	62.5	59.7	68.1	63.4	62.0
Net NPLs to total loans	8.0	8.1	9.0	8.8	9.2	7.6	7.2	4.6	5.4	5.8
Net NPLs to capital	49.7	51.4	53.3	58.5	61.4	56.4	57.7	38.7	40.1	
Earnings and profitability[3]										
Average cost of borrowed funds	2.2	2.4	2.2	2.2	2.2	2.3	2.4	2.2	...	
Average interest rate on loans	9.2	9.2	9.3	8.4	8.2	8.4	8.6	7.6	...	
Average interest margin[4]	7.0	6.8	7.1	6.2	6.0	6.1	6.2	5.4	...	
After-tax return on average assets (ROA)	1.8	1.0	1.1	0.3	0.8	1.0	1.7	0.7	...	
After-tax return on average equity (ROE)	14.7	9.9	10.5	3.6	9.0	13.0	19.9	7.2	...	
Noninterest expenses/net banking income	56.4	57.9	57.7	59.6	61.0	57.7	58.0	57.3	...	
Salaries and wages/net banking income	24.3	23.7	25.6	25.4	26.1	25.0	24.9	26.8	...	
Liquidity										
Liquid assets to total assets	31.0	32.3	30.5	28.9	27.4	26.8	28.3	31.8	31.4	
Liquid assets to total deposits	43.7	45.5	45.4	42.9	39.7	40.6	41.8	47.9	46.0	
Total loans to total deposits	94.3	97.1	100.7	99.1	90.6	91.5	99.1	101.6	100.6	
Total deposits to total liabilities	70.9	70.8	67.1	67.2	69.0	66.0	67.6	66.3	68.2	
Sight deposits to total liabilities[5]	35.8	37.0	37.3	35.0	38.3	37.8	37.5	37.1	38.7	
Term deposits to total liabilities	35.2	33.9	29.7	32.3	30.6	28.2	30.1	29.2	29.5	

Source: BCEAO.

[1] First year of data reporting in accordance with Basel II/III prudential standards and the new banking chart of account.

[2] Declared to central risk registry.

[3] Based on semi-annual income statements.

[4] Excluding tax on bank operations.

[5] Including saving accounts.

Table 8. Senegal: Schedule of Reviews Under the Policy Coordination Instrument, 2019–22

Program Review	Proposed Date	Test Date
First Review	By June 30, 2020	End-December 2019
Second Review	By December 31, 2020	End-June 2020
Third Review	By June 30, 2021	End-December 2020
Fourth Review	By December 31, 2021	End-June 2021
Fifth Review	By June 30, 2022	End-December 2021
Sixth Review	By December 31, 2022	End-June 2022

Source: IMF.

Table 9. Senegal: Risk Assessment Matrix[1]

Source of Risks	Relative Likelihood	Potential impact	Policy Response
Risks			
Prolonged COVID-19 outbreak.	**High**	**High.** A more protracted outbreak causing longer containment measures and a less favorable external environment could weigh on economic activity, fiscal performance and debt, and financial stability.	Prepare for contingency scenario and flexibly adjust policy as necessary to ensure appropriate health policy response and mitigate economic damage.
More protectionism.	**High**	**Medium.** Pandemic-prompted protectionist actions (e.g. export controls) could re-ignite broader protectionist measures. This could affect Senegalese exports and imports.	Continue with export diversification strategy with regard to products and trading partners.
Oversupply in the oil market.	**High**	**High**. Large energy price swings can have significant fiscal implications under unchanged retail prices. Oil and gas production in Senegal could be delayed if prices remain very low.	Consider locking in current low energy prices to remove fiscal uncertainty and strengthening automatic pass through to domestic energy prices while protecting vulnerable segments of society.
Social discontent and political instability.	**Low**	**High.** A deteriorating political climate would tarnish Senegal's reputation of having one of the most stable political environments in the region.	Ensure transparency and accountability of the social and economic response to COVID-19.
Domestic and regional security threats	**Medium**	**Medium**. An increase in security concerns for Senegal would require higher security expenditures and could affect private investment.	Ensure that multi-year budget framework allows room to address fiscal contingencies.

Source: IMF.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability of 30 percent or more). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

Annex I. Senegal's COVID-19 Response: The Economic and Social Resilience Program

President Macky Sall announced the "Economic and Social Resilience Program" ("Programme de Résilience Economique et Sociale, or PRES, to be financed by a special Force COVID-19 CFAF 1 trillion (7 percent of GDP). Interventions are organized around four pillars:

1. Strengthen the health system (CFAF 78.7 billion, 0.54 percent of GDP). This is aimed directly at the health sector, with the objective to increase detection and rapid isolation of confirmed cases and strengthen means of prevention and control of infection.

2. Strengthen social protection (CFAF 103 billion, 0.71 percent of GDP). This includes:

- Food kits for 1 million vulnerable households. (CFAF 69 billion, 0.47 percent of GDP)
- Funds to support the diaspora (CFAF 12.5 billion, 0.1 percent of GDP). About half of the Senegalese diaspora lives in France, Italy, Spain, and the United States, countries powerfully hit by COVID-19. The authorities intend to target individuals mainly in the informal sector that have lost any type of income. Families of people that are receiving funds or remittances will also be included.
- Subsidy to pay utility bills (CFAF 18.5 billion, 0.13 percent of GDP). Government will pay electricity and water bills for vulnerable households for two months.
- Implementation of livestock safeguarding operations (CFAF 2 billion, 0.01 percent of GDP)
- Support for artisanal fisherman, women processors, fishmongers and aquaculturists (CFAF 1 billion, 0.01 percent of GDP)

3. Safeguard macroeconomic and financial stability, support the private sector, and protect jobs (CFAF 760 billion, 5.31 percent of GDP). Measures include:

- Partial forgiveness to companies of outstanding tax debts (CFAF 200 billion, 1.38 percent of GDP).
- Deadline for payment of suspended VAT extended from 12 to 24 months (CFAF 15 billion, 0.1 percent of GDP).
- Tax rebates for companies that keep 70% of their workforce and/or keep paying more than 70% of their wages (CFAF 40 billion, 0.27 percent of GDP).
- Accelerated payment of unmet obligations to the private sector (CFAF 200 billion, 1.40 percent of GDP).
- Support for micro-enterprises (CFAF 5 billion, 0.04 percent of GDP).
- Tax deferrals for SMEs and companies in hardest hit economic sectors.
- Direct support to hardest hit sectors – transport, tourism, construction (CFAF 100 billion, 0.69 percent of GDP).

- A fund that will provide credit guarantees for companies affected by the COVID-19 crisis (CFAF 70 billion (0.48 percent of GDP) through the budget, including with support from the European Investment Bank, which would leverage another CFAF 130 billion from the banking sector). Money would be deposited in a special account, with the government portion to be called first. Unused resources would flow back to the government (and back to the EIB).

4. Maintain regular supply of hydrocarbons, medical products, pharmaceuticals, and basic necessities (CFAF 77.6 billion, 0.54 percent of GDP). Objectives under this pillar include:

- Strengthen surveillance of the internal market.
- Ensure adequate stocks for all essential foodstuffs.
- Maintain prices of main necessities at pre-crisis levels.
- Ensure access of consumers to high quality products throughout the national territory.
- Mitigate the impact of COVID-19 on the national supply and facilitation of commercial operations.

Not all of these measures will have an immediate impact on the budget, however. The table below shows the implications for the budget (the numbers from the column "budgetary impact" are taken from Text Tables 2 and 3 in the main text).

Table 1. Senegal: Budgetary Implications of Covid-19 Fund

Covid-19 Fund Measures	As appears in Covid-19 Fund	Budgetary Impact 1/
Taxes (all under Pillar III - Economic Support)	**215**	**15**
Partial forgiveness of outstanding tax debts	200	0
Extenstion of deadline for payment of suspended VAT	15	15
Tax deferrals for SMEs and companies in hardest hit sectors	0	0
Accelerated VAT refunds	0	0
Expenditure	**709**	**351**
Savings in response to Covid-19	-95	-95
Current	-20	-20
Capital	-75	-75
Covid-19 support measures 1/	804	446
Pillar I - COVID-19 health action plan	79	79
Pillar II - Social safety net (food kits, utility subsidy, diaspora)	103	103
Pillar III - Economic support (tax rebate, direct aid,..)	345	145
Pillar IV - Securing of key supplies	78	32
Accelerated payment of pre-2020 unmet obligations	200	87

Source: Ministry of Finance and Budget, Ministry of Economy and Planning, IMF staff estimates.

1/ additional vis-à-vis the 2020 original budget.

Annex II. Adverse Scenario

1. **The economic outlook is highly uncertain.** As stressed by the April WEO, the economic fallout of the pandemic depends on a number of interrelated factors, including its scale and duration, the intensity and effects of containment efforts, the extent of supply disruptions, the effectiveness of the policy response and behavioral changes of the Senegalese population. Senegal experienced significant economic shocks in the past. But none of them compares to the current pandemic: a drought in 2002 caused a growth slowdown to 0.6 percent from 4.6 percent a year before and in 2009 growth declined to 2.1 from 4.1 percent as a result of the global financial crisis.

2. **Staff has developed an alternative scenario based on a more protracted and harmful pandemic.** The baseline assumes the pandemic fades in the second half of 2020 with lingering effects in 2021. The assumption underlying the alternative scenario is that it will take longer than expected to contain the outbreak, both on a global level as well as in Senegal. As a consequence, the pandemic will affect economic activity more severely than in the baseline. In such a scenario growth drops to -1.5 percent in 2020 and recovers more gradually in 2021 and beyond (Annex II Table 1). The scenario assumes that oil and gas production will not start before 2025, significantly denting growth prospects in 2023 and 2024.

