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SENEGAL

June 2021

THIRD REVIEW UNDER THE POLICY COORDINATION INSTRUMENT AND REQUEST FOR MODIFICATION OF QUANTITATIVE TARGETS, AND REQUESTS FOR A STAND-BY ARRANGEMENT AND AN ARRANGEMENT UNDER THE STANDBY CREDIT FACILITY—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR SENEGAL

In the context of the Third Review Under the Policy Coordination Instrument and Request for Modification of Quantitative Targets, and Requests for a Stand-By Arrangement and an Arrangement Under the Standby Credit Facility, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 7, 2021 following discussions that ended on April 27, 2021 with the officials of Senegal on economic developments and policies underpinning the IMF arrangement under the Policy Coordination Instrument and Request for Modification of Quantitative Targets, and Requests for a Stand-By Arrangement and an Arrangement Under the Standby Credit Facility. Based on information available at the time of these discussions, the staff report was completed on May 21, 2021.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- A **Statement by the Executive Director** for Senegal.

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

PR21/159

IMF Executive Board Approves US$650 million Stand-by Arrangement and an Arrangement under the Standby Credit Facility and Completes the Third Review Under the Policy Coordination Instrument for Senegal

FOR IMMEDIATE RELEASE

- *IMF Board approves SDR 453 million (about US$650 million or CFAF 350 billion) Stand-by arrangement and arrangement under the Standby Credit Facility for Senegal and completes the third review under the Policy Coordination Instrument.*
- *The 18-month arrangements together with the Policy Coordination Instrument will provide a policy anchor for the next phase of the authorities' COVID-19 response and support a strong and job-rich recovery.*
- *While medium-term prospects remain promising, the macroeconomic outlook for 2021 is facing headwinds due to the protracted impact of the pandemic and higher commodity prices.*

Washington, DC – June 7, 2021: The Executive Board of the International Monetary Fund (IMF) today completed the third review under the Policy Coordination Instrument (PCI) and approved an 18-month Stand-by arrangement (SBA) and an arrangement under the Stand-By Credit Facility (SCF) for Senegal.

Approval of the SCF/SBA enables an immediate disbursement of SDR 129.4 million or about US$187 million. This follows previous Fund emergency support to Senegal in April 2020 in the amount of US$442 million at the time of approval (see Press Release No. 20/152).

The COVID-19 pandemic hit the Senegalese economy hard and caused hardship for many, particularly those active in the informal sector. Growth in 2020 is estimated at 1.5 percent, supported by a record harvest while the hospitality, tourism and transport sectors suffered severe contractions. The government's forceful implementation of an Economic and Social Resilience Program (PRES) helped strengthen the health sector and mitigate households' and firms' income losses. A subdued recovery is expected for 2021 with growth reaching about 3.7 percent.

To ensure transparency and accountability of pandemic-related spending, the authorities have published quarterly budget execution reports detailing the use of such resources. The report of the *Fonds Force COVID-19* monitoring committee has also been finalized. The annual audit of procurement procedures, including those related to COVID-19 spending, will be finalized end June and the audit court will publish its report on the 2020 budget law implementation in October.

Staff and the authorities agreed on a revised budget deficit trajectory for 2021-23 which incorporates the COVID-19 vaccine rollout and a new program to boost youth and women employment. A steadfast implementation of the Medium-Term Revenue Mobilization Strategy and spending reprioritization will provide fiscal space while the overall deficit is expected to return to the WAEMU deficit anchor of 3 percent of GDP by 2023.

Performance under the PCI has remained positive and program objectives of achieving strong and inclusive growth while maintaining macroeconomic stability remain relevant. Fund engagement with Senegal under the PCI will continue concurrently with the new SBA and arrangement under the SCF until end-2022.

At the conclusion of the Board discussion on the third review under the PCI and the requests for the SBA and arrangement under the SCF for Senegal, Mr. Mitsuhiro Furusawa, Deputy Managing Director and Acting Chair made the following statement:

“The COVID-19 pandemic has had a severe impact on the Senegalese economy which was mitigated by the authorities’ forceful response. The publication of quarterly budget execution reports detailing the use of COVID-19 spending and of the report by the COVID-19 fund monitoring committee are important steps to ensure the transparency and accountability of such spending.

“The near-term macroeconomic outlook has deteriorated owing notably to the protracted COVID-19 pandemic, higher commodity prices, and higher financing needs for the vaccine rollout. A gradual recovery is expected in 2021, although it is subject to important downside risks, including a third wave of the COVID-19 pandemic.

“The authorities’ reform agenda, supported by the Policy Coordination Instrument, remains appropriate to achieve the program’s objective of strong and inclusive growth while maintaining macroeconomic stability. The fiscal strategy fully accommodates the costs for the vaccination campaign and will, together with new Fund financing under the SCF/SBA, additional donor support, and the extension of the G-20 Debt Suspension Initiative, help unwind the actual but short-term balance-of-payments need.

“Fiscal policy should remain anchored by a credible, revenue-based consolidation towards a fiscal deficit of 3 percent of GDP by 2023, in line with the WAEMU norm. The identification of strong revenue mobilization measures for the program period and the authorities’ full commitment to the medium-term revenue mobilization strategy are essential in this regard. Additional spending for the new youth and women employment program should be well-targeted and efficient, and accompanied by reforms to support private sector job creation. Public debt has risen continuously in recent years and risks to debt sustainability need to be carefully monitored and concessional financing should be prioritized.

“The legal framework for the management of upcoming hydrocarbon revenue is being finalized reflecting best international practices. Ongoing reforms to improve public financial management will help strengthen spending efficiency and transparency.”

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

	2019	2020	2021	2022	2023	2024	2025
	Prel.	Est.	Proj.	Proj.	Proj.	Proj.	Proj.
			(Annual percentage change)				
National income and prices							
GDP at constant prices [1]	4.4	1.5	3.7	5.5	10.8	6.1	5.4
Of which: Non-hydrocarbon GDP	4.4	1.5	3.7	5.5	6.1	6.0	5.8
Of which: Hydrocarbon GDP	...	...	...	...	...	10.5	-7.6
Of which: Non-agriculture GDP	4.4	-0.8	3.8	5.6	11.4	6.2	5.3
GDP deflator	1.9	2.3	1.9	2.1	1.7	1.8	1.9
Consumer prices							
Annual average	1.0	2.5	2.0	2.0	1.5	1.5	1.5
End of period	0.6	2.4	2.2	1.7	1.3	1.7	1.4
External sector							
Exports, f.o.b. (CFA francs)	15.5	-10.5	6.4	16.2	67.6	24.5	6.1
Imports, f.o.b. (CFA francs)	6.2	-6.7	11.5	6.7	23.3	11.0	6.4
Export volume	18.7	-7.2	2.8	15.2	79.3	22.0	4.1
Import volume	3.9	3.9	3.5	13.0	24.0	12.0	5.4
Terms of trade ("–" = deterioration)	-4.7	7.4	-3.8	6.8	-6.0	3.0	0.9
Nominal effective exchange rate	-1.3	...	...	...	...	...	...
Real effective exchange rate	-2.1	...	...	...	...	...	...
			(Changes in percent of beginning-of-year broad money)				
Broad money	8.2	12.4	6.2	8.6	...	...	...
Net domestic assets	7.4	14.4	7.6	10.7	...	...	...
Credit to the government (net)	1.7	15.4	2.3	4.0	...	...	...
			(Percent of GDP, unless otherwise indicated)				
Government financial operations							
Revenue	20.4	20.0	20.2	21.0	22.0	23.0	23.9
Grants	1.6	2.3	1.9	2.1	1.9	1.7	1.5
Total expenditure	24.3	26.4	25.7	25.2	24.9	26.0	26.9
Net lending/borrowing (Overall Balance)							
excluding grants	-5.5	-8.7	-7.4	-6.3	-4.8	-4.7	-4.5
including grants	-3.9	-6.4	-5.4	-4.2	-3.0	-3.0	-3.0
Net lending/borrowing (excl. one-off operations)	-3.1	-6.3	-5.1	-4.0	-3.0	-3.0	-3.0
Primary fiscal balance	-1.9	-4.3	-3.3	-2.1	-0.9	-0.9	-0.8
Savings and investment							
Current account balance (official transfers included)	-8.1	-10.5	-11.3	-10.5	-5.5	-3.2	-3.9
Current account balance (official transfers excluded)	-8.4	-11.9	-11.8	-11.1	-6.0	-3.6	-4.1
Gross domestic investment	31.9	30.6	32.4	33.1	33.2	30.7	31.4
Government [2]	6.3	6.9	7.1	7.6	6.1	6.5	6.6
Nongovernment	25.7	23.8	25.3	25.6	27.1	24.2	24.8
Gross national savings	23.8	20.2	21.1	22.6	27.7	27.5	27.6
Government	6.7	5.7	5.7	6.2	9.2	11.0	11.9
Nongovernment	17.1	14.5	15.4	16.5	18.5	16.6	15.7
Total public debt [3]	63.8	68.7	70.9	69.9	64.9	62.8	61.1
Domestic public debt [4]	11.0	14.6	14.0	13.3	12.3	12.0	12.5
External public debt	52.8	54.1	56.9	56.6	52.6	50.8	48.6
Total public debt service [3]							
Percent of government revenue	22.1	25.4	20.4	23.8	25.0	26.6	26.1
Memorandum items:							
Gross domestic product (CFAF billions)	13,655	14,185	14,998	16,159	18,218	19,681	21,127
of which non-hydrocarbon (CFAF billions)	13,655	14,185	14,998	16,159	17,104	18,425	19,943
Gross domestic product (USD billions)	23.6	24.7	...	...	...	...	...
Share of hydrocarbon in total GDP (%)	...	...	...	...	6.1	6.4	5.6
National Currency per U.S. Dollar (Average)	586	575	...	...	...	...	...

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

[1] Based on national accounts with base year 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

May 21, 2021

THIRD REVIEW UNDER THE POLICY COORDINATION INSTRUMENT AND REQUEST FOR MODIFICATION OF QUANTITATIVE TARGETS, AND REQUESTS FOR A STAND-BY ARRANGEMENT AND AN ARRANGEMENT UNDER THE STANDBY CREDIT FACILITY

EXECUTIVE SUMMARY

Context. The macroeconomic outlook has worsened amid a second wave of the COVID-19 pandemic, higher commodity prices and social unrest, rooted in widening inequality and a lack of opportunities for the youth. The COVID-19 vaccination campaign was launched in February but has so far covered less than 5 percent of Senegal's population. The President announced in early April an emergency program for youth employment and economic insertion amounting to 3 percent of GDP, spread evenly over 2021–23.

Outlook and risks. Growth is expected to fall below 4 percent in 2021 (versus a projected 5.2 percent) and external imbalances are set to widen. Risks are tilted to the downside with a possible third COVID-19 wave in Senegal being the most important.

Program implementation. Program performance was satisfactory. All quantitative targets but one, the ceiling for the share of single-sourced procurement contracts, were met. Six out of nine reform targets were met. The external audit of the public debt database, the draft law on hydrocarbon revenue sharing and the prepayments for income taxes at customs for unregistered taxpayers will be implemented with delay.

Financing request. The authorities have requested Fund financing access of 140 percent of quota under the SCF/SBA to face an actual but short-term balance of payment need. A financial arrangement would help support the authorities' crisis response, promote a broad-based recovery, catalyze additional concessional financing, and strengthen the external position of the WAEMU.

Policy discussions. The authorities and staff agreed on a revised 2021–23 fiscal strategy that incorporates new spending needs for vaccines and the youth employment program. A steadfast implementation of the Medium-Term Revenue Mobilization Strategy and spending reprioritization would provide space for the youth program. The fiscal stance in 2021–22 accommodates the vaccination campaign, and the overall deficit is set to return to the WAEMU deficit anchor of 3 percent of GDP by 2023, to maintain public debt on a sustainable trajectory. Staff recommended to ensure the efficiency of initiatives to support youth employment and to enhance education, training, and private sector job creation. Other key PCI-supported reforms should continue to advance, including on public financial and debt management, as well as the finalization of a legal framework to manage forthcoming hydrocarbon revenue following best international practices.

Staff supports the requests for completion of the third PCI review, modification of quantitative targets, and for an arrangement under the stand-by credit facility and stand-by arrangement.

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

Discussions were held remotely during April 6–27, 2021. The mission comprised Ms. Deléchat (AFR–head), Messrs. Stenzel, Versailles (AFR), Hamliri (FAD), and Hart (SPR). The mission was assisted by Mr. Koulet-Vickot (Resident Representative–RR) and Messrs. Ba and Fame (RR office). Mr. Diakite (OED) also attended mission meetings. S. Singh and J. Treilly (both AFR) contributed to this report.

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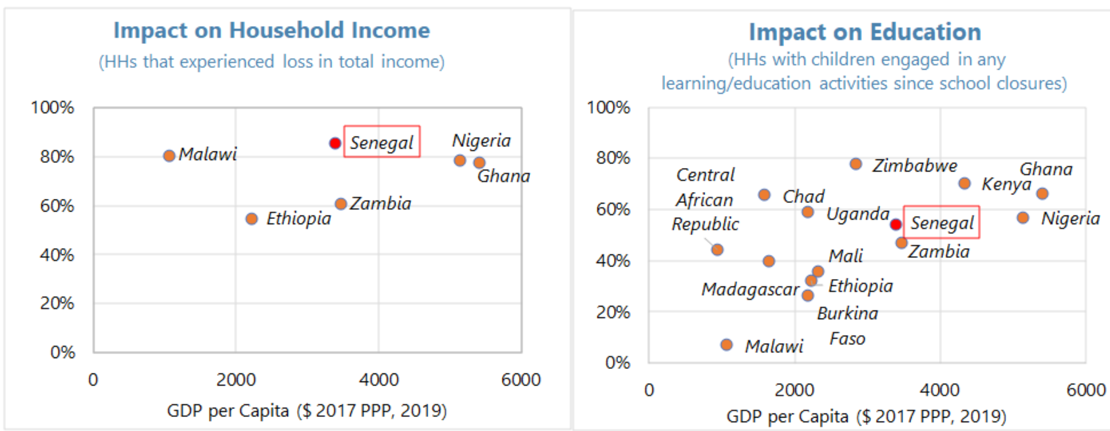
ANNEXES

APPENDIX

CONTEXT

1. **The Senegalese economy was hard-hit by the COVID-19 pandemic in 2020.** Growth slowed and unemployment increased as key sectors such as tourism, travel and transport suffered severe declines. Surveys indicate that 85 percent of households and 90 percent of informal economic units experienced income losses due to the pandemic.[1] The World Bank estimates that there are a minimum of 300,000 additional poor compared to the pre-pandemic baseline. The shock could have a long-lasting effect on productivity through its impact on households' income and children's education (Text Figure 1).

Text Figure 1. Senegal: Socioeconomic Impact of COVID-19



Source: WorldBank "COVID-19 High-Frequency Monitaring Dashboard".

2. **The prolonged COVID-19 pandemic in 2021 is causing additional hardship.**

- Between December 2020 and March 2021 new COVID-19 cases, hospitalizations, and deaths saw sharp increases in Senegal (Text Figure 2). In response, the government implemented targeted mitigation measures, including a curfew in the two main cities and the closure of markets, which were lifted in March.
- In March, social discontent, triggered by a political controversy but also rooted in widespread youth unemployment exacerbated by the economic downturn, led to major demonstrations which turned violent.

3. **The government has revised its priorities to address the prolonged pandemic and tackle youth unemployment.**

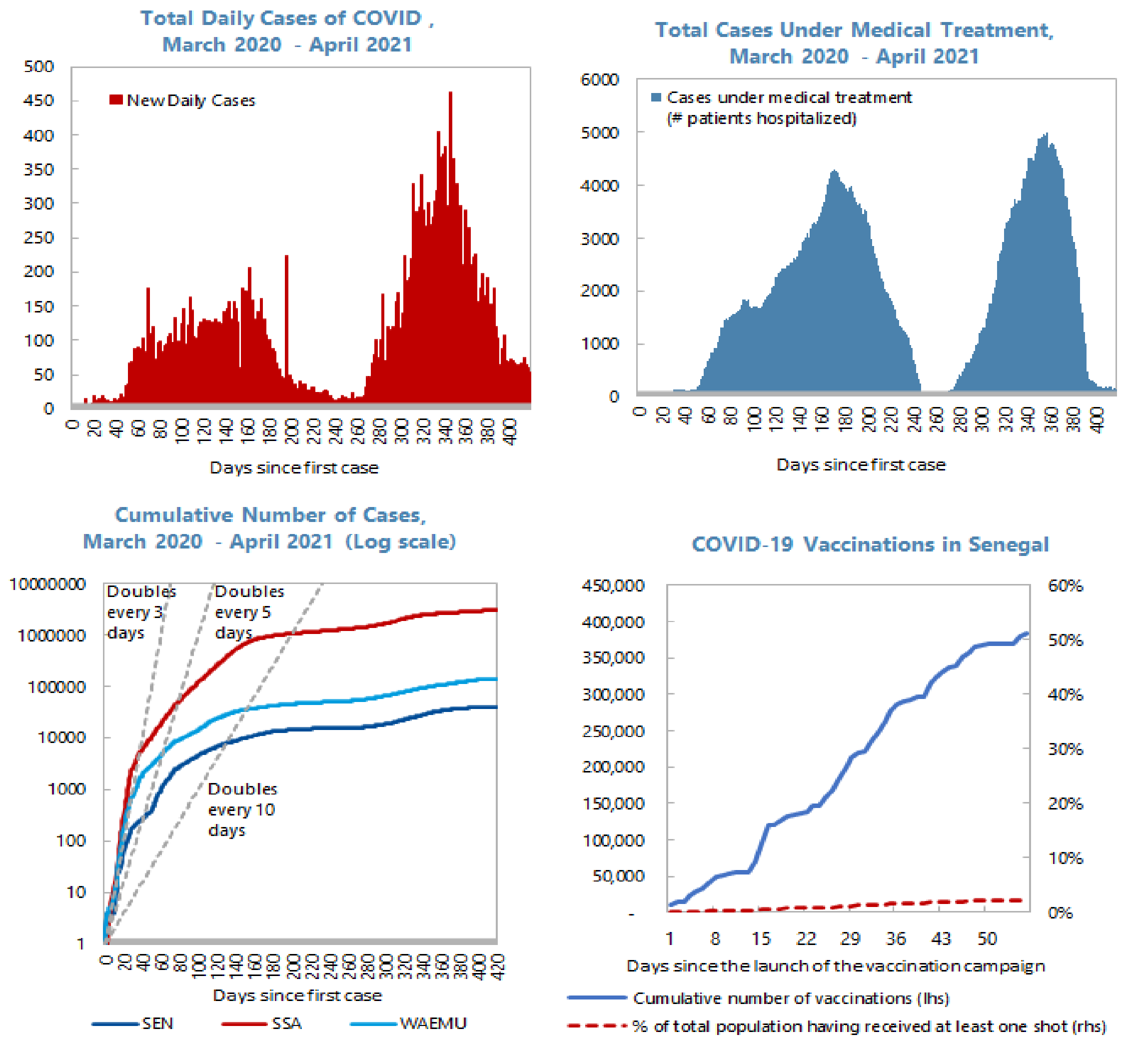
- Senegal's COVID-19 vaccination campaign was launched in February 2021. As of end April, about 400,000 shots have been administered, covering less than 3 percent of the population. Senegal will receive vaccines via COVAX, the African Union-led procurement scheme, and through bilateral purchase agreements. The national strategy ambitiously envisages to vaccinate

[1] Surveys by the "Agence Nationale de la Statistique et de la Démographie" « Rapport de l'enquête sur l'impact de la Covid-19 sur les Unités de Production informelles" (September 2020) and the "Suivi de l'impact sur le bien être des ménages" (September 2020). They are available at www.ansd.sn.

60 percent of the population by the first quarter of 2022. Its success will hinge on Senegal's ability to secure enough doses and to deploy them among the population.

- The President announced in April the launch of an emergency youth program amounting to CFAF 450 billion (3 percent of GDP), spread evenly over 2021-23. The program, developed following a rapid but nationwide consultation, centers on: i) hiring 65,000 workers (teachers, security, maintenance, reforestation) ii) increasing subsidies for private sector traineeships and jobs, iii) launching labor intensive public work projects, iv) enhancing technical and vocational training, and v) supporting entrepreneurship via financing options (Annex I).

Text Figure 2. Senegal: Evolution of the COVID-19 Pandemic



Sources: Johns Hopkins CSSE, Senegalese authorities; and IMF staff calculations.

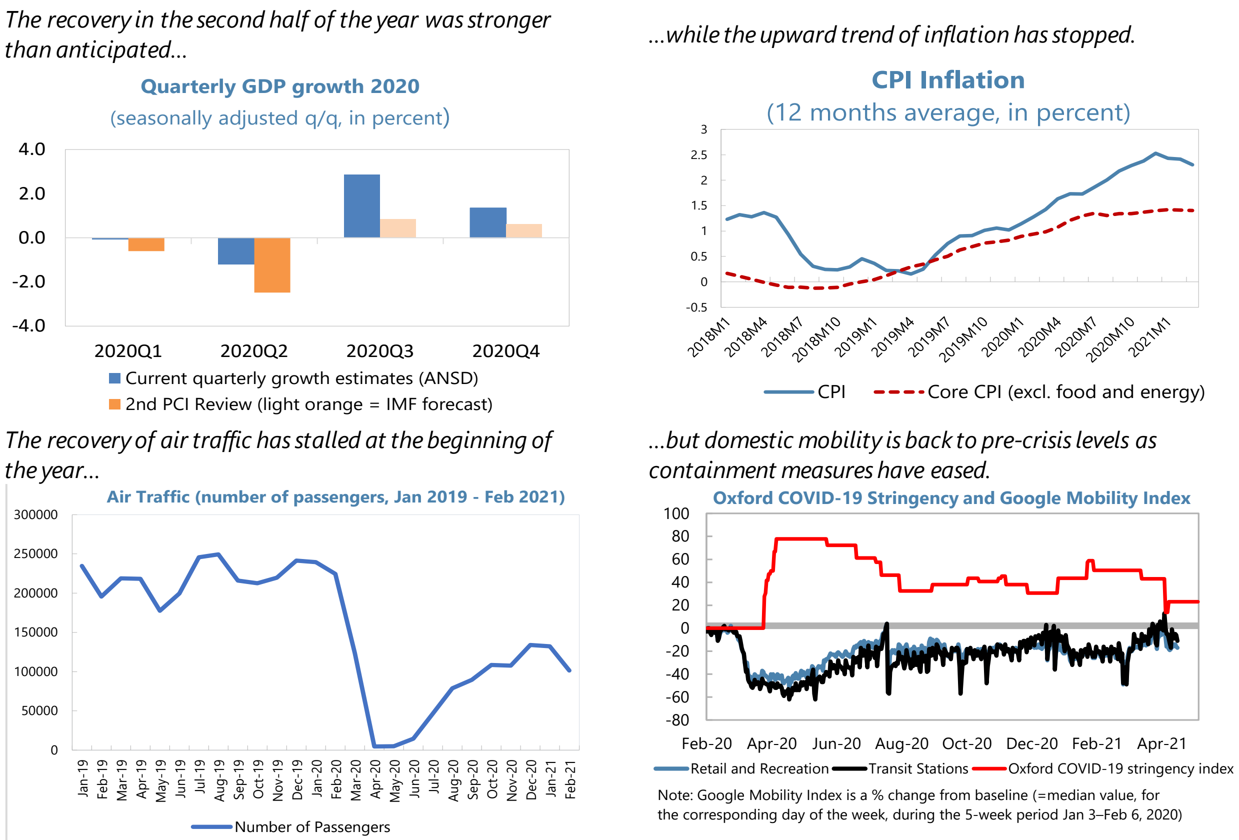
4. **The authorities have requested additional financial support from the IMF to address an actual, but short-term, balance of payments need.** The longer-lasting pandemic, social unrest and the vaccination campaign, combined with higher commodity prices are putting pressure on the external and fiscal accounts. The authorities have requested an arrangement under the Stand-By

Credit Facility and a Stand-By Arrangement (SCF/SBA), concurrently with the ongoing Policy Coordination Instrument which they intend to keep to maintain its strong signaling role, to support their crisis response. The IMF already disbursed US$442 million (100 percent of quota) under the RCF/RFI in April 2020. Senegal has also extended its participation in the G20 DSSI to the end of 2021, which is expected to provide a total of 0.6 percent of GDP in temporary debt service relief for the year.

RECENT ECONOMIC DEVELOPMENTS AND PROGRAM PERFORMANCE

5. **A recession in 2020 was avoided owing to a record harvest** (Text Figure 3). Growth was stronger than projected at an estimated 1 ½ percent in 2020 (-0.7 percent at second PCI review).[2] The agricultural sector grew by 23 percent amid very favorable rainfalls. Non-agricultural GDP, however, has likely declined by about 1 percent. While mining and construction expanded, manufacturing and especially services were a drag on growth reflecting the pandemic's impact.

Text Figure 3. Senegal: Selected Economic Activity Indicators



Sources: Google COVID-19 Community Mobility Reports; Oxford COVID-19 Stringency Index; Senegalese authorities; and IMF staff calculations.

[2] This implies a 1.5 percent decline in GDP per capita in 2020.

6. External imbalances have widened. The current account deficit is estimated to have widened to 10.5 percent of GDP in 2020 (from 8.1 percent of GDP in 2019), mainly due to a sharply-higher services balance deficit amid a collapse of tourism, and significant services' imports related to oil and gas projects. Remittances, accounting for 10 percent of GDP, increased by 1 percent in 2020 and continued their robust performance in early 2021 (+5 percent y/y in the first two months of 2021).

7. Careful budget execution helped meet the program's revised fiscal targets despite a budget support shortfall (Text Table 1). Revenue collection slightly exceeded the revised budget's target. Overperformance of direct and trade tax collection (supported by tighter controls) helped mitigate a shortfall in indirect taxes linked to lower economic activity and COVID-19 tax expenditures. On the spending side, the authorities executed the spending for COVID-19-related measures envisaged under the *Fonds Force COVID* broadly as planned (Text Table 2). Savings on current spending and prioritization of externally financed investments allowed the authorities to meet the adjusted deficit target. Fiscal developments in 2021Q1 show slightly lower-than-expected tax revenues and spending execution broadly in line with expectations.

Text Table 1. Senegal: Fiscal Outturn 2020 and 2021Q1

(in billion CFAF)

	2020		2021	
	EBS/20/191	Act	2021Q1	2021Q1 initial budget projection
Revenues	**2,962**	**2,843**	**497**	**566**
Revenues (excl. grants)	2,509	2,518	487	526
Tax Revenues	2,354	2,368	470	479
(percent of GDP)	16.8%	16.7%	…	…
Of which:				
Non-Tax Revenues	155	150	17	46
Grants	453	325	10	41
(percent of GDP)	3.2%	2.3%	…	…
Budgetary	192	195	0	22
Projects	261	130	10	18
Expenditure	**3,870**	**3,746**	**1,011**	**1,034**
(percent of GDP)	27.6%	26.4%	…	…
Current (excl. interest)	2,139	2,140	531	514
(percent of GDP)	15.3%	15.1%	…	…
Personnel	818	804	209	215
Goods and services	306	286	55	114
Subsidies	472	472	27	30
Grants and other spending	544	578	241	155
Interest	307	290	108	118
of which DSSI 1/	6	5	…	…
Investment	1,424	1,317	372	402
(percent of GDP)	10.2%	9.3%	…	…
Externally Financed	736	559	183	228
Internally Financed	688	758	188	174
Deficit	**-908**	**-903**	**-513**	**-468**
(percent of GDP)	-6.5%	-6.4%	…	…
(percent of GDP - excl. DSSI) 1/	-6.4%	-6.3%	…	…

Sources: Senegalese authorities; and IMF staff calculations.

1/ Reflects suspended debt service under the debt service suspension initiative (DSSI)

Text Table 2. Senegal: Execution of the 2020 Force COVID Support Budget
(in billion CFAF)

COVID-19 Fund Measures	As appears in the COVID-19 Fund	End-December 2020 outturn
Tax measures (all under Pillar III)	**215**	**80**
Partial forgiveness of outstanding tax debts	200	7 1/
Other tax measures, of which:	15	73
Import VAT suspension for 24 months	15	14
Exoneration of import taxes/duties for health-related imports	...	3
Other exonerations of import taxes/duties	...	3
Accelerated domestic VAT refunds 2/	...	49
Tax suspensions and deferrals for affected companies	...	4
Expenditure measures	**630**	**613**
Total COVID 19 spending	630	613
Pillar I - COVID-19 health action plan	79	97
Pillar II - Social safety net (food kits, utility subsidy, diaspora)	103	97
of which: utility bills	19	19
of which: food aid	69	64
Pillar III - Economic support (tax rebate, direct aid,..) 3/	370	307
of which: direct support to affected firms	100	100
of which: accelerated payment of pre-2020 unment obligations	200	200
Pillar IV - Securing of key supplies	78	113

Sources: Senegalese authorities; and IMF staff calculations.
1/ Very low execution at end December 2020
2/ No budgetary impact
3/ Only expenses with budgetary impact

8. **The banking system has remained resilient.** Banks' exposure to the government increased significantly in 2020 (+36 percent) covering significant public financing needs while private sector credit only grew by 1 ½ percent in line with subdued activity.[3] Gross NPLs declined in 2020 from 14 percent to 13.3 percent while provisioning increased to 68.1 percent. The BCEAO scheme that allowed banks' clients to defer principal loan repayments expired at end-December 2020 without a notable impact on NPLs. Deferred principal payments under the scheme amounted to less than 0.25 percent of total credit outstanding at end-March 2021.

9. **Performance under the PCI has remained satisfactory** (MEFP/Program Statement (PS) Tables 1a and 2). All end-2020 quantitative targets (QT) but one have been met. The share of single-sourced procurement contracts exceeded the program ceiling (21.8 percent vs. a target of 15 percent), as COVID-19-related procurement was allowed by decree to follow simplified procedures. Six out of nine end-December Reform Targets (RTs) have been met. The external audit of the public debt database and the draft law on hydrocarbon revenue sharing (reset as end June structural benchmark (SB)/RT) are expected to be completed by end June. The prepayments for income taxes at customs for unregistered taxpayers experienced delays but have become effective May 21.

10. **Progress is ongoing on the governance commitments regarding spending of the *Fonds Force COVID-19* resources.** The authorities have published detailed information on spending execution of the Fund in their 2020Q4 budget execution report, including information on the purpose of the spending and specific amounts committed and actually paid. The Fonds Force COVID-19 monitoring committee will publish its report of all spending and procurement undertaken

[3] The increased exposure to the government results from high public financing needs due to the COVID-19 crisis. The risk of crowding out of private sector credit was limited given that the BCEAO met all banks' demand for liquidity at a fixed rate against adequate collateral, and more broadly conducted an accommodative monetary policy.

with the Fund's resources by June 1st 2021. The annual audit of procurement procedures, including those related to COVID-19 spending, is due to be finalized by end-June. The Audit Court will publish its report on the 2020 budget law implementation, including a detailed audit of the use of COVID-19 funds, in October 2021 (MEFP/PS ¶19).

OUTLOOK AND RISKS

11. The baseline scenario has moved towards the adverse scenario of the second PCI review (Text Table 3).

- Growth is expected to fall to below 4 percent from an initial projection of 5.2 percent.[4] Robust fundamentals provide momentum and the statistical overhang adds about 1 ½ percentage points to the projection. But scarring from the pandemic's impact on households and businesses, the second COVID-19 wave and heightened uncertainty related to the course of the pandemic will weigh on economic activity. A return to 5 ½ percent growth in 2022 is predicated on the pandemic abating globally and in Senegal. The launch of oil and gas production in 2023 is expected to lift growth temporarily to double-digits.
- The current account deficit is projected to widen to 11.3 percent of GDP in 2021 (10.7 percent of GDP in the second PCI review), driven by deteriorating terms of trade (mainly due to higher oil prices), the ongoing tourism slump, and elevated imports for oil and gas projects. Remittances are expected to continue to be robust. Senegal's external position, assessed to be moderately weaker than the level implied by fundamentals and desirable policies in 2020, is expected to weaken further in 2021 (Annex II).[5]
- Lower growth and a higher fiscal deficit than projected at the time of the second PCI review would bring the debt to GDP ratio of the public sector (which includes SOEs) briefly above 70 percent of GDP in 2021.
- The fiscal deficit is projected to gradually return to 3 percent of GDP by 2023 to bring debt on a downward trajectory and in line with WAEMU commitments to support external stability.[6]

Text Table 3. Senegal: Key Macroeconomic Indicators 2020–23

	2020		2021			2022			2023
	EBS/20/191	Est.	EBS/20/191	EBS/20/191 Adverse Scenario	Proj.	EBS/20/191	EBS/20/191 Adverse Scenario	Proj.	Proj.
Real GDP (percent change)	-0.7	1.5	5.2	3.0	3.7	6.0	5.0	5.5	10.8
Of which: Non-hydrocarbon GDP	-0.7	1.5	5.2	3.0	3.7	6.0	5.0	5.5	6.1
CPI inflation, average (percent)	2.0	2.5	2.0	2.0	2.0	1.7	1.7	2.0	1.5
Net lending/borrowing, including grants (percent of GDP)[1]	-6.5	-6.4	-4.9	-5.7	-5.4	-4.0	-4.8	-4.2	-3.0
Current account balance (percent of GDP)	-10.9	-10.5	-10.7	-12.6	-11.3	-10.6	-12.8	-10.5	-5.5
Gross Debt Public Sector (percent of GDP)	67.6	68.7	68.2	69.9	70.9	68.1	71.2	69.9	64.9

Sources: Senegalese authorities; and IMF staff calculations.
1/ Includes savings from interest payment relief under the DSSI

[4] This would be insufficient to bring GDP per capita back to pre-pandemic levels by the end of 2021.

[5] The current account balance would improve significantly starting in 2023 with the onset of hydrocarbon exports.

[6] The fiscal multiplier is assumed to be low given the revenue-based nature of the medium-term consolidation strategy and is in line with the empirical literature on multipliers for LICs (e.g. IMF Regional Economic Outlook Sub-Saharan Africa "The Impact of Fiscal Consolidation on Growth in Sub-Saharan Africa", October 2017).

