



SENEGAL

January 2022

2021 ARTICLE IV CONSULTATION, FOURTH REVIEW UNDER THE POLICY COORDINATION INSTRUMENT, FIRST REVIEWS UNDER THE STAND-BY ARRANGEMENT AND THE ARRANGEMENT UNDER THE STANDBY CREDIT FACILITY, AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA AND QUANTITATIVE TARGETS

In the context of the 2021 Article IV Consultation, Fourth Review Under the Policy Coordination Instrument, First Reviews Under the Stand-By Arrangement and the Arrangement Under the Standby Credit Facility, and Request for Modification of Performance Criteria and Quantitative Targets, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on January 10, 2022 following discussions that ended on November 29, 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 First Reviews Under the Stand-By Arrangement and the Arrangement Under the Standby Credit Facility. Based on information available at the time of these discussions, the staff report was completed on December 20, 2021.
- An **Informational Annex** prepared by the staffs of the IMF.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- A **Statement by the Executive Director** for Senegal.

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

Selected Issues Paper

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IMF Executive Board Completes the Fourth Review Under the Policy Coordination Instrument and the First Reviews Under the Stand-By Arrangement and the Arrangement Under the Standby Credit Facility, and Concludes the 2021 Article IV Consultation for Senegal

FOR IMMEDIATE RELEASE

- *Recent indicators suggest that a strong recovery is underway, driven by industrial production, services, and retail activity. COVID-19 case numbers remain comparatively low and about 14 percent of the adult population is vaccinated.*
- *Performance under the program remains satisfactory. Concurrently with the PCI, the SCF/SBA arrangements are helping support the authorities' crisis response; promote a broad-based recovery; catalyze additional concessional financing; and strengthen the external position of the WAEMU. The completion of the first reviews under the SCF/SBA allows the disbursement of SDR 129.4 million (about US\$180 million).*
- *Maintaining macroeconomic stability, improving public service delivery, gradually phasing out energy subsidies, stepping up investment in education and social protection as well as accelerating reforms aimed at overcoming key constraints to private sector development will support strong, inclusive, and job-rich growth.*

Washington, DC – January 10, 2022: Today, the Executive Board of the International Monetary Fund (IMF) completed the Fourth Review under the Policy Coordination Instrument (PCI) ¹ and the First Reviews Under the Stand-by Arrangement (SBA) ², and the Arrangement under the Standby Credit Facility (SCF). ³ The completion of the reviews enables the release of SDR 129.4 million (about US\$180 million), bringing total disbursements under the arrangements to SDR 258.8 million (about US\$360 million).

Senegal's three-year PCI was approved on January 10, 2020 and is built around three pillars: (i) achieving inclusive and private-sector-led growth, (ii) consolidating macroeconomic stability through prudent fiscal policy and sound debt, and (iii) managing oil and gas revenues in a sustainable and transparent manner (see [Press Release No. 20/06](#)).

Senegal's 18-month SCF/SBA arrangements, for a total amount of 140 percent of quota, were approved on June 7, 2021 to help support the authorities' COVID-19 crisis response, catalyze additional concessional financing, and strengthen the external position of the WAEMU (see

¹ The PCI is a non-financing tool open to all members of the International Monetary Fund (IMF). It enables them to signal commitment to reforms and catalyze financing from other sources. The establishment of the PCI is part of the Fund's broader effort to strengthen the global financial safety net—a network of insurance and loan instruments that countries can draw on if confronted with a crisis.

² In an economic crisis, countries often need financing to help them overcome their balance of payments problems. Since its creation in June 1952, the IMF's SBA has been the workhorse lending instrument for emerging and advanced market countries. The SBA was upgraded in 2009 along with the Fund's broader toolkit to be more flexible and responsive to member countries' needs. Conditions were streamlined and simplified, and more funds were made available up front. The reform also enables broader high access on a precautionary basis.

³ The SCF provides financial assistance to low-income countries (LICs) with short-term balance of payments needs. The SCF was created under the Poverty Reduction and Growth Trust (PRGT) as part of a broader reform to make the Fund's financial support more flexible and better tailored to the diverse needs of LICs, including in times of shocks or crisis.

[Press Release No. 21/259](#)). The authorities are delivering on their commitments regarding the transparency of COVID-19 spending; they have published detailed budget execution reports, a special audit of the COVID-19 fund and an audit on the regularity of COVID-19 procurement procedures. The final report by the Audit Court on the 2020 budget and COVID-19 spending execution is expected by March 2022.

The Executive Board also concluded the 2021 Article IV consultation⁴ with Senegal.

A strong economic recovery is underway since mid-2020, driven by industrial production and the services sector, and 2021 growth has been revised upwards from 3 ½ to about 5 percent. The recovery is expected to continue in 2022 and beyond, with a further temporary boost from oil and gas production in 2023–24.

The second 2021 supplementary budget incorporates additional exceptional spending related to the use of about two-thirds of Senegal's SDR allocation (0.9 percent of GDP) to support the recovery and strengthen social protection and the health sector including domestic vaccine production. This, together with additional spending on energy subsidies, will bring the 2021 deficit to 6.3 percent of GDP. Senegal's public sector debt is projected to reach 73 percent of GDP in 2021 before gradually declining to under 60 percent of GDP. The 2021 current account deficit is projected to widen to 10.6 percent of GDP and decline to about 5 percent of GDP over the medium term. The financial system remained resilient during the pandemic, in part owing to the regional central bank's (BCEAO) accommodative stance, including additional liquidity provision to banks.

The outlook points to sustained stronger activity, as the impact of the pandemic is abating, but is subject to significant uncertainty and risks are tilted to the downside. These include repeated COVID-19 outbreaks, a deteriorating regional security situation, delays in the start of oil and gas production, and a rapid rise of global interest rates.

Following the Executive Board's discussion, Mr. Kenji Okamura, Deputy Managing Director and Acting Chair, issued the following statement:

"The COVID-19 pandemic interrupted a decade of high growth and development progress in Senegal. It caused severe hardship for many households, although the impact on the Senegalese economy was mitigated by the authorities' forceful response. Senegal's economy is now on track for a robust recovery.

"The outlook is favorable provided risks and rising vulnerabilities are well-managed. Risks are tilted to the downside, including the protracted impact from the pandemic, higher oil prices, a volatile regional security environment, slower reform implementation, and delays in the start of oil and gas production. Public debt has risen continuously in recent years and risks to debt sustainability need to be carefully monitored.

"The authorities' reform agenda, supported by the Policy Coordination Instrument, the Stand-By Arrangement and the arrangement under the Standby Credit Facility, remains appropriate to achieve the program objectives of strong and inclusive growth while maintaining macroeconomic stability and containing risks to debt sustainability.

"Fiscal policy should remain anchored by a credible, revenue-based consolidation towards a

⁴ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

fiscal deficit of 3 percent of GDP by 2024, in line with WAEMU commitments. The communication and implementation of the medium-term revenue mobilization strategy and steps to limit fuel subsidies while protecting the vulnerable are essential in this regard.

“Achieving more inclusive growth will also require further improving the business environment, enhancing the social safety net, broadening access to quality education, and addressing youth unemployment. The SDR allocation provides additional policy space to support the health sector and economic recovery. Ongoing reforms to improve public financial management will help strengthen spending efficiency and transparency, particularly for SDR-related spending.

“While the financial system remained resilient during the pandemic, long-standing weaknesses will need to be addressed, including deficiencies in the AML/CFT framework, and reforms to promote financial inclusion should be accelerated.”

Executive Board Assessment⁵

Executive Directors agreed with the thrust of the staff appraisal. They commended the authorities for the forceful response to the pandemic and the progress of reforms achieved under the Fund-supported programs. Directors concurred that growth fundamentals remain strong, though risks are tilted to the downside. They urged steadfast implementation of the authorities’ reform agenda to set the foundations for strong, inclusive, and sustainable growth.

Directors cautioned that fiscal policy should remain anchored by the WAEMU convergence criterion of 3 percent of GDP by 2024. In a context of narrowing fiscal space amid rising public debt, they agreed that a revenue-based medium-term fiscal consolidation would be essential to support macroeconomic stability, contain debt vulnerabilities, and bolster the WAEMU’s external stability. In addition, containing energy subsidies is key to create fiscal space and accommodate other priority spending. In this regard, Directors welcomed that the 2022 budget already includes an increase in social spending. They encouraged the authorities to prioritize concessional borrowing and stressed that enhanced public debt management would help maintain debt sustainability.

Directors welcomed the progress on governance measures regarding COVID-19 related spending. They highlighted the need to continue to implement public financial management reforms to improve spending transparency and efficiency, including by reducing recourse to single-source procurement. While Directors noted that a higher share of the SDR allocation could have been used to contain fiscal risks, they emphasized the importance of ensuring transparency and accountability of SDR-related spending.

Directors welcomed the authorities’ structural reform agenda. They concurred that accelerating its implementation and achieving more inclusive growth will require measures aimed at improving the business environment, enhancing the social safety nets, broadening access to quality education, and addressing youth unemployment.

Directors noted the potential positive impact of the onset of oil and gas production on growth. They encouraged the authorities to finalize the fiscal framework for managing oil and gas

⁵ At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country’s authorities. An explanation of any qualifiers used in summings up can be found here: <http://www.IMF.org/external/np/sec/misc/qualifiers.htm>.

receipts ahead of the preparation of the 2023 budget and to communicate revenue projections transparently.

Directors agreed that the financial system remains overall sound. They encouraged decisive steps to improve financial inclusion, address remaining pockets of vulnerabilities, and limit fiscal risks from troubled financial institutions. Directors also highlighted the importance of addressing deficiencies in the AML/CFT framework to avoid negative economic repercussions.

It is expected that the next Article IV consultation with Senegal will take place within 24 months, in accordance with the Executive Board decision on consultation cycles for members with Fund arrangements.

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

	2019	2020		2021		2022		2023	2024	2025	2026
		EBS/21/44	Est.	EBS/21/44	Proj.	EBS/21/44	Proj.	Projections			
(Annual percentage change)											
National income and prices											
GDP at constant prices ¹	4.4	1.5	1.5	3.7	5.0	5.5	5.5	9.5	10.3	5.4	5.5
Of which: Non-hydrocarbon GDP	4.4	1.5	1.5	3.7	5.0	5.5	5.5	5.9	6.0	6.0	6.0
Of which: Hydrocarbon GDP	...	...	...	...	...	...	...	...	137.1	-3.1	-2.4
Of which: Non-agriculture GDP	4.4	-0.8	-0.8	3.8	5.1	5.6	5.5	10.2	11.2	6.1	6.0
GDP deflator	1.9	2.3	2.3	1.9	2.5	2.1	2.3	2.0	1.8	1.9	1.9
Consumer prices											
Annual average	1.0	2.5	2.5	2.0	2.5	2.0	2.5	1.5	1.5	1.5	1.5
End of period	0.6	2.4	2.4	2.2	3.6	1.7	1.5	0.8	2.1	1.0	1.9
External sector											
Exports, f.o.b. (CFA francs)	15.5	-10.5	-7.1	6.4	17.1	16.2	9.6	20.4	33.8	4.8	2.3
Imports, f.o.b. (CFA francs)	6.2	-6.7	-6.1	11.5	12.7	6.7	8.1	11.5	12.9	6.5	4.1
Export volume	18.8	-7.2	-1.7	2.8	-1.5	15.2	7.9	29.0	39.2	5.6	3.4
Import volume	3.9	3.9	1.0	3.5	3.9	13.0	8.6	11.4	7.6	8.0	4.2
Terms of trade ("-" = deterioration)	-4.8	7.4	1.7	-3.8	9.6	6.8	2.0	-6.8	-8.4	0.6	-1.0
Nominal effective exchange rate	-1.3	...	...	...	...	...	...	...	...	...	...
Real effective exchange rate	-1.8	...	...	...	...	...	...	...	...	...	...
(Changes in percent of beginning-of-year broad money)											
Broad money											
Net domestic assets, of which	8.2	12.4	12.3	6.2	15.3	8.6	13.0	...	...	...	...
Credit to the government (net)	7.4	14.4	16.4	7.6	9.3	10.7	11.1	...	...	...	...
Credit to the economy (net)	1.7	15.4	15.4	2.3	7.0	4.0	7.1	...	...	...	...
Credit to the economy (net)	6.1	1.2	1.2	5.9	3.7	7.9	5.1	...	...	...	...
(Percent of GDP, unless otherwise indicated)											
Government financial operations											
Revenue	20.4	20.0	20.0	20.2	20.4	21.0	21.0	21.4	21.7	22.9	23.8
Grants	1.6	2.3	2.3	1.9	1.5	2.1	1.8	1.8	1.6	1.5	1.5
Total expenditure	24.3	26.4	26.4	25.7	26.7	25.2	25.7	25.1	24.7	25.9	26.9
Net lending/borrowing (Overall Balance)											
excluding grants	-5.5	-8.7	-8.7	-7.4	-7.9	-6.3	-6.6	-5.5	-4.6	-4.5	-4.5
including grants	-3.9	-6.4	-6.4	-5.4	-6.3	-4.2	-4.8	-3.7	-3.0	-3.0	-3.0
Net lending/borrowing (excl. one-off operations.)	-3.1	-6.3	-6.3	-5.1	-6.0	-4.0	-4.5	-3.7	-3.0	-3.0	-3.0
Primary fiscal balance	-1.9	-4.3	-4.3	-3.3	-4.2	-2.1	-2.6	-1.6	-1.0	-1.0	-1.0
Savings and investment											
Current account balance (official transfers included)	-8.1	-10.5	-10.0	-11.3	-10.6	-10.5	-9.4	-7.2	-4.0	-4.4	-4.4
Current account balance (official transfers excluded)	-8.4	-11.9	-11.5	-11.8	-10.8	-11.1	-9.8	-7.6	-4.3	-4.6	-4.6
Gross domestic investment	31.9	30.6	32.9	32.4	33.7	33.1	32.4	34.4	31.9	30.8	29.4
Government ²	6.3	6.9	6.9	7.1	7.7	7.6	8.0	7.7	7.7	7.8	7.9
Nongovernment	25.7	23.8	26.0	25.3	26.0	25.6	24.4	26.8	24.2	22.9	21.5
Gross national savings	23.8	20.2	22.8	21.1	23.1	22.6	23.0	27.3	27.9	26.4	25.1
Government	6.7	5.7	4.8	5.7	4.8	6.2	5.0	4.7	4.9	5.6	6.0
Nongovernment	17.1	14.5	18.0	15.4	18.3	16.5	18.0	22.6	23.0	20.8	19.1
Total public debt ³											
Domestic public debt ⁴	63.8	68.7	68.8	70.9	73.0	69.9	71.6	67.7	63.1	61.5	60.0
External public debt	11.0	14.6	14.7	14.0	15.1	13.3	14.4	14.3	13.6	14.6	15.0
Total public debt service ³	52.8	54.1	54.0	56.9	57.9	56.6	57.2	53.4	49.5	46.8	45.0
Percent of government revenue	22.1	25.4	25.5	20.4	25.3	23.8	26.9	26.6	26.2	27.3	29.9
Memorandum items:											
Gross domestic product (CFAF billions)	13,655	14,185	14,185	14,998	15,273	16,159	16,485	18,415	20,668	22,200	23,857
of which non-hydrocarbon (CFAF billions)	13,655	14,185	14,185	14,998	15,273	16,159	16,485	18,008	19,481	20,970	22,615
Gross domestic product (USD billions)	23.3	24.7	24.7	...	...	...	...	...	...	...	...
Share of hydrocarbon in total GDP (%)	...	...	...	...	...	...	...	2.2	5.7	5.5	5.2
National Currency per U.S. Dollar (Average)	586	574.8	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.



SENEGAL

December 20, 2021

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION, FOURTH REVIEW UNDER THE POLICY COORDINATION INSTRUMENT, FIRST REVIEWS UNDER THE STAND-BY ARRANGEMENT AND THE ARRANGEMENT UNDER THE STANDBY CREDIT FACILITY, AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA AND QUANTITATIVE TARGETS

EXECUTIVE SUMMARY

Context and recent developments. The COVID-19 pandemic interrupted a decade of high growth and development progress in Senegal. While a recession was avoided in 2020, the pandemic caused severe hardship and most households experienced income and job losses. A dynamic recovery is underway since mid-2020, supported by expansionary fiscal policy. However, higher fiscal deficits and lower growth have resulted in a rapid increase of the debt-to-GDP ratio and fiscal space is narrowing. COVID-19 case numbers remain comparatively low and about 14 percent of the adult population is vaccinated. Recent pandemic waves had little impact on economic activity in the absence of new lockdowns or movement restrictions.

Outlook and risks. Growth is expected to reach 5 percent in 2021 and 5.5 percent in 2022, amid strong fundamentals. Revised projections related to oil and gas production and exports have lowered medium-term export projections, impacting debt sustainability indicators. Risks are tilted to the downside, and include repeated COVID-19 outbreaks, possibly exacerbated by new variants, scarring from the pandemic, deteriorating regional security conditions, slower reform implementation, and delays in the start of oil and gas production.

Program performance. All end-June performance criteria and all but one indicative targets (quantitative targets) were met. The ceiling on single-sourced procurement contracts was missed. Six out of eight structural benchmarks were met. Budget execution through September was broadly consistent with program targets.

Policy recommendations. Article IV and program discussions centered on:

- *Fiscal policy.* Staff pointed to the rapidly-diminishing fiscal space and the need to guard against fiscal risks. Fiscal policy should be anchored by a credible path to a 3 percent of GDP deficit by 2024, in line with WAEMU commitments, based on a revenue-based consolidation strategy to preserve space for priority spending and investment. Accelerated implementation of the medium-term revenue mobilization strategy, which experienced delays, as well as enhanced spending efficiency are crucial in this regard.

- *SDR allocation.* The BCEAO on-lent the domestic currency counterpart of the SDR allocation (1.6 percent of GDP) on highly concessional terms, for which a corresponding increase of the program's debt ceiling is requested. Staff advised to use some of these resources as substitute for more expensive financing to improve the debt outlook. The authorities will spend 0.9 percent of GDP on the health sector, cash transfers, and faster repayment of unmet obligations.
- *Energy subsidies.* Staff underscored the high fiscal costs of energy subsidies, their regressive nature, and the fiscal risks associated with rising world oil prices. A cap on subsidies in 2022 and greater pass-through of international prices to retail fuel and electricity prices should be envisaged, drawing on the existing legal framework, combined with targeted social transfers to protect the vulnerable.
- *Inclusive and strong growth.* Staff recommended enhancing the existing social safety nets to make growth more inclusive, including through expanding the existing cash transfer scheme and setting up targeted mechanisms to respond to shocks. Youth unemployment is a major policy challenge and can be best addressed through the creation of work opportunities by the private sector. Resolute implementation of reforms to improve the business environment, promote financial inclusion, and broaden access to education would support formal sector job creation.
- *Oil and gas production.* Oil and gas production is expected to start in 2023. Staff projects a significant temporary boost to GDP in 2023-24 but initially modest fiscal revenues. The new framework to manage oil and gas revenues should be operational by mid-2022.

Staff supports the authorities' requests for completion of the fourth PCI review, first review under the Stand-By Arrangement and the arrangement under the Standby Credit Facility, and for modification of performance criteria and quantitative targets.

Approved By
Annalisa Fedelino (AFR)
and Natalia Tamirisa
(SPR)

Discussions were held remotely during October 22 – November 29, 2021 and in Dakar (November 2-5). The mission comprised Ms. Deléchat (head), Messrs. Rosa, Stenzel (all AFR), Hamliri (FAD), and Hart (SPR). The mission was assisted by Mr. Koulet-Vickot (Resident Representative) and Messrs. Ba and Fame (local economists). Mr. Diakite (OED) also attended mission meetings. The mission met with President Macky Sall, Minister of Finance and Budget Abdoulaye Daouda Diallo, Minister of Economy, Planning and Cooperation, Amadou Hott, National Director of the BCEAO Ahmadou Al Aminou Lo, other senior officials, development partners, civil society, and private sector representatives. Ms. Singh and Mr. Treilly (both AFR) contributed to this report.

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CONTEXT

1. **The COVID-19 pandemic interrupted a decade of strong growth and development progress.** Senegal recorded average per-capita real GDP growth above 3 percent between 2014 and 2019, a historically strong performance. Over the last decade, poverty declined from 42.8 percent to 37.8 percent, the share of the population with access to electricity expanded from 56 to over 70 percent, life expectancy rose from 65 to 68 years, and the human development index increased steadily (Text Figure 1).
2. **The economy showed resilience during the pandemic, but the initial lockdowns had a significant social impact.** The authorities' forceful health and economic response helped stabilize the economy around mid-2020 and growth remained positive, additionally boosted by support from the international community, including from the IMF (a US\$442 million disbursement under the Rapid Financing Instrument and Rapid Credit Facility) and the G-20 debt service suspension initiative (DSSI).¹ At the same time, socio-political tensions have risen, fueled by high youth unemployment and widespread income losses.² When confronted with social unrest in March 2021, the government responded by adopting a large youth and women employment spending package with a significant public hiring component.³ Local and legislative elections are slated for January and July 2022 and the next presidential election is set for February 2024.
3. **A significant part of the population remains unvaccinated.** Senegal was confronted with its most severe COVID-19 wave so far in July-August (Text Figure 2). Containment measures, however, were less stringent than previously and their economic impact was limited. The vaccination effort compares favorably in the region: 14 percent of the adult population has received at least one shot. Senegal is expecting a total of 13 million vaccines under the COVAX and African Vaccine Acquisition Trust (AVAT) schemes. While the country has already received 4.5 million doses, the timing of further deliveries is uncertain and a million of the doses received remain unused.
4. **Fiscal space has significantly narrowed since the last Article IV Consultation.** Recommendations from the 2018 Article IV were broadly implemented (Annex I): "below-the-line" financing needs were gradually reduced and should be eliminated in 2021, domestic revenues increased by 2 percent of GDP in 2019 compared with 2018, and reforms to improve the business environment and broaden access to credit were enacted. Senegal's risk of debt distress moved from low to moderate in 2019 owing to a marked shift toward non-concessional external borrowing.⁴ The fiscal deficit widened sharply in 2020 to 6.4 percent of GDP in response to the pandemic amid

¹ The "Programme de Résilience Économique et Sociale," financed by a special Force COVID-19 Fund amounted to CFAF 1 trillion or 7 percent of GDP, though not all operations (e.g. cancellations of tax debts, financing operations) had an impact on the fiscal deficit, which increased by 2.5 percentage points to 6.4 percent of GDP (see Annex I of IMF Country Report No. 20/225).

² The World Bank estimates that there are a minimum of 300,000 additional poor compared to the pre-pandemic baseline and 85 percent of households reported income losses.

³ The "Programme d'urgence pour l'insertion socioéconomique et l'emploi des jeunes" amounting to 3 percent of GDP over three years (see Annex I of IMF Country Report No. 21/127).

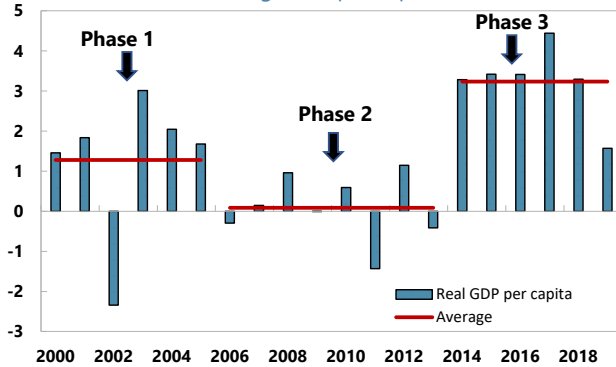
⁴ IMF Country Report No. 19/27.

significant external support. Total public debt is now projected to reach 73 percent of GDP in 2021, compared to a 59.2 percent of GDP projection at the time of the 2018 AIV consultation.

Text Figure 1. Senegal: Recent Economic and Social Developments

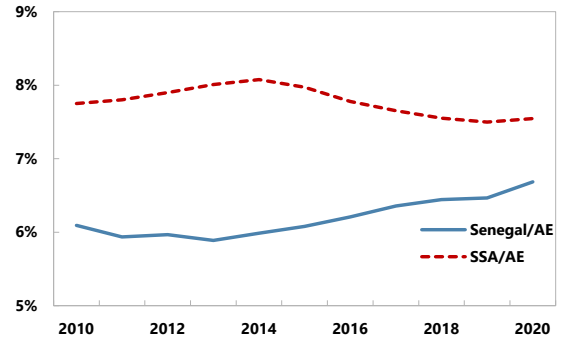
Senegal experienced historically strong growth pre-pandemic...

Per Capita Income Growth 2000-19
(real GDP growth per capita in %)



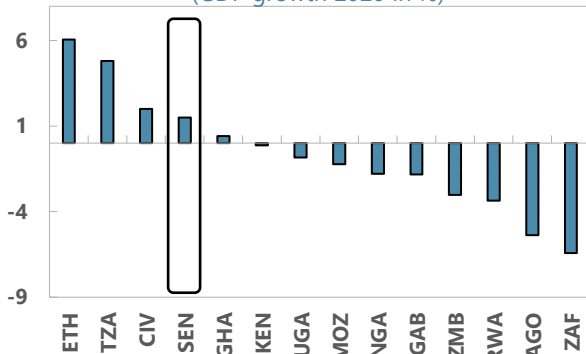
...and incomes converged with advanced economies.

Income Convergence to AEs
(Purchasing power parity; 2017 international dollar)



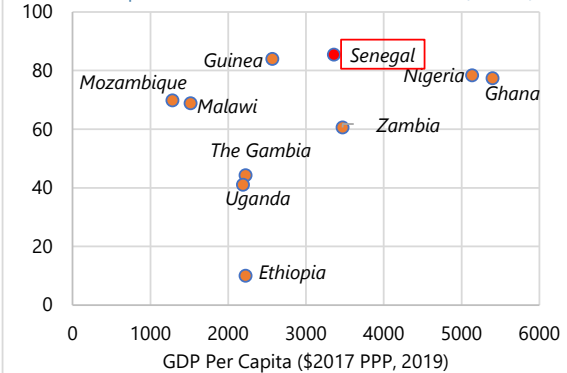
Senegal's growth held up well in 2020 supported by a forceful fiscal response and a strong harvest...

SSA Emerging and Frontier Markets
(GDP growth 2020 in %)



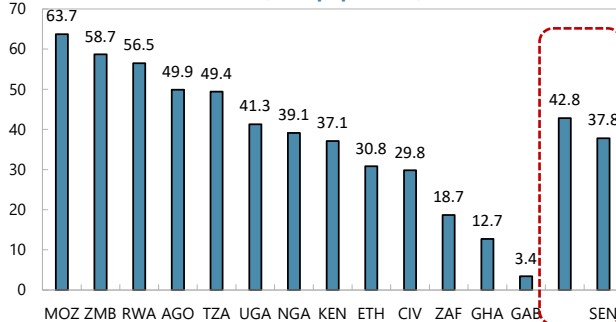
... although surveys indicate widespread income losses for households.

Impact on Household Income
Experienced a decrease in total income (% HHs)



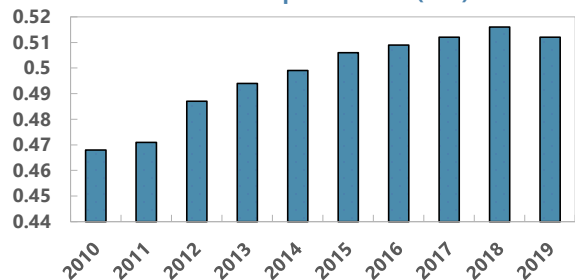
Poverty has declined by 5 percentage points between 2011 and 2019...

Poverty Headcount Ratio at \$1.90 a Day (2011 PPP)
(% of population)



...and overall living conditions have improved.

Human Development Index (HDI)

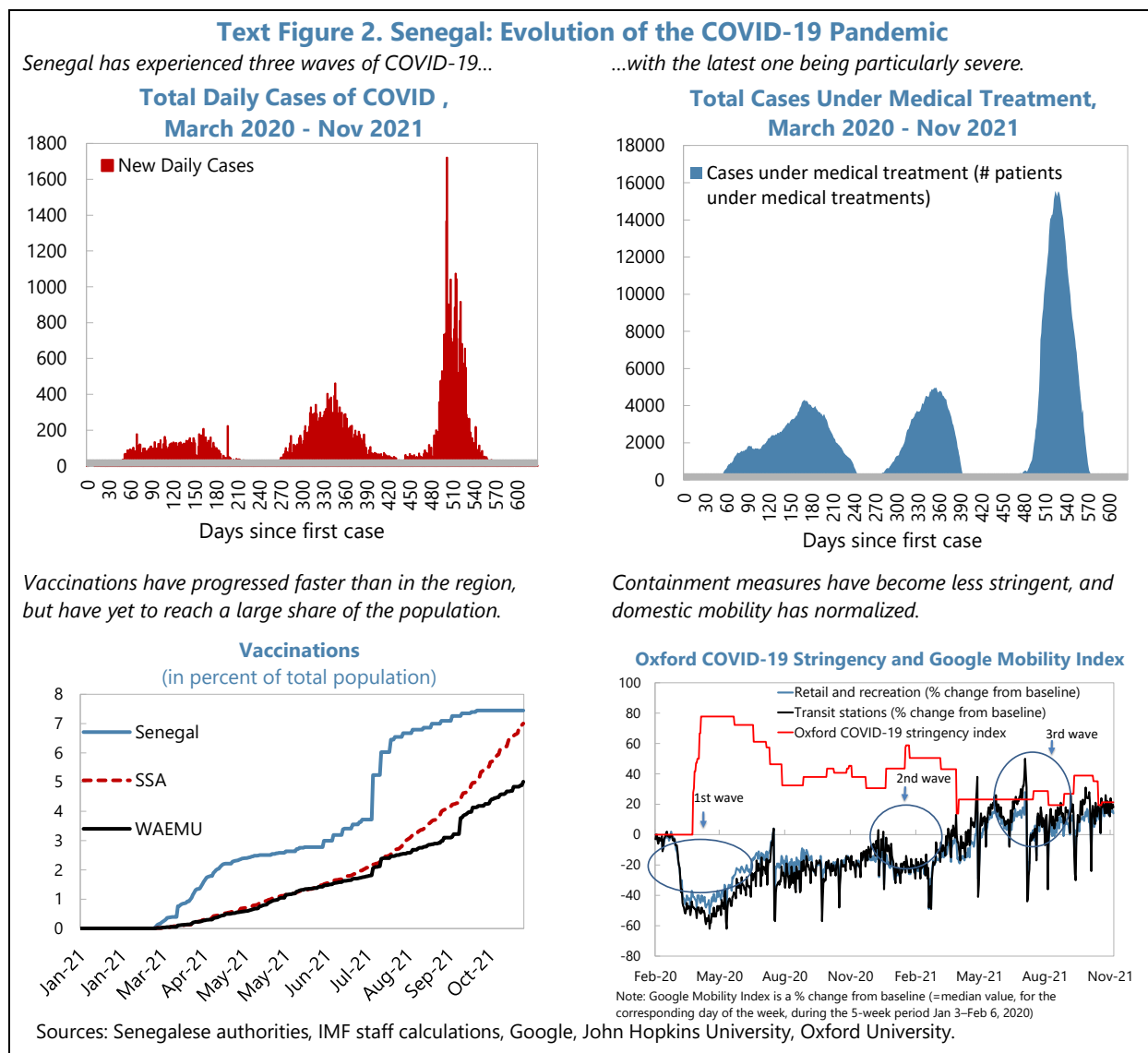


Note: Composite Index by UNDP combining life expectancy, years of schooling and GNI per capita

Sources: WEO, World Bank "COVID-19 High Frequency Monitoring Dashboard", World Development Indicators, UNDP; and IMF staff calculations.

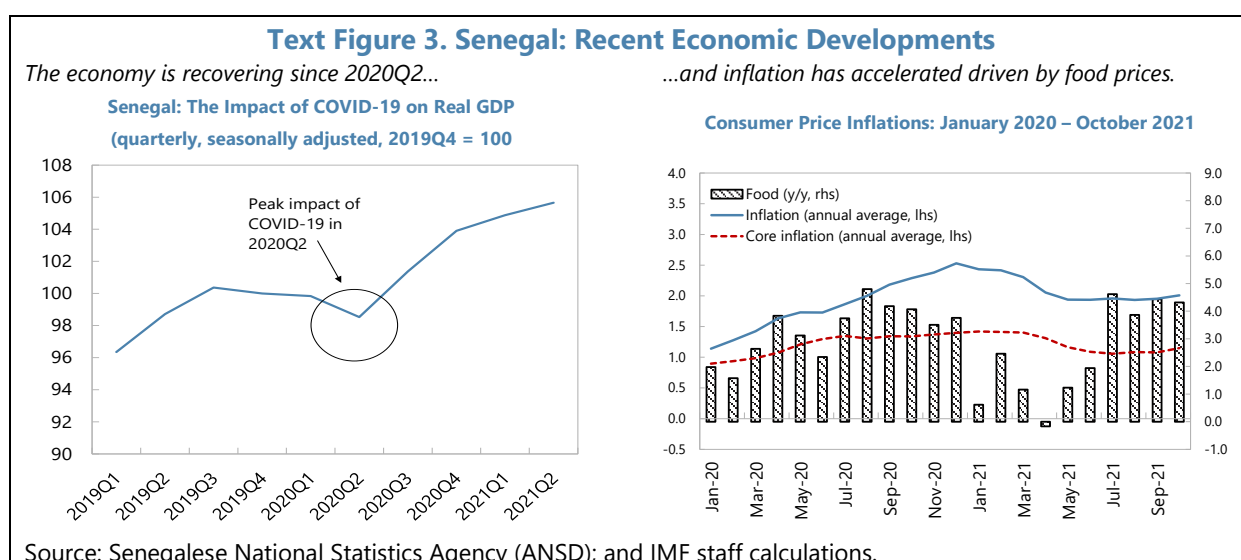
5. The ongoing implementation of the Policy Coordination Instrument (PCI), together

with the Stand-By Arrangement and arrangement under the Standby Credit Facility (SCF/SBA) and the SDR allocation, support the authorities' pandemic response. The core objectives of the PCI, consolidating macroeconomic stability while achieving more inclusive and private sector-led growth, continue to be fully aligned with the authorities' development strategy. Following a 100 percent of quota disbursement under the RCF/RFI in April 2020, access to Fund financing of 140 percent of quota under the SBA/SCF helps to address a short-term balance of payments need, supports the authorities' crisis response, catalyzes additional concessional financing, and strengthens the external position of the WAEMU. Since June 2021 Senegal obtained additional financing through a Euro 775 million Eurobond issuance (3.4 percent of GDP) and the SDR allocation (1.6 percent of GDP). The Eurobond proceeds were mainly used for liability management and to finance some of the state-owned oil company' investments in oil and gas projects. The BCEAO on-lent the CFAF counterpart of the SDR allocation to WAEMU member countries in late August on concessional terms: a 20-year loan with a possibility of a rollover and with a 0.05 percent interest rate.



RECENT ECONOMIC DEVELOPMENTS AND PROGRAM PERFORMANCE

6. Economic activity has rebounded since mid-2020 while inflation has picked up. The pandemic strongly affected some important sectors of Senegal's economy such as tourism, hospitality, and transportation. However, a dynamic recovery is underway since 2020Q3 driven by industrial production and the services sector. GDP grew by an estimated 7.5 percent y/y in 2021H1, led by industrial production (+22.4 percent y/y through September), services (turnover +17 percent y/y) and retail (turnover +9 percent y/y). Inflation accelerated to 3.2 percent y/y in October, driven by food prices (4.3 percent y/y; Text Figure 3, MEFP ¶13).



7. The banking sector remained resilient during the pandemic. Banking system capitalization remained sound and the average capital ratio stood at 12.1 percent at end-June 2021. Supportive measures by the regional central bank (BCEAO), including liquidity provision to banks, a 50 basis points reduction in the policy rate, a widening of the collateral framework for refinancing, and a bank loan repayment moratorium (which expired in December 2020), helped the financial system withstand the COVID-19 shock. Gross NPLs to total loans declined from 13.3 percent in December to 12.9 percent at end-June and are well-provisioned with net NPLs at 4.4 percent. Credit to the economy grew 8.1 percent y/y at end June and 3.7 percent in 2021 H1, driven by an increase in medium-term loans to public entities and energy sector firms (MEFP ¶15).

8. The current account deficit grew on the back of very high services imports related to major oil and gas investments. The 2021H1 current account deficit increased by 7 percent y/y. While goods exports grew swiftly (+18 percent), driven by natural resources (+38 percent), groundnut-related products (+60 percent), and chemical products (+22 percent), services imports jumped up by 40 percent due to major investments in two oil and gas projects financed by FDI, which doubled from a year ago. Remittances continue to be a very important financing source,

growing by 25 percent. Tourism-related income remains negatively affected by the pandemic (MEFP ¶16).

9. Budget execution at end September was broadly in line with the revised 2021 budget.

At end-September, tax revenues stood at slightly below 70 percent of their year-end target (excluding the transfer to the budget of parafiscal taxes expected in Q4). Project grant disbursements should also pick up in Q4. Spending reached 79 percent of the first revised budget target⁵ as current spending, notably for transfers in the context of the emergency youth employment program, was high. Central government debt rose from 62.8 at end-December 2020 to 65.3 percent

of GDP at end-September, and, including the debt of other public entities and SOEs, public debt rose to 71.5 percent of GDP (from 68.7 percent at end-December 2020) (MEFP ¶14).

10. Program performance was satisfactory. All but one end-June performance criteria (PC) quantitative targets (QT) and indicative targets (IT) have been met. The ceiling on the share of single-sourced procurement contracts (IT/QT) has been missed—as in previous reviews—by a significant margin (57 percent compared to 15 percent), reflecting two externally-financed investment projects tied to specific contractors and a large single-sourced contract of a state-owned utility. Six out of eight structural benchmarks (SBs) (reform targets (RTs)) were met. The decree implementing the new PPP law was adopted with delay in mid-September, while the study on tax exemptions is expected to be finalized by end-2021 (MEFP ¶18-9).

11. Governance measures regarding COVID-19 spending are being gradually implemented.

Quarterly budget execution reports and the report by the Fonds Force COVID-19 monitoring committee were finalized and are available online.⁶ The report on procurement procedures related

Text Table 1. Senegal: Budget Outturn 2021Q3
(in billion CFAF)

	2020	2021		
	Year EBS/21/44	Q3 Outturn	2021 First revised budget	2021 Second revised budget
Revenues and grants	2,843	1,984	3,035	3,109
Revenues (excl. grants)	2,518	1,913	2,743	2,873
Tax Revenues	2,368	1,806	2,564	2,691
Non-Tax Revenues	150	107	179	182
Grants	325	71	292	236
Budgetary	195	4	64	13
Projects	130	66	228	223
Expenditure	3,747	3,056	3,852	4,076
Current (excl. interest)	2,140	1,733	2,009	2,161
Personnel	804	659	927	918
Goods and services	286	299	328	328
Grants, Subsidies and other spending	1,050	774	754	915
Interest	290	247	328	324
Investment	1,317	1,076	1,515	1,591
Externally Financed	559	521	784	774
Internally Financed	758	555	731	817
Deficit	-904	-1073	-817	-967

Sources: Senegalese authorities; and IMF staff calculations.