3. **The fiscal deficit in 2020 would be steeper and return to 3 percent more gradually**. In 2020, tax revenues would be hit harder through lower trade flows, while pressure on expenditures increases to combat the economic fall-out of the pandemic. This would increase the fiscal deficit to 7.0 percent of GDP. The public debt to GDP ratio would rise to 71.2 percent in 2020. It is assumed that fiscal policy continues to accommodate the shock with higher deficits than in the baseline, which would put the debt-to-GDP ratio on a significantly higher trajectory with the debt to GDP ratio reaching a peak in 2022 with 77.4 percent.

4. **External pressure would mount as well**. Adverse effects on the external position would mostly stem from lower net capital flows, as the impact on the external current account is muted in the near term with lower goods and services exports and transfers compensated by lower imports. The expected improvement in the medium term is delayed as oil and gas exports would experience further delays and not start before 2025.

5. **Should the adverse scenario materialize, staff would recommend a mix of adjustment and financing.** Further cuts to domestically-financed investment and non-essential current spending and transfers to agencies[1], as well as streamlining of tax expenditures (estimated at 7 percent of GDP in 2014, the most recent estimate), should be considered to keep the deficit closer to 6 percent of GDP. Options to raise additional financing include additional external concessional financing (e.g. World Bank), further issuances on the regional market, or Fund financial arrangement.

[1] "Current grants", of which the majority goes to agencies, amounted to 2.6 percent of GDP in 2019 and are estimated at a similar level in the 2020 revised budget.

Table 1. Senegal: Macroeconomic Indicators Baseline vs. Adverse Scenario

	2020		2021		2022		2023	
	Baseline	Adverse	Baseline	Adverse	Baseline	Adverse	Baseline	Adverse
NGDP	14,307	13,932	15,123	14,503	16,164	15,275	18,890	17,041
Real GDP growth (percent)	1.1	-1.5	4.0	2.5	6.0	4.5	12.1	7.0
Government revenues (percent of GDP)	21.0	20.7	20.0	20.0	20.6	20.6	21.1	20.5
Government expenditure (percent of GDP)	27.1	27.7	24.5	25.5	23.6	25.1	24.1	24.2
Fiscal Balance (percent of GDP)[1]	-6.1	-7.0	-4.5	-5.5	-3.0	-4.5	-3.0	-3.7
Gross Public Debt (percent of GDP)	68.6	71.2	70.4	74.9	70.5	77.4	64.5	74.5
Current Account Balance (percent of GDP)	-8.8	-9.0	-10.2	-10.7	-11.0	-11.7	-3.9	-9.5

[1] Fiscal path without additional policy measures.

Source: IMF staff estimates.

Annex III. The Medium-Term Revenue Strategy

The first phase of the Plan Sénégal Emergent (PSE) helped Senegal grow at annual rates above 6 percent for the period 2014–18, but also suffered from low execution rates of some of its projects, hindered by difficulties in securing financing. The Medium-Term Revenue Strategy (2020–25) aims to help solve that problem by substantially increasing Senegal's domestic revenues to reach the WAEMU convergence target of tax-to-GDP ratio of 20 percent. This would help finance the second PSE phase and its related investment program (the Priority Action Plan or PAP II). The focus of the plan lies in enlarging the tax base and improving the efficiency of tax administration, notably through a better use of digitalization and improved coordination.

1. **The Medium-Term Revenue Strategy (MTRS) will help implement the second phase of the PSE by alleviating some of the financing constraints**. The MTRS has a clear link to PSE financing, as per best practices for similar strategies.

2. **The MTRS aims to reach the WAEMU convergence criterion of tax-to-GDP ratio of 20 percent.** The MTRS targets a tax-to-GDP ratio (excluding hydrocarbon-related flows) of 20 percent by 2023, a 2.6 percentage point increase relative to 2019. Even though the COVID-19 crisis could delay reaching the target, and some short-term adjustments will need to be made, the overall strategy is clear, with reform policies already starting to be implemented.

3. **To achieve its objectives, the MTRS is articulated around three strategic axes.** These are: i) broadening of the tax base by promoting a culture of paying taxes, ii) continuing to develop digitalization for better accountability and service to taxpayers, and iii) modernizing the revenue administration's governance.

4. **For each of the three strategic axes, reform policies are identified in four main areas**: (i) tax policy, (ii) revenue administration, (iii) customs administration, and (iv) institutional issues. Specific measures include:

(i) **Tax policy reforms.** Some of the priorities in widening the tax base and improve the business climate include: a) Increasing the number of taxpayers by modernizing the methods of identifying taxpayers and their declarations; b) Establishing a lasting relationship between tax institutions and user-citizens, based on the democratic principle of consent to tax and the simplification of administrative procedures, to facilitate the formalization of taxpayers and their activities; c) Simplifying management of VAT credits; d) Simplifying taxation of small businesses and remove obstacles to formalization; e) Neutralizing the negative impact of certain tax provisions (such as simplified regimes with lower rates for SMEs); f) Changing local and property taxation; g) Updating laws and practices in the area of international taxation; h) Adopting a new investment code; i) introducing measures related to agricultural and environmental taxation.

(ii) **Revenue administration reforms.** Reforms include: a) Promotion of tax consent, b) Increasing the controls of the reporting system and taxpayers' declarations, c) Modernization of VAT management, d) Modernization of taxpayer registration, e) Development of computer systems to better locate companies, f) Strengthening fair competition between economic players, g) A strategy to fight tax fraud.

(iii) **Customs reforms.** Reforms include: a) Modernizing customs clearance operations and standardizing their application to strengthen the risk management of operations after customs clearance; b) Modernizing the control of valuations; c) Mastering the transit and re-export operations by land; d) Strengthening monitoring of petroleum products; e) Integrating a new customs regime into the customs code.

(iv) **Institutional reforms.** Reforms include: a) Reinforced collaboration in risk management between different administrations; b) Optimizing the management of information systems and data collection to quickly reach digital maturity and have an administration driven by information that provides quality services to user-citizens; c) Improving the governance of administrations through performance management, through the analysis and management of internal and external risks, including renovation of internal control and audit; d) Developing a relationship of trust with taxpayers by promoting a more neutral/ ethical mode of administration and by communicating the progress in the fight against corruption.

5. Fund Technical Assistance helped bring the MTRS about. Extensive TA from the IMF's Fiscal Affairs Department was instrumental in developing the MTRS. TA missions in April 2019 and September 2019, combined with a September 2019 TADAT diagnostic, laid the groundwork for the MTRS. Further TA missions at end-2019 and early-2020 assisted the steering committee in producing the first draft of the full strategy.

Appendix I. Program Statement

Dakar, Senegal
June 26, 2020

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Managing Director,

The COVID-19 pandemic is already having a significant impact on Senegal's economy both in terms of the rapid deterioration of global economic conditions as well as the spread of the coronavirus in the country. Compared with the RCF/RFI request in April, the global economic outlook has further deteriorated and preliminary data indicate a significant impact of weak global demand and domestic pandemic containment measures. Therefore, real GDP growth is now projected at 1.1 percent of GDP in 2020, compared to 5.3 percent in 2019.

Faced with the need to take urgent action to mitigate the effects of the COVID-19 crisis, the government has implemented an economic and social resilience program (PRES), endowed with a fund of CFAF one thousand (1,000) billion, in order to strengthen the health system and support households, the Senegalese diaspora, as well as firms and their employees. This program includes four pillars: (i) support for the health sector; (ii) strengthened social resilience for the general public; (iii) macroeconomic and financial stability to support the private sector and maintain employment; (iv) ensuring that the country has regular supplies of oil and gas, medical and pharmaceutical products, and essential foodstuffs.

The impact of the pandemic on domestic revenue, together with the implementation of the PRES are bringing the overall fiscal deficit to 6.1 percent of GDP, compared with 3 percent of GDP in the initial 2020 budget. The revised 2020 budget comprehensively reflects the PRES measures. The government reiterates its commitment to ensure these are temporary, well-targeted and cost-effective. Senegal is not out of phase with its community commitments since it is the West African Economic and Monetary Union (UEMOA) which decided at its extraordinary summit of Heads of State and Government on April 27 2020, and on the recommendation of the Council of Ministers of the Union in charge of finance which had met one week before, to "temporarily suspend" the application of its Pact of convergence, stability, growth and solidarity, in order to be able to face the COVID-19 crisis. The government intends to return gradually to a budget deficit of 3 percent of GDP by 2022 as the crisis abates.

PRES funding is provided by:

- the momentum of solidarity of the Senegalese from here and elsewhere, citizens and businesses;
- the effort to reframe the 2020 budget: Senegal is at war against the pandemic and any war obliges a State to revise the hierarchy of its priorities.
- the support of technical and financial partners (PTF) of Senegal.
- This significant support from the international community will be reinforced by the budgetary margins made available through suspension of bilateral public debt service to G-20 members between June and December 2020, following the government's participation in the Debt Service Suspension Initiative, supported by the G-20 and Paris Club.

Program implementation is satisfactory. All quantitative targets for end-2019 were met, except the ceiling on government contracts concluded without open competitive tender, which was missed by a small margin. The government also continues to make progress on structural reforms, including the medium-term revenue strategy, a draft of which is currently being finalized, as well as the legal framework for transparent and sustainable management of expected oil and gas resources.