12. The outlook is highly uncertain, and risks remain tilted to the downside (Table 11). Pandemic-related risks include a new surge of COVID-19 infections amid the spread of virus mutations and/or a slow rollout of the vaccination campaign which would reduce growth. Recent demonstrations have brought rising social tensions to the fore which could weigh on business activity and confidence. On the external front, a further increase of oil and food prices would put pressure on external and fiscal accounts while regional security threats could spill over into Senegal. A rapid rise in interest rates could jeopardize access to external capital markets amid high medium-term refinancing needs. If such risks materialize, room for further fiscal loosening would be limited given already-high public debt and elevated future debt service. Lower fiscal revenues could be compensated through additional revenue measures, delaying lower-priority investments, or further reducing non-essential current spending. If additional financing is needed, it would need to be highly concessional, preferably in the form of grants.[7] Nonetheless, if the pandemic remains under control and scarring is less pronounced than expected, growth could surprise on the upside.

13. The authorities broadly concurred with staff on the less favorable outlook but underscored upside risks. They acknowledged the uncertainty around current projections and emphasized that, to date, there is little data available to accurately evaluate the economic impact of the second COVID-19 wave in early 2021. They stressed that implementation of their recovery plan together with the strong growth potential of the economy could warrant further optimism on the outlook. They also look forward to the SDR allocation, which could help alleviate possible financing pressures.

POLICY DISCUSSIONS

Policy discussions focused on how to best address the prolonged effects of the pandemic, support the vaccination campaign and create jobs for the young, while maintaining macroeconomic stability. Fund financial support under SCF/SBA arrangements, concurrent with the PCI would: i) accompany the authorities' crisis' response and contribute to a strong, broad-based recovery, ii) address the short-term BOP need, iii) maintain strong signaling and catalyze additional concessional financing to support more favorable debt dynamics, and iv) reduce the need to access the regional bond market and strengthen the external position of the WAEMU.

A. Responding to the Pandemic while Maintaining Macroeconomic Stability

A Revised Budget to Address the Pandemic, Finance the Vaccine Rollout, and Tackle Youth Unemployment

14. The revised medium-term fiscal strategy incorporates the government's new priorities, while remaining anchored by a gradual return to a deficit of 3 percent of GDP by 2023 (see Text Table 3). The fiscal framework incorporates the weaker short-term economic outlook, the rollout of the vaccination campaign over 2021–22, and the new three-year emergency youth

[7] This discussion does not reflect a possible SDR allocation which could be a further source of financing.

program (Text Table 4). The consolidation strategy is based on ambitious revenue mobilization targets in line with the Medium-Term Revenue Mobilization Strategy (MTRS) and a reprioritization of spending (MEFP/PS ¶15).

15. The authorities and staff agreed on the parameters of a revised 2021 budget, which is expected to be finalized by end-May 2021.

- Fiscal revenues are expected to decline by 0.1 percent of GDP compared to the initial budget and second PCI review projection. Lower activity, higher oil prices, less revenues on taxes based on 2020 profits, and lower expected dividends from SOEs would reduce revenues by about 0.7 percent of GDP if left unaddressed. However, to mitigate the shortfall, the authorities have identified a set of tax policy and administrative measures which should yield an estimated 0.6 percent of GDP (MEFP/PS ¶17 and Text Table 5).
- New spending pressures have emerged since the initial budget was adopted. The budget of the health ministry will increase by 0.3 percent of GDP to finance the vaccination campaign, the additional spending related to the emergency youth unemployment package amounts to 0.4 percent of GDP in 2021,[8] and higher oil prices require to budget an additional 0.4 percent of GDP for energy subsidies given unchanged domestic electricity tariffs and fuel products' prices. At the same time, the authorities have identified budgetary savings through freezing operational costs and postponing planned investments of 0.5 percent of GDP, and additional space will be generated by delaying scheduled clearance of unmet obligations of about 0.3 percent of GDP (MEFP/PS ¶18, Text Table 3).
- As a result, the fiscal deficit would increase from an initially projected 4.9 percent of GDP to 5.4 percent of GDP in 2021.[9]

16. Discussions focused on finding the right balance between accommodating new spending needs and maintaining sound fiscal policy. Staff supported a loosening of the fiscal stance to accommodate spending for vaccines and use the additional space provided by the DSSI's extension, and, after the identification of strong revenue-enhancing measures, the remaining minor revenue shortfall, but saw little scope for further loosening. The authorities agreed to contain the deficit increase while stressing the importance of tackling new challenges which can only partially be absorbed through savings elsewhere. To guard against revenue shortfalls, staff and the authorities agreed to maintain a precautionary reserve of 0.4 percent of GDP that will only be released towards the end of the year if revenues are in line with projections (MEFP/PS ¶18). Staff cautioned that the sustained increase of recurrent spending for the youth employment program and the postponement of the clearance of pre-2019 unmet obligations of 0.3 percent of GDP will make fiscal consolidation in the years ahead more challenging. Staff recommended including in the 2022 budget the full clearance of pre-2019 unmet obligations.

17. Additional financing needs in 2021 are covered by external concessional support. Additional project financing for the vaccines (excluding grants, 0.2 percent of GDP), the DSSI

[8] The program includes ongoing externally financed projects focusing on youth and women's economic inclusion.

[9] This includes 0.1 percent of GDP in additional DSSI interest relief given the initiative's extension to cover 2021H2.

extension (0.6 percent of GDP), as well as Fund financing (1.3 percent of GDP), which will be on-lent from the Central Bank for direct budget support, will add about 2.1 percent of GDP in concessional external financing. This is in addition to already-committed budget support in the form of grants and concessional loans by multilateral and bilateral partners of 1 percent of GDP. At the same time, less borrowing is expected for externally-financed projects (0.3 percent of GDP), and reliance on the regional bond market for financing will be almost 1 percent of GDP lower compared to projections at the time of the second PCI review (MEFP/PS ¶25).

Text Table 4. Senegal: Revised Fiscal Framework, 2021–22
(in billion CFAF)

	2021		2022	
	EBS/20/191	Proj.	EBS/20/191	Proj.
Revenues	**3,090**	**3,034**	**3,381**	**3,389**
Revenues (excl. grants)	2,758	2,742	3,004	3,052
Tax Revenues	2,564	2,564	2,862	2,918
(percent of GDP)	17.1%	17.1%	17.7%	18.1%
of which lower tax revenues (less activity, CIT, and FSIPI	...	-100	...	...
of which new identified measures	...	100	...	116
Non-Tax Revenues	194	179	142	135
of which: lower dividends	...	-15	...	...
Grants	332	292	377	336
(percent of GDP)	2.2%	1.9%	2.3%	2.1%
Budgetary	64	64	90	88
Projects	268	228	287	248
of which: add. grants for vaccine spending	...	20	...	18
Expenditure	**3,822**	**3,852**	**4,022**	**4,066**
(percent of GDP)	25.5%	25.7%	24.9%	25.2%
Current (excl. interest)	1,911	2,009	2,141	2,149
(percent of GDP)	12.7%	13.4%	13.3%	13.3%
Personnel	905	927	975	1,008
of which: additional salaries for youth program	...	22	...	33
Goods and services	316	328	371	362
Subsidies	273	339	306	303
of which: add. spending for energy subsidies	...	64	...	...
Grants and other spending	417	415	489	476
of which additional current spending for youth program	...	47	...	43
Interest	327	328	342	344
of which DSSI 1/	10	19	...	-
Investment	1,584	1,515	1,539	1,572
Externally Financed	844	784	697	801
of which: vaccination campaign	...	40	...	35
Internally Financed	740	731	843	771
Deficit	**-733**	**-817**	**-641**	**-677**
(percent of GDP)	-4.9%	-5.4%	-4.0%	-4.2%
(percent of GDP - excl. DSSI & vaccination campaign)	-4.8%	-5.1%	-4.0%	-4.0%
Financing	**733**	**817**	**641**	**677**
Net issuance on regional bond market	442	314	521	242
Program loans	96	96	74	90
Project loans	576	556	410	553
Other (incl. amortization)	-423	-442	-364	-358
Exceptional Financing	42	292	0	150
IMF	0	201	0	150
DSSI	42	91	0	0
Nominal GDP	14,991	14,998	16,154	16,159

Sources: Senegalese authorities; and IMF staff calculations.

Deeper Structural Fiscal Reforms to Create Fiscal Space and Build Social Cohesion

18. Enhanced revenue mobilization is crucial to create fiscal space amid high spending pressures. The MTRS, aiming to raise the tax-to-GDP ratio to 20 percent by 2023 by expanding the tax base, was finalized in June 2020 (RT). However, implementation in 2020H2 was delayed owing to the pandemic (Annex III). The program envisages an increase of the tax-to-GDP ratio of 1 percent of GDP in 2022, largely based on broadening the tax base and reducing tax expenditures (Text Table 5).

Text Table 5. Senegal: Revenue Measures in 2021–22
(in CFAF billion unless indicated otherwise)

	2021	2022
Internal Revenue Directorate		
Total	59	118
(in percent of GDP)	0.4	0.7
new taxpayers at directorate for SMEs	7	19.5
increase taxation at the source of wage-earners contributing to social security	16	32
prepayment of income taxes at customs for importers not current with internal tax obligations	10	0
new excise tax on broth	25	40
higher excise taxes on gambling and betting	1	1
reductions in regressive tax expenditure		25
Customs Directorate		
Total	39	71
(in percent of GDP)	0.3	0.4
strengthening controls of declared customs values	13	21
reinforcing ex-post controls	4	6
better control of exemptions regimes	8	12
recovery of suspended VAT	14	22
creation of dedicated office for vehicles		10

Sources: Senegalese authorities; and IMF staff calculations.

19. The authorities are committed to accelerate implementation of the MTRS (MEFP/PS, ¶20-22). They will organize a stakeholder workshop to publicly endorse the MTRS and adopt a revised implementation plan for 2021–23, appoint the members of the strategic oversight committee and adopt a monitoring and evaluation strategy (new SB/RT, June 2021). The revenue agencies committed to continue in 2022 the measures initiated with the revised 2021 budget and identified new actions, (MEFP/PS ¶22), with an initial focus on expanding the tax base (proposed new SB/RT, June 2022) and strengthening controls. Tax expenditures would be gradually reduced, based on already-identified particularly regressive VAT exemptions, and an upcoming study of the effectiveness of existing exemptions (SB/RT, June 2021). The 2022 budget law will eliminate tax exemptions of at least 0.2 percent of GDP (new SB/RT, December 2021). Better transparency around tax expenditures, with the publication of the 2015–17 tax expenditure reports on May 3, 2021 and of the 2018-19 reports by end-June 2021, would support these efforts (the annual publication of the N-2 report on tax expenditures is a continuous SB/RT from June 2021).

20. Progress to improve public financial management (PFM) has been delayed by the pandemic but should pick up in 2021–22 (MEFP/PS ¶23). The authorities have prepared, supported by IMF technical assistance, a comprehensive PFM reform strategy. While the strategy has yet to be formally adopted, some key reforms are ongoing and should be delivered by 2022, including:

- The full implementation of program budgeting starting in 2022, with an initial phase for selected public entities in 2021.
- Improved spending transparency and execution, based on (i) an effective limitation of transfers to below-the-line treasury accounts to central government entities, (ii) the reclassification of

capital transfers to agencies implementing government projects under public investments[1], along with the formalization of adequate contractual arrangements between the government and implementing agencies, (iii) better cash management with the preparation of accurate and comprehensive commitment plans, and (iv) an improved classification of current spending in upcoming finance laws to reflect the economic nature of spending, starting with subsidies in 2022.

- Continued efforts towards the implementation of a broad and functional Treasury Single Account (TSA), in line with WAEMU directives. The authorities have identified 276 existing accounts of non-commercial public entities in commercial banks and aim to close 100 accounts in 2021, with an initial focus on entities relying primarily on budget transfers. A roadmap will be prepared by end-2021 to identify additional accounts eligible for closure by June 2022 (proposed new SB/RT, December 2021).[2] Full TSA implementation would limit fiscal risks created by the financial activities of some entities (e.g. use of overdraft facilities and bank borrowing).
- Better management of fiscal risks by the preparation of a fiscal risks' statement as part of the 2022 budget law (SB/RT, December 2021), the preparation of a comprehensive database of existing PPPs and power purchase agreements (PPAs) by June 2021 (SB/RT, June 2021), and the adoption of a methodology to assess fiscal risks stemming from PPPs and SOEs (MEFP/PS ¶28) .

21. Efforts to limit and properly account for energy subsidies should be pursued. While the transition from heavy fuel oil to gas will lower the need for subsidies over the medium term, staff pointed to the high fiscal costs of keeping fuel and electricity retail prices below cost-recovery levels. Given the strong preference to maintain prices unchanged in the short term, the authorities reiterated their commitment to budget adequately for subsidies to avoid arrears accumulation (continuous SB/RT). They also pointed out that ongoing reforms in the electricity sector supported by the Millennium Challenge Account's Power Compact will help strengthen the public electricity company's financial position (MEFP/PS ¶29). Staff emphasized that the revision of the hydrocarbon price structure envisaged in 2021 should aim at simplicity, transparency, and, as much as considered feasible, at ensuring gradual, automatic adjustments of domestic fuel product prices to changes in world oil prices.

Preserving Debt Sustainability and Enhancing Debt Management

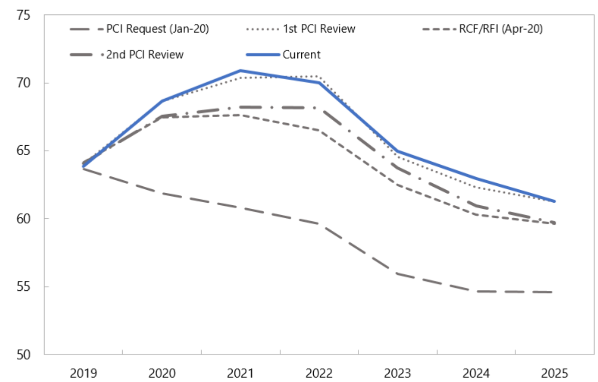
22. Senegal's debt is projected to remain sustainable with a moderate risk of external and overall public debt distress (see Debt Sustainability Analysis). Public debt to GDP is projected to peak at about 71 percent in 2021, before gradually declining over the medium term as hydrocarbon

[1] The reclassification is effective as of May 2021, with the exception of selected projects already being implemented. Before that, over 70 percent of 2020 domestically financed investment was implemented through capital transfers, i.e. transfers towards implementing agencies' treasury account ("*compte de dépôt*"). The reclassification of these expenses implies that they will be subject to regular spending procedures with verification of services rendered prior to payment. This measure will also facilitate cash-flow management as payments will be more closely linked to the actual pace of project implementation.

[2] This would replace the existing RT on closing all remaining public entities' accounts by end-2022, which is proposed to be dropped.

production boosts revenues and economic growth (Text Figure 4). However, the debt profile has limited space to absorb shocks in the near term and is subject to significant risks from lower growth, higher fiscal deficits, and an increase in global interest rates. Accordingly, the authorities are relying on concessional and semi-concessional lending to finance the recovery effort. Senegal has also extended its participation in the G20 DSSI to the end of 2021, which is expected to provide a total of CFAF 91 billion (0.6 percent of GDP) in temporary debt service relief for the year, including CFAF 19 billion (0.1 percent of GDP) in interest relief.[3]

Text Figure 4. Senegal: Public Sector Debt
(percent of GDP)



Sources: Senegalese authorities; and IMF staff calculations.

23. **Debt sustainability will need to be supported by further efforts to contain fiscal risks and strengthened debt management.** The national debt committee (CNDP) adopted a 2021–23 Medium-Term Debt Strategy and has begun reviewing major SOE investments. Recommendations from the forthcoming public debt database audit (which has suffered procurement-related delays but is now ongoing) should help enhance the monitoring of SOE debt, and the authorities are working on expanding their capacity to forecast borrowing needs in this sector.

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

Addressing Youth Unemployment and Expanding the Social Safety Net

24. **Staff welcomed the authorities' strong focus on youth and women unemployment but recommended to reform existing public initiatives and to focus on private sector job creation** (Text Table 6, MEFP/PS ¶27-28 and Annex I). About 200,000 Senegalese enter the labor market each year and generating sufficient jobs is a major challenge. Youth unemployment is high, affecting almost 1/3 of those between 15 and 34 years. While the significant public hiring program will generate employment in the short term, staff expressed concerns that this would crowd out investment spending and may not result in sustainable, long-term jobs. Staff emphasized the importance of ensuring that the new spending is of high quality, which would require reforming existing public initiatives, including by streamlining a multitude of funds and agencies already active in the field. The government should allocate a strong role to the private sector to address youth unemployment and support this through targeted measures, including a focus on supporting demand driven training and skill development.

[3] To the extent market conditions are favorable, the authorities also intend to pursue liability management operations to smooth out future debt service repayment, but these are not yet incorporated in baseline projections.

Text Table 6. Senegal: Emergency Program for Youth Employment
(in billion CFAF)

	Pillar	Measures	Expected costs 2021	2022	2023	Total
1	Special recruitement	Creating 35000 jobs, of which 5000 teachers, 22000 youths for reforestation and cleaning, 6000 security agents and 1850 other	45	53	54	152
2	Projects for community development	Support ongoing development projects to modernize municipalities	7	12	14	34
3	Support private sector job creation	Increase transfers for the cooperation between the state and businesses to support private sector jobs and vocational training. Extend the sectoral coverage to agriculture.	15	15	15	45
4	Labor-intensive public investment project	Undertake highly labor intensive projects to tap the potential of renewable energy and the horticulture sector.	9	9	7	24
5	Vocational training/traineeships	Increase opportunities to obtain degrees and support young trainees in the arts and crafts sector	11	18	16	45
6	Access to financing for entrepreneurs and independent workers	Microcredits and targeted support to informal sectors	53	33	34	120
7	Subsidy for school uniforms	Subsidize new school uniforms produced in Senegal	10	10	10	30
	Total		150	150	150	450

Sources: Senegalese authorities; and IMF staff calculations.

25. The authorities acknowledged the need for accompanying reforms and highlighted the youth program's governance measures. As a first step, by December 2021 they are committed to i) establishing a single point of entry for all existing initiatives in the 15 largest departments (out of 45); ii) establishing a database and unique identifier for program beneficiaries, and iii) concluding performance contracts with the main implementing agencies with clear results targets (MEFP/PS ¶27). In parallel, and on the basis of an evaluation of all initiatives to support women and youth employment, as well as SMEs, they will prepare a broader reform to improve coordination and efficiency of existing public initiatives, starting by streamlining financing funds dedicated to women and youth employment *(*proposed new SB/RT, December 2021*)*.

26. Staff underscored the importance of accelerating reforms to boost private investment and the business environment. The authorities are finalizing a revamped framework for PPPs which is hoped to crowd in substantial private investment. A new law was adopted in March but left crucial decisions about managing fiscal risks to implementing decrees. Staff argued that to limit fiscal risks it will be essential to define a gate-keeper role for the Minister of Finance at all stages of PPP approval and to establish clear limits on spontaneous project proposals and simplified procurement procedures (proposed new SB/RT, June 2021). Other structural reforms, supported by the "Compact with Africa" partnership and development partners, are progressing. Mobile tax payments are now effective (RT, December 2020) while the reform of the land management system has experienced delays due to COVID-19 travel restrictions but it is expected to be finalized by end-year (SB/RT, June 2021, proposed to be reset to December 2021). A one stop-shop to access public funding for SMEs and informal firms is expected for December 2021 (MEFP/PS ¶28). Senegal's financial inclusion strategy is being finalized and staff encouraged the authorities to accelerate its implementation (MEFP/PS ¶33).

27. Staff welcomed efforts to address the pandemic's impact on vulnerable households. The government is preparing broad exceptional financial support to poor and vulnerable households suffering from the economic crisis through additional cash transfers and subsidies for farming inputs, supported by the World Bank. The update and expansion of the Single National

Register (RNU), a database guiding social protection efforts, is underway, including by doubling the number of registered households to at least one million (SB/RT, proposed to reset from December 2021 to June 2022,). The decree institutionalizing the RNU is expected to be adopted by August 2021 (MEFP/PS ¶30).

Maintaining Financial Stability

28. While the banking system appears broadly sound, pockets of vulnerabilities exist. Three state-owned banks continue to face longstanding capital and profitability challenges.[4] The institutional reform to separate *Poste finance* from the post office group (*SN La Poste*) and convert it into a financial institution has encountered significant delays. Finally, while a clear picture of the size of losses is not yet available, there are indications that the pandemic has worsened the financial situation of several microfinance institutions (MEFP/PS ¶23, 32). Staff encouraged the authorities to follow through on their commitments to restore the capital of public banks, coupled with efforts to strengthen their corporate governance and redesign their business models. Renewed attention should be put on the governance of the post office group and on institutional change of the *Poste finance* to minimize fiscal risks.[5] Finally, staff recommended undertaking thorough diagnostics of microfinance institutions once the crisis abates. In the meantime, the authorities should enhance monitoring, including by ensuring full reporting of relief measures granted to customers and the impact on balance sheets. Microfinance institutions in difficulties should be subject to some restrictions, e.g. on dividend payments or lending and deposit activities.

29. AML/CFT deficiencies have resulted in increased monitoring by the Financial Action Task Force (FATF) which will require a high level of ownership by all stakeholders. The authorities are committed to ensure that all the stakeholders are fully engaged in implementing the action plan to strengthen the effectiveness of the AML/CFT regime. The action plan should be implemented by September 2022 and includes, among others, measures focused on: (i) raising awareness of Designated Non-Financial Businesses and Professions (DNFBPs) to AML/CFT issues and ensuring that they are adequately supervised, (ii) ensuring that financial institutions are subject to effective risk-based AML/CFT supervision, (iii) establishing comprehensive and standardized policies and procedures for identifying, tracing, seizing and confiscating proceeds and instrumentalities of crime, (iv) maintaining comprehensive and updated basic and beneficial ownership information, (v) improving international cooperation, and (vi) implementing an effective targeted financial sanctions regime (MEFP/PS ¶31).

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[4] The three banks together have a market share of less than 8 percent.

[5] Separating Post finances from the post office group is important to eliminate financial transfers from Poste finances towards the rest of the group so that it can maintain adequate minimum daily cash balances to cover postal checks. This would also eliminate the need for a guarantee from the Treasury.

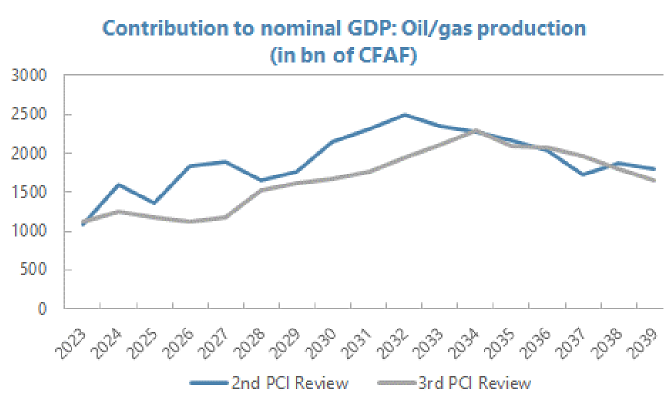
C. Transparent and Sustainable Management of Oil and Gas Revenue (PCI Pillar III)

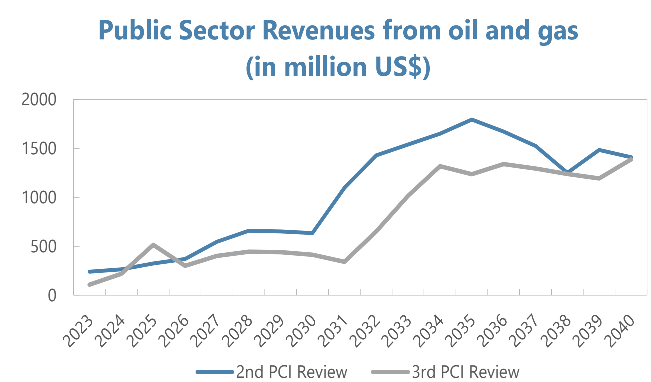
30. The law on hydrocarbon revenue sharing has reached an advanced stage (MEFP/PS ¶35-36). Two major oil and gas projects are expected to start production in 2023. They will provide a significant boost to GDP, exports, and revenues (Text Figure 5). The preparation of the law (reform target, December 2020, reset for June 2021) is supported by Fund TA which has made a number of recommendations to align it with international best practices, including:

- The definition of a comprehensive multiyear investment plan that would be financed by hydrocarbon revenues, to maintain spending efficiency, accommodate public investment absorption constraints and avoid procyclical cuts to investment spending.
- Improvements to the revenue allocation rules to better balance budget spending needs with stabilization and intergenerational savings and limit withdrawals to specific cases.
- A stronger institutional setup for revenue forecasting, budgeting and monitoring, reflective of the high volatility of hydrocarbon revenues and allowing for dynamic adjustments to revenues allocated to the budget, the stabilization fund and the intergenerational fund.
- Clear procedures for expenditures tracking and higher transparency on natural resource management and spending.

31. A new fiscal framework that takes into account natural resource revenues is expected to be applied for the 2023 budget. The framework should be finalized by June 2022 as the 2023 budget will include significant oil and gas related revenues for the first time (SB/RT, December 2021, reset for June 2022) (MEFP/PS ¶35-36). Staff recommended that multiyear macro-fiscal planning documents would include a non-oil fiscal balance target, that would anchor fiscal policy when revenues ramp up. The target would allow for a smooth spending path and reduce risks of procyclical spending patterns.

Text Figure 5. Senegal: Macroeconomic impact of oil and gas projects





Source: IMF staff calculations.

REQUEST FOR FUND FINANCING AND PROGRAM MODALITIES

32. The authorities request 18-month blended arrangements under the SBA and SCF to meet the actual but short-term balance-of-payments need. The protracted impact of the pandemic, higher commodity prices, and spending needs for vaccines have led to an actual but short-term balance of payments need over 2021–22 (Text Table 7). The balance-of-payment need is expected to be unwound by end-2022 with the completion of the vaccine rollout and an economic recovery well under way.

Text Table 7. Senegal: Financing Need 2020–22

	2020 act.	2021 proj.	2022 proj.
	(CFAF billions)		
Financing Need	694	492	363
Budget support (grants and loans)	398	160	179
Multilateral	196	144	130
Bilateral	202	16	49
Vaccination Support	0	40	35
DSSI	29	91	0
IMF financing [1)]	266	201	150
percent of quota	100	80	60
Share of Fund financing	38%	41%	41%

Sources: Senegalese authorities; and IMF staff calculations.
1/ Disbursement in 2020 under RFI/RCF and prospective disbursements in 2021 and 2022 under SBA/SCF.

33. Combined access of 140 percent of quota under the arrangements would help cover the external and fiscal financing needs. Access at this level would amount to SDR 453 million, of which one-third will be under the SCF (SDR 151 million or 46.66 percent of quota) and two-thirds will be under the SBA (SDR 302 million or 93.33 percent of quota). The Fund would cover about 40 percent of the estimated financing need over 2021 and 2022 (Text Table 7). A slight frontloading is proposed with 80 percent of quota disbursed in 2021, consistent with a higher balance-of-payments need in the near term. As is normally the case for WAEMU member countries, Fund disbursements will be on-lent to the government via the central bank. Senegal is a presumed blender and access will be one-third under the SCF and two-thirds under the SBA. Senegal has no external arrears.

34. Financing assurances are in place for the next 12 months and there are good prospects for financing thereafter. Confirmed commitments from development partners will provide substantial budget support as well as financing for vaccines. The DSSI extension provides additional financing of 0.6 percent of GDP. The potential for a SDR allocation later in the year would supplement the reserves of the BCEAO. The allocation for Senegal, which would amount to US$442 million (1.6 percent of GDP) if confirmed, has not yet been incorporated into the macroeconomic framework. Its prospective use will be discussed at the time of the next program review.

35. The financing arrangements would be concurrent with the PCI, which expires at end-2022. The reform objectives of the PCI remain relevant. Maintaining the PCI would also preserve continuity and positive signaling.

36. Program conditionality builds on the PCI. The main quantitative targets (QTs) on the fiscal deficit, financing, public sector debt and revenue have been translated to performance criteria. All other QTs become indicative targets. The PCI's reform targets will serve as structural benchmarks (SBs) under the financing arrangement. Modifications have been requested for the deficit, net financing, revenue (only for end June) and debt ceiling QTs in line with the revised budget framework.[6] New SBs (and RTs under the PCI) on areas critical to the program's success are also proposed, including to operationalize the MTRS (June 2021), reduce tax expenditures by CFAF 25 billion in the 2022 budget law (December 2021), expand the tax base by 75,000 registered taxpayers and an additional 40,000 employees paying tax at the source (June 2022), adopt a decree implementing the PPP law (June 2021), and identify all bank accounts of public entities with own resources (December 2021).Two RTs are dropped as they are either already in place (ex-ante evaluation of projects exceeding one billion CFAF newly included in the budget) or have been replaced by another SB/RT (close remaining accounts of all public agencies and entities). The setup of a centralized land management system, the extension of the single national registry, the draft law on the hydrocarbon revenues sharing and the new fiscal framework with a long-term budgetary anchor to share hydrocarbon revenues with future generations will be reset to allow for sufficient time for completion.

37. Senegal has an adequate capacity to repay the Fund and there are no safeguard concerns. Repayments to the Fund will remain at their peak in 2025 under 3 percent of government revenue and under 2 percent of exports of goods and services. The 2018 safeguards assessment found that the BCEAO has maintained a strong control culture and progress is ongoing in completing the last outstanding recommendation, related to strengthening risk management.

38. Program risks are significant but are mitigated by the authorities' strong track-record in implementing Fund arrangements. A deterioration of the economic outlook could make achieving program objectives more difficult. Social tensions and coordination challenges within the administration could complicate the implementation of structural reforms to boost growth and job creations.

39. Capacity development (CD) is well-aligned with program objectives. FAD together with AFRITAC West are providing support to implement the MTRS; to enhance the efficiency and quality of spending and fiscal reporting; and to set up a sound framework for oil and gas revenues.

STAFF APPRAISAL

40. The COVID-19 pandemic hit the Senegalese economy hard in 2020. Growth has decelerated to 1 ½ percent, compared to a pre-crisis average of 6 percent (2014–19). The pandemic caused hardship for many households, notably for those working in the urban informal sector. The government's forceful response helped strengthen the health sector and mitigate income losses for

[6] The increase from CFAF 10,275 billion to CFAF 11,024 billion does not reflect additional borrowing space except for the revised fiscal path. The initial 2021 target overestimated valuation effects from the 2020 CFAF appreciation against the U.S. dollar and was not increased for higher financing need for oil and gas projects and widening of the SOE perimeter which required lifting the 2020 debt ceiling by CFAF 200 bn during the second review.

households and firms. Staff welcomes the publication of quarterly budget execution reports detailing use of COVID-19 resources in 2020 and of the report of the committee in charge of monitoring COVID-19 spending.

41. The macroeconomic outlook has deteriorated since the last PCI review. The protracted COVID-19 pandemic, higher commodity prices, and social unrest, rooted in widening inequality and lack of economic opportunities, are having an adverse effect on economic activity and the external position. Growth is expected to fall below 4 percent in 2021 which would be insufficient to reach pre-crisis GDP per capita levels by end 2021. This projection is subject to important risks, most notably from a possible third wave of COVID-19. A new debt sustainability assessment indicates that Senegal's debt remains sustainable with a moderate risk of overall debt distress with limited scope to absorb shocks in the near term.

42. The objectives of the PCI remain appropriate while new Fund financing will help address the short-term BOP need. The authorities have expressed a preference for maintaining the PCI, as its objectives are fully aligned with their development strategy. The proposed fiscal consolidation path accommodates the vaccination campaign and allows to unwind the BOP need by end-2022. Together with additional donor support, the new Fund financing will help reduce the need to access the regional bond market.

43. Fiscal policy should remain anchored by a credible path towards a fiscal deficit of 3 percent of GDP by 2023. The revenue-based consolidation, underpinned by the MTRS, remains essential to support macroeconomic stability, sustainably finance the development strategy and contribute to the external stability of the WAEMU region. Staff welcomes the identification of ambitious revenue mobilization measures for the program period and the authorities' strong commitment to the implementation of the MTRS. Staff however encourages the authorities to limit new recurrent spending commitments associated with the emergency youth program and to ensure high quality of these interventions. Together with the delayed repayment of unmet obligations – which should be included in the 2022 budget -, these commitments will crowd out other spending in the coming years and make fiscal consolidation more challenging.

44. The parameters of the 2021 revised budget reflect the authorities' new priorities, notably the vaccine rollout and the new youth employment program. The authorities identified measures to expand the tax base and new tax policy measures, as well as substantial savings, mainly by postponing investments, to incorporate the new spending needs, while limiting the increase of the fiscal deficit. A precautionary reserve should help mitigate risks of further revenue shortfalls. Energy subsidies will need to be carefully monitored and budgeted for, while proceeding apace with reforms of the electricity sector. Staff will continue to recommend gradual, automatic adjustments of domestic fuel prices to changes in world oil prices.

45. Public debt continues to rise, and enhanced debt management will need to complement fiscal consolidation to maintain debt sustainability. Risks to debt sustainability from lower growth, higher fiscal deficits, and an increase in global interest rates need to be carefully monitored. While international capital markets are accessible for frontier markets after the initial

COVID-19 shock, Senegal should prioritize concessional borrowing to meet financing needs, in order to limit future debt service costs and improve debt sustainability. External non-concessional borrowing should be limited to supporting selected growth-enhancing investment projects, such as the oil and gas projects, and to debt management operations.