⁵ Spending in the first revised budget adopted in June does not include SDR-related spending, the counterpart of parafiscal taxes transferred to the budget, and the flows related to the cross-debt convention signed with Senelec.

⁶ For budget execution reports see:

[www.budget.gouv.sn/rapport-trimestriel-d-execution-budgetaire-quatrieme-trimestre-2020-2021-10-13-12-03%20\(1\).pdf](http://www.budget.gouv.sn/rapport-trimestriel-d-execution-budgetaire-quatrieme-trimestre-2020-2021-10-13-12-03%20(1).pdf). For the Fonds Force COVID-19 monitoring committee report see: [Rapport-final-des-activites-du-Comite-de-suivi.pdf\(finances.gouv.sn\)](http://Rapport-final-des-activites-du-Comite-de-suivi.pdf(finances.gouv.sn)).

to COVID-19 spending by the Public Procurement Regulatory Authority (ARMP) was also published.⁷ Both reports point to the need to strengthen the procurement process used under emergency situations, like the COVID-19 pandemic (Box 1). The finalization of the special report of the Audit Court is taking longer than expected, however, with publication expected for March 2022 instead of October 2021 (MEFP ¶10). Staff welcomed progress in this area and encouraged the authorities to follow up on the findings of the audits and investigate any potential misuse of COVID-19 funding.

Box 1. Senegal: Main Findings of the Audits on the Use of COVID-19 Funds

Two reports have been completed to evaluate the execution of the “Fonds Force COVID-19” resources. One (the Fonds Force COVID-19 Report) was finalized by a multistakeholder monitoring committee including civil society representatives, focusing also on the institutional and logistic aspects of the emergency spending; the second was completed by the Public Procurement Regulatory Authority (ARMP), with a focus on procurement processes.

- **The Fonds Force COVID-19 Report carried out an audit of all “Fonds Force COVID-19” spending, including health, social spending, private sector support and emergency food distribution.** The audit revealed several implementation challenges and spending inefficiencies, due to the urgent deployment of COVID-19 spending and insufficient anticipation of implementation difficulties (logistics, actual uptake of measures by targeted groups) and coordination challenges with existing programs, and called for more systematic external monitoring of emergency spending.
- **The ARMP report covered more than 95 percent of the total value of contracts related to the government’s pandemic response.** While the report recognizes the efforts made to maintain procurement quality on the biggest contracts (most notably supply contracts for emergency food distributions), it identifies several weaknesses including contract concentration, overpayment for specific services, the lack of ex-post controls of spending appropriateness and efficiency and sometimes poor accounting practices that led to excessive or unregistered payments.

Both audits highlight the need to strengthen procurement practices, especially in emergency situations when normal procurement procedures are suspended and single sourcing becomes prevalent as a result. When deviations from the normal budget execution procedures are allowed, incentives to ensure good management of public funds and maximize value for money should be reinforced. The bias of the procurement legal framework towards exceptional procedures may require substantive amendments to promote competitive bidding and clearly restrict use of exceptional procedures. In addition, further transparency measures should be implemented, such as the publication of information on procurement contracts’ beneficial owners, and investigation of potential abuses.

POLICY DISCUSSIONS: HOW TO SUPPORT A STRONG, SUSTAINABLE AND INCLUSIVE RECOVERY

Article IV and program discussions centered on near and medium-term policies to maintain macroeconomic stability, improve public service delivery, and strengthen inclusive growth with a particular focus on three policy themes : i) calibrating the fiscal stance to support the recovery while

⁷ For the report on procurement procedures see: <http://www.marchespublics.sn/fichiers/40417723261b8aea3aeaee.pdf>

pursuing medium-term consolidation to bring the debt-to-GDP ratio on a downward path, ii) domestic revenue mobilization and spending efficiency to deliver on priority social protection, education, health and infrastructure needs; and iii) well-targeted structural reforms to boost investment, productivity, access to finance and job creation and seize the opportunities of digitalization to avoid scarring from the pandemic while reducing informality.

A. Outlook and Risks

12. The recovery is expected to continue in 2021–22, and growth will receive a temporary boost from oil and gas production starting in 2023 (Text Table 2). Staff's baseline scenario assumes that further COVID-19 waves are likely to occur and that vaccinating a significant share of the eligible population will take at a minimum well into 2022. However, absent new lockdowns, the impact on economic activity is expected to be limited. Furthermore, projections factor in a gradual recovery in global merchandise trade that would support goods' exports while services, notably travel and tourism, continue to be affected by the pandemic. The onset of oil and gas production in 2023 will boost growth, exports and revenue (MEFP ¶111-15).⁸

- *Growth* in 2021 is revised up from 3.7 to 5 percent reflecting strong economic momentum in 2021H1. The recovery will continue in 2022 with growth around 5 ½ percent, but the pandemic is expected to have permanently lowered the path of real GDP.⁹ Inflation would remain anchored at around 2 percent over the medium term.
- The *current account deficit* is projected to widen in 2021 to 10.6 percent of GDP, driven by a significant deterioration of the services balance amid high oil and gas projects-related services imports despite the recovery of exports. Over the medium term, hydrocarbon exports are expected to reach 5 percent of GDP—a downgrade from previous projections reflecting that only 70 instead of 100 percent of crude oil will be exported with the remainder going to the domestic refinery. As the investment phase winds down, the medium-term current account deficit is expected to decline to between 4 and 5 percent of GDP. Senegal's external position is assessed to be moderately weaker than the level implied by fundamentals and desirable policies (Annex II).
- The *fiscal deficit* is assumed to return to 3 percent of GDP by 2024 on the back of significant domestic revenue mobilization, though with a more backloaded consolidation path compared with the 3rd PCI review.
- Senegal's *public sector debt* is projected to reach 73 percent of GDP in 2021 while a steady decline to under 60 percent of GDP is projected over the medium term based on fiscal consolidation and growth.

⁸ The projected impact of oil and gas production on real GDP has been revised using an expenditure-side approach (the previous estimate was based on an income approach) and updated assumptions regarding oil and gas-specific deflators. This has led to an upward revision of cumulative real hydrocarbon-related GDP growth in 2023-24 compared to the last review despite a downgrade of projected production volumes in 2023.

⁹ Medium-term potential output growth is estimated around 6 percent based on annual labor force growth of 3 percent, substantial further capital accumulation with gross fixed capital formation of about 30 percent of GDP and continued modest productivity gains in line with past experience.

13. The outlook is subject to significant uncertainty and risks are tilted to the downside.

Domestic and regional risks to growth and stability include repeated COVID-19 outbreaks, possibly exacerbated by new variants, scarring from the pandemic through missed education and lower buffers, rising social tensions, a deteriorating regional security situation, slower reform implementation given forthcoming elections, and delays in the start of oil and gas production. The main external risks are worsening terms of trade, especially a higher oil price (until Senegal becomes a producer), and a rapid rise of global interest rates (Annex III). Senegal is also vulnerable to climate change with a high share of the population living in coastal areas as well as an expected increase of extreme weather events such as droughts and floods (Annex IV; MEFP ¶16).

Text Table 2. Senegal: Key Macroeconomic Indicators 2020–24

	2020	2021		2022		2023		2024
	Est.	EBS/21/44	Proj.	EBS/21/44	Proj.	EBS/21/44	Proj.	Proj.
Real GDP (percent change)	1.5	3.7	5.0	5.5	5.5	10.8	9.5	10.3
<i>Of which: Non-hydrocarbon GDP</i>	1.5	3.7	5.0	5.5	5.5	6.1	5.9	6.0
CPI inflation, average (percent)	2.5	2.0	2.5	2.0	2.5	1.5	1.5	1.5
Net lending/borrowing, including grants (percent of GDP)	-6.4	-5.4	-6.3	-4.2	-4.8	-3.0	-3.7	-3.0
Current account balance (percent of GDP)	-10.0	-11.3	-10.6	-10.5	-9.4	-5.5	-7.2	-4.0
Gross Debt Public Sector (percent of GDP)	68.8	70.9	73.0	69.9	71.6	64.9	67.7	63.1

Sources: Senegalese authorities; and IMF staff calculations.

14. Staff developed a downside scenario demonstrating the vulnerability of the debt trajectory to fiscal or growth shocks.

The scenario combines shocks to non-oil growth, oil and gas production, revenue mobilization and the fiscal deficit (Annex V). It shows that bringing the debt trajectory on a downward trend hinges on implementing the baseline fiscal consolidation. In case risks materialize, absent more highly concessional support, the authorities would need to balance additional revenue measures with delaying lower-priority investments (e.g. transport infrastructure) or reducing non-essential current spending (e.g. subsidies).

Authorities' Views**15. The authorities agreed with the short-term outlook but expect stronger medium-term growth.**

This is because of the expected growth dividend from ongoing policy reforms, the dissipating effect from the pandemic, and positive spillovers from oil and gas production on the economy. Regarding the downside scenario, the authorities took note of the possible implications for the debt outlook but considered its materialization unlikely, especially the assumption of fiscal deficits exceeding 3 percent of GDP and the lower longer-term growth of non-oil GDP.

B. Policy Theme #1: Balancing Spending Needs with Debt Sustainability**16. Staff and the authorities agreed to keep the 2021 fiscal deficit excluding SDR-related spending unchanged compared to the previous review at 5.4 percent of GDP.**

A second revised budget was approved by Parliament on November 15, 2021. It incorporates spending related to the

SDR allocation, higher energy subsidies due to higher global oil prices, an employer contribution for skill development¹⁰ and the signing of a cross-debt convention between the central government and the state-owned power utility (both budget neutral for a total of 0.5 percent of GDP) (Text Tables 3 and 4). Lower grant financing (0.3 percent of GDP) owing to a change in the World Bank's financing terms¹¹ and higher energy subsidies (0.2 percent of GDP) due to higher world oil prices will be offset by higher tax and non-tax revenue (0.1 percent of GDP) as stronger economic activity outweighs the impact of recent tariff reductions on staple foods and savings on wages, goods and services and investment.

17. Staff recommended keeping a significant share of the SDR allocation as buffer to guard against fiscal risks and ensuring transparency of the related spending.

The authorities decided to save 0.3 percent of GDP to cover 2022 financing needs, reserve 0.5 percent for financial transactions (e.g. recapitalization of a bank and equity in pharmaceutical production) in 2021 and 2022, while spending about half of the SDR allocation in 2021 (0.9 percent of GDP) on the health sector, domestic vaccine production, cash transfers and a faster repayment of unmet obligations which is expected to support the recovery in private sector activity (Text Table 3) (MEFP ¶17).¹²

18. In response to staff's recommendations, the authorities modified a new customs levy and enhanced transparency around the use of the related proceeds.

A new customs levy of 3 percent on non-ECOWAS imports, partly replacing other custom fees, had been introduced in September, tied to a comprehensive customs modernization program to be undertaken based on a single-sourced contract. During the mission, staff expressed strong concerns arguing that the ad-hoc introduction and design were inconsistent with the program objectives of improving fiscal transparency, strengthening procurement practices, and enhancing the business environment. Accordingly, staff had recommended bringing the rate in line with WTO rules, i.e. reflective of a service rendered by customs, and reflecting all related revenues in the budget. While emphasizing the critical need to finance the associated priority spending, the authorities agreed to channel all

Text Table 3. Senegal: Use of the SDR allocation
(in CFAF billion)

SDR Allocation	246.3
<i>Percent of GDP</i>	1.6%
Uses	
2021 expenditure	141
<i>Percent of GDP</i>	0.9%
Health sector	33
COVID-19 response	18
production of vaccines	2
Investment in hospitals	13
Cash Transfers	5
Accelerated clearance of unmet obligations	103
Additional financing	105.3
Financial transactions	63.3
2022 financing	42.0

Sources: Senegalese authorities and IMF staff calculations.

¹⁰ Before only 25 percent of this contribution was recorded as budget revenues and expenditure, with the rest going directly to the national professional training office and fund ("Office National de Formation Professionnelle" and "Fonds de Financement de la Formation Professionnelle").

¹¹ All financing operations launched after 1st July 2021 will be exclusively IDA loans instead of the 50/50 mix between grants and loans that was applicable before, as Senegal passed the IDA per capita income threshold for a third consecutive year.

¹² Any use of the SDR allocation for financial transactions will be transparent and guided by studies on financing needs (e.g. for the pharmaceutical industry, bank recapitalization) and performance contracts with state entities benefiting from the transaction (e.g. public bank).

related revenues and spending through the budget and amended the draft 2022 budget to lower the rate to 1.5 percent—more in line with international practices—starting in January 2022 (MEFP ¶20-21). Staff welcomed these modifications.

	2021		2022	
	EBS/21/44	Second revised budget 2021	EBS/21/44	Budget 2022
Revenues and grants	3,034	3,109	3,389	3,461
Revenues (excl. grants)	2,742	2,873	3,052	3,165
Tax Revenues	2,564	2,691	2,918	3,025
<i>(percent of GDP)</i>	17.1	17.6	18.1	18.4
Non-Tax Revenues	179	182	135	140
<i>of which: exceptional revenue</i>	60	60	...	...
Grants	292	236	336	295
Budgetary	64	13	88	45
Projects	228	223	248	250
Expenditure	3,852	4,076	4,066	4,245
Personnel	927	918	1,008	984
<i>of which: salaries for youth program</i>	22	22	34	33
Goods and services	328	328	362	343
Subsidies	339	374	303	374
<i>of which: energy subsidies</i>	110	145	...	150
Grants and other spending	427	541	476	422
<i>of which: current spending for youth program</i>	47	45	43	35
Interest	328	324	344	350
<i>Of which DSSI</i>	19	16	...	...
Investment	1,515	1,591	1,572	1,772
<i>(percent of GDP)</i>	10.1	10.4	9.7	10.7
Externally Financed	784	774	801	830
<i>of which: vaccination campaign</i>	40	30	35	45
Internally Financed	731	817	771	942
Deficit	-817	-967	-677	-784
<i>(percent of GDP)</i>	-5.4	-6.3	-4.2	-4.8
<i>(percent of GDP excl. SDR allocation)</i>	-5.4	-5.4	-4.2	-4.8
<i>(percent of GDP - excl. DSSI + vaccines)</i>	-5.1	-6.0	-4.0	-4.5
Financing	817	967	677	784
Net issuance on regional bond market	314	388	242	168
Program loans	96	47	90	132
Project loans	556	551	553	580
Eurobond	...	508	...	...
SDR Allocation	...	246	...	...
Other (incl. amortization, below-the-line operations, deposits)	-442	-947	-358	-350
Exceptional Financing				
IMF	201	102	150	254
DSSI	91	71	...	...
Memorandum item				
Nominal GDP	14,998	15,273	16,159	16,485

Sources: Senegalese authorities and IMF staff calculations.

The Medium-Term Fiscal Path and the 2022 Budget

19. The 2022 budget adopted by Parliament on December 12 envisages a higher deficit than agreed at the previous program review (Text Table 4). The authorities justified the looser fiscal policy by the difficult regional security situation, urgent pandemic-related spending, and the need to support the economic recovery and to maintain social cohesion. Consequently, they are now targeting a 4.8 percent of GDP deficit in 2022, a 0.6 percent of GDP increase compared with the 3rd review, declining to 3.7 percent of GDP in 2023 and 3 percent of GDP in 2024. They note that this more backloaded consolidation path is also in line with the WAEMU's Council of Ministers' decision to extend the period to return to a 3 percent of GDP deficit by one year to 2024 (MEFP ¶118).¹³

20. Staff pointed to rapidly-diminishing fiscal space and the need to guard against significant fiscal risks. While acknowledging the WAEMU Ministers' decision to delay the return to regional convergence targets and high spending needs, staff stressed the risks to Senegal's debt sustainability associated with a looser fiscal stance, the need to anchor medium-term fiscal policy in a credible path to a 3 percent of GDP deficit and the benefits of maintaining some buffers, especially given elevated fiscal risks. The current moment presents an opportunity to bring down the deficit given the unwinding of temporary pandemic-related spending. The ongoing recovery would not be significantly affected by a somewhat tighter fiscal stance amid low fiscal multipliers.¹⁴ Staff thus recommended to keep the fiscal deficit at or under 4.5 percent of GDP in 2022 and bring it already closer to 3 percent of GDP in 2023. If the deficit were to be higher, it would be essential to build in significant buffers against short-term fiscal risks such as higher world oil prices, while strengthening the medium-term fiscal position through decisive progress on revenue mobilization and reforms to durably lower energy subsidies.

21. Against this backdrop, the authorities and staff agreed on a 2022 budget with strong revenue-mobilization, increased social spending, and substantial buffers.

- 2022 is the first full year of the MTRS implementation and the budget targets an increase of the tax revenue-to-GDP ratio of 1 percentage point. The increase is based on broadening the tax base

Text Table 5. Senegal: Revenue Projections, 2022

	2021	2022
	proj.	proj.
Tax Revenue	2642	3025
(in percent of GDP)	17.3	18.4
Nominal increase		383
Tax policy measures (incl. base broadening)		119
Promad		30
Reduced tax exemptions		25
Base broadening		50
Other tax policy changes		14
Administrative measures		71
Growth of tax and tariff base		193

Memorandum item:
NGDP 15,273 16,464

Sources: Senegalese authorities; and IMF staff calculations.

¹³ The WAEMU team ran simulations of the impact on regional debt and external sustainability of extending the convergence period to 2024 by all WAEMU member countries. The analysis found that the extension is unlikely to pose problems for external viability and fiscal sustainability.

¹⁴ The fiscal multiplier is assumed to be low given the revenue-based nature of the medium-term consolidations 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).

(supported by a related June 2022 SB/RT), a reduction of tax exemptions (supported by a related SB/RT for December 2021), tax policy measures (mostly excise taxes) and steps to strengthen revenue administration, in particular at customs (Text Table 5; MEFP ¶119).

- On spending, the budget prioritizes public investment (kept at over 10 percent of GDP) while pivoting spending away from hard infrastructure towards education, youth unemployment, women’s economic empowerment (supported by gender budgeting, in its 6th year of implementation in Senegal, Box 2) and social protection, in line with new policy priorities. Accordingly, the authorities committed to a higher program floor for social spending, raised from 35 to 40 percent of total spending (MEFP ¶122).
- To guard against fiscal risks, a budget annex identifies projects which will only be implemented later in the year if budget execution is on track (precautionary reserve of 0.4 percent of GDP).
- The authorities plan to use an additional budget reserve (0.3 percent of GDP) to reach projected spending on energy subsidies (0.9 percent of GDP), on top of the already budgeted amount of 0.6 percent of GDP. Staff urged the authorities to effectively preserve this buffer to cover spending needs and avoid arrears accumulation (MEFP ¶122).

Box 2. Senegal: Gender Budgeting

Senegal has long recognized that gender inequality is a major impediment to development. The COVID-19 pandemic had a disproportionate impact on women who are more likely than men to work in the most affected informal services sector. As part of their development strategy, the authorities are committed to: i) strengthening the legal rights of women and girls; ii) protecting them from discrimination and violence; iii) supporting their economic self-sufficiency by improving access to land and credit; and iv) providing comprehensive support to families.

Gender budgeting is an important tool to make further progress. The gender dimension is integrated at all stages of Senegal’s budget process: planning, programming, budgeting, and evaluation. For six years now budget laws are accompanied by a dedicated document providing a thorough analysis of how budgetary decisions affect gender inequality, ministry by ministry. A program’s impact on gender equality is an important criterion to rank and choose projects under the public investment strategy. The transition to program budgeting will further facilitate this analysis and evaluation.

Investments in programs with a strong gender component exceed 1 percent of GDP in 2022. For example, the “Délégation à l’Entreprenariat Rapide” provides training and credit to mostly female entrepreneurs with 75 percent of the beneficiaries being women. Moreover, targeted investments will facilitate girls’ access to education and expand health services for women and girls in rural areas.

Preserving Debt Sustainability and Enhancing Debt Management

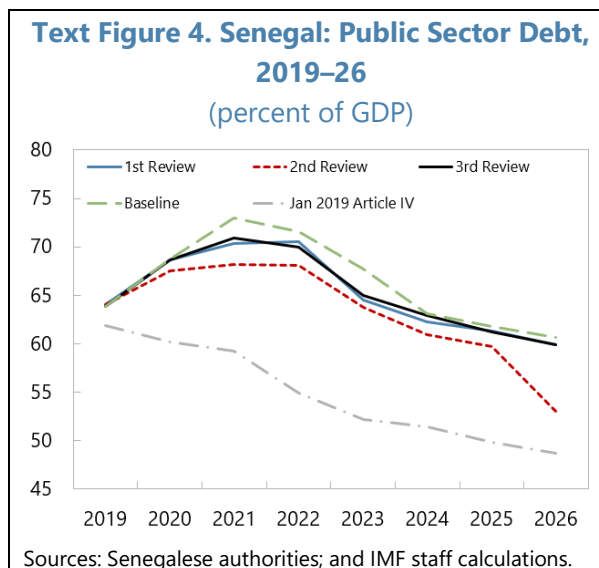
22. Rising public debt levels remain a significant source of risk, though some aspects of the public debt profile improved in 2021. Total public debt has increased by nearly 10 percentage points of GDP since 2019, reflecting in part the response to the pandemic (Text Figure 4). The Eurobond issuance in June 2021 increased external debt but was mainly used to pre-finance oil and gas investments and buy back outstanding U.S. dollar Eurobonds, reducing FX risk and smoothing out external debt service payments. The SDR allocation also increased public sector (domestic) debt,

but on highly-concessional terms. An updated DSA finds that Senegal continues to have a moderate risk of external and overall debt distress, with limited scope to absorb shocks in the near term (see DSA). External debt service payments are substantial, at about 23 percent of exports and 17 percent of revenues for 2021 and are projected to amount to 20 percent of exports and 15 percent of revenues in 2022.¹⁵ A recent audit of the debt database did not identify major weaknesses, but noted risks related to the timeliness and reliability of SOE debt data.

Authorities' Views

23. The authorities are committed to strengthen debt management and to contain contingent liabilities.

- Non-concessional external borrowing will be carefully managed and focused on projects with a high rate of return. Adhering to the regional fiscal deficit target and operationalizing the MTRS will further reduce the government's reliance on debt financing over the medium term (MEFP ¶24).
- They have developed an action plan to address deficiencies highlighted by the debt database audit. A recently-issued circular and decree will strengthen debt data sharing practices by state-owned enterprises and reinforce the role of the national debt committee in supervising all public borrowing (MEFP ¶25).



C. Policy Theme #2: Improving Public Service Delivery by Enhancing Revenue Mobilization and Spending Transparency and Efficiency

24. Creating fiscal space hinges on domestic revenue mobilization, spending efficiency, limiting energy subsidies and a strong framework for managing hydrocarbon revenues.

- Senegal's Medium-Term Revenue Mobilization Strategy (MTRS) is the backbone of a growth-friendly fiscal consolidation effort. Non-hydrocarbon tax revenue collection is projected to increase to 20 percent of non-hydrocarbon GDP by 2024, supported by: (i) broadening the tax base, and gradually reducing regressive exemptions; (ii) leveraging digital solutions to enhance the efficiency of tax collection; and (iii) reforming revenue administrations.¹⁶
- In the current high global oil prices environment, rising energy subsidies risk crowding out other

¹⁵ Senegal's participation in the DSSI is expected to result in temporary debt service relief of CFAF 71 billion (0.5 percent of GDP) in 2021, CFAF 20 billion lower than previously anticipated (see DSA).

¹⁶ IMF Country Report No. 21/127, Annex III.

spending priorities and require an urgent overhaul if high oil prices persist.

- Improved PFM practices, including better public investment management and enhanced and more transparent budget execution, could significantly improve value-for-money of recurrent and capital spending.
- With oil and gas revenues expected for 2023, having a comprehensive framework for their transparent and effective management in place will be critical.

25. Staff urged the authorities to accelerate the pace of MTRS implementation, which has experienced delays.¹⁷ Redistributive tax policies, a broader tax base, and enhanced revenue mobilization will be critical to generate fiscal space going forward, including for social protection. There is a need to strengthen MTRS ownership by the revenue administrations, and to step up public communications including by widely publishing the strategy and organizing a high-level seminar in which the strategy is publicly endorsed. The adoption of a robust and data-driven framework to monitor accountability and performance for the revenue agencies, to be prepared with IMF TA support, is a crucial step towards effective implementation. The reduction of tax exemptions included in the 2022 budget is a welcome first step (SB, December 2021) while finalizing the delayed study to lay out a more comprehensive strategy to lower tax expenditures should be a priority (MEFP 126-28).

26. Staff highlighted the urgent need to contain energy subsidies. Rising world oil prices pose a significant risk to the budget and could crowd out other spending priorities. The 2022 budget would allow to cover energy subsidies for a maximum of 0.9 percent of GDP which,

according to staff estimates, would likely be only sufficient if the average price per barrel (Brent) remains at or below US\$75 per barrel. Staff estimates that subsidy needs could reach close to 2 percent of GDP at an average oil price of US\$85 per barrel in 2022. Staff therefore urged the authorities to cap energy subsidies at the budgeted amount by moving towards greater price flexibility while protecting the vulnerable. Staff also stressed the broadly inefficient and regressive nature of energy subsidies and noted that the authorities' strategy to reduce energy subsidies should be anchored in the preparation of a public roadmap. Such a roadmap would include steps towards automatically-adjusting retail prices for fuel and electricity while protecting poor households and selected priority consumers through targeted measures. While reforms in the electricity sector and the gradual switch from oil to domestically-produced gas for power generation will eventually lower electricity subsidies, staff pointed out that the gas-to-power strategy requires

Text Table 6. Senegal: Energy Subsidies
(in percent of GDP)

	2019	2020	2021	2022	
	Act.	Act.	Proj.	Proj.	
Projected average oil price (Brent)				(about US\$75/barrel)	(about US\$85/barrel)
Electricity subsidies	1.1	0.3	1.1	0.7	1.1
Fuel subsidies	0.1	0.0	0.2	0.3	0.7
Total energy subsidies	1.2	0.3	1.3	1.0	1.8

Source: Senegalese authorities; and IMF staff calculations.

¹⁷ A January 2021 TA mission found that only about 20 percent of the measures envisaged for 2020 were fully implemented. A number of the measures agreed at the time of the previous review to address these delays have not yet been put in place.

significant planning and investment and is affected by the uncertain outlook for gas prices (see Selected Issues Paper; MEFP, ¶130).

27. A broad range of ongoing PFM reforms aim at enhancing budget execution as well as spending efficiency. Staff encouraged the authorities to accelerate the implementation of key reforms supported under the program and by extensive Fund TA. Moreover, the formal adoption of a comprehensive PFM reform strategy could further help prioritize and guide reform implementation in key areas, including the following (MEFP ¶129):

- The gradual elimination of transfers and proper budgeting of expenditures according to their economic nature to improve spending transparency and efficiency, including proper budgeting and execution of central government investment expenditures;¹⁸
- Stronger budget preparation and execution through systematic use by all budget entities of harmonized commitment, procurement and cash plans;
- A transition towards a fully functioning Treasury Single Account (TSA) and closure of all non-necessary general government accounts to improve cash management;
- Better public investment management through robust project preparation and execution, better alignment of the investment plan with development priorities, and active efforts to strictly limit single-sourced procurement contracts to ensure value-for-money, including by identifying by end-June 2022 necessary changes to the legal and regulatory framework for procurement (proposed new end-June 2022 SB, MEFP¶18).

28. Progress is being made on the identification and disclosure of fiscal risks. The 2022 budget includes a detailed fiscal risks statement that covers risks stemming from SOEs, PPPs, natural disasters and selected macroeconomic risks (e.g. world oil prices), in line with IMF technical assistance recommendations (SB, December 2021). The statement should be gradually improved to include risk quantification, a determination of potential contingent liabilities and a clear link with existing and envisaged risk mitigation measures. In particular, regular updates of the existing PPP and IPP database (proposed new SB, June 2022), including quantification of fiscal risks embedded in contracts, should allow for better monitoring of PPP-linked risks.

29. The finalization of the legal and fiscal framework for the management of oil and gas revenues is becoming more pressing with first hydrocarbon revenues expected in 2023. Major offshore oil and gas discoveries were made in 2014-16 and Senegal will soon become a significant producer. Two projects, Sangomar (mainly oil) and GTA (mainly LNG), have reached final investment decision and are expected to start production in 2023 (Box 3). A third field, Yakaar Teranga, is expected to supply the gas for the gas-to-power strategy and project preparation is advanced even though a final investment decision has yet to be made. Staff therefore stressed the need to have a fully functioning framework by mid-2022 at the latest to guide incorporation of oil and gas revenues

¹⁸ In 2021, 89 percent of investment expenditures were executed through direct transfers to implementing agencies as of end-September. This represents a slight decrease from 94 percent in 2020 but this high share of transfers in total investment spending makes the proper recording of such spending more difficult.

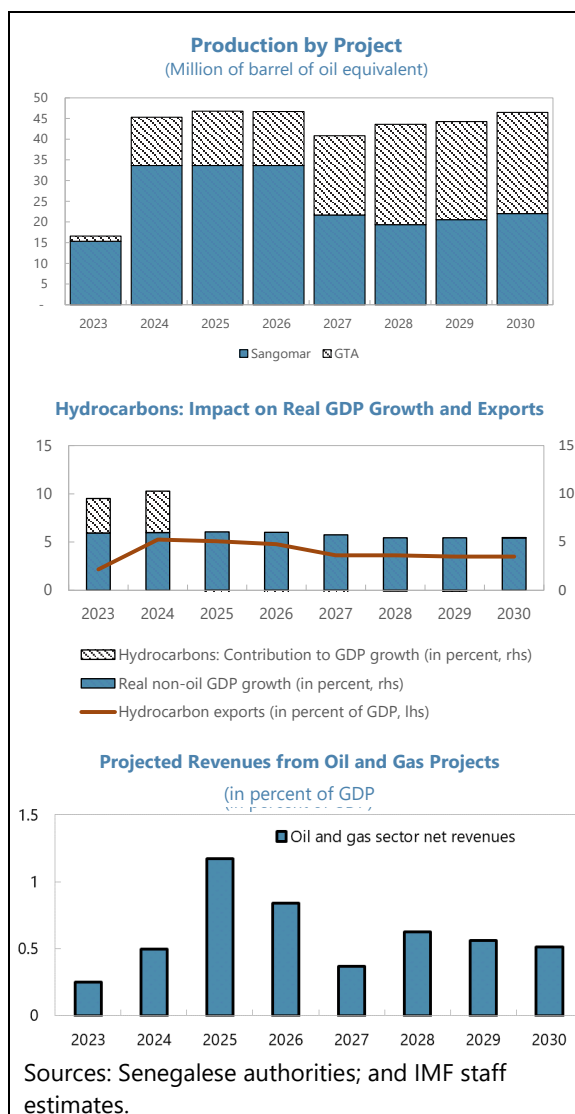
in the preparation of the 2023 budget. This includes approval by Parliament of the related law, the adoption of a fiscal framework targeting a non-oil balance as anchor, an investment plan for oil and gas related revenues, as well as better oil revenue monitoring and forecasting capacity (MEFP 131).

Box 3. Senegal: The Projected Macroeconomic Impact of Oil and Gas Production

Staff updated projections regarding the macroeconomic impact of the oil and gas projects. In the pre-production phase, the projects have led to a major increase of foreign direct investment from about 2 percent of GDP to an expected 7.8 percent of GDP in 2021. This finances to a large extent imports of services, which are expected to reach 9.9 percent of GDP in 2021. For the production phase starting in 2023, the macroeconomic framework includes the two projects that have reached final investment decision “Grand Tortue Ahmeyim” (GTA, LNG) and “Sangomar” (oil).

Growth and exports will receive a boost in 2023 and 2024. Growth will be temporarily lifted to about 10 percent in 2023 and 2024—with a shift in the level of GDP while future growth is not expected to benefit from further production increases. It is assumed that 70 percent of crude oil and 100 percent of LNG will be sold abroad, adding about 5 percent of GDP to current exports of goods between 2023 and 2030.

Moderate public revenues are expected in the medium term. Total net revenue projections, including cash flows from the state-owned oil company Petrosen, depend crucially on actual production volumes, future oil and gas prices, possible investment in future phases, and repayments of initial investments. As such, uncertainty around these estimates is high but staff expects revenues to average 0.7 percent of GDP through 2026.



Authorities’ Views

30. The authorities underscored their commitment to revenue mobilization and transparent budget practices, including for oil and gas revenues. They intend to strengthen the communication of the MTRS, including by the publication of the strategy, a communication campaign, and a high-level seminar by the end of 2021. Sufficient resources for the MTRS implementing unit are being made available and a monitoring and evaluation framework will be put in place (proposed new SB, June 2022). They pointed to the comprehensive PFM reforms that are underway. To ensure broad ownership of the new legal framework for the oil and gas revenue

management, a national day of consultations will be organized by end-year before submitting it to Parliament. This will allow to fully operationalize the revised fiscal framework by mid-2022 (SB, June 2022; MEFP ¶26-29, 31).

31. The authorities shared staff's concerns about rising costs for energy subsidies. At the same time, they pointed to the need to protect the purchasing power of households and to support the recovery. Regarding electricity, they stressed that prices are already higher than in neighboring countries, and that further increases could put firms at a competitive disadvantage. They also emphasized that reform in that area would require careful planning and a gradual approach. To contain fiscal risks, the authorities agreed to limit energy subsidies to a maximum of 0.9 percent of GDP in 2022. This would be achieved through a reactivation of the decree regarding fuel prices, an audit of the methodology to determine the compensation of the national power utility, and a revision of the decree on electricity prices, while protecting vulnerable households (proposed new SB, June 2022). In addition, the government will publish a roadmap for the gradual elimination of energy subsidies starting in 2023, including a communication phase and support measures for vulnerable households (proposed new SB, June 2022) (MEFP ¶130).

D. Policy Theme #3: Strengthening the Foundation for a Strong, Inclusive and Job-Rich Post-Pandemic Recovery

Protecting the Vulnerable and Creating Economic Opportunities for Women and the Youth

32. The pandemic has exacerbated stress on the social fabric. Poverty fell from 42.8 percent to 37.8 percent over the last decade. However, according to World Bank estimates, some of this progress has been reversed since 2020 with poverty increasing again by up to 2 percentage points to about 40 percent of the population. Furthermore, to reap the demographic dividend of a very young population with high aspirations, it will be critical to provide sufficient opportunities for education, training, and employment. Yet youth unemployment is high, affecting almost 1/3 of those between 15 and 34 years. About 200,000 young enter the labor market each year, many with little or no formal education (Text Figure 5). Without rapid growth in the formal job market (currently about 500,000 jobs compared with a workforce of 5.5 million), the only sources of employment are often in the informal agricultural or services sectors providing low wages, little or no training opportunities and little scope to increase productivity. Against this backdrop, the government launched an emergency program for youth and women employment in April, which envisages significant public hiring, microcredits to the self-employed, and expanding vocational training (Text Table 7).

33. Staff stressed the importance of enhancing social safety nets. Staff welcomed the increasing share of social spending in the 2022 budget and that part of the SDR allocation is slated to be used for additional cash transfers. Building on that, the authorities should take further steps to expand social protection schemes, including the cash transfer scheme "*Programme de bourses de sécurité familiale or PBSF*", under which 0.2 percent of GDP a year are allocated to about 300,000

poor households, as well as targeted mechanisms to respond to shocks. To this end, ongoing work to update and expand the “*Registre National Unique*” (RNU), a database guiding social protection efforts, should be advanced resolutely. It is an essential tool to prepare rapid and targeted support mechanisms to respond to shocks such as the current pandemic, floods, droughts or sudden price increases of basic necessities.

34. Staff encouraged the authorities to implement measures to broaden access to education and skill development, and ensure the efficiency of public job-creation initiatives.

Staff noted the high share of workers without formal education despite comparatively high education spending relative to GDP by Senegal. However, such spending is tilted toward tertiary education and investments in the sector are a relatively small part of the overall investment envelope. Staff therefore recommended to give a higher priority to investments in the education sector combined with a stronger focus on primary and secondary education to make education accessible for broader segments of the population. Regarding the new youth employment initiative, staff reiterated that significant public hiring could crowd out other spending and may not result in sustainable, long-term jobs. It is therefore essential that spending is of high quality.¹⁹

Authorities’ Views

35. The authorities concurred that the pandemic has reinforced the need to strengthen social safety nets to boost the resilience of the vulnerable population. They stressed that the RNU is in the process of being extended to cover 1 million households by the end of June 2022 (SB, October 2022). They will ensure that the full amount of cash transfers due in 2021 will be paid to beneficiaries and will further institutionalize and gradually expand this program, while looking into options to use mobile payments (MEFP ¶32).

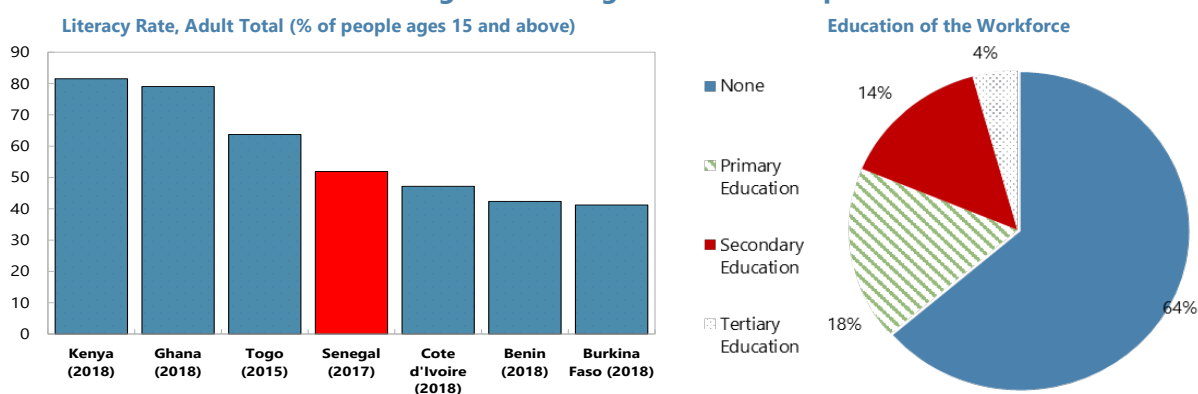
36. The authorities pointed to ongoing reforms to strengthen youth employment initiatives. One-stop shop employment and entrepreneurship centers in all major cities and regions, which provide access to and information about all public support measures, are being set up with 15 already operational out an expected 45 by end-2022. They noted that the decision to streamline the numerous funds lodged at different agencies to finance young entrepreneurs and women in a single fund has already been taken and will be effective in 2022 (SB, December 2021). Furthermore, a full strategy to overhaul the interventions in the sector is being developed and should be ready before the end of the year (MEFP ¶33).

¹⁹ See also IMF Country Report No. 21/127.