Based on the satisfactory program performance, the government hereby requests the completion of the first PCI review. The attached Program Statement for 2020-22 updates the 2019-23 Program Statement and outlines our objectives and the economic policies that the government intends to implement during this new program. As the crisis has drastically altered the fiscal outlook for 2020 the government is requesting modifications of end-June 2020 and end-December 2020 targets, consistent with the revised 2020 budget.

The government is confident that the policies and measures set out in the Program Statement are appropriate for achieving the objectives of the PCI-supported program. The government is committed to take further measures, if necessary, to achieve the program objectives. It will consult with IMF staff on any additional measures or before reviewing those set out in the Program Statement, in accordance with IMF's policy in this regard. To facilitate the monitoring and evaluation of the program, the government will provide the IMF with all the required information on a regular basis, within the prescribed deadlines and in accordance with the attached TMU.

The government agrees to the publication of this letter, of the attached Program Statement and the TMU, and of the IMF staff report on this program.

Sincerely yours,

/s/

Abdoulaye Daouda Diallo
Minister of Finance and of the Budget

Attachments: - Program Statement
- Technical Memorandum of Understanding

Attachment I. Program Statement 2020–22

I. RECENT ECONOMIC DEVELOPMENTS

1. 2020 has been the year of the COVID-19 pandemic, which has spared no economy on the planet. The most recent April 2020 IMF *World Economic Outlook (WEO)* forecasts that the global economy will contract by 3 percent in 2020, i.e., a sharper decline than during the 2008–09 financial crisis. This scenario presupposes that the pandemic will ease during the latter half of 2020.

2. In Senegal, border closures, the curfew, and recommended social distancing have heightened the impact of the pandemic on certain sectors and led to a stoppage of activity in others. This explains why, in the first quarter of 2020, economic activity as measured by the general activity index (IGA) excluding agriculture and forestry recorded a contraction of 1.9 percent in conjunction with downturns observed in the secondary sector (-5.2 percent) and the tertiary sector (-2.2 percent). Inflation as measured by the national harmonized consumer price index turned out at 3.3 percent in April 2020 relative to the same month in 2019.

3. Faced with the need to take urgent action to mitigate the effects of the COVID-19 crisis, the government has implemented an economic and social resilience program, endowed with a fund of CFAF one thousand (1,000) billion, in order to strengthen the health system and support households, the Senegalese diaspora, as well as firms and their employees. This program includes four pillars: (i) support for the health sector; (ii) strengthened social resilience for the general public; (iii) macroeconomic and financial stability to support the private sector and maintain employment; (iv) ensuring that the country has regular supplies of oil and gas, medical and pharmaceutical products, and essential foodstuffs.

4. Overall, given the implementation of the resilience program, GDP growth is projected at 1.1 percent for 2020 compared to 5.3 percent in 2019. This forecast is based on a gradual recovery of economic activity as of end-June 2020 and a return to normal over the last quarter of the year, in addition to measures to support the economy. A longer pandemic, a lackluster recovery in the final quarter of the year, and a more substantial contraction of the global economy in 2020 would be expected to result in an even more subdued economic activity.

II. PROGRAM PERFORMANCE: QUANTITAVE AND REFORM TARGETS

5. Program implementation is satisfactory (Table 1a). At end-December 2019, the quantitative targets for net lending/borrowing, the annual requirement for net financing for the government, tax revenue, nominal public debt, and social spending had all been met. However, the ceiling on government contracts concluded without open competitive tender was exceeded (17.3 percent, compared to a ceiling of 15 percent). The continuous quantitative targets regarding exceptional spending procedures and public sector external payments arrears were met. All continuous targets in Table 1b have also been met.

6. Significant progress has also been recorded in the attainment of the reform targets (Table 2).

- The continuous reform target concerning the implementation of the decree describing the mechanism for regularly revising fuel prices was achieved automatically as international oil prices declined. The continuous reform target for quarterly reports on utilizing the data resulting from the interconnection and exchanges of information between the Tax Department (DGID) and the Customs Department (DGD) has not been achieved. The second report, expected in April, was delayed due to the health crisis. It is proposed to change the frequency of reports to biannual in the future, with the next report expected by end-December 2020.
- Satisfactory progress has been achieved with respect to the end-June reform targets, namely: (i) a study to identify mechanisms for improving enrollment and attendance of children in secondary schools has been prepared; (ii) the medium-term revenue strategy has been finalized; and (iii) the study of the expenditure chain has also been finalized. The revision of the legal framework for PPPs is well under way, and this reform target will be deferred to end-December 2020 to allow for completion of the work, adoption of the law, and issuance of implementing decrees. The date for: (i) raising prepayments on income taxes at customs; (ii) the preparation of a draft legislative text on the allocation, management and control of hydrocarbon revenues will also be deferred to end-December 2020. Work on the financial inclusion strategy is in progress and will continue; however, it has been proposed not to defer this reform target in order to streamline the reform program. The launch of the National Public Debt Committee has made much progress with the adoption of the procedures' manual and the signature of the ministerial decree creating the National Public Debt Committee, which are expected for end-June 2020.

III. STRATEGIC OBJECTIVES OF OUR REFORM PROGRAM

7. The current crisis is changing consumption and production patterns within countries. Senegal should also modify its production structure and expedite the structural transformation process already begun in phase I of the Emerging Senegal Plan (PSE). Therefore, the second Priority Action Plan (PAP II) for the second phase of the PSE will be adjusted over the coming months so as to boost local production, enhance the economy's resilience, address its fragilities and vulnerabilities, and safeguard the general public from such crises.

8. The revised PAP will focus inter alia on the following measures:

- sustainable industrialization which will limit the country's reliance on the rest of the world by developing key sectors (agro-food, pharmaceutical industries, etc.) and creating jobs on a massive scale;
- development of food agriculture to guarantee food self-sufficiency;
- strengthened social safety nets;
- a greater role for the private sector within the economy.

The new PAP will be based on projects that enable the development objectives initially set in phase II of the Emerging Senegal Plan (PSE) to be achieved.

A. Pillar I: Achieving High, Inclusive and Private Sector-Led Growth

9. The government is determined to promote strong and inclusive growth, which will create jobs, generate revenue, and promote development based on solidarity. The private sector has an important role to play in Senegal's social and economic development. Senegal is committed to stepping up private investment through an ambitious program of projects that are strategic, mature, profitable, and developed with a dedicated and publicly financed startup fund. Initiatives to develop the private sector and public-private partnerships (PPPs) will thus be expedited. The government intends to promote a robust entrepreneurial framework that serves to attain the goals of inclusive, job-rich growth.

10. The revision of the 2014 PPP law will make it possible to press ahead with high-quality PPP projects. This new legal framework will enhance the efficiency of public investment, particularly in priority sectors such as health, while having due regard for their budgetary impact. This new legal framework will specify that all investment projects based on PPP financing that entail over CFAF 2 billion will be subject to prior evaluation, and in the event of unsolicited bids, to a second opinion from the Ministry in charge of PPPs (reform target, initially set for June 2020, reset for end-December 2020).

11. The private sector development strategy is in the process of being prepared. The strategy's objectives include the following: (i) ensuring the effectiveness of the system for supporting the private sector; (ii) structural reforms to improve the business climate; and (iii) a mix of innovative financial instruments for financing the government and enterprises; (iv) development of customized nonfinancial services, etc. Furthermore, the COVID-19 crisis has highlighted the need to ensure Senegal's independence in the areas of public health and food supply, while underscoring the importance of a structural overhaul for the economy and policy reforms for certain key strategic sectors such as tourism, agriculture, and health. The adjustments to the Priority Action Plan for the Emerging Senegal Plan (PSE), currently being prepared, will reflect inputs from the private sector, which in turn should help to ensure that the private sector can play its part in achieving these objectives.

12. The "Compact with Africa" initiative represents an opportunity to press ahead with reforms of the business environment in Senegal. The action plan supported by Germany under the reform partnership emphasizes four (04) priority areas: (i) labor administration and laws; (ii) access to land; (iii) access to finance and development of SMEs; and (iv) vocational training. Reform implementation has made progress. The report evaluating the labor laws has been finalized. With respect to access to financing and development for SMEs, the law on the development of SMEs has been adopted, the tax laws on SMEs and startups have been renewed in the budget law voted on in December 2019, and the draft law on the creation and development of startups in Senegal has been adopted. With regard to vocational training, the draft law on the creation, organization, and functioning of public-private partnerships related to technical and vocational training has been signed. Other draft decrees relating to vocational training and the simplified land registry valuation method have been finalized and forwarded to the Office of the Secretary General of the Government. The automation (dematerialization) of procedures applicable to property, land, and land registries through the introduction of an integrated, centralized land management system is scheduled for end-June 2021 (performance target, end-June 2021).

13. **The crisis represents an opportunity to expand social safety nets.** In fact, given their heightened degree of vulnerability due to the health crisis and with the preventative measures in place, the most vulnerable members of society need support more than ever if they are to cope with the new shocks as well as assistance with their productive activities. Accordingly, it will be necessary to give consideration to: (i) pressing ahead with the Social Safety Net Support Project (PAFS) to protect and revitalize the most vulnerable segments of society; (ii) strengthening resiliency by maintaining the existing budget allocation for cash transfers, while considering the possibility of broadening social safety nets in cooperation with development partners by focusing on productive social protection and the employability of young people and women; (iii) updating and extending the existing single national registry (RNU) by identifying vulnerable households above and beyond the 558,000 households already surveyed, to include at least 1 million households by end-2021.