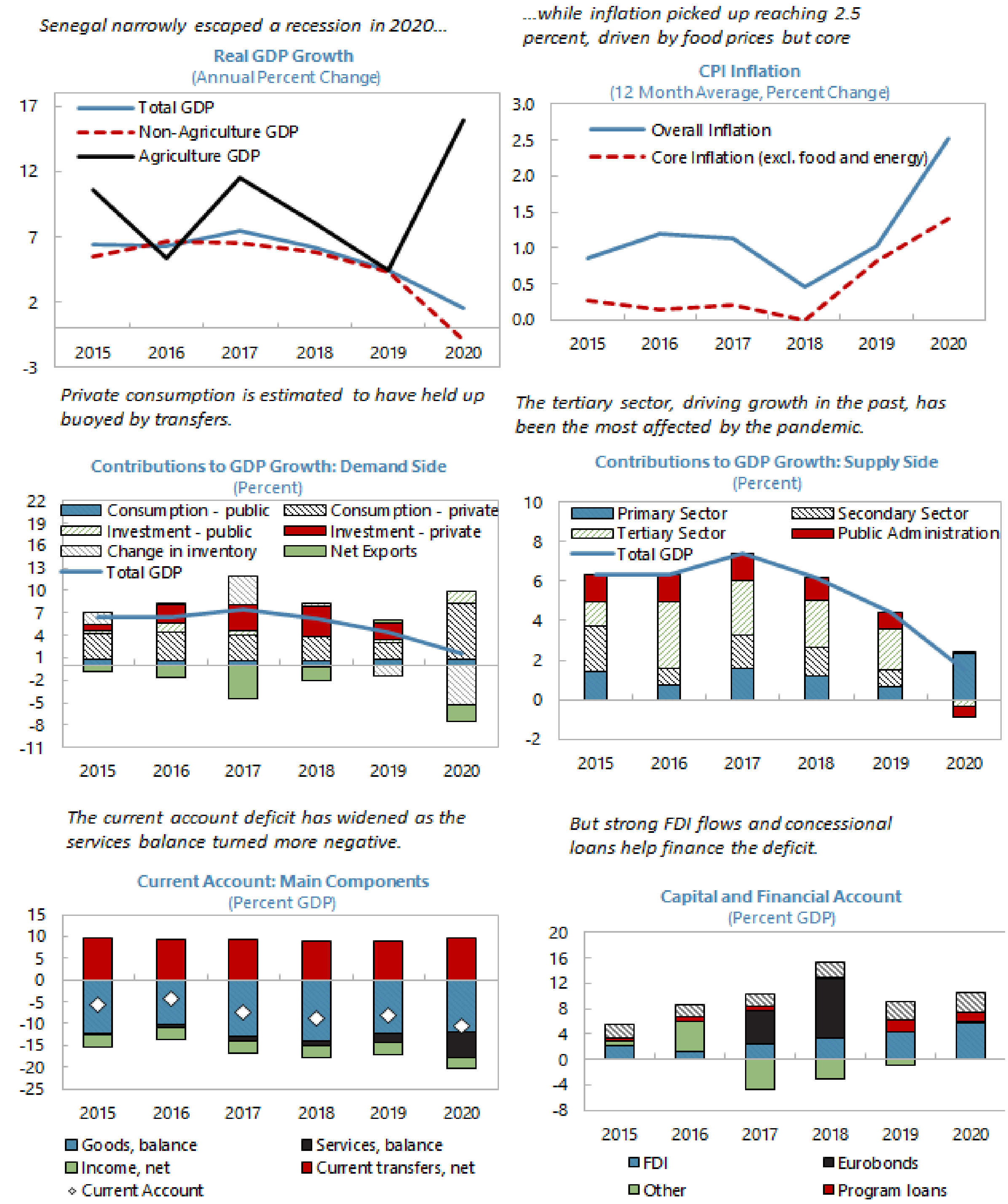
46. Making lasting progress in tackling youth unemployment will require strengthening the efficiency of existing public initiatives and supporting private sector job creation. The authorities' commitment to create a one-stop shop in each administrative region for employment and financial support to young people and women is welcome in this regard. The review of the efficiency of existing initiatives provides a unique opportunity for reforms, including to streamline funds and entities with overlapping mandates. Furthermore, priority should be given to boost private investment by improving the business environment and tackling long-standing constraints to job creation, for example by strengthening vocational training for the young, property rights and access to credit.

47. Reforms to improve public financial management should be accelerated. The implementation of a fully functioning TSA is needed to improve cash management. The reclassification of capital transfers as public investment will help limit spending under simplified procedures, while adequate classification of subsidies will support realistic budget allocations, notably for energy subsidies. To contain fiscal risks from PPPs, the new decree should include robust requirements for project approval, risk analysis, and procurement practices.

48. The legal framework for the management of upcoming hydrocarbon revenue should be finalized reflecting best international practices. Staff encourages the authorities to ensure that rules determining revenue allocation between the budget, stabilization and intergenerational savings are efficient and resilient to price shocks, and to operationalize the non-oil balance anchor in the 2023 budget law.

49. Staff supports the completion of the third PCI review, requests for modifications of quantitative targets, and the request for 18-month arrangements under the SBA and the SCF. Program performance under the PCI has been satisfactory. The modification of the quantitative targets for the floor on net lending/borrowing, the ceiling on the government's overall net financing requirement, the floor on tax revenue and the debt ceiling reflect the updated macroeconomic outlook.

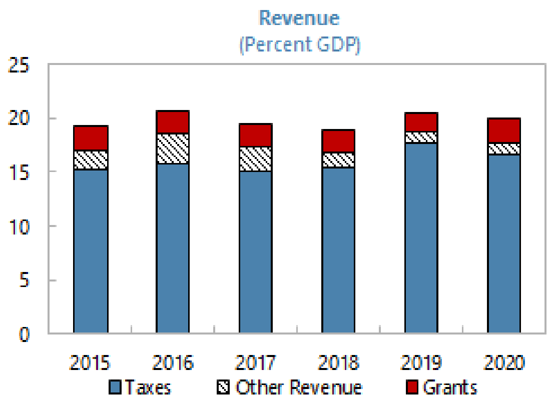
Figure 1. Senegal: Real and External Sectors, 2015–20



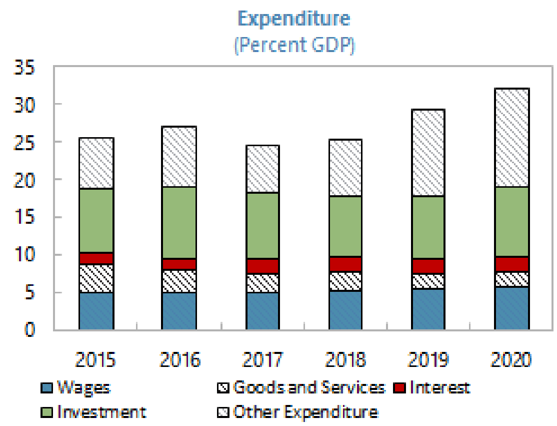
Sources: Senegal authorities; and IMF staff calculations.

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

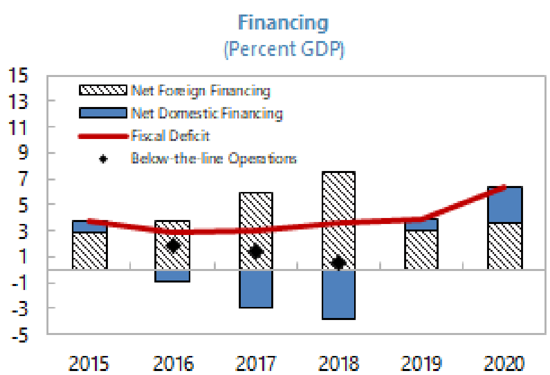
Tax revenues broadly held up despite the pandemic...



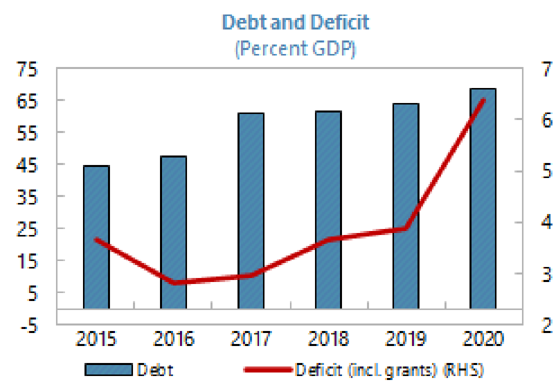
... while spending increased significantly to cushion the downturn.



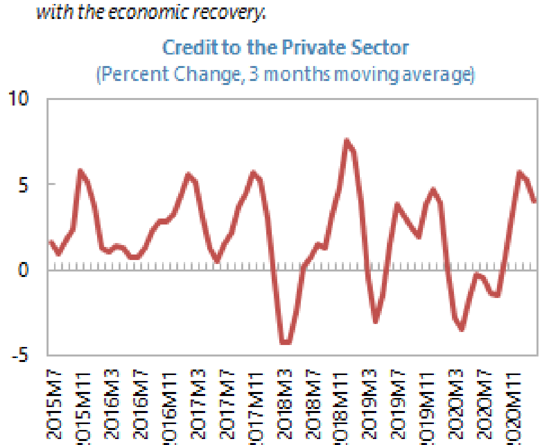
The higher fiscal deficit was financed through substantial securities issuance on the regional market...



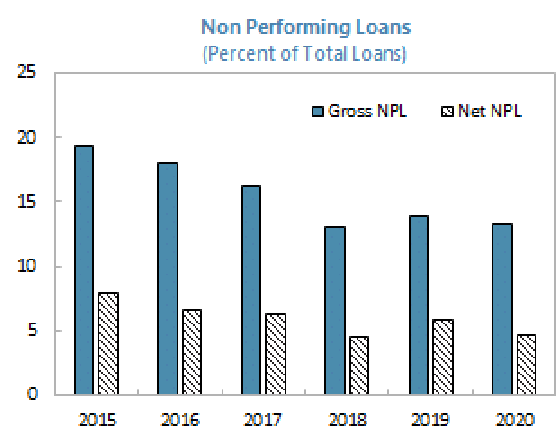
... while the public sector debt ratio, including debt of SOEs, increased to almost 70 percent.



Credit growth accelerated in the 2nd half of 2020, in line with the economic recovery.



NPLs have remained stable despite the pandemic, although the impact could show with some delay.



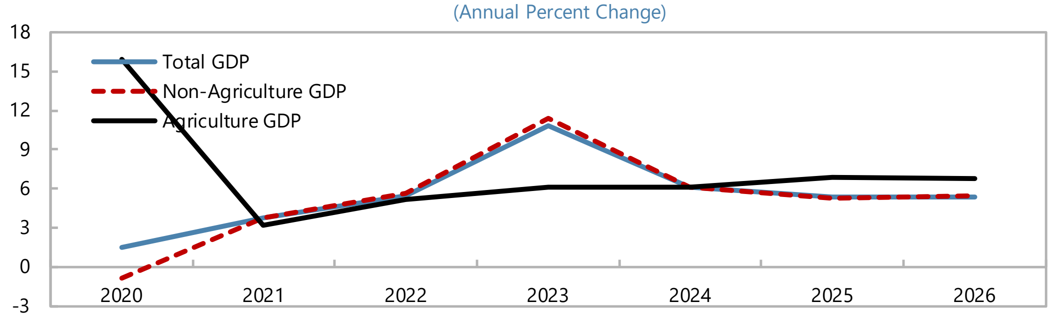
Sources: Senegal authorities; and IMF staff calculations.

Figure 3. Senegal: Outlook 2020–25

Growth will recover gradually in 2021 while the level of GDP jumps in 2023 as oil and gas production will begin.

Real GDP Growth

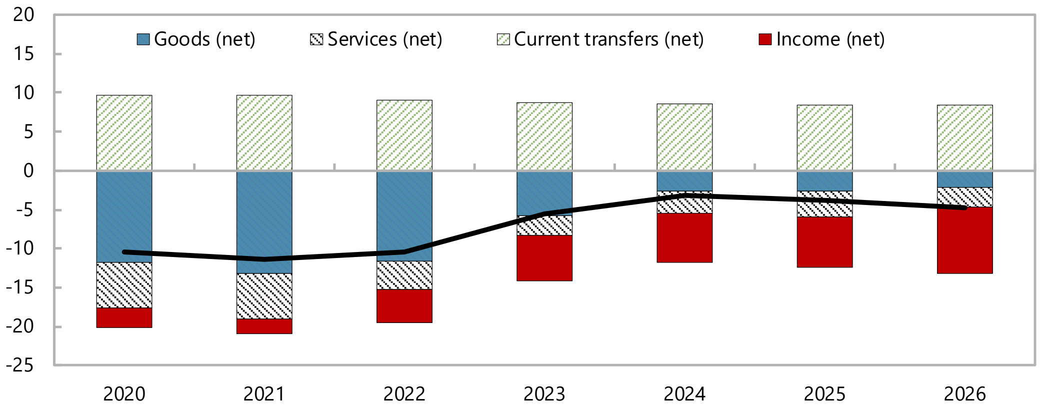
(Annual Percent Change)



The current account deficit has widened due to the pandemic as well as oil and gas related investment. From 2023 onwards, however, oil and gas exports will lead to a significant decline.

Current Account Balance

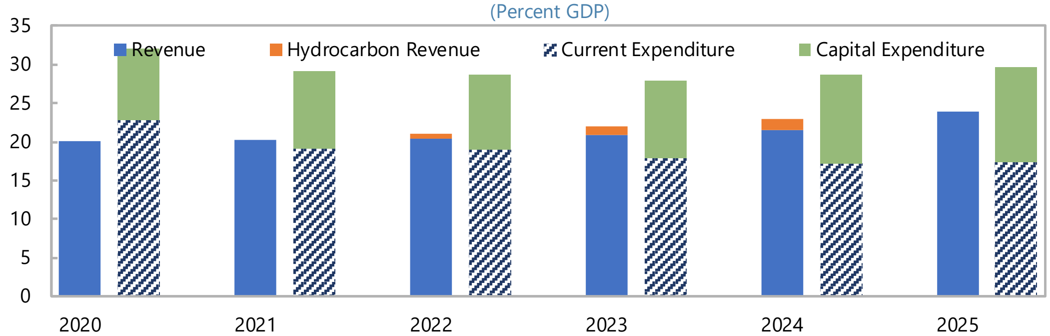
(Percent GDP)



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.

Central Government Fiscal Performance

(Percent GDP)



Sources: Senegal authorities; and IMF staff calculations.

Table 1. Senegal: Selected Economic and Financial Indicators, 2019–26[1]

	2019	2020		2021		2022	2023	2024	2025	2026
		EBS/20/191	Est.	EBS/20/191	Proj.	Projections				
				(Annual percentage change)						
National income and prices										
GDP at constant prices [1]	4.4	-0.7	1.5	5.2	3.7	5.5	10.8	6.1	5.4	5.3
Of which: Non-hydrocarbon GDP	4.4	-0.7	1.5	5.2	3.7	5.5	6.1	6.0	6.0	5.8
Of which: Hydrocarbon GDP	...	...	...	...	...	...	...	10.5	-7.6	-6.5
Of which: Non-agriculture GDP	4.4	-1.4	-0.8	5.3	3.8	5.6	11.4	6.2	5.3	5.5
GDP deflator	1.9	2.1	2.3	1.7	1.9	2.1	1.7	1.8	1.9	1.6
Consumer prices										
Annual average	1.0	2.0	2.5	2.0	2.0	2.0	1.5	1.5	1.5	1.5
End of period	0.6	1.4	2.4	2.6	2.2	1.7	1.3	1.7	1.4	1.5
External sector										
Exports, f.o.b. (CFA francs)	15.5	-5.1	-10.5	8.9	6.4	16.2	67.6	24.5	6.1	3.0
Imports, f.o.b. (CFA francs)	6.2	1.5	-6.7	4.6	11.5	6.7	23.3	11.0	6.4	1.9
Export volume	18.7	-2.5	-7.2	13.0	2.8	15.2	79.3	22.0	4.1	4.9
Import volume	3.9	9.4	3.9	7.9	3.5	13.0	24.0	12.0	5.4	1.3
Terms of trade ("–" = deterioration)	-4.7	4.8	7.4	-0.5	-3.8	6.8	-6.0	3.0	0.9	-2.4
Nominal effective exchange rate	-1.3	...	...	...	...	...	...	...	...	...
Real effective exchange rate	-2.1	...	...	...	...	...	...	...	...	...
				(Changes in percent of beginning-of-year broad money)						
Broad money	8.2	9.4	12.4	9.1	6.2	8.6	...	...	...	...
Net domestic assets	7.4	8.8	14.4	5.3	7.6	10.7	...	...	...	...
Credit to the government (net)	1.7	7.5	15.4	1.5	2.3	4.0	...	...	...	...
Credit to the economy (net)	6.1	1.9	1.2	5.0	5.9	7.9	...	...	...	...
				(Percent of GDP, unless otherwise indicated)						
Government financial operations										
Revenue	20.4	21.1	20.0	20.6	20.2	21.0	22.0	23.0	23.9	23.9
Grants	1.6	3.2	2.3	2.2	1.9	2.1	1.9	1.7	1.5	1.5
Total expenditure	24.3	27.6	26.4	25.5	25.7	25.2	24.9	26.0	26.9	26.9
Net lending/borrowing (Overall Balance)										
excluding grants	-5.5	-9.7	-8.7	-7.1	-7.4	-6.3	-4.8	-4.7	-4.5	-4.5
including grants	-3.9	-6.5	-6.4	-4.9	-5.4	-4.2	-3.0	-3.0	-3.0	-3.0
Net lending/borrowing (excl. one-off operations.)	-3.1	-6.4	-6.3	-4.8	-5.1	-4.0	-3.0	-3.0	-3.0	-3.0
Primary fiscal balance	-1.9	-4.3	-4.3	-2.7	-3.3	-2.1	-0.9	-0.9	-0.9	-0.8
Savings and investment										
Current account balance (official transfers included)	-8.1	-10.9	-10.5	-10.7	-11.3	-10.5	-5.5	-3.2	-3.9	-4.7
Current account balance (official transfers excluded)	-8.4	-12.3	-11.9	-11.2	-11.8	-11.1	-6.0	-3.6	-4.1	-4.9
Gross domestic investment	31.9	30.7	30.6	33.9	32.4	33.1	33.2	30.7	31.4	31.6
Government [2]	6.3	8.8	6.9	9.2	7.1	7.6	6.1	6.5	6.6	6.8
Nongovernment	25.7	21.9	23.8	24.8	25.3	25.6	27.1	24.2	24.8	24.8
Gross national savings	23.8	19.8	20.2	23.2	21.1	22.6	27.7	27.5	27.6	26.9
Government	6.7	6.6	5.7	6.7	5.7	6.2	9.2	11.0	11.9	12.0
Nongovernment	17.1	13.2	14.5	16.5	15.4	16.5	18.5	16.6	15.7	14.9
Total public debt [3]	63.8	67.6	68.7	68.2	70.9	69.9	64.9	62.8	61.1	59.9
Domestic public debt [4]	11.0	12.2	14.6	12.7	14.0	13.3	12.3	12.0	12.5	12.8
External public debt	52.8	55.3	54.1	55.5	56.9	56.6	52.6	50.8	48.6	47.1
Total public debt service [3]										
Percent of government revenue	22.1	23.7	25.4	24.2	20.4	23.8	25.0	26.6	26.1	27.2
Memorandum items:										
Gross domestic product (CFAF billions)	13,655	14,006	14,185	14,991	14,998	16,159	18,218	19,681	21,127	22,599
of which non-hydrocarbon (CFAF billions)	13,655	14,006	14,185	14,991	14,998	16,159	17,104	18,425	19,943	21,471
Gross domestic product (USD billions)	23.3	...	24.7	...	...	...	...	...	...	...
Share of hydrocarbon in total GDP (%)	...	...	...	...	...	...	6.1	6.4	5.6	5.0
National Currency per U.S. Dollar (Average)	586	...	575	...	...	...	...	...	...	...

Sources: Senegal authorities; and IMF staff calculations.

[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, 2019–26

(billions of CFAF)

	2019	2020		2021		2022	2023	2024	2025	2026
		EBS/20/191	Est.	EBS/20/191	Proj.	Projections				
	(Billions of CFAF, unless otherwise indicated)									
Current account	-1,111	-1,524	-1,486	-1,607	-1,696	-1,693	-997	-627	-818	-1,058
Balance on goods	-1,688	-1,894	-1,673	-1,879	-1,985	-1,880	-1,045	-509	-562	-504
Exports, f.o.b.	2,594	2,394	2,323	2,608	2,472	2,873	4,816	5,997	6,363	6,555
Imports, f.o.b.	-4,282	-4,288	-3,996	-4,487	-4,457	-4,753	-5,861	-6,506	-6,925	-7,058
Services (net)	-265	-741	-834	-612	-869	-583	-477	-573	-692	-562
Export	825	540	417	740	497	809	968	1,089	1,166	1,249
Import	-1,090	-1,281	-1,251	-1,352	-1,366	-1,392	-1,445	-1,662	-1,858	-1,811
Incomes (net)	-384	-331	-345	-453	-288	-691	-1,051	-1,237	-1,355	-1,909
Credits	253	203	188	242	191	260	273	290	302	314
Debits	-637	-534	-533	-696	-479	-951	-1,323	-1,527	-1,656	-2,223
Of which: interest on public debt	-207	-237	-252	-244	-230	-190	-277	-286	-320	-336
Current transfers (net)	1,225	1,442	1,366	1,337	1,445	1,461	1,576	1,692	1,790	1,917
Private (net)	1,237	1,275	1,182	1,286	1,377	1,374	1,503	1,631	1,767	1,893
Public (net)	-12	166	184	51	69	87	73	61	23	24
Of which: budgetary grants	20	192	195	64	64	88	74	63	25	26
Capital and financial account	1,079	1,533	1,284	1,832	1,543	1,585	1,423	1,770	1,972	1,823
Capital account	217	271	138	281	239	262	279	294	311	329
Private capital transfers	12	12	9	15	12	16	15	14	14	14
Project grants	208	261	130	268	228	248	266	281	298	316
Debt cancellation and other transfers	-3	-2	-1	-2	-1	-2	-2	-2	-2	-2
Financial account	862	1,262	1,146	1,551	1,304	1,323	1,144	1,476	1,661	1,495
Direct investment	583	751	819	804	841	834	826	865	955	1,008
Portfolio investment (net)	-113	286	157	298	125	67	-12	321	-91	287
Of which : Eurobond issuance	0	0	0	0	0	0	0	338	0	284
Other investment	393	225	170	448	337	422	330	290	797	199
Public sector (net)	754	207	551	294	274	333	397	149	477	294
Of which : disbursements	780	656	633	672	652	703	779	809	871	900
program loans	263	180	204	96	96	90	109	95	111	111
project loans	392	476	429	576	556	553	580	609	640	659
other	125	0	0	0	0	60	90	105	120	130
amortization	-170	-449	-317	-378	-378	-370	-382	-660	-394	-607
Private sector (net)	-361	18	-381	154	63	89	-67	141	320	-94
Errors and omissions	179	0	80	0	0	0	0	0	0	0
Overall balance	147	8	-122	225	-153	-108	426	1,143	1,153	766
Financing	-154	-8	123	-225	153	108	-426	-1,143	-1,153	-766
Net foreign assets [1]	-305	-38	302	-267	-139	-42	-426	-1,143	-1,153	-766
Net use of IMF resources	-13	263	264	0	0	0	-42	-101	-142	-142
Purchases/disbursements	0	266	266	0	0	0	0	0	0	0
Repurchases/repayments	-13	-3	-3	0	0	0	-42	-101	-142	-142
Other	-292	-302	38	-267	-138	-42	-384	-1,042	-1,012	-624
Deposit money banks	151	0	-209	0	0	0	0	0	0	0
Financing Gap		30	30	42	292	150	0	0	0	0
Prospective SBA/SCF		0	0	0	201	150	0	0	0	0
Exceptional financing (DSSI)		30	29	42	91	0	0	0	0	0
Memorandum items:										
Current account balance (percent of GDP)										
Including current official transfers	-8.1	-10.9	-10.5	-10.7	-11.3	-10.5	-5.5	-3.2	-3.9	-4.7
Excluding current official transfers	-8.4	-12.3	-11.9	-11.2	-11.8	-11.1	-6.0	-3.6	-4.1	-4.9
Gross domestic product	13,655	14,006	14,185	14,991	14,998	16,159	18,218	19,681	21,127	22,599

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

[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, 2019–26

(percent of GDP)

	2019	2020		2021		2022	2023	2024	2025	2026
		EBS/20/191	Est.	EBS/20/191	Proj.	Projections				
	(Percent of GDP, unless otherwise indicated)									
Current account	-8.1	-10.9	-10.5	-10.7	-11.3	-10.5	-5.5	-3.2	-3.9	-4.7
Balance on goods	-12.4	-13.5	-11.8	-12.5	-13.2	-11.6	-5.7	-2.6	-2.7	-2.2
Exports, f.o.b.	19.0	17.1	16.4	17.4	16.5	17.8	26.4	30.5	30.1	29.0
Imports, f.o.b.	-31.4	-30.6	-28.2	-29.9	-29.7	-29.4	-32.2	-33.1	-32.8	-31.2
Services (net)	-1.9	-5.3	-5.9	-4.1	-5.8	-3.6	-2.6	-2.9	-3.3	-2.5
Export	6.0	3.9	2.9	4.9	3.3	5.0	5.3	5.5	5.5	5.5
Import	-8.0	-9.1	-8.8	-9.0	-9.1	-8.6	-7.9	-8.4	-8.8	-8.0
Incomes (net)	-2.8	-2.4	-2.4	-3.0	-1.9	-4.3	-5.8	-6.3	-6.4	-8.4
Credits	1.9	1.5	1.3	1.6	1.3	1.6	1.5	1.5	1.4	1.4
Debits	-4.7	-3.8	-3.8	-4.6	-3.2	-5.9	-7.3	-7.8	-7.8	-9.8
Of which: interest on public debt	-1.5	-1.7	-1.8	-1.6	-1.5	-1.2	-1.5	-1.5	-1.5	-1.5
Current transfers (net)	9.0	10.3	9.6	8.9	9.6	9.0	8.7	8.6	8.5	8.5
Private (net)	9.1	9.1	8.3	8.6	9.2	8.5	8.3	8.3	8.4	8.4
Public (net)	-0.1	1.2	1.3	0.3	0.5	0.5	0.4	0.3	0.1	0.1
Of which: budgetary grants	0.1	1.4	1.4	0.4	0.4	0.5	0.4	0.3	0.1	0.1
Capital and financial account	7.9	10.9	9.1	12.2	10.3	9.8	7.8	9.0	9.3	8.1
Capital account	1.6	1.9	1.0	1.9	1.6	1.6	1.5	1.5	1.5	1.5
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	1.5	1.9	0.9	1.8	1.5	1.5	1.5	1.4	1.4	1.4
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	6.3	9.0	8.1	10.3	8.7	8.2	6.3	7.5	7.9	6.6
Direct investment	4.3	5.4	5.8	5.4	5.6	5.2	4.5	4.4	4.5	4.5
Portfolio investment (net)	-0.8	2.0	1.1	2.0	0.8	0.4	-0.1	1.6	-0.4	1.3
Of which : Eurobond issuance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.7	0.0	1.3
Other investment	2.9	1.6	1.2	3.0	2.2	2.6	1.8	1.5	3.8	0.9
Public sector (net)	5.5	1.5	3.9	2.0	1.8	2.1	2.2	0.8	2.3	1.3
Of which : disbursements	5.7	4.7	4.5	4.5	4.3	4.4	4.3	4.1	4.1	4.0
program loans	1.9	1.3	1.4	0.6	0.6	0.6	0.6	0.5	0.5	0.5
project loans	2.9	3.4	3.0	3.8	3.7	3.4	3.2	3.1	3.0	2.9
other	0.9	0.0	0.0	0.0	0.0	0.4	0.5	0.5	0.6	0.6
amortization	-1.2	-3.2	-2.2	-2.5	-2.5	-2.3	-2.1	-3.4	-1.9	-2.7
Private sector (net)	-2.6	0.1	-2.7	1.0	0.4	0.6	-0.4	0.7	1.5	-0.4
Errors and omissions	1.3	0.0	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	1.1	0.1	-0.9	1.5	-1.0	-0.7	2.3	5.8	5.5	3.4
Financing	-1.1	-0.1	0.9	-1.5	1.0	0.7	-2.3	-5.8	-5.5	-3.4
Net foreign assets [1]	-2.2	-0.3	2.1	-1.8	-0.9	-0.3	-2.3	-5.8	-5.5	-3.4
Net use of IMF resources	-0.1	1.9	1.9	0.0	0.0	0.0	-0.2	-0.5	-0.7	-0.6
Purchases/disbursements	0.0	1.9	1.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repurchases/repayments	-0.1	0.0	0.0	0.0	0.0	0.0	-0.2	-0.5	-0.7	-0.6
Other	-2.1	-2.2	0.3	-1.8	-0.9	-0.3	-2.1	-5.3	-4.8	-2.8
Deposit money banks	1.1	0.0	-1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing Gap		0.2	0.2	0.3	1.9	0.9	0.0	0.0	0.0	0.0
Prospective SBA/SCF		0.0	0.0	0.0	1.3	0.9	0.0	0.0	0.0	0.0
Exceptional financing (DSSI)		0.2	0.2	0.3	0.6	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Gross domestic product	13,655	14,006	14,185	14,991	14,998	16,159	18,218	19,681	21,127	22,599

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

[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, 2019–26[1]
(billions of CFAF)

	2019	2020		2021		2022	2023	2024	2025	2026
		EBS/20/191	Prel.	EBS/20/191	Proj.	Projections				
Revenue and Grants	**2,789**	**2,962**	**2,843**	**3,089**	**3,034**	**3,389**	**4,001**	**4,524**	**5,050**	**5,399**
Taxes	2,410	2,354	2,368	2,564	2,564	2,918	3,509	4,016	4,551	4,868
Hydrocarbon taxes	…	…	…	…	…	0	46	93	218	127
Non-hydrocarbon taxes	2,410	2,354	2,368	2,564	2,564	2,918	3,463	3,923	4,334	4,741
Direct taxes	760	716	767	684	777	930	1,249	1,481	1,771	1,883
Taxes on goods and services	1,247	1,290	1,228	1,455	1,375	1,548	1,760	1,950	2,115	2,262
Taxes on international trade and transactions	366	310	338	383	359	400	456	537	614	668
Other taxes	38	38	35	41	52	40	45	48	52	55
Grants	225	453	325	332	292	336	340	344	323	343
Budget	17	192	195	64	64	88	74	63	25	26
Projects	208	261	130	268	228	248	266	281	298	316
Other revenue	154	155	150	194	179	135	152	164	176	188
Expenditure	**3,317**	**3,870**	**3,746**	**3,822**	**3,852**	**4,066**	**4,544**	**5,112**	**5,681**	**6,075**
Expense	2,157	2,446	2,429	2,239	2,337	2,494	2,725	2,845	3,094	3,294
Compensation of employees	733	818	804	905	927	1,008	1,140	1,231	1,322	1,414
of which: youth employment program	…	…	…	…	22	34	37	…	…	…
Use of goods and services	281	306	286	316	328	362	383	413	444	475
Interest	262	307	290	327	328	344	374	401	450	493
Foreign	207	237	252	244	230	190	277	286	320	336
Domestic	56	70	38	83	98	155	97	116	130	157
Subsidies	297	472	472	273	339	303	273	199	214	201
Grants (current excl. FSE)	364	377	377	255	253	272	307	331	356	380
Social benefits	15	31	23	19	19	27	48	52	77	82
Other expense	204	136	178	143	143	178	200	216	232	249
Net acquisition of nonfinancial assets [2]	1,160	1,424	1,317	1,584	1,515	1,572	1,819	2,267	2,587	2,782
Domestically financed	560	688	758	740	731	771	974	1,376	1,649	1,807
Externally financed	600	736	559	844	784	801	846	891	938	975
Net lending/borrowing *(Overall balance)*	-528	-908	-903	-733	-817	-677	-544	-588	-630	-676
DSSI Interest	…	6	6	10	19	0	0	0	0	0
Vaccination Campaign	…	0	0	0	40	35	0	0	0	0
Net lending/borrowing *(excl. exceptional one-off operations)* [3]	**-428**	**-902**	**-897**	**-722**	**-758**	**-642**	**-544**	**-588**	**-630**	**-676**
Transactions in financial assets and liabilities (Financing)	**-528**	**-908**	**-902**	**-733**	**-817**	**-677**	**-544**	**-588**	**-630**	**-676**
Net acquisition of financial assets	-283	-23	166	0	0	0	0	0	0	0
Domestic	-283	-23	166	0	0	0	0	0	0	0
Currency and deposits	-283	-93	117	0	0	0	0	0	0	0
Other accounts receivable	0	70	49	0	0	0	0	0	0	0
Foreign	0	0	0	0	0	0	0	0	0	0
Net incurrence of liabilities	245	856	1,040	733	525	527	544	588	630	676
Domestic	-167	272	554	92	78	138	141	102	227	77
IMF and SDRs	-13	263	264	0	0	0	-42	-101	-142	-142
Debt securities (net)	1	160	319	138	141	186	232	251	413	261
BOAD	-7	7	8	-19	-19	-23	-24	-24	-20	-17
Loans	-7	-37	-71	-26	-44	-25	-25	-25	-25	-25
Other accounts payable [4]	-100	-121	35	0	0	0	0	0	0	0
Foreign	413	583	486	641	447	389	402	486	404	599
Debt securities (net)	-197	339	170	304	173	56	5	337	-73	305
T-bills and bonds issued in WAEMU	-197	339	170	304	173	56	5	-1	-73	21
Eurobond	0	0	0	0	0	0	0	338	0	284
Loans	610	245	316	294	274	333	397	149	477	294
Program loans	263	180	204	96	96	90	109	95	111	111
Project loans	392	476	429	576	556	553	580	609	640	659
Nonconcessional loans	125	0	0	0	0	60	90	105	120	130
Other	-170	-411	-317	-378	-378	-370	-382	-660	-394	-607
Other accounts payable	0	0	0	0	0	0	0	0	0	0
Financing Gap	**0**	**30**	**29**	**42**	**292**	**150**	**0**	**0**	**0**	**0**
Prospective SBA/SCF	…	…	…	…	201	150	…	…	…	…
Exceptional Financing[5]	…	30	29	42	91	…	…	…	…	…
Memorandum items:										
Clearance of unmet obligations	100	200	209	…	41	102	…	…	…	…
Nominal GDP	13,655	14,006	14,185	14,991	14,998	16,159	18,218	19,681	21,127	22,599

Sources: Ministry of Finance; and IMF staff calculations.