Text Table 7. Senegal: Emergency Program for Youth Employment

Pillar	Measures	Expected costs				
		2021		2022	2023	Total
		committed spending (September)	Proj.	Proj.	Proj.	
1	Special recruitment	12	45	53	54	152
2	Projects for community development	1	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.	3	15	15	15	45
4	Labor-intensive public investment project	1	9	9	7	24
5	Vocational training/traineeships	2	11	18	16	45
6	Access to financing for entrepreneurs and independent workers	16	53	33	34	120
7	Subsidy for school uniforms	5	10	10	10	30
	Total	39	150	150	150	450

Sources: Senegalese authorities; and IMF staff calculations.

Text Figure 5. Senegal: The Skills Gap

Sources: World Development Indicators, Senegalese National Statistics Agency (ANSD).

Strong, Private Sector-Led Growth

37. The government's growth strategy relies both on structural (horizontal) and targeted sectoral (vertical) policies. The main growth constraints have been identified across multiple studies.²⁰ They include the high cost of energy, a distortive business environment, lack of access to land and financing, high labor costs and labor market rigidities as well as weak human capital (in terms of lack of education and skills). To address these constraints, Senegal's development strategy, "Plan Sénégal Émergent" (PSE), contains a range of horizontal reforms (e.g. improving the business environment, expanding basic infrastructure, promoting access to education and training, extending access to finance) and vertical policies such as sector-specific tax exemptions, subsidies, setting up agricultural and industrial production centers, export-processing zones, and modernizing regulatory frameworks. Priority sectors include agriculture and agri-processing, pharmaceuticals, mining, and the digital economy. A reform partnership under the G-20 Compact with Africa with a focus on labor market reforms, vocational training, access to financing, and land reform underscores Senegal's

²⁰ See for example World Bank "Strategic County Diagnostic" (2018), MCC Senegal Constraints Analysis Report (2017), IFC "Private Sector Diagnostic: Creating Markets in Senegal" (2021) and Republic of Senegal "Plan Sénégal Émergent: Plan D'Actions Prioritaires 2019-23" (2018).

commitment to boosting private investment.

38. Staff encouraged the authorities to accelerate and deepen structural reforms while better justifying and evaluating cost and benefits of specific sectoral support measures.

Although Senegal's business environment is generally considered to exceed the regional average, there remains ample room to improve the functioning and efficiency of markets. Reforms aimed at further improving access to finance, the functioning of labor and product markets, could lead to higher growth and faster job creation in the medium term. In relation to specific sectoral support measures, the mission encouraged the authorities to better identify the most relevant externalities that could justify direct support, to be transparent about the objectives and avoid overloading interventions (for example reducing import-reliance for necessities vs. job creation and growth), use sunset clauses, regularly evaluate the effects of public interventions, and avoid supporting sectors where Senegal lacks essential inputs such as sufficient skilled labor, infrastructure or technology (see Selected Issues Paper).

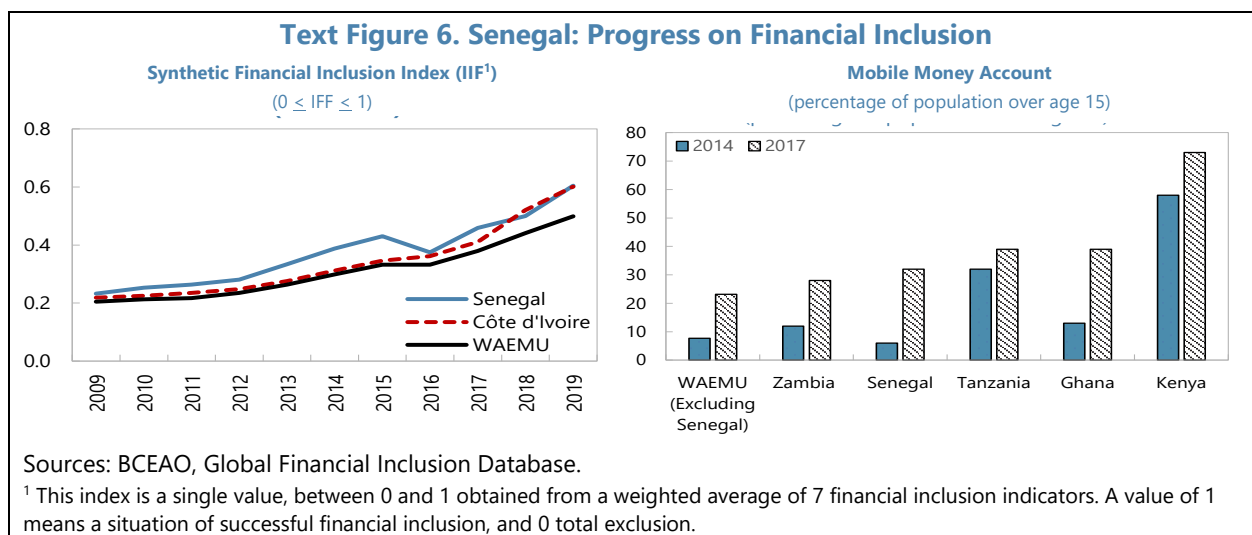
Authorities' Views

39. The authorities emphasized recent progress to improve the business environment and pointed to ambitious ongoing reforms. Notable achievements include faster administrative procedures for companies and an improved commercial justice system leading to faster dispute resolution. Reforms of the labor market and the investment and competition frameworks are underway. A centralized and integrated land management system is expected to be operational by end of 2021 (SB, December 2021), a precondition for putting in place an online collateral registry that combines data on movable collateral and mortgages in cooperation with the BCEAO; due to its complexity, this project will take longer to complete than initially envisaged (SB, December 2021). They however noted that the movable collateral registry is already online and operational (MEFP, ¶134-36).

A Sound and Accessible Financial Sector

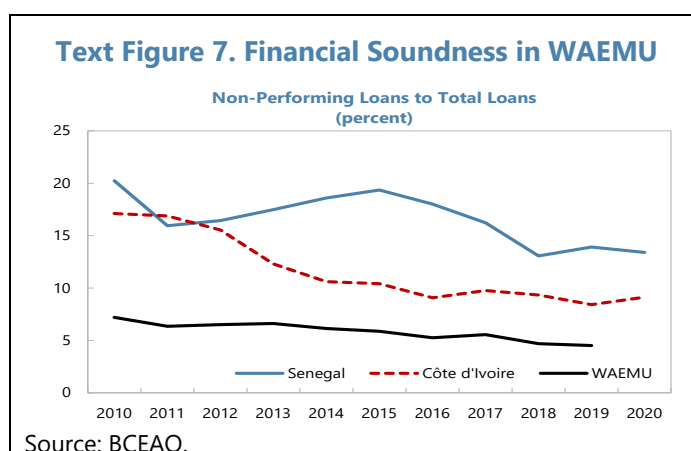
40. Progress has been made on financial inclusion but access to credit remains difficult for large segments of the economy. The financial inclusion rate reached 70 percent in 2019 compared to 65.9 percent two years earlier, driven by electronic money (Text Figure 6).²¹ Still, staff pointed out that access to credit is considered a key challenge in many surveys, especially for small and medium sized enterprises (SMEs).

²¹ The use of electronic money services grew by 5.4 percentage points to stand at 39.6 percent in 2019.



41. The financial sector has weathered the economic downturn well, but long-standing weaknesses require attention (Text Figure 7).

- Three small banks with preexisting problems continue to be in violation of capital requirements. Staff encouraged the authorities to speed up bank-specific corrective measures while minimizing resort to public funds. In case public liquidity injections were deemed indispensable, staff advised to make any payments by the state contingent upon the implementation of necessary safeguards, including all governance recommendations by the banking commission (MEFP ¶138).



- The increasingly precarious financial situation of the post office group ("*La Poste*") risks undermining its financial arm *Poste finances*. A roadmap to transform *Poste finances* into an independent bank is in place but has suffered delays.²² Staff emphasized the need to find a short-term solution to protect its financial health, advised to explore alternative solutions to transforming it into a financial establishment rather than a full-fledged bank, and encouraged the authorities to move towards a more fundamental restructuring of *La Poste* which will be essential to limit fiscal risks. The authorities pointed to ongoing work by a sub-committee in charge of *La Poste's* restructuring and a planned amendment to the agreement between the two institutions that would require monthly reimbursement of outstanding balances between *La*

²² Separating *Poste finances* from the post office group is important to eliminate financial transfers from *Poste finances* towards the rest of the group. This will allow it to maintain adequate minimum daily cash balances to cover postal checks.

Poste and La Poste finances (MEFP ¶140).

- Several micro-finance institutions (MFIs) have come under stress during the pandemic. The authorities have launched diagnostic missions to particularly affected institutions and have set up a special monitoring regime which will help determine if additional support measures are needed (MEFP ¶139).

42. Senegal is subject to enhanced oversight by the Financial Action Task Force (FATF) owing to remaining strategic deficiencies in its AML/CFT framework. Staff pointed to the negative macroeconomic repercussions of the likely loss of corresponding banking relationships if these deficiencies remain unaddressed. To address this, Senegal is committed to working on a consistent understanding of risks across relevant authorities, adequate and effective supervision, and implementing an effective targeted financial sanctions regime. The action plan is expected to be completed by September 2022. Staff noted that a stronger AML/CFT framework would also support procurement and PFM reforms (MEFP¶18, ¶129) and revenue administration reforms (e.g., increased digitalization) in reducing vulnerabilities to corruption.

Authorities' Views

43. The authorities committed to enhancing financial inclusion and addressing pockets of vulnerability in the financial sector as well as AML/CFT deficiencies. They intend to give access to financial services to 65 percent of the population and 90 percent of SMEs through the implementation of the financial inclusion strategy which is expected to be approved by December 2021. To ensure the financial viability of financial institutions under stress, they are committed to addressing capital shortfalls, including by honoring the government's financial commitments, as well as operational challenges. They reiterated that addressing AML/CFT deficiencies is a priority and cited as examples progress with regard to the adoption of updated legislation to broaden the information on beneficial owners, the complete criminalization of the financing of terrorism, and the creation of the National Office for the Recovery of Criminal Assets (ONRAC). They also requested IMF technical support to ensure their updated legal framework meets international standards on financial sanctions related to terrorism financing (MEFP ¶137-41).

PROGRAM MODALITIES, STATISTICAL ISSUES AND CAPACITY DEVELOPMENT

44. The authorities request modifications of performance criteria.²³ Modifications of end-December 2021 and end-June 2022 quantitative performance criteria for the fiscal deficit, the net borrowing requirement, and tax revenues reflect the revised fiscal framework, including the additional SDR-related spending which lifts the 2021 net borrowing. The adjustor for grants will be reduced to zero in 2021 as the grants' shortfall is now anticipated in the second revised budget. An

²³ Quantitative targets under the PCI, see Appendix I, Tables 1a and 1b.

upward adjustment of the end-2021 nominal debt ceiling by CFAF 246 billion or 1.6 percent of GDP offsets the on-lending of the SDR allocation by the BCEAO (Appendix Tables 1a and 1c).²⁴ The floor on social spending will increase from 35 percent to 40 percent of total spending in 2022 to reflect the authorities' increased focus on human capital investments. The ceiling on spending through simplified procedures for non-personalized services will be lowered to make it more binding, reflecting good progress by the authorities in reducing transfers to these entities (MEFP ¶42). Corrective actions in light of the missed IT (QT) on the ceiling on the share of the value of single-sourced procurement contracts include commitments by the authorities to insist that external financing will not be tied to specific contractors, and to revise the procurement legal framework to more strictly limit resort to single sourcing (MEFP ¶18).

45. New structural benchmarks are proposed to support key program objectives.²⁵ To limit fiscal risks from energy subsidies, staff propose to replace the continuous SB regarding fuel and electricity subsidies with a new end-June SB reflecting the authorities' commitment to capping energy subsidies at a maximum of CFAF 150 billion in 2022. In addition, four new SBs for end-June 2022 are proposed: i) publishing a roadmap to gradually reduce energy subsidies while protecting the vulnerable; ii) setting up an evaluation framework to monitor the implementation of the MTRS by the revenue administrations on a monthly/quarterly basis based on quantitative criteria; iii) revising the legal framework for public procurement to rely more regularly on open, competitive tenders and limit contracts based on single-source tenders and spontaneous offers in line with best international practices; and iv) regularly updating the database for all PPPs and electricity purchase contracts.

46. The program is fully financed, with firm commitments for the next 12 months and with good prospects for financing thereafter. Since the program request, additional net financing has become available through the Eurobond (0.4 percent of GDP; with the remainder used for liability management) and the on-lending of the SDR allocation. At the same time, budget support projections for the program period have been lowered, reflecting revised assumptions on the timing of World Bank disbursements. The share of Fund financing in 2021–22 nonetheless decreases from about 40 to 30 percent compared to the program request.

47. Senegal has an adequate capacity to repay the Fund. Repayments to the Fund will peak at 3.4 percent of government revenue in 2025 and 2.3 percent of exports of goods and services in 2026 (Table 9). A materialization of risks and a further deterioration of the debt outlook could, however, have a negative impact on repayment capacity (Annex V).

48. The BCEAO has implemented all recommendations provided in the 2018 safeguards assessment. The assessment found broadly appropriate governance arrangements and a robust control environment. An updated assessment is due in 2022.

²⁴ The program uses a total nominal public debt ceiling to capture debt vulnerabilities arising from foreign participation in the domestic currency debt market.

²⁵ See Appendix I, Table 2.

49. The program faces material but manageable risks. Potential risks include subsequent waves of COVID-19, fiscal risks including high energy subsidy needs due to increasing global oil prices absent retail price adjustment, and possible tax revenue shortfalls, further social unrest, and political risks associated with elections in 2022.

50. Data provision is broadly adequate for surveillance and program monitoring. Senegal is an SDDS subscriber since 2017. Monthly trade, price, economic activity, and fiscal indicators for the central government are available with relatively short lags, facilitating surveillance and program monitoring. The national statistics office publishes quarterly national accounts with a three-month lag but they are subject frequent and significant revisions. Deviations between quarterly and annual national accounts have increased recently and the authorities are working on improving the compilation methodology for quarterly GDP data supported by Fund TA. Furthermore, work is ongoing to improve government finance statistics, notably to better allocate expenditure items according to their economic nature and the broadening of the perimeter of fiscal data to the public sector, also supported by Fund TA.

51. Capacity development (CD) is well-aligned with program objectives (Annex VI). FAD is providing extensive support to implement the MTRS, enhance efficiency and quality of spending, and set up a sound framework PPPs and for oil and gas revenues.

STAFF APPRAISAL

52. Senegal's economic prospects remain good, provided risks and rising vulnerabilities can be well-managed. The authorities' swift policy reaction to the pandemic coupled with substantial international support, including from the Fund, have buffered the unprecedented shock of the COVID-19 pandemic in 2020. Senegal's economy is now on track for a robust recovery and its growth fundamentals remain strong amid high investment rates, a young and growing population, expected oil and gas production and significant catch-up potential. This notwithstanding, the pandemic caused severe hardship with many households suffering from income and job losses. Risks are tilted to the downside and include renewed COVID-19 waves amid lackluster progress on vaccinations, scarring from the pandemic, further increasing global energy prices, and rising social tensions.

53. Fiscal space is rapidly shrinking. The debt stock and debt service burden have increased steadily over the last decade. Senegal's risk of debt distress continues to be assessed as moderate but with little margin to absorb shocks. As demonstrated by a downside scenario, relatively small shocks to the baseline scenario, notably to revenues and exports, could lead to a revised assessment. The external position of Senegal in 2020 was moderately weaker than the level implied by fundamentals and desirable policies.

54. The SDR allocation provides additional policy space incorporated in a second revised 2021 budget. Staff welcomed the authorities' decision to keep the 2021 deficit unchanged excluding SDR-related spending. Staff emphasized that spending related to the SDR-allocation should be transparent and accountable. While spending about half of the allocation to support the

fight against the pandemic and economic recovery will provide an immediate boost to economic activity, utilizing a greater share to substitute for more expensive financing would have helped lower fiscal risks.

55. The revenue-based medium-term fiscal consolidation strategy is essential to meet critical spending needs while bringing debt on a downward trajectory. The consolidation is appropriately anchored on reaching the WAEMU convergence criterion of 3 percent of GDP by 2024. Staff welcomes the ambitious steps to increase domestic revenues, substantial buffers against downside risks and higher social spending embedded in the 2022 budget, which underpin the quality and the credibility of the medium-term consolidation path. However, deviations from that path would have significant implications for debt sustainability

56. The authorities should step up the implementation of the MTRS. The strategy lays out the right priorities with a focus on tax base-broadening, digitalization, and tax and customs administration reforms. Nevertheless, for non-oil tax revenues to reach 20 percent of non-oil GDP by 2024, this ratio would need to progress by about 1 percentage points over the next three years—a significant challenge. To ensure successful implementation of the strategy, the authorities should urgently strengthen ownership by the revenue administrations, launch a broad public communication campaign, and adopt a quantified monitoring and evaluation framework.

57. There is an urgent need to contain energy subsidies. Rising world oil prices pose a significant risk to the 2022 budget if domestic energy prices remain fixed, with higher subsidy needs crowding out other spending priorities. Staff strongly welcomes the authorities' commitment to capping fuel subsidies in 2022 which will entail steps towards greater fuel and electricity price flexibility while protecting the vulnerable. To achieve a lasting reduction, the roadmap, to be published by end-June 2022, will lay out a comprehensive strategy to gradually eliminate energy subsidies starting in 2023.

58. More generally, stronger spending efficiency will help anchor lasting fiscal discipline. In this context, staff welcomes the authorities' commitment to reduce recourse to single-sourcing procurement and ensure value for money in public spending. Ongoing PFM reforms to support transparent budget execution should also be pursued actively and will improve spending efficiency.

59. Achieving more inclusive growth will require enhanced social safety nets, broad access to quality education, and addressing youth unemployment. Staff recommends further steps to expand social protection schemes, including the cash transfer scheme "Programme de bourses de sécurité familiales", and targeted mechanisms to respond to shocks. Providing a larger part of the workforce with basic education and skills should be a priority. The strategy to fight youth unemployment should focus on facilitating the creation of work opportunities by the private sector, rather than overly rely on public sector job creation which could prove costly and ultimately not sustainable. Resolute implementation of the authorities' agenda to enhance the business environment, supported by the Compact with Africa, and of the financial inclusion strategy would support the expansion of more productive formal sector jobs.

60. The onset of oil and gas production will temporarily boost GDP growth, but fiscal revenues are expected to be modest in the initial production phase. Staff does not expect significant additional fiscal space in the years following the coming on stream of hydrocarbon production. The authorities should transparently communicate their revenue projections and manage public expectations accordingly. Nevertheless, there is a need to design and establish a fully functioning framework to manage oil and gas revenues by mid-2022 at the latest to incorporate these receipts in the preparation of the 2023 budget.

61. The overall financial system is sound, but pockets of vulnerability require more decisive action. The authorities should tackle the three problem banks and take resolute steps to limit fiscal risks from the precarious financial situation of the national postal group. Rapid progress to address deficiencies in the AML/CFT framework is essential to avoid negative economic repercussions such as a loss of correspondent banking relationships.

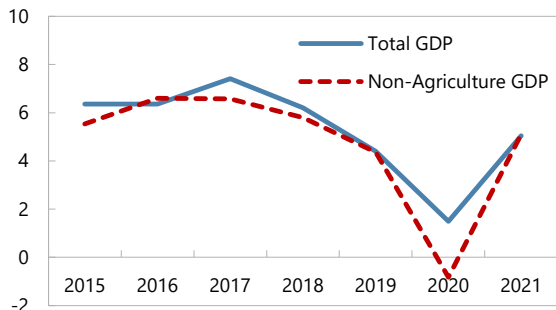
62. The authorities' performance under the SCF/SBA arrangements and the PCI remains strong with all continuous and end-June performance criteria (quantitative targets under the PCI) met, all but one indicative target (quantitative target under the PCI) met, and all but two structural benchmarks (reforms targets under the PCI) met. On that basis and given the strength of the policy commitments going forward, staff supports the completion of the fourth review under the Policy Coordination Instrument, the first review of the arrangement under the Standby Credit Facility and the Stand-By arrangement, and requests for modification of performance criteria and quantitative targets.

63. Staff proposes that the next Article IV Consultation will take place within 24 months in accordance with the Decision on Article IV Consultation Cycles Decision No. 14747-10/96.

Figure 1. Senegal: Real and External Sectors, 2015–21

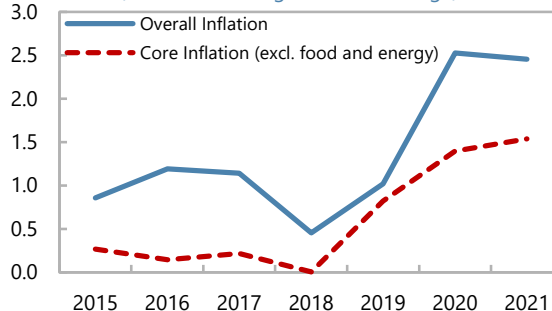
Senegal narrowly escaped a recession in 2020...

Real GDP Growth
(Annual Percent Change)



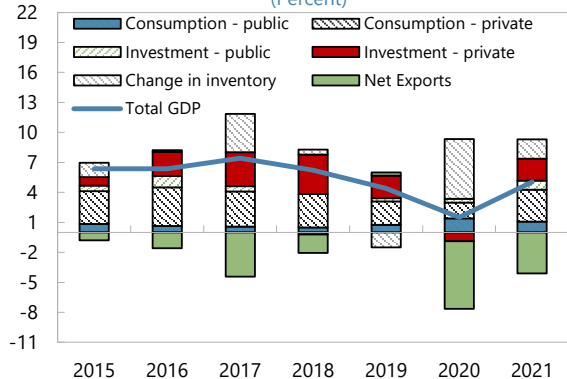
...while inflation picked up reaching 2.5 percent, driven by food prices although core inflation rose too.

CPI Inflation
(12 Month Average, Percent Change)



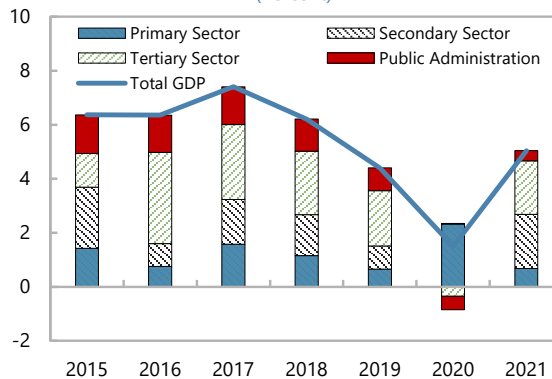
Private consumption has held up buoyed by transfers.

Contributions to GDP Growth: Demand Side
(Percent)



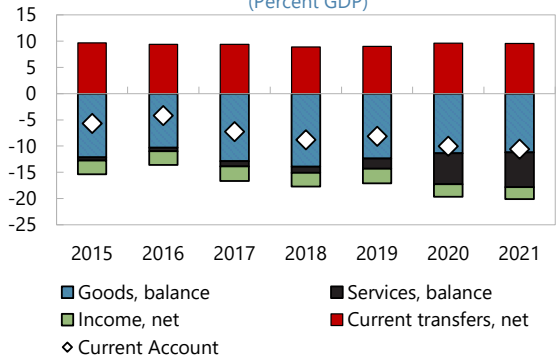
The tertiary sector, driving growth in the past, has been most affected by the pandemic.

Contributions to GDP Growth: Supply Side
(Percent)



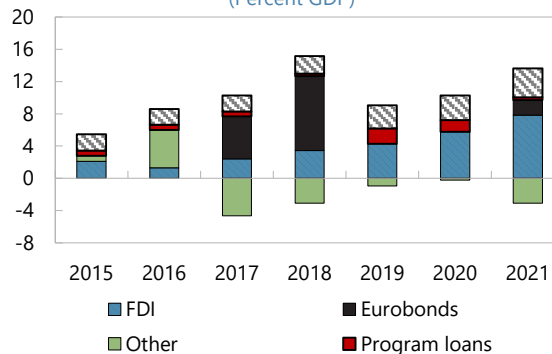
The current account has widened as the services balance turned more negative.

Current Account: Main Components
(Percent GDP)



But strong FDI flows and concessional loans help finance the deficit.

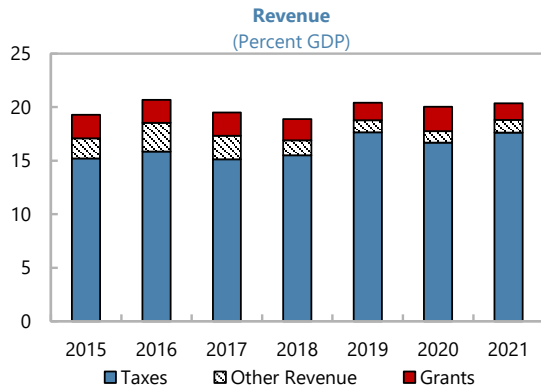
Capital and Financial Account
(Percent GDP)



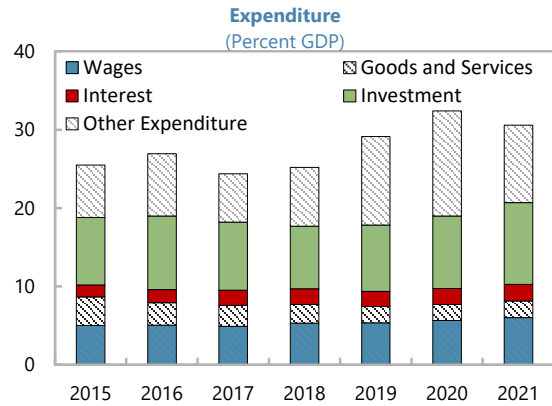
Sources: Senegalese authorities and IMF staff calculations.

Figure 2. Senegal: Fiscal and Financial Indicators, 2015–21

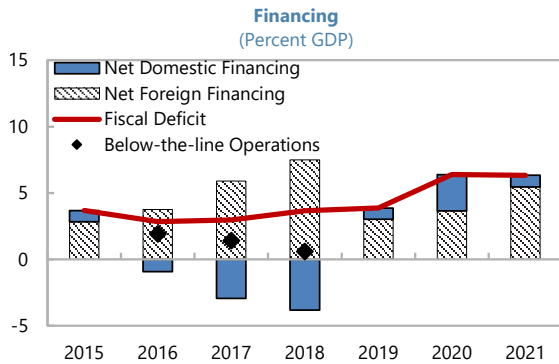
Tax revenues held up despite the economic downturn...



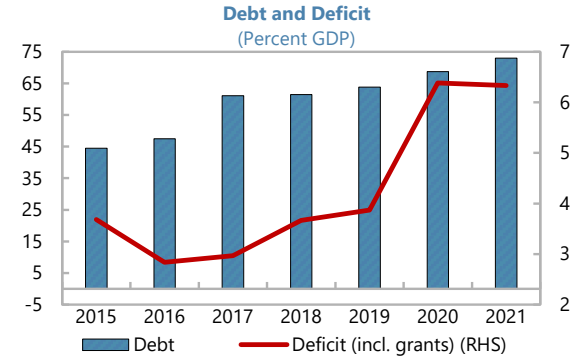
... while spending increased significantly.



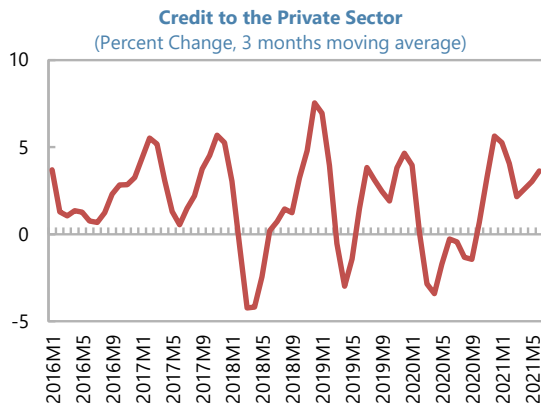
The higher fiscal deficit was financed through substantial securities issuance on the regional market...



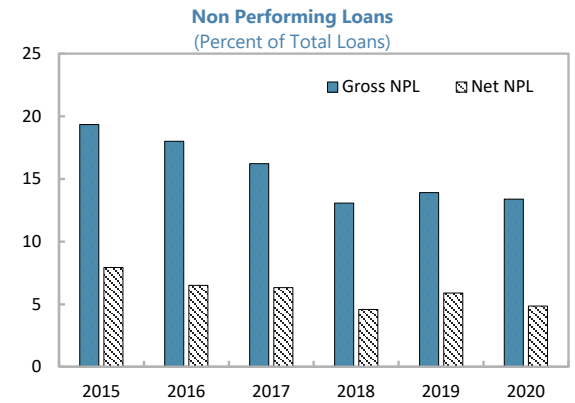
... while the public sector debt ratio, including debt of SOEs, increased to almost 70 percent in 2020.



Credit growth accelerated in line with the recovery...



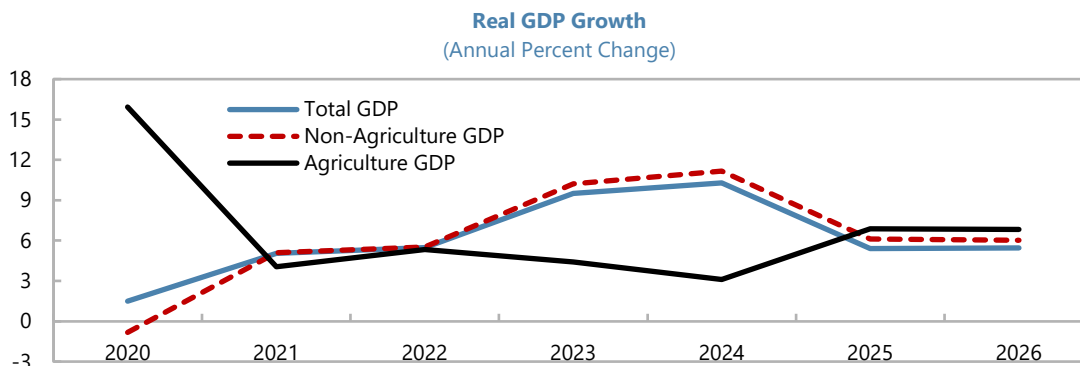
...and NPLs are decreasing steadily.



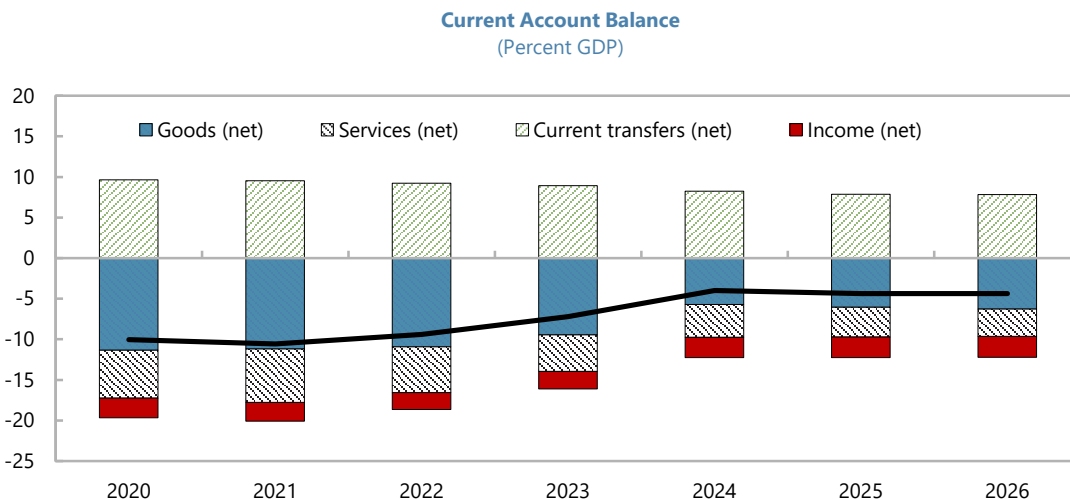
Sources: Senegalese authorities and IMF staff calculations.

Figure 3. Senegal: Economic Outlook, 2020–26

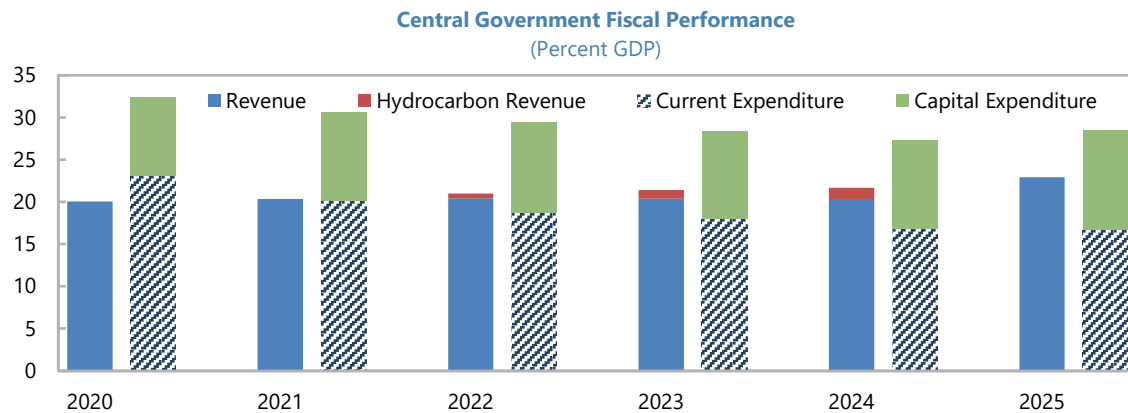
Growth is recovering and will temporarily benefit from the start of oil and gas production in 2023 and 2024.



The current account has widened owing to the pandemic and oil and gas related services imports. From 2023 onwards, oil and gas exports are expected to contribute to a significant decline.



Revenues, buoyed by grants in 2020, are expected to increase owing to the medium-term revenue mobilization strategy and finance public investment.



Sources: Senegalese authorities and IMF staff calculations.