14. **The government will expedite efforts to strengthen the coordination of those entities and programs that are intended to support SMEs**. Under the Compact with Africa, a one-stop window to facilitate access to existing SME support programs is currently being developed. This window is designed to enhance access to SME financing through the provision of loans and advisory assistance specifically designed to enhance and broaden the range of financial products and services intended for SMEs. This project includes three main components: (i) profiling to define the capacity of the SME to gain access to financing and to meet its financial obligations; (ii) technical assistance to assist SMEs in improving their eligibility by strengthening their technical and managerial capacities; (iii) the web platform which, through the financing component of an electronic one-stop window, will furnish SMEs with information on the criteria and process for the financing of financial institutions, while enabling financial institutions to communicate information on the financial products and services which they provide. This platform will be operational by March 2021.

15. **The recommendations of the study on mechanisms for improving enrollment and attendance in secondary school hold true for girls and boys**. This study shows that keeping children in school so that they complete a 9-year basic education is a real challenge. The phenomenon of dropping out and exclusion from school is a cause for concern for boys and girls alike. Nonetheless, certain barriers to school attendance are specific to girls and hence call for measures that are specifically designed to address the needs of girls. This could include to give additional incentives under the national cash transfer program known as the *Programme national de Bourses de Sécurité familiale* (PNBSF) to keep girls in school as long as possible; improving the coverage of schooling in rural areas, particularly at the secondary level through action to strengthen the small neighborhood secondary schools known as *collèges de proximité*; and implementing multiple mechanisms for the evaluation of teachers, educational establishments, and the educational

system in the interest of improving the quality of education and training opportunities, as well as enhancing the environment of schools in terms of their physical layout and interrelationships.

16. The government is scrutinizing the risks to financial stability posed by the pandemic. Specifically, the government is making sure that the system for supporting firms through financing is based on appropriate risk-sharing in order to limit fiscal costs and to ensure that direct transfers to viable firms are correctly valued and regulated and follow cost-benefit analysis. In addition, the government is focused on ensuring appropriate risk-sharing with the banking system. Specifically, a CFAF 200 billion financing facility has been established to support firms impacted by COVID-19 through two windows in the amounts of CFAF 100 billion apiece (one SME window and one large enterprise window). This financing is based on a government guarantee through a non-remunerated deposit up to an amount of CFAF 70 billion with banks extending loans under the scheme. This facility will also be used to reinvigorate economic activity. The facility will enable firms to gain access to investment credits at favorable rates. Very small enterprises financed by microfinance institutions are handled directly by FONGIP fund through a CFAF 5 billion guarantee line.

17. In the same vein, the government attaches the utmost importance to the proper functioning of the financial sector, and in particular to orderly financial intermediation and surveillance of the impact of public sector exposures on the financial performance of credit institutions. Reports on the banking system development regularly prepared by the BCEAO as well as the results of surveys with the financial sector conducted by the BCEAO will undergo in-depth analysis. Furthermore, the General Directorate for the Financial Sector and Competitiveness has carried out surveys of financial entities (credit institutions, insurers, and microfinance institutions) to assess the risks and needs associated with COVID-19. It has also revised the decree establishing the National Financial Stability Committee whose activities are to be strengthened.

18. In addition, the government is expediting its efforts to enhance access to financial services, including mobile banking services. Specifically, the authorities automated pension payments in April 2020, a digitalization process affecting over 50,000 civil service pensioners. Negotiations are also in progress between the government, providers of technical services, and financial operators to implement products for the payment/receipt of digital funds (card or mobile). Furthermore, the project for achieving the interoperability of digital financial services between banks, microfinance institutions, and electronic money entities, initiated by the BCEAO, has made significant headway. Faced with the negative effects of the COVID-19 pandemic, the BCEAO has adopted incentives to encourage the use of e-payments in transactions and to protect users as a result of a reduced use of cash. More generally, the work involved in preparing the national financial inclusion strategy led by the General Directorate for the Financial Sector and Competitiveness has allowed to validate the benchmark situation, and a roadmap has been established with the formation of four thematic working groups. Working groups had begun to be convened; however, just one meeting was held in early March 2020, prior to the state of emergency. The completion of this process, initially set for June 2020, is expected to occur by end-2020. In any event, the government and stakeholders continue to strengthen financial inclusion for the general public. Under the WAEMU regional strategy for financial inclusion, the BCEAO in April 2020 finalized the regional financial education program (PREF) which is designed to equip target constituencies within the WAEMU (young people, women, rural inhabitants, SMEs and microenterprises) with the financial know-how they need in order to be able to make informed choices and decisions. Furthermore, in order to reduce information asymmetries that limit access to credit, the decree authorizing automated treatment of personal data (with a view to incorporating large billers such as major public utilities—*grands facturiers*—into the electronic platform for the sharing of information on credit) was adopted at end-December 2019 (RT, end-December 2021). This measure allows public utilities not to have to obtain the prior consent of their customers. At May 31, 2020, the customers included in the BIC database amount to 1,176,696 customers, including 761,271 originating from credit institutions and decentralized financial systems (SFD) and 415,425 from public utilities, except for SENEAU, the data for which are being processed. Looking ahead, the authorities will put in place a unified on-line collateral registry that combines data on movable collateral and mortgages in cooperation with the BCEAO (reform target, initially set for end-2020, now proposed for end-December 2021).

B. Pillar II: Consolidating Macroeconomic Stability Through a Prudent Fiscal Policy.

19. The government has announced a response plan to address the COVID-19 crisis. As noted earlier, this plan is based on the four pillars mentioned below:

i. Support for the health sector to cover preventative expenses, but also expenses on care for patients;

ii. Strengthened resilience and social cohesion for the general public, including the Senegalese diaspora, encompassing the following areas;

- the payment, for the two-month period April-May 2020, of electricity bills for 975,522 households as well as water bills for 662,000 households;
- emergency food aid intended for one million economically fragile households;
- assistance to the diaspora;
- operations to safeguard livestock;
- support for artisanal fishermen, women fish-processors, fish wholesalers (mareyeurs) and fish-farmers.

iii. Efforts to safeguard macroeconomic and financial stability in order to support the private sector and preserve jobs. Eligibility criteria ensuring that measures are targeted at the most severely impacted firms, requiring them to refrain from distributing dividends and to preserve jobs and minimum wages for their employees, have been clearly defined and will be published on a wide scale. In essence, these criteria are intended for firms whose normal activity has been impacted by the crisis. Impact is defined as a total or partial stoppage of activities, furlough status for 50 percent of permanent staff, or a decline of at least 33 percent in revenues over the months of

March, April, and May 2020. In any case, firms operating in directly affected sectors are regarded as being automatically eligible. These are firms operating in the sectors of tourism and related activities (catering, hotel trade, transport, etc.), education, higher education, vocational training, agriculture, the press, culture, etc.

The key elements of this pillar are distributed in the following way:

- Direct support for the most severely impacted sectors, including air transportation. Air Sénégal SA, in common with airlines around the world, has been hard-hit by the public health crisis. In deciding to support the company through the Economic and Social Resilience Program through taking over non-compressible expenditures (compliance with commitments to its passengers and banks, maintenance of grounded aircraft, payment of leasing costs on aircraft, etc.), the government has implemented a policy of drastic expenditure cuts (suspension of contracts of expatriate pilots, limitation to less than 70 percent of salary payments, etc.). Given the magnitude of the crisis affecting the aviation industry, Air Sénégal SA has decided to place no new orders for aircraft, to defer current orders to 2023, and to spread out due dates on orders that have been placed. A new and fiscally-sustainable plan for the development of the company is currently being finalized and will be submitted for government approval. The other most severely affected sectors are tourism, catering and the hotel trade, transportation, education, agriculture and culture.
- Settlement of claims of government suppliers, prioritizing the most sensitive sectors (tourism, transport, agriculture, construction and public works, education, health, energy).
- Implementation of a financing facility in support of impacted firms, to enable them to negotiate with commercial banks deferral of due dates on their loans. Accordingly, following the signing of a framework agreement with the banking sector, two windows have been established, one dedicated to SMEs and one for large enterprises.
    - For the SME facility, the government will provide banks, in the form of a deposit CFAF 50 billion, with banks committing to inject CFAF 100 billion for SMEs.
    - With respect to the large enterprise window, the government will deposit CFAF 20 billion in return for a commitment by banks to grant CFAF 100 billion in financing for large enterprises.
    - To gain access to the government financing facility, impacted enterprises must have lost at least 33 percent of their turnover over a comparable period between n and n-1. For those firms that do not have a year of turnover to report, the loss of revenue will be assessed on the basis of their monthly average revenue in 2019 compared to 2020.
- a package of tax- and customs-related measures comprising the following:
    - tax relief arrangements;
    - accelerated refunds of VAT credits;
    - postponing, or suspending, of tax payments;

- deductibility for tax purposes of gifts made in favor of the *Response and Solidarity Fund* against the effects of COVID-19 (in short, FORCE COVID-19);
- extension from 12 to 24 months for the time period generally allowed for payment of suspended VAT;
- the option for enterprises to retain, in the form of a public subsidy, taxes withheld at source on the wages of their employees, on condition that furloughed personnel keep their jobs or stay on the payroll at at least 70 percent of their salary.

iv. Actions to safeguard regular domestic supplies of water, electricity, fuel, medications, and essential foodstuffs.