[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] For 2019, reflects 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. For 2020 and 2021, reflects the interest part of the debt service suspension initiative. Spending related to the vaccination

[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)

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

Table 5. Senegal: Central Government Operations, GFSM 2001 Classification,[1] 2019–26

(percent of GDP)

	2019	2020		2021		2022	2023	2024	2025	2026
		EBS/20/191	Proj.	EBS/20/191	Proj.	Projections				
Revenue and Grants	**20.4**	**21.1**	**20.0**	**20.6**	**20.2**	**21.0**	**22.0**	**23.0**	**23.9**	**23.9**
Taxes	17.6	16.8	16.7	17.1	17.1	18.1	19.3	20.4	21.5	21.5
Hydrocarbon Taxes	...	...	...	...	...	0.0	0.3	0.5	1.0	0.6
Non-Hydrocarbon Taxes	17.6	16.8	16.7	17.1	17.1	18.1	19.0	19.9	20.5	21.0
Direct Taxes	5.6	5.1	5.4	4.6	5.2	5.8	6.9	7.5	8.4	8.3
Taxes on goods and services	9.1	9.2	8.7	9.7	9.2	9.6	9.7	9.9	10.0	10.0
Taxes on international trade and transactions	2.7	2.2	2.4	2.6	2.4	2.5	2.5	2.7	2.9	3.0
Other taxes	0.3	0.3	0.2	0.3	0.3	0.2	0.2	0.2	0.2	0.2
Grants	1.6	3.2	2.3	2.2	1.9	2.1	1.9	1.7	1.5	1.5
Budget	0.1	1.4	1.4	0.4	0.4	0.5	0.4	0.3	0.1	0.1
Projects	1.5	1.9	0.9	1.8	1.5	1.5	1.5	1.4	1.4	1.4
Other revenue	1.1	1.1	1.1	1.3	1.2	0.8	0.8	0.8	0.8	0.8
Expenditure	**24.3**	**27.6**	**26.4**	**25.5**	**25.7**	**25.2**	**24.9**	**26.0**	**26.9**	**26.9**
Expense	15.8	17.5	17.1	14.9	15.6	15.4	15.0	14.5	14.6	14.6
Compensation of employees	5.4	5.8	5.7	6.0	6.2	6.2	6.3	6.3	6.3	6.3
of which: youth employment program	...	...	...	...	0.1	0.2	0.2	...	...	...
Use of goods and services	2.1	2.2	2.0	2.1	2.2	2.2	2.1	2.1	2.1	2.1
Interest	1.9	2.2	2.0	2.2	2.2	2.1	2.1	2.0	2.1	2.2
Foreign	1.5	1.7	1.8	1.6	1.5	1.2	1.5	1.5	1.5	1.5
Domestic	0.4	0.5	0.3	0.6	0.7	1.0	0.5	0.6	0.6	0.7
Subsidies	2.2	3.4	3.3	1.8	2.3	1.9	1.5	1.0	1.0	0.9
Grants (current excl. FSE)	2.7	2.7	2.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7
Social benefits	0.1	0.2	0.2	0.1	0.1	0.2	0.3	0.3	0.4	0.4
Other expense	1.5	1.0	1.3	1.0	1.0	1.1	1.1	1.1	1.1	1.1
Net acquisition of nonfinancial assets [2]	8.5	10.2	9.3	10.6	10.1	9.7	10.0	11.5	12.2	12.3
Domestically financed	4.1	4.9	5.3	4.9	4.9	4.8	5.3	7.0	7.8	8.0
Externally financed	4.4	5.3	3.9	5.6	5.2	5.0	4.6	4.5	4.4	4.3
Net lending/borrowing *(Overall balance)*	-3.9	-6.5	-6.4	-4.9	-5.4	-4.2	-3.0	-3.0	-3.0	-3.0
DSSI - Interest	...	...	0.0	0.1	0.1	...	...	...	...	...
Vaccination campaign	...	...	...	...	0.3	0.2	...	...	...	...
Net lending/borrowing (excl. exceptional one-off operations)[3]	**-3.1**	**-6.4**	**-6.3**	-4.8	**-5.1**	**-4.0**	**-3.0**	**-3.0**	**-3.0**	**-3.0**
Transactions in financial assets and liabilities (Financing)	**-3.9**	**-6.5**	**-6.4**	-4.9	**-5.4**	**-4.2**	**-3.0**	**-3.0**	**-3.0**	**-3.0**
Net acquisition of financial assets	-2.1	-0.2	1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	-2.1	-0.2	1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	-2.1	-0.7	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts receivable	0.0	0.5	0.3	0.0	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	1.8	6.3	7.3	4.9	3.5	3.3	3.0	3.0	3.0	3.0
Domestic	-1.2	1.9	3.9	0.6	0.5	0.9	0.8	0.5	1.1	0.3
IMF and SDRs	-0.1	1.9	1.9	0.0	0.0	0.0	-0.2	-0.5	-0.7	-0.6
Debt securities (net)	0.0	1.1	2.3	0.9	0.9	1.1	1.3	1.3	2.0	1.2
BOAD	0.0	0.0	0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Loans	0.0	-0.3	-0.5	-0.2	-0.3	-0.2	-0.1	-0.1	-0.1	-0.1
Other accounts payable [4]	-0.7	-0.9	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign	3.0	4.4	3.4	4.3	3.0	2.4	2.2	2.5	1.9	2.7
Debt securities (net)	-1.4	2.4	1.2	2.0	1.2	0.3	0.0	1.7	-0.3	1.4
T-bills and bonds issued in WAEMU	-1.4	2.4	1.2	2.0	1.2	0.3	0.0	0.0	-0.3	0.1
Eurobond	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.7	0.0	1.3
Loans	4.5	1.7	2.2	2.0	1.8	2.1	2.2	0.8	2.3	1.3
Program loans	1.9	1.3	1.4	0.6	0.6	0.6	0.6	0.5	0.5	0.5
Project loans	2.9	3.4	3.0	3.8	3.7	3.4	3.2	3.1	3.0	2.9
Nonconcessional loans	0.9	0.0	0.0	0.0	0.0	0.4	0.5	0.5	0.6	0.6
Other	-1.2	-2.9	-2.2	-2.5	-2.5	-2.3	-2.1	-3.4	-1.9	-2.7
Other accounts payable	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing Gap	**...**	**0.2**	**0.2**	**0.3**	**1.9**	**0.9**	**0.0**	**0.0**	**0.0**	**0.0**
Prospective SBA/SCF	...	0.0	0.0	0.0	1.3	0.9	...	...	...	...
Exceptional Financing[5]	...	0.2	0.2	0.3	0.6	...	...	...	...	...
Memorandum items:										
Clearance of unmet obligations	0.7	1.4	1.5	...	0.3	0.6	...	...	...	...
Hydrocarbon revenues[6]	...	...	...	...	...	0.0	0.3	0.6	1.3	0.7
Nominal GDP	13,655	14,006	14,185	14,991	14,998	16,159	18,218	19,681	21,127	22,599

Sources: Ministry of Finance; and IMF staff calculations.

[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] For 2019, reflects 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. For 2020 and 2021, this reflects the interest part of the debt service suspension initiative.

[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

[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
	Act.	EBS/20/191	Act.	EBS/20/191	Proj.	Proj.
	(Billions of CFAF)					
Net foreign assets	1,973	2,011	1,880	2,278	1,818	1,710
BCEAO	1,471	1,509	1,169	1,776	1,107	999
Commercial banks	501	501	711	501	711	711
Net domestic assets	4,160	4,663	4,977	4,994	5,463	6,189
Net domestic credit	5,157	5,694	6,103	6,097	6,626	7,432
Net credit to the government[1]	560	989	1,435	1,082	1,579	1,851
Central bank	-191	165	74	165	74	74
Commercial banks	751	824	1,361	916	1,505	1,777
Other institutions	2	2	2	2	2	2
Credit to the economy	4,597	4,705	4,668	5,015	5,047	5,581
Shares and other equity	-749	-759	-778	-813	-823	-886
Other items (net)	-247	-271	-325	-290	-340	-357
Broad money	5,687	6,222	6,394	6,790	6,793	7,375
Currency outside banks	1,302	1,568	1,526	1,711	1,712	1,858
Total deposits	4,385	4,654	4,868	5,078	5,081	5,516
Demand deposits	2,666	2,917	2,992	3,183	3,123	3,390
Time deposits	1,718	1,737	1,876	1,895	1,958	2,126
Non-liquid Liabilities	446	452	463	482	488	524
	(Change in percentage of beginning-of-period broad money stock)					
Net foreign assets	2.9	0.7	-1.6	4.3	-1.0	-1.6
Net domestic assets	7.4	8.8	14.4	5.3	7.6	10.7
Net credit to the government[1]	1.7	7.5	15.4	1.5	2.3	4.0
Credit to the economy (net)	6.1	1.9	1.2	5.0	5.9	7.9
Broad money	8.2	9.4	12.4	9.1	6.2	8.6
Memorandum items:	(Units indicated)					
Velocity (GDP/broad money; end of period)	2.4	2.3	2.2	2.2	2.2	2.2
Nominal GDP growth (percentage growth)	6.3	1.4	3.9	7.0	5.7	7.7
Credit to the private sector (percentage growth)	6.7	2.7	2.2	7.5	9.2	11.8
Credit to the private sector/GDP (percent)	29.6	29.7	29.2	29.8	30.1	31.3

Sources: BCEAO; and IMF staff calculations.

[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, 2015–20

	2015	2016	2017	2018 [1]	2019	2020
	Dec	Dec	Dec	Dec	Dec	June
Solvency ratios						
Regulatory capital to risk weighted assets	19.1	14.5	13.6	11.8	13.1	13.9
Tier I capital to risk-weighted assets	16.3	13.8	13.2	11.4	12.4	13.4
Provisions to risk-weighted assets	16.0	13.6	11.6	8.9	10.7	10.2
Capital to total assets	8.3	7.2	7.6	7.9	7.1	8.1
Composition and quality of assets						
Total loans to total assets	55.5	53.6	60.5	61.3	62.6	59.1
Concentration: loans to 5 largest borrowers to capital	46.4	63.7	71.6	69.2	87.4	71.5
Sectoral distribution of loans [2]						
Agriculture	2.6	2.2	2.4	2.4	2.3	2.3
Extractive industries	0.8	0.8	0.8	1.2	1.4	1.1
Manufacturing	21.1	18.7	17.2	15.3	16.0	16.8
Electricity, water and gas	1.8	1.7	2.1	2.1	3.0	3.0
Construction	3.9	4.9	5.7	4.5	6.9	6.8
Retail and wholesale trade, restaurants and hotels	25.4	25.3	23.1	26.0	23.2	24.0
Transportation and communication	10.0	12.0	12.9	12.8	11.6	12.3
Insurance, real estate and services	7.0	7.1	8.6	7.5	7.5	6.7
Other services	27.5	27.2	27.2	28.2	28.2	27.0
Gross NPLs to total loans	19.3	18.0	16.2	13.1	13.9	13.4
Provisioning rate	57.7	62.5	59.7	68.1	61.5	68.2
Net NPLs to total loans	9.2	7.6	7.2	4.6	5.9	4.7
Net NPLs to capital	61.4	56.4	57.7	38.7	51.5	34.2
Earnings and profitability [3]						
Average cost of borrowed funds	2.2	2.3	2.4	2.2	0.5	...
Average interest rate on loans	8.2	8.4	8.6	7.6	7.9	...
Average interest margin [4]	6.0	6.1	6.2	5.4	7.4	...
After-tax return on average assets (ROA)	0.8	1.0	1.7	0.7	1.2	...
After-tax return on average equity (ROE)	9.0	13.0	19.9	7.2	12.6	...
Noninterest expenses/net banking income	61.0	57.7	58.0	57.3	60.2	...
Salaries and wages/net banking income	26.1	25.0	24.9	26.8	25.3	...
Liquidity						
Liquid assets to total assets	27.4	26.8	28.3	31.8	27.0	24.5
Liquid assets to total deposits	39.7	40.6	41.8	47.9	38.5	36.3
Total loans to total deposits	90.6	91.5	99.1	101.6	97.4	96.2
Total deposits to total liabilities	69.0	66.0	67.6	66.3	70.3	67.6
Sight deposits to total liabilities [5]	38.3	37.8	37.5	37.1	40.3	40.0
Term deposits to total liabilities	30.6	28.2	30.1	29.2	30.0	27.7

Source: BCEAO.

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

[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: External Financing Requirements and Sources, 2020–26

	2020		2021		2022		2023	2024	2025	2026
	EBS/20/191	Est.	EBS/20/191	Proj.	EBS/20/191	Proj.	Projection			
					(CFAF billions)					
1. Total Financing Requirement	**2432**	**2251**	**2316**	**2277**	**2455**	**2194**	**1880**	**2492**	**2390**	**2456**
Current account balance (excluding budget grants)	1716	1681	1671	1760	1808	1781	1072	689	843	1084
Debt Amortization (excl. regional market securities)	411	317	378	378	376	370	382	660	394	607
Repayment to the Fund	3	3	0	0	0	0	42	101	142	142
Change in Net Foreign Assets BCEAO (- increase) [1]	-302	38	-267	-138	-271	-42	-384	-1042	-1012	-624
Change in Net Foreign Assets (Other depository institutions) (- increase)	0	-209	0	0	0	0	0	0	0	0
Errors and Omissions	0	-80	0	0	0	0 0	0	0	0	0
2. Total Financing Sources	**1764**	**1557**	**2114**	**1785**	**2291**	**1831**	**1696**	**2335**	**2255**	**2319**
Foreign direct investment (net)	751	819	804	841	844	834	826	865	955	1008
Regional market financing from non-residents (net)	339	170	304	173	500	56	5	-1	-73	21
Project grants and loans	737	559	844	733	697	776	846	891	938	975
Other capital flows (net)	-63	9	162	37	250	165	19	580	435	314
3. Total Financing Needs	**668**	**694**	**202**	**492**	**164**	**363**	**183**	**158**	**136**	**138**
4. Expected Financing	**372**	**398**	**160**	**200**	**164**	**214**	**183**	**158**	**136**	**138**
Budget support (grants + loans)	372	398	160	160	164	179	183	158	136	138
Vaccination campaign financing (World Bank)	0	0	0	40	0	35	0	0	0	0
5. Residual Financing Gap	**296**	**295**	**42**	**292**	**0**	**150**	**0**	**0**	**0**	**0**
IMF (SBA/SCF) [2]	266	266	0	201	0	150	0	0	0	0
DSSI	30	29	42	91	0	0	0	0	0	0

Sources: Senegalese authorities; 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.

[2] For 2020 RFI/RCF disbursement. SBA/SCF in 2021/22 with access of 140 percent of quota.

Table 9. Senegal: Capacity to Repay the Fund 2021–31

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
IMF obligations based on existing credit											
(SDR millions)											
Principal	0.00	0.00	53.93	107.87	64.72	21.57	21.57	21.57	21.57	10.79	0.00
Charges and interest	1.14	2.27	2.17	1.22	0.19	0.00	0.00	0.00	0.00	0.00	0.00
IMF obligations based on existing and prospective credit											
(SDR millions)											
Principal	0.00	0.00	53.93	129.43	181.55	180.97	103.68	55.13	50.34	21.58	0.00
Charges and interest	2.37	4.91	5.30	4.38	2.85	1.42	0.33	0.01	0.00	0.00	0.00
Total obligations based on existing and prospective credit											
SDR Millions	582.4	776.6	722.7	593.2	411.7	230.7	127.0	71.9	21.6	0.0	0.0
CFA francs	453.2	601.4	561.1	461.5	321.2	180.6	99.5	56.3	16.9	0.0	0.0
Percent of GDP	3.0	3.7	3.1	2.3	1.5	0.8	0.4	0.2	0.1	0.0	0.0
Percent of quota	180.0	240.0	223.3	183.3	127.2	71.3	39.3	22.2	6.7	0.0	0.0
Net use of IMF credit (SDR millions)											
Disbursements	258.8	194.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0
Repayments and repurchases	2.4	4.9	59.2	133.8	184.4	182.4	104.0	55.1	50.3	21.6	0.0
Percent of government revenue	0.1	0.1	1.5	3.0	3.7	3.4	1.8	0.9	0.8	0.3	0.0
Percent of exports of goods and services	0.1	0.1	1.0	1.9	2.4	2.3	1.2	0.6	0.5	0.2	0.0
Percent of external debt service	0.5	0.7	7.6	11.3	17.5	13.9	8.5	4.8	5.1	2.1	0.0
Memorandum items:											
Nominal GDP (billions of CFA francs)	14,998	16,159	18,218	19,681	21,127	22,599	24,271	26,362	28,329	30,398	32,600
Exports of goods and services (billions of CFA francs)	2,969	3,682	5,784	7,086	7,529	7,803	8,395	8,796	9,343	10,030	10,752
Government revenue (billions of CFA francs)	3034.5	3388.7	4000.4	4524.2	5050.3	5398.9	5641.6	6149.5	6657.5	7114.2	7580.5
External Debt service (billions of CFA francs)	519.7	678.6	778.8	1182.6	1052.1	1310.9	1230.5	1157.7	980.1	1009.4	1289.5
IMF Quota (SDR millions)	323.6	323.6	323.6	323.6	323.6	323.6	323.6	323.6	323.6	323.6	323.6
CFA francs/SDR (period average)	778	774	776	778	780	783	783	783	783	783	783

Source: IMF staff projections.

Table 10a. Senegal: Schedule of Reviews Under the Policy Coordination Instrument, 2020–22

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 10b. Senegal: Proposed Schedule of Reviews and Disbursements Under the Stand-by Arrangement and the Arrangement Under the Standby Credit Facility, 2021–22

Program Review	Availability Date	Test Date	Disbursement (SDR million)			% of quota		
			SBA	SCF	Total	SBA	SCF	Total
Program Request	June 7th, 2021		86.3	43.1	129.4	27	13	40
First Review	December 7th, 2021	End-June 2021	86.3	43.1	129.4	27	13	40
Second Review	June 7th, 2022	End-December 2021	64.7	32.4	97.1	20	10	30
Third Review	November 22nd, 2022	End-June 2022	64.7	32.4	97.1	20	10	30
Total			302	151	453	93.3	46.7	140

Source: IMF

Table 11. Senegal: Risk Assessment Matrix[1]

Source of Risks	Relative Likelihood	Potential impact	Policy Response
Risks			
Unexpected shift in the Covid-19 pandemic.	**Medium**	**High.** Limited access to, and longer-than-expected deployment of vaccines in some countries—combined with dwindling policy space—prompt a reassessment of their growth prospects	Compensate lower fiscal revenues through spending prioritization and further tax measures. Accelerate reforms to boost private investment and growth and seek highly concessional financing.
Sharp rise in global risk premia exposes financial and fiscal vulnerabilities.	**Medium**	**Medium.** A reassessment of market fundamentals (e.g., in response to adverse Covid-19 developments) triggers a widespread risk-off event.	Maintain commitment to fiscal deficit path. Prioritize concessional external borrowing and limit external non-concessional borrowing to supporting growth-enhancing investment projects.
Widespread social discontent and political instability.	**High**	**Medium.** Social tensions erupt as the pandemic and inadequate policy response cause socio-economic hardship. Growing political polarization and instability weaken policymaking and confidence.	Ensure transparency and accountability of the social and economic response to COVID-19.
Oversupply and volatility in the oil market.	**Medium**	**High**. Uncertainty about production cuts, prospects for the shale gas industry, and the pace of demand recovery leads to bouts of volatility. Oil and gas production in Senegal could be affected if prices were to drop.	Strengthen automatic pass-through to domestic energy prices while protecting vulnerable segments of society when prices increase.
Domestic and regional security threats	**Medium/high**	**Medium**. Security incidents in or close to Senegal could trigger higher security expenditures and 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. Emergency Program for Youth Employment and Economic Insertion

1. Labor supply is growing rapidly. It is estimated that 200,000 enter the labor market each year. Given current demographics, this is expected to grow to at least 250,000 over the next decade.[1] Most will have to be absorbed by the informal sector, given that only 10 percent of the current workforce is formally employed. Youth unemployment (15 to 34 years) is almost one third, significantly higher than for older cohorts (Annex I, Figure 1). Many labor market entrants have little or no formal education.

2. Following significant social unrest, the government has swiftly developed an emergency program to address youth unemployment based on consultations across the country. Workshops in all regions and departments were organized to identify constraints to job creation and untapped potential. Participants identified a lack of education and skills, access to financing and land, as well as an underdeveloped manufacturing sector as key problems.

3. The emergency program is designed boost training and job creation. It comprises four pillars:

- Job creation: Create jobs via a mix of direct hiring, implementing labor intensive projects, and better incentives for the private sector.
- Technical and vocational training: Increase the offer of certified courses in crafts and provide more assistance to start independent businesses.
- Formal education: Offer more stipends and increase formal education in selected professions.
- Financing to become self-employed: Provide microcredits, support labor intensive sectors such as agriculture and livestock production and create demand for locally produced products such as school uniforms.

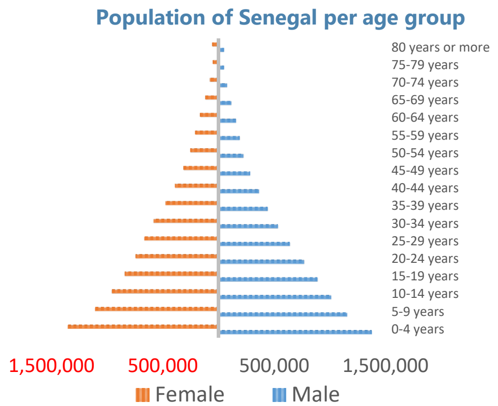
The program complements ongoing initiatives for job creation such as the establishment of special economic zones, the "agropoles" (support to agricultural value chains), and a large-scale social housing program (*100,000 logements*). The objective is to create about 450,000 new jobs over the course of the program. Total spending will be about 3 percent of GDP over three years.

4. The program is complemented by reforms to strengthen the efficiency of existing mechanisms supporting youth employment. This includes i) establishing a single point of entry for all existing initiatives in each of the 45 departments; ii) creating a database permitting to track support for each recipient and single identifier for beneficiaries of the program; and iii) concluding performance contracts with the main implementing agencies establishing a clear set of objectives. In addition, an evaluation of all initiatives to support youth employment is ongoing. Based on the results of the study, a broader reform is envisaged to improve coordination and efficiency of public initiatives and funds, including by streamlining them.

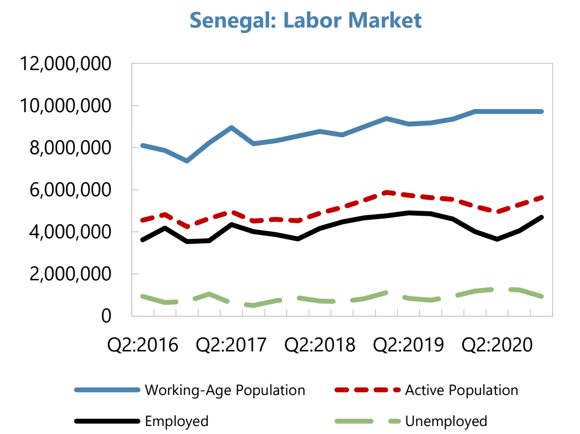
[1] Net migration out of the country is estimated at about 20,000 per year, reducing potential labor supply.

Annex I. Figure 1. Senegal: Labor market characteristics

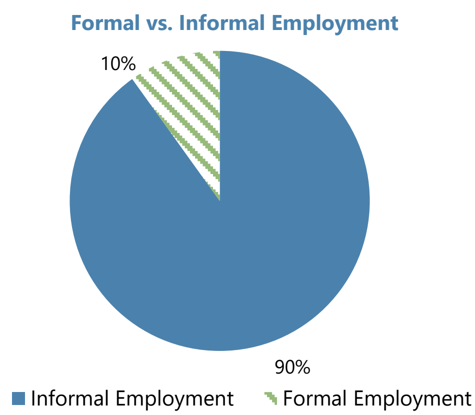
Senegal's population of 16.7 million is very young…



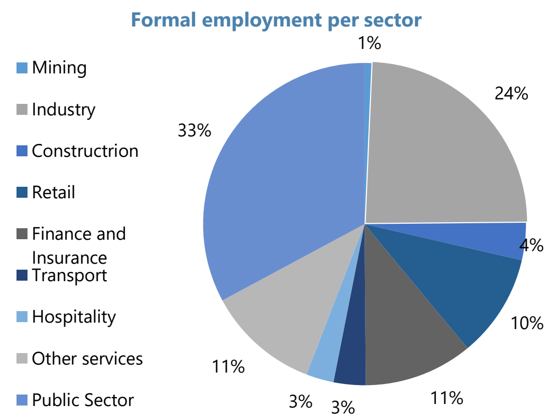
…with about 1/3 active in the labor market.



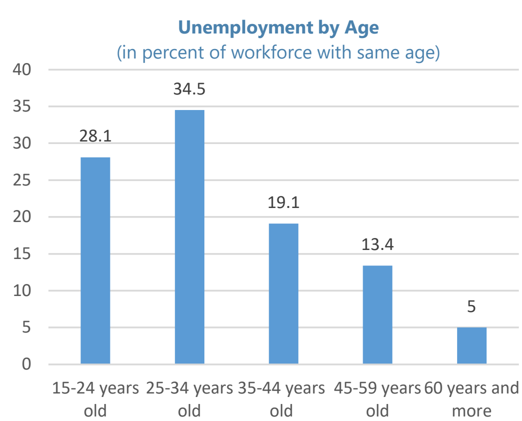
Most are employed in the informal sector…



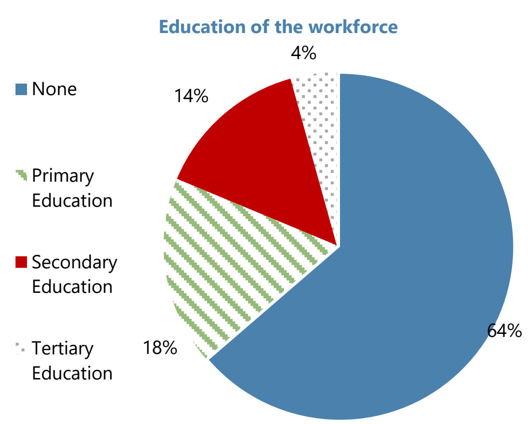
…and 1/3 of formal employment is in the public sector.



Unemployment is high among the young…



….and the workforce has generally little education.



Sources: ANSD; and IMF staff calculations.

Annex II. External Sector Assessment

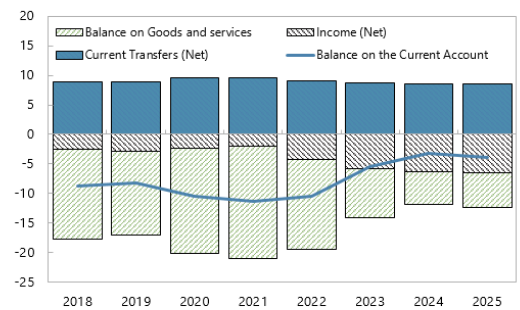
Overall assessment: *The external position of Senegal in 2020 was moderately weaker than the level implied by fundamentals and desirable policies. After a slight narrowing in 2019, the current account deficit widened further in 2020 due to the impact of the pandemic on fiscal and external accounts alongside temporarily elevated hydrocarbon-related investments. The current account deficit is expected to increase further in 2021 from a terms-of-trade shock (oil and food prices) and a sluggish recovery in external demand. However, it would normalize over the medium term as hydrocarbon-related investments phase out and production (and exports) come online.*

Potential policy response: *In the near term, policies should continue to support the recovery from the pandemic, while monitoring external financing risks in the context of the uncertain path for global interest rates. A gradual fiscal tightening towards the regional deficit target, combined with structural reforms to support private sector competitiveness and the expected boost from oil and gas exports, should substantially narrow the imbalances over the medium term.*

A. Current Account

1. The current account deficit is estimated to have sharply widened in 2020. The current account deficit increased to 10.5 percent of GDP in 2020 from 8.1 percent in 2019, above the average of about 8 percent over the previous five years. Senegal benefited from a positive terms of trade shock from cheaper oil imports, but this was more than offset by a collapse in tourism and a drop in goods exports related to the impact of the COVID-19 pandemic. By contrast, remittances (which amount to about 10 percent of GDP in Senegal) have remained resilient so far, growing by 1 percent in 2020. They are expected to remain so despite a more sluggish recovery in source countries, mainly in Europe (Text Figure 1).

Annex II. Text Figure 1. Senegal: Current Account

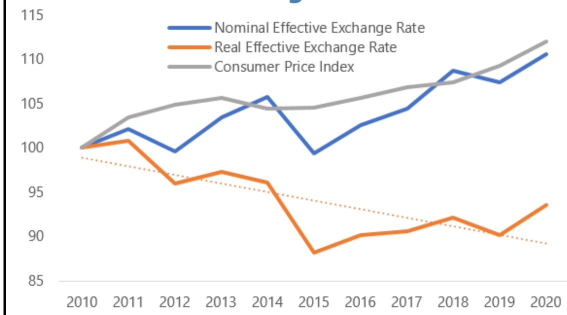


Source: IMF staff calculations.

2. Staff believes the wider current account deficit largely reflects temporary factors that will resolve themselves over the medium term. FDI for the oil and gas sector is estimated to have amounted to 5.4 percent of GDP in 2020 alone. Reflecting this, staff introduced a cyclical adjustment of 3.0 percent of GDP to account for the temporarily higher share of imports associated with the increase in oil and gas FDI (estimated to be over half), which is not captured by the model. Under the baseline projection, the global recovery will support a gradual rebound in tourism and external demand more generally. Overall, the current account deficit is expected to narrow substantially starting in 2023 to reflect the start of hydrocarbon exports. However, there are substantial risks to this outlook given the elevated uncertainty associated with the scope and speed of the global economic recovery.

3. The EBA-lite models suggest that Senegal's external position is moderately weaker than implied by fundamentals and desirable policy settings. Using 2020 data, the current account model indicates an overvaluation of 7.5 percent and a current account gap of –1.6 percent of GDP: a cyclically adjusted current account balance of –7.8 percent of GDP against a norm of -6.2 (Text Table 1). The standard adjustors used to account for the impact of COVID-19 on the oil balance (-0.5) and tourism balance (0.5) netted one another out. The policy gap of 2.5 percent of GDP mostly consists of the gap between the fiscal deficit in 2020 and its medium-term target of 3 percent of GDP. On balance, staff find the current account model to offer more explanatory power for a country like Senegal as it takes advantage of cross-country information and appears to be more reliable.

Annex II. Text Figure 2. Senegal: Effective Exchange Rates



Source: IMF International Notice System

B. Real Exchange Rate

4. The real effective exchange rate (REER) has appreciated in 2020 after several years of depreciation. The CFA Franc (CFAF)[1] has depreciated by about 10 percent in real terms over the previous decade through 2019 (Text Figure 2). However, in 2020, the REER appreciated by about 4 percent, likely reflecting the real appreciation of the Euro against the US dollar.

5. The IMF's EBA-lite REER model finds an undervaluation of 12.4 percent and a current account gap of 2.7 percent. The gap relative to the norm established by the model is primarily explained by demographic factors. As in past external sector assessments, staff find the REER model results tend to be an outlier that needs to be treated with caution in the context of Senegal's large current account deficits.[2]

Annex II. Text Table 1. Senegal: Model Estimates for 2020 (in percent of GDP)

	CA model	REER model
CA-Actual	**-10.5**	
Cyclical contributions (from model) (-)	0.5	
COVID-19 adjustor (+) 1/	0.0	
Additional temporary/statistical factors (+)	3.0	
Natural disasters and conflicts (-)	-0.1	
Adjusted CA	**-7.8**	
CA Norm (from model) 2/	**-6.2**	
Adjusted CA Norm	**-6.2**	
CA Gap	**-1.6**	**2.7**
o/w Relative policy gap	2.5	
Elasticity	-0.22	
REER Gap (in percent)	**7.5**	**-12.4**

Source: IMF staff calculations.
1/ Additional cyclical adjustment to account for the temporary impact of the pandemic on oil trade balances (-0.5 percent of GDP) and on tourism (0.5 percent of GDP).
2/ Cyclically adjusted, including multilateral consistency adjustments.

C. Capital and Financial Account

6. The current account deficit has been financed in part by a significant increase in foreign direct investment in recent years. Net

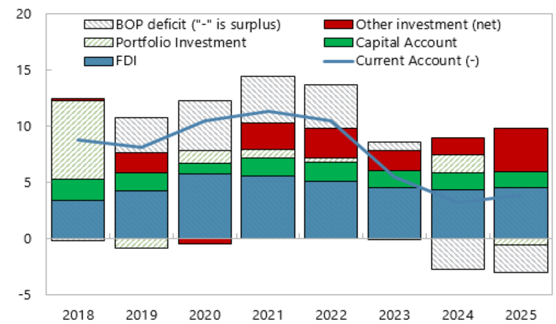
[1] The CFA Franc has been pegged to the Euro at a fixed rate since the Euro's launch in 1999, and was previously pegged to the French Franc.

[2] In Senegal's 2019 ESA, the REER model indicated an undervaluation of 15 percent.

FDI was estimated to be 5.8 percent of GDP in 2020—up from 4.3 percent in 2019 and 3.4 percent in 2018—largely associated with foreign participation in the SNE and GTA hydrocarbon projects, which are largely externally-financed. Net portfolio investment flows were estimated to be 1.1 percent in 2020, down from the elevated levels seen in 2017-18 associated with Senegal's Eurobond issuances in those years (Text Figure 3). In 2020, the authorities have relied on concessional financing from IFIs and bilateral partners to finance additional spending in response to COVID-19.

7. Staff believe there are moderate risks from a financial account perspective. The increase in FDI poses a low level of risk to external stability given their strong link to future output from the oil and gas projects. The use of concessional financing to fund the government's response to COVID-19 has further reduced financing risks. However, while spreads are currently low, Senegal's capacity to access financing on capital markets at reasonable rates is contingent on the highly uncertain path for global interest rates. The authorities should prioritize concessional financing in the near term, alongside a gradual increase in domestic financing over the medium term, taking advantage of favorable global market conditions where possible.

Annex II. Text Figure 3. Senegal: Financing Sources



Source: IMF staff calculations.

D. Reserves

8. The WAEMU pooled reserves have maintained their upward trend in 2019 and the first half of 2020.[3] International reserves increased to US$23.6 billion at end-January 2021, up from US$17.7 billion at end-2019. This improved reserve coverage to 6.5 months of prospective imports (vs. 5.9 months of prospective imports at end-2019). The increase is partly explained by Eurobond issuances by Cote d'Ivoire, Benin, and the regional development bank (BOAD). Under the WEO baseline, the reserve cover of WAEMU pooled reserves is expected to contract to about 4 months of prospective imports by 2025 driven by a moderate pickup of imports during the recovery and a subdued outlook for capital inflows (both FDI and official flows) on the regional level over the medium term. At the same time, a gradual return of WAEMU members' fiscal deficits to the 3 percent of GDP regional target should help support the reserve position.