Table 1. Senegal: Selected Economic and Financial Indicators, 2019–26¹

	2019	2020		2021		2022		2023	2024	2025	2026
		EBS/21/44	Est.	EBS/21/44	Proj.	EBS/21/44	Proj.	Projections			
(Annual percentage change)											
National income and prices											
GDP at constant prices ¹	4.4	1.5	1.5	3.7	5.0	5.5	5.5	9.5	10.3	5.4	5.5
Of which: Non-hydrocarbon GDP	4.4	1.5	1.5	3.7	5.0	5.5	5.5	5.9	6.0	6.0	6.0
Of which: Hydrocarbon GDP	...	...	...	...	...	...	...	...	137.1	-3.1	-2.4
Of which: Non-agriculture GDP	4.4	-0.8	-0.8	3.8	5.1	5.6	5.5	10.2	11.2	6.1	6.0
GDP deflator	1.9	2.3	2.3	1.9	2.5	2.1	2.3	2.0	1.8	1.9	1.9
Consumer prices											
Annual average	1.0	2.5	2.5	2.0	2.5	2.0	2.5	1.5	1.5	1.5	1.5
End of period	0.6	2.4	2.4	2.2	3.6	1.7	1.5	0.8	2.1	1.0	1.9
External sector											
Exports, f.o.b. (CFA francs)	15.5	-10.5	-7.1	6.4	17.1	16.2	9.6	20.4	33.8	4.8	2.3
Imports, f.o.b. (CFA francs)	6.2	-6.7	-6.1	11.5	12.7	6.7	8.1	11.5	12.9	6.5	4.1
Export volume	18.8	-7.2	-1.7	2.8	-1.5	15.2	7.9	29.0	39.2	5.6	3.4
Import volume	3.9	3.9	1.0	3.5	3.9	13.0	8.6	11.4	7.6	8.0	4.2
Terms of trade ("–" = deterioration)	-4.8	7.4	1.7	-3.8	9.6	6.8	2.0	-6.8	-8.4	0.6	-1.0
Nominal effective exchange rate	-1.3	...	...	...	...	...	...	...	...	...	...
Real effective exchange rate	-1.8	...	...	...	...	...	...	...	...	...	...
(Changes in percent of beginning-of-year broad money)											
Broad money											
Net domestic assets, of which	8.2	12.4	12.3	6.2	15.3	8.6	13.0	...	...	...	...
Credit to the government (net)	7.4	14.4	16.4	7.6	9.3	10.7	11.1	...	...	...	...
Credit to the economy (net)	1.7	15.4	15.4	2.3	7.0	4.0	7.1	...	...	...	...
(Percent of GDP, unless otherwise indicated)											
Government financial operations											
Revenue	20.4	20.0	20.0	20.2	20.4	21.0	21.0	21.4	21.7	22.9	23.8
Grants	1.6	2.3	2.3	1.9	1.5	2.1	1.8	1.8	1.6	1.5	1.5
Total expenditure	24.3	26.4	26.4	25.7	26.7	25.2	25.7	25.1	24.7	25.9	26.9
Net lending/borrowing (Overall Balance)											
excluding grants	-5.5	-8.7	-8.7	-7.4	-7.9	-6.3	-6.6	-5.5	-4.6	-4.5	-4.5
including grants	-3.9	-6.4	-6.4	-5.4	-6.3	-4.2	-4.8	-3.7	-3.0	-3.0	-3.0
Net lending/borrowing (excl. one-off operations)	-3.1	-6.3	-6.3	-5.1	-6.0	-4.0	-4.5	-3.7	-3.0	-3.0	-3.0
Primary fiscal balance	-1.9	-4.3	-4.3	-3.3	-4.2	-2.1	-2.6	-1.6	-1.0	-1.0	-1.0
Savings and investment											
Current account balance (official transfers included)	-8.1	-10.5	-10.0	-11.3	-10.6	-10.5	-9.4	-7.2	-4.0	-4.4	-4.4
Current account balance (official transfers excluded)	-8.4	-11.9	-11.5	-11.8	-10.8	-11.1	-9.8	-7.6	-4.3	-4.6	-4.6
Gross domestic investment	31.9	30.6	32.9	32.4	33.7	33.1	32.4	34.4	31.9	30.8	29.4
Government ²	6.3	6.9	6.9	7.1	7.7	7.6	8.0	7.7	7.7	7.8	7.9
Nongovernment	25.7	23.8	26.0	25.3	26.0	25.6	24.4	26.8	24.2	22.9	21.5
Gross national savings	23.8	20.2	22.8	21.1	23.1	22.6	23.0	27.3	27.9	26.4	25.1
Government	6.7	5.7	4.8	5.7	4.8	6.2	5.0	4.7	4.9	5.6	6.0
Nongovernment	17.1	14.5	18.0	15.4	18.3	16.5	18.0	22.6	23.0	20.8	19.1
Total public debt ³	63.8	68.7	68.8	70.9	73.0	69.9	71.6	67.7	63.1	61.5	60.0
Domestic public debt ⁴	11.0	14.6	14.7	14.0	15.1	13.3	14.4	14.3	13.6	14.6	15.0
External public debt	52.8	54.1	54.0	56.9	57.9	56.6	57.2	53.4	49.5	46.8	45.0
Total public debt service ³											
Percent of government revenue	22.1	25.4	25.5	20.4	25.3	23.8	26.9	26.6	26.2	27.3	29.9
Memorandum items:											
Gross domestic product (CFAF billions)	13,655	14,185	14,185	14,998	15,273	16,159	16,485	18,415	20,668	22,200	23,857
of which non-hydrocarbon (CFAF billions)	13,655	14,185	14,185	14,998	15,273	16,159	16,485	18,008	19,481	20,970	22,615
Gross domestic product (USD billions)	23.3	24.7	24.7	...	...	...	...	...	...	...	...
Share of hydrocarbon in total GDP (%)	...	...	...	...	...	...	...	2.2	5.7	5.5	5.2
National Currency per U.S. Dollar (Average)	586	574.8	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/21/44	Est.	EBS/21/44	Proj.	EBS/21/44	Proj.	Projections			
(Billions of CFAF, unless otherwise indicated)											
Current account	-1,111	-1,486	-1,424	-1,696	-1,614	-1,693	-1,552	-1,324	-827	-974	-1,043
Balance on goods	-1,688	-1,673	-1,610	-1,985	-1,709	-1,880	-1,805	-1,739	-1,184	-1,345	-1,498
Exports, f.o.b.	2,595	2,323	2,410	2,472	2,823	2,873	3,095	3,725	4,986	5,224	5,343
Imports, f.o.b.	-4,282	-3,996	-4,020	-4,457	-4,532	-4,753	-4,900	-5,464	-6,170	-6,568	-6,841
Services (net)	-265	-834	-835	-869	-1,009	-583	-924	-830	-837	-815	-805
Export	825	417	417	497	497	809	632	710	787	907	1,045
Import	-1,090	-1,251	-1,252	-1,366	-1,506	-1,392	-1,556	-1,540	-1,624	-1,721	-1,850
Incomes (net)	-384	-345	-345	-288	-351	-691	-347	-397	-511	-561	-612
Credits	253	188	188	191	191	260	210	226	235	244	254
Debits	-637	-533	-533	-479	-543	-951	-557	-622	-745	-805	-865
Of which: interest on public debt	-207	-252	-252	-230	-226	-190	-240	-306	-320	-341	-359
Current transfers (net)	1,225	1,366	1,366	1,445	1,455	1,461	1,524	1,641	1,705	1,747	1,871
Private (net)	1,237	1,182	1,182	1,377	1,438	1,374	1,489	1,596	1,667	1,732	1,855
Public (net)	-12	184	184	69	17	87	35	45	38	15	16
Of which: budgetary grants	20	195	195	64	13	88	45	55	48	26	28
Capital and financial account	1,079	1,284	1,333	1,543	1,970	1,585	1,747	1,650	1,610	1,740	1,841
Capital account	217	138	138	239	234	262	260	239	265	310	328
Private capital transfers	12	9	9	12	12	16	10	10	10	10	10
Project grants	208	130	130	228	223	248	250	268	284	301	319
Debt cancellation and other transfers	-3	-1	-1	-1	-1	-2	-1	-1	-1	-1	-1
Financial account	862	1,146	1,195	1,304	1,736	1,323	1,487	1,411	1,345	1,430	1,513
Direct investment	583	819	819	841	1,196	834	1,330	1,163	951	990	1,032
Portfolio investment (net)	-113	157	208	125	295	67	160	14	216	69	242
Of which: Eurobond issuance	0	0	0	0	287	0	0	0	272	0	284
Other investment	393	170	168	337	245	422	-3	234	178	371	239
Public sector (net)	754	551	642	274	617	333	350	345	301	457	332
Of which: disbursements	780	633	636	652	598	703	772	841	764	844	934
program loans	263	204	206	96	47	90	132	102	95	94	94
project loans	392	429	429	556	551	553	580	650	669	689	710
other	125	0	0	0	0	60	60	90	0	60	130
amortization	-170	-317	-317	-378	-323	-370	-423	-364	-463	-386	-602
Private sector (net)	-361	-381	-473	63	-372	89	-353	-111	-123	-86	-93
Errors and omissions	187	80	-7	0	0	0	0	0	0	0	0
Overall balance	154	-122	-97	-153	356	-108	195	325	783	767	798
Financing	-154	122	97	153	-356	108	-195	-325	-783	-767	-798
Net foreign assets ¹	-305	302	277	-139	-427	-42	-449	-325	-783	-767	-798
Net use of IMF resources	-13	264	264	0	102	0	0	-42	-101	-129	-140
Purchases/disbursements	0	266	266	0	102	0	0	0	0	0	0
Repurchases/repayments	-13	-3	-3	0	0	0	0	-42	-101	-129	-140
Other	-292	38	14	-138	-530	-42	-448	-283	-682	-638	-658
Deposit money banks	151	-209	-209	0	0	0	0	0	0	0	0
Financing Gap		29	29	292	71	150	254	0	0	0	0
SBA/SCF		0	0	201	0	150	254	0	0	0	0
Exceptional financing (DSSI)		29	29	91	71	0	0	0	0	0	0
<i>Memorandum items:</i>											
Current account balance (percent of GDP)											
Including current official transfers	-8.1	-10.5	-10.0	-11.3	-10.6	-10.5	-9.4	-7.2	-4.0	-4.4	-4.4
Excluding current official transfers	-8.4	-11.9	-11.5	-11.8	-10.8	-11.1	-9.8	-7.6	-4.3	-4.6	-4.6
Gross domestic product	13,655	14,185	14,185	14,998	15,273	16,159	16,485	18,415	20,668	22,200	23,857

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/21/44	Est.	EBS/21/44	Proj.	EBS/21/44	Proj.	Projections				
	(in percent of GDP)											
Current account	-8.1	-10.5	-10.0	-11.3	-10.6	-10.5	-9.4	-7.2	-4.0	-4.4	-4.4	
Balance on goods	-12.4	-11.8	-11.4	-13.2	-11.2	-11.6	-10.9	-9.4	-5.7	-6.1	-6.3	
Exports, f.o.b.	19.0	16.4	17.0	16.5	18.5	17.8	18.8	20.2	24.1	23.5	22.4	
Imports, f.o.b.	-31.4	-28.2	-28.3	-29.7	-29.7	-29.4	-29.7	-29.7	-29.9	-29.6	-28.7	
Services (net)	-1.9	-5.9	-5.9	-5.8	-6.6	-3.6	-5.6	-4.5	-4.0	-3.7	-3.4	
Export	6.0	2.9	2.9	3.3	3.3	5.0	3.8	3.9	3.8	4.1	4.4	
Import	-8.0	-8.8	-8.8	-9.1	-9.9	-8.6	-9.4	-8.4	-7.9	-7.8	-7.8	
Incomes (net)	-2.8	-2.4	-2.4	-1.9	-2.3	-4.3	-2.1	-2.2	-2.5	-2.5	-2.6	
Credits	1.9	1.3	1.3	1.3	1.3	1.6	1.3	1.2	1.1	1.1	1.1	
Debits	-4.7	-3.8	-3.8	-3.2	-3.6	-5.9	-3.4	-3.4	-3.6	-3.6	-3.6	
Of which: interest on public debt	-1.5	-1.8	-1.8	-1.5	-1.5	-1.2	-1.5	-1.7	-1.5	-1.5	-1.5	
Current transfers (net)	9.0	9.6	9.6	9.6	9.5	9.0	9.2	8.9	8.2	7.9	7.8	
Private (net)	9.1	8.3	8.3	9.2	9.4	8.5	9.0	8.7	8.1	7.8	7.8	
Public (net)	-0.1	1.3	1.3	0.5	0.1	0.5	0.2	0.2	0.2	0.1	0.1	
Of which: budgetary grants	0.1	1.4	1.4	0.4	0.1	0.5	0.3	0.3	0.2	0.1	0.1	
Capital and financial account	7.9	9.1	9.4	10.3	12.9	9.8	10.6	9.0	7.8	7.8	7.7	
Capital account	1.6	1.0	1.0	1.6	1.5	1.6	1.6	1.3	1.3	1.4	1.4	
Private capital transfers	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	
Project grants	1.5	0.9	0.9	1.5	1.5	1.5	1.5	1.5	1.4	1.4	1.3	
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	0.0	
Financial account	6.3	8.1	8.4	8.7	11.4	8.2	9.0	7.7	6.5	6.4	6.3	
Direct investment	4.3	5.8	5.8	5.6	7.8	5.2	8.1	6.3	4.6	4.5	4.3	
Portfolio investment (net)	-0.8	1.1	1.5	0.8	1.9	0.4	1.0	0.1	1.0	0.3	1.0	
Of which: Eurobond issuance	0.0	0.0	0.0	0.0	1.9	0.0	0.0	0.0	1.3	0.0	1.2	
Other investment	2.9	1.2	1.2	2.2	1.6	2.6	0.0	1.3	0.9	1.7	1.0	
Public sector (net)	5.5	3.9	4.5	1.8	4.0	2.1	2.1	1.9	1.5	2.1	1.4	
Of which: disbursements	5.7	4.5	4.5	4.3	3.9	4.4	4.7	4.6	3.7	3.8	3.9	
program loans	1.9	1.4	1.5	0.6	0.3	0.6	0.8	0.6	0.5	0.4	0.4	
project loans	2.9	3.0	3.0	3.7	3.6	3.4	3.5	3.5	3.2	3.1	3.0	
other	0.9	0.0	0.0	0.0	0.0	0.4	0.4	0.5	0.0	0.3	0.5	
amortization	-1.2	-2.2	-2.2	-2.5	-2.1	-2.3	-2.6	-2.0	-2.2	-1.7	-2.5	
Private sector (net)	-2.6	-2.7	-3.3	0.4	-2.4	0.6	-2.1	-0.6	-0.6	-0.4	-0.4	
Errors and omissions	1.4	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Overall balance	1.1	-0.9	-0.7	-1.0	2.3	-0.7	1.2	1.8	3.8	3.5	3.3	
Financing	-1.1	0.9	0.7	1.0	-2.3	0.7	-1.2	-1.8	-3.8	-3.5	-3.3	
Net foreign assets ¹	-2.2	2.1	2.0	-0.9	-2.8	-0.3	-2.7	-1.8	-3.8	-3.5	-3.3	
Net use of IMF resources	-0.1	1.9	1.9	0.0	0.7	0.0	0.0	-0.2	-0.5	-0.6	-0.6	
Purchases/disbursements	0.0	1.9	1.9	0.0	0.7	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	0.0	-0.2	-0.5	-0.6	-0.6	
Other	-2.1	0.3	0.1	-0.9	-3.5	-0.3	-2.7	-1.5	-3.3	-2.9	-2.8	
Deposit money banks	1.1	-1.5	-1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Financing Gap		0.2	0.2	1.9	0.5	0.9	1.5	0.0	0.0	0.0	0.0	
SBA/SCF		0.0	0.0	1.3	0.0	0.9	1.5	0.0	0.0	0.0	0.0	
Exceptional financing (DSSI)		0.2	0.2	0.6	0.5	0.0	0.0	0.0	0.0	0.0	0.0	
<i>Memorandum items:</i>												
Gross domestic product	13,655	14,185	14,185	14,998	15,273	16,159	16,485	18,415	20,668	22,200	23,857	

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, 2019–26¹
(billions of CFAF)

	2019	2020		2021		2022		2023	2024	2025	2026
		EBS/21/44	Prel.	EBS/21/44	Proj.	EBS/21/44	Proj.	Projections			
Revenue and Grants	2,789	2,843	2,843	3,034	3,109	3,389	3,461	3,945	4,482	5,087	5,689
Taxes	2,410	2,368	2,368	2,564	2,691	2,918	3,025	3,469	3,978	4,575	5,144
Hydrocarbon taxes	...	...	...	...	...	0	0	37	82	208	160
Non-hydrocarbon taxes	2,410	2,368	2,368	2,564	2,691	2,918	3,025	3,432	3,896	4,367	4,984
Direct taxes	760	767	767	777	820	930	932	1,114	1,312	1,618	1,783
Taxes on income, profits, capital gains	711	717	717	740	773	863	849	1,000	1,173	1,447	1,599
Taxes on payroll and workforce	9	8	8	0	10	11	41	28	32	34	37
Taxes on property	40	42	42	37	37	56	42	86	107	137	147
Taxes on goods and services	1,247	1,228	1,228	1,375	1,409	1,548	1,591	1,831	2,067	2,269	2,587
Taxes on international trade and transactions	366	338	338	359	421	400	454	479	548	633	716
Other taxes	38	35	35	52	42	40	48	45	51	54	58
Grants	225	325	325	292	236	336	295	323	332	327	347
Budget	17	195	195	64	13	88	45	55	48	26	28
Projects	208	130	130	228	223	248	250	268	284	301	319
Other revenue	154	150	150	179	182	135	140	153	172	185	199
Expenditure	3,317	3,746	3,746	3,852	4,076	4,066	4,245	4,629	5,103	5,755	6,407
Expense	2,157	2,429	2,429	2,337	2,485	2,494	2,473	2,719	2,941	3,133	3,372
Compensation of employees of which: youth employment program	733	804	804	927	918	1,008	984	1,045	1,173	1,260	1,354
Use of goods and services	281	286	286	328	328	362	343	387	434	466	501
Interest	262	290	290	328	324	344	350	383	412	446	485
Foreign	207	252	252	230	226	190	240	306	320	341	359
Domestic	56	38	38	98	98	155	111	77	93	105	127
Subsidies	297	472	472	339	374	303	374	346	295	267	285
Grants (current excl. FSE)	364	377	377	253	383	272	248	337	379	407	437
Social benefits	15	23	23	19	19	27	27	37	41	67	72
Other expense	204	178	178	143	139	178	147	184	207	222	239
Net acquisition of nonfinancial assets ²	1,160	1,317	1,317	1,515	1,591	1,572	1,772	1,910	2,162	2,622	3,035
Domestically financed	560	758	758	731	817	771	942	993	1,209	1,632	2,007
Externally financed	600	559	559	784	774	801	830	917	953	990	1,028
Net lending/borrowing (Overall balance)	-528	-903	-903	-817	-967	-677	-784	-683	-621	-668	-718
DSSI Interest	...	6	6	19	16	0	0	0	0	0	0
Vaccination Campaign	...	0	0	40	30	35	45	0	0	0	0
Net lending/borrowing (excl. exceptional one-off operations) ³	-428	-897	-897	-758	-921	-642	-739	-683	-621	-668	-718
Transactions in financial assets and liabilities (Financing)	-528	-902	-905	-817	-967	-677	-784	-683	-621	-668	-718
Net acquisition of financial assets	-283	166	166	0	340	0	-90	0	0	0	0
Domestic	-283	166	166	0	340	0	-90	0	0	0	0
Currency and deposits	-283	117	117	0	120	0	-120	0	0	0	0
Other accounts receivable	0	49	49	0	220	0	30	0	0	0	0
Foreign	0	0	0	0	0	0	0	0	0	0	0
Net incurrence of liabilities	245	1,040	1,043	525	1,236	527	441	683	621	668	718
Domestic	-167	554	554	78	473	138	13	74	-38	31	-35
IMF and SDRs	-13	264	264	0	348	0	0	-42	-101	-129	-140
Debt securities (net)	1	319	319	141	189	186	90	175	120	209	150
BOAD	-7	8	8	-19	-19	-23	-48	-29	-30	-22	-20
Loans	-7	-71	-71	-44	-44	-25	-30	-30	-28	-27	-25
Other accounts payable ⁴	-100	35	35	0	0	0	0	0	0	0	0
Foreign	413	486	488	447	762	389	428	610	660	638	753
Debt securities (net)	-197	170	170	173	487	56	78	132	359	181	421
T-bills and bonds issued in WAEMU	-197	170	170	173	199	56	78	132	87	181	136
Eurobond	0	0	0	0	287	0	0	0	272	0	284
Loans	610	316	319	274	276	333	350	478	301	457	332
Program loans	263	204	206	96	47	90	132	102	95	94	94
Project loans	392	429	429	556	551	553	580	650	669	689	710
Nonconcessional loans	125	0	0	0	0	60	60	90	0	60	130
Other	-170	-317	-317	-378	-323	-370	-423	-364	-463	-386	-602
Other accounts payable	0	0	0	0	0	0	0	0	0	0	0
Financing Gap	0	29	29	292	71	150	254	0	0	0	0
SBA/SCF	...	...	...	201	0	150	254	...	...	...	...
Exceptional Financing ⁵	...	29	29	91	71	...	...	...	...	...	...
<i>Memorandum items:</i>											
Clearance of unmet obligations (pre-2020)	100	209	209	41	133	102	16	...	...	...	...
Hydrocarbon revenues ⁶	...	...	...	...	...	0	0	46	102	260	200
Nominal GDP	13,655	14,185	14,185	14,998	15,273	16,159	16,485	18,415	20,668	22,200	23,857

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 campaign is excluded in 2021 and 2022.⁴ Starting in 2016, Treasury operations to finance (i) Post office operations (Poste and Poste Finance), (ii) pensions (Fonds National de Retraites), (iii) reduction of stock of comptes de depots, (iv) arrears to energy⁵ Suspended debt service under the debt service suspension initiative (DSSI).⁶ This is total hydrocarbon revenues accruing to the Senegalese government and is higher than what is annually included in the budget of the central government.

Table 5. Senegal: Central Government Operations, GFSM 2001 Classification,¹ 2019–26
(percent of GDP)

	2019	2020		2021		2022		2023	2024	2025	2026
		EBS/21/44	Proj.	EBS/21/44	Proj.	EBS/21/44	Proj.		Projections		
Revenue and Grants	20.4	20.0	20.0	20.2	20.4	21.0	21.0	21.4	21.7	22.9	23.8
Taxes	17.6	16.7	16.7	17.1	17.6	18.1	18.4	18.8	19.2	20.6	21.6
Hydrocarbon Taxes	...	...	...	...	...	0.0	0.0	0.2	0.4	0.9	0.7
Non-Hydrocarbon Taxes	17.6	16.7	16.7	17.1	17.6	18.1	18.4	18.6	18.8	19.7	20.9
Direct Taxes	5.6	5.4	5.4	5.2	5.4	5.8	5.7	6.1	6.3	7.3	7.5
Taxes on goods and services	9.1	8.7	8.7	9.2	9.2	9.6	9.7	9.9	10.0	10.2	10.8
Taxes on international trade and transactions	2.7	2.4	2.4	2.4	2.8	2.5	2.8	2.6	2.7	2.9	3.0
Other taxes	0.3	0.2	0.2	0.3	0.3	0.2	0.3	0.2	0.2	0.2	0.2
Grants	1.6	2.3	2.3	1.9	1.5	2.1	1.8	1.8	1.6	1.5	1.5
Budget	0.1	1.4	1.4	0.4	0.1	0.5	0.3	0.3	0.2	0.1	0.1
Projects	1.5	0.9	0.9	1.5	1.5	1.5	1.5	1.5	1.4	1.4	1.3
Other revenue	1.1	1.1	1.1	1.2	1.2	0.8	0.8	0.8	0.8	0.8	0.8
Expenditure	24.3	26.4	26.4	25.7	26.7	25.2	25.7	25.1	24.7	25.9	26.9
Expense	15.8	17.1	17.1	15.6	16.3	15.4	15.0	14.8	14.2	14.1	14.1
Compensation of employees	5.4	5.7	5.7	6.2	6.0	6.2	6.0	5.7	5.7	5.7	5.7
of which: youth employment program	...	...	...	0.1	0.1	0.2	0.2	0.2	...	...	...
Use of goods and services	2.1	2.0	2.0	2.2	2.1	2.2	2.1	2.1	2.1	2.1	2.1
Interest	1.9	2.0	2.0	2.2	2.1	2.1	2.1	2.1	2.0	2.0	2.0
Foreign	1.5	1.8	1.8	1.5	1.5	1.2	1.5	1.7	1.5	1.5	1.5
Domestic	0.4	0.3	0.3	0.7	0.6	1.0	0.7	0.4	0.4	0.5	0.5
Subsidies	2.2	3.3	3.3	2.3	2.4	1.9	2.3	1.9	1.4	1.2	1.2
Grants (current excl. FSE)	2.7	2.7	2.7	1.7	2.5	1.7	1.5	1.8	1.8	1.8	1.8
Social benefits	0.1	0.2	0.2	0.1	0.1	0.2	0.2	0.2	0.2	0.3	0.3
Other expense	1.5	1.3	1.3	1.0	0.9	1.1	0.9	1.0	1.0	1.0	1.0
Net acquisition of nonfinancial assets ²	8.5	9.3	9.3	10.1	10.4	9.7	10.8	10.4	10.5	11.8	12.7
Domestically financed	4.1	5.3	5.3	4.9	5.3	4.8	5.7	5.4	5.9	7.4	8.4
Externally financed	4.4	3.9	3.9	5.2	5.1	5.0	5.0	5.0	4.6	4.5	4.3
Net lending/borrowing (Overall balance)	-3.9	-6.4	-6.4	-5.4	-6.3	-4.2	-4.8	-3.7	-3.0	-3.0	-3.0
DSSI - Interest	...	0.0	0.0	0.1	0.1	...	...	...	...	...	...
Vaccination campaign	...	...	...	0.3	0.2	0.2	0.3	...	...	...	...
Net lending/borrowing (excl. exceptional one-off operations)³	-3.1	-6.3	-6.3	-5.1	-6.0	-4.0	-4.5	-3.7	-3.0	-3.0	-3.0
Transactions in financial assets and liabilities (Financing)	-3.9	-6.4	-6.4	-5.4	-6.3	-4.2	-4.8	-3.7	-3.0	-3.0	-3.0
Net acquisition of financial assets	-2.1	1.2	1.2	0.0	2.2	0.0	-0.5	0.0	0.0	0.0	0.0
Domestic	-2.1	1.2	1.2	0.0	2.2	0.0	-0.5	0.0	0.0	0.0	0.0
Currency and deposits	-2.1	0.8	0.8	0.0	0.8	0.0	-0.7	0.0	0.0	0.0	0.0
Other accounts receivable	0.0	0.3	0.3	0.0	1.4	0.0	0.2	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	0.0
Net incurrence of liabilities	1.8	7.3	7.3	3.5	8.1	3.3	2.7	3.7	3.0	3.0	3.0
Domestic	-1.2	3.9	3.9	0.5	3.1	0.9	0.1	0.4	-0.2	0.1	-0.1
IMF and SDRs	-0.1	1.9	1.9	0.0	2.3	0.0	0.0	-0.2	-0.5	-0.6	-0.6
Debt securities (net)	0.0	2.3	2.3	0.9	1.2	1.1	0.5	1.0	0.6	0.9	0.6
BOAD	0.0	0.1	0.1	-0.1	-0.1	-0.1	-0.3	-0.2	-0.1	-0.1	-0.1
Loans	0.0	-0.5	-0.5	-0.3	-0.3	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1
Other accounts payable ⁴	-0.7	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign	3.0	3.4	3.4	3.0	5.0	2.4	2.6	3.3	3.2	2.9	3.2
Debt securities (net)	-1.4	1.2	1.2	1.2	3.2	0.3	0.5	0.7	1.7	0.8	1.8
T-bills and bonds issued in WAEMU	-1.4	1.2	1.2	1.2	1.3	0.3	0.5	0.7	0.4	0.8	0.6
Eurobond	0.0	0.0	0.0	0.0	1.9	0.0	0.0	0.0	1.3	0.0	1.2
Loans	4.5	2.2	2.2	1.8	1.8	2.1	2.1	2.6	1.5	2.1	1.4
Program loans	1.9	1.4	1.5	0.6	0.3	0.6	0.8	0.6	0.5	0.4	0.4
Project loans	2.9	3.0	3.0	3.7	3.6	3.4	3.5	3.5	3.2	3.1	3.0
Nonconcessional loans	0.9	0.0	0.0	0.0	0.0	0.4	0.4	0.5	0.0	0.3	0.5
Other	-1.2	-2.2	-2.2	-2.5	-2.1	-2.3	-2.6	-2.0	-2.2	-1.7	-2.5
Other accounts payable	0.0	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	1.9	0.5	0.9	1.5	0.0	0.0	0.0	0.0
SBA/SCF	...	0.0	0.0	1.3	0.0	0.9	1.5	...	...	...	...
Exceptional Financing ⁵	...	0.2	0.2	0.6	0.5	...	...	...	...	...	...
<i>Memorandum items:</i>											
Clearance of unmet obligations (pre-2020)	0.7	1.5	1.5	0.3	0.9	0.6	0.1	...	...	...	...
Hydrocarbon revenues ⁶	...	...	...	...	...	0.0	0.0	0.3	0.5	1.2	0.8
Non-oil tax to non-oil GDP ratio	...	...	...	...	...	18.1	18.4	19.1	20.0	20.8	22.0
Nominal GDP	13,655	14,185	14,185	14,998	15,273	16,159	16,485	18,415	20,668	22,200	23,857

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 depots, (iv) arrears to energy sector.

⁵ Suspended debt service under the debt service suspension initiative (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/21/44	Act.	EBS/21/44	Proj.	EBS/21/44	Proj.
	(Billions of CFAF)						
Net foreign assets	1,973	1,880	1,905	1,818	2,332	1,710	2,527
BCEAO	1,471	1,169	1,194	1,107	1,621	999	1,817
Commercial banks	501	711	711	711	711	711	711
Net domestic assets	4,160	4,977	5,096	5,463	5,690	6,189	6,505
Net domestic credit	5,157	6,103	6,103	6,626	6,782	7,432	7,679
Net credit to the government ¹	560	1,435	1,435	1,579	1,881	1,851	2,405
Central bank	-191	74	74	74	302	74	676
Commercial banks	751	1,361	1,361	1,505	1,579	1,777	1,729
Other institutions	2	2	2	2	2	2	2
Credit to the economy	4,597	4,668	4,668	5,047	4,901	5,581	5,274
Shares and other equity	-749	-778	-771	-823	-830	-886	-896
Other items (net)	-247	-325	-236	-340	-262	-357	-278
Broad money	5,687	6,394	6,389	6,793	7,366	7,375	8,326
Currency outside banks	1,302	1,526	1,529	1,712	1,934	1,858	2,186
Total deposits	4,385	4,868	4,860	5,081	5,432	5,516	6,140
Demand deposits	2,666	2,992	2,984	3,123	3,335	3,390	3,770
Time deposits	1,718	1,876	1,876	1,958	2,096	2,126	2,370
Non-liquid Liabilities	446	463	611	488	656	524	707
	(Change in percentage of beginning-of-period broad money stock)						
Net foreign assets	2.9	-1.6	-1.2	-1.0	6.7	-1.6	2.6
Net domestic assets	7.4	14.4	16.4	7.6	9.3	10.7	11.1
Net credit to the government ¹	1.7	15.4	15.4	2.3	7.0	4.0	7.1
Credit to the economy (net)	6.1	1.2	1.2	5.9	3.7	7.9	5.1
Broad money	8.2	12.4	12.3	6.2	15.3	8.6	13.0
<i>Memorandum items:</i>	(Units indicated)						
Velocity (GDP/broad money; end of period)	2.4	2.2	2.2	2.2	2.1	2.2	2.0
Nominal GDP growth (percentage growth)	6.3	3.9	3.9	5.7	7.7	7.7	7.9
Credit to the private sector (percentage growth)	6.7	2.2	2.2	9.2	5.6	11.8	8.5
Credit to the private sector/GDP (percent)	29.6	29.2	29.2	30.1	28.6	31.3	28.8

Sources: BCEAO; and IMF staff calculations.

¹Net 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, 2015–21

	2015	2016	2017	2018 ¹	2019	2020	2021
	Dec	Dec	Dec	Dec	Dec	Dec	June
Solvency ratios							
Regulatory capital to risk weighted assets	19.1	14.5	13.6	11.8	13.1	11.9	12.1
Tier I capital to risk-weighted assets	16.3	13.8	13.2	11.4	12.4	11.3	11.4
Provisions to risk-weighted assets	16.0	13.6	11.6	8.9	10.7	9.8	10.3
Capital to total assets	8.3	7.2	7.6	7.9	7.1	7.1	6.6
Composition and quality of assets							
Total loans to total assets	55.5	53.6	60.5	61.3	62.6	59.5	56.2
Concentration: loans to 5 largest borrowers to capital	46.4	63.7	71.6	69.2	87.4	77.8	71.5
Sectoral distribution of loans ²							
Agriculture	2.6	2.2	2.4	2.4	2.3	2.2	2.5
Extractive industries	0.8	0.8	0.8	1.2	1.4	1.5	1.5
Manufacturing	21.1	18.7	17.2	15.3	16.0	15.0	14.3
Electricity, water and gas	1.8	1.7	2.1	2.1	3.0	2.8	3.6
Construction	3.9	4.9	5.7	4.5	6.9	4.3	5.3
Retail and wholesale trade, restaurants and hotels	25.4	25.3	23.1	26.0	23.2	22.6	21.9
Transportation and communication	10.0	12.0	12.9	12.8	11.6	11.9	10.7
Insurance, real estate and services	7.0	7.1	8.6	7.5	7.5	6.9	6.8
Other services	27.5	27.2	27.2	28.2	28.2	32.8	33.6
Gross NPLs to total loans	19.3	18.0	16.2	13.1	13.9	13.3	13.1
Provisioning rate	57.7	62.5	59.7	68.1	61.5	66.7	69.7
Net NPLs to total loans	9.2	7.6	7.2	4.6	5.9	4.9	4.4
Net NPLs to capital	61.4	56.4	57.7	38.7	51.5	41.1	37.0
Earnings and profitability³							
Average cost of borrowed funds	2.2	2.3	2.4	2.2	0.5	0.4	...
Average interest rate on loans	8.2	8.4	8.6	7.6	7.9	7.2	...
Average interest margin ⁴	6.0	6.1	6.2	5.4	7.4	6.8	...
After-tax return on average assets (ROA)	0.8	1.0	1.7	0.7	1.2	1.0	...
After-tax return on average equity (ROE)	9.0	13.0	19.9	7.2	12.6	11.1	...
Noninterest expenses/net banking income	61.0	57.7	58.0	57.3	60.2	62.3	...
Salaries and wages/net banking income	26.1	25.0	24.9	26.8	25.3	26.9	...
Liquidity							
Liquid assets to total assets	27.4	26.8	28.3	31.8	27.0	24.1	21.7
Liquid assets to total deposits	39.7	40.6	41.8	47.9	38.5	34.5	30.8
Total loans to total deposits	90.6	91.5	99.1	101.6	97.4	93.7	87.8
Total deposits to total liabilities	69.0	66.0	67.6	66.3	70.3	69.8	70.4
Sight deposits to total liabilities ⁵	38.3	37.8	37.5	37.1	40.3	39.4	40.5
Term deposits to total liabilities	30.6	28.2	30.1	29.2	30.0	30.4	29.9

Source: BCEAO.

¹ First year of data reporting in accordance with Basel II/III prudential standards and the new banking chart of account.² Declared to central risk registry.³ Based on semi-annual income statements.⁴ Excluding tax on bank operations.⁵ Including saving accounts.

Table 8. Senegal: External Financing Requirements and Sources, 2020–26

	2020		2021		2022		2023		2024		2025		2026	
	EBS/21/44	Est.	EBS/21/44	Proj.	EBS/21/44	Proj.	EBS/21/44	Proj.	Projection					
(CFAF billions)														
1. Total Financing Requirement	2251	2127	2276	2479	2193	2468	2068	2121	2153	2471				
Current account balance (excluding budget grants)	1681	1619	1760	1627	1781	1597	1379	875	1000	1071				
Debt Amortization (excl. regional market securities)	317	317	378	323	370	423	364	463	386	602				
Repayment to the Fund	3	3	0	0	0	0	42	101	129	140				
Change in Net Foreign Assets BCEAO (- increase) ^{1/}	38	14	-138	-530	-42	-448	-283	-682	-638	-658				
Change in Net Foreign Assets (Other depository institutions) (- increase)	-209	-209	0	0	0	0	0	0	0	0				
Errors and Omissions	-80	7	0	0	0	0	0	0	0	0				
2. Total Financing Sources	1557	1431	1784	2318	1831	1991	1911	1978	2032	2349				
Foreign direct investment (net)	819	819	841	1196	834	1330	1163	951	990	1032				
Regional market financing from non-residents (net)	170	170	173	199	56	78	132	87	181	136				
Project grants and loans	559	559	733	723	776	805	917	953	990	1028				
Other capital flows (net)	9	-117	37	199	165	-222	-301	-12	-128	152				
3. Total Financing Needs	693	696	492	161	363	477	157	143	120	122				
4. Expected Financing	398	401	200	90	214	223	157	143	120	122				
Budget support (grants + loans)	398	401	160	60	179	178	157	143	120	122				
Vaccination campaign financing (World Bank)	0	0	40	30	35	45	0	0	0	0				
5. Residual Financing Gap	295	295	292	71	150	254	0	0	0	0				
IMF (SBA/SCF) ^{2/}	266	266	201	0	150	254	0	0	0	0				
DSSI	29	29	91	71	0	0	0	0	0	0				

Sources: Senegalese authorities; 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.^{2/} For 2020 RFI/RCF disbursement. SBA/SCF in 2021/22; only undisbursed amounts.

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	129.45	117.45	52.73	31.15	31.15	26.36	10.79	0.00
Charges and interest	0.00	3.18	3.08	2.12	0.75	0.13	0.01	0.01	0.01	0.01	0.01
IMF obligations based on existing and prospective credit											
(SDR millions)											
Principal	0.00	0.00	53.93	129.45	165.99	180.96	114.44	55.13	50.34	26.38	0.00
Charges and interest	0.00	5.27	5.31	4.39	2.89	1.47	0.35	0.01	0.01	0.01	0.01
Total obligations based on existing and prospective credit											
(SDR millions)											
SDR Millions	453.0	776.6	722.7	593.2	427.2	246.3	131.9	76.7	26.4	0.0	0.0
CFA francs	356.0	609.0	564.4	461.5	331.2	190.6	102.0	59.4	20.4	0.0	0.0
Percent of GDP	2.3	3.7	3.0	2.3	1.5	0.8	0.4	0.2	0.1	0.0	0.0
Percent of quota	140.0	240.0	223.3	183.3	132.0	76.1	40.7	23.7	8.2	0.0	0.0
Net use of IMF credit (SDR millions)											
Disbursements	129.4	323.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0
Repayments and repurchases	0.0	5.3	59.2	133.8	168.9	182.4	114.8	55.1	50.4	26.4	0.0
Percent of government revenue	0.0	0.2	1.5	3.1	3.4	3.4	2.0	0.9	0.8	0.4	0.0
Percent of exports of goods and services	0.0	0.1	1.0	1.9	2.2	2.3	1.4	0.6	0.5	0.3	0.0
Percent of external debt service	0.0	0.7	7.1	12.7	15.7	13.8	9.3	4.7	5.0	2.5	0.0
<i>Memorandum items:</i>											
Nominal GDP (billions of CFA francs)	15,273	16,464	18,559	20,058	21,542	23,053	24,753	26,873	28,871	30,973	33,208
Exports of goods and services (billions of CFA francs)	3,049	3,798	5,908	7,184	7,606	7,855	8,455	8,865	9,420	10,114	10,843
Government revenue (billions of CFA francs)	2998.5	3360.8	3855.4	4352.0	4935.9	5443.1	5699.8	6183.6	6651.0	7137.5	7637.5
External Debt service (billions of CFA francs)	774.4	758.7	830.2	1051.9	1077.8	1319.3	1230.3	1183.9	1013.0	1040.8	1323.0
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)	786	784	781	778	775	774	774	774	774	774	774

Source: IMF staff calculations.

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 Stand-by 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 6, 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.

Annex I. Implementation of the 2018 Article IV Main Recommendations

(Scale: fully implemented, broadly implemented, partially implemented, and not implemented)

Fund Policy Recommendation	Status
Eliminate “below the line” financing needs resulting in a disconnect between the evolution of the public debt stock and budget deficits.	Broadly implemented. There is no “below the line” financing need expected in 2021. However, some fundamental problems that have led to past below-the-line financing, such as the difficult financial position of La Poste, have not been fully resolved.
Repay over time the stock of unmet obligations from unpaid energy subsidies and investment projects accumulated before 2019.	Under implementation. As of mid-2021, unmet obligations of 1.5 percent of GDP were cleared out of a total of 2.4 percent of GDP. The remainder is expected to be cleared in 2021-22.
Adjust domestic energy prices in steps to reduce or eliminate the need for energy subsidies.	Partially implemented. The authorities increased fuel prices and electricity tariffs in 2019. No further adjustments were made since then. Given current global oil prices, subsidies in 2021 are expected to amount to about 1 percent of GDP. The authorities have committed to cap energy subsidies in 2022 which will entail steps towards greater fuel and electricity price flexibility while protecting the vulnerable.
Enhance public investment efficiency by streamlining the investment plan, reduce investment projects based on unsolicited offers, and update the legal framework for PPPs.	Partially implemented. The legal framework for PPPs was updated with the adoption of a new law and implementing decrees. Efforts are being made to limit direct awards but not unsolicited offers. Legal changes are needed to improve procurement transparency and value for money. Further efforts are needed to streamline the investment plan.
Increase domestic revenue mobilization through streamlining tax exemptions, improving cooperation between tax and customs administration, and implementing digital and mobile tax payment options.	Broadly implemented. Tax revenues increased from 15.3 to 16.7 percent of GDP in 2020 and are expected to reach 17.1 percent of GDP in 2021. The 2022 budget includes a reduction of tax exemptions. The authorities are also implementing their MTRS to increase the non-oil tax to GDP ratio to 20 percent by 2024.
Improve the business environment by addressing growth constraints such as high cost of energy, heavy administrative procedures, rigid formal labor regulations and weak human capital.	Broadly implemented. Reforms in the energy sector and of the labor market are underway, a new commercial court is operational, and taxes can now be paid by mobile phone.
Strengthen debt management and increase the proportion of domestic debt while prioritizing concessional debt whenever possible.	Broadly implemented. The 2019 and 2020 financing needs were covered largely through concessional debt and bond issuances on the regional market. The 2021 Eurobond serves for liability management and to finance investments in the oil and gas sector.
Promote access to credit and financial inclusion	Broadly implemented. A national financial inclusion strategy was developed and the credit bureau’s access to data was extended.
Set up a transparent fiscal framework for the management of oil and gas revenues in line with international best practice.	Broadly implemented. A new law on hydrocarbon revenue sharing is expected to be adopted in 2021 broadly in line with Fund recommendations and international best practices. Further progress is needed on operationalizing the fiscal framework ahead of 2023 when oil and gas revenues are expected.

Annex II. External Sector Assessment

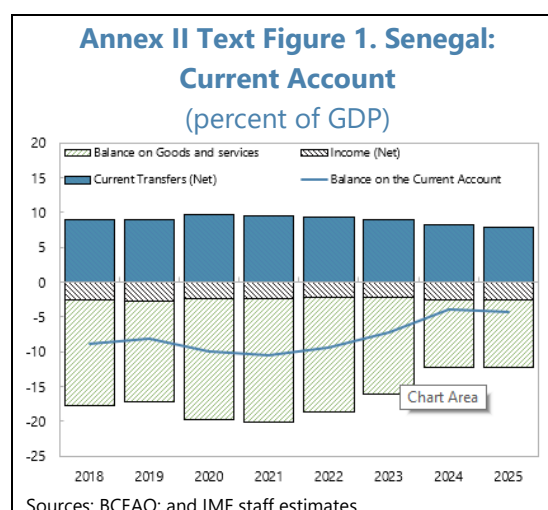
Overall assessment: The external position of Senegal in 2020 was moderately weaker than the level implied by fundamentals and desirable policies. The current account deficit widened further in 2020 due to the impact of the pandemic on fiscal and external accounts alongside temporarily elevated hydrocarbon-related 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.