20. Fully taking into account the impact of the pandemic on revenue collection and additional expenditure requirements raises the budget deficit estimated for 2020 to 6.1 percent of GDP. However, the government is reaffirming its commitment to return gradually to a deficit of 3 percent of GDP in accordance with the WAEMU target by 2022, as the situation returns to normal. With respect to the major tenets of the supplementary budget law (LFR) for 2020, the government is committed to adopting the following measures:

- In view of the major risks affecting revenue collection and given the possibilities of additional expenditure pressures resulting from uncertainties associated with the spread of the pandemic around the world and in Senegal, identify emergency measures to keep the deficit at a maximum of 6.1 percent of GDP in the event that additional revenue shortfalls or expenditure pressures should materialize. In particular, as was done in the second revised budget for 2019, a precautionary reserve will be included in the LFR 2020 for an amount capped at 5 percent of domestically funded investment appropriations (approximately CFAF 40 billion). The mobilization of these funds will be subject to attainment of revenue objectives at least through end-September.
- Cap the acceleration of the settlement of pre-2019 unmet obligations to CFAF 200 billion for FY 2020, CFAF 87 billion more than in the three-year plan announced in the request for the PCI; the additional amounts are being allocated for the priority sectors of energy, transport, health, agriculture, water supply, and higher education.
- Ensure that the arrangements to address the crisis are temporary and well-targeted (in the interest of cost-effectiveness), by ensuring that they are fully accounted for in the revised budget. For example, the tax relief measures in response to the shock will remain strictly temporary and will be reversed once the crisis has passed.
- Adopt short-term measures to minimize customs and domestic revenue shortfalls. In particular, the scope of exemptions will not be broadened. Other measures include the following:
    - As regards customs-related measures, the emphasis will be placed on the strict application of corrective values, the close monitoring of customs clearance for revenue-generating products, more effective monitoring of goods declared under special arrangements (*régimes suspensifs*), the implementation of the Value Application

(VALOREM) in response to the phaseout of the Import Verification Program, the upgrade in the computer application for the management of economic customs procedures (GRED) which is the tool used for electronic processing and monitoring of exemptions (*titres d'exonération*), as well as enhanced surveillance of the customs territory to guard against fraudulent rebates.

- In order to ensure the continuity of public service and to enable taxpayers to file their tax returns, the DGID has taken steps to:
    - Facilitate telework through the introduction of a teleconferencing application offering various forms of collaborative work;
    - Accelerate the projects aimed at the digitalization and expansion of tax-related remote procedures to encompass the full set of taxpayers: (i) the applications M-tax (reform target, December 2020) and *Mon Espace Perso* intended for SMEs and private individuals, will be delivered by end-Q3 2020; (ii) the one-stop facility for filing financial statements on-line will be launched at end-June 2020.
- In overseeing the performance of its services, the tax administration (DGID) has opted to reinforce results-based management through the signing of contracts based on targets and performance between the DG and the Directors. This innovation is designed to focus the DGID's efforts on operational objectives pursued under the "Domestic and Land Taxation Management" Program.

- Ensure transparency and accountability in emergency expenditures as follows: (i) publishing all related tenders and clarifying procurement procedures; (ii) publishing the list of successful bidders on government contracts; (iii) establishing expenditure controls; (iv) ensure that the execution of expenditure related to COVID-19 is officially accounted for through quarterly budget execution reports; (v) through the annual audit of government contracts, verify the regularity of procurement procedures applicable to COVID-19-related expenditures and publish the results; and (vi) in the report on execution of the 2020 budget, entrust the Audit Office (*Cour des comptes*) with preparing a special report on execution of COVID-19-related expenditures.

21. The government is participating in the G-20 debt service suspension initiative and will benefit from relief on its debt service in 2020. The resources that would otherwise have been paid to participating creditor countries are helping us to finance our response to the COVID-19 crisis. The government commits to the transparent reporting of such spending as indicated above, and to disclose of debt by public sector borrowing entities (per GFSM 2014) to the IMF and World Bank Group within 3 months, but no later than September 1 (to allow time for the anticipated end-year review). The government also commits to respect the debt limit set under the PCI.

Pursue Implementation of Priority Budget Reforms Over the Medium-Term

22. The government has finalized its medium-term revenue strategy (SRMT), designed to achieve by 2023 a tax-to-GDP ratio (tax ratio excluding natural resources/GDP excluding natural resources) amounting to 20 percent (reform target for June 2020). Strengthening revenue mobilization requires efforts to broaden the tax base and enhance the efficiency and effectiveness of government agencies, including through ambitious digital innovations and a reorganization of administrative and governance processes. Accordingly, notwithstanding COVID-19, the government has launched flagship measures under the SRMT in the areas of digitalization, de-compartmentalization, and cross-cutting issues across government agencies. For this purpose, the Strategic Execution Unit entrusted with overseeing the SRMT will begin work in the second half of the year and will provide a flexible and efficient response to the strategic needs of the SRMT. The unit will be equipped with appropriate human and IT resources and will prepare semiannual progress reports on the annual action plans guiding SRMT implementation. The action plan for 2020-21 will include measures to safeguard revenues and broaden the tax base, as well as to expedite the digitalization process.

23. Medium-term reforms linked to public financial management will be continued as the pandemic-related crises abate.

- With respect to program budgeting, the reforms in progress will be continued. This includes: (1) generalizing the use of commitment authorizations (CA) (*Autorisations d'Engagement*) to encompass all expenditure categories as of 2021; (ii) effective implementation of the decentralization of payment authorization; (iii) preparing the budget law in a program format; and (iv) continue to improve the new budget tools (Budget and Policy Programming Document (DPBEP), Priority Action Plan (PAP), Annual Performance Report (RAP), etc.).
- The government also intends to draw on the TA report on the expenditure chain to reduce reliance on simplified or derogatory expenditure procedures, by updating the legislative framework and better monitoring below-the-line operations. Specifically, for the remainder of 2020, a detailed reporting of transfers through treasury deposit accounts (*comptes de dépôt*) by service category and type of beneficiary will be carried out, and technical assistance will help to identify transfers using treasury deposit accounts that can be categorized in "use of goods and services" and "capital expenditure executed by the government" in line with the organic budget law. In the 2021 budget law and on the basis of a ministerial decree, the appropriations allocated to current and capital transfers in favor of non-personalized government services (SNPE) will be capped at 50 percent of total transfers and will undergo an analysis by economic category, except for expenditures related to defense or national security. Beginning with the 2022 budget law, the budgetary allocations for SNPEs (excluding defense and national security) will be permanently recorded in the categories "use of goods and services" and "capital expenditure executed by the government". Thus, the balances of the existing deposit accounts for these SNPEs will be canceled in accordance with decree No. 21136 of November 21, 2017, modified, relating to the conditions for opening, operating and closing deposit accounts, with the exception of SNPEs which have their own resources. The beneficiaries of remaining treasury deposit accounts will be required to submit quarterly commitment and disbursement plans to facilitate efficient cash management.
- The government pledges that the inclusion in the budget of any new investment project larger than CFAF 1 billion will be subject to a conclusive ex-ante evaluation, using the cost/benefit method, by the Ministry in charge of planning (excluding sovereignty projects) (reform target,

end-December 2021).

- The government will further consolidate the single treasury account. The government will complete a review of the accounts of public entities, except for the accounts of externally funded projects, by end-December 2020 (new reform target, end-December), and undertakes to close and repatriate into the Treasury single account 50 percent of the accounts identified by end-2021, and the remaining 50 percent by end-2022 (reform target, end-December 2022).
- In order to strengthen fiscal risks' management, the government is committed to setting up a database for the full range of PPPs and electric power purchasing contracts, presenting their budgetary impact and quantifying the major fiscal risks (reform target, end-June 2021). The government also intends to publish a statement of fiscal risks annexed to the draft 2022 budget law (reform target, end-December 2021).

Maintain Debt Sustainability and Improve Debt Management

24. Senegal's debt remains sustainable with a moderate risk of debt distress, albeit with little space to absorb further short-term shocks. At end-2019, the stock of the total nominal public debt amounted to CFAF 8,848.5 billion (64 percent of GDP), below the program ceiling. The debt-to-GDP ratio is expected to peak in 2022 and should then resume its downward trajectory. Given the magnitude of the shock and its impact on growth, revenue, and exports, as well as the more pronounced downside risks associated with the economic outlook, the government is committed to enhancing debt management. Under the Medium-Term Debt Strategy (SDMT), the government is committed to pursuing a prudent debt management policy focused on mobilizing resources characterized by a degree of concessionality in line with our country's debt profile. In particular, issuances of government securities in the subregional financial market will be prioritized.

25. In the short term, to mobilize the resources necessary to ensure the proper implementation of the Economic and Social Resilience Program (PRES) while curbing the impact of the COVID-19 pandemic on debt, the government revised downward the drawings of project loans, for the amount of CFAF 75 billion which have been reallocated to the financing of the PRES. The projects concerned are as follows: (i) the construction of the Olympic stadium in Diamniadio, for which the timetable for financing and execution, initially scheduled for early 2020, has been delayed; (ii) the project for the Regional Express Train (TER), in its phase 2 (Diamniadio-AIBD), the launch for which has been rescheduled as of 2021; and (iii) the project for the rehabilitation of regional airports, for which the works (and hence the disbursements) have been slowed down.