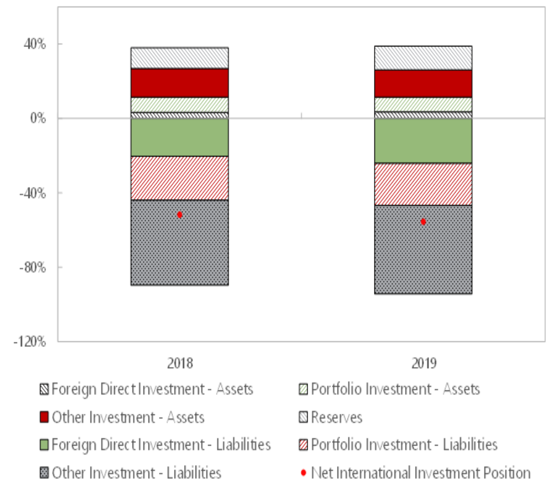
E. Foreign Assets and Liabilities

9. The net international investment position (NIIP) is expected to have further deteriorated in 2020. As of end-2019, the NIIP stood at CFAF -7,580 billion (-56 percent of GDP), compared to CFAF -6,643 (51 percent of GDP) at end-2018. Financial assets of 38.8 percent of GDP consist mostly of other investments and reserves (14.7 and 12.7 percent of GDP, respectively), while

[3] Discussed in detail in the January 2021 WEAMU Staff Report on Common Policies of Member Countries (IMF SM/21/5), including an assessment of reserve adequacy.

about half of financial liabilities of 94.4 percent of GDP are accounted for by other investment liabilities (47.6 percent of GDP), mostly concessional loans to the government. The widening of the current account deficit in 2020 can be expected to further weaken the NIIP in the near term. However, Senegal's relative net debtor position should improve under the baseline over the medium term as the imbalances underlying the current account are corrected, as discussed above.

Annex II. Text Figure 4. Net International Investment Position
(percent of GDP)



Source: BCEAO

F. Authorities' Views

10. The authorities broadly concur with staff's assessment. The authorities underscored the large temporary shocks that hit the economy in 2020, notably in the tourism sector. They also pointed to the resilience of remittances throughout the year, a trend which they expected to continue in 2021. They noted that, historically, the correlation between developments in fiscal deficit and the current account is not strong, which potentially reflects the impact of global factors on Senegal's external position.

Annex III. Implementing the Medium-Term Revenue Strategy (MTRS)

1. **The authorities finalized the first high-level MTRS document in June 2020.** The MTRS comprises an ambitious sequence of key tax policy and administration reforms aimed at raising the tax-to-GDP ratio (excluding hydrocarbon-related revenues) to 20 percent by 2023. However, implementation of the MTRS takes place in a particularly difficult context given disruptions generated by the pandemic. Compared with the initial 2020 budget, tax revenue declined by a total of CFAF 305 billion in 2020, including CFAF 225 billion due to the lower trade and economic activity.

2. **A recent Fund FAD TA mission took stock of the MTRS' implementation status and highlighted a number of factors delaying the strategy's full and effective deployment.** Although the MTRS was finalized by end-June 2020 as envisaged, the report notes the current lack of official status of the MTRS and hence lack of ownership by the key stakeholders. This is partly due to the fact that the initial high-level stakeholder workshop launched by President Macky Sall could not take place in 2020 and is compounded by delays in establishing the inter-agency strategic committed in charge of overseeing the MTRS' implementation. Relatedly, the strategic implementation unit is currently under-staffed, and the strategy lacks a clear monitoring and evaluation plan to ensure accountability by implementing entities.

3. **To address these concerns, staff has identified and discussed with the authorities a number of priority measures to effectively jumpstart MTRS implementation.**

- **MTRS official launch and governance**. To ensure ownership by all stakeholders, the MTRS should be officially endorsed and launched, backed by a communication strategy. A high-level stakeholder workshop should be organized, where the revised 2021-23 MTRS implementation plan would be approved. The Minister of Finance should (i) form the strategic committee in charge of driving the reforms and monitoring their implementation without further delay, (ii) provide the MTRS strategic execution unit with the needed human and material resources,[1] and (iii) ensure that a methodology for evaluation and monitoring is adopted to form the basis for quarterly MTRS implementation reports prepared by the implementation unit for the Minister of Finance. The strategic implementation unit plays a key role in operationalizing the MTRS by coordinating with other Ministries and government entities that play a role in the strategy but cannot be effective until other parts of the administration have a clear mandate to do their part.
- **New revenue measures aligned with MTRS in the revised 2021 budget, continuing in 2022.** The goal is to kick-start MTRS implementation and provide critical fiscal space by adopting new

[1] The MTRS Strategic Implementation Unit has been created within the Ministry of Finance, but still lacks personnel and an adequate budget. It is in charge of (1) supporting and advising the administrations involved in the implementation of the MTRS; (2) planning and promoting the reforms and measures included in the MTRS; (3) coordinating the contributions of all the administrations which are concerned by the measures of the MTRS and to ensure an effective collaboration between them; (4) coordinating the contributions of other ministries, institutions and public administrations involved in the development and implementation of revenue mobilization strategies; (5) coordinating the technical and financial contributions of development partners involved in revenue mobilization; (6) to carry out weekly monitoring and evaluation of the performance of administrations and of the reform.

measures to broaden the number of registered taxpayers and strengthen controls in the revised 2021 budget. Revenue agencies presented a proposal for new measures for 2021-22 based on the MTRS, which are expected to contribute 90 billion FCFA in 2021. These include new excise taxes and measures to broaden the tax base and limit tax evasion. New customs measures are expected to contribute 71 billion FCFA in 2021, based on improved tax monitoring and additional controls on exemptions.

- **Leveraging on the upcoming June 2021 study on tax expenditures, reducing regressive VAT exemptions in the 2022 budget**. A better targeting of the VAT exemption on the social tranche of water and utility, reduction of ad hoc exemptions on selected imports, reduction of selected exonerations, capping of the child benefit in personal income tax and allowing the VAT exemption on cement to lapse could yield about CFAF 25 billion.
- **Continuing tax-broadening measures and enhanced controls in 2022-23**. Efforts will focus on increasing the number of registered taxpayers at the Directorate in charge of small and micro-enterprises that regularly pay taxes (by another 75,000 by June 2022) a year and taxing at the source salaries already contributing to the pension and social security funds. The internal tax and customs directorates also plan to resolutely step up implementation of controls (e.g. on large VAT claims, discrepancies on import values and reference prices). In addition, they plan to fully automatize the exchange of information between both directorates and leverage this information to build joint control programs and continue to expand the taxpayer registry (MEFP/PS, ¶22).

4. Other key recommendations discussed with the authorities could further support revenue mobilization in 2021 and beyond and include the following:

- *Develop clear roadmaps for the implementation of tax policy reforms***.** These include, for example, the abolition of exemptions and the revision of investment incentive regimes, international taxation, and environmental taxation.
- *Strengthen the efficiency of tax operations.* In particular, broaden the base through (i) a better policy of collecting and processing information, and through (ii) better voluntary consent to tax by the simplification and modernization of tax procedures, (iii) improve the control of tax obligations, for instance by regularly updating the taxpayer file and by increasing the number of auditors to strengthen tax control.
- *Modernize the legal and regulatory framework.* Voluntary consent regarding taxes, one of the MTRS objectives, is closely linked to simplification and greater fairness of the tax system. This can be done by strengthening the rights of taxpayers with more effective and objective controls.
- *Implement digital strategies to support MTRS implementation.* Digital solutions to ensure automatic and instantaneous transfer of information between internal tax and customs, to automatize customs procedures, and to simplify payment of taxes and treatment of VAT refunds, for example, are key to the success of the overall strategy.

Appendix I. Letter of Intent/Program Statement

Dakar, Senegal

May 20, 2021

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

Madam Managing Director:

The COVID-19 pandemic has had a significant impact on Senegal. In a little over one year, Senegal has recorded more than 40,000 cases of infection and over 1,100 deaths out of a population of 16.7 million. Growth in economic activity slowed sharply to 1.5 percent in 2020, compared to 4.4 percent in 2019. The measures taken to contain the spread of the pandemic have had a profound socio-economic impact: around 85 percent of Senegalese households and businesses report a decline in income. Young people in particular have disproportionately borne the brunt of this health crisis.

The government responded rapidly by drafting the Economic and Social Resilience Program (PRES) amounting to CFAF 1 trillion to strengthen health resilience and support households and businesses, particularly those operating in the sectors most affected by the pandemic. The implementation of this program, with the financial support of Senegal's development partners, has made it possible to avoid an even more unfavorable socio-economic outcome. The final report of the Expenditure Monitoring Committee of the Force COVID-19 Fund will be published by June 1st 2021 at the latest.

At the same time, the government continued to carry out its economic policy as part of the program supported by the Policy Coordination Instrument (PCI). The results achieved were generally satisfactory compared to the targets that were set, in spite of the difficult circumstances. With the exception of the ceiling on single-sourced procurement contracts, all of the PCI quantitative targets for end-2020 were met. The share of single-sourced procurement contracts exceeded the program ceiling (21.8 percent, compared to a target of 15 percent), because contracts related to the COVID-19 health emergency were authorized by a decree to follow direct contracting procedures on an exceptional basis. This decree was revoked in September 2020. Six of the nine reform targets for end-December 2020 were met. The adoption and implementation of the prepayments for income taxes at customs, the external audit of the public debt database, and the draft law on hydrocarbon revenue sharing have experienced delays but are expected to be completed by end-June 2021.

Since the conclusion of the second review under the PCI program and the passage of the initial budget law for 2021, however, the macroeconomic environment has become more challenging than anticipated. First, the hope of a rapid exit from the health crisis was undercut by the second wave of infections. Our baseline scenario now assumes that the pandemic will continue through 2021. Second, commodity prices have risen, which will weigh on the external and fiscal accounts. Finally, the prolonged health and economic crisis has hit the most vulnerable households, including unemployed young people, particularly hard. Given these circumstances, the government has adjusted its macroeconomic forecasts for 2021-22 and revised its priorities.

The government's short-term priorities are to contain the transmission of the virus by stepping up the vaccination campaign, to respond to the aspirations of young people, and to stimulate the economic recovery. In this context, the government is convinced that the objectives of the PCI program are still relevant and that its actions remain consistent with the achievement of its objectives, namely: (i) maintaining macroeconomic stability; (ii) promoting strong, sustainable, and inclusive growth driven by the private sector; and (iii) preparing a framework for sustainable and transparent management of the hydrocarbon sector. In addition, the government recognizes the need to increase the mobilization of domestic revenues by accelerating the implementation of the Medium-Term Revenue Mobilization Strategy (MTRS), and to ensure the effectiveness of additional spending on youth employment, including efforts to streamline support for youth and women's employment and training and support for small and medium-sized enterprises. The government reiterates its commitment to transparent public financial management.

In order to meet the new balance of payments needs resulting in particular from the persistence of the COVID-19 shock in Senegal and around the world, and the costs of the vaccination campaign, the government is requesting 18-months arrangements under the stand-by credit facility with access equivalent to 46.66 percent of Senegal's quota (SDR 151 million, or around US$216 million), combined with a stand-by arrangement with access equivalent to 93.33 percent of Senegal's quota (SDR 302 million, or around US$431 million). These arrangements will complement and run in parallel with the PCI, and will make it possible to catalyze additional assistance from other external development partners. The arrangements will be monitored by means of quantitative performance criteria and indicative targets and a series of structural benchmarks covering reforms. The government will also continue to seek suspension of debt service under the debt service suspension initiative supported by the G-20, excluding private creditors.

In line with the revised macroeconomic framework, the government is requesting changes to the quantitative targets for the floor on net lending/borrowing or overall fiscal balance (end-June 2021 and end-December 2021), the ceiling on the net financing requirement(end-December 2021), the floor on tax revenue (end-June 2021), and the total nominal public debt ceiling (end-December 2021).

The government is confident that the policies and measures outlined in the Memorandum will help to achieve the program's objectives. Given its commitment to macroeconomic stability, the government will take whatever additional measures are necessary to reach these objectives. It will consult with the IMF, on its own initiative or whenever requested by the Managing Director, before adopting such measures or in the event of changes to the policies contained in the Memorandum.

Finally, in accordance with the Technical Memorandum of Understanding (TMU), the government will regularly provide the IMF with the information requested as part of the program monitoring and evaluation.

The government authorizes the IMF to publish this letter, the Memorandum, the Technical Memorandum of Understanding, and the Staff Report on this program.

Sincerely yours,

/s/

Abdoulaye Daouda Diallo
Minister of Finance and Budget

Attachments:

I. Memorandum of Economic and Financial Policies/Program Statement for 2021–22
II. Technical Memorandum of Understanding

Attachment I. Memorandum of Economic and Financial Policies/Program Statement for 2021–22

I. INTRODUCTION

1. This Memorandum of Economic and Financial Policies describes the recent economic developments as well as the economic priorities and objectives of the Senegalese authorities in the context of their request for an arrangement supported by the IMF through an arrangement under the Stand-by Credit Facility and Stand-by Arrangement for a period of 18 months starting in June 2021. This facility would be in addition to the Policy Coordination Instrument (PCI) being implemented over the period 2020-2022, the third review of which is to be completed by June 30, 2021.

2. Background. The PCI approved in January 2020 is based on the main development objectives set out in the Plan for an Emerging Senegal (Plan Sénégal Émergent (PSE) and aims in particular to: (i) achieve sustained and inclusive growth, driven mainly by the private sector; (ii) strengthen macroeconomic stability by maintaining fiscal sustainability and prudent debt management; and (iii) put into place sustainable and transparent management of hydrocarbon revenues. The implementation of the PCI is proceeding well and its main objectives remain relevant. Since the conclusion of the second review under the PCI, however, the macroeconomic environment has become more challenging due to the continuing COVID-19 pandemic and its socio-economic effects, as well as rising commodity prices. Given these circumstances, the government intends to revise its economic growth and revenue forecasts slightly downward and to reorient its budget allocations in order to implement its vaccination strategy with support from the international community, on the one hand, and to ensure adequate funding of the emergency program for the socio-economic integration and employment of youth, on the other hand.

II. RECENT ECONOMIC DEVELOPMENTS

A. Economic Developments in 2020

3. The COVID-19 pandemic caused a sharp downturn in economic activity in 2020. GDP growth slowed to 1.5 percent in 2020, compared to 4.4 percent in 2019 and a forecast of 6.8 percent (initial budget law for 2020) before the pandemic. The tourism, hotel, restaurant, and transportation sectors have been hit the hardest by the pandemic, with negative consequences for employment and income in the informal sector in urban areas. The secondary sector showed almost no growth (+0.1 percent), due to the decline in industrial production, while the construction and mining subsectors continued to grow. Non-agricultural GDP fell by 0.8 percent. The results for the agricultural season were very good and growth in the agriculture and related activities subsector is estimated at 23.4 percent, which made it possible to avoid a contraction in the economy. The inflation rate rose to 2.5 percent as a result of supply disruptions related to the COVID-19 pandemic. It remained, however, below the WAEMU norm of 3 percent.

4. The budget deficit grew to 6.4 percent of GDP, or more than double the expected figure in the initial budget law for 2020. Compared to the pre-pandemic forecast, budget revenues declined while expenditures increased. Public debt grew, with a ratio estimated at around 69 percent of GDP at end-2020, or 7 percentage points more than the pre-pandemic forecast. Senegal participated in the G-20 Debt Service Suspension Initiative in 2020, which enabled it to defer nearly CFAF 30 billion in debt service payments.

5. The current account deficit is estimated at more than 10 percent of GDP in 2020, compared to 8.0 percent of GDP in 2019. This deterioration is linked to the marked worsening of the services balance (+CFAF 567.5 billion; +213.5 percent), in connection with the collapse of tourism income (-CFAF 232 billion; -77 percent) and services' imports related to hydrocarbon projects (CFAF 765 billion). Remittances continued the upward trend seen during 2020, with a year-on-year increase of 1.0 percent reported at end-December 2020 in spite of the crisis. The resilience of remittance flows reflects, in part, the impact of job retention and social assistance programs implemented in Europe, which accounts for over 66 percent of remittances received.

6. The banking sector has shown resilience in the face of the pandemic's impact on economic activity. Banks entered the crisis with adequate levels of capital and liquidity, which, combined with the accommodative monetary policy of the Central Bank of West African States (BCEAO), made it possible to maintain a high level of credit flows to the government (subscriptions of public securities were up 31.0 percent) and the private sector (up 6.4 percent). Fears of a sharp increase in non-performing loans when the BCEAO's scheme to defer debt service payments expired have dissipated in view of the sharp decline in outstanding deferred loan repayments, which accounted for only 0.25 percent of total bank loans at end-March 2021. It should be noted, however, that the prospects for a slower recovery in certain economic sectors heavily impacted by the health situation give rise to some concerns about the risk profile of banking customers operating in these sectors. In the microfinance sector, the indicators show a sharp increase in the portfolio of gross non-performing loans. Finally, three small banks whose financial difficulties predate the COVID-19 crisis continue to be in violation of capital adequacy standards.

B. Implementation of the Economic and Social Resilience Program

7. Faced with a dual health and economic crisis on an unprecedented scale, the government designed and implemented the Economic and Social Resilience Program (PRES) to save lives and support households and businesses. This program has been allocated a budget of CFAF 1 trillion, broken down into disbursable expenses of CFAF 628.4 billion and tax and customs support measures for businesses in the amount of CFAF 371.6 billion. The disbursable expenses consist of budget expenditures in the amount of CFAF 558.4 billion and a treasury operation (guarantee fund) in the amount of CFAF 70 billion. As of December 31, 2020, disbursable expenses under the PRES had been executed in the amount of CFAF 613.4 billion, representing a disbursement rate of 98 percent. The breakdown of payments is as follows: CFAF 603.4 billion in budget expenditures with a projected figure of CFAF 558.4 billion, representing a disbursement rate of 108.5 percent, and guarantees in the amount of CFAF 25 billion with a projected figure of CFAF 70 billion, representing an execution rate of 35.7 percent. The breakdown of the PRES expenditures by pillar is as follows:

	Amount allocated (disbursable and non-disbursable)	Amount committed	Amount paid	Execution rate
		(in billions of CFAF)		
Pillar 1: Health	77.8	98.63	97.0	124.7%
Pillar 2: Social Safety Net	103.0	97.97	97.2	94.4%
Pillar 3: Macroeconomic stability	741.6	307.7	306.4	
Of which: Disbursable expenses	*370.0*	*307.7*	*306.4*	*82.8%*
Of which: Non-disbursable expenses	*371.6*	*NA*	*NA*	*NA*
Pillar 4: Securing key supplies	77.6	112.7	112.7	145.3%
Total	1000.0	617.0	613.4	98%
For reference: Total disbursable	***628.4***	***617.0***	***613.4***	***98%***
Source: Ministry of Finance and Budget/General Budget Directorate (DGB).				

III. PERFORMANCE UNDER THE PCI PROGRAM

8. **The COVID-19 pandemic has led to a revision of the macroeconomic framework, which has had a direct impact on Senegal's budget trajectory.** For this reason, a supplementary budget law for the year 2020 was adopted in the form of an executive order (No. 07-2020 of June 17, 2020), in which the budget deficit was revised upwards from 3 percent in the initial budget law to 6.4% in the supplementary budget law for 2020, with tax revenues of CFAF 2,352.8 billion compared to CFAF 2,675 billion in the initial budget law for 2020, representing a decline of CFAF 322.2 billion (-12 percent), and general budget expenditures in the amount of CFAF 3,881.1 billion compared to CFAF 3,573 billion in the initial budget law, representing an increase of CFAF 308.2 billion (18 percent).

9. **The execution of the supplementary budget law for 2020 was satisfactory, as was the implementation of the PRES, and all of the program's quantitative targets were achieved, with the exception of the one concerning single-sourced procurement contracts (Table 1a).** Tax revenues were mobilized in the amount of CFAF 2,368 billion, exceeding the target by CFAF 73 billion. In terms of expenditures, the ratio of social spending rose to 46 percent of total spending, compared to a floor of 35 percent. Balances of accounts payable reached

CFAF 14.3 billion, compared to a ceiling of CFAF 40 billion. On the other hand, the share of single-sourced procurement contracts exceeded the 15 percent target owing to pandemic-related emergencies, prompting the approval of Decree No. 2020-781 of March 18, 2020, waiving the public procurement code for expenditures related to the fight against COVID-19. In the interest of transparency and respect for the rules of ethics and good governance, however, the Senegalese authorities have taken steps to adhere to best practices in public procurement. The decree granting the waiver was repealed by Decree No. 2020-1774 of September 16, 2020. As of that date, all COVID-19 expenditures are subject to the Public Procurement Code. Net lending/borrowing reached CFAF 903 billion, while the adjusted floor was CFAF 908 billion. The government's net borrowing requirement was CFAF 1,094 billion, compared to an adjusted ceiling of CFAF 1,099 billion in the program. Total nominal public debt valued at the program exchange rate was CFAF 10,042 billion, compared to a ceiling of CFAF 10,234 billion.

10. Most of the reform targets planned (RTs) for end-December have been implemented (Table 2), specifically:

- The M-tax project allowing taxpayers to file their tax returns and pay their taxes by mobile telephone is operational.
- The semi-annual report on the use of data from the interconnection and exchange of information between the General Directorate of Taxes and Property (DGID) and the General Customs Directorate (DGD) was produced.
- The draft law on the revision of the legal framework for public-private partnerships (PPPs) was submitted to the National Assembly on December 31, 2020, and it was passed on February 22, 2021.
- The inventory of accounts held by public entities at commercial banks has been completed; it identified 424 accounts, including 276 ordinary accounts, 63 sub-accounts, 3 escrow accounts, and 82 program accounts opened for projects financed by Senegal's technical and financial partners.
- A ministerial order has been issued to update the framework for expenses eligible for simplified procedures and to cap transfers to deposit accounts for non-personalized government services, excluding defense and national security expenses, at 50 percent of the total of such transfers in the 2021 budget law.
- The government will continue to make the necessary budgetary appropriations and pay the subsidies due to the energy sector within 90 days of approval.

On the other hand, some of the targets were not met:

- The draft law on the distribution and management of hydrocarbon revenues could not be finalized before end-December 2020 as planned. Its finalization and approval by the Council of Ministers will, however, take place before the end of the first half of 2021.

- The external audit of the debt database, including state-owned enterprises, was postponed due to delays in the procurement process. It started on April 12, 2021, and the consultant's draft report will be available by end-May 2021.
- The order establishing the prepayment for income taxes levied at customs for importers not current with their domestic taxes (*prélèvement de conformité fiscale*) was issued and its implementation will take effect as of June 2021.

IV. ECONOMIC AND FINANCIAL PROGRAM FOR 2021-2022

C. Program Objectives

11. The Economic and Financial Program for 2021–22 is focused on the preservation of public health and economic recovery. It is based on the three pillars of the PCI program, namely:

- The effective fight against the health emergency caused by the COVID-19 pandemic, while maintaining macroeconomic stability, notably through an increase in tax revenues, supported by the vigorous implementation of the Medium-Term Revenue Strategy;
- The promotion of strong, sustainable, and inclusive growth driven by the private sector, through accelerated recovery of the national economy, intensification of the execution of the PSE/Youth program, and the financing of youth employment through the implementation of the emergency program for the socio-economic integration and employment of young people;
- The preparation of a framework for the sustainable and transparent management of the hydrocarbon sector.

This program is in line with the Adjusted and Accelerated Priority Action Plan (PAP2A), which aims to: (i) address the challenges of food, health, and pharmaceutical sovereignty and return the economy to the sustained growth trajectory seen before the COVID-19 pandemic; (ii) strengthen the social protection system to increase the resilience of vulnerable populations; and (iii) accelerate the industrial and digital transformation, driven by a strong national private sector.

D. Macroeconomic Framework

12. The economic growth projections for 2021–22 have been revised downward to take into account the persistence of the pandemic and its effects. The revised baseline scenario assumes that the COVID-19 pandemic will prove more difficult to control than initially envisaged, both in Senegal and among its major trading partners, such as the European Union. It also assumes a deterioration in the terms of trade due to higher commodity prices. These factors will lead to a slower than expected normalization of activity in the tourism sector, weigh on household incomes, and undermine business confidence. Thus, our growth forecast for 2021 has been adjusted downward to 3.7 percent, or 1.5 percentage points below our initial projection, and for 2022 it has been lowered to 5.5 percent, down 0.5 percentage points. Inflationary pressures are expected to remain low, helped by record agricultural production in 2020 and the lifting of travel restrictions.

13. The current account balance is expected to continue to be negatively affected over the period 2021–22. This is due to: (i) weak revenues from cross-border tourism; (ii) higher oil prices; and (iii) higher imports of capital goods, as well as higher payments for services provided by non-residents in connection with the development phase of oil and gas projects. As a result, the trade balance is expected to show a higher deficit. As in 2020, remittances are expected to remain resilient, supported by the gradual recovery of global economic activity, particularly in Europe. Overall, the current account deficit is expected to deteriorate by about 1 percentage point of GDP in 2021 compared to 2020, before improving modestly in 2022.

14. The outlook is highly uncertain and risks remain on the downside. On the domestic front, a resurgence of the pandemic (and new variants of the virus) could thwart the recovery and create further fiscal pressures. On the external front, lower than expected economic growth in Europe could have a negative impact on the domestic economy. A further increase in commodity prices would put pressure on the external and fiscal accounts. Fiscal constraints could also arise from growing terrorist threats in the region. Finally, a rapid rise in interest rates could make access to external capital markets more difficult.

E. Pillar I: Address the Dual Health and Economic Crisis While Maintaining Macroeconomic Stability

15. Our fiscal policy is centered on resolving the health emergency and on economic recovery, while remaining focused on a return to the community deficit standard of 3 percent of GDP in 2023. Compared to the forecast in the initial budget law, the budget deficit could increase slightly in 2021 and 2022 to meet emergency expenditures associated with the campaign to vaccinate the population. The budget deficit trajectory remains anchored by the return to the 3 percent of GDP deficit target in 2023, however. In order to achieve this, on the revenue side we will accelerate the implementation of the base-broadening measures envisaged in the Medium-Term Revenue Mobilization Strategy document. On the expenditure side, although measures to rationalize public consumption have been successfully implemented (termination of subsidized housing, drastic reduction in telephone bills, suspension of all orders or purchases of administrative vehicles, etc.), we will continue to ensure the efficiency of public expenditure and will free up budgetary margins in our investment program to enable us to substantially increase social safety nets and to ensure support for the employment and integration of young people and for the sectors most affected, tourism in particular. Our debt policy will aim to keep the public debt on a sustainable path.

16. The supplementary budget law for 2021 takes into account the downward adjustment in the economic outlook for 2021 and assigns priority to measures to address the health and economic crisis related to the COVID-19 pandemic and to support economic recovery. The objective of the supplementary budget law for 2021 is to offset projected revenue declines through the determined implementation of new base-broadening measures, in line with the priorities of the MTRS. On the expenditure side, the supplementary budget law incorporates the government's new priorities regarding the vaccination campaign and the emergency program for the economic integration and employment of young people.

17. Budget revenues are revised downward by CFAF 15 billion. Less dynamic economic activity than expected, the net impact of higher oil prices, and shortfalls in taxes based on 2020 revenues should result in a revenue shortfall (excluding grants) of CFAF 115 billion. Additional fiscal measures, however, should help to limit the loss of revenue.

- At the level of the General Directorate of Taxes and Property, new tax policy and administration measures will be implemented to achieve the assigned revenue targets, with an expected total yield of CFAF 60 billion. This will involve:
  - Strengthening the law establishing the levy for tax non-compliance by removing the concept of products (CFAF 10 billion in consideration of the volume of imports by operators not registered with the DGID);
  - Establishing a tax on culinary stock products (CFAF 25 billion);
  - Raising taxes on gambling and betting (CFAF 1.5 billion);
  - Expanding the number of registered taxpayers at the Tax Services Directorate (CFAF 6.5 billion);
  - Improving compliance by taxpayers at the Tax Services Directorate with regard to withholding taxes and fees (CFAF 16 billion).
- In order to boost customs revenues despite the economic situation, the measures identified by the General Customs Directorate are based exclusively on tax administration measures. These measures, which are expected to yield CFAF 40 billion, include:
  - Better governance of the customs valuation process through monitoring of the top 50 products. Thus, as part of the organizational reform provided for by Decree No. 3620/MFB/DGD of March 15, 2021, the Directorate of Intelligence, Risk Analysis, and Value was assigned responsibility for the strategic and operational management of the customs valuation process, in order to ensure more consistent, closer, and more continuous control.
  - A strengthening of post-clearance control focused on products at risk based on mirror data analysis.
  - More targeted monitoring in the receivables portfolio of expected loopholes arising from the suspended VAT. The automated management of the suspended VAT under the Investment Code will be improved and accelerated in order to reduce the revenue loopholes arising from it despite the granting of moratoriums to investors who have been impacted by the dual health and economic crisis that is still continuing.
  - Targeted review for the clearance of accounts associated with special regimes (régimes suspensifs) at the level of front-line units and ex post facto, which will also be based on the modernization of transit with the interconnection of the IT systems of the countries concerned (Interconnected System for the Management of Goods in Transit—SIGMAT), with a view to minimizing revenue losses based on the criterion of declarations that have not been cleared.

- Continuous availability of the GAINDE customs clearance system, with the launch of a new, more robust and highly accessible version, which has already taken place and allows for the proper handling of goods supported by a dynamic value file throughout the entire the customs clearance process.
- Finally, the streamlining of tax expenditures through more advanced automation of the application for managing and monitoring exemptions (GRED) will continue.

18. Expenditures will be increased by CFAF 68 billion to finance the COVID-19 vaccination campaign and job creation for youth.

- This increase will include the following:
    - An increase in the budget of the Ministry of Health and Social Action in the amount of CFAF 40 billion based on funding from the World Bank (incorporating a 50 percent grant element) in 2021 and CFAF 35 billion in 2022 to ensure immunization coverage for the target vulnerable population. Senegal has opted for a vaccination strategy to cover the entire population, but in two phases: (i) a first vaccination phase focused on priority target groups, representing around 20 percent of the population, to ensure protection and thus avoid serious cases and deaths; (ii) a second vaccination phase focused on the remaining 80 percent of the population to ensure their protection and interrupt the chain of transmission of the disease.
    - A reinforcement of budget allocations of up to CFAF 150 billion in support of the socio-economic integration and employment of young people. Thus, the government has put into place an emergency program for the employment and socio-economic integration of young people, which is part of the implementation of thePAP2A, through measures to (i) recruit 5,000 teachers to gradually reduce the shortage of teachers, and law enforcement personnel to strengthen the security of people and property; (ii) expand labor-intensive projects and programs; and (iii) support private initiative.
    - Additional budgetary appropriations of CFAF 64 billion for the Energy Support Fund, given upward revisions of world oil price forecasts.
- The supplementary budget law contains budgetary savings measures relating to the freezing of certain expenditures, the postponement of new projects, and budgetary savings of CFAF 91 billion, including CFAF 19 billion in interest, as a result of Senegal's participation in the G-20 Debt Service Suspension Initiative for the year 2021. Given the continuing uncertainties regarding the development of the pandemic and the costs of the vaccination campaign, the precautionary reserve of CFAF 66 billion provided for in the 2021 initial budget law has been maintained.

- The budget deficit grew by CFAF 73 billion to CFAF 817 billion, or 5.4 percent of GDP. The deficit will be financed by drawings on project loans in the amount of CFAF 556 billion, program loans totaling CFAF 105 billion, and other net borrowing in the amount of CFAF 156 billion.

19. The government will continue to fulfill its commitments with regard to transparency and accountability of its expenditures related to combating the COVID-19 pandemic.

- The Ministry of Finance and Budget has already produced and published all of the quarterly budget execution reports that include financial data on the execution of the PRES.

- The Ministry of Social and Territorial Equity has also produced a detailed report on the implementation of all food aid, in particular on the targeting of beneficiaries, contracting with suppliers, and distribution to households.

- The report of the monitoring committee responsible for implementation of the operations of the Force Covid 19-Fund has been finalized and submitted to the Head of State. Its publication is planned by June 1st, 2021 at the latest.

- As part of the annual audit of public procurement, the proper performance of procurement procedures related to anti-COVID-19 expenditures will be assessed. The report by the Public Procurement Regulatory Authority will be available by end-June 2021.

- The special report of the Audit Court on pandemic-related spending, which is part of its 2020 budget execution report, will be available by end-October 2021.

Structural Reforms of Public Finances

20. The government will ensure full ownership of the MTRS by the revenue authorities in order to achieve the tax burden target of 20 percent of GDP in 2023. The following actions to accelerate the implementation of the MTRS will be taken by end-June 2021 (new structural benchmark (SB) /RT):

- Development and launching of an internal and external communication campaign;
- Organization of a high-level seminar/workshop with all stakeholders to **approve the revised MTRS implementation matrix** and ensure its proper ownership by the public entities in charge of its implementation;
- Establishment of the MTRS steering bodies with the **appointment of members of the strategic committee** headed by the Minister of Finance and Budget and abolition of the Steering Committee (COPIL) in order to limit bottlenecks;
- Operationalization of the Strategic Implementation Unit by ensuring that it has sufficient budgetary and human resources to carry out its mission, including cross-cutting activities, particularly by strengthening the skills and profile of its coordinator.
- **Adoption of a monitoring and evaluation plan for the MTRS.**

21. The government will continue to ensure the transparency of tax expenditures and is committed to gradually reducing them. The annual reports on the evaluation of tax expenditures for 2015-2017 have already been published and the reports for 2018-2019 will be published by June

30, 2021, at the latest, thus allowing for resumption of the annual publication of tax expenditure reports for the year N-2 on the website of the Ministry of Finance and Budget (SB/RT, June 2021) and their attachment to draft budget laws submitted to the National Assembly. Beginning with the initial 2022 budget law, we will use the results of the study on exemptions (SB/RT, June 2021) to gradually eliminate exemptions, starting with the most regressive ones, with the aim of mobilizing about CFAF 25 billion in additional revenue (SB/RT, end-December 2021). The following exemption schemes and products or services have been identified (expected yield in billions of CFAF):

- Elimination of the corporate tax exemption for cement plants (7.4);
- Revision of the exemption for subsidized water and electricity consumption (10);
- Revision of the exemption for rice (actual taxation of so-called "luxury" rice) (0.5);
- Revision of the family tax credit (5);
- Elimination of the exemption granted for non-medical hospitalization services provided by private health care facilities (0.5).