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 widened in 2020. The current account deficit increased to 10 percent of GDP in 2020 from 8.1 percent in 2019. 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 goods exports related to the impact of the COVID-19 pandemic. By contrast, remittances (which amount to about 10 percent of GDP) have remained resilient. The current account deficit is projected to further widen in 2021 to 10.6 percent of GDP, reflecting higher prices for oil and food imports and elevated imports associated with the oil and gas projects (Text Figure 1).

2. The current account deficit should significantly decrease over the medium term. One-off factors, such as the import of services related to the hydrocarbon projects (estimated to be 5 percent of GDP for 2020) increase the current account deficit in the near term. Staff introduced a cyclical adjustment of 3 percent of GDP to account for the high share of imports associated with the



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

	CA model	REER model
CA-Actual	-10.0	
Cyclical contributions (from model) (-)	0.6	
COVID-19 adjustor (+) 1/	0.0	
Additional temporary/statistical factors (+)	3.0	
Natural disasters and conflicts (-)	0.0	
Adjusted CA	-7.6	
CA Norm 2/	-6.1	
CA Gap	-1.4	2.7
o/w Relative policy gap	1.6	
Elasticity	-0.22	
REER Gap (in percent)	7.5	-12.4

1/ Additional cyclical adjustment to account for the temporary impact of the 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.

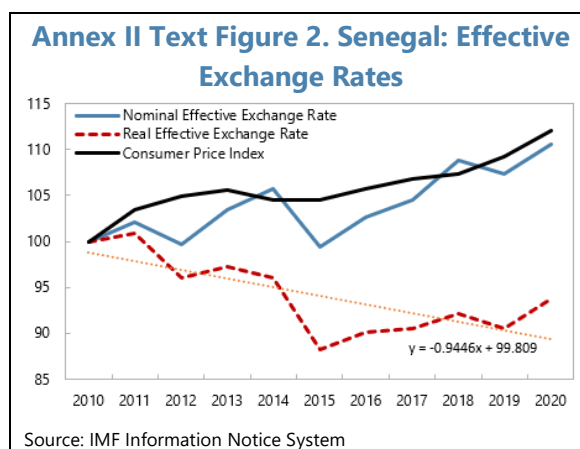
Source: IMF staff calculations.

increase in FDI, which is not captured by the model.¹ The broader global recovery will support a gradual rebound in external demand. The start of hydrocarbon exports in 2023 is expected to narrow the current account deficit significantly. However, important risks to this outlook remain given the elevated uncertainty associated with the scope and speed of the global economic recovery, as well as the potential for delays to the oil and gas projects.

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 -1.4 percent of GDP (a cyclically adjusted current account balance of -7.6 percent of GDP against a norm of -6.1) (Text Table 1). The standard adjustors introduced in 2020 to account for the impact of COVID-19 on the oil balance and tourism balance have netted one another out. The policy gap of 1.6 percent of GDP mostly consists of the gap between the fiscal deficit in 2020 and its medium-term target of 3 percent of GDP. A preliminary assessment of the 2021 current account model results, using cyclical and COVID adjustors (for tourism) of broadly similar magnitudes, results in a current account gap of -1.5 percent of GDP: a cyclically adjusted current account balance of -7.1 percent of GDP against a norm of -5.6. On balance, staff find that the current account model offers more explanatory power for a country like Senegal as it takes advantage of cross-country information and appears to be more reliable.

B. Real Exchange Rate

4. The real effective exchange rate (REER) appreciated in 2020 after several years of depreciation. The CFA Franc (CFAF)² has depreciated by about 10 percent in real terms over the previous decade through 2019. However, in 2020, the REER appreciated by about 4 percent, likely reflecting the real appreciation of the Euro against the US dollar (Text Figure 2). As of 2021Q1, this trend had reversed, with the REER depreciating by about 2 percent.



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 already-large current account deficits.³

¹ FDI in Senegal amounted to 5.8 percent of GDP, of which 85-90 percent (5 percent of GDP) is linked to services imports associated with hydrocarbon projects. Staff conservatively estimate that, of this amount, 3 percent of GDP represents a temporary shock to imports.

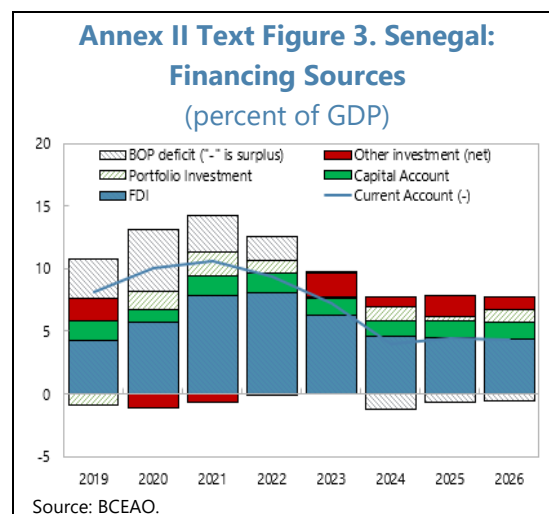
² The CFA Franc has been pegged to the Euro at a fixed rate since the Euro’s launch in 1999 and was previously pegged to the French Franc.

³ In Senegal’s 2019 ESA, the REER model indicated an undervaluation of 15 percent.

C. Capital and Financial Account

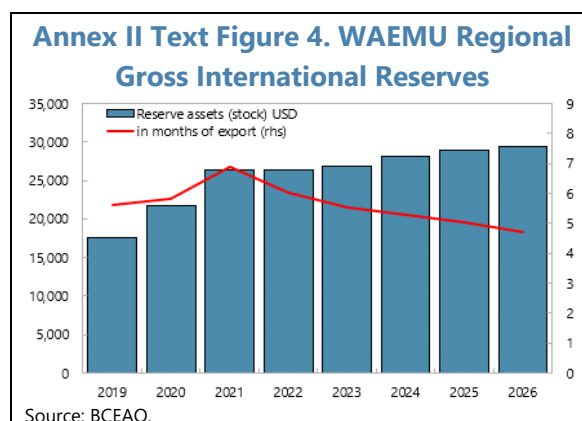
6. An increase in foreign direct investment has helped finance the current account deficit. Net FDI was estimated to be 5.8 percent of GDP in 2020—up from 4.3 percent in 2019 and 3.4 percent in 2018—about 85-90 percent of which is associated with foreign participation in the SNE and GTA hydrocarbon projects. Net portfolio investment flows were estimated to be 1.5 percent of GDP in 2020. Other investment is estimated to have decreased in 2020 (-1.5 percent of GDP) but is projected to rebound to an average of 1 percent of GDP over the medium term. (Text Figure 3). In 2020, the authorities 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 its link to future oil and gas outputs. The use of concessional financing to fund the government’s response to COVID-19 has further reduced financing risks. In addition, Senegal’s successful 2021 Eurobond issuance improved the country’s external debt profile and demonstrated the appetite for Senegal’s debt on global markets. However, Senegal’s capacity to access financing on capital markets at reasonable rates going forward 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, while continuing to seek out opportunities to take advantage of favorable global market conditions.



D. Reserves

8. WAEMU pooled reserves increased in 2020. International reserves increased to US\$21.7 billion at end-2020, up from US\$17.7 billion at end-2019, equivalent to 5.8 months of 2021 imports or 77.3 percent of the BCEAO’s sight liabilities. This increase in reserves is partly explained by Eurobond issuances by Côte d’Ivoire, Benin, and the regional development bank (BOAD). The SDR allocation approved in August 2021 (about US\$2.3 billion, roughly equivalent to 0.6 months of 2022 imports) will further support external reserves in 2021, as will Senegal’s Eurobond. Over the medium term, the reserve cover is expected to gradually contract to about 4 months of prospective imports by 2025 largely driven by a decline in portfolio flows. The gradual

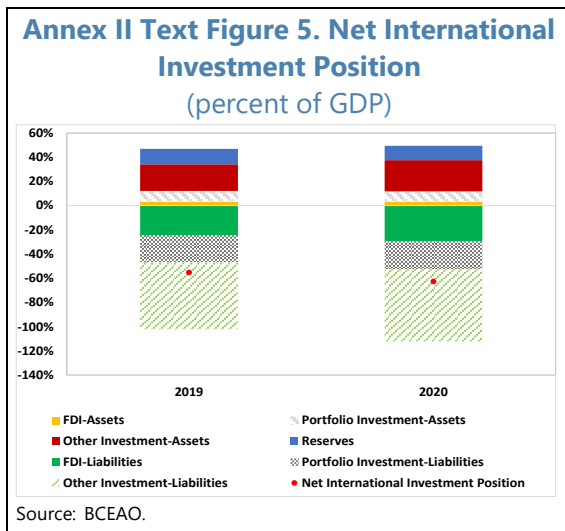


return of WAEMU members’ fiscal deficits to the 3 percent of GDP regional target should help support the reserve position.

E. Foreign Assets and Liabilities

9. The net international investment position (NIIP) deteriorated in 2020.

As of end-2020, the NIIP stood at CFAF -7,580 billion (-62.7 percent of GDP), compared to CFAF -6,643 billion (55.2 percent of GDP) at end-2019. Financial assets of 46.9 percent of GDP consist mostly of other investments and reserves (22 and 12.8 percent of GDP, respectively), while about half of financial liabilities of 102.2 percent of GDP are accounted for by other investment liabilities (55.5 percent of GDP), mostly concessional loans to the government. The widening of the current account deficit in 2021 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.



10. Regional reserves are assessed as being adequate. Between January and August 2021 (last month with available data), foreign reserves increased to CFAF 14.5 billion, roughly equivalent to 6.9 of projected 2022 imports or 84.3 percent of the BCEAO’s sight liabilities, as a result of several factors including (i) Eurobond issuances of Benin, Côte d’Ivoire, Senegal and the BOAD (2.6 percent of 2021 GDP or 1.2 months of 2022 imports), (ii) a recovery in export repatriation proceeds, and (iii) the August 2021 SDR allocation (about US\$2.3 billion, equivalent to 1.3 percent of GDP or 0.6 months of 2022 imports). Reserves are projected to stand at 6.5 months of imports coverage by the end of the year. The ARA CC approach based on 2020 data estimates an adequate level of reserves of 4.6 to 6.7 months of prospective import coverage for the WAEMU, with the lower end calibrated on fragile states and the higher end calibrated on non-resource rich countries. Based on this model, the level of reserves projected for end-2021 (6.5 months of imports) as well as the medium-term projection (4.8 months at end-2026) are assessed as being adequate.

Authorities’ Views

11. The authorities broadly agree with the external sector assessment. The staff’s assessment is aligned with the BCEAO for 2020. For 2021, the authorities expect a slightly smaller current account deficit, in part due to different assumptions about the prices of imports. Over the medium-term, the BCEAO has a more conservative outlook for the improvement to the current account, anticipating lower exports from the hydrocarbon projects during the initial phases of production.

Annex III. Risk Assessment Matrix

Senegal: Risk Assessment Matrix ¹			
Source of Risks	Relative Likelihood	Potential impact	Policy Response
Risks			
Uncontrolled local COVID-19 outbreak or global resurgence of the pandemic/new variants	Medium/High	An outbreak amid limited access to vaccines could force new lockdowns and—combined with dwindling policy space—prompt a reassessment of their growth prospects	Limited policy space to cushion the economic impact will require careful spending prioritization and sustained revenue mobilization efforts.
Widespread social discontent and political instability.	Medium	Social tensions could erupt as the withdrawal of pandemic-related policy support amid increasing prices of essentials hurts vulnerable groups and exacerbates pre-existing inequities.	Ensure transparency and effectiveness of fiscal measures to address the pandemic and high prices for staple foods.
Rising commodity prices amid bouts of volatility.	Medium	Commodity prices, especially oil, increase more than expected in a context of pent-up demand and supply disruptions worsening Senegal's terms of trade.	Strengthen automatic pass-through of global commodity price changes to domestic prices, notably in the energy sector, and provide targeted support to the vulnerable.
Higher frequency and severity of natural disasters related to climate change.	Medium	Extreme weather events linked to climate change such as droughts or floods could cause severe damage.	Invest in resilience against extreme weather events and strengthen social protection mechanisms to cope with shocks.
Domestic and regional security threats	Medium	Deteriorating security amid elevated terrorist activity in the region could lower confidence and trigger higher security expenditures.	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.

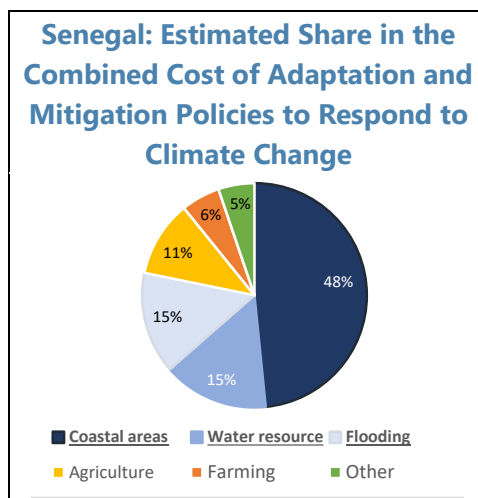
Annex IV. Policies to Mitigate and Adapt to Climate Change in Senegal

West Africa is one of the most vulnerable regions to climate change (USAID,2018). Senegal is especially at risk. About 74 percent of the population lives in the coastal area, where the impact of rising sea levels will be very high. Around 75 percent of the workforce is employed in agriculture, which will be affected by lower rainfall, longer dry-spells and extreme rain events. This calls for strong adaptation measures to build resilience against the severe impact of climate change.

A. Background

1. The impact of climate change in Senegal is projected to be severe. Climate change could reduce GDP growth by 2 to 4 percentage points across Africa by 2040 and by 10 to 25 percentage points by 2100.¹ West Africa is one of the world's most vulnerable regions to climate change, due to its long coastline and the threats from rising sea levels, coastal erosion, and flooding, and to the large share of population living from agriculture and exposed to increasing temperatures and shifting rainfall patterns. Senegal is particularly vulnerable, as 74 percent of its population lives in coastal areas and about 75 percent of the workforce is in agriculture. By 2060, climate change is projected to impact Senegal through several channels, including: (i) lower rainfall (by up to 16 percent); (ii) higher mean annual temperatures (1.4 to 2.5°C), (iii) longer-lasting heat waves (by 6-18 days in average per year), (iv) longer dry spells (by up to 22 days on average per year), and (v) rising sea levels (by 17 to 45 cm).² These projections suggest that a large share of the population is at risk of plunging into extreme poverty due to climate pressures; and thus call for strong adaptation policies.

2. Reforms to adapt to climate change while contributing to lower greenhouse emission rank high on the Senegalese authorities' agenda. Senegal's CO₂ emission is 0.6 metric tons per person (MTP), below the SSA level (0.8 MTP) and well below the world average (4.5 MTP). Senegal's development strategy recognizes that climate change poses a serious risk to the objective of accelerating economic growth and ensuring sustainability of natural resources. Therefore, the Senegalese authorities³ have developed an Intended National Determined Contribution (INDC, 2015) to define a path to meet their contribution to the global target set in the 2015 Paris Agreement. Senegal's INDC was officially adopted in December 2020 and targets a



¹ United Nations, Report of the UN Intergovernmental Panel on Climate Change, 2007.

² USAID, Climate Risk Profile – West Africa,, 2018.

³ Senegal signed in June 1992 and ratified in June 1994 the United Nations Framework Convention on Climate Change (UNFCCC); It has a National Committee on Climate Change (COMNACC) which constitutes an operational framework for information, awareness, training and support for various projects and programs on climate change issues.

reduction in greenhouse emissions by 31 percent by 2030 and a set of targeted investments to cope with climate change. Achieving this requires a combination of mitigation and adaptation policies.

B. Mitigation Policies

3. On the mitigation component, Senegal aims to implement specific activities to reduce greenhouse gas emissions. The estimated costs of mitigation policies, under the conditional⁴ contribution objectives, is about US\$8.7 billion through 2030. Senegal has defined an ambitious program to expand the generation and distribution of cleaner electricity. Senegal produces about 14 percent of its electricity from renewable sources (of which 7.2 percent from solar, 3.3 percent from wind, and 3 percent from biomass). The authorities plan to cut CO₂ produced from the generation and distribution of electricity from renewable sources by up to 31 percent by 2030, including through expansion of wind turbines (200 MW), solar plants (200 MWp⁵), and hydroelectric plants (200 GWh⁶). They also intend to reduce greenhouse gas emissions from the transportation sector by about 31 percent by 2030 by strengthening public transportation, notably through a rapid bus transit system to connect the main cities and from agriculture and forest management.

C. Adaptation Policies

4. Given Senegal's location in the West Africa coastal area and an economic structure largely based on agriculture, climate risks can pose a formidable drag on future development. Most of the sectors targeted under Senegal's flagship development strategy to promote more inclusive and sustainable growth are vulnerable to the impacts of climate change, including: agriculture, farming, fishing, tourism, health and nutrition issues, and access to water. Senegal has developed a set of bold adaptation policies to adapt its infrastructure and economic landscape to face these challenges, for an estimated cost of US\$4.3 billion through 2030 (under the conditional contribution objective)⁷.

5. The largest investments (about 80 percent of the total) under Senegal's adaptation policies relate to the need to strengthen water management and protect against the rise in sea levels. Key climate change adaptation measures in this area include interventions and projects to: (i) protect areas particularly vulnerable to rising sea level, flooding, and dry spell events through barrier and other water management infrastructures, (ii) ensure adequate logistics and support in relation to the displacement of vulnerable populations from affected areas; (iii) strengthen sanitation infrastructure and rainwater drainage systems in cities; and (iv) put in place an Integrated Water Resources Management System.

⁴ Conditional objectives refer to measures to maximize response to climate change, requiring external financial support.

⁵ Mega Watt peak, a solar power measure in photo-voltaic (PV) industry to describe a unit's nominal power.

⁶ Gigawatt hours, equivalent to one million kilowatt hours; power measures used in the hydroelectric industry.

⁷ See footnote 2.

- *Vulnerability to flooding.* Since the end of the 1990s, Senegal, like several West African countries, has faced recurrent floods, the magnitude of which has intensified over time. Short-term fiscal risk are very high, and likely to increase under current climate trends. For example, in 2009, marked by major floods, the cost in terms of reconstruction was estimated at US\$142 million.
- *Vulnerability to rising sea levels.* Coastal economic activities contribute 68 percent of the country's gross domestic product. The coastal zone is the seat of the main cities of the country (Saint Louis, Thiès, Dakar,) and plays a central role in the socio-economic, demographic, urban and environmental development of the country.⁸ Climate change can therefore have a strong impact and pose considerable fiscal risks. By 2080, due to sea level rise, 75 percent of the coastline will be at risk of erosion, compared to 25 percent today, with a total discounted cost of up to US\$3 billion.

6. The implementation of adaptation and mitigation measures planned by Senegal under the PSE, in its phase 2, could generate significant socioeconomic benefits in several sectors.

Model simulations by the authorities suggest that the investments related to mitigation and adaptation will lead to higher GDP growth, lower poverty, and more jobs compared to a baseline scenario without such investments. Agriculture will benefit in particular through higher productivity, thus improving food security.

⁸ Much of the economic activity is concentrated in this space with 90 percent of industries, 70 percent of fruits and vegetables production, mainly seaside tourism and fishing activity (4.8 and 1.2 percent of GDP, respectively).

Annex V. Downside Scenario

1. Staff has developed a downside scenario to illustrate the macroeconomic impact if risks materialize. Repeated COVID-19 outbreaks, scarring from the pandemic, increased social tensions, deteriorating regional security, delays and shortfalls in expected oil and gas production, or high subsidy needs from sharply-higher oil prices could significantly alter the outlook for growth, the external sector, and fiscal policy (Annex III). The scenario assumes (Text Table 1):

- lower growth due to a more protracted recovery from the pandemic, delayed and lower oil and gas production,¹ and lower trend non-oil growth in the medium- to long-term;
- reduced goods and services exports due to lower oil and gas exports, weaker external demand, and less competitive supply of tradable goods;
- a more gradual increase of the tax-to-GDP ratio than in the baseline reflecting incomplete implementation of the medium-term revenue strategy as tax policy measures face increasing resistance by vested interests;
- a less ambitious fiscal consolidation and a higher medium-term fiscal deficit of 4.5 percent of GDP reflecting high subsidy needs and rising overall spending pressures.

	2021		2022		2023		2024	
	Base.	Down.	Base.	Down.	Base.	Down.	Base.	Down.
NGDP	15,273	15,273	16,485	16,152	18,415	17,403	20,668	19,308
Real GDP growth (percent)	5.0	5.0	5.5	3.5	9.5	4.6	10.3	10.4
Government Revenues (percent of GDP)	20.4	20.2	21.0	20.7	21.4	21.0	21.7	20.7
Government Expenditure (percent of GDP)	26.7	26.7	25.7	26.3	25.1	26.0	24.7	25.2
Fiscal Balance (percent of GDP)	-6.3	-6.5	-4.8	-5.6	-3.7	-5.0	-3.0	-4.5
Exports of Goods and Services (percent of GDP)	21.7	21.4	22.6	22.0	24.1	22.8	27.9	26.0
Gross Public Debt (percent of GDP)	73.0	73.1	71.6	73.9	67.7	73.5	63.1	70.5

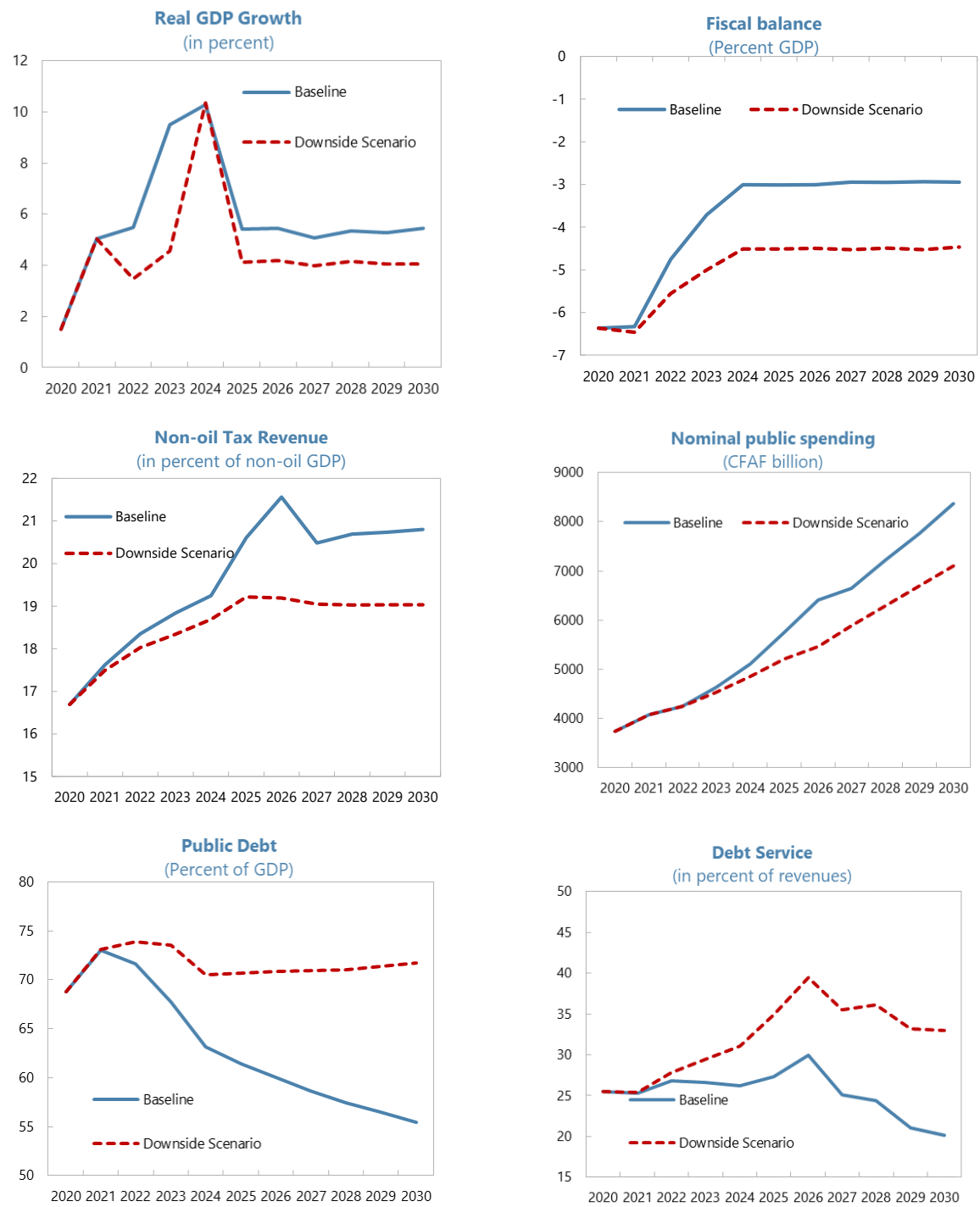
Source: IMF staff projections

2. Debt vulnerabilities would be exacerbated in such a scenario (Text Figures 1 and 2). The debt-to-GDP ratio would remain above 70 percent of GDP while debt service would rise rapidly. The external sustainability indicators of the Debt Sustainability Analysis (DSA) would worsen significantly and indicate high risk of debt distress, consistent with the draft DSA which highlights little space to cope with shocks. Less successful domestic revenue mobilization would lead to less nominal spending despite the assumed higher fiscal deficit.

3. Policy implications. The scenario underscores: i) the importance of domestic revenue mobilization to create room for priority and investment spending; ii) the sensitivity of the debt trajectory to shocks to projected medium-term growth and fiscal deficits; and iii) the need to stick to the medium-term fiscal consolidation path if the debt-to-GDP ratio is to be brought firmly on a downward trajectory. Against this backdrop, full implementation of the medium-term revenue mobilization strategy as well as fiscal consolidation should be the cornerstones to secure macroeconomic stability going forward.

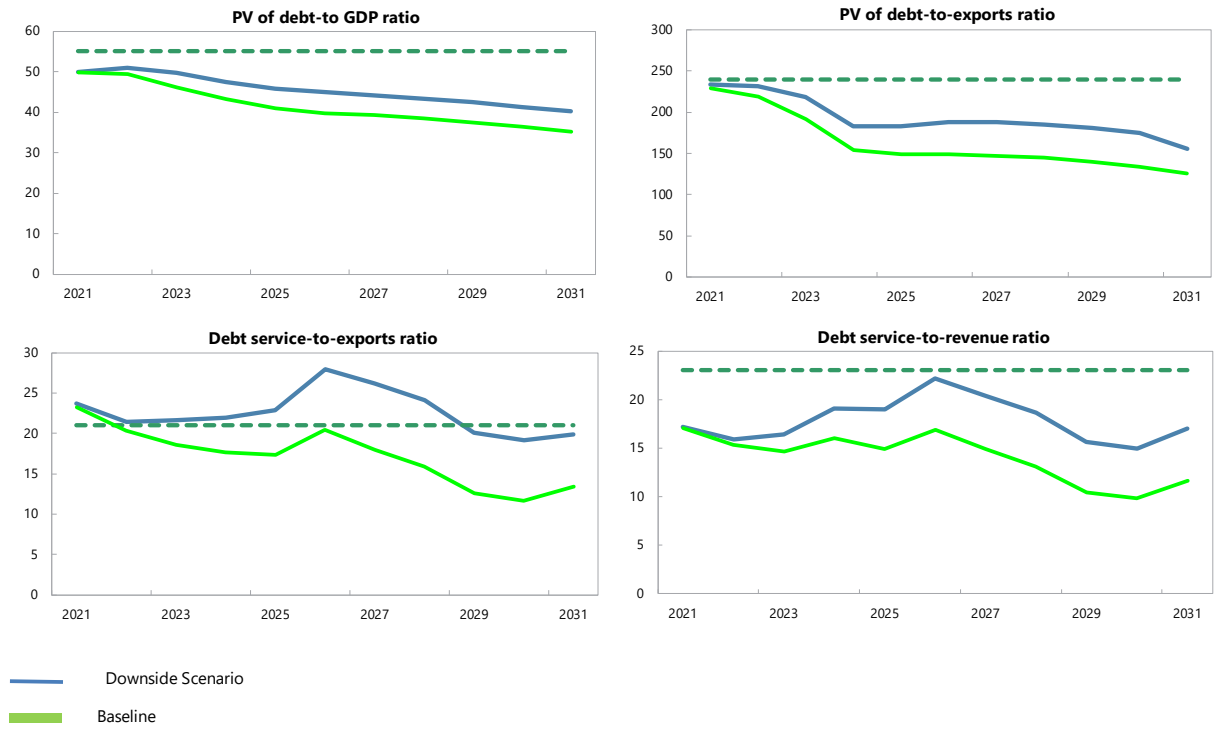
¹ Oil and gas production is assumed to start in 2024 instead of 2023 and production volumes are only 70 percent compared to the baseline.

Annex V Figure 1. Senegal: Downside Scenario



Source: IMF staff calculations.

Annex V Figure 2. Senegal: Downside Scenario and the DSA
 (Indicators of Public and Publicly Guaranteed External Debt 2021-2031)



Source: IMF staff calculations.

Annex VI. Capacity Development

The FY2021 Capacity Development (CD) strategy remains appropriate, and implementation is proceeding well despite the COVID-19 pandemic.

1. Capacity development priorities remain well aligned with program objectives under the Policy Coordination Instrument and the concurrent SCF/SBA, including revenue mobilization, improved public financial management, sound debt management and establishing a sound fiscal and legal framework for upcoming hydrocarbon revenues.

2. Capacity development activities have continued despite the pandemic. In recent years, TA activity has supported the implementation of Senegal's development strategy through work on revenue administration, tax policy, public financial management, debt management, and better and more timely compilation of macroeconomic statistics which resulted in Senegal reaching SDDS status. Overall, the track record of implementing recommendations is good. Recent missions supported:

- The design of the legal framework for the management of hydrocarbon revenues and the set-up of a model to forecast hydrocarbon-related revenues;
- The preparation of the medium-term revenue strategy and revenue administration reforms;
- PFM reforms such as better fiscal risk analysis, the implementation of program budgeting and improved public investment management;
- Debt management including the operationalization of the national committee for public debt;
- The compilation of key macroeconomic statistics such as national accounts and fiscal accounts for the entire public sector;
- Two long-term experts support capacity development on revenue mobilization and PFM.

3. Engagement strategy. Senegal is an intensive technical assistance user with relatively strong institutional capacity. There is good ownership and absorption capacity for relevant CD in priority areas. To optimize traction of TA recommendations it will be important to pay close attention to the political economy of reforms and support reform-minded officials. Low staffing levels, high turnover and capacity limitations could also pose risks to achieving reform objectives. An intensification of hands-on training could mitigate this risk as well as CD delivery through resident advisors. Peer learning could also be a way to increase traction and overcome resistance to reforms.

Priorities by Department		
	Topics	Objectives
FAD	Tax policy/ Revenue administration	<ul style="list-style-type: none"> • Fully launch the 2020 MTRS and implement base-broadening tax and customs administration measures identified in the strategy. • Reduce tax expenditures and other tax policy reforms. • Prepare a performance management and accountability framework in line with MTRS targets. • Take stock of recent delays in MTRS implementation and prepare corrective measures.
	Public Financial Management	<ul style="list-style-type: none"> • Adopt and implement the new PFM reform strategy. • Continue to improve budget execution and controls to improve spending efficiency. • Strengthen capacity to manage PPPs and fiscal risks. • Strengthen capacity for cash management. • Implement the envisaged legal and fiscal frameworks for the hydrocarbons sector. • Strengthen public investment management.
	Expenditure policy	<ul style="list-style-type: none"> • No CD activity planned in 2022.
MCM	Debt management	<ul style="list-style-type: none"> • Enhance the capacity of the debt unit and support the authorities in the operationalization of the national debt committee. • Better integrate debt and cash management.
STA	Government finance statistics	<ul style="list-style-type: none"> • Compile the functional classification (COFOG) in accordance with GFSM 2014 • Further improve the quality and coverage of public sector GFS data • Extend the coverage of debt statistics to the public sector (general government + public corporations) • Produce the general government statistics according to the GFS analytic framework (Stock positions + Flows)

Appendix I. Letter of Intent/Program Statement

Dakar, Senegal

December 20, 2021

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

Dear Ms. Georgieva:

Since the conclusion of the third review of the Policy Coordination Instrument (PCI) and approval of the eighteen (18)-month Stand-By Arrangement and Arrangement under the Standby Credit Facility (SCF), Senegal has had to cope with a third wave of the COVID-19 pandemic. The number of infections peaked at end-July and then dropped again. Given the resurgence of epidemic waves, a normalization will depend largely on the success of the vaccination plan. Unfortunately, Senegal's vaccination campaign has been slowed somewhat by the difficulties of gaining access to vaccines. To date, Senegal has managed to obtain only 4.5 million doses and to vaccinate just over 7 percent of its population. This percentage falls far short of the government's objective of vaccinating 80 percent of the eligible population. In these circumstances, the Senegalese government has decided to implement an action plan to combat pandemics, especially the COVID-19 pandemic, by intensifying its communication effort and supporting local vaccine production starting in 2022.

Despite this difficult context, the short-term indicators point to a rebound in economic activity following the serious slowdown that occurred in 2020. Moreover, progress toward achieving the program objectives at end-June 2021 was satisfactory. With the exception of the ceiling on single-sourced procurement contracts, all the quantitative performance criteria and indicative targets were met. Six (6) of the (8) structural benchmarks (reform targets) for end-June 2021 have been implemented. Progress toward fulfilling commitments concerning the transparency and accountability of *Fonds Force COVID-19* expenditures was achieved with the publication of the final Monitoring Committee report and the audit report of the public procurement regulatory authority (ARMP) on the conformity of the procurement procedures. The special report of the Audit Court on the use of funds for COVID-19 is now expected to be finalized by end-March 2022. The government is committed to implementing the key recommendations of these reports.

The objectives of the government's economic and financial program remain unchanged: coping with the dual health and social crisis caused by the COVID-19 pandemic while maintaining fiscal sustainability, boosting the supply and efficiency of public services, and laying the foundation for strong, sustainable, and inclusive growth driven by the private sector.

To support the economic recovery, step up the fight against the pandemic, and cover the subsidies needed to stabilize energy prices, the National Assembly adopted a second supplementary budget for 2021 to keep the budget deficit at 5.4 percent of GDP (excluding expenditures supported by the SDR allocation). The government will use the SDR allocation (1.6 percent of GDP) transparently for other urgent, one-time health and social welfare expenditures and to support economic recovery by clearing outstanding unmet obligations and reserving a substantial portion for 2022 financing requirements. The 2022 budget includes a significant increase in social expenditure and strong measures to improve tax revenue collection aimed at reducing the budget deficit to 4.8 percent of GDP. Continued rigorous implementation of the Medium-Term Revenue Strategy (MTRS) in 2023-24 as well as the rationalization of public expenditure will lower the budget deficit to 3 percent of GDP by 2024, in line with the commitment undertaken by the WAEMU Council of Ministers.

To contain the fiscal risks associated with the rise in world oil prices, the government is committed to limit the amount of energy subsidies to a maximum of CFAF 150 billion in 2022, by re-activating or modifying if needed the decrees on the adjustment of electricity and fuel prices while protecting the most vulnerable. The government will conduct a prudent debt policy and will further strengthen debt management, particularly by improving the collection of information on the debt of public and parapublic entities and public-private partnerships, with a view to better controlling contingent liabilities. The government will also reinforce the framework of governance and oversight of the emergency program for the socioeconomic integration and employment of young people announced in 2021, to ensure its full effectiveness. Lastly, the government will continue efforts to improve public financial management, ensure the transparent and sustainable management of future hydrocarbon revenues, and have Senegal removed from increased monitoring by the International Financial Action Task Force (FATF).

In line with the revised macroeconomic framework, the government requests modification of the performance criteria (quantitative targets) for the floor on net lending/borrowing or overall fiscal balance (end-December 2021 and end-June 2022), the ceiling on annual net borrowing (end-December 2021), the floor on tax revenue (end-December 2021 and end-June 2022), and the ceiling on total nominal public debt (end-December 2021). The government also requests a modification in the social spending floor, which would increase from 35 to 40 percent of total spending in 2022 to reflect the authorities' increased focus on investments in human capital. The expenditure ceiling on simplified spending procedures for non-personalized services would be lowered, to reflect the progress made in reducing transfers to these entities.

In view of the program achievements to date, as well as the commitments set out in the Memorandum of Economic and Financial Policies, the government requests completion of the fourth review of the PCI as well as the first review Under the Stand-By Arrangement and an arrangement under the Standby Credit Facility and the disbursement of SDR 129.4 million.

The government is confident that the policies and measures set out in the Memorandum of Economic and Financial Policies 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 of Economic and Financial Policies. Finally, in keeping with the Technical Memorandum of Understanding (TMU), the government will regularly provide the IMF with information requested in connection with 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. Supplement to the Memorandum of Economic and Financial Policies/Economic Policy Statement for 2021–22
- II. Technical Memorandum of Understanding

Attachment I. Senegal: Supplement to the Memorandum of Economic and Financial Policies/Program Statement for 2021–22

I. INTRODUCTION

1. The government’s priorities and objectives remain unchanged. The government’s short-term priorities, supported by the Stand-by Credit Facility/Stand-by Arrangement (SCF/SBA), are to contain the transmission of the COVID-19 virus by stepping up the vaccination campaign; to address the needs of unemployed youth; and to support the economic recovery. At the same time, the government will continue implementing its economic policy under the program supported by the Policy Coordination Instrument (PCI), and the SCF/SBA, which is aimed at: (i) promoting strong, sustainable, and inclusive growth led by the private sector; (ii) strengthening economic stability through a sound fiscal policy and prudent debt management; and (iii) preparing a framework for sustainable and transparent growth of the hydrocarbon sector. This program is entirely consistent with the main development objectives outlined in the Plan for an Emerging Senegal (*Plan Sénégal Émergent*, or PSE) and set out in practical terms in the Adjusted and Accelerated Priority Action Plan (PAP2A).

2. This supplement to the Memorandum/Policy Statement describes the achievements at end-June 2021 compared to the program objectives, and presents the economic policy priorities and objectives for late 2021 and 2022, as well as the medium-term outlook. It first describes recent economic developments and performance under the program, before presenting the main objectives and commitments under the economic and financial program for late 2021, the year 2022, and the medium term.

II. RECENT ECONOMIC DEVELOPMENTS

A. Recent Development of the Economy

3. The activity indicators show that the economic recovery has been stronger than expected. Indeed, over the first eight (8) months of 2021, the General Activity Index (GAI), which measures economic activity excluding agriculture and forestry, grew by 7.0 percent year-on-year, reflecting the renewed dynamism of the secondary (+17.0 percent) and tertiary (+5.9 percent) sectors, which was mitigated by the decline in the primary sector¹ (-5.6 percent). Inflation rose 3.2 percent in October (year-on-year), driven by the rise in food prices. Core inflation (excluding energy and food) came in at a 3.9 percent monthly rate compared to October 2020.