26. Furthermore, the government intends to implement a comprehensive debt management strategy, including by (i) making the National Public Debt Committee (CNDP) fully operational by end-June 2020 (adoption of the manual of procedures and signing of the ministerial decree setting up the CNDP) (reform target, end-June 2020): (ii) adopting a consistent public sector borrowing strategy encompassing SOEs, compatible with the ceiling on nominal debt set under the program; (iii) preparing the legal framework to govern the authorization of guarantees, endorsements, and on-lending; (iv) further improving the monitoring of debt for the entire public sector; (v) improving the recording of debt, by means of an external audit of the database for the total debt of the public sector (including the debt of SOEs) (reform target, end-December 2020), as well as through the establishment of a mechanism for monitoring and reporting drawings on project lending between DGB and the Public Debt Directorate. Technical assistance from IMF staff will be available to help finalize the terms of reference for this audit, and to monitor improvements in the recording of public debt.

C. Pillar III: Managing Oil and Gas Revenues in a Sustainable and Transparent Manner

27. Investment opportunities in the petroleum sector will be analyzed in light of the international outlook for hydrocarbons markets. The COVID-19 pandemic and geopolitical pressures have triggered major shocks in the oil industry. Declarations of *force majeure* by the main subcontractors will delay the first gas from the Greater Tortue Ahmeyim (GTA) project (LNG) by one year, pushing back the start of production from 2022 to 2023. Accordingly, the government will pursue a cautious policy regarding PETROSEN's financial commitments in the forthcoming investment decisions for oil projects. In particular, steps will be taken to: (i) optimize the concepts of field development with operators; (ii) secure firm and long-term purchase contracts in connection with LNG; and (iii) obtain greater assurances regarding the profitability of projects, prior to authorizing PETROSEN borrowing operations that carry a government guarantee.

28. The government is continuing to prepare the governance framework applicable to oil and gas revenues. The technical work on the two draft laws pertaining to: (1) apportionment, the overall framework, and management of hydrocarbon revenues (LGRH); and (ii) the rules governing the organization and functioning of FONSIS (Sovereign Fund for Strategic Investments) have been slightly delayed as a result of the public health crisis, and will be finalized by end-December (the LGRH was a reform target for end-June 2020). The apportionment of revenues between different uses will take account of the various investment and production scenarios, including the trends in international outlook, for the future phases of the GTA and Sangomar projects for which construction began, respectively, in 2019 and 2020. Lastly, the interministerial technical committee will finalize the work on the fiscal framework, taking account of oil and gas operations, by end-December 2021 (reform target, initially set for end-2020, deferred to end-December 2021).

D. Program Monitoring

29. The program will be monitored on the basis of quantitative targets, continuous targets, and reform targets. Quantitative targets for end-June 2020, end-December 2020, end-June 2021 as well as one quantitative target to be monitored on an ongoing basis, have been proposed (Tables 1a and 1b). The government and Fund staff have also agreed on the reform targets specified in Table 2. The second review should be completed by December 31, 2020, the third review by June 30, 2021, the fourth review by December 31, 2021, the fifth review by June 30, 2022, and the sixth review by December 31, 2022. Definitions are provided in the TMU attached to this statement.

Table 1a. Senegal: Quantitative Targets 2019–21

	2019				2020				2021
	Dec. QT				Jun. QT		Dec. QT		Jun. QT
	Prog.	Adjusted QT	Act.	Status	Prog.	Proposed	Prog.	Proposed	Prog.
Quantitative Targets									
Floor on net lending/borrowing[1]	523	537	533	Met	300	760	452	873	450
Ceiling on central government's overall net financing requirement[2]	623	637	634	Met	...	...	573	1,064	...
Ceiling on the amount of the budgetary float	40	40	36.3	Met	40	40	40	40	40
Floor on tax revenue	2,328	2,328	2,410	Met	1,297	1,059	2,595	2,295	1,132
Ceiling on the share of the value of public sector contracts signed by single tender (percent)	15	15	17.3	Not Met	15	15	15	15	15
Floor on social expenditures (percent of total spending)	35	35	43	Met	35	35	35	35	35
Ceiling on total nominal public debt (CFAF billion)	9,114	9,114	8,848	Met	...	...	9,563	10,034	...
Ceiling on spending undertaken outside normal and simplified procedures[3]	0	0	0	Met	0	0	0	0	0
Ceiling on public sector external payment arrears (stock)[4]	0	0	0	Met	0	0	0	0	0
Maximum upward adjustment of the overall deficit ceiling owing to									
Shortfall in program grants relative to program projections	20		14		20	35	20	35	35
Memorandum items:									
Program grants	31		17					241	
Clearance of pre-2019 comptes de dépôt stock	100		101.2				121	121	

Sources: Senegal authorities; and IMF Staff estimates.

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

[2] This QT allows for the net financing needs of the central government to be larger than the floor on net lending/borrowing to clear the pre-2019 stock of the comptes de dépôt.

[3] This QT applies on a continuous basis.

[4] This constitutes a standard continuous target.

Table 1b. Senegal: Continuous Targets

- Not to impose or intensify restrictions on the making of payments and transfers for current international transactions
- Not to introduce or modify multiple currency practices
- Not to conclude bilateral payments agreements that are inconsistent with Article VIII
- Not to impose or intensify import restrictions for balance of payments reasons

Table 2. Senegal: Reform Targets 2020–21

Objective	Description	Initial Target Date	Status	Proposed Revision
	Pillar 1 Achieving inclusive growth			
Improve the business climate	Set up a centralized and integrated land management system which will digitalize land management procedures.	End June 2021		
	Establish a court of first instance and an appeals court to further develop a commercial justice system.	End December 2021		Drop
Promote the digitalization of administrative procedures	Implement the M-tax that enables taxpayers to file and pay their taxes by mobile phone.	End December 2020		
Invest in human capital training to accompany the structural transformation.	**Prepare a study to identify policy measures to improve secondary school enrollment and attendance.**	**End June 2020**	**Met**	
	Submit to parliament a revised labor law and accompanying regulations.	End December 2021		Drop
Promote access to credit /financial inclusion	**Adopt a national financial inclusion strategy to boost access to financial services.**	**End June 2020**	**Not met**	
	Expand the credit bureau's access to data by using information from large billers such as utilities.	End December 2020		Drop
	Put in place a collateral registry that is accessible online and combines data on movable collateral (sureté meubles) as well as mortgages in cooperation with the BCEAO	End December 2021		
	Pilar II. Consolidate macroeconomic stability and improve public financial management			
Increase revenue	**Finalize a medium-term revenue strategy aimed at achieving a non-resource tax-to-GDP ratio of 20 percent by 2023.**	**End June 2020**	**Met**	
	Prepare a quarterly report on the use of information from the the interconnection and cooperation between the customs and the tax administration.	Quarterly from January 2020	Not met	Shift to semi-annual frequency starting with end December 2020
	Raise prepayments on income taxes at customs for unregistered taxpayers to encourage them to join the formal system.	**End June 2020**	**Not met**	Reset for end December
	Fully implement the decree for the mechanism to regularly revise fuel prices. If the mechanism is not used and the price adjustment is suspended, the government undertakes to include the necessary budget allocations in a supplementary budget and to settle the amounts of fuel subsidies and tariff compensation due within 90 days following validation.	Ongoing from January 2020	Met	
Strengthen public financial management	The inclusion in the budget of any new investment project exceeding one billion CFAF is subject to an ex-ante evaluation using cost-benefit analysis by the Ministry of Economy, Planning, and Cooperation (excluding projects affecting defense and security).	End December 2020		Delay to end-December 2021
	Submit to Parliament an updated PPP law specifying that all investment projects of over one billion CFAF shall be subject to a prior assessment and, in the event of unsolicited proposals, a second opinion from the Ministry of Planning.	**End June 2020**	**Not met**	**Reset for end December 2020**
	The 2021 budget law will include an investment program which is consistent with ceilings for authorized commitments for the next three years.	End December 2020		Drop
	Review the November 2018 ministerial order on budget commitment letters to limit them exclusively to the defense and security sector.	End December 2020		Drop
	Conduct a study of the expenditure chain supported by IMF technical assistance to limit the share of expenditure executed using simplified procedures and non-competitive public procurement.	**End June 2020**	**Met**	
	A ministerial decree will update the framework for expenses eligible for simplified procedures and will limit transfers to deposit accounts for non-personalized state services excluding expenses for defense and national security to 50 percent of the total of these transfers in the 2021 finance law.	End December 2020		
Improve cash management	Prepare an inventory of the accounts of all agencies and public establishments in commercial banks	End December 2020		New RT
	Close remaining accounts of all public agencies and entities in commercial banks and repatriate the balances to the single treasury account.	End December 2021		Delay to end December 2022
Strengthen debt management and contain fiscal risks	**Finalize a procedures manual for the National Public Debt Committee.**	**End June 2020**		
	External audit of the public debt database, including SOE debt.	End December 2020		New RT
	Establish a database for all PPPs and power purchase agreements showing their budgetary impact and quantifying the main fiscal risks.	End June 2021		
	Publish a fiscal risk statement as annex to the 2022 budget law.	End December 2021		
	Pilar III. Manage the oil and gas sector in a transparent and sustainable manner			
Strengthen the legal and budgetary framework	**Prepare a draft law on the allocation, management and control of hydrocarbon revenues generated based on principles which are in line with international best practices.**	**End June 2020**	**Not met**	**Reset for end December 2020**
	Adopt a new fiscal framework with a long-term budgetary anchor defined in a way that guarantees the sharing of hydrocarbon revenues with future generations and a short-term operational rule (which will exclude oil and gas revenues).	End December 2020		Reset for end December 2021

Attachment II. Technical Memorandum of Understanding

This technical memorandum of understanding (TMU) defines the quantitative targets and continuous targets described in the program statement (PS) to monitor the IMF-supported program under the Policy Coordination Instrument (PCI) for the period January 10, 2020 – January 9, 2023. It also establishes the terms and timeframe for transmitting the information that will enable Fund staff to monitor the program. Reviews will assess quantitative targets as of specified test dates and on a continuous basis. Specifically, the first review will assess end-December 2019 test date, the second review will assess end-June 2020 test date and the third review will assess end-December 2020 test date.