22. The DGID and DGD intend to accelerate the implementation of the MTRS in 2021–22.

- As far as the DGID is concerned, in addition to the measures already mentioned to eliminate certain regressive exemptions, the tax policy measures taken in 2021 will be renewed in 2022 (tax on culinary stock products, and taxation on gambling and betting) and this should increase revenues by about CFAF 40 billion. In addition, the following actions to broaden the tax base in accordance with the key elements of the MTRS will be prioritized, for a total expected yield of about CFAF 50 billion:
  - Continuation and intensification of the actions under the YAATAL program. For 2022, the recruitment of 150,000 new taxpayers is planned, including 75,000 by end-June 2022 (new SB). An improvement in the compliance rate of taxpayers subject to payroll deductions will allow the enrollment of 80,000 additional contributors, including 40,000 by end-June 2022 (new structural benchmark). The effective implementation of the tax compliance levy as of June 1st, 2021 will also help to further expand the DGID's taxpayer rolls;
  - Design and implementation of a comprehensive information policy;
  - Signing and implementation of agreements/protocols with partners (social and pension institutions, banks, insurance companies, etc.);
  - Deployment of the SISCOFI tax audit tracking application;
  - Automation of document-based audits and strengthening of on-site audits;
  - Creation of an e-commerce monitoring unit;
  - Capacity-building in regard to monitoring enterprises in complex and strategic sectors;
  - Strengthening tax compliance.
- As far as the DGD is concerned, the priority actions in connection with the implementation of the MTRS are aimed at establishing overall control of the tax base, through the use of advanced

digital technology in procedures performed by high-quality staff. This approach should help to: (i) modernize and streamline the customs clearance of goods; (ii) strengthen risk management; (iii) modernize the control of declared value; (iv) control transit and re-export operations and strengthen the control of specific customs procedures; (v) strengthen the monitoring of petroleum products; (vi) improve the budgetary effectiveness of the VAT; and (vii) implement mobile payment of import duties and taxes. In 2022, in addition to the consolidation and strengthening of the measures identified for the remainder of the year 2021, additional revenue is also expected with the ramping up of the specialized vehicle clearance office created following the organizational reform of the DGD. In total, based on all of these measures, revenues of around CFAF 71 billion are projected for 2022.

- Closer cooperation between the DGID and DGD will help to improve collections. The automatic exchange of data between the two directorates will be effective and reciprocal as soon as a new partnership agreement is signed, which is scheduled to take place before May 31, 2021. The electronic financial statements collected by the DGID will be made available to the DGD so that it can cross-check the collection data. The implementation of automatic data exchange is already under way, with the acquisition of the necessary equipment and increased cooperation between the IT services of the two directorates. A combined tax/customs inspection team will be put into place by May 31, 2021, which will help improve the effectiveness of joint inspections. A joint inspection program is also being developed for the remainder of 2021.

23. The government has prepared a public financial management reform strategy and it plans to prioritize the following measures for 2021–22:

- The implementation of program budgeting and the appointment of program managers are effective. The decentralization of payment authorizations is effective since April 30, 2021, for the seven institutions and nine ministries selected and will be extended to all of the ministries starting in January 2022.
- Efforts to rationalize the use of deposit accounts will continue through the reduction of government transfers to deposit accounts and the reclassification of capital transfers as government capital expenditures in cases when agencies implement investment projects on behalf of the government. In accordance with the West African Economic and Monetary Union (WAEMU) directives, the government will make the necessary arrangements for delegated project management procedures to be performed by agencies and similar structures prior to the implementation of the 2022 initial budget law and will systematize the preparation of commitment and procurement plans by the agencies to ensure proper cash management and timely disbursements. The government will gradually expand the scope of the reclassification of capital transfers as capital expenditures executed by the government.
- A more detailed analysis of current transfers according to their economic nature will be carried out from 2022 onwards with a view to a gradual reclassification. All of the subsidy needs will be included in the initial budget law for 2022. The projected government financial operations table, including the economic nature of expenditures, will be an integral part of the initial budget law for 2022 and for future budget laws. Starting in 2023, with the rollout of the Integrated Financial

Information Management System (SIGIF), the initial budget laws will reflect the economic nature of expenditures.

- The consolidation of the treasury single account to optimize the government's cash flow management is continuing, and will eventually lead to the repatriation of all the accounts of entities providing non-market public services to the single treasury account in accordance with the WAEMU directive regarding the General Regulations on Public Accounting. A detailed analysis of the inventory of accounts held by public entities at commercial banks identified 93 accounts belonging to 52 entities receiving mainly budgetary transfers, as well as 183 accounts opened for 98 structures with their own resources from their activities. The 93 accounts identified, as well as seven accounts of structures with their own resources, will be closed in 2021, for a minimum of 100 accounts. The process of rationalizing the accounts will continue in 2022, guided by the principle of initially keeping only one account per structure with its own resources. A study to identify all of the bank accounts held in the name of public entities with their own resources will be finalized by end-December 2021, in order to determine the accounts that can be closed by end-June 2022; a roadmap will be proposed for the gradual closure of all the accounts of public entities within the scope of the treasury single account, including identification of possible solutions to the potential legal obstacles posed by the autonomy provided for in the current arrangements for certain structures (new SB/RT). After June 2022, the gradual repatriation of the remaining ordinary accounts to the single treasury account will continue, along with continued improvement in treasury banking services.
- The restructuring of the national company *La Poste* is continuing. The institutional conversion of *Poste-finances*, a *La Poste* subsidiary, into a postal bank is one of the seven key measures in the group's restructuring. Implementation of this measure, which will give the new entity the status of a financial institution, should at the same time put an end to the guarantee of postal check clearing operations by the Treasury. Taking into consideration the conditions and prerequisites to be fulfilled in order to receive the BCEAO's approval to operate as a financial institution, the inter-ministerial subcommittee in charge of the restructuring of *La Poste* is working on a roadmap to achieve this objective. This roadmap should be finalized before June 30, 2021. The recapitalization of the entities forming the *La Poste* group, through the conversion of the remaining amounts owed to the government (CFAF 174 billion), following the cross-debt agreement signed in 2018.
- Fiscal risk management will be strengthened through the establishment of a database on PPPs and agreements for the purchase of electricity by end-June 2021 (SB/RT, June 2021), the adoption of a methodology for assessing fiscal risks related to state-owned enterprises and PPPs, and the preparation of a fiscal risk statement to be attached to the initial budget law for 2022.

24. The government will continue to implement the decree outlining the mechanism to regularly revise fuel prices in order to eliminate the need for energy subsidies on an annual basis. If the mechanism is not followed and the price adjustment is suspended, the government undertakes to include the necessary budgetary appropriations in a supplementary budget law, and to settle the amounts of fuel subsidies due within 90 days after they have been validated (continuous SB/RT). Similarly, if tariffs in the electricity sector are below cost-recovery levels, the government will commit to including the necessary budgetary appropriations in a supplementary budget finance law, and to settling the amounts due within 90 days of their approval (continuous structural benchmark). The amount of subsidies to the energy sector will be clearly indicated in the initial and revised budget laws.

Debt Policy

25. The government will continue to give priority to concessional and regional market financing in order to maintain debt sustainability. Given its debt profile, Senegal has little room to absorb new shocks in the short term. Debt is highly vulnerable to a slump in economic growth, a rise in budget deficits, and an increase in global interest rates. Thus, in order to maintain the debt on a sustainable path, the ceiling for the nominal public debt is set at CFAF 11,024 billion and the ceiling for the net issuance of securities in the regional market is set at CFAF 350 billion for 2021. Non-concessional financing will be used only to finance projects with a high internal rate of return. The government will continue its dialogue with all of the official bilateral creditors in order to benefit fully from the G-20 Debt Service Suspension Initiative. The extension of the initiative to end-2021 should result in additional debt service relief of CFAF 48 billion, including CFAF 9.4 billion in interest over the period July-December 2021.

26. This prudent debt policy will be accompanied by efforts to improve debt management. The government will continue its efforts to strengthen the operational capacity of the National Public Debt Committee (CNDP) to analyze project financing terms, including those involving PPPs. The CNDP will ensure that the 2021 debt plan is consistent with the budget and the medium-term debt strategy. An external technical and functional audit of the computerized debt database management platform is under way. It will be completed before end-June. The recommendations will be incorporated into an action plan.

F. Pillar II: Achieve strong and Inclusive Growth Driven by the Private Sector

27. The government has launched a series of initiatives to accelerate the creation of jobs for young people.

- The government has made youth employment and employability a priority. In connection with this, an important emergency program for the socio-economic integration and employment of young people has been initiated. It covers a period of three years from 2021 to 2023, at a cost of CFAF 450 billion with an annual breakdown of CFAF 150 billion, and it is backed by support from the private sector and development partners. This program is intended to reach 516,916 beneficiaries and it will be focused on seven pillars: (i) special recruitment; (ii) public projects of community interest; (iii) a national government-employer agreement; (iv) labor-intensive public investment projects; (v) apprenticeship-training; (vi) entrepreneurship and empowerment financing; and (vii) a school uniform subsidy.

- The implementation of this emergency program will be supported by an innovative governance framework, which will take effect by end-2021. It includes: (i) the establishment of employment and entrepreneurship centers for women and youth in the 45 departments in the form of a one-stop shop that will initially house all the employment support structures for women and youth, with at least 15 employment centers (*pôles emplois*) operational by end-2021; (ii) a unique identifier and a database of recipients of public funding; and (iii) performance contracts with clear job creation targets concluded with the government structures and entities involved in the implementation of the youth program. At the same time, the government will finalize a strategy for more a more efficient organization of the support system for women, youth, and small and medium-sized enterprises, aimed in particular at optimally pooling the entities according to their respective functions (training, financing, employment and entrepreneurship), in order to enhance the effectiveness of the government's interventions. As a first step, the government will finalize a plan to regroup funds financing women and youth entrepreneurship in one single fund by end-September 2021, which will be effective starting in the 2022 fiscal year (new SB/RT).

28. The government will accelerate the implementation of reforms to support the development of the private sector and the economic recovery. The drafting of the private sector development strategy is under way. A steering committee comprised of representatives of the private sector and public support structures met in April to approve the work plan. The diagnostic report will be delivered at end-May and the mission is expected to be completed in the third quarter of 2021. In addition, other important reforms are under way, as described below:

- The new PPP law of March 3, 2021, published in the *Official Gazette* of March 15, 2021, and its implementing decree, which is in the process of being reviewed, will encourage the participation of the private sector in priority projects through clear, fair, and transparent procedures. This new framework ensures that all projects and their modifications with substantial financial implications are approved by the Ministry of Finance and Budget and an inter-ministerial committee, based on ex-ante assessments including budgetary risk analyses. It also establishes the conditions for fair competition through standardized tendering procedures and strict control of unsolicited bids and procedures for making awards on the basis of waivers. Thus, the use of waivers in procurement procedures, including directly negotiated agreements, is limited to clear, exceptional circumstances and is subject to the approval of the inter-ministerial committee. It also introduces local content criteria to effectively encourage the participation of national and local investors, as well as transparency criteria, including a requirement to publish information about any new PPP contract (new SB/RT, June 2022).
- Substantial progress has been made in implementing reforms as part of the Business Environment and Competitiveness Reform Program and the Compact with Africa partnership to promote reforms. This progress includes publication of the decree establishing the collateral registry, which will be operational by end-2021, a reduction in the average processing time for employment contracts, adoption of the decree on the simplified cadastral appraisal method, and adoption of the manual on land, government property, and cadastral procedures. There has been significant progress in access to financing for small and medium-sized enterprises/small and medium-sized industries, with the adoption of the implementing decree for the law on the

warehouse receipt system for goods. In the future, cooperation within the framework of the Compact with Africa will be extended to the areas of governance and social protection of workers in the informal sector. In this connection, a new technical assistance project is being developed by the German Corporation for International Cooperation (GIZ) for the implementation of reforms as part of the modernization of the civil service. In addition, the decision was made to include provisions in the new social security code that is currently being drafted in an effort to address the extension of social protection to participants in the informal sector. With regard to vocational training, the goal of increasing young people's equitable access to and participation in vocational and technical training will now be pursued through an increase in the number of apprenticeship contracts signed with companies.

- The government is continuing to focus on strengthening the coordination of entities and programs whose mission is to support small and medium-sized enterprises. With regard to the establishment of a one-stop shop, delays have been experienced due to the pandemic. The Agency for the Development and Support of Small and Medium-Sized Enterprises (ADEPME) has started the design process, however, with a view to launching the one-stop shop in December 2021.

- As part of the Economic and Social Resilience Program, the government has set up a financing mechanism to raise CFAF 200 billion. The management committee for this mechanism has given an opinion of no objection for an amount of CFAF 12.68 billion to be provided to 68 small and medium-sized enterprises and 18 large enterprises, allowing them to maintain 13,297 jobs. For the recovery, the amount planned is CFAF 300 billion. The guarantee provided by the Priority Investment Guarantee Fund (FONGIP) amounts to 40 percent for the large enterprises and 60 percent for the small and medium-sized enterprises, at an interest rate of 5.5 percent. The guarantee share is 50 percent for the large enterprises and 70 percent for the small and medium-sized enterprises in the health, food, and pharmaceutical sovereignty sectors, to support greater self-reliance in those sectors. The government is actively engaged in mobilizing the resources needed to start up this renewed mechanism.

29. **The reforms in the energy sector are ongoing.** On the one hand, reforms are under way as part of the Power Compact to strengthen the legal and institutional framework of the electricity sector, as well as the key players in the sector. To this end, a roadmap up to 2035 has been developed. With a view to improving the performance incentive mechanism, the third performance contract between the government and Senelec (the national electricity company) for the period 2021–23 has been signed. A new electricity code to attract private sector investment is being finalized and will be submitted to the National Assembly for adoption in June 2021. A draft study on the tariff plan to ensure the financial sustainability of the electricity sector has been completed, and the action plan for implementation of the approved recommendations will be adopted in June 2021. The draft cross-debt agreement between the government and Senelec will be signed by end-May 2021. Finally, the implementation of the gas-to-power strategy will allow for a reduction in the cost of electricity production by using natural gas produced in Senegal. Finally, the report on the study of the domestic fuel price structure will be approved in the second half of 2021.

30. The COVID-19 pandemic has highlighted the need to improve the social protection system, starting with the updating of the single national register (RNU) and its extension to new vulnerable groups (especially in urban areas). The government has begun the process of updating the RNU in order to have updated and reliable data, which will facilitate the use of these data by the various projects and social programs for the targeting of beneficiaries. In view of the many requests to use the RNU database and the recurrence of phenomena related to climate change that have negative impacts on poor households, the government has decided to extend the RNU to one million (1,000,000) households by end-June 2022 (SB/RT, June 2022). Based on the poverty map, this extension, combined with a revalidation of households already registered in the RNU, will be performed by means of a census of all poor and vulnerable households in Senegal. In addition, aware of the importance of the RNU, the government has launched its institutionalization process. A relevant draft decree is being prepared with the aim of establishing the basis for targeting social policies for greater equity, transparency, and social legitimacy in government measures. This will make it possible, on the one hand, to avoid fragmentation and lack of coordination in the implementation of social protection measures and, on the other hand, to save time and financial resources in order to improve the effectiveness of these actions. The adoption of this draft decree by the Council of Ministers is expected to take place by end-August 2021 at the latest. In cooperation with the World Bank, the government is running a pilot project to support poor households in accessing subsidized agricultural inputs. This is an agricultural resilience project, in the form of cash transfers to 10,000 households in the RNU, to support access to inputs for poor small-scale farmers in order to mitigate the effects of the COVID-19 crisis. Households will each receive a payment of CFAF 200,000 intended for the purchase of subsidized agricultural inputs.

31. The government is determined to ensure that Senegal is no longer subject to enhanced oversight by the Financial Action Task Force (FATF) due to strategic deficiencies in its anti-money laundering and combating the financing of terrorism (AML/CFT) efforts. To this end, it has undertaken to implement an action plan, broken down into 29 measures, focusing on: (i) raising awareness and strengthening the technical capacities of AML/CFT stakeholders; (ii) strengthening the supervision of designated non-financial businesses and professions (DNFBPs); (iii) strengthening the risk-based supervision approach for financial institutions by the Banking Commission; (iv) maintenance of a register of beneficial owners and strengthening the sanctions regime in the event of violations of transparency obligations; and (v) improvement of international cooperation, including response times for foreign requests. The National AML/CFT Coordination Committee, an inter-agency coordination body created by decree, is responsible for monitoring the implementation of the action plan, with respect to all the national and community players concerned.

32. Although the banking system as whole has weathered the crisis well, some pockets of vulnerability exist:

- The central bank (BCEAO) and the Banking Commission are closely monitoring the impact on the portfolios of credit institutions that have granted loan repayment deferrals to certain companies severely affected by the crisis that have not yet been settled. Two small banks with capital deficiencies are under close supervision by the BCEAO and the Banking Commission.

Steps have been taken by these banks with a view to their recapitalization. The financial structure of a third bank requires close monitoring of the restructuring plan approved by the bank's governing bodies, which is based on a strengthening of its equity capital, the control of operating expenses, and reorganization of the portfolio, taking into account the risk profile of the sector in which it operates. This plan is currently being implemented, with the goal of returning to normal operations in the first quarter of 2022.

- In the microfinance sector, loan repayment deferrals are declining at a slower pace than among banks, with a significant impact on the portfolio of non-performing loans (15.4 percent compared to an average of 4.8 percent before the crisis). Special monitoring of the financial situation of these institutions will be carried out by the ministerial monitoring entity (the Directorate for Regulation and Supervision of Decentralized Financial Systems, or DRS-SFD) and the BCEAO, with a view to assessing the impact on the balance sheet and conducting a survey of these institutions regarding the evolution of their activities and their expectations from the government. As part of the implementation of the Regional Strategy for Financial Inclusion (SRIF-WAEMU), starting in May 2021 a program of diagnostic missions will be carried out at a number of decentralized financial institutions that are experiencing difficulties. The criteria for identifying institutions in this category will also be refined to ensure better monitoring of their situation.

33. The government will adopt the draft National Financial Inclusion Strategy (SIF) to facilitate access to financial services. This document, which has been the subject of extensive consultations with stakeholders, includes several key components: (i) development of adapted financial products; (ii) development of digitalization (infrastructure, government transactions, and economic activities); (iii) improving the financial literacy of the population and the protection of users of financial services; (iv) appropriate and effective regulatory and institutional environments. These key components are broken down in 12 specific objectives and 45 actions. It will be the responsibility of the planned governance and coordination entities to ensure the operationalization of the strategy following its adoption.

G. Pillar III: Ensure Sustainable and Transparent Management of the Hydrocarbon Sector

34. Work on the development of gas and oil fields is continuing. Construction of the Greater Tortue Ahmeyim (GTA) Phase 1 facilities has been delayed due to travel restrictions at the start of the COVID-19 pandemic. The launching of production previously planned for the beginning of March 2022 has been postponed to April 2023. At end-February 2021, the rate of progress on the Sangomar project was in line with the project's initial, pre COVID-19 timetable, and the start of production is planned for 2023. Finally, the government intends to promote the development of the Yaakar-Téranga gas project to underpin its gas-to-power strategy, the aim of which is to reduce the cost of electricity by 2024 at the latest. The development concept was submitted to the government for approval in April 2021.

35. The draft law on the management and distribution of revenues from hydrocarbon production will be adopted by the Council of Ministers (SB/RT, June 2021). The draft law incorporates the following major principles:

- The full budgeting of tax and non-tax revenues from the production of hydrocarbons to ensure maximum transparency;
- A prohibition on any advance sale of hydrocarbon resources and/or any advance security interest in these resources;
- The creation of a Stabilization Fund to protect the budget and the economy against risks arising from the volatility of hydrocarbon revenues;
- The creation of an Intergenerational Fund whose mission is to invest savings aimed at contributing to an adequate standard of living for the population, should the production of hydrocarbons ever come to an end. The fund is entirely owned by the state, which entrusts its management to the Sovereign Fund for Strategic Investment (FONSIS);
- The revenues cover primarily capital expenditures. Salary expenses are excluded;
- In order to strengthen transparency and oversight, revenues are deposited in a Treasury account at the BCEAO.

36. In terms of governance, the management of hydrocarbon revenues is subject to the rules of accuracy, transparency, monitoring, and oversight set out in the Organic Law on Budget Laws and the Law on the Code of Transparency in Public Financial Management. Thus, in order to guard against excessive long-term budgetary commitments when revenues experience a temporary upturn, annual budget deficit targets are set according a fiscal rule defined in the multi-year budget and economic programming document (SB/RT, June 2022). The Stabilization Fund and the Intergenerational Fund have their own individual investment strategies, approved at a meeting of the Oil and Gas Strategic Orientation Committee (COS PETROGAZ) chaired by the President of the Republic. In terms of accountability, the draft law reaffirms the role of government oversight bodies and authorities in the management of hydrocarbon revenues.

V. PROGRAM MONITORING

37. Program monitoring. Under the PCI, the program will be monitored using quantitative targets, continuous targets, and reform targets. Quantitative targets for end-June 2021, end-December 2021, and end-June 2022 as well as a quantitative target to be monitored on an ongoing basis, are proposed (Tables 1a and 1b). The government and IMF staff also agreed on the reform targets in Table 2. The fourth review should be completed by December 31, 2021; the fifth review by June 30, 2022; and the sixth review by December 31, 2022. Under the SBA/SCF, the program will be subject to semi-annual reviews, and will be monitored through performance criteria, indicative targets and structural benchmarks, as set out in Tables 1c and 2. Definitions are provided in the Technical Memorandum of Understanding attached to this MEFP/Program Statement.

Table 1a. Senegal: Quantitative Targets 2020–22

	2020							2021		2021		2022
	Jun. QT			Dec. QT				Jun. QT		Dec. QT		Jun. QT
	Prog.	Act.	Status	Prog.	Adj.	Act.	Status	Prog.	Prop.	Prog.	Prop.	Prop.
Quantitative Targets												
Floor on net lending/borrowing[1]	760	789	Not Met	873	908	903	Met	450	620	744	817	448
Ceiling on central government's overall net financing requirement[2]	…			1,064	1,099	1,094	Met	…	…	774	847	…
Ceiling on the amount of the budgetary float[3]	40	37	Met	40	40	14.3	Met	…	…	…	…	…
Floor on tax revenue	1,059	1,148	Met	2,295	2,295	2,368	Met	1,132	1,082	2,500	2,500	1,313
Ceiling on the share of the value of public sector contracts signed by single tender (percent)	15	51	Not Met	15	15	21.8	Not Met	15	15	15	15	15
Floor on social expenditures (percent of total spending)	35	45	Met	35	35	46	Met	35	35	35	35	35
Ceiling on total nominal public debt (CFAF billion)[6]	…			10,234	10,234	10,042	Met	…	…	10,275	11,024	…
Ceiling on spending undertaken outside normal and simplified procedures[4]	0	0	Met	0	0			25	25	43	43	20
Ceiling on public sector external payment arrears (stock)[5]	0	0	Met	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				35	35	46				20	20	
Memorandum items:												
Program grants				241		195				64	64	
Clearance of pre-2019 comptes de dépôt stock				121		107				0	0	
Net Domestic and Regional Financing of the Government						469				500	350	

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 and to make deposits for the liquidity support scheme. From 2021 onwards, it incorporates a potential additional financing need to prepay for external operations that are repayed with a delay by international organizations.

[3] To be discontinued after December 2020 as no longer critical to achieve program objectives.

[4] From 2021 onwards redefined as "Ceiling on spending through simplified procedures for non-personalized services" to target the share of simplified procedures.

[5] This constitutes a standard continuous target.

[6] US$ debt converted at program exchange rate at end 2020.

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 conclude bilateral payments agreements that are inconsistent with Article VIII
- Not to impose or intensify import restrictions for balance of payments reasons

Table 1c. Senegal: Performance Criteria and Indicative Targets 2021–22

	2021	2021	2022
	Jun.	Dec.	Jun.
	Prop.	Prop.	Prop.
Performance Criteria			
Floor on net lending/borrowing[1]	620	817	448
Ceiling on central government's overall net financing requirement[2]	...	847	...
Floor on tax revenue	1,082	2,500	1,313
Ceiling on public sector external payment arrears (stock)[3]	0	0	0
Ceiling on total nominal public debt (CFAF billion)	...	11,024	...
Indicative Targets			
Ceiling on the share of the value of public sector contracts signed by single tender (percent)	15	15	15
Floor on social expenditures (percent of total spending)	35	35	35
Ceiling on spending through simplified procedures for non-personalized services	25	43	20
Maximum upward adjustment of the overall deficit ceiling owing to			
Shortfall in program grants relative to program projections		20	
Memorandum items:			
Program grants	...	64	...
Net Domestic and Regional Financing of the Government	...	350	...

Sources: Senegal authorities; and IMF Staff estimates.

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

[2] This PC allows for the net financing needs of the central government to be larger than the floor on net lending/borrowing to cover potential additional financing needs to prepay for external operations that are repayed with a delay by international organizations.

[3] This constitutes a standard continuous target.

Table 2. Senegal: Structural Benchmarks/Reform Targets for 2020–22

Description	Target Date	Status	Proposed Modification
Pillar 1 Achieving inclusive growth			
Set up a centralized and integrated land management system which will digitalize land management procedures.	End June 2021		Reset for end December 2021
Implement the M-tax that enables taxpayers to file and pay their taxes by mobile phone.	**End December 2020**	**Met**	
Update and extend 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	End December 2021		Reset for end June 2022
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			
Operationalize the MTRS by: (i) appointing the MTRS strategic committee; (ii) adopting the revised 2021-23 implementation plan; and (iii) adopting the monitoring and evaluation plan	End June 2021		New SB/RT
Prepare a semi-annual report on the use of information from the the interconnection and cooperation between the customs and the tax administration.	**semi-annual starting with end December 2020**	**Met**	
Raise prepayments on income taxes at customs for unregistered taxpayers to encourage them to join the formal system.	**End December 2020**	**Not met**	
Publish the tax expenditure report for year N-2 annually on the website of the Ministry of Finance and Budget	Annually, starting at end June 2021		
Finalize a study to identify a program to reduce tax exemptions over 2021-2023, starting with those that have the least redistributive impact in favor of the most vulnerable segments of the population	End June 2021		
Include in the 2022 budget law measures aiming at reducing tax expenditures by at least CFAF 25 billion	End December 2021		New SB/RT
Expand the tax base by increasing the number of registered taxpayers at the Directorate in charge of small and micro-enterprises that regularly pay taxes by 75,000 and tax at the source an additional 40,000 employees regularly contributing to the pension and social security funds.	End June 2022		New SB/RT
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**	
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 2021		Proposed to drop
Merge all funds for the financing of youth and women into a single fund	End December 2021		New SB/RT
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 December 2020**	**Met**	
Adopt a decree implementing the PPP law that (i) ensures Ministry of Finance and interministerial committee approval of all PPP contracts, (ii) limits simplified procurement procedures and unsolicited offers to clearly-defined exceptional circumstances with clear safeguards, and (iii) introduces good practices for transparency and local ownership, including by a requirement to publish information on all new PPP contracts.	End June 2021		New SB/RT
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**	**Met**	
Prepare an inventory of the accounts of all agencies and public establishments in commercial banks	**End December 2020**	**Met**	
Identify all bank accounts of public entities with own revenues in order to determine the accounts to be closed at the end of June 2022, and set out a roadmap for the gradual closure of all accounts of public entities that are part of the treasury single account, including solutions to possible legal obstacles posed by the legal autonomy of certain structures	End December 2021		New SB/RT
Close remaining accounts of all public agencies and entities in commercial banks and repatriate the balances to the single treasury account.	End December 2022		Proposed to drop
External audit of the public debt database, including SOE debt.	**End December 2020**	**Not met**	
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			
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 December 2020**	**Not met**	**Reset for end June 2021**
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 2021		Reset for end June 2022

Attachment II. Technical Memorandum of Understanding

This technical memorandum of understanding (TMU) defines the quantitative performance criteria and indicative targets (quantitative targets under the Policy Coordination Instrument) and continuous targets described in the memorandum of economic and financial policies to monitor the arrangement under the Standby Credit Facility and Stand-By Arrangement for the period June 2021–December 2022 and under 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 performance criteria, indicative targets and quantitative targets as of specified test dates and on a continuous basis. Specifically, the first review (fourth review under the PCI) will assess the end-June 2021 test date, the second review (fifth review under the PCI) will assess the end-December 2021 test date and the third review (sixth review under the PCI) will assess the end-June 2022 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 Performance Criteria (Quantitative Program Targets under the PCI)[1]

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 performance criterion 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 upward or downward by the amount that budget grants exceed or fall short of program projections up to a maximum amount as specified in Table 1 of the memorandum of economic and financial policies. If budget grants exceed their projected level, the floor on net lending/borrowing, or the overall fiscal balance, will be reduced by up to a maximum amount as specified in Table 1 of the memorandum of economic and financial policies.

[1] References to "quantitative performance criteria" under this section, which relate to the SBA/SCF arrangements, also encompass "quantitative targets" under the PCI.

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 performance criterion 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 2021, this quantitative performance criterion would need to be lower or equal to the amount indicated in Table 1 of the memorandum of economic and financial policies.

8. **Adjustment.** The ceiling is adjusted downward or upward by the amount that budget grants exceed or fall short of program projections up to a maximum amount as specified in Table 1 of the memorandum of economic and financial policies. If budget grants exceed their projected level, the floor on net lending/borrowing, or the overall fiscal balance, will be reduced by up to a maximum amount as specified in Table 1 of the memorandum of economic and financial policies.

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.

Floor on Tax Revenues

10. 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 performance criterion 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).

11. Reporting Requirement. Reporting requirements are the same as for the quantitative performance criterion on net lending/borrowing.

Ceiling on Total Nominal Public Debt

12. Definition. Debt for this quantitative performance criterion 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/SDR 817 for 2021 CFAF/US$ 534.5 and CFAF/SDR 775.8.

13. 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, Air Senegal and SONACOS. 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 Public Sector External Payments Arrears (Continuous)

14. 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 performance criterion on external payments arrears will be monitored on a continuous basis.

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

C. Indicative Targets (Quantitative Targets under the PCI) and Memorandum Item[2]

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

16. 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 indicative target will apply to total public sector contracts entered into by the Government or by any entity subject to the procurement code. The ceiling on contracts executed by single tender will exclude classified purchases and fuel purchases by SENELEC for electricity production reflected in a new regulation that 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.

17. 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

18. 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

[2] References to "indicative targets" under this section, which relate to the SBA/SCF arrangements, also encompass "quantitative targets" under the PCI.

social expenditure). The floor will be evaluated on a semiannual basis.

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

Ceiling on Spending Through Simplified Procedures for Non-personalized Services

20. Definition. This indicative target is defined as the share of central government expenditures for non-personalized services executed through simplified procedures in total transfers. These procedures relate to "*Demandes de mise en règlement immédiat* » or DMRI and "*Dépenses sans ordonnancement préalable* » or DSOP.

21. Reporting Requirements. The government will report semi-annually to Fund staff the total amount of spending on transfers, and the total amount of spending for non-personalized services executed through transfers on treasury deposit accounts, within six weeks of the end each semester.

Net Domestic and Regional Financing of the Government (Memorandum Item)

22. Definition. Net domestic and regional financing of the government is defined on the basis of the TOFE as the sum of the net accumulation of liabilities including (i) securities issued on the regional market (WAEMU), including T-bills, T-bonds, and Sukkuk) and (ii) direct domestic loans in CFAF (including other loans and excluding the counterpart of IMF financing). The accumulation of other accounts payable does not correspond to domestic or regional financing for this memorandum item. The indicative target will be monitored annually for the budgetary central government.

23. Reporting Requirements. Data on net domestic and regional financing will be transmitted quarterly with the TOFE and a maximum delay of two months.

D. Additional Information for Program Monitoring

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

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

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

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

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

26. A monthly 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.

27. 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.

28. The central bank will transmit to Fund staff:

- 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 semi-annual 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 semi-annual basis, with a maximum delay of four and a half months after the closing of accounts for prudential ratios and six months for the financial soundness indicators.

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

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

(b) SIGFIP execution table, the table for the central Government and a summary table including regions, with a delay of two weeks;

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

INTERNATIONAL MONETARY FUND

SENEGAL

May 21, 2021

THIRD REVIEW UNDER THE POLICY COORDINATION INSTRUMENT AND REQUEST FOR MODIFICATION OF QUANTITATIVE TARGETS, AND REQUESTS FOR A STAND-BY ARRANGEMENT AND AN ARRANGEMENT UNDER THE STANDBY CREDIT FACILITY—DEBT SUSTAINABILITY ANALYSIS

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

Senegal: Joint Bank-Fund Debt Sustainability Analysis	
Risk of external debt distress:	*Moderate*[1]
Overall risk of debt distress	*Moderate*
Granularity in the risk rating	*Limited scope to absorb shocks*
Application of judgment	*No*

Senegal's faces a moderate risk of overall debt distress (external and public) under the current baseline scenario, with limited scope to absorb shocks in the near term. This rating is predicated on a gradual recovery from the COVID-19 pandemic, adherence to a prudent fiscal path (in line with regional convergence criteria) and strengthened debt management. The outlook for Senegal remains highly uncertain, primarily a reflection of uncertainty regarding the path of the COVID-19 pandemic, the pace of the vaccination campaign, and developments in key trading partners. Continued debt sustainability will need to be anchored in a prudent borrowing strategy that prioritizes concessional external borrowing and domestic regional financing in line with programmed financing needs, combined with continued efforts to strengthen debt management and contain fiscal risks.

[1] Senegal's debt carrying capacity is classified as strong (calculated based on the October 2020 WEO and 2019 World Bank's Country Policy and Institutional Assessment (CPIA) score). The applicable thresholds to public and publicly guaranteed external debt are: 55 percent for the Present Value (PV) of debt-to-GDP ratio, 240 percent for the PV of debt-to-exports ratio, 21 percent for the debt service-to-exports ratio, and 23 percent for the debt service-to-revenue ratio. The applicable benchmark for the PV of total public debt for strong debt carrying capacity is 70 percent of GDP.

DEBT COVERAGE

1. **This DSA uses a broad definition of public debt**. The assessment includes public and publicly-guaranteed debt held by (i) the central government, (ii) para-public entities, and (iii) state-owned enterprises (SOEs), combining data provided by the authorities with information compiled by IMF technical assistance (Text Table 1).[2] The DSA classifies external and domestic debt based on currency, given data constraints that prevent the use of a residency-based definition. In terms of contingent risks, the default financial sector shock of 5 percent of GDP is more than adequate to cover potential bank recapitalization needs discussed in the staff report, which are estimated to be less than 1 percent of GDP.