4. Budget execution at end-September 2021 was broadly in line with the targets set in the first Supplementary Budget Law. Total revenues reached CFAF 1,983.5 billion, or 66 percent of the target for 2021. Tax revenues of CFAF 1,805.6 billion benefited from strong performance in

¹ Not including agriculture and forestry.

terms of taxes on income, profits, and capital gains (CFAF 579.1 billion) and taxes on international trade (CFAF 257.7 billion), while indirect taxes performed slightly below expectations (CFAF 886.8 billion). Total expenditures reached CFAF 3,060.3 billion, or around 80 percent of the total amount. The execution of expenditures at end-September was marked by some savings on the wage bill, overspending on goods and services and transfers, and under-performance of capital expenditures.

5. The banking sector continues to be resilient and to provide financing to the economy.

There was a moderate increase in lending to the economy, rising by 3.6 percent in the first eight months of 2021, compared to an increase of 1.5 percent in 2020. The amount of deferrals on loan payments granted by banks to their customers and outstanding deferrals not settled totaled CFAF 9.4 billion and CFAF 25.9 billion, respectively, at end-September 2021. The stock of deferred principal repayments represents 0.5 percent of the banking sector's loans at end-August 2021. The gross volume of nonperforming loans improved at end-August 2021, with the rate at 12.9 percent, compared to 13.3 percent at end-December 2020, while the provisioning rate reached 71.4 percent.

6. At end-June 2021, external trade resulted improved the trade deficit to CFAF 707.9 billion, compared to CFAF 821.7 billion a year earlier.

This reduction in the trade deficit is the result of both strong growth in exports of mining products (+37.5 percent), groundnut products (+59.6 percent), and chemicals (+22.3 percent), as well as a moderate increase in imports of intermediate goods (+21.7 percent) and capital goods (8.6 percent). Remittances remain resilient increasing by 25.3 percent year-on-year at end-June 2021, contributing to a strengthening of the secondary income account. On the other hand, the services account deficit grew by 65.7 percent in the first half of 2021, owing to the development of oil and gas projects and the decline in income from tourism, which was hard-hit by the pandemic.

7. At end-September 2021, the stock of public debt had increased by CFAF 1,173.6 billion compared to end-December 2020, rising from CFAF 9,753.0 billion to CFAF 10,926.5 billion.

Central government debt grew from CFAF 8,903.3 billion to CFAF 9,977.3 billion, or by 12.1 percent. It is dominated by external debt, which accounts for 74 percent of the total (CFAF 7,432.1 billion), compared to 78.0 percent at end-December 2020 (CFAF 6,946.3 billion), while domestic debt accounts for 26 percent (CFAF 2,545.2 billion), compared to 21.9 percent at end-December (CFAF 1,597.1 billion). As for the debt of entities in the quasi-public sector, it rose from CFAF 849.7 billion to CFAF 949.2 billion, or by 11.7 percent. External debt accounts for 61.6 percent of this amount (CFAF 584.4 billion), and domestic debt for 38.4 percent (CFAF 364.8 billion).

B. Program Performance

8. All of the performance criteria and quantitative targets under the program were met as of end-June 2021, with the exception of the ceiling on public procurement contracts concluded without open tenders. Tax revenues amounted to CFAF 1,144 billion, while the floor was set at CFAF 1,082 billion. Net lending/borrowing (budget deficit) reached CFAF 617 billion, while the target was CFAF 620 billion. There were no external arrears at end-June 2021. Social spending

accounted for 40 percent of total spending, compared to a floor of 35 percent. Spending through simplified procedures for non-personalized government services represented 3 percent of total transfer spending, compared to a ceiling of 23 percent. On the other hand, the proportion of public contracts concluded outside of open tenders greatly exceeded the program ceiling (57 percent compared to a ceiling of 15 percent), due to the conclusion of two contracts, one for an infrastructure projects financed by tied aid and another for a sanitation project of an urgent and priority nature. The authorities are committed to ensuring that aid is not tied and to reviewing the current legal framework in order to make the use of open tendering procedures standard practice and to regulate the use of unsolicited bids and direct contracting in line with international best practices, so as to limit the possibilities of using unsolicited bids and direct agreements (new structural benchmark, end-June 2022).

9. Six of the program's eight structural benchmarks/targets were achieved as of end-June.

- The process of operationalizing the Medium-Term Revenue Mobilization Strategy (MTRS) has begun with the appointment of strategic committee members and the adoption of a revised 2021-2023 action plan and a monitoring and evaluation plan.
- The 2018-2019 annual tax expenditure evaluation reports have been published on the Ministry of Finance and Budget website.
- A database for all of the public-private partnerships (PPPs) and electricity purchase agreements presenting their budgetary impact and quantifying the key budgetary risks has been set up.
- The draft legislation on the distribution, oversight, and management of revenues from the extraction of hydrocarbons in line with international best practices was finalized in June.
- The semi-annual report on the linking and exchange of information between the General Directorate of Taxes and Government Property (DGID) and the General Directorate of Customs (DGD) has been produced.
- The budgetary appropriations needed to cover energy subsidies were included in the Supplementary Budget Laws of June and November 2021 due to the decision to suspend the application of the decree for revising fuel prices and electricity rates.
- The study of tax exemptions with little impact including options providing for their gradual reduction will be finalized by end-2021. Progress has been made on several components of this reform, however. The "income tax revision" component was finalized with IMF support. The draft law amending the General Tax Code includes the abolition of the VAT exemption on hospitalization fees for private health-care facilities and rationalization of the social tax brackets for water and electricity.
- The decree implementing the PPP law was adopted by the Council of Ministers on September 15 and signed on October 27, 2021. There are still implementation issues, however, which are related in particular to the need to adopt a procedural manual and to provide adequate resources to the new entities, which will be financed by donors. Provided sufficient financing can

be mobilized, the government intends to have the new PPP framework fully operational in the first quarter of 2022.

10. Progress has been made on governance commitments related to the expenditure of COVID-19 Force Fund resources.

- The budget execution reports for the third and fourth quarters of 2020, including detailed information on the execution of the fund's expenditures, in particular the purpose of the expenditures, the amounts committed, and the amounts actually paid, have been published.
- In September 2021 the monitoring committee of the COVID-19 Force Fund published its report on all expenditures and public contracts executed with fund resources (<http://www.finances.gouv.sn/wp-content/uploads/2021/09/Rapport-final-des-activit%C3%A9s-du-Comit%C3%A9-de-suivi.pdf>).
- The Public Procurement Regulatory Authority (ARMP) conducted an audit of the regularity of the procedures for awarding contracts using resources from the COVID-19 Force Fund. The report was published on December 14, 2021 ([Portail des marchés publics du Sénégal - Gestion des Rapports d'audit \(marchespublics.sn\)](http://portail.marchespublics.sn/Portail-des-marchés-publics-du-Sénégal-Gestion-des-Rapports-d'audit)).
- On the other hand, the detailed audit report on the use of COVID-19 Force funding prepared by the Audit Court could not be produced within the agreed deadline of end-October 2021 due to the late receipt of various pieces of information. The provisional report is now expected at end-December 2021 and the final report will be published at end-March 2022.
- Drawing lessons from the execution of expenditures from the COVID-19 Force Fund, the government will establish and implement an action plan from the recommendations made, with a view to proper application of exceptional procedures already provided for in the public procurement code in the event of shocks or emergencies, and to strengthening the monitoring of the physical and financial execution of operations.

III. ECONOMIC AND FINANCIAL PROGRAM

The objectives of the economic and financial program are to address the dual health and social crisis caused by the COVID-19 pandemic, while maintaining fiscal sustainability, strengthening the delivery and efficiency of public services, and laying the foundation for strong, sustainable, and inclusive post-COVID-19 growth led by the private sector.

C. Macroeconomic Framework

11. The economic outlook for 2021 has been revised upward. Economic growth is expected to stabilize at 5 percent in 2021, instead of the 3.7 percent projected last June, reflecting a weaker than anticipated impact of the waves of COVID-19 infections on economic activity in the tertiary sector. The secondary sector is expected to report strong growth, driven primarily by dynamic growth in mining activities. The primary sector, for its part, is projected to show a sharp slowdown in growth after the record harvests of 2020, but also because of the expected decline in the fishing

sub-sector. The average annual inflation rate is expected to be 2.5 percent.

12. The economic growth forecasts for 2022 and the medium term remain favorable. The baseline scenario assumes an acceleration of economic growth to 5.5 percent in 2022, driven by a recovery of consumption and private investment, against the backdrop of a dynamic global economy. Economic growth is expected to average around 10 percent in 2023-24 in connection with the development of oil and gas production.

13. The current account deficit is expected to remain high in 2021-2022. The current account deficit is expected to deteriorate slightly in 2021 to about 10 percent of GDP, before gradually improving under the combined effects of a steady decline in the services account deficit mitigated by a persistent trade deficit. By 2024, a significant improvement in the current account deficit is expected due to oil and gas exports and recovery of the tourism sector.

14. The medium-term budget framework envisages a gradual return to the 3 percent of GDP target by 2024, in line with the decision of the West African Economic and Monetary Union (WAEMU) Council of Ministers. The absence of one-off expenditures related to COVID-19 seen in 2020–21 and the determined implementation of the MTRS will allow the deficit to decline to 4.8 percent of GDP in 2022 and to 3.7 percent of GDP in 2023.

15. The stock of central government debt is expected to amount to 66.6 percent of GDP in 2021 and that of enterprises and other entities in the quasi-government sector should be around 6.4 percent, resulting in total public sector debt equal to 73 percent of GDP. Thus, despite the strong pressure on public finances linked to the post-Covid recovery dynamics, the central government's outstanding debt in relation to GDP remains below the community threshold of 70 percent. This ratio should begin to fall gradually from 2022 onwards, as economic growth is strengthened. In addition, the implementation of the MTRS will help improve the mobilization of internal resources and reduce the use of debt. In addition to strengthening the mobilization of the state's own resources, with the implementation of the PAP2A Senegal is looking for endogenous development, oriented towards a favorable productive system that is more competitive, with the involvement of a strong national private sector. Thus, the contribution of the private sector to the financing of investment is projected to increase. All these factors combined support the envisaged reduction in the debt ratio.

16. The outlook remains highly uncertain with risks tilted to the downside. A resurgence of the pandemic (and new variants of the virus) and a deterioration of the security situation in the region could thwart the recovery and create new fiscal pressures. On the external front, a rise in commodity prices would put pressure on the external and fiscal accounts. Other risks include climatic shocks (droughts and floods) and a tightening of international financial conditions.

D. Maintaining Macroeconomic Stability and Debt Sustainability

Fiscal Policy

17. The government reaffirms its commitment to maintain the budget deficit (excluding spending supported by the SDR allocation) at 5.4 percent of GDP in 2021. To this end, the second Supplementary Budget Law for 2021 envisages a number of amendments to the first Supplementary Budget Law based on recent developments and the fiscal outlook:

- The budget revenue mobilization target has been revised upwards by CFAF 74.4 billion, in line with the more favorable economic outlook (CFAF 20 billion), due to the reintegration into the budget of earmarked revenue from the standard contribution paid by employers (CFAF 23.7 billion), the Customs Administration Modernization Program (CFAF 15 billion),² and the recognition of additional revenue recorded as part of the implementation of the cross-debt agreement between Senelec the national electricity company and the state (CFAF 69 billion). This is partially offset by a decrease of CFAF 48 billion in budgetary grants due to a change in the World Bank's financing terms (Senegal being classified as a middle-income country for the third consecutive year).
- Total expenditures (excluding expenditures backed by the SDR allocation) are broadly maintained at the level of the first Supplementary Budget Law, with some changes in their composition.
- The budget appropriation for energy subsidies has been revised upward by CFAF 35 billion, bringing the total amount for the full year to CFAF 145 billion (including CFAF 95 billion for electricity subsidies and CFAF 50 billion for fuel subsidies). This increase was offset by savings on other lines (wages, goods and services, capital transfers) in order to keep the fiscal deficit (excluding spending supported by the SDR allocation) at 5.4 percent of GDP.
- Additional expenditures backed by the CFAF counterpart of the SDR allocation provided through on-lending by the Bank of Central African States (BCEAO) to the Senegalese treasury (CFAF 246.3 billion) are limited to CFAF 141 billion (0.9 percent of GDP). The government has decided to allocate part of this funding to cover additional urgent and one-off health and social protection expenses (CFAF 38 billion), and also to support economic recovery by accelerating the settlement of outstanding obligations (CFAF 103 billion). The remainder (0.7 percent of GDP) is to be used for financial operations, including equity investments (CFAF 9 billion), loans for the hotel sector (CFAF 15 billion), settlement of the residual balance of the securitization operation agreed in 2017 with a local bank (CFAF 30 billion), the guarantee fund (CFAF 2 billion), and financing of the 2022 budget (CFAF 50 billion). The government is committed to consulting with IMF staff on the use of SDRs for all financial transactions, which must be on a case-by-case basis and economically justified.

18. In 2022, the initial Budget Law provides for a significant increase in social spending supported by the implementation of the MTRS. In particular, the 2022 initial Budget Law incorporates the government's priorities for investment, socio-economic integration, and youth employment. The absence of the exceptional one-time expenditures made in 2021, as well as fiscal measures to combat the high cost of living, the continued containment of operating expenses, and

² See paragraph 20 below.

stringent measures to improve the collection of tax revenues will make it possible to reduce the budget deficit to 4.8 percent of GDP.

19. Total budget revenue, including grants, is expected to increase by 0.6 percentage points of GDP, reaching 21 percent of GDP. The tax burden is expected to rise from 17.3 percent (excluding Senelec’s pre-2021 tax debts) to 18.4 percent of GDP, supported by efforts to broaden the tax base in line with the priorities of the MTRS, a reduction in tax expenditure of CFAF 25 billion, fiscal policy measures of CFAF 6 billion, and the continuation of reforms to strengthen the efficiency of the financial authorities in the amount of CFAF 121 billion. Budgetary grants are expected to total CFAF 46 billion.

- The DGID’s revenue collection target is CFAF 2,043.0 billion, which represents an increase of CFAF 208 billion over the revised target in the second Supplementary Budget Law for 2021. This target will be achieved through a combination of tax base expansion and tax policy measures. In terms of broadening the tax base, the DGID will implement the following measures:
 - elimination of the corporate income tax exemption for cement plants for a projected amount of **CFAF 4 billion**;
 - revision of the consumption tax exemption granted to persons in the social tax bracket for water and electricity services for a projected amount of **CFAF 10 billion**;
 - revision of the exemption on rice (effective taxation of “premium” rice) for a projected amount of **CFAF 0.7 billion**;
 - revision of the family tax credit for a projected amount of **CFAF 9 billion**;
 - elimination of the exemption granted for non-medical hospitalization services provided by private health-care facilities for a projected amount of **CFAF 0.8 billion**;
 - increase in the taxpayer portfolio within the framework of the Yaatal program projected at CFAF 19 billion;
 - improvement in tax compliance by taxpayers filing the simplified tax return estimated at CFAF 31 billion.
- In terms of fiscal policy, revenue enhancement measures will be implemented for a projected increase of CFAF 6 billion. These will include:
 - Establishment of the obligation for platforms to collect the VAT due on foreign B2C (business-to-consumer) digital services;
 - Revision of the rate for the additional tax on alcoholic beverages;
 - Expansion of the scope and revision of the special tax on non-recyclable bags, packaging, or wrapping materials;

- Elimination of the 5 percent rate and harmonization of the real estate capital gains tax rates at 10 percent and 15 percent.
- The DGD's revenue collection target is CFAF 997 billion, which is an increase of CFAF 122 billion compared to the second Supplementary Budget Law. Five key measures have been identified to strengthen and improve customs revenues. They include oversight of the valuation process, the strengthening of post-clearance control, the recovery of suspended VAT, the control of suspension regimes, and the creation of a dedicated office for the clearance of vehicles. These measures are expected to generate revenues of about CFAF 71.24 billion in 2022.
- The revenue collection target for the General Directorate of Public Accounting and the Treasury (DGCPT) is CFAF 125 billion, which represents an increase of CFAF 23 billion.

20. The budget includes a customs administration modernization program (PROMAD).

PROMAD is broken down into three clusters: the generalized computerization of procedures and formalities; the strengthening of anti-fraud measures; and the acquisition of state-of-the-art equipment and infrastructure. Implementation of the projects contained in each cluster will enable the customs administration to offer users services in line with the highest standards, to strengthen and increase the mobilization of revenue, but above all to further secure the customs territory. Through this program, customs aims to achieve:

- a continuous increase in revenue;
- containment of fraud;
- an easing and targeting of controls through the use of technology;
- better coverage of the land-based customs territory;
- better surveillance of the maritime customs territory;
- streamlining of customs processing and improvement of the time spent in customs,

21. PROMAD is financed by a levy on the customs value of non-ECOWAS and non-WAEMU eligible imports excluding customs and tax regimes to promote investments.

This levy, instituted by the second Supplementary 2021 Budget Law and in place since September 1st 2021, will be 1.5 percent from 2022 onwards for a maximum of 10 years. Related revenues and expenditure are included in budget laws. The revenues will go to a deposit account in the treasury. Expenditures will be budgeted according to their economic nature and executed according to normal budgetary procedures.

22. Total spending is expected to reach 25.8 percent of GDP.

- The priorities are to continue the fight against the COVID-19 pandemic and to revive the economy through the implementation of the PAP2A and priority programs such as the emergency program for the economic integration of youth and women (XËYU NDAW ÑII). After significant investments in capital-intensive sectors (transportation and energy infrastructure and services), the government now intends to shift the focus to "social infrastructure" in order to

stimulate the development of the education, health, and social services sectors.

- Compared to the second 2021 Supplementary Budget Law, the current expenditure/GDP ratio is expected to decline by 1.3 percentage points, mainly reflecting spending discipline on wages and goods and services, as well as one-off factors included in the second Supplementary Budget Law such as SDR-related spending and cross-debt agreements with Senelec. Investment is expected to increase from 10.4 percent of GDP to 10.8 percent of GDP. Social spending is expected to reach 40.2 percent of total spending.
- Given that world oil prices are expected to remain high in 2022, the initial Budget Law includes resources to cover a maximum of CFAF 150 billion for energy subsidies. The version of the Table of Government Financial Operations (TOFE) in the initial Budget Law includes the full subsidy requirement. This subsidy is based on an assumed price of about US\$75 per barrel of Brent crude oil. Taking into account the abnormally high risks of new shocks (return of the pandemic, floods, oil prices and their impact on energy subsidies, etc.), the initial Budget Law includes a contingency reserve of CFAF 60 billion, as well as a management reserve of CFAF 50 billion, i.e., 5.5 percent of the general government budget (excluding personnel and interest payments).

23. The government's need for financing is expected to be CFAF 1,643 billion. This financing need will be covered by:

- Excess financing estimated at CFAF 121.46 billion;
- Project loans amounting to CFAF 580 billion;
- Budget support loans in the amount CFAF 132 billion;
- IMF disbursements in the amount of CFAF 254 billion;
- Recourse to market financing in the amount of CFAF 555.6 billion.

Debt Policy and Management

24. The government will pursue a prudent debt policy in order to maintain debt sustainability. The Debt Sustainability Analysis (DSA) shows that Senegal remains at moderate risk of debt distress, with very limited room to absorb shocks. The debt is vulnerable to a slowdown in economic growth and a deterioration in external demand. In the short term, the government will limit external borrowing to remain at moderate risk of debt distress. The nominal public debt ceiling is set at CFAF 11,270 billion and the government's net domestic and regional market financing (memorandum item) will not exceed CFAF 500 billion for 2021. Non-concessional financing will be used only to finance projects with a high internal rate of return.

25. This prudent debt policy will be accompanied by efforts to improve debt management. An action plan has been developed to implement the recommendations of the external technical and functional audit of the computerized debt database management platform. The audit showed that the recording and reporting of public debt data are accurate, complete, and appropriate in terms of good practice. Nevertheless, it identified areas for improvement, particularly in the monitoring of the debt of public entities outside the central government, including state-

owned enterprises, the governance of the information system, and technical and functional aspects. An action plan has been prepared to address the recommendations made. With particular regard to the debt of public entities outside the central government, including state-owned enterprises, the recommended measures concern the need to remind these entities of their obligation to transmit exhaustive information on their debt situation on a regular basis, the updating of the data collection file, and the completion of a study to update the information collection system. In order to define the obligations of public entities, a circular issued on October 25, 2021, clarifies that the production of regular debt reports is a condition for the acceptance of files by the National Public Debt Committee (CNDP), and an order issued on November 29, 2021, establishes that the prior opinion of the CNDP is a precondition for all borrowing by public and quasi-public entities.

E. Strengthen the Delivery of Public Services Through Increased Revenue Mobilization and More Efficient Expenditure Management

26. The government will continue its efforts to ensure that revenue authorities take ownership of the MTRS in order to achieve the target of 20 percent for the tax-to-GDP ratio(excluding hydrocarbons) by 2024. In this connection, by December 31, 2021, the government will: (i) publish and widely disseminate the MTRS document; (ii) launch an internal and external communication campaign; and (iii) organize a high-level 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.

27. The government intends to accelerate the reform of the revenue authorities. The action plan to implement the MTRS has been finalized and will be incorporated into the official MTRS document.

- The draft master plan for the digitization of revenue authorities will be adopted before the end of 2021, and will be accompanied by specifications and a precise timetable. The digitization projects begun will continue in 2022, in particular: (i) online filing, payment, and processing of requests, along with the digital interconnection of authorities; (ii) the unique tax identifier linked to the national identification file for individuals and to the Trade Register to improve the tracking of taxpayers' operations; and (iii) the availability of information in real time.
- Revision of the regulations and prerogatives of the joint tax-customs control unit will make it possible to improve the targeting of its activities on preferential regimes and will be finalized by the end of 2021. The joint DGID-DGD control program will be launched in January 2022.
- The regulations concerning the evaluation and monitoring of tax expenditures will be updated by January 2022 at the latest, with a harmonized definition of the reference tax standard and the establishment of an organization that will allow for real-time monitoring of changes in amounts and availability of the report on tax expenditures within three (3) months of the end of the fiscal year under review, for application in the context of the report on tax expenditures for 2021.
- The government will ensure that the Strategic Implementation Unit (UE-MTRS) has sufficient budgetary and human resources to monitor and support the implementation of the MTRS,

particularly in the area of digital maturity, decompartmentalization of the authorities, and monitoring of actions to broaden the base. A master plan to ensure the adequacy of human resources (performance, change management, skills) will be implemented by June 2022.

- Specific actions underway at the DGID and DGD are also continuing: implementation of the Yaatal program based on the National Census of Taxable Properties (RNPI) at the DGID level, further development of the GAINDE (automatic management of customs information) tool at the DGD level, and continued use of the interconnection that is now effective between the DGID and DGD. As indicated in the last semi-annual report, this exchange is yielding positive results in terms of collection. As for the results of the DGID's use of customs information, an amount of CFAF 1,965 billion in collection vouchers has been established for the first half of 2021. The use made by the DGD of information transmitted by the DGID indicates a high level of adjustments being finalized.

28. The government intends to put into place a performance monitoring framework for revenue collection authorities, including clear quantitative monitoring criteria, linked to the MTRS and the budget process, and performance contracts for revenue authorities (new structural benchmark, end-June 2022). A performance monitoring framework for revenue authorities, including clear indicators (e.g., new taxpayers identified and entered into the digitized system, number of controls and their impact, quantification of the efforts of departments to implement MTRS actions, quantified monitoring of the impact of new measures on increasing revenues), and a well-defined institutional framework (entities and monitoring procedures) will be established pursuant to an order by June 31, 2022 at the latest. Implementation of the framework will be supported by technical assistance from IMF staff.

29. The government will continue with the ongoing public financial management reforms. The priorities for 2022 are as follows:

- *The program budget has come into effect.* The 2020 Budget Law has been presented in program format. As part of the 2020 accountability process, ministries have prepared annual performance reports. Arrangements are underway to operationalize the chain of programmatic accountability in the context of decentralization of the authorization process. The introduction of intra-annual programming instruments in 2022 will make it possible to establish the framework for steering and dialogue in connection with performance monitoring of program, action, and activity managers.
- Decentralization of the spending authorization process will be completed in 2022. The progressive approach to decentralization of spending authorization has made it possible to put it into effect at 16 ministries and institutions. In January 2022, it is envisaged that decentralization of the spending authorization process will be extended to all principal authorizing officers within all ministries in order to comply with the provisions of the Organic Law on Budget Laws. The full application of spending decentralization will allow for the harmonization of responsibilities in terms of budget execution after the 2021 test period and it will facilitate reporting under the Budget Law.
- *The government continues to improve intra-annual budget execution and cash flow planning*

through the development of commitment plans, procurement plans, and the cash flow forecast, the first draft of which was included in the 2022 draft Budget Law. The training of line ministries in this best practice is continuing. The framework for guiding intra-annual programming of budget execution and cash management will be put in place by end-2021, with a draft circular for the implementation of the 2022 appropriations expected by end-2021, which will reflect best practices in budgetary regulation and methods for adjusting plans during the year.

- *The reclassification of transfers by economic type of expenditure is continuing.* The government has undertaken a reclassification of transfers under the appropriate headings of the government's budget nomenclature, in line with best practices in budgeting and expenditure execution. This will facilitate the processing of budgetary transactions as part of the preparation of the Table of Government Financial Operations and the government's cash flow plan. The reclassification of transfers into expenditure categories corresponding to their economic nature began in 2021 and will be continued in the 2022 draft Budget Law, which will include a distinction between grants and current transfers, as well as a Table of Government Financial Operations reflecting the economic nature of expenditures. The reclassification in 2021 of capital transfers as investments made by the state will be finalized in 2022 and will be complemented by the implementation of delegated contracting agreements as of the end of 2021 to increase the efficiency and transparency of the budget execution of investments.
- *Significant progress has been made in recent years in the selection process for investment projects and programs.* Indeed, the number of projects and programs evaluated annually has increased from 12 in 2015, to 50 in 2020, and 86 in 2021. The projects evaluated in 2021 represent a total volume of CFAF 3,059 billion. These projects are listed in an annex to the 2022 draft Budget Law. Approximately 90 project feasibility studies are planned in 2022.
- *The efforts to improve the programming of investments based on commitment authorizations/payment credits will be continued* through: (i) standardization of the production of annual budgeted work plans and the establishment of exhaustive documentation on each project at the General Directorate of the Budget (DGB) as part of the annual preparation of the Multi-Year Investment Plan (PIP); (ii) the establishment of a mechanism for the physical and financial monitoring of the quarterly and annual execution of projects by the DGB; and (iii) improvement of the administrative and economic classification of projects and programs based on all funding sources combined.
- *The Integrated Financial Information Management System (SIGIF) will be operationalized* after a technical audit according to international standards before the end of June 2022. But following the inconclusive assessment of the business functionalities carried out by the General Inspectorate of Finance (IGF) the full implementation of SIGIF will not take place during the year 2022.
- *With regard to the public financial management reform strategy*, the government will make the necessary arrangements for its adoption during the first quarter of 2022, informed by the conclusions of different technical assistance mission by the IMF.
- *Concerning the strengthening of fiscal risk management, a statement on fiscal risks has been*

prepared as an annex to the 2022 draft Budget Law. The document addresses the main risks identified in Senegal: macroeconomic risks, risks related to state-owned enterprises, risks related to public-private partnerships, risks related to debt and guarantees, and risks related to natural disasters. This initial report, which reflects an effort by the various authorities to identify risks, will be refined in 2023 with the inclusion of a quantification of the risks and possible financial mitigation measures. To this end, the authorities will initiate experience-sharing activities with the support of technical and financial partners in order to draw inspiration, among other things, from best practices in the countries of the subregion, and they intend to request appropriate technical assistance in this area. On the other hand, the government will continue to develop the database for all PPPs and power purchase agreements, presenting their fiscal impact and quantifying the main risks, and will update it quarterly, within 90 days of the end of each quarter (new structural benchmark, end-June 2022).

- *Continued effective implementation of the Treasury Single Account.* In accordance with the government's commitments to close 100 ordinary accounts opened at local banks in 2021, as of October 20, 2021, 85 of the 100 accounts have been closed (requests for closure sent to the banks) by the managers of the entities. A consultant has been selected to conduct a study to identify the bank accounts that should be closed by end-June 2022, and also to prepare a roadmap for the closure of all the accounts; the consultant's report is expected at end-December 2021. The aforementioned study will identify the technical and regulatory constraints and propose a roadmap for the gradual closure of the remaining affected accounts.

30. The government intends to limit energy subsidies to the CFAF 150 billion provided for in the 2022 initial Budget Law. In view of the upward trend in world prices for petroleum products, this budget allocation could be significantly exceeded, with the effect of crowding out investment alternatives in other priority sectors of the national economy, particularly the social sectors (education, health care, social protection, and water and sanitation). To contain this fiscal risk, with respect to petroleum products, the government will reactivate, if necessary, the decree on the adjustment of fuel prices. With respect to subsidies for the electricity sector, the government will conduct an external audit of the methodology for determining the maximum allowable revenue by the end of 2021 and will revise the decree on the setting of electricity prices to take into account changes in world prices. At the same time, the government will take measures to protect the most vulnerable segments of the population and, where appropriate, certain priority consumers, through existing social safety nets and temporary support measures (new structural benchmark, end-June 2022). Moreover, the government will publish by end-June 2022 a roadmap for the gradual elimination of energy subsidies starting in 2023, including a communication phase and support measures for low-income households (new structural benchmark, end-June 2022). In the medium term, the implementation of the gas-to-power strategy will make it possible to achieve a lasting reduction in electricity production costs.

31. The government will continue its efforts to ensure transparent and sustainable management of future hydrocarbon revenues. In order to create broad support for the governance framework for revenues from hydrocarbon production, a national day of sharing and consultation will be organized before the adoption by the Council of Ministers of the draft law on

the management and distribution of revenues from hydrocarbon production. The draft law will then be submitted to the National Assembly for approval no later than December 31, 2021. This will allow for the operationalization of various mechanisms provided for by the law in 2022, in anticipation of the first hydrocarbon revenues expected in 2023. The budget rules and revenue forecasting methodology contemplated in the draft law will be reflected in the 2023-2025 Multi-year Budgetary and Economic Programming Document. The legal and operational frameworks for the governance and management of the Intergenerational Fund and the Stabilization Fund will be finalized by December 31, 2022, at the latest. The implementing decrees of the law on the management and distribution of revenues from hydrocarbon production will be reviewed by the Council of Ministers no later than June 30, 2022.

F. Strengthening the Foundations for Robust and Inclusive Growth Led by the Private Sector

Social Protection and Development of the Private Sector

32. The government will continue to improve the social protection system to increase the resilience of vulnerable households. This improvement focuses first on making the “Programme de bourses de sécurité familiale” (PBSF) more reliable and institutionalizing it, as well as extending the Single National Registry (RNU) to include new vulnerable groups affected by the COVID-19 pandemic. These measures will make it possible to rapidly deploy compensation to the poorest households in the event of shocks, particularly those related to prices for food and petroleum products.

- The decree institutionalizing the RNU was adopted in August 2021 and its implementation will be fully effective by mid-2022. For the year 2022, there are also plans to finalize the update of RNU data for all regions covering the 558,000 households already enrolled, and to add 412,000 vulnerable households identified mostly through community-based targeting in order to include at least one million households in the RNU by the end of October 2022 (structural benchmark).
- The PBFS, which was launched in 2012, has been very successful and continues to be a flagship social program of the PSE. A delay in payments has been noted this year, however, and arrangements have been made for payments for the four (4) quarters of 2021 (CFAF 31 billion), as well as an additional CFAF 5 billion supported by the SDR allocation, by end-December 2021. The government is also committed to: (i) the adoption of a ministerial order aimed at its institutionalization by end-December 2021; (ii) ensuring that the beneficiaries receive their quarterly payments on time; and (iii) gradually extending coverage of the program to 558,000 households based on the expanded RNU starting in 2023.

33. The government will accelerate the reform of the governance and steering framework for the emergency program to promote the socio-economic integration and employment of young people in order to ensure its full effectiveness. A unique identifier and a database of recipients of public funding are being established. The decision was made to consolidate the women's and youth entrepreneurship funding into a single fund, and this will be implemented

starting in fiscal year 2022 (structural benchmark, end-December 2021). By end-December 2021, the government will finalize the overall strategy for streamlining the support system for women, youth, and small and medium-sized enterprises (SMEs) with a view to optimizing the grouping of the entities concerned according to their respective missions (training, financing, employment, and entrepreneurship), in order to strengthen the effectiveness and coordination of government actions. Fifteen (15) employment and entrepreneurship centers, in the form of one-stop shops to house, initially, all the support structures for women's and youth employment, are already operational, while the target is to have forty-five (45) of these centers in place by the end of 2022. Finally, performance contracts containing targets in terms of job creation will be signed with the state structures and instrumentalities involved in the implementation of the youth program.

34. Other key private sector development initiatives also continue to make progress.

Through the Business Environment Reform and Competitiveness Program (PREAC) and the partnership to promote reforms (the Compact with Africa, or CwA), significant progress has been made in the business environment: a reduction in the time required for administrative procedures related to trade and investment, and a better legal environment with, in particular, the establishment of the Dakar Commercial Court and the promotion of mediation and conciliation. The PREAC, which is in its third phase (2021-2023), will finalize structural and sectoral reforms with the adoption of a new labor code, the updating of the construction and urban planning codes, and the continued modernization of land administration. Particular emphasis is placed on controlling and reducing input costs by continuing to simplify pricing systems at the port and improving credit information. In addition, regulation and competition will be improved through an updating of the competition framework and a reduction in entry restrictions in key sectors for recovery such as health care and the pharmaceutical industry; the warehouse receipt system will become operational; and the improvement of the local business environment outside Dakar and in dedicated areas will be supported by the promotion of investment platforms and the extension of paperless government services and an increase in the occupancy rate of special economic zones. The implementation of other major private sector support measures is continuing:

- The process of setting up the activities of the one-stop shop at the Agency for Development and Supervision of SMEs (ADEPME) is continuing. The electronic service counter is already operational with the online registration of applications from companies, and another service counter for SMEs that prefer physical filing will be opening soon. On the other hand, in order to strengthen the coordination and efficiency of the entities and programs whose mission is to support SMEs, a master plan for the integrated management information system for SMEs (SIGIPME) has been implemented and an in-depth study of the target model for streamlining the support system is underway.
- The Sovereign Fund for Strategic Investment (FONSIS) has established and is operating a hybrid investment fund intended for Senegalese SMEs operating in key development sectors; the initial amount of the fund is set at 30 million euros, which will grow eventually to 112 million euros.
- Reforms aimed at facilitating online access to land titles as well as the establishment of a single online collateral registry that will be able to combine data on movable collateral and mortgages

in cooperation with the BCEAO are being implemented. The integrated land management system, including the computerization of land management procedures, will be operational by end-December 2021 (structural benchmark). Today the database on movable assets is available online and consultations and transactions can be done online (seninfogreffe.com). Nevertheless, the unified secured registry will be complete only after the computerization of the land registry, allowing for the interconnection of real estate under mortgage with the database of real collateral (structural benchmark, end-December 2021). The process of computerizing the land registry is ongoing with the support of development partners (European Union, World Bank Group, Compact With Africa with Germany). The computerization of the land registry is scheduled for the first half of 2023 for the entire territory and the pilot phase covering the centers of Dakar, Ngor Almadies, Rufisque, and Mbour is scheduled for mid-2022.

35. The government has launched a project to update the 2004 investment code. This update is aimed at increasing the visibility and readability of the fragmented investment and export incentive scheme contained in the general tax code of 2012, the regime on special economic zones (SEZ), the sectoral incentive frameworks (social housing, mining, tourism, etc.), and the Free Export Company (EFE) regime that had been in place since 2015 and expired at the end of 2020. It will also allow the code to be aligned with the objectives and priorities of the PAP2A. The strategic diagnosis phase (consultation of stakeholders, company surveys, evaluation of the system, preparation of the diagnostic report) has been underway since July 2021 and should enable the submission to the Steering Committee of a diagnostic report evaluating the impacts of the current code, from which the strategic guidelines for the new investment code expected in December 2021 will be selected. The entry into force of the investment code is planned for 2022, following the adoption of the draft code and the implementing regulations.

36. Reforms in the energy sector are continuing. The new legal framework put in place with the adoption of the Electricity Code and the law on the regulation of the energy sector in August 2021 is likely to improve financial viability and good governance to support the supply of electricity in sufficient quantity and quality to achieve universal access by 2025, as well as the objectives of the PSE in terms of affordable energy. This framework provides more favorable rules and practices for private investment in order to achieve the sector's development objectives.

Stability of the Financial Sector and Financial Inclusion

37. The government is committed to approving the national financial inclusion strategy by end-December 2021. The strategy's objective for the period 2021-2025 is to reach a financial inclusion rate of 65% for adults and 90% for SMEs. It also aims to achieve a geographical penetration rate of 40 traditional or digital financial service centers per 1,000 km² and coverage of all municipalities. Its effective implementation from 2022 onwards will help to support a strong and inclusive economic recovery, and also contribute to the success of the emergency program for economic integration and employment of young people.

38. The process of restructuring three non-systemically important banks with capital adequacy shortfalls will receive special attention from the BCEAO, the Banking Commission,

and the government. The BCEAO and the Banking Commission will ensure that the commitments made by all stakeholders are respected. The government will support this process by honoring all of its financial commitments, including settlement of the residual outstanding amount from the 2017 securitization transaction for one institution. It will consider financial support for a second bank in the form of a subordinated loan, pending a private solution, to contain fiscal risk. These public interventions will be backed up by the adoption of measures to strengthen governance and permanently guarantee the financial viability of these banks.

39. The government will ensure that the stability of the microfinance sector is maintained.

The volume of maturities carried over at end-June 2021 fell to CFAF 5 billion (1.7 percent of total loans) compared to a peak of CFAF 72 billion at end-October 2020. Diagnostic missions to the microfinance institutions in difficulty will continue (three (3) decentralized financial systems have been visited out of the four (4) scheduled for the year 2021). At the same time, a special monitoring system has been set up at the Directorate for Regulation and Supervision of microfinance. Based on onsite and documentary audits and pre-established criteria, this system makes it possible to classify microfinance institutions according to their level of risk and to take appropriate measures.

40. The restructuring of the public company *La Poste* is continuing. The restructuring and reorganization process will continue on the basis of certified accounts and financial statements, with a view to restoring the financial equilibrium of the group's entities and ultimately transforming *Poste Finances* into a postal bank. On this last point, a roadmap has been finalized, which outlines various actions to be carried out at the legal, technical, and financial levels. Taking a gradual approach and relying on the extent and density of the postal service network, however, the government plans to initially set up *Poste Finances* as a payment financial institution, making payments on its own behalf or on behalf of third parties. For the parent company, measures to rationalize its operating costs and increase the efficiency of its production will be implemented; likewise, the business model will have to evolve in accordance with the guidelines of the Strategic Development Plan, to take account of competition and technological developments in the sector. In this context, the government will ensure a balanced relationship with the postal service by determining the required level of public service remuneration to ensure that the company's operations balance out. This measure will be implemented after approval of the cost accounting system by the Telecommunications and Postal Regulatory Authority (ARTP), which is expected by December 31 2021.