A. Definitions

1. Unless otherwise indicated, "Government" in this TMU means the budgetary central Government of the Republic of Senegal. It excludes the central bank and the public sector outside the budgetary central government (paragraph 3).

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

3. 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 (including Treasury Bills), 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 borrowed 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 this guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property.

(b) Under the definition of debt above, arrears, penalties, and judicially awarded damages and interest arising from the failure to make payment under a contractual obligation that constitutes debt is a debt.

(c) 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).

(d) 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.

B. Quantitative Program Targets

Floor on Net Lending/Borrowing (Program Definition)

4. Definition. Net lending/borrowing, 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 definition of revenues and expenditures is consistent with that in the 2001/14 Government Financial Statistics Manual (GFSM). Government expenditure is defined on a payment order basis accepted by Treasury, as well as those executed with external resources. This quantitative target is set as a floor on the overall fiscal balance as of the beginning of the year.

5. Adjustment. The floor including grants is adjusted downward by the amount that budget grants fall short of program projections up to a maximum of CFAF 20 billion at current exchange rates (PS Table 1).

6. Reporting Requirement. 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 6 weeks 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.

Ceiling on Central Government's Overall Net Financing Requirement

7. Definition. The central Government's net overall financing requirement is defined as the sum of the following two components: i) the overall fiscal balance, as defined for the quantitative target on net lending/borrowing; and ii) the additional borrowing by the Treasury to finance accounts payable, comprising spending by ministries out of unutilized appropriations from past budgets (drawdown of the "*comptes de dépôt*"), offsets for illiquid revenues (*"recettes d'ordre"*) and other below-the-line operations. For end-December 2019 and 2020, this quantitative target would need to be lower or equal to the amount indicated in Table 1 of the Program Statement.

8. Adjustment. The ceiling is adjusted upward by the amount that budget grants fall short of program projections up to a maximum of CFAF 35 billion at current exchange rates (PS Table 1).

9. Reporting Requirements.

- Data related to the additional borrowing by the Treasury to finance accounts payable will be sent quarterly within a period of one month from the end of the quarter. This comprises: spending by ministries out of unutilized appropriations from past budgets (drawdown of the "comptes de dépôt") and offsets for illiquid revenues ("recettes d'ordre") and for other below-the-line operations and a reconciliation between the budgetary balance (see section "Floor on net lending / borrowing" above for the definition) and the financing made available during the respective quarter.
- Data related to the overall financing requirement will be sent quarterly within a period of one month from the end of the quarter, starting from the end 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. Data on projected principal and interest payments will be reported on a commitment and a disbursement basis.

Ceiling on the Amount of Budgetary Float

10. Definition. The budgetary float (*instances de paiement*) is defined as the outstanding stock of Government expenditures for which bills have been received and validated (the difference between *dépenses liquidées* and *dépenses payées*) and for which the payment delay does not exceed regulatory delays (90 days after reception and validation of relevant bills (*liquidation*) except for payments related to domestic debt service for which the delay is 30 days). The quantitative target sets a ceiling for the budgetary float, monitored every 6 months.

11. Reporting Requirement. The authorities will transmit to Fund staff at the end of each month, a table from the expenditure tracking system (SIGFIP, or SIGIF once it becomes operational) showing all committed expenditure (*dépenses engagées*), all certified expenditures that have not yet been cleared for payment (*dépenses liquidées non encore ordonnancées*), all payment orders (*dépenses ordonnancées*), all payment orders accepted by the Treasury (*dépenses prises en charge par le Trésor*), and all payments made by the Treasury (*dépenses payées*). The SIGFIP table will exclude delegations for regions and embassies. The SIGFIP table (or SIGIF once it becomes operational) will also list any payments that do not have a cash impact on the Treasury accounts. Balances outstanding are broken down by payer and spending category, as well as by maturity and length of time overdue.

12. Regarding expenditures using derogatory procedures, the authorities will report to IMF staff at the end of each quarter: (i) the status of 'waiting and provisional imputation' accounts (*comptes d'attentes et d'imputation provisoire*) showing the stock of transactions awaiting regularization from the general balance of accounts of the state; (ii) the status of the derogatory expenditures presented by expenditure category; (iii) the status of deposit accounts (*comptes de dépôt*) by identifying the nature of the beneficiaries ((i) agencies in the broad sense (legal entity governed by public law, or independent of the State); (ii) legal entities governed by private law (e.g. companies with public or private capital, beneficiaries of subsidies or equity); (iii) private individuals (recipients of social assistance and grants); (iv) non-personalized state services; and (v) commitments related to comfort letters. The authorities will also present an assessment of the regularization of such expenditures from one quarter to the next.

Floor on Tax Revenues

13. **Definition.** 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 quantitative target will be assessed based on data for these revenues provided in the quarterly TOFE. Specifically, petroleum revenues are the subject of specific monitoring in connection with international price trends. These are the VAT on oil (on domestic consumption and imports), excise taxes on oil, customs duties on oil, vehicle taxes, the PSE, and the Petroleum Product Imports Security Fund (FSIPP).

14. **Reporting Requirement.** Reporting requirements are the same as for the quantitative target floor on net lending/borrowing.

Ceiling on The Share of The Value of Public Sector Contracts Signed by Single Tender (Percent)

15. **Definition.** 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 procurement is considered "non-competitive" when the contracting authority awards the contract to the successful candidate without open competitive tender and without an open inquiry and open price. The semiannual quantitative 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 imposes on SENELEC to buy fuel from SAR on the basis of the current price structure. The ceiling also excludes administrative amendments. Also excluded are riders whose execution with the supplier is a necessary condition for the final delivery of goods and services which are included in the original contract provided that they comply with the provisions of the procurement code.

16. Reporting Requirements. The Government will report semi-annually to Fund staff, with a lag of no more than one month, the total amount of public sector contracts and the total value of all single-tender public sector contracts.

Floor on Social Expenditure

17. Definition. 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). The floor will be evaluated on a semiannual basis.

18. Reporting Requirements. The authorities will report semiannual data to Fund staff within two months after each semester.

Ceiling on Total Nominal Public Debt

19. Definition. Debt for this quantitative target is defined as in paragraph 4 above, comprises external and domestic debt of the public sector (i.e. general government and public nonfinancial corporations as defined in paragraph 3), and is measured at its nominal value. The ceiling will be monitored on an annual basis. To evaluate this target, debt denominated in foreign currency will be converted at the exchange rate for the projection of the debt stock, notably for 2020 CFAF/US$ 598 and CFAF/DTS 817.

20. Reporting Requirements. The authorities will report quarterly data to Fund staff within two months following the end of each quarter.

- As part of the program, the authorities will transmit quarterly to IMF staff, within six weeks after the end of the quarter in question, provisional data relating to the debts of the following public enterprises: LONASE, SN La Poste, RTS, SN PAD, SONES, SENELEC, APIX, SN HLM, SAED, SNR, SOGIP SA, SAPCO, SODAGRI, CICES, SSPP SOLEIL, PETROSEN, SIRN, SICAP, DDD, MSAD, ONFP, ONAS, CNQP, OFOR, OLAG, FONSIS, AIBD, FERA, ASER, FSE, ANAM, AGPBE, COUD, ACMU, CDC, Dakar Dem Dik, ITA, MIFERSO, CEREEQ, and Air Senegal. Any debt contracted during the year by a public enterprise not included in the above list and which is greater than 5 billion CFA francs, will also be communicated, and this public enterprise will be added to the list for future reporting.

- The stock of debt at end December of the current and previous year of all these public enterprises, as well as information on newly contracted debt during the year and principal payments, will be communicated to IMF staff within two months after the end of the year.

- All retroceded or guaranteed debt emanating from the central administration and from which these public enterprises benefit will be communicated, as well as any retroceded or guaranteed debt benefiting enterprises in the private sector. The data made available to IMF staff will distinguish between guarantees and debt on-lent to public enterprises and those issued to private sector actors.
- All commitments by comfort letter will be communicated quarterly to IMF staff within six weeks after the end of the quarter. If some of these comfort letters are already counted in another category (for example, guarantees), this will be explicitly mentioned in the data.

Ceiling on Spending Undertaken Outside Simplified and Normal Procedures (Continuous)

21. **Definition.** This quantitative target 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 23 of the Organic Budget Law. Such spending requires the signature of the President of the Republic.

22. **Reporting Requirements.** The authorities will report any such procedure immediately to Fund staff.

Ceiling on Public Sector External Payments Arrears (Continuous)

23. **Definition.** 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 4 is applicable here. The quantitative target on external payments arrears will be monitored on a continuous basis.

24. **Reporting Requirements.** The authorities will promptly report any accumulation of external payments arrears to Fund staff.

C. Additional Information for Program Monitoring

25. 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;
- 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
- A quarterly report on FSE operations in terms of revenues and expenditures;
- A monthly report on the price structure of fuel products, including an estimate of the necessary subsidy for the rest of the year based on the latest price structure; no later than 4 weeks after the publication of the price structure. If domestic prices are higher than international prices, authorities will communicate in which part of the TOFE the benefits are accounted for.