Text Table 1. Senegal: Coverage of Public Sector Debt and Design of the Contingent Liability Stress Test

	Subsectors of the public sector	Sub-sectors covered
1	Central government	X
2	State and local government	X
3	Other elements in the general government	X
4	o/w: Social security fund	X
5	o/w: Extra budgetary funds (EBFs)	X
6	Guarantees (to other entities in the public and private sector, including to SOEs)	X
7	Central bank (borrowed on behalf of the government)	X
8	Non-guaranteed SOE debt	X

1	**The country's coverage of public debt**	The entire public sector, including SOEs			
		Default		**Used for the analysis**	**Reasons for deviations from the default settings**
2	Other elements of the general government not captured in 1.	0	percent of GDP	0.0	
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2	percent of GDP	0.0	Already included in definition of government debt
4	PPP	35	percent of PPP stock	2.1	PPP capital stock of 6 percent of GDP is larger than 3 percent threshold
5	Financial market (the default value of 5 percent of GDP is the minimum value)	5	percent of GDP	5.0	
	Total (2+3+4+5) (in percent of GDP)			7.1	

1/ The default shock of 2% of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1.). If it is already included in the government debt (1.) and risks associated with SoE's debt not guaranteed by the government is assessed to be negligible, a country

2. **Efforts are underway to strengthen the quality and coverage of public debt data.** The national debt committee (CNDP), chaired by the Minister of Finance, has been revitalized in the past year and is now reviewing all large public investment decisions, including those by SOEs. As part of the Fund-supported program, the authorities have engaged an audit firm to conduct an audit to assess whether the recording and communication of data on public debt (including the debt of the SOE sector) is accurate, exhaustive and in line with best practices. This should help improve the quality and timeliness of the data available to the authorities for planning and debt management purposes. Following some administrative delays, the audit is expected to be completed in the first half of 2021.

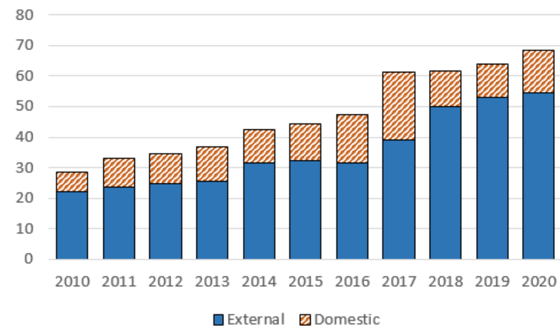
[2] The inclusion of para-public enterprises and SOEs began in 2017. The list of entities covered by the DSA is provided in the Technical Memorandum of Understanding. The 2018 public sector balance sheet was compiled with support from Fund TA. Previous DSAs erroneously indicated that the social security system was not covered by the debt perimeter.

BACKGROUND

3. Public sector debt levels have risen significantly in recent years. Increases in public investment have driven a substantial increase in public spending—particularly in 2017–18—linked in part to Senegal's national development plan, the Plan Senegal Emergent (PSE), and financial support for large state-owned enterprises. In addition, the perimeter of public debt was expanded in 2017 to capture public and para-public enterprises, creating a structural break in the data (Text Figure 1).[3]

4. Senegal has successfully accessed the Eurobond market on several occasions: in 2011 (US$500 million), 2017 (US$1.1 billion), and 2018 (US$2.2 billion). These Eurobonds have increased Senegal's external non-concessional debt and represent the largest source of commercial debt service. They also helped create space in the regional bond market for other WAEMU members and supported the build-up of much-needed WAEMU pooled reserves.

Text Figure 1. Senegal: Public Sector Debt
(percent of GDP)



Sources: Senegalese authorities, IMF estimates and projections.

5. The COVID-19 pandemic has contributed to higher public sector external debt and total public debt. As of end-December 2020, public sector external debt stood at 54.1 percent of GDP, compared to a projected 51.9 percent at the time of the last full DSA in January 2020.[4] Total public sector debt reached 68.7 percent of GDP, about 7 percentage points higher than the pre-pandemic forecast. This largely reflects the impact of the COVID-19 shock, which affected both external and domestic demand and led to lower economic growth (1.5 percent of GDP compared to a pre-crisis forecast of 6.8 percent of GDP) and a higher public sector deficit (6.3 percent of GDP compared to a pre-crisis forecast of 3 percent of GDP). Other debt creating flows in 2020 include below-the-line financing for capital transfers ("compte de dépôt") and the COVID guarantee fund (1.3 percent of GDP).[5]

6. Both external and total public debt service remain substantial. The ratio of public external debt service to exports reached 24.2 percent in 2020, reflecting the decline in exports due to the COVID shock and the below-the-line financing items noted above. This ratio is expected to improve to around 17.5 percent in 2021 as the recovery takes hold and the country benefits from the G-20 debt service relief initiative (discussed below). The ratio of public external debt service to revenue rose from 11.2 percent in 2019 to 16.4 percent in 2020 and is projected to average about 15 percent over the medium term. Total public debt service absorbed about 24 percent of revenue and grants in 2020 and is expected to remain at

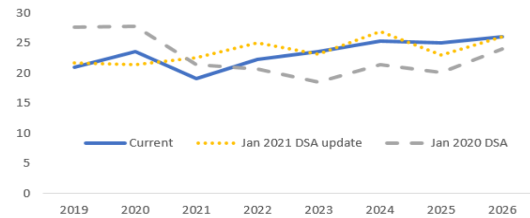
[3] Senegal is the only WAEMU member country to use this broader definition of public sector debt.

[4] IMF Country Report No. 20/11. The subsequent DSAs published in April 2020 (IMF Country Report No. 20/108) and January 2021 for the 2nd PCI review (IMF Country Report No. 21/18) were streamlined.

[5] The residual is largely explained by the fact that the LIC DSF calculates the real exchange rate effects on the automatic debt dynamics using the assumption that all external debt is denominated in USD. In fact, only about a third of Senegal's external public debt is denominated in USD.

that level on average over the medium term (Text Figure 2). The debt service projection includes substantial Eurobond repayments scheduled for 2024 and 2026. The authorities are considering a new Eurobond issuance in 2021 for liability management purposes, to smooth out the large amortization payments over time, but this has not yet been included in the baseline as the details have not yet been finalized.

Text Figure 2. Senegal: Public Debt Service to Revenue and Grants
(percent)



Sources: Senegalese authorities, IMF estimates and projections.

7. **Senegal is participating in the G-20 Debt Service Suspension Initiative (DSSI).** The DSSI is a net-present-value (NPV) neutral exercise intended to provide eligible members with liquidity relief to allow them to focus more resources on responding to the COVID-19 pandemic. The DSSI provided around CFAF 30 billion in debt service relief (0.2 percent of GDP), including CFAF 6 billion in interest (0.04 percent of GDP)) over May-December 2020. The G-20's decision to extend the initiative until the end of 2021 is expected to result in additional debt service relief of CFAF 91 billion (0.6 percent of GDP), including CFAF 19 billion in interest (0.1 percent of GDP). Repayments will occur over 2022–27 and average about CFAF 20 billion per year.

BASELINE SCENARIO

8. **The macroeconomic assumptions underlying the projections are consistent with the proposed program baseline for the SCF/SBA**. This includes higher growth in 2020 than anticipated at the time of the 2nd PCI review (January 2021), but also a more subdued recovery in 2021 as the 2nd wave of the COVID-19 pandemic takes a toll on economic activity. The DSA assumes that the authorities implement the macroeconomic policies and structural reforms outlined in the staff report, including a return to a central government fiscal deficit of 3 percent of GDP by 2023, consistent with the WAEMU convergence criterion. Long-run macroeconomic assumptions remain largely unchanged from the DSA update at the time of the 2nd PCI review. The main macroeconomic assumptions are as follows:

- **Real GDP Growth.** Senegal's real GDP growth rate is estimated to be 1.5 percent in 2020, with 3.7 percent projected for 2021, compared to -0.7 percent and 5.2 percent at the time of the 2nd PCI review, respectively. The growth rate is projected to peak at 10.8 percent of GDP in 2023 before declining to 6.1 percent in 2024, reflecting the incorporation of oil and gas production (see below). Over the long run, real GDP growth is projected to be about 5 percent.
- **Oil and gas**. The framework includes all three phases of the Sangomar (SNE) offshore oil field development and the Greater Tortue Ahmeyim (GTA) gas project, which continue to be developed despite the pandemic.[6] Production is expected to begin in the second half of 2023. The borrowing needs of Petrosen (the state-owned oil company) for both SNE and GTA are estimated at CFAF 1,228 billion from 2020 through 2037 (Text Table 2) although these estimates are subject to change as the projects are further developed. The Yakaar-Taranga project, which is also under development, has not been included in the DSA as it has not yet reached a final investment decision.

[6] GTA is exploited jointly with Mauritania.

Text Table 2. Senegal: Oil and Gas: Petrosen Borrowing Assumptions[1]

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030-2037	Total
CFAF billions	131	195	163	124	102	65	90	62	58	55	182	1,228
% of GDP	0.24%	0.92%	1.30%	1.01%	0.68%	0.52%	0.31%	0.40%	0.26%	0.22%	0.19%	

1/ As the projects are under development, these figures are subject to change

Source: Senegalese authorities, IMF staff projections.

- **Inflation.** Inflation is projected to remain contained at about 2.2 percent in 2021 and to hover around 1.5 percent over the medium term.
- **Public sector deficit.** The public sector deficit—which includes the central government deficit and the net lending and borrowing of SOEs—is estimated to have reached 6.4 percent of GDP in 2020. This mainly reflects the higher fiscal deficits from the central government and large investments by Petrosen. The deficit is projected to be 5.4 percent of GDP in 2021 before gradually declining to around 3 percent over the medium term, reflecting improved government fiscal balances, lower financing needs in the hydrocarbon sector, and efforts to strengthen the financial performance of SOEs.
- **Revenues.** Relative to 2019, the central government's tax revenue declined by almost 1 percent of GDP due to the pandemic, down to 16.7 percent of GDP. Tax revenues are projected to gradually increase to about 20 percent of GDP in 2024 in line with the objectives of the medium-term revenue strategy and are expected to stay above that level over the medium term. This will be supported by the steady implementation of reforms to support revenue mobilization, with a focus on expanding the tax base and reducing tax expenditures. Oil and gas-related revenues are likely to have a significant impact from 2023 onwards.
- **Current account deficit.** The baseline scenario assumes a current account deficit of 10.5 percent in 2020 and 11.3 percent in 2021, broadly in line with the 2nd PCI review. This reflects the protracted impact of the pandemic as well as the significant ongoing investments in the hydrocarbon sector. The current account deficit is projected to sharply decline in 2023 as oil and gas exports are expected to kick in.

9. **The DSA assumes a financing mix consistent with a prudent borrowing strategy, emphasizing external financing on concessional terms in the near term but gradually increasing the share of domestic debt over time.** Financing for the revised 2021 budget will be filled mostly with grants and concessional and semi-concessional loans (Text Figure 4), including from the World Bank, African Development Bank, and other bilateral partners. IMF financing under the SCF/SBA will reduce the need for Senegal to borrow on the regional market in 2021 and 2022. Beyond that, the authorities' medium-term debt strategy targets a gradual shift away from external financing denominated in U.S. dollars to reduce foreign exchange risk and a greater reliance on the regional CFAF market. Accordingly, the DSA assumes that domestic borrowing will increase over time and account for an average of about 35 percent of total financing over 2022–26, from about 18 percent currently. External commercial borrowing (Eurobonds) is assumed to gradually increase over the long term (with new issuances equivalent to the stock of maturing Eurobonds plus 20-30 percent) as Senegal shifts away from concessional external borrowing to access the market more regularly.

Text Table 3. Senegal: Evolution of Selected Macroeconomic Indicators

	2021	2022	2023	2024	Med. term[1]	Long term [2]
Real GDP growth						
Current DSA	3.7	5.5	10.8	6.1	6.3	5.2
Previous DSA[3]	5.2	6.0	11.9	8.7	6.2	5.1
Overall fiscal deficit (percent of GDP)[4]						
Current DSA	6.6	4.9	3.2	3.1	4.1	2.7
Previous DSA	5.8	5.2	4.0	3.5	4.8	2.7
Current account deficit (percent of GDP)						
Current DSA	11.3	10.5	5.5	3.2	6.9	3.2
Previous DSA	10.7	10.6	4.6	3.6	7.4	1.3
Exports of goods and services (percent of GDP)						
Current DSA	19.8	22.8	31.7	36.0	29.2	32.6
Previous DSA	22.3	24.1	32.7	34.1	28.1	32.2

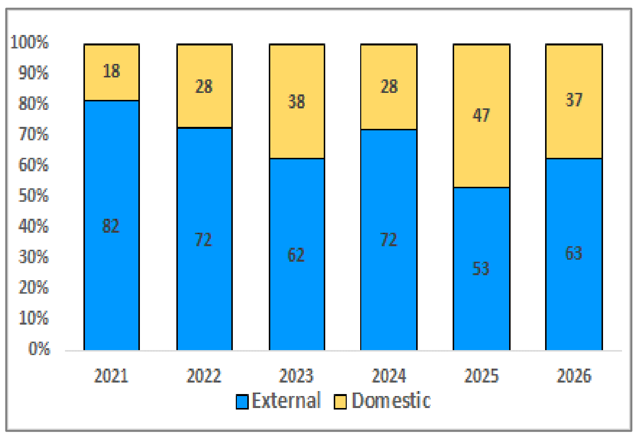
[1] Defined as the first 5 years of the projection period (2021-2025). For previous DSA 2020-2024.
[2] Defined as the last 16 years of the projection period (2026-2041). For previous DSA 2025-2040.
[3] 2nd PCI Review (Jan 2021)
[4] Overall fiscal deficit of General Government and Public Sector.

Source: IMF staff estimates and projections.

Text Figure 4. Senegal: 2021 Borrowing Plan and Financing Assumptions

PPG Debt	CFAF (billions)
Central Government	1415
External	
Concessional/Semi-concessional 1/	881
Commercial 2/	0
Domestic	334
Public/Parapublic enterprises (net)	250
Total - Public Sector	1665
Use of Financing	
Fiscal deficit (central government) 3/	796
Amortizations (central government)	619
Public/Parapublic enterprises (net)	250

1/ Debt with a positive grant element
2/ Debt without a positive grant element
3/ LFR budget deficit plus operational expenditures minus overfinancing from 2020



Source: Senegalese authorities, IMF staff estimates

10. The realism tools suggest that the proposed fiscal adjustment path is ambitious, but staff believe it is realistic under the circumstances. The assumed primary balance adjustment path of 4 percent of GDP over 2021-2023 is in the top quartile of the historical distribution for LICs (Figure 4). However, in the case of Senegal, a significant portion of the adjustment will come from the unwinding of temporary support measures introduced in response to the COVID-19 shock (estimated at 4.5 percent of GDP). Combined with the program's revenue-enhancing measures, staff believe that reaching the central government's 3 percent fiscal deficit target by 2023 is realistic, though not without risks. Separately, the projected economic growth rates in 2021 and 2022 are above the range of potential growth paths under various fiscal multipliers, but the COVID-19 pandemic and the related-recovery are not well-captured by the exercise. The DSA's realism tools do not signal any other signs of over-optimism in terms of large changes to investment or contributions to growth compared to previous DSAs (Figure 4).

COUNTRY CLASSIFICATION AND DETERMINATION OF STRESS TEST SCENARIOS

11. Senegal's debt carrying capacity is rated as strong. Based on data from the October 2020 World Economic Outlook database and the World Bank's 2019 Country Policy and Institutional Assessment (CPIA) score, Senegal's Composite Indicator (CI) is 3.19. This assessment affects the thresholds used to calculate the mechanical external debt risk ratings. Senega's CI score has decreased compared to the last vintage (3.30) due to lower Senegal and global growth and CPIA score, primarily reflecting the impact of the COVID-19 pandemic (Text Table 4).

Text Table 4. Senegal: Debt Carrying Capacity

Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.385	3.753	1.45	45%
Real growth rate (in percent)	2.719	6.291	0.17	5%
Import coverage of reserves (in percent)	4.052	39.093	1.58	50%
Import coverage of reserves^2 (in percent)	-3.990	15.283	-0.61	-19%
Remittances (in percent)	2.022	10.261	0.21	6%
World economic growth (in percent)	13.520	2.928	0.40	12%
CI Score			3.19	100%
CI rating			Strong	

Source: IMF staff estimates

12. The standard stress tests have been applied, along with a market financing shock. The use of a tailored stress test for market financing reflects Senegal's outstanding Eurobonds. The test assumes a temporary increase in the cost of new commercial external borrowing (by 400 basis points), a nominal depreciation of the CFAF relative to the US dollar, and a shortening of maturities and grace periods. The results do not flag any areas of concern (Figure 5).

EXTERNAL DSA

13. External debt indicators mostly remain below their thresholds under the baseline scenario, with the exception of a temporary one-off breach. In terms of the DSA's solvency metrics, public external debt is projected to peak at 57 percent of GDP in 2021 before reversing as the recovery and fiscal consolidation take hold (Table 1). The present value of debt to exports breaches the risk threshold in the first year of the baseline before steadily declining, aided by the anticipated exports from the hydrocarbon sector in 2023 and beyond. As a short-lived one-year breach, this is ignored for the DSA risk ratings. In terms of the liquidity indicators, the ratio of external debt service to exports hit 24 percent in 2020 but is projected to gradually decline, averaging about 16 percent over the medium term. Debt service to revenues is also projected to hover around 15 percent over the same horizon.

14. Three of the four external debt indicators breach their threshold under the sensitivity analysis. The most extreme shock is a shock to exports in the case of the present value of debt to GDP, debt-to-exports and debt service-to-exports ratios. Other breaches occur for the same three risk indicators under different scenarios as well (Table 3). The debt service-to-revenues indicators does not show any breaches of the thresholds after excluding the temporary one-off breach under the combination shock. Overall, these results point to potential vulnerabilities under adverse conditions, including a protracted or multi-speed global recovery that would hit Senegal's main export markets, or in case delays were to occur in the development of the hydrocarbon sector. Separately, the difference between the baseline and the historical scenario largely reflects the structural change implied by the anticipated oil and gas exports on the non-interest current account deficit (averaging 2.2 percent of GDP in the baseline against 6 percent in the historical scenario).

OVERALL RISK OF PUBLIC DEBT DISTRESS

15. The present value of public debt to GDP remains below its threshold under the baseline scenario. Total public debt is projected to peak at about 71 percent of GDP in 2021 before gradually declining (Table 2). The present value of debt to revenues is also projected to gradually decline over time. Debt service is projected to average about 24 percent of total revenues and grants over the next five years, which represents a significant portion of future fiscal revenues.

16. Stress tests indicate that Senegal is most vulnerable to a growth shock. Under such a shock (which simulates a growth rate of 2.4 percent in 2022–23), all three public debt indicators would be set on an explosive growth path. While this is an extreme shock (sweeping away part of the anticipated post-COVID recovery and the positive growth impact of oil and gas production), this underscores the importance of reforms to strengthen Senegal's medium-term growth potential combined with prudent fiscal deficits supported by enhanced domestic resource mobilization efforts.

RISK RATING AND VULNERABILITIES

17. Senegal remains at moderate risk of external debt distress, with limited capacity to absorb shocks in the near term (Figure 6). Heightened uncertainty over the global economic outlook suggests the need for a prudent approach that emphasizes macroeconomic stability and fiscal discipline, reforms to contain fiscal risks, and further efforts to strengthen debt management capacity.

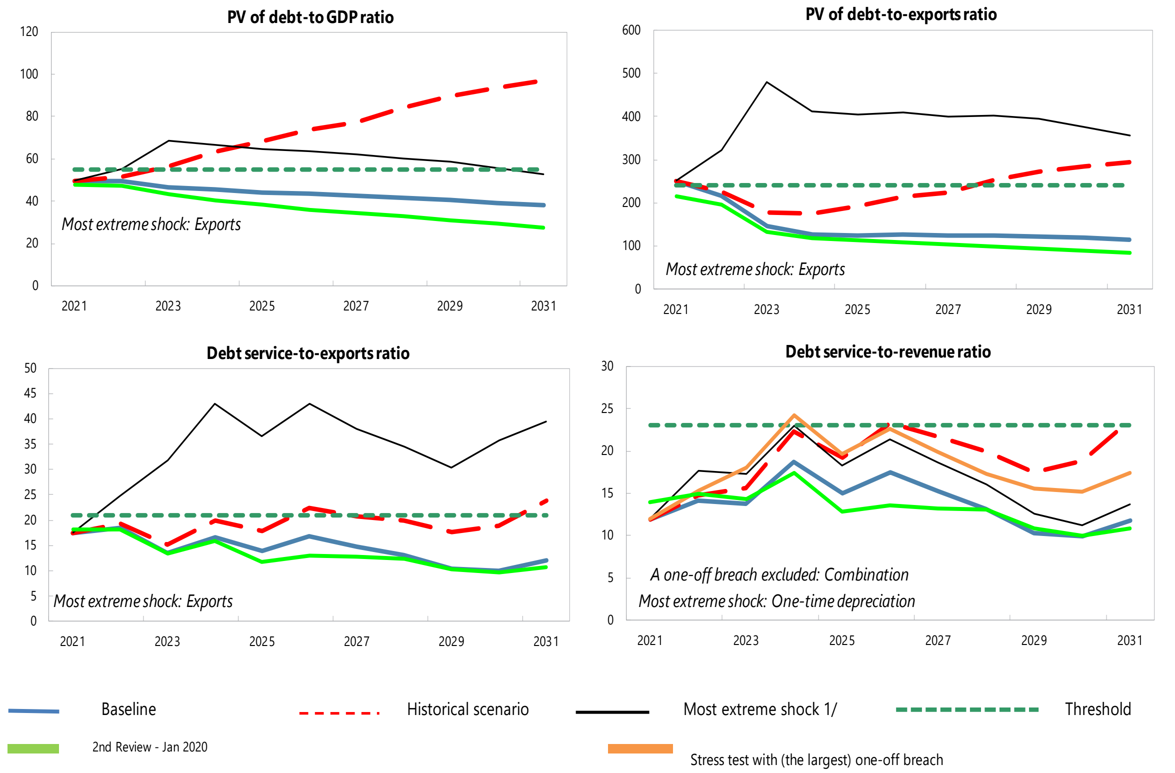
18. Senegal's overall risk of debt distress also remains moderate. Still, the relatively high debt service levels throughout the forecast period reduce the space for public expenditures in support of a robust and inclusive economic recovery. The authorities should prioritize further efforts to mobilize additional revenues and seek out concessional borrowing where possible in the near term.

19. There are significant risks to the assessment. The outlook depends primarily on how quickly the COVID-19 pandemic can be contained in Senegal and its major trading partners. A rapid vaccination campaign would allow the government to ease restrictions on economic activity, supporting economic growth. By contrast, a slower recovery due a prolonged outbreak or delays in obtaining an adequate vaccine supply could further lower economic prospects. A quicker recovery in advanced economies could result in higher global interest rates, making market access more expensive for Senegal as it looks to rollover forthcoming Eurobond repayments. Likewise, higher oil prices resulting from a quicker global recovery could result in higher budgetary costs due to domestic fuel subsidies. Over the medium term, sustained higher oil prices would increase the profitability of the new hydrocarbon projects, thereby strengthening the external and fiscal outlook. However, delays in hydrocarbon production would have an adverse impact on growth, revenues, and debt sustainability. Natural disasters, security concerns, and the potential for socio-political unrest are also risks.

AUTHORITIES' VIEWS

20. The authorities broadly share staff's assessment. They agree that risks to debt distress are moderate and that there is limited space to absorb shocks in the near term. Accordingly, the authorities are committed to contain risks to the debt path by adhering to the agreed debt ceiling, limiting non-concessional borrowing solely to projects with high prospective return, and implementing a medium-term debt strategy that seeks to mitigate exchange rate risks. This will be supported by efforts to strengthen the operational capacity of the CNDP and progressively improve their capacity to monitor debt-related developments in publicly and publicly owned enterprises.

Figure 1. Senegal: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2021–31



Customization of Default Settings	Size	Interactions
Tailored Stress		
Combined CL	Yes	
Natural disaster	n.a.	n.a.
Commodity price	n.a.	n.a.
Market financing	No	No

Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

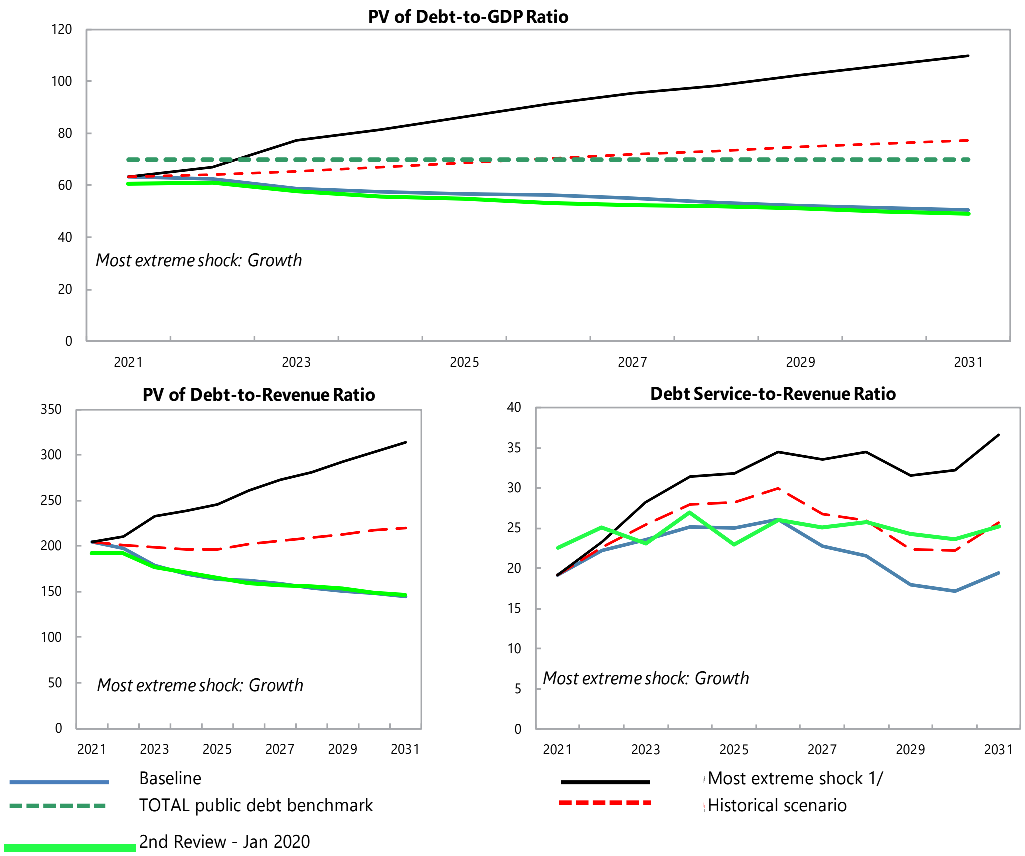
Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	3.8%	3.8%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	17	17
Avg. grace period	6	6

* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2031. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Figure 2. Senegal: Indicators of Public Debt Under Alternative Scenarios, 2021–31



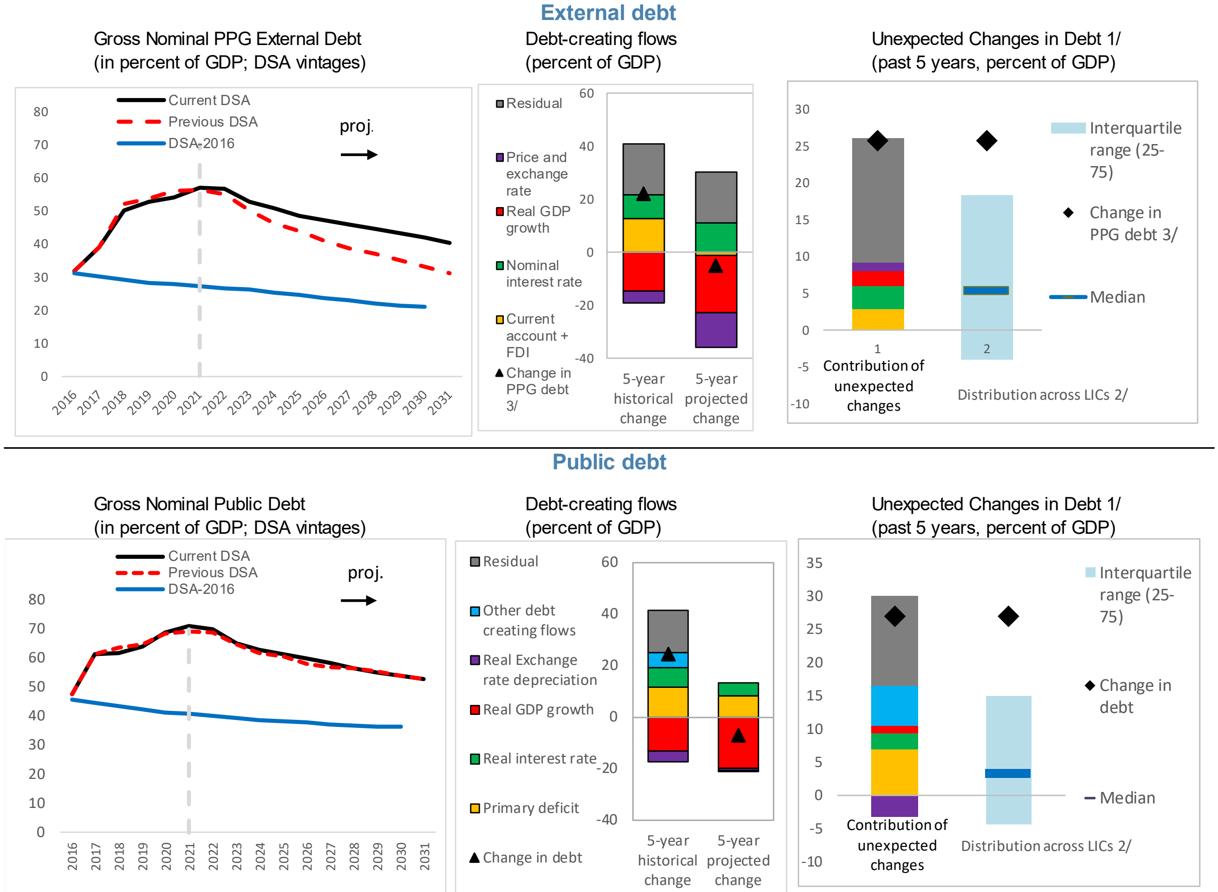
Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	64%	64%
Domestic medium and long-term	33%	33%
Domestic short-term	4%	4%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	3.8%	3.8%
Avg. maturity (incl. grace period)	17	17
Avg. grace period	6	6
Domestic MLT debt		
Avg. real interest rate on new borrowing	4.0%	4.0%
Avg. maturity (incl. grace period)	5	5
Avg. grace period	3	3
Domestic short-term debt		
Avg. real interest rate	3.1%	3.1%

* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2031. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Figure 3. Senegal: Driver of Debt Dynamics—Baseline Scenario, 2016–31



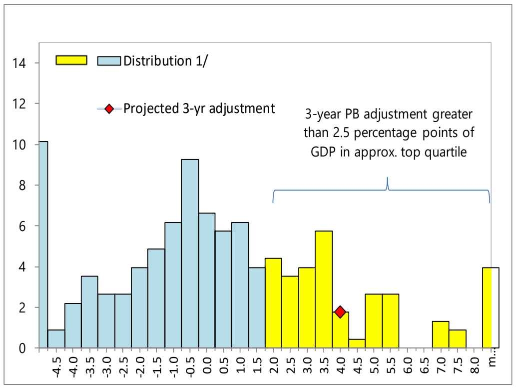
1/ Difference between anticipated and actual contributions on debt ratios.

2/ Distribution across LICs for which LIC DSAs were produced.