- More specifically, with a view to restoring the balance, on the one hand, in relations between the state and *La Poste Group* and, on the other hand, in intra-group relations, the government, within the framework of a restructuring subcommittee, is considering the following measures:
 - the institutional transformation of *Poste Finances* into a bank, through a gradual process taking into account the constraints and comparative advantages offered by the postal network;
 - the restructuring of entities within *La Poste Group* to restore financial, economic, and social balance;
 - the strict separation of business lines to avoid the use of *Poste Finances* cash by *La Poste*. To

this end, it is envisaged, through an amendment to the agreement between *Poste Finances* and *La Poste*, which will be signed no later than November 30, 2021, under the authority and supervision of the Ministry of Finance and Budget, that a monthly reconciliation of the reciprocal operations of the two entities and a reimbursement of the balance within 10 days of the settlement of the amounts will be instituted. The repayment of the balance by *La Poste* could be facilitated by the re-establishment of the public service remuneration after adjustment of the operating costs to determine the real production cost of the postal activities. Similarly, in accordance with the new guarantee agreement, *Poste Finances* will continue to automatically repay the balance of the compensation.

41. The implementation of the action plan to release Senegal from enhanced scrutiny by the Financial Action Task Force (FATF) for strategic deficiencies in combating money laundering and terrorist financing (AML/CFT) continues. With regard to technical compliance:

- In June 2021, Senegal adopted legislation on a broader legal regime for the collection, updating, and storage of information on beneficial owners by amending the General Tax Code and fully criminalizing the financing of terrorism, and creating the National Office for the Recovery of Criminal Assets (ONRAC) through amendments to the Criminal Code and Code of Criminal Procedure.
- At the community level, the Inter-African Conference on Insurance Markets (CIMA) has updated its procedures applicable to insurance companies with respect to AML/CFT by adopting Regulation No. 001/CIMA/PCMA/PCE/SG 2021 of March 3, 2021. The Regional Council for Public Savings and Financial Markets (CREPMF) has also adopted regulations pursuant to Instruction No. 59/2019/CREPMF of September 30, 2019, on AML/CFT for organization of the internal control system of financial markets in the West African Monetary Union (WAMU) zone.
- On the point concerning technical compliance, Senegal will review and possibly revise, by end-January 2022, with IMF technical support, the regulatory texts (Decree No. 2020-602 of February 28, 2020, and Order No. 026970 of November 24, 2020) relating to the implementation of targeted financial sanctions linked to the financing of terrorism and the proliferation of weapons of mass destruction (recommendations 6 and 7). The members of the Advisory Committee on Administrative Freezing of Assets (CCFA) were appointed in November, following the appointment of its Chairman in October.
- In terms of effectiveness:
 - Senegal and community institutions (BCEAO, CREPMF, CIMA, the Inter-Governmental Action Group against Money Laundering in West Africa, or GIABA) have carried out training and informational activities for stakeholders, as well as typology and diagnostic studies in certain sectors. As a result of these training and informational activities, an upward trend was noted in the number of alerts by reporting entities.
 - Concerning control and supervision: two (2) banks and two (2) decentralized financial systems were audited with injunctions issued, four (4) stock exchange companies were audited with findings accompanied by injunctions, fifty-six (56) manual money changers were audited, one (1) of which was sanctioned by withdrawal of its license, and five (5) small

decentralized financial systems were audited.

- In terms of criminal investigations and prosecutions: twenty (20) investigation reports were submitted to the Public Prosecutor. Six (6) judgments were handed down, four (4) of which concerned criminal offenses and two (2) involved terrorism and terrorist financing, with sentences ranging from three (3) to five (5) years, accompanied by decisions to confiscate assets in the case of three (3) of the judgments.
- Judicial cooperation resulted in one (1) case of extradition concerning a person prosecuted for membership in a terrorist group, as well as one (1) case involving a request for mutual legal assistance concerning a person prosecuted for various offenses including money laundering.
- The next steps will be the production of the progress report covering July to December 2021 and preparatory meetings of the Senegalese technical delegation before the January 2022 deadline.

IV. PROGRAM MONITORING

42. Program monitoring. Under the PCI, the program will be monitored using quantitative targets, continuous targets, and reform targets. Quantitative targets for 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 fifth review should be completed 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			2022		
	Prog.	Adj.	Act.	Status	2021		2022		
					Prog.	Act.	Prog.	Act.	
					Dec. QT	Dec. QT	Jun. QT	Jun. QT	
Quantitative Targets									
Floor on net lending/borrowing ¹	-873	-908	-903	Met	-620	-617	Met	-817 -967 -448 -518	
Ceiling on central government's overall net financing requirement ²	1,064	1,099	1,094	Met	...	...	...	847 997 ...
Floor on tax revenue	2,295	2,295	2,368	Met	1,082	1,144	Met	2,500 2,661 1,313 1,361	
Ceiling on the share of the value of public sector contracts signed by single tender (percent)	15	15	21.8	Not Met	15	57	Not Met	15 15 15 15	
Floor on social expenditures (percent of total spending)	35	35	46	Met	35	40	Met	35 35 35 40	
Ceiling on total nominal public debt (CFAF billion) ³	10,234	10,234	10,042	Met	...	...	...	11,024 11,270 ...
Ceiling on spending through simplified procedures for non-personalized services ⁴	0	0	0	Met	25	3	Met	43 3 20 2	
Ceiling on public sector external payment arrears (stock) ⁵	0	0	0	Met	0	0	Met	0 0 0 0	
Maximum upward adjustment of the overall deficit ceiling owing to									
Shortfall in program grants relative to program projections	35	35	35	...	...	...	...	20 0 ...
Memorandum items:									
Program grants	241	...	195	...	...	...	...	64 13 ...
Clearance of pre-2019 comptes de dépôt stock	121	...	107	...	...	...	...	0 0 ...
Net Domestic and Regional Financing of the Government	...	...	469	...	...	...	...	350 500 ...

Sources: Senegalese authorities; and IMF staff calculations.

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 US\$ debt converted at program exchange rate at end 2020.

⁴ Revised definition. Until end December 2020 defined as "Ceiling on spending undertaken outside normal and simplified procedures".

⁵ This constitutes a standard continuous target.

Table 1b. Senegal: Continuous Targets

- Not to impose or intensify restrictions on the making of payments and transfers for current international transactions
- Not to introduce or modify multiple currency practices
- Not 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		Status	2021		2022	
	Prog.	Act.		Prog.	Prop.	Prog.	Prop.
		Jun.		Dec.		Jun.	
Performance Criteria							
Floor on net lending/borrowing ¹	-620	-617	Met	-817	-967	-448	-518
Ceiling on central government's overall net financing requirement ²	...	...		847	997	...	...
Floor on tax revenue	1,082	1,144	Met	2,500	2,661	1,313	1,361
Ceiling on public sector external payment arrears (stock) ³	0	0	Met	0	0	0	0
Ceiling on total nominal public debt (CFAF billion)	...	...		11,024	11,270	...	...
Indicative Targets							
Ceiling on the share of the value of public sector contracts signed by single tender (percent)	15	57	Not met	15	15	15	15
Floor on social expenditures (percent of total spending)	35	40	Met	35	35	35	40
Ceiling on spending through simplified procedures for non-personalized services	25	3	Met	43	3	20	2
Maximum upward adjustment of the overall deficit ceiling owing to							
Shortfall in program grants relative to program projections				20	0		
Memorandum items:							
Program grants	...	...		64	13	...	...
Net Domestic and Regional Financing of the Government	...	...		350	500	...	...

Sources: Senegalese authorities; and IMF Staff calculations.

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

Pillar 1 Achieving inclusive growth			
Set up a centralized and integrated land management system which will digitalize land management procedures.	End December 2021		
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 June 2022		Delay to October 2022 to allow more time for completion
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		
Pillar 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	Met	
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	
Adopt an evaluation framework to monitor the performance of the revenue administrations (DGID, DGD) on a monthly/quarterly basis based on quantitative targets reflecting the budget and the MTRS objectives	End June 2022		New RT/SB
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	Met	
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	Not Met	
Include in the 2022 budget law measures aiming at reducing tax expenditures by at least CFAF 25 billion	End December 2021		
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		
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	to be replaced with newly formulated RT/SB below
The government commits to limiting energy subsidies to a maximum of FCFA 150 billion in 2022 through the following mechanisms: i) concerning fuel prices, the government will reactivate, if necessary, the decret on the revision of fuel prices; and ii) concerning electricity subsidies, the government will do an external audit of the methodology to determine the maximum authorized revenue by the end of 2021 et will proceed to a revision of the decret on electricity price setting taking into account global oil prices. In parallel, the government will take measures to protect the most vulnerable and, if appropriate, selected major consumers, through the existing social safety net and temporary support measures.	End June 2022		New RT/SB
Publish a roadmap to gradually eliminate energy subsidies from 2023 onwards, including a communication phase and measures to protect the vulnerable.	End June 2022		New RT/SB
Merge all funds for the financing of youth and women into a single fund	End December 2021		
Revise the legal framework for public procurement to rely more regularly on open, competitive tenders and limit contracts based on single-source tenders and spontaneous offers in line with best international practices	End June 2022		New RT/SB
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 practice for transparency and local ownership, including by a requirement to publish information on all new PPP contracts.	End June 2021	Not 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		
Establish a database for all PPPs and power purchase agreements showing their budgetary impact and quantifying the main fiscal risks.	End June 2021	Met	
Update quarterly the database for all PPPs and existing and future power purchase agreements with an identification of their budgetary impact and a quantitative assessment of their main fiscal risks	End June 2022		New RT/SB
Publish a fiscal risk statement as annex to the 2022 budget law.	End December 2021		
Pillar 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 June 2021	Met	
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 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 Limits in Fund-Supported Programs attached to the Executive Board Decision No. 16919-(20/103), adopted October 28, 2020.
 - (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, FONSI, 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 Item²

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,

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

the judicial system, social safety nets, sanitation, and rural water supply (as contained in the table on social expenditure). The floor will be evaluated on a semiannual basis.

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.



SENEGAL

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION, FOURTH REVIEW UNDER THE POLICY COORDINATION INSTRUMENT, FIRST REVIEWS UNDER THE STAND-BY ARRANGEMENT AND THE ARRANGEMENT UNDER THE STANDBY CREDIT FACILITY, AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA AND QUANTITATIVE TARGETS—INFORMATIONAL ANNEX

December 20, 2021

Prepared By

The staff of the International Monetary Fund
(In consultation with other departments)

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RELATIONS WITH THE FUND

(As of November 30, 2021)

Membership Status: Joined: August 31, 1962;

Article VIII

General Resources Account:	SDR Million	%Quota
Quota	323.60	100.00
IMF's holdings of currency (Holdings rate)	583.25	180.24
Reserve Tranche Position	42.65	13.18
SDR Department:	SDR Million	%Allocation
Net cumulative allocation	464.96	100.00
Holdings	755.59	162.51
Outstanding Purchases and Loans:	SDR Million	%Quota
Stand-by Arrangements	86.30	26.67
RCF Loans	107.87	33.33
Rapid Financing Instruments	215.73	66.67
SCF Arrangements	43.10	13.32

Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Stand-By	Jun 07, 2021	Dec 06, 2022	302.00	86.30
SCF	Jun 07, 2021	Dec 06, 2022	151.00	43.10
ESF	Dec 19, 2008	Jun 10, 2010	121.35	121.35

Projected Payments to the Fund¹

	Forthcoming				
	2021	2022	2023	2024	2025
Principal			53.93	129.44	117.45
Charges/Interest	0.00	3.18	3.08	2.12	0.75
Total	0.00	3.18	57.01	131.56	118.20

¹When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Implementation of HIPC Initiative:

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

¹ Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence these two amounts cannot be added.

² Under the enhanced framework, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim period.

Implementation of Multilateral Debt Relief Initiative (MDRI):

I. MDRI-eligible debt (SDR million) ¹	100.32
Financed by: MDRI Trust	94.76
Remaining HIPC resources	5.56
II. Debt Relief by Facility (SDR million)	

Eligible Debt

Delivery Date	GRA	PRGT	Total
January 2006	N/A	100.32	100.32

¹ The MDRI provides 100 percent debt relief to eligible member countries that qualify for the assistance. Grant assistance from the MDRI Trust and HIPC resources provide debt relief to cover the full stock of debt owed to the Fund as of end-2004 that remains outstanding at the time the member qualifies for such debt relief.

Implementation of Catastrophe Containment and Relief (CCR): Not Applicable

As of February 4, 2015, the Post-Catastrophe Debt Relief Trust has been transformed to the Catastrophe Containment and Relief (CCR) Trust.

Safeguards Assessments

The Central Bank of West African States (BCEAO) is a common central bank of the countries of the West African Economic and Monetary Union (WAMU). An update safeguards assessment of the BCEAO, completed in April 2018, found that the central bank has maintained a strong control environment since the last assessment in 2013 and its governance arrangements are broadly appropriate. In addition, audit arrangements have been strengthened, International Financial Reporting Standards (IFRS) were adopted as the accounting framework beginning with the 2015 financial statements, and a 2016 external quality review of the internal audit function found broad conformity with international standards. The BCEAO has implemented all recommendations provided in the 2018 safeguards assessment.

Exchange System

Senegal, a member of the West African Economic and Monetary Union (WAEMU), accepted the obligations under Article VIII, Sections 2(a), 3 and 4 of the Fund's Articles of Agreement, and maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions. The common currency, the CFA franc, is pegged to the euro at the rate of €1 = CFAF 655.957).

The authorities confirmed that Senegal had not imposed measures that could give rise to exchange restrictions subject to Fund jurisdiction. They will inform the Fund, if any such measure is introduced."

Article IV Consultation

Senegal is on the 24-month Article IV consultation cycle. The Executive Board concluded the last Article IV consultation with Senegal on January 15, 2019.

Resident Representative

Stationed in Dakar since July 24, 1984; the position is currently held by Mr. Mesmin Koulet-Vickot since September 2020.

RELATIONS WITH OTHER FINANCIAL INSTITUTIONS

As of December 13, 2021, Senegal collaborates with the World Bank Group, the African Development Bank, the West African Development Bank, and the Islamic Development Bank. Further information may be obtained from the following websites:

A. World Bank

<https://www.worldbank.org/en/country/senegal>

B. African Development Bank

<https://www.afdb.org/en/countries/west-africa/senegal/>

C. West African Development Bank (BOAD)

<https://www.boad.org/en/who-we-are/>

D. Islamic Development Bank

<https://www.isdb.org/senegal>

STATISTICAL ISSUES

(As of December 13, 2021)

I. Assessment of Data Adequacy for Surveillance

General: Data provision has some shortcomings but is broadly adequate for surveillance and program monitoring. There are weaknesses in data on national accounts, production, and social indicators. The authorities are committed to improving the quality and availability of economic, financial, and social indicators, partially relying on technical assistance from the Fund and other international organizations and donors.

National accounts: Since the rebasing in 2018 that changed the base year from 1999 to 2014, the compilation of the national accounts generally follows the *System of National Accounts, 2008*. Rebased series are now available from 2007 to 2019, with quarterly series also available up to 2021Q2 including the demand side. Two national surveys on employment for businesses and for household are regularly conducted. While there are no regular (annual or quarterly) surveys for household consumption and gross fixed capital, Senegal is actually implementing a turnover index that will provide information on household consumption (with some assumptions). In terms of production, ANSD has also implemented new standards to compile an Industrial Production Index with the producer price indices. The producer prices indices for services are released. For the primary sector, sector prices for agriculture are released on a monthly basis (but with concerns about the concept for producer prices), as is the case for the fishing industries. For other sectors like forestry and farming, coverage needs to be improved (e. g. production, prices). Efforts continue to improve data collection procedures, strengthen the coordination among statistical agencies, and reduce delays in data dissemination. With help from IMF TA, Senegal is also starting to better capture activities related to natural resources, which will be important in the context of recent substantial oil and gas

Price statistics: ANSD compiles and disseminates a monthly consumer price index (CPI) based on a harmonized compilation methodology adopted by the member countries of the West African Economic and Monetary Union (WAEMU). Current CPI weights are based on expenditure data collected during 2008. These data were price updated in 2014; however, price-updating does not produce current expenditure estimates and the actual weight reference period remains 2008 (the period during which the expenditure data were collected). CPI weights are out of date and no longer representative of the expenditure patterns of households. Like the other WAEMU member countries, ANSD, will begin collecting data for the harmonized survey of living conditions at the beginning of 2022. These data will be used to update CPI weights.

External sector statistics: As one of the eight WAEMU member states, the National Directorate of BCEAO for Senegal has been collecting data following *BPM6* since 2013. Since Senegal's subscription to the SDDS in November 2017, the BCEAO has been disseminating quarterly BOP and IIP statistics on the National Summary Data Page of Senegal (<http://nso.senegal.opendataforafrica.org/rarkwmf/national-summary-data-page-nsdp>). Senegal has already implemented the International Transactions Reporting System (ITRS).

II. Data Standards and Quality

In late-2017, Senegal became the fourth country in sub-Saharan Africa to subscribe to the Fund's Special Data Dissemination Standard (SDDS), which sets high standards for the timeliness and periodicity of dissemination of economic and financial data.

A Data ROSC was published on the IMF website in 2002.

Monetary and financial statistics: Monetary and financial statistics (MFS) are compiled and disseminated on a monthly basis by the Central Bank of West African States (BCEAO). In August 2016, BCEAO completed the migration of Senegal's MFS to the standardized report forms (SRFs) for the central bank and other depository corporations. Since November 2016, BCEAO has continuously transmitted Senegal's SRF-based MFS to the IMF's Statistics Department (STA) for publication in *International Financial Statistics*.

The BCEAO submits Senegal's data on some indicators to the Financial Access Survey (FAS) including the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (SDGs).

Financial sector surveillance: With technical assistance from STA, the BCEAO finalized the development of FSIs for deposit takers in 2018. However, while the BCEAO has used FSIs for its internal purposes, it has not granted approval to publish the data on the IMF's FSI website.

Government finance statistics (GFS): GFS are compiled by the Ministry of Economy and Finance from customs, tax, and treasury directorate sources, and disseminated quarterly as government financial operations tables (TOFE) in the ministry's publications. AFRITAC-West has been conducting technical assistance missions aimed at improving the consistency of fiscal reporting and migrating to the methodology of the *Government Finance Statistics Manual 2001/2014*, in accordance with the WAEMU TOFE Directive. The authorities, with assistance from the IMF, have improved coverage of the fiscal accounts from central government to general government and now report fiscal data to STA databases at this coverage level. However, , data gathering happens in an ad hoc way (mostly depending on the immediate need, e.g. extending the DSA perimeter), so structures will need to be put in place to make sure that the necessary information is captured regularly.

Senegal: Table of Common Indicators Required for Surveillance
(As of December 13, 2021)

	Date of Latest Observation	Date Received	Frequency of Data ⁷	Frequency of Reporting ⁷	Frequency of Publication ⁷
Exchange Rates	Current	Current	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	09/2021	12/2021	M	M	M
Reserve/Base Money	09/2021	12/2021	M	M	M
Broad Money	09/2021	12/2021	M	M	M
Central Bank Balance Sheet	09/2021	12/2021	M	M	M
Consolidated Balance Sheet of the Banking System	09/2021	12/2021	M	M	M
Interest Rates ²	08/2018	08/2018	M	M	M
Consumer Price Index	10/2021	11/2021	M	M	M
Revenue, Expenditure, Balance and Composition of Financing ³ – General Government ⁴	2020	09/30/2021	A	A	A
Revenue, Expenditure, Balance and Composition of Financing ³ – Central Government	2020	09/30/2021	Q	Q	Q
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	2020	09/30/2021	A	A	A
External Current Account Balance ^{8/9}	2018	01/2020	A	A	A
Exports and Imports of Goods and Services ^{8/9}	2018	01/2020	A	A	A
GDP/GNP ^{8/9}	2019	11/2020	A	I	A
Gross External Debt ⁹	2017	10/2018	A	I	A
International Investment Position ⁶	2018	01/2020	A	A	A

¹Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

²Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

³Foreign, domestic bank, and domestic nonbank financing.

⁴The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

⁵Including currency and maturity composition.

⁶Includes external gross financial asset and liability positions vis-à-vis nonresidents.

⁷Daily (D); Weekly (W); Monthly (M); Quarterly (Q); Annually (A); Irregular (I); Not Available (NA).

⁸Estimate.

⁹Reported to staff during mission.



SENEGAL

December 20, 2021

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION, FOURTH REVIEW UNDER THE POLICY COORDINATION INSTRUMENT, FIRST REVIEWS UNDER THE STAND-BY ARRANGEMENT AND THE ARRANGEMENT UNDER THE STANDBY CREDIT FACILITY, AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA AND QUANTITATIVE TARGETS—DEBT SUSTAINABILITY ANALYSIS

Approved By
**Annalisa Fedelino and
Natalia Tamirisa (IMF),
Abebe Adugna and
Marcello Estevão (IDA)**

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:	<i>Moderate¹</i>
Overall risk of debt distress	<i>Moderate</i>
Granularity in the risk rating	<i>Limited space to absorb shocks</i>
Application of judgment	<i>No</i>

Senegal faces a moderate risk of external and overall public debt distress under the baseline scenario, with limited space to absorb shocks. This rating is contingent upon a growth rebound and a significant boost to growth and exports from hydrocarbon production over the medium term. The baseline also assumes that fiscal deficits will converge to the regional convergence criterion of 3 percent of GDP in 2024, supported by the unwinding of one-off COVID-19-related spending and enhanced revenue-mobilization. However, projections are subject to significant uncertainty. Potential risks include a slower pace of the domestic vaccination campaign as new COVID variants emerge, socio-political unrest, security challenges and delays to the hydrocarbon projects. Maintaining debt sustainability in this context requires a prudent borrowing strategy that prioritizes concessional external borrowing and domestic regional financing alongside continued efforts to strengthen debt management. Broader fiscal policy should seek to increase fiscal space over the medium-term to respond to future shocks.

¹ Senegal's debt carrying capacity is classified as strong (calculated based on the October 2021 WEO and 2020 World Bank 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 (PPG) debt held by (i) the central government, (ii) para-public entities, and (iii) state-owned enterprises (SOEs) (Text Table 1).² This DSA uses a currency-based definition of external and domestic debt as data constraints prevent the use of a residency-based definition. Debt to the regional development bank (BOAD) has been treated as domestic debt since the beginning of the current PCI in January 2020. The default financial sector shock of 5 percent of GDP is more than adequate to cover contingent risks from potential bank recapitalization needs, 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	

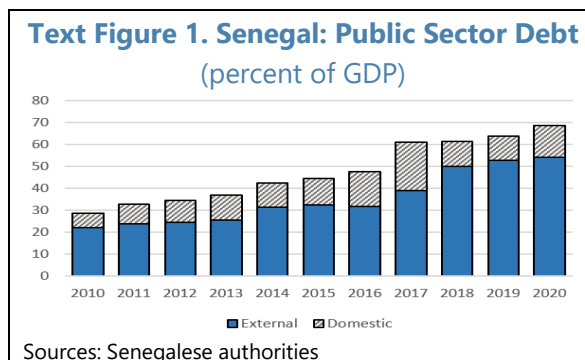
1/ The default shock of 2% of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1.). If it is already included in the government debt (1.) and risks associated with SoE's debt not guaranteed by the government is assessed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

2. The authorities are taking steps to strengthen the quality and coverage of public debt data. A recent audit of the quality and coverage of the public debt database did not identify major weaknesses, but noted risks related to the timeliness and reliability of SOE debt data. The authorities have developed an action plan to address these deficiencies. In addition, the national debt committee (CNDP), chaired by the Minister of Finance, reviews all large public investment decisions, including those by SOEs. A recent circular and decree have reinforced the role of the CNDP by clarifying the need for regular and timely provision of debt data by SOEs as a pre-requisite for consideration by the CNDP of any public borrowing.

² The inclusion of para-public enterprises and SOEs began in 2017. The list of entities covered by the DSA is comprehensive and provided in the Technical Memorandum of Understanding. The 2018 public sector balance sheet was compiled with support from Fund TA.

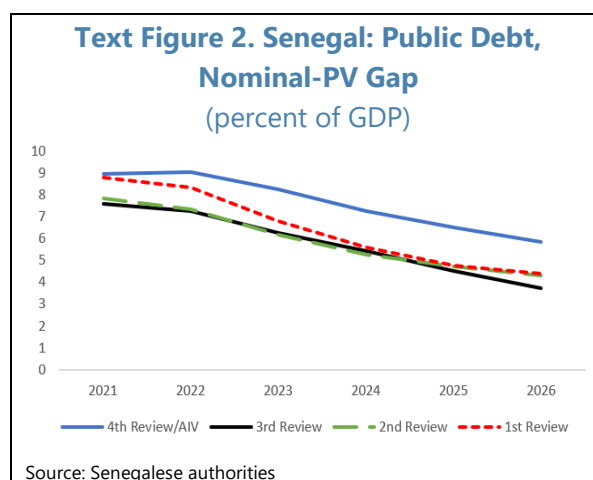
BACKGROUND

3. Public sector debt levels have more than doubled over the last decade. Senegal has significant development needs and some of the large increases in public debt reflect investments associated with the national development plan, the Plan Senegal Emergent (PSE). The government has scaled-up capital expenditures, notably in infrastructure, energy, and agriculture, with public investment representing 38 percent of public expenditure on average from 2010 to 2020, contributing to economic growth. More recently, external public debt has also been driven by investments related to the oil and gas sector and the fiscal response to the COVID-19 pandemic contributed to a further surge in public debt levels. As of end-December 2020, public sector external debt stood at 54 percent of GDP, while total public sector debt reached 68.8 percent of GDP (Text Figure 1).³ The main holders of Senegal's external debt are private creditors, the World Bank and regional development banks (Annex 1).



4. Senegal continues to successfully access global financial markets. Following issuances in 2011, 2017, and 2018, the authorities issued a EUR775 million Eurobond in June 2021, its first Euro-denominated obligation. Just under half of the proceeds were used to buy back USD-denominated Eurobonds maturing in 2024, thereby improving the maturity profile of external debt while reducing rollover and FX risk.⁴ The remainder was used for financing the central government deficit and pre-financing for the state-owned oil company's investments. The Eurobond issuance will also help create space in the regional bond market for other WAEMU members and support the build-up of WAEMU pooled reserves.

5. The 2021 SDR allocation has resulted in an increase in public debt at highly concessional rates. In line with the WAEMU-wide agreement, the BCEAO on-lent the counterpart of the SDR allocation (CFAF 246.7 billion, or 1.6 percent of GDP). This loan is treated as domestic debt. The DSA calculates the present value of the loan to incorporate its highly



³ The perimeter of public debt was expanded in 2017 to capture public and para-public enterprises, creating a structural break in the data. Senegal is the only WAEMU member country to use this broader definition of public sector debt.

⁴ The domestic currency, the CFA franc, is pegged to the Euro.

concessional nature,⁵ which reduces its initial impact on the DSA's assessment of the overall risk of debt distress (discussed below).⁶ Reflecting this, Senegal's public sector debt has become more concessional on average, as measured by the difference between the nominal and present value of the debt (Text Figure 2).⁷

6. External and total public debt service are significant. The ratio of public external debt service to exports reached 23.5 percent in 2020, reflecting in part the sharp decline in exports due to the COVID shock. It is projected to remain at about 23 percent as the Eurobond buyback brought forward external debt service from 2024 to 2021, slightly smoothing out the debt service profile over the medium term (Text Figure 3). This ratio is expected to average about 20 percent over the medium term as the recovery takes hold and hydrocarbon exports materialize. Public external debt service is projected to average about

16 percent of revenues over the medium term (Table 1), while for total public debt service the average is around 26 percent of revenues and grants for the same period (Table 2).

7. Senegal is participating in the G-20 Debt Service Suspension Initiative (DSSI). The DSSI is a 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) over May-December 2020. The extension of the DSSI until the end of 2021 is expected to result in additional debt service relief of CFAF 71 billion (0.5 percent of GDP). This is CFAF 20 billion lower than projected in the previous DSA (June 2021) due to revised figures on which partners and projects are participating. The DSA incorporates these deferred payments over the period 2022–27, which average about CFAF 17 billion per year.

BASELINE SCENARIO

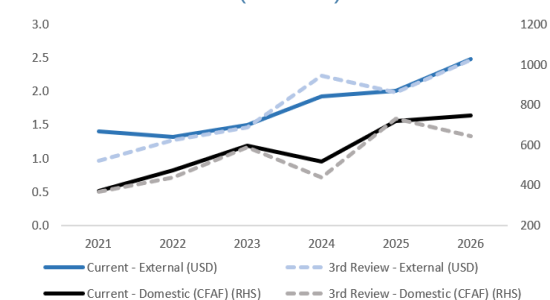
8. The macroeconomic assumptions underlying the projections are consistent with the program baseline discussed in the main staff report. The main changes relative to the previous DSA of June 2021 include a more rapid recovery in economic output this year, a delay in the return to a central government fiscal deficit of 3 percent of GDP by one year (to 2024), and downward revisions to the oil exports forecast. Long-run macroeconomic assumptions remain largely unchanged from the previous DSA in June 2021. The main macroeconomic assumptions are as follows:

⁵ A 20-year loan with a 0.05% interest rate, with the option to rollover the debt upon maturity.

⁶ Domestic debt is normally treated in nominal terms in the DSA.

⁷ The 1st PCI Review was in July 2020, the 2nd PCI Review in January 2021, and the 3rd PCI Review in June 2021.

Text Figure 3. Senegal: Public Sector Debt Service (billions)



Sources: Senegalese authorities, IMF estimates and projections.

- **Real GDP Growth.** Senegal's real GDP growth rate is estimated to be 5 percent in 2021, compared to 3.7 percent at the time of the 3rd review. This reflects the broad-based recovery that is underway in Senegal, particularly in the secondary and tertiary sectors. The recovery will continue in 2022 with growth around 5 ½ percent. The onset of oil and gas production will temporarily lift growth in 2023 and 2024 after which growth is projected to decline to 5.5 percent by 2026, close to the long run average of about 5 percent.⁸ Real GDP growth is the primary driver of improving debt dynamics under the baseline (Figure 2).
- **Oil and gas.** The baseline includes the Sangomar (SNE) offshore oil field development and the Greater Tortue Ahmeyim (GTA) gas project, with production is expected to begin in the second half of 2023.⁹ Box 1 outlines the main assumptions about the macroeconomic impact of these products. Notably, the share of oil production that contributes to exports has been reduced to 70 percent (from 100 percent), to account for the 30 percent share that will be destined for the domestic oil refinery. This change results in significantly lower export volume over the forecast horizon. The remaining financing needs of Petrosen (the state-owned oil company) for both projects are estimated at CFAF 1,090 billion from 2021 through 2037 (Text Table 2), which is slightly lower than previous estimates due to a change in the financial structure of the project. These estimates are subject to change as the projects evolve. The Yakaar-Taranga project has not yet reached a final investment decision and is thus not included in the DSA.

Text Table 2. Senegal: Oil and Gas: Petrosen Borrowing Assumptions¹

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031-2037	Total
CFAF billions	178	180	127	102	64	89	61	57	54	47	132	1,090
% of GDP	1.16%	1.09%	0.68%	0.51%	0.30%	0.38%	0.25%	0.21%	0.19%	0.15%	0.36%	5.29%

1/ As the projects are under development, these figures are subject to change
Source: Senegalese authorities, IMF staff projections.

- **Inflation.** Inflation is projected to be 2 ½ percent in 2021 and average around 1.5 percent over the medium term.
- **Public sector deficit.** The public sector deficit—which includes both the central government deficit and the net lending and borrowing of SOEs—is estimated to be 7.4 percent of GDP in 2021. This mainly reflects the higher fiscal deficits from the central government and large investments by Petrosen. The public sector deficit is projected to stabilize at around 3 percent of GDP over the medium term as the central government deficit converges towards the regional target of 3 percent of GDP in 2024 (supported by the unwinding of one-off COVID-19-related spending and enhanced revenue-mobilization), financing needs in the hydrocarbon sector decline, and efforts to strengthen the financial performance of SOEs bear fruit.

⁸ The projected impact of oil and gas production on real GDP has been revised compared to the last DSA using an expenditure-side approach (the previous estimate was based on an income approach) and updated assumptions regarding oil and gas-specific deflators. This has led to an upward revision of cumulative real hydrocarbon-related GDP growth in 2023-24 compared to the last DSA despite a downgrade of projected production volumes in 2023.

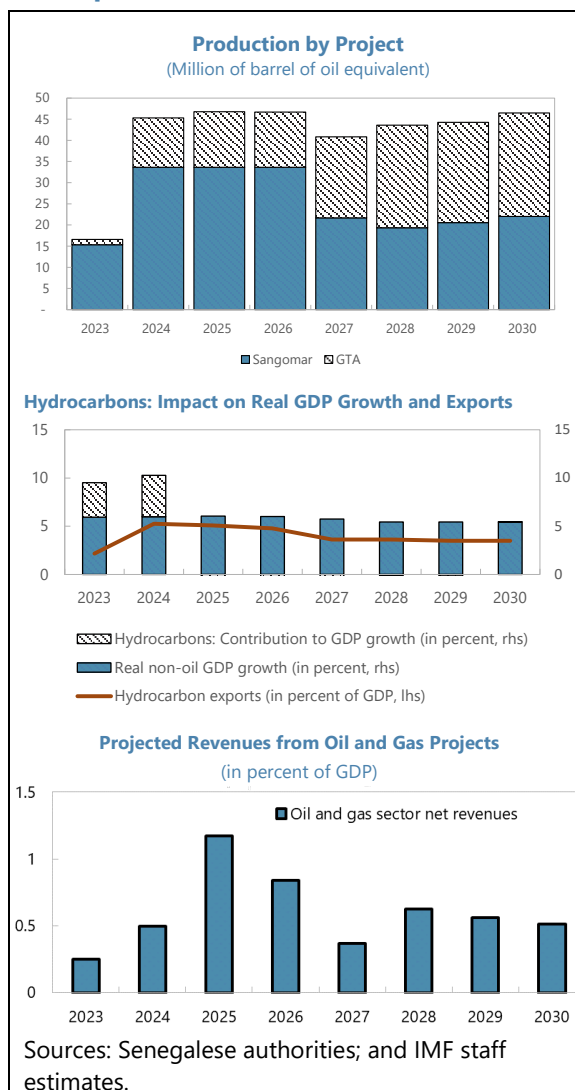
⁹ GTA is exploited jointly with Mauritania.

Box 1. Senegal: The Projected Macroeconomic Impact of Oil and Gas Production

Staff updated projections regarding the macroeconomic impact of the oil and gas projects. In the pre-production phase, the projects have led to a major increase of foreign direct investment from about 2 percent of GDP to an expected 7.8 percent of GDP in 2021. This finances to a large extent imports of services, which are expected to reach 9.9 percent of GDP in 2021. For the production phase starting in 2023, the macroeconomic framework includes the two projects that have reached final investment decision “Grand Tortue Ahmeyim” (GTA, LNG) and “Sangomar” (oil).

Growth and exports will receive a boost in 2023 and 2024. Growth will be temporarily lifted to about 10 percent in 2023 and 2024—with a shift in the level of GDP while future growth is not expected to benefit from further production increases. It is assumed that 70 percent of crude oil and 100 percent of LNG will be sold abroad, adding about 5 percent of GDP to current exports of goods between 2023 and 2030.

Moderate public revenues are expected in the medium term. Total net revenue projections, including cash flows from the state-owned oil company Petrosen, depend crucially on actual production volumes, future oil and gas prices, possible investment in future phases, and repayments of initial investments. As such, uncertainty around these estimates is high but staff expects revenues to average 0.7 percent of GDP through 2026.



- **Revenues.** Relative to 2019, the central government’s tax revenue declined by almost 1 percent of GDP in 2020 due to the pandemic, to 16.7 percent of GDP. Non-hydrocarbon tax revenues are projected to gradually increase to 20 percent of non-hydrocarbon GDP in 2024, in line with the objectives of the Medium-Term Revenue Strategy (MTRS), and are expected to stay above that level over the medium term. This outlook assumes the steady implementation of MTRS reforms to support revenue mobilization, with a focus on expanding the tax base and reducing tax expenditures. Oil and gas-related revenues will start adding to revenue from 2023 onwards.
- **Current account deficit.** The baseline scenario assumes a current account deficit of 10 percent in 2020 and 10.6 percent in 2021. This is lower for 2021 than at the time of the 3rd review (11.3 percent), which primarily reflects higher than anticipated exports. The current account deficit is projected to sharply decline starting in 2023 as oil and gas exports come online, with a recovery in services exports (tourism) also contributing.

Text Table 3. Senegal: Evolution of Selected Macroeconomic Indicators

	2021	2022	2023	2024	Med. term ¹	Long term ²
Real GDP growth						
Current DSA	5.0	5.5	9.5	10.3	7.1	5.0
Previous DSA ³	3.7	5.5	10.8	6.1	6.2	5.2
Overall fiscal deficit (percent of GDP) ⁴						
Current DSA	7.4	5.4	4.0	3.1	4.5	2.7
Previous DSA	6.6	4.9	3.2	3.1	4.1	2.7
Current account deficit (percent of GDP)						
Current DSA	10.6	9.4	7.2	4.0	7.1	3.4
Previous DSA	11.3	10.5	5.5	3.2	6.9	3.2
Exports of goods and services (percent of GDP)						
Current DSA	21.7	22.6	24.1	27.9	24.8	31.0
Previous DSA	19.8	22.8	31.7	36.0	29.2	32.6

¹ Defined as the first 5 years of the projection period (2021-2025).

² Defined as the last 16 years of the projection period (2026-2041).

³ 3rd PCI Review and SBA/SCF Request (May 2021)

⁴ Overall fiscal deficit for the public sector including General Government and state-owned enterprises.

Source: IMF staff estimates and projections.

Text Table 4. Senegal: 2021 Borrowing Plan

PPG Debt	CFAF billions
Central Government	2061
External	1207
Concessional/Semi-concessional 1/	699
Commercial 2/	508
Domestic	854
SDR-related loan	246
State Owned Enterprises (net)	250
Total Public Sector	2311
Use of funds	
Fiscal deficit (central government) 3/	967
Amortizations and Eurobond repurchases	754
Overfinancing (net)	120
Below-the-line spending 4/	220
SOE sector (net) 5/	250

1/ Debt with a positive grant element
2/ Debt without a positive grant element. Includes amounts on-lent to
3/ Budget deficit minus operating expenditures and overfinancing from 2020
4/ Operating expenditures, on-lending to Petrosen, SDR financial transactions
5/ Excludes amounts on-lent to Petrosen

Source: Senegalese authorities, IMF staff estimates.