(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.

26. 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.

27. 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.

28. 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; and (iv) details of financing and updated costs.

Statement by Mr. Mohamed-Lemine Raghani Executive Director for Senegal and Mr. Oumar Diakite, Advisor to Executive Director
July 17, 2020

I. Introduction

1. Our Senegalese authorities appreciate staff's constructive engagement and policy advice in the context of the first review of their Policy Coordination Instrument (PCI). They view the Fund's support under the PCI as instrumental to sustain their efforts in restoring the country's strong economic performance following the Covid-19 outbreak.

2. The policy discussions held with staff focused on reestablishing sound economic policies and reforms while responding to the shock of the pandemic. Despite the current difficult circumstances, our authorities are determined to speed up their actions to effectively contain the pandemic and alleviate the shock on vulnerable populations and the economy. They remain strongly committed to their medium-term policies and reforms anchored by the "Plan Senegal Emergent" (PSE) phase II and supported by the PCI.

II. Recent Economic Developments and Performance under the PCI-Supported Program

3. The economic outlook in 2020 has been profoundly impacted by the Covid-19 pandemic. Domestic containment measures, low external demand as well as the decline in remittances have led to an unprecedented economic downturn that has generated substantial fiscal and balance of payments needs. During the first quarter of 2020, the economic activity index (excluding agriculture and forestry) contracted by 1.9 percent and inflation rose to 3.3 percent in April compared with the same period in 2019.

4. Thanks in part to the emergency financing obtained under the RCF/RFI on April 13, 2020 and the debt service suspension under the G-20 initiative, the authorities are responding to the crisis through their social and economic resilience program (*programme de resilience économique et social*, PRES). The PRES aims to strengthen the health sector and the resilience of the population and support private sector activities and employment. The implementation of the PRES is expected to help GDP growth reach 1.1 percent in 2020 from 5.3 percent in 2019, under a scenario of gradual economic recovery. However, risks facing the economy are on the downside. Should the pandemic last longer and the global crisis be more severe than currently anticipated, a contraction of economic activity is to be expected.

5. The performance under the PCI-supported program remains satisfactory amid challenging conditions. All quantitative targets (QT) at end-December 2019 were met, except the QT related to the share of government contracts using sole sourcing, and all continued QTs were observed. Significant progress was also made in advancing reform targets (RTs), including the study on the mechanisms to improve enrollment and attendance of children in secondary schools, the medium-term revenue strategy and the study of the expenditure chain which have all been finalized. Due to delays caused by the Covid-19 outbreak, the targets for some on-going reforms have been postponed to end-December 2020, including the legal framework for public-private partnerships (PPPs), and the legislation on the allocation and management of hydrocarbon revenues. The authorities remain committed to their implementation.

III.Policies and Reforms under the PCI-Supported Program

6. The PCI supports the following three pillars of the authorities' reform strategy: (i) achieving high and inclusive private sector-led growth; (ii) consolidating macroeconomic stability through a prudent budgetary policy; and (iii) managing oil and gas revenues within a sustainable and transparent framework.

A. Achieving High and Inclusive Private Sector-Led Growth

7. The authorities are determined to pursue their efforts towards promoting a strong private sector, which plays a central role in the country's strategy to foster strong and inclusive growth and generate employment and incomes. The private sector development strategy being prepared includes far-reaching structural reforms to improve the business climate and the adoption of a diversified range of innovative financing instruments. The authorities will also adopt best practices in public-private partnerships (PPPs).

8. The Compact with Africa (CwA) Initiative launched under the German G20 Presidency in 2017 is another conduit for implementing meaningful reforms to support increased private investment. In this regard, progress continues to be made in the priority areas of labor legislation, access to land, access to finance, SMEs development, and vocational training. Another important effort underway is the establishment of a one-stop shop to improve the coordination of entities and programs whose mandate is to support SMEs.

9. Expanding social safety nets is a priority in the authorities' inclusive growth strategy. With the increased level of vulnerability revealed by the Covid-19 pandemic, the authorities are keen to put in place measures to increase the resilience of the health sector and vulnerable populations to shocks. In this regard, they intend notably to accelerate the implementation of the Support Project for Social Safety Nets (PAFS) to protect and revitalize the most vulnerable, in particular the youth and women. They will also uphold the current budgetary envelope reserved to cash transfers while considering the enlargement of social safety nets in coordination with development partners.

10. In the financial sector, the authorities are closely monitoring the risks associated with the pandemic. While supporting large and small and medium enterprises through a dedicated financial facility, they are ensuring notably that their measures are based on solid risk-sharing with the banking sector to reduce fiscal costs. In the same vein, the impact of public sector exposures on financial institutions is being carefully monitored to preserve financial stability. Furthermore, efforts are also being made to expand access to financial services, including through mobile banking. In this connection, the Government digitalized the payment of pensions of more than 50,000 retired civil servants in April 2020. Furthermore, the interoperability of digital financial services between banks, microfinance institutions and electronic money institutions initiated by the regional central bank, BCEAO, has made significant progress. Given the impact of the Covid-19, the authorities' ongoing efforts to further advance their financial inclusion strategy are expected to be completed in December 2020.

B. Consolidating Macroeconomic Stability Through a Prudent Budgetary Policy

11. The authorities are implementing a comprehensive response plan to the Covid-19 pandemic. The key measures under the plan are intended to support prevention and provide care in the health sector, strengthen economic resilience and step up social cohesion. They also intend to restore activity and jobs in the sectors most affected by the crisis such as tourism, transportation, exports, hospitality and agriculture.

12. The authorities are determined not to exceed the fiscal deficit target of 6.1 percent of GDP on 2020 and have identified appropriate measures to this end, taking into account the major challenges affecting revenue collection and the potential pressures on spending associated with the spread of the pandemic. The 2020 supplementary budget provides notably for a precautionary reserve which will be mobilized depending on the attainment of revenue objectives. The authorities will continue to streamline exemptions, facilitate telework in revenue administrations to ensure continuity of public services, and complete the digitalization of tax return filing and payment procedures.

13. While implementing the pandemic response plan, the authorities will ensure that the new spending measures are temporary and aimed at addressing the specific needs induced by the crisis. In line with their commitment to foster transparency and accountability regarding pandemic-related expenditures, they will publish the list of successful bidders on government contracts, establish expenditure controls and entrust the Audit Office (*Cour des comptes*) with the mission of preparing a special report on the execution of expenditures related to Covid-19.

14. The authorities remain committed to gradually bringing the fiscal deficit to 3 percent of GDP by 2022, in line with the WAEMU fiscal convergence criteria, as the economic situation normalizes. The authorities are aware that achieving this objective entails strengthening revenue mobilization by broadening the tax base and enhancing the efficiency and effectiveness of government agencies, including through ambitious digital innovations and reorganization. In this context, wide-ranging reforms in the framework of the medium-term revenue strategy ("*Stratégie de recettes à moyen terme"*, SRMT) will be launched, with a view to achieving a tax-to-GDP ratio of 20 percent by 2023.

15. Priority will also be given to medium-term reforms in the area of public financial management as the crisis abates. These will include the implementation of program budgeting, the reduction of simplified or derogatory expenditure procedures, and improved reporting of transfers taking place through treasury deposit accounts (*comptes de dépôt*). The authorities will continue to improve cash management by consolidating further the Treasury Single Account (TSA). In order to strengthen the management of fiscal risks, a database for the full range of PPPs will be set up, presenting their budgetary impact and quantifying major fiscal risks if any.

16. The authorities take note of the recent staff's assessment that Senegal's debt remains at moderate risk of debt distress, with little space to absorb further short-term shocks. In this

regard, they are committed to enhancing debt management under their medium-term debt strategy (SDMT) by pursuing a prudent debt management policy focused on mobilizing highly concessional resources and giving priority to financing from the regional financial market. Furthermore, they will step up their efforts to make the National Public Debt Committee (CNDP) fully operational, adopt a consistent public sector borrowing strategy encompassing SOEs and compatible with the ceiling on nominal debt set under the program, while improving debt data. The authorities look forward to the Fund's technical assistance in this endeavor.

C. Managing Oil and Gas Revenues Within a Sustainable and Transparent Framework

17. Due to the Covid-19 pandemic and the major shocks experienced by the oil industry worldwide, the start of oil production in Senegal has been pushed back from 2022 to 2023. In this context, the authorities will pursue a prudent policy regarding the state's financial commitments in the forthcoming investments in the oil sector, including by obtaining further assurances on the profitability of projects prior to providing government guarantees to the State-owned petroleum company (PETROSEN) for potential loans.

18. The authorities will also strengthen the legal and fiscal frameworks governing the distribution and management of oil and gas revenues, based on international best practices. The technical work on the two draft laws pertaining to the distribution, supervision and management of hydrocarbon revenues, and the rules governing the organization and functioning of the Sovereign Fund for Strategic Investments (FONSIS) have been slightly delayed due to the severe impact of the Covid-19 pandemic, and should be finalized by end-December 2020.

IV. Conclusion

19. Our Senegalese authorities remain strongly committed to their PCI-supported program. In this regard, they will continue to implement reforms aimed at preserving macroeconomic stability, achieving strong economic growth, and improving public financial management and the business environment, consistent with the goals of the PSE Phase II.

20. In view of Senegal's satisfactory performance and their strong determination to pursue reforms, the authorities seek Executive Directors' support for the completion of the first review under the PCI arrangement and the request for modification of quantitative targets