3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

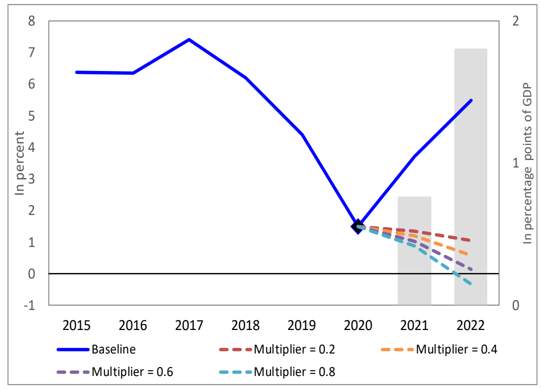
Figure 4. Senegal: Realism Tools, 2015–26

3-Year Adjustment in Primary Balance
(Percentage points of GDP)



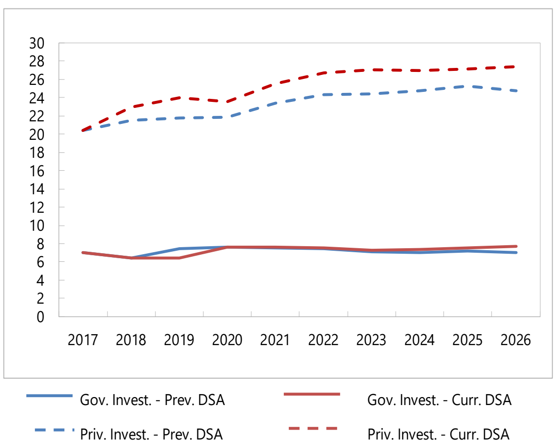
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/



1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates
(percent of GDP)



Contribution to Real GDP growth
(percent, 5-year average)

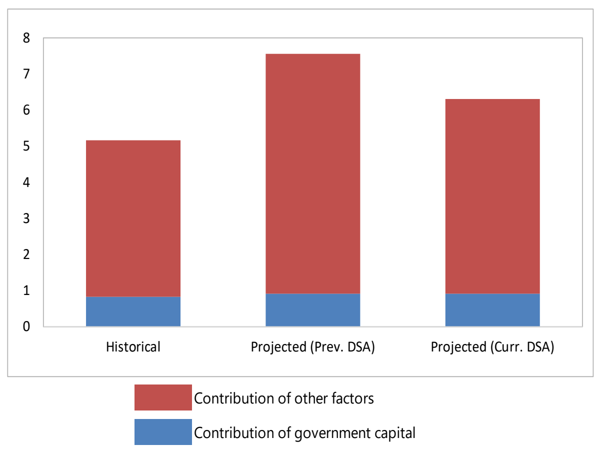
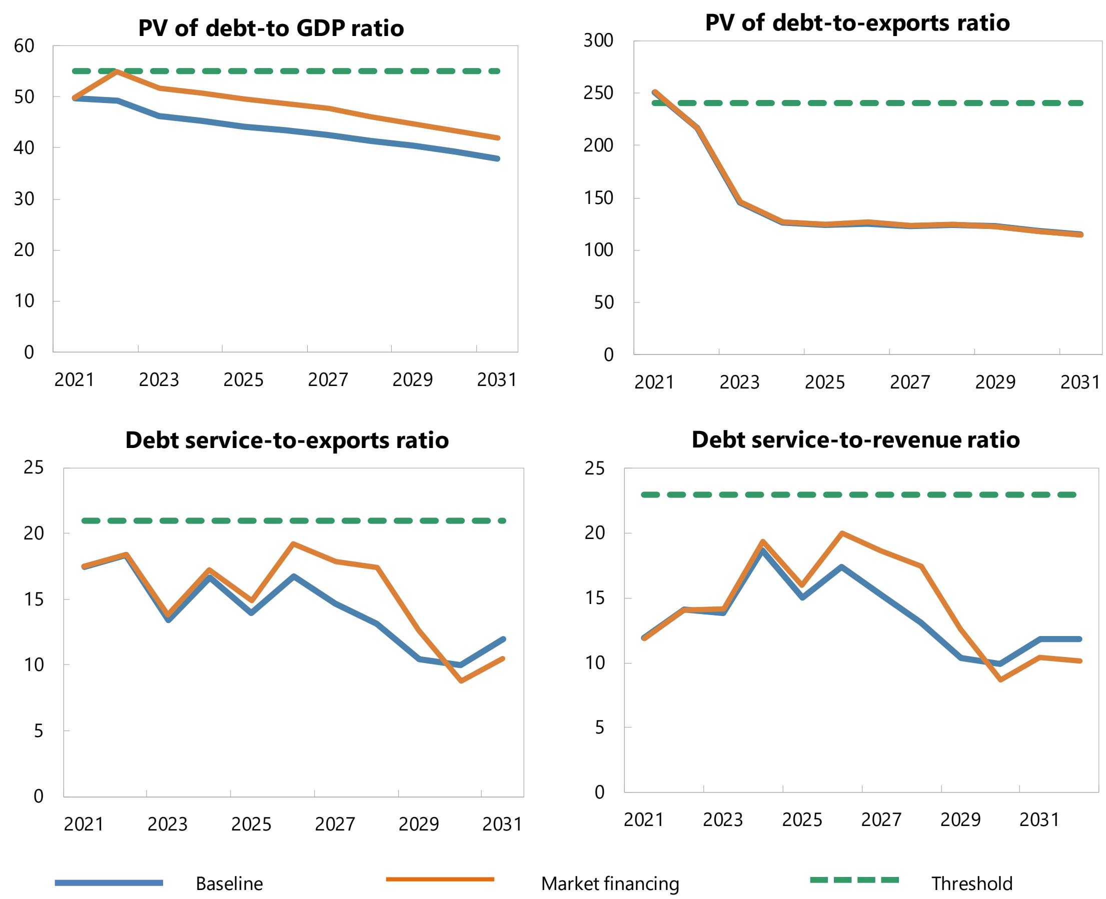


Figure 5. Senegal: Market-Financing Risk Indicators, 2021–31

	GFN 1/	EMBI 2/
Benchmarks	14	570
Values	10	407
Breach of benchmark	No	No
Potential heightened liquidity needs	Low	

1/ Maximum gross financing needs (GFN) over 3-year baseline projection horizon.
2/ EMBI spreads correspond to the latest available data.



Sources: Country authorities; and staff estimates and projections.

Figure 6. Senegal: Qualification of the Moderate Risk Category, 2021–31[1]

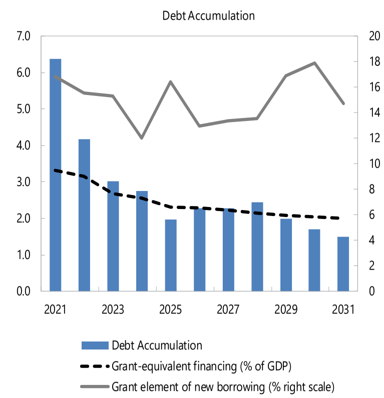
Sources: Country authorities; and staff estimates and projections.

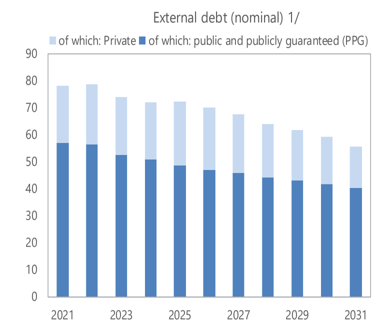
1/ For the PV debt/GDP and PV debt/exports thresholds, x is 20 percent and y is 40 percent. For debt service/Exports and debt service/revenue thresholds, x is 12 percent and y is 35 percent.

Table 1. Senegal: External Debt Sustainability Framework, Baseline Scenario, 2018–41

	Actual			Projections								Average 8/	
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2031	2041	Historical	Projections
External debt (nominal) 1/	70.0	73.9	75.4	78.0	78.8	74.1	72.1	72.2	70.1	55.8	24.2	59.5	68.5
of which: public and publicly guaranteed (PPG)	50.1	52.8	54.1	56.9	56.6	52.6	50.8	48.6	47.1	40.4	24.8	36.5	48.0
Change in external debt	8.2	3.9	1.4	2.7	0.7	-4.7	-2.0	0.1	-2.2	-3.4	-2.8		
Identified net debt-creating flows	-0.3	3.3	0.6	3.2	1.4	-6.6	-5.4	-4.3	-3.4	-2.0	-1.4	2.7	-2.6
Non-interest current account deficit	6.8	5.5	8.3	9.4	8.2	3.3	0.8	1.4	2.2	1.8	1.5	6.0	3.0
Deficit in balance of goods and services	15.1	14.3	17.7	19.0	15.2	8.4	5.5	5.9	4.7	1.8	1.1	14.8	6.1
Exports	23.6	25.0	19.3	19.8	22.8	31.7	36.0	35.6	34.5	33.0	32.8		
Imports	38.8	39.3	37.0	38.8	38.0	40.1	41.5	41.6	39.2	34.7	33.8		
Net current transfers (negative = inflow)	-8.9	-9.0	-9.6	-9.6	-9.0	-8.7	-8.6	-8.5	-8.5	-8.1	-7.6	-9.6	-8.5
of which: official	-0.3	0.1	-1.3	-0.5	-0.5	-0.4	-0.3	-0.1	-0.1	-0.1	-0.3		
Other current account flows (negative = net inflow)	0.6	0.1	0.2	0.0	2.0	3.6	3.9	3.9	6.0	8.1	8.1	0.8	5.4
Net FDI (negative = inflow)	-3.4	-4.3	-5.8	-5.6	-5.2	-4.5	-4.4	-4.5	-4.5	-2.8	-2.8	-2.6	-4.1
Endogenous debt dynamics 2/	-3.7	2.1	-1.9	-0.5	-1.7	-5.4	-1.8	-1.1	-1.2	-1.0	-0.1		
Contribution from nominal interest rate	2.0	2.7	2.2	1.9	2.2	2.2	2.4	2.5	2.4	1.9	1.2		
Contribution from real GDP growth	-3.5	-3.1	-1.0	-2.5	-3.9	-7.5	-4.2	-3.6	-3.6	-2.9	-1.3		
Contribution from price and exchange rate changes	-2.2	2.5	-3.1	...	...	...	...	...	...	...	...		
Residual 3/	8.6	0.6	0.9	-0.5	-0.7	1.9	3.5	4.4	1.2	-1.4	-1.4	0.7	0.8
of which: exceptional financing	1.1	-1.1	1.3	-0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	...	...	49.8	49.7	49.4	46.4	45.4	44.1	43.4	38.0	23.3		
PV of PPG external debt-to-exports ratio	...	...	257.7	251.2	216.6	146.0	126.1	123.8	125.7	115.1	71.0		
PPG debt service-to-exports ratio	15.9	13.3	24.2	17.5	18.4	13.4	16.7	14.0	16.8	11.9	8.6		
PPG debt service-to-revenue ratio	13.5	11.2	16.4	11.9	14.1	13.8	18.7	15.0	17.4	11.8	8.4		
Gross external financing need (Billion of U.S. dollars)	1.8	1.4	2.0	2.2	2.6	1.4	1.3	1.2	2.0	2.4	2.6		
Key macroeconomic assumptions													
Real GDP growth (in percent)	6.2	4.4	1.5	3.7	5.5	10.8	6.1	5.4	5.3	5.3	5.0	4.6	5.8
GDP deflator in US dollar terms (change in percent)	3.7	-3.5	4.3	8.8	3.5	2.0	1.9	1.9	1.5	1.9	2.2	0.0	2.7
Effective interest rate (percent) 4/	3.6	3.9	3.2	2.9	3.1	3.1	3.5	3.7	3.6	3.5	4.7	2.7	3.4
Growth of exports of G&S (US dollar terms, in percent)	19.2	6.7	-18.3	15.7	25.7	57.4	22.7	6.3	3.6	7.2	9.7	4.6	15.0
Growth of imports of G&S (US dollar terms, in percent)	19.6	2.3	-0.5	18.5	6.9	19.2	11.9	7.5	0.9	9.8	9.4	6.4	8.2
Grant element of new public sector borrowing (in percent)	...	...	...	16.9	15.5	15.3	12.0	16.4	13.0	14.7	16.9	...	15.0
Government revenues (excluding grants, in percent of GDP)	27.7	29.6	28.6	29.1	29.7	30.9	32.1	33.2	33.2	33.3	33.5	20.4	32.2
Aid flows (in Billion of US dollars) 5/	1.0	1.5	1.7	0.7	0.7	0.7	0.7	0.7	0.8	1.0	1.7		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	3.3	3.1	2.7	2.6	2.3	2.3	2.0	1.6	...	2.4
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	32.8	35.3	37.3	30.3	36.8	30.7	37.0	49.4	...	35.2
Nominal GDP (Billion of US dollars)	23	23	25	28	30	34	37	40	43	62	125		
Nominal dollar GDP growth	10.2	0.8	5.9	12.9	9.2	13.0	8.2	7.3	6.9	7.2	7.2	4.5	8.7
Memorandum items:													
PV of external debt 7/	...	...	71.1	70.8	71.6	67.8	66.7	67.7	66.3	53.3	22.7		
In percent of exports	...	...	368.1	357.8	314.1	213.7	185.3	190.1	192.1	161.6	69.3		
Total external debt service-to-exports ratio	19.1	18.7	29.8	21.3	23.6	16.8	20.1	17.3	20.2	14.9	10.4		
PV of PPG external debt (in Billion of US dollars)			12.3	13.9	15.0	15.9	16.9	17.6	18.5	23.4	29.0		
(PVt-PVt-1)/GDPt-1 (in percent)				6.4	4.2	3.0	2.7	2.0	2.3	1.5	0.0		
Non-interest current account deficit that stabilizes debt ratio	-1.4	1.5	6.8	6.7	7.5	8.0	2.8	1.3	4.4	5.2	4.3		

Definition of external/domestic debt	**Currency-based**
Is there a material difference between the two criteria?	**Yes**





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

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

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

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

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

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

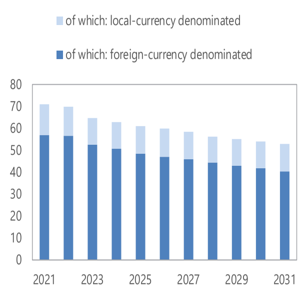
8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

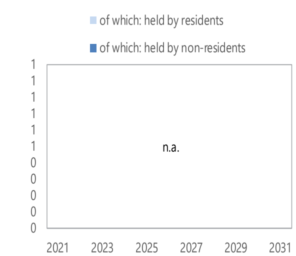
Table 2. Senegal: Public Sector Debt Sustainability Framework, Baseline Scenario, 2018–41

	Actual			Projections								Average 6/	
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2031	2041	Historical	Projections
Public sector debt 1/	61.5	63.8	68.7	70.9	69.9	64.9	62.8	61.1	59.9	52.8	44.6	49.4	60.6
of which: external debt	50.1	52.8	54.1	56.9	56.6	52.6	50.8	48.6	47.1	40.4	24.8	36.5	48.0
Change in public sector debt	0.4	2.3	4.8	2.2	-1.0	-5.0	-2.0	-1.7	-1.2	-1.1	-0.6		
Identified debt-creating flows	3.2	3.0	1.8	2.7	-0.6	-4.9	-2.0	-1.7	-1.3	-1.1	-0.6	2.6	-1.4
Primary deficit	1.8	2.4	4.8	4.0	2.2	0.8	0.7	0.4	0.5	0.5	0.5	2.6	1.0
Revenue and grants	29.7	31.3	30.9	31.1	31.8	32.8	33.8	34.7	34.7	34.7	34.7	22.5	33.9
of which: grants	2.0	1.6	2.3	1.9	2.1	1.9	1.7	1.5	1.5	1.4	1.3		
Primary (noninterest) expenditure	31.5	33.7	35.7	35.1	34.0	33.6	34.5	35.2	35.2	35.2	35.2	25.2	34.9
Automatic debt dynamics	0.8	-0.1	-4.3	-1.3	-2.9	-5.8	-2.7	-2.1	-1.8	-1.5	-1.1		
Contribution from interest rate/growth differential	-0.8	-1.3	0.2	-1.3	-2.9	-5.8	-2.7	-2.1	-1.8	-1.5	-1.1		
of which: contribution from average real interest rate	2.8	1.3	1.2	1.1	0.8	1.1	1.0	1.1	1.3	1.2	1.0		
of which: contribution from real GDP growth	-3.6	-2.6	-0.9	-2.5	-3.7	-6.8	-3.8	-3.2	-3.1	-2.7	-2.1		
Contribution from real exchange rate depreciation	1.5	1.2	-4.6	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	0.6	0.7	1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.7	0.0
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (below-the-line operations)	0.6	0.7	1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	-2.8	-0.7	3.0	-0.5	-0.4	-0.1	0.0	0.0	0.0	0.0	0.0	1.4	-0.1
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	...	...	61.3	63.3	62.6	58.6	57.4	56.7	56.2	50.4	43.1		
PV of public debt-to-revenue and grants ratio	...	...	198.5	203.9	197.0	178.7	169.8	163.1	161.7	145.0	124.0		
Debt service-to-revenue and grants ratio 3/	31.4	20.9	23.5	19.1	22.2	23.6	25.2	25.0	26.0	19.4	19.5		
Gross financing need 4/	11.7	9.7	13.4	10.0	9.3	8.5	9.2	9.1	9.6	7.2	7.3		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	6.2	4.4	1.5	3.7	5.5	10.8	6.1	5.4	5.3	5.3	5.0	4.6	5.8
Average nominal interest rate on external debt (in percent)	4.1	3.7	3.8	3.1	2.8	2.9	3.0	3.3	3.4	3.7	3.7	2.9	3.3
Average real interest rate on domestic debt (in percent)	4.6	3.7	4.0	3.9	3.6	4.0	3.9	3.8	4.1	4.0	3.8	4.7	3.8
Real exchange rate depreciation (in percent, + indicates depreciation)	4.0	2.4	-8.7	...	...	...	...	...	...	...	...	1.1	...
Inflation rate (GDP deflator, in percent)	-0.8	1.9	2.3	1.9	2.1	1.7	1.8	1.9	1.6	1.9	2.2	1.3	1.9
Growth of real primary spending (deflated by GDP deflator, in percent)	63.0	11.5	7.5	2.0	2.3	9.4	9.0	7.3	5.6	5.4	4.9	11.5	5.7
Primary deficit that stabilizes the debt-to-GDP ratio 5/	1.4	0.1	0.0	1.8	3.3	5.9	2.7	2.1	1.8	1.5	1.1	0.5	2.4
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

Definition of external/domestic debt	Currency-based
Is there a material difference between the two criteria?	Yes

Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The entire public sector, including SOEs . Definition of external debt is Currency-based.

2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.

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

4/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.

5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilizes the debt ratio only in the year in question.

6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Table 3. Senegal: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2021–31

(percent)

	Projections 1/										
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
	PV of debt-to GDP ratio										
Baseline	50	49	46	45	44	43	43	41	40	39	38
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	50	52	**56**	**63**	**69**	**74**	**77**	**84**	**89**	**94**	**97**
A2. Alternative Scenario	48	47	43	40	39	36	34	33	31	29	28
B. Bound Tests											
B1. Real GDP growth	50	52	**55**	54	53	52	51	49	48	47	45
B2. Primary balance	50	50	50	49	47	47	46	45	44	43	41
B3. Exports	50	**55**	**68**	**67**	**65**	**64**	**62**	**60**	**59**	**56**	53
B4. Other flows 3/	50	53	54	52	51	50	49	48	46	44	43
B5. Depreciation	50	**62**	54	53	51	50	49	48	47	46	45
B6. Combination of B1-B5	50	**62**	**67**	**66**	**64**	**63**	**62**	**60**	**58**	**56**	53
C. Tailored Tests											
C1. Combined contingent liabilities	50	53	50	49	48	48	47	46	45	43	42
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	50	55	52	51	50	49	48	46	45	43	42
Threshold	55	55	55	55	55	55	55	55	55	55	55
	PV of debt-to-exports ratio										
Baseline	**251**	217	146	126	124	126	123	124	122	119	115
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	**251**	227	178	176	192	214	223	**252**	**271**	**284**	**294**
A2. Alternative Scenario	**251**	215	150	129	126	129	123	124	119	111	103
B. Bound Tests											
B1. Real GDP growth	**251**	217	146	126	124	126	123	124	122	119	115
B2. Primary balance	**251**	220	157	135	133	135	133	135	133	129	125
B3. Exports	**251**	**322**	**479**	**412**	**405**	**410**	**400**	**403**	**395**	**375**	**356**
B4. Other flows 3/	**251**	234	169	145	143	145	142	143	140	135	129
B5. Depreciation	**251**	217	135	116	114	116	114	115	113	111	108
B6. Combination of B1-B5	**251**	**321**	175	**305**	**300**	**304**	**298**	**300**	**293**	**282**	**270**
C. Tailored Tests											
C1. Combined contingent liabilities	**251**	234	158	137	134	138	136	137	135	132	128
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	**251**	217	146	127	125	127	124	124	122	118	114
Threshold	240	240	240	240	240	240	240	240	240	240	240
	Debt service-to-exports ratio										
Baseline	18	18	13	17	14	17	15	13	10	10	12
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	18	19	15	20	18	**22**	21	20	18	19	**24**
A2. Alternative Scenario	18	19	14	18	15	18	16	14	11	10	12
B. Bound Tests											
B1. Real GDP growth	18	18	13	17	14	17	15	13	10	10	12
B2. Primary balance	18	18	14	17	14	17	15	14	11	11	13
B3. Exports	18	**25**	**32**	**43**	**37**	**43**	**38**	**34**	**30**	**36**	**39**
B4. Other flows 3/	18	18	14	17	15	18	15	14	12	12	14
B5. Depreciation	18	18	13	16	14	16	14	13	10	9	11
B6. Combination of B1-B5	18	**23**	**29**	**36**	**30**	**36**	**32**	**29**	**26**	**26**	**29**
C. Tailored Tests											
C1. Combined contingent liabilities	18	18	14	17	14	17	15	14	11	11	12
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	18	18	14	17	15	19	18	17	13	9	11
Threshold	21	21	21	21	21	21	21	21	21	21	21
	Debt service-to-revenue ratio										
Baseline	12	14	14	19	15	17	15	13	10	10	12
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	12	15	16	22	19	**23**	22	20	18	19	**24**
A2. Alternative Scenario	12	14	15	20	16	19	17	15	11	10	12
B. Bound Tests	12	14	15	20	16	19	17	15	11	10	12
B1. Real GDP growth	12	15	16	22	18	21	18	16	12	12	14
B2. Primary balance	12	14	14	19	16	18	16	14	11	11	13
B3. Exports	12	14	15	22	18	20	18	16	14	16	18
B4. Other flows 3/	12	14	14	20	16	18	16	14	12	12	14
B5. Depreciation	12	18	17	23	18	21	19	16	13	11	14
B6. Combination of B1-B5	12	15	18	**24**	20	23	20	17	16	15	17
C. Tailored Tests											
C1. Combined contingent liabilities	12	14	14	19	15	18	16	14	11	10	12
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	12	14	14	19	16	20	19	17	13	9	10
Threshold	23	23	23	23	23	23	23	23	23	23	23

Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the threshold.
2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
3/ Includes official and private transfers and FDI.

Table 4. Senegal: Sensitivity Analysis for Key Indicators of Public Debt, 2021–31

(Percent of GDP, unless otherwise indicated)

	Projections 1/										
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
PV of Debt-to-GDP Ratio											
Baseline	63	63	59	57	57	56	55	53	52	51	50
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	63	64	65	67	69	**70**	**72**	**73**	**75**	**76**	**77**
A2. Alternative Scenario	60	61	58	56	55	53	52	52	51	50	49
B. Bound Tests											
B1. Real GDP growth	63	67	**77**	**81**	**86**	**91**	**95**	**98**	**102**	**106**	**110**
B2. Primary balance	63	64	64	62	61	61	60	58	56	55	54
B3. Exports	63	68	**79**	**77**	**76**	**75**	**74**	**71**	69	67	64
B4. Other flows 3/	63	67	66	64	63	63	62	60	58	57	55
B5. Depreciation	63	**75**	67	63	60	57	53	50	46	43	40
B6. Combination of B1-B5	63	62	65	65	66	67	67	67	67	67	68
C. Tailored Tests											
C1. Combined contingent liabilities	63	69	65	63	62	62	61	59	57	56	55
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	63	63	59	58	57	57	55	53	52	51	50
TOTAL public debt benchmark	70	70	70	70	70	70	70	70	70	70	70
PV of Debt-to-Revenue Ratio											
Baseline	204	197	179	170	163	162	159	154	151	148	145
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	204	201	198	197	197	202	206	210	213	217	220
A2. Alternative Scenario	19	25	28	30	25	26	25	23	18	17	19
B. Bound Tests											
B1. Real GDP growth	204	210	233	238	246	261	273	281	292	303	314
B2. Primary balance	204	201	194	184	177	175	171	166	163	159	156
B3. Exports	204	213	242	229	219	217	212	205	200	192	185
B4. Other flows 3/	204	210	201	190	183	181	177	171	167	163	158
B5. Depreciation	204	236	206	187	173	164	155	143	134	126	117
B6. Combination of B1-B5	204	195	196	192	189	192	193	192	193	193	194
C. Tailored Tests											
C1. Combined contingent liabilities	204	218	197	187	180	178	174	169	165	162	159
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	204	197	179	170	164	163	160	154	150	147	144
Debt Service-to-Revenue Ratio											
Baseline	19	22	24	25	25	26	23	21	18	17	19
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	19	23	25	28	28	30	27	26	22	22	26
A2. Alternative Scenario	19	25	28	30	25	26	25	23	18	17	19
B. Bound Tests											
B1. Real GDP growth	19	23	28	31	32	34	34	35	32	32	37
B2. Primary balance	19	22	24	26	26	27	25	23	19	19	21
B3. Exports	19	22	24	28	27	28	25	24	21	23	25
B4. Other flows 3/	19	22	24	26	26	27	23	22	19	19	21
B5. Depreciation	19	23	27	30	28	30	26	24	20	18	21
B6. Combination of B1-B5	19	22	26	28	28	29	26	26	23	22	24
C. Tailored Tests											
C1. Combined contingent liabilities	19	22	25	26	26	29	26	23	19	18	21
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	19	22	24	26	26	28	26	26	20	16	18

Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the benchmark.

2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.

3/ Includes official and private transfers and FDI.

Statement by Mr. Aivo Andrianarivelo, Executive Director for Senegal and Mr. Oumar Diakite, Advisor to the Executive Director
June 7, 2021

I. Introduction

1. On behalf of our Senegalese authorities, we thank the Executive Board, Management, and staff for their continued support to Senegal's efforts to successfully implement their economic program supported by the Policy Coordination Instrument (PCI). They value the constructive policy dialogue held with staff in the context of the third PCI review and their request for a new financing program under the Stand-By Arrangement (SBA) and the Stand-By Credit Facility (SCF).

2. The macroeconomic environment in Senegal has become more difficult than expected since the completion of the second PCI review in January 2021 due notably to the second Covid-19 wave of contamination and rising commodity prices. While the policy response to the crisis has been strong under the *Programme de resilience économique et sociale* (PRES), these developments are putting additional pressures on fiscal and external accounts, increasing financing needs, and affecting the most vulnerable households and especially unemployed young people.

3. The authorities remain committed to the objectives of the PCI-supported program and have readjusted their near-term priorities to focus on containing the transmission of the virus by accelerating the vaccination campaign, meeting the aspirations of young people, and boosting economic recovery. In order to cope with the new fiscal and balance of payments needs, they are requesting an 18-month financing program under the SCF and the SBA with access equivalent to 140 percent of quota.

II. Economic developments in 2020 and outlook

4. The Covid-19 pandemic has severely impacted the Senegalese economy in 2020. Real GDP growth is estimated to have dropped to 1.5 percent compared to 4.4 percent in 2019. Tourism, hotel, catering, and transport services have been hit the hardest with negative consequences on employment and incomes, including in the informal sector in urban areas. However, the good performance in the agricultural sector made it possible to avoid an economic contraction. While inflation accelerated to 2.5 percent following supply disruptions related to the pandemic, it remained below the WAEMU regional norm of 3 percent.

5. The fiscal situation deteriorated in 2020 compared to pre-pandemic projections. Revenues fell due notably to the lower economic activity, while spending increased to fight the pandemic and mitigate its fallout on vulnerable segments of the population. As a result, the budget deficit worsened to 6.4 percent of GDP. Public debt also increased, with a ratio estimated at around 69 percent of GDP at end 2020. Thanks to Senegal's participation to the G-20 Debt Service Suspension Initiative, a significant share of the debt service payments was deferred.

6. Regarding the external sector, the current account deficit worsened to more than 10 percent of GDP, against 8 percent of GDP in 2019, owing notably to the marked decline of the tourism sector. However, remittances remained resilient and increased by 1 percent year-on-year at end-December 2020.

7. The banking sector has also shown resilience in the face of the pandemic. Banks entered the crisis with comfortable levels of equity and liquidity which, together with the accommodating monetary policy of the central bank (BCEAO), made it possible to maintain a high level of credit flows to the government and the private sector.

8. The authorities concur that the outlook is highly uncertain and risks remain on the downside. The medium-term growth forecasts have been revised downwards given that the pandemic will be more difficult to control than initially expected, both in Senegal and among its main trading partners. A deterioration in the terms of trade is also assumed due to rising commodity prices. These factors would lead to a slower than expected normalization of activity in the tourism sector, and weigh on household incomes and undermine business confidence. However, on the upside, an effective implementation of the government's recovery plan, and the potential SDR allocation could improve the outlook and ease financing pressures. Likewise, since Senegal has expertise in vaccines manufacturing through its *Pasteur institute of Dakar,* a reinforcement of the production capacity of this institute by the international community would contribute greatly to the fight against the pandemic domestically, and to the current global efforts to vaccinate Africa.

III. Performance under the PCI-supported program

9. Despite the difficult circumstances, the performance under the PCI-supported program has been broadly satisfactory. All the quantitative targets at end-December 2020 were met, with the exception of the one related to the share of single sourced procurement contracts due to emergency expenditures in the context of the pandemic. However, since September 2020, all government procurement has been done in compliance with *le Code des marchés publics*. Regarding structural reforms, six reform targets out of nine were met, and progress is being made to implement the remaining ones.

10. The authorities will continue to fulfill their commitments in terms of transparency and accountability for Covid-19 spending. In this regard, they have already produced and published all quarterly budget execution reports that include financial data on the execution of the PRES, as well as all food aid, particularly with regard to targeting beneficiaries, contracting with suppliers and distribution to households. The report of the monitoring committee responsible for the implementation of the operations of the "Force-Covid-19" fund is expected to be published in June 2021. As part of the annual audit of public procurement, the regularity of procurement procedures relating to Covid-19 spending will be assessed by the public procurement regulation authority and its report will be available by the end of June 2021. The specific Court of Auditors report on

pandemic-related spending, as part of its 2020 finance law execution report, will be available by the end of October 2021.

IV. Economic and financial program 2021-2022

11. The new SBA/SCF-supported program will be implemented concurrently and based on the three pillars of the PCI program namely: (i) the effective fight against the pandemic while maintaining macroeconomic stability, including through the increase in tax revenues; (ii) the promotion of strong, sustainable and inclusive growth driven by the private sector and support for youth employment, and (iii) the preparation of a framework for the sustainable and transparent management of the hydrocarbons sector.

Address the dual health and economic crisis while maintaining macroeconomic stability

12. The authorities' fiscal policy as reflected in the revised 2021 budget is focused on addressing the health emergency and supporting economic recovery, while remaining committed to returning to the WAEMU fiscal deficit norm of 3 percent of GDP in 2023. To this end, they will increase their efforts to enhance domestic revenue mobilization, and improve the efficiency of public spending to create space for substantially strengthening social safety nets and support youth employment.

13. On the revenue side, the revised 2021 budget aims to offset the forecasted revenue shortfalls by resolutely implement measures to broaden the tax base, in line with the priorities of the medium-term revenue strategy (*SRMT*). These tax policy and administration measures include notably the recruitment of 150,000 new taxpayers, the enrollment of 80,000 taxpayers subject to payroll deductions, and enhanced cooperation between the tax and customs administrations to help improve revenue collection. On the spending side, expenditures would increase to finance the vaccination campaign and the emergency program for the employment and socio-economic integration of young people. Additional budget appropriations for the Energy Support Fund (ESF) are also envisaged given the upward revisions in the forecasts of oil prices.

14. The budget deficit would increase to 5.4 percent of GDP and will be financed by drawing on project loans, program loans and other net borrowings. Also, the authorities will continue their efforts to achieve budgetary savings by freezing certain operating costs, postponing new projects, and participate in the debt service suspension of the G-20. Given the persistent uncertainties concerning the evolution of the pandemic and the costs of the vaccination campaign, the amount of the precautionary reserve is expected to be maintained.

15. The authorities will pursue the implementation of far-reaching medium-term structural public finance reforms. They will ensure full ownership of the SRMT by revenue administrations in order to achieve the tax to GDP target of 20 percent in 2023. They will also continue to implement program budgeting, improve reporting of transfers through treasury deposit accounts (*comptes de dépôt*), and restructure the post-office. Efforts 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, and a fiscal risk statement will be prepared to be annexed to the 2022 Budget Law.

16. To maintain debt sustainability, the authorities will continue to favor concessional and regional market financing. The use of non-concessional financing will be retained only to finance projects with high rates of return. The government will continue to engage with all official bilateral creditors to benefit fully from the G-20 Debt Service Suspension Initiative. This prudent debt policy will be accompanied by efforts to strengthen the operational capacity of the National Public Debt Committee (CNDP).

Achieve high and inclusive private sector-led growth

17. The authorities are concerned about speeding up job creation for young people. A series of initiatives have been launched in this area, including an important emergency program over a period of three years (2021-2023), with the support of the private sector and technical and financial partners of Senegal. The program is expected to reach about 500,000 beneficiaries, including through a national government-employer agreement, labor-intensive public investment projects, and apprenticeship-training. To strengthen efficiency and coordination of state interventions, the government will finalize a strategy to rationalize their support system including for women, young people, and SMEs. More generally, the social protection system will be strengthened and extended to new groups made vulnerable by the crisis.

18. Senegal continues to make good progress in improving the business climate. Major areas of reforms are underway, including the preparation of the private sector development strategy, the publication of the new PPP Law, and the reforms in the framework of the Business Environment and Competitiveness Reform Program and the Partnership to Encourage Reforms ("Compact with Africa").

19. The reforms of the electricity sector will also be pursued. These include strengthening the legal and institutional framework of the electricity sector under the "Power Compact" project, the finalization of a new electricity code to attract private investors, and a study on the tariff plan to ensure the financial viability of the sector.

20. In the financial sector, although the banking system has broadly weathered the pandemic crisis well, pockets of vulnerability exist, including the impact of loan repayment deferrals on the portfolio of some credit institutions, which have not yet been settled. The BCEAO and the Banking Commission are closely monitoring these vulnerabilities and a plan is being implemented with the goal of returning to normal during the first quarter of 2022. Also, the financial inclusion strategy to facilitate access to financial services is being finalized and aims to develop suitable financial products and digitization, protect users of financial services, and enable efficient regulatory and institutional frameworks.

21. The government is keen to ensure that Senegal is removed from the enhanced oversight by the Financial Action Task Force (FATF). In this regard, the AML/CFT framework is being enhanced to address strategic deficiencies. An action plan will be implemented with a focus notably on raising awareness and enhancing the technical capacities of AML/CFT stakeholders, strengthening the risk-based supervision approach for financial institutions by the Banking Commission, strengthening the sanctions regime in the event of violations of transparency obligations, and improving international cooperation.

Ensure the sustainable and transparent management of the hydrocarbons sector

22. Due to the pandemic and major shocks experienced by the oil industry worldwide, the start of oil production in Senegal has been pushed back from 2022 to 2023. In the meantime, the authorities are strengthening the legal and fiscal frameworks governing the distribution and management of oil and gas revenues, based on international best practices. In this regard, the draft Law on the management and distribution of revenues from the exploitation of hydrocarbons is expected to be adopted by the Council of Ministers by the end of June 2021. The major principles guiding the draft Law include the full budgeting of fiscal and non-fiscal hydrocarbon revenues, the creation of a stabilization fund to protect against volatility, and the creation of an intergenerational fund to invest in improving the living standard of the population.

V. Conclusion

23. The Senegalese authorities remain strongly committed to continue implementing policies and reforms aimed at preserving macroeconomic stability, achieving strong and inclusive economic growth, and improving public financial management and the business environment.

24. In view of the satisfactory performance under the PCI-supported program, and the need to meet new fiscal and balance of payments needs arising notably from the impact of the pandemic, the authorities seek Executive Directors' support for the completion of the third PCI review, modification of quantitative targets, and the approval of their requests for an 18-month Arrangement under the SCF and the SBA.