9. The DSA assumes the authorities will implement a prudent borrowing strategy that includes support from multilateral and bilateral partners. The revised 2021 budget will be primarily financed by concessional and semi-concessional loans—including from the World Bank, African Development Bank, and other partners—and the SDR-related loan from the BCEAO. The SDR allocation and the Eurobond were not included in the previous DSA's borrowing plan, contributing

to higher gross financing in 2021 than in the previous baseline CFAF (2061 billion versus CFAF 1415 billion). The authorities' medium-term debt strategy (MTDS) includes continued support from multilateral partners but also a gradual shift away from external financing denominated in U.S. dollars towards 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 42 percent of total financing over 2022–26, from about 23 percent in 2021. The issuance of Eurobonds is also 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.

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 3.3 percent of GDP over 2021–23 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 reflects one-off expenditures introduced in response to the COVID-19 shock in 2020 (4.5 percent of GDP) and those associated with the SDR allocation in 2021 (1.6 percent of GDP). Staff believes that reaching the central government's 3 percent fiscal deficit target by 2024 is realistic, though it depends upon the implementation of the program's revenue-enhancing measures. The high residual (Figure 3) is explained by the expansion of the debt perimeter in 2017. 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 (Figure 4). Changes in the projected contributions to real GDP growth reflect the revised oil and gas growth assumptions and do not signal realism concerns.

COUNTRY CLASSIFICATION AND DETERMINATION OF STRESS TEST SCENARIOS

11. Senegal's debt carrying capacity is rated as strong. Based on data from the October 2021 World Economic Outlook database and the World Bank's 2020 Country Policy and Institutional Assessment (CPIA) score, Senegal's Composite Indicator (CI) is 3.25. This assessment affects the thresholds used to calculate the mechanical external debt risk ratings. Senegal's CI score has increased marginally compared to the last vintage (3.23) (Text Table 5).

Text Table 5. Senegal: Debt Carrying Capacity

Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.385	3.733	1.44	44%
Real growth rate (in percent)	2.719	5.845	0.16	5%
Import coverage of reserves (in percent)	4.052	45.974	1.86	57%
Import coverage of reserves ² (in percent)	-3.990	21.136	-0.84	-26%
Remittances (in percent)	2.022	10.635	0.22	7%
World economic growth (in percent)	13.520	3.137	0.42	13%
CI Score			3.25	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 uses the default parameters which assumes i) a temporary increase in the cost of new commercial external borrowing by 400 basis points, ii) a nominal depreciation of the CFAF relative to the US dollar, and iii) a shortening of maturities and grace periods. This results in a one-off breach of the PV of debt-to-GDP ratio in 2022, but otherwise does not flag any areas for concern (Figure 5). The June 2021 Eurobond issuance, which lengthened the maturity profile of external debt and swapped USD for EUR-denominated debt, reduced the risk from such a potential shock.

EXTERNAL DSA

13. External debt indicators remain below their thresholds under the baseline scenario, with the exception of a temporary one-off breach in 2021. PPG external debt is projected to peak at 57.9 percent of GDP in 2021 (compared to 57 percent of GDP in the 3rd PCI review), before steadily declining over the medium-term (Table 1). The present value of debt to exports is close to the risk threshold in the first year of the baseline projection but steadily declines thereafter, aided by higher growth from the oil and gas projects. The external debt service to exports ratio now breaches the risk threshold in 2021 under the baseline (a change since the previous DSA), reflecting the front-loading of debt service payments brought about by the Eurobond buyback operation discussed above. This short-lived one-year breach is discounted for the DSA risk ratings. The external debt service to revenues ratio is projected to average around 16 percent over the medium term.

14. Three of the four external debt burden indicators breach their threshold under the sensitivity analysis. For the PV debt-to-GDP ratio, the most extreme shock is a combination shock. For the two export-related indicators, the most extreme shock is a shock to exports, but sustained breaches also occur for the combination shock (Table 3). Overall, these results point to potential vulnerabilities under adverse conditions, including a slower global recovery that would hit Senegal's main export markets, or in case of significant delays in the development of the hydrocarbon sector. A key difference between the baseline and the historical scenario is that the baseline scenario reflects prospective hydrocarbon exports.

OVERALL RISK OF PUBLIC DEBT DISTRESS

15. There are no breaches of the overall public debt risk indicator in the baseline scenario. Total public debt is projected to peak at 73 percent of GDP in 2021 before gradually declining due to higher growth and fiscal consolidation (Table 2). The present value of public debt to GDP remains below its benchmark under the baseline scenario, steadily declining over time (Figure 2). The present value of debt to revenues is also projected to gradually decline. Debt service is projected to remain substantial, averaging about a quarter of total revenues and grants over the next five years.

16. Stress tests indicate that Senegal is most vulnerable to a growth shock. Under the standard growth shock (which simulates a growth rate of 2.4 percent in 2022–23), two of the three public debt indicators would be set on an explosive growth path and the other would also increase

substantially. This represents an extreme shock, one that ignores the expected rebound from COVID-19 and growth impact of hydrocarbon production. Nevertheless, it underscores the importance of reforms to strengthening Senegal's resilience by building fiscal space and enhancing its medium-term growth potential.

RISK RATING AND VULNERABILITIES

17. Senegal remains at moderate risk of external debt distress, with limited space to absorb shocks (Figure 6). Senegal is considered to have “limited space to absorb shocks” because the realization of the median observed shock is expected to result in a downgrade to high risk of debt distress. Senegal's vulnerability to growth and export shocks, combined with heightened uncertainty over the global economic outlook, points to the need for a balanced approach that combines near-term recovery with medium-term sustainability. The authorities should focus on targeted near-term support with a gradual reduction in fiscal deficits to the agreed WAEMU target. An overall increase in total interest payments calls for prioritizing concessional debt whenever possible. This should be supported by reforms to contain fiscal risks and continued strengthening of debt management to ensure that debt continues to be effectively channeled towards productive capital formation.¹⁰

18. Senegal's overall risk of debt distress also remains moderate. Given elevated debt service, the authorities should prioritize further efforts to mobilize additional domestic revenues and seek out concessional borrowing where possible in the near term.

19. There are significant risks to the assessment. The near-term outlook depends primarily on the speed of the global recovery and Senegal's access to vaccines. Slower global growth could hinder the recovery while limited access to vaccines leaves the country vulnerable to future waves of COVID-19. While higher global growth would be beneficial for Senegal's growth and exports, it may also contribute to higher interest rates and imported commodity prices, such as oil. This could impact Senegal's terms of trade, fiscal balances (via domestic fuel price subsidies) and market access, although the latter risk has been mitigated by the recent Eurobond buyback operation. Over the medium term, sustained higher oil prices would increase the profitability of the new hydrocarbon projects, thereby strengthening the external and fiscal outlook. By contrast, significant delays in hydrocarbon production would have a material impact on growth and revenues. As the downside scenario illustrates (Box 2), the simultaneous materialization of growth, fiscal, and external

¹⁰ Senegal successfully implemented the Performance and Policy Actions (PPAs) under the FY21 Sustainable Development Financing Policy (SDFP) by end FY21 and is continuing with the three reforms areas under the FY22 SDFP. FY21 PPA-1 supported the establishment of a framework for the publication of the annual borrowing plan (ABP) and defining its scope, timing, preparation procedures, and accessibility. Senegal is continuing with this reform in FY22, by instituting a mechanism to publish quarterly debt bulletins, including information on SOE and PPP debt and assessments of the implementation of the Medium-Term Debt Management Strategy (MTDS) and the ABP. FY21 PPA-2 supported the adoption of an accelerated VAT credit refund procedure, to be supplemented with the FY22 SDFP by the reduction of tax expenditures, including selected VAT exemptions. Finally, FY21 PPA-3 centered around the development and formal adoption of a detailed fiscal risk-assessment methodology for (i) the granting of public guarantees and on-lent loans to SOEs and (ii) the monitoring of SOEs' credit risk, leading to the publication of a fiscal risk assessment for 2022, part of the FY22 SDFP.

sector risks would result in a significant deterioration in Senegal's debt profile. Senegal is also subject to risks from natural disasters, regional security, and socio-political developments.

Box 2. Senegal: Downside Scenario

Staff has developed a downside scenario to illustrate the macroeconomic impact if risks materialize.

The scenario assumes:

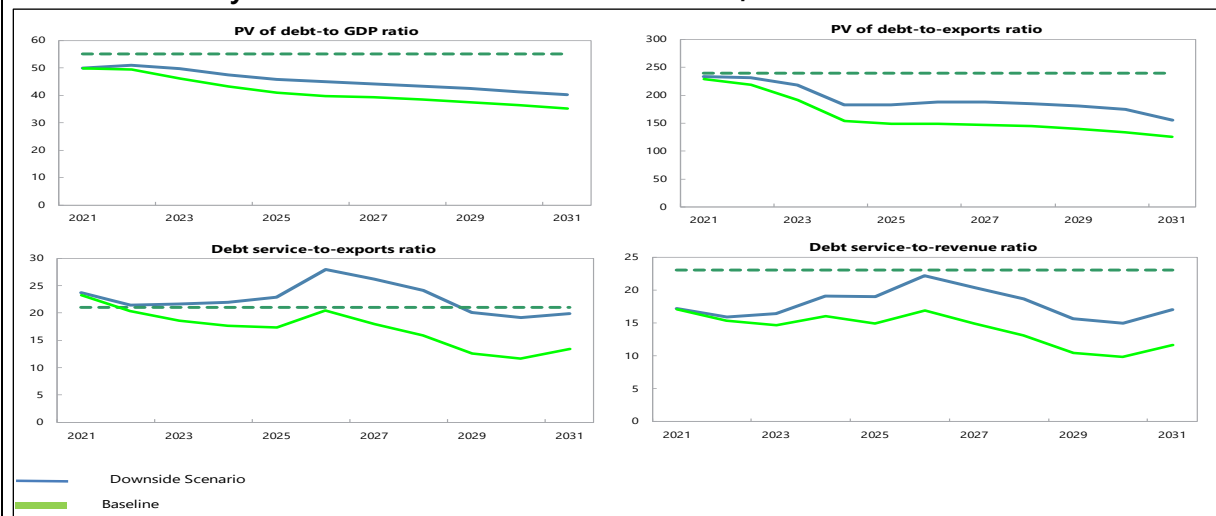
- Lower growth due to a more protracted recovery from the pandemic, delayed and lower oil and gas production and lower trend non-oil growth in the medium to long term.
- Reduced goods and services exports due to lower oil and gas exports, weaker external demand, and less competitive supply of tradable goods.
- A more gradual increase of the tax to GDP ratio than in the baseline reflecting incomplete implementation of the medium-term revenue strategy as tax policy measures face increasing resistance by vested interests.
- A less ambitious fiscal consolidation and a higher medium-term fiscal deficit of 4.5 percent of GDP reflecting high subsidy needs and rising overall spending pressures.

Assumptions

	2021		2022		2023		2024	
	Base.	Down.	Base.	Down.	Base.	Down.	Base.	Down.
NGDP	15,273	15,273	16,485	16,152	18,415	17,403	20,668	19,308
Real GDP growth (percent)	5.0	5.0	5.5	3.5	9.5	4.6	10.3	10.4
Government Revenues (percent of GDP)	20.4	20.2	21.0	20.7	21.4	21.0	21.7	20.7
Government Expenditure (percent of GDP)	26.7	26.7	25.7	26.3	25.1	26.0	24.7	25.2
Fiscal Balance (percent of GDP)	-6.3	-6.5	-4.8	-5.6	-3.7	-5.0	-3.0	-4.5
Exports of Goods and Services (percent of GDP)	21.7	21.4	22.6	22.0	24.1	22.8	27.9	26.0
Gross Public Debt (percent of GDP)	73.0	73.1	71.6	73.9	67.7	73.5	63.1	70.5

Debt vulnerabilities would be exacerbated in such a scenario. The debt-to-GDP ratio would remain above 70 percent of GDP while debt service would rise rapidly. The external sustainability indicators of the DSA would worsen significantly and indicate high risk of debt distress, given limited space to absorb shocks. Less successful domestic revenue mobilization would lead to less nominal spending despite the assumed higher fiscal deficit.

Public and Publicly Guaranteed External Debt Risk Indicators, 2021–31

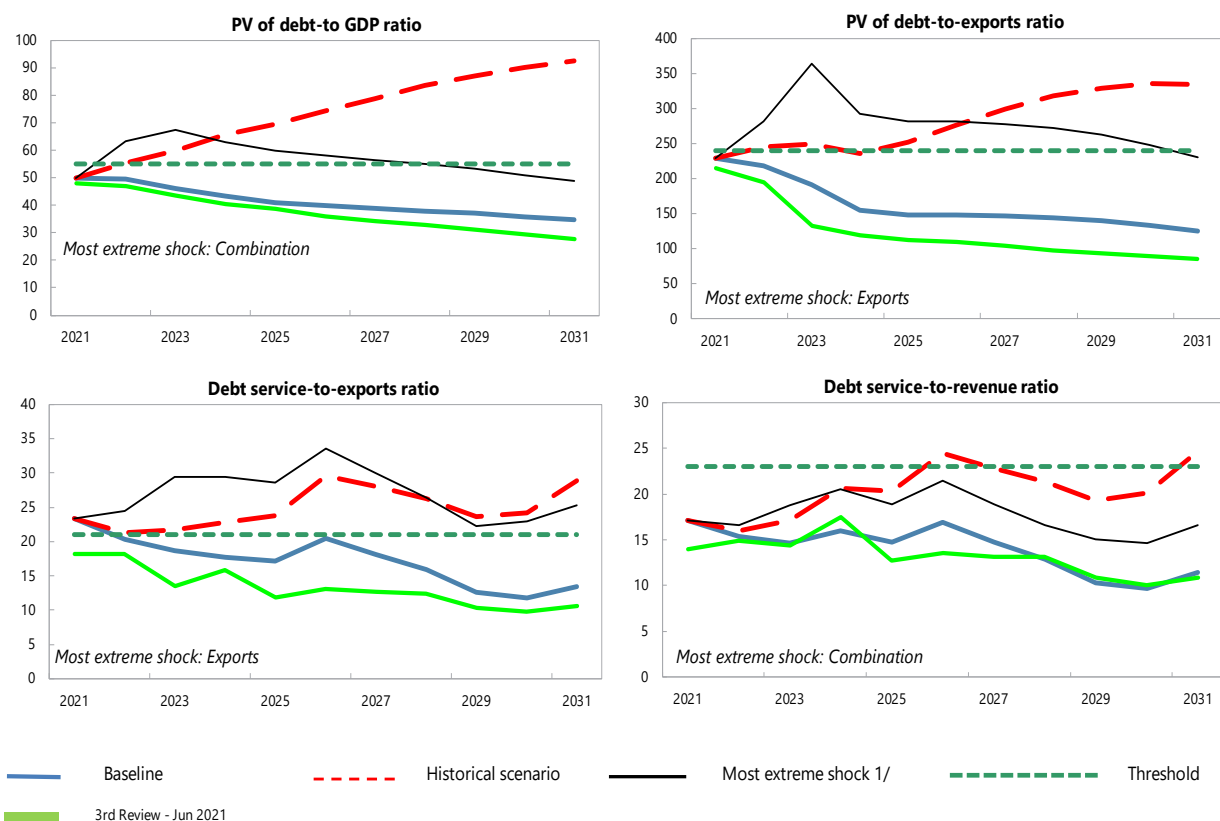


Source: IMF staff calculations

AUTHORITIES' VIEWS

20. The authorities share staff's overall assessment. The authorities agree with the DSA assessment and recognize that there is limited space to absorb shocks, especially in the near term. However, they are more optimistic about the boost to medium-term growth from both hydrocarbon projects and other reforms to enhance competitiveness. To reduce the country's reliance on debt financing, the authorities are committed to gradually reducing fiscal deficits to meet the regional target and to mobilize higher revenues through the MTRS. In the meantime, they will continue to look for pro-active debt management opportunities to help smooth out debt service payments and further mitigate FX risks.

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*

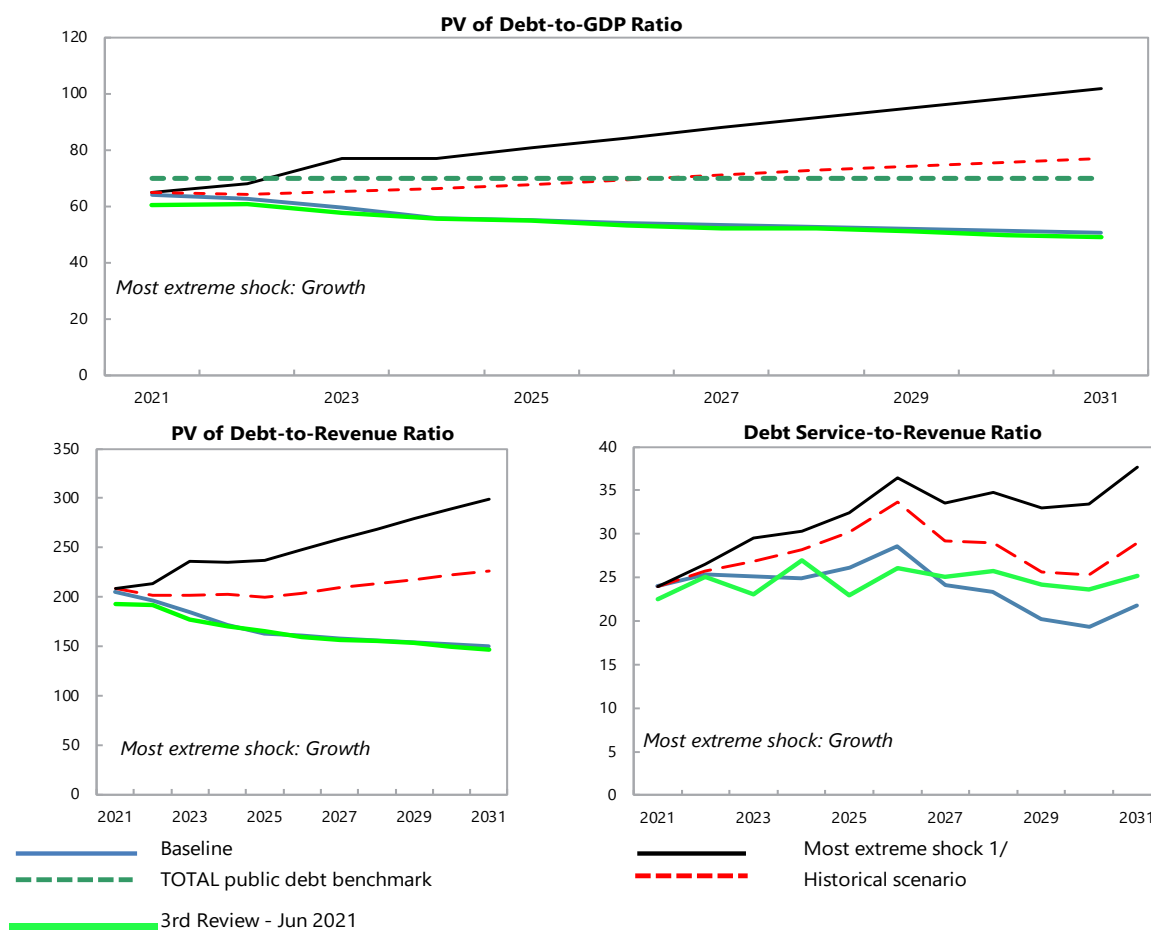
	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	3.7%	3.7%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	18	18
Avg. grace period	6	6

* 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 extreme 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

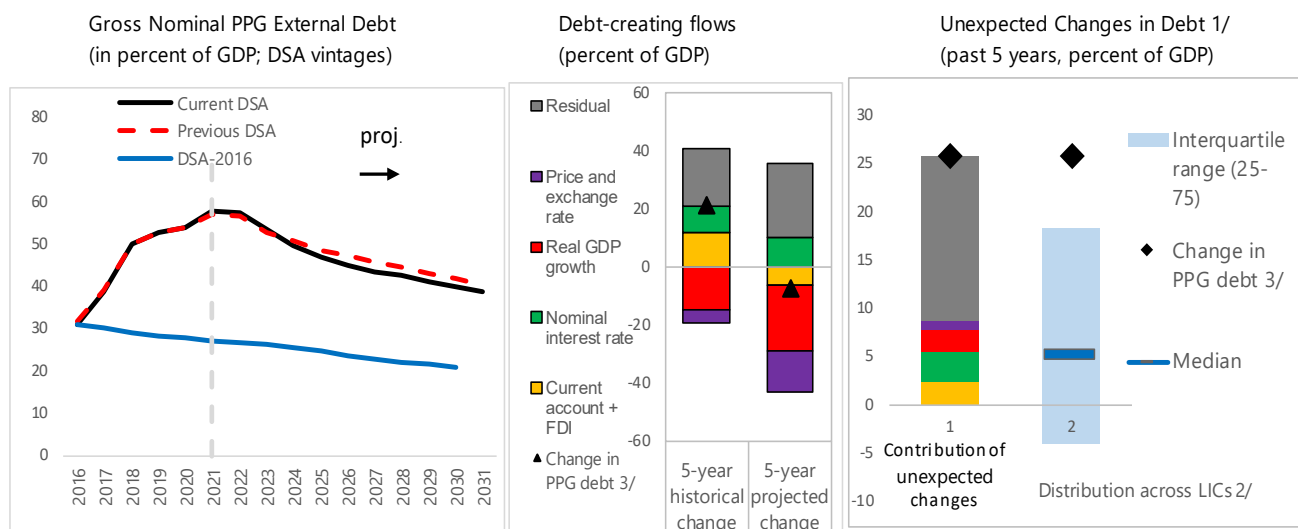


Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	56%	56%
Domestic medium and long-term	40%	40%
Domestic short-term	4%	4%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	3.7%	3.7%
Avg. maturity (incl. grace period)	18	18
Avg. grace period	6	6
Domestic MLT debt		
Avg. real interest rate on new borrowing	3.5%	3.5%
Avg. maturity (incl. grace period)	6	6
Avg. grace period	3	3
Domestic short-term debt		
Avg. real interest rate	2.8%	2.8%

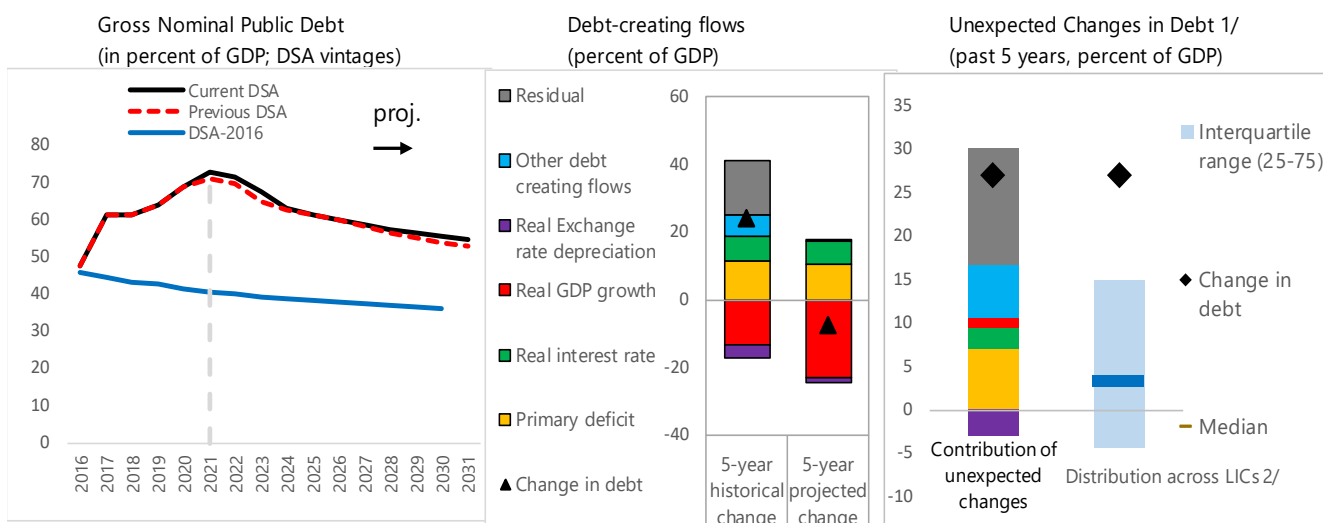
* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

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



Public debt



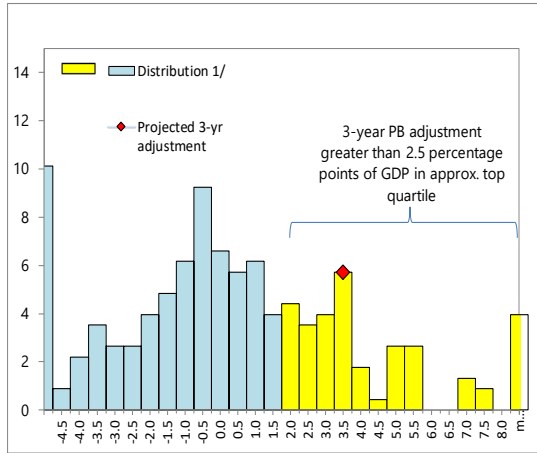
1/ Difference between anticipated and actual contributions on debt ratios.

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

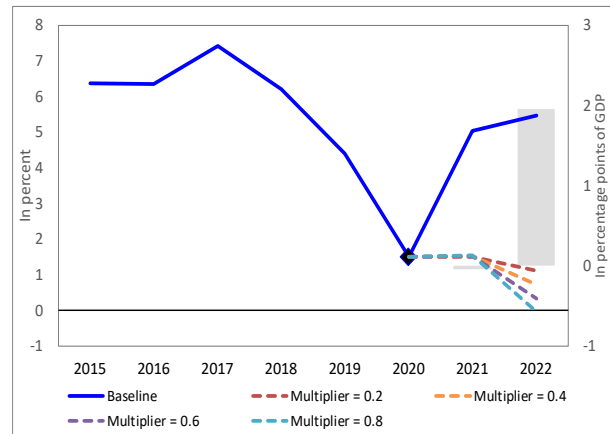
3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

Figure 4. Senegal: Realism Tools, 2015–26

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



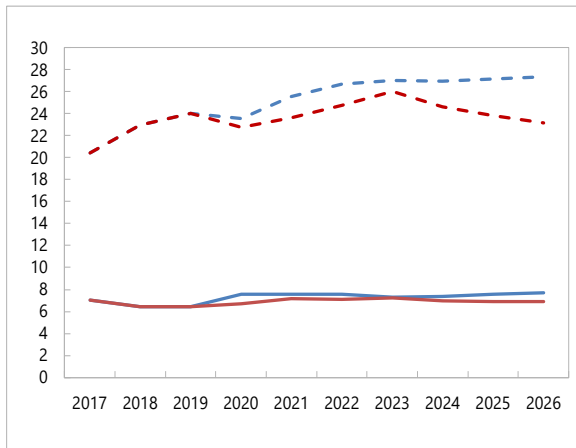
Fiscal Adjustment and Possible Growth Paths 1/



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.

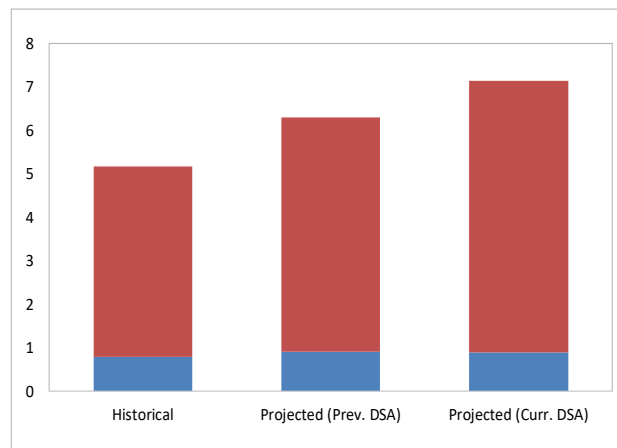
1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates
(percent of GDP)



— Gov. Invest. - Prev. DSA — Gov. Invest. - Curr. DSA
 - - - Priv. Invest. - Prev. DSA - - - Priv. Invest. - Curr. DSA

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

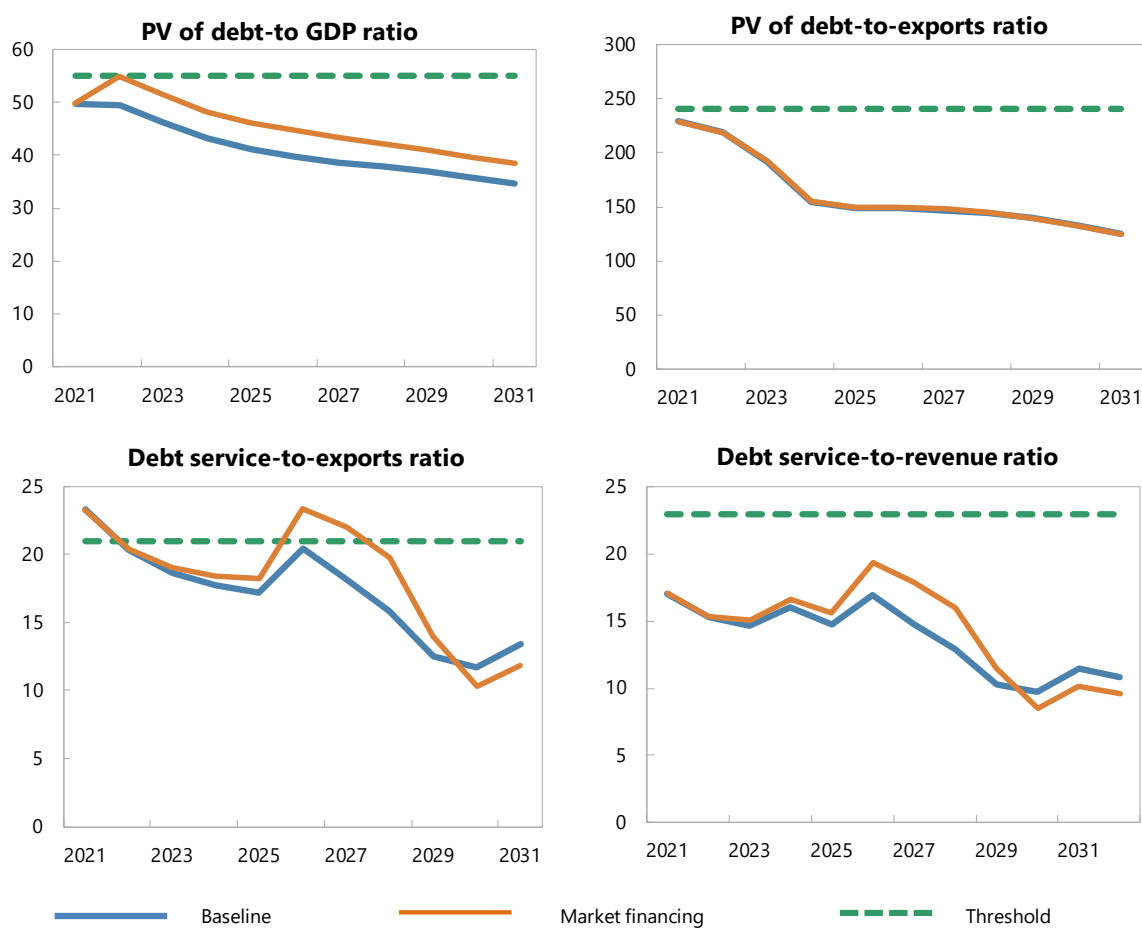


■ Contribution of other factors
 ■ Contribution of government capital

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

	GFN	1/	EMBI	2/
Benchmarks	14		570	
Values	12		441	
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, 2021–31¹



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	2027	2028	2029	2030	2031	Historical	Projections
External debt (nominal) 1/	70.0	73.9	74.7	75.2	73.4	69.8	65.0	62.9	61.0	54.7	39.5	59.3	63.0	63.0	59.3	63.0
of which: public and publicly guaranteed (PPG)	50.1	52.8	54.0	57.9	57.2	53.4	49.8	46.8	45.0	38.5	23.3	36.4	46.8	46.8	36.4	46.8
Change in external debt	8.8	3.9	0.8	0.5	-1.8	-3.5	-4.8	-2.1	-2.0	-1.4	-1.9	-3.2	-3.2	-3.2	2.7	-3.2
Identified net debt-creating flows	-0.3	3.3	0.2	-0.6	-2.4	-5.3	-6.9	-3.3	-3.1	-1.9	-2.6	2.7	3.6	3.6	6.0	3.6
Non-interest current account deficit	6.8	5.5	7.8	8.7	7.1	5.0	2.9	2.4	2.3	3.0	2.0	14.7	11.1	11.1	14.7	11.1
Deficit in balance of goods and services	15.1	14.3	17.2	17.8	16.6	13.9	9.8	9.7	9.7	9.2	5.5	5.5	5.5	5.5	14.7	11.1
Exports	23.6	25.0	19.9	21.7	22.6	24.1	27.9	27.6	26.8	27.7	40.6	40.6	40.6	40.6	40.6	40.6
Imports	38.8	39.3	37.2	39.5	39.2	38.0	37.7	37.3	36.4	36.9	46.1	46.1	46.1	46.1	46.1	46.1
Net current transfers (negative = inflow)	-0.3	-0.1	-0.6	-0.5	-0.2	-0.2	-0.2	-0.2	-0.2	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2
of which: official	-0.3	-0.1	-0.6	-0.5	-0.2	-0.2	-0.2	-0.2	-0.2	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2
Other current account flows (negative = net inflow)	0.6	0.1	0.2	0.5	-0.2	0.0	0.5	0.6	0.7	1.2	3.6	0.8	0.6	0.6	0.8	0.6
Net FDI (negative = inflow)	-3.4	-4.3	-5.8	-7.8	-8.1	-6.3	-4.6	-4.5	-4.3	-3.7	-3.7	-2.6	-2.6	-2.6	-2.6	-2.6
Endogenous debt dynamics 2/	-3.6	2.1	-1.9	-1.5	-1.5	-4.0	-4.3	-1.3	-1.3	-1.2	-0.9	-2.6	-2.6	-2.6	-2.6	-2.6
Contribution from nominal interest rate	2.0	2.7	2.2	1.8	2.3	2.2	2.0	1.9	1.9	1.6	1.0	1.0	1.0	1.0	1.0	1.0
Contribution from real GDP growth	-3.4	-3.1	-1.0	-3.3	-3.8	-6.2	-6.3	-3.2	-3.2	-2.8	-1.9	-1.9	-1.9	-1.9	-1.9	-1.9
Contribution from price and exchange rate changes	-2.2	2.5	-3.1	1.1	0.6	1.8	2.1	1.2	1.2	0.5	0.7	0.7	0.7	0.7	0.7	0.7
Residual 3/	9.1	0.6	0.6	1.1	0.6	1.8	2.1	1.2	1.2	1.2	0.5	0.7	0.7	0.7	0.7	0.7
of which: exceptional financing	1.1	-1.1	1.3	-0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Sustainability indicators																
PV of PPG external debt-to-GDP ratio	...	...	48.9	49.8	48.4	46.2	43.1	41.0	39.8	34.8	21.3	4.6	6.1	6.1	4.6	6.1
PV of PPG external debt-to-exports ratio	...	...	245.5	228.9	218.7	191.8	154.5	148.6	148.6	125.6	52.3	0.0	3.1	3.1	0.0	3.1
PPG debt service-to-exports ratio	15.9	13.3	23.5	23.3	20.3	18.6	17.7	17.2	20.4	13.4	7.2	2.7	3.1	3.1	2.7	3.1
PPG debt service-to-revenue ratio	13.5	11.2	16.4	17.1	15.3	14.7	16.0	14.7	16.9	11.5	8.9	4.8	4.8	4.8	4.8	4.8
Gross external financing need (Billion U.S. dollars)	1.8	1.4	1.9	2.0	1.4	1.3	1.1	1.4	1.9	2.3	2.2	2.2	2.2	2.2	2.2	2.2
Key macroeconomic assumptions																
Real GDP growth (in percent)	6.2	4.4	1.5	5.0	5.5	9.5	10.3	5.4	5.5	5.3	4.9	4.6	4.6	4.6	4.6	4.6
GDP deflator in US dollar terms (change in percent)	3.7	-3.5	4.3	7.3	3.5	3.5	3.0	3.0	2.7	1.9	2.3	0.0	0.0	0.0	0.0	0.0
Effective interest rate (percent) 4/	3.6	3.9	3.2	2.8	3.4	3.3	3.3	3.3	3.2	3.0	2.5	2.7	2.7	2.7	2.7	2.7
Growth of exports of G&S (US dollar terms, in percent)	19.2	6.7	15.7	22.9	13.5	20.7	31.8	7.3	5.0	10.4	13.2	4.8	4.8	4.8	4.8	4.8
Growth of imports of G&S (US dollar terms, in percent)	19.6	2.3	0.0	19.9	8.1	10.1	12.6	7.5	5.7	11.4	11.4	6.4	6.4	6.4	6.4	6.4
Grant element of new public sector borrowing (in percent)	...	...	...	9.1	19.0	19.0	17.1	21.6	16.1	15.2	17.4	...	...	...	...	...
Government revenues (excluding grants, in percent of GDP)	27.7	29.6	28.6	29.6	30.0	30.5	30.9	32.3	32.3	32.4	32.5	...	...	...	...	...
Aid flows (in Billion of US dollars) 5/	1.0	1.5	1.7	0.4	1.0	1.0	1.0	1.1	1.1	1.1	1.2	...	...	...	...	...
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Nominal GDP (Billion of US dollars)	23	23	25	28	30	34	39	42	46	67	133	...	...	...	...	...
Nominal dollar GDP growth	10.2	0.8	5.9	12.7	9.1	13.3	13.6	8.6	8.3	7.2	7.2	4.5	4.5	4.5	4.5	4.5
Memorandum items:																
PV of external debt 7/	...	...	69.6	67.1	65.6	62.6	58.6	57.1	55.7	51.0	37.5	...	...	...	...	...
In percent of exports	...	...	349.1	308.5	290.1	260.0	209.9	206.8	208.1	184.3	92.2	...	...	...	...	...
Total external debt service-to-exports ratio	19.1	18.7	28.7	28.2	24.8	21.2	19.6	19.1	22.4	15.1	8.2	...	...	...	...	...
PV of PPG external debt (in Billion of US dollars)	...	...	12.1	13.8	15.0	15.9	16.9	17.4	18.3	23.1	28.4	...	...	...	...	...
(PV-PV-1)/GDP-1 (in percent)	...	...	7.1	4.2	2.9	2.8	1.4	2.0	1.4	0.1	0.1	...	...	...	...	...
Non-interest current account deficit that stabilizes debt ratio	-2.0	1.5	7.1	8.3	8.9	8.6	6.8	4.5	4.5	4.4	4.0	...	...	...	...	...

Sources: Country authorities; and staff estimates and projections.
 1/ Includes both public and private sector external debt.
 2/ Derived as $(1 - \rho) / (1 + \rho - g)$ times previous period debt ratio, with ρ = nominal interest rate; g = real GDP growth rate; and $\rho =$ growth rate of GDP deflator in US 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.

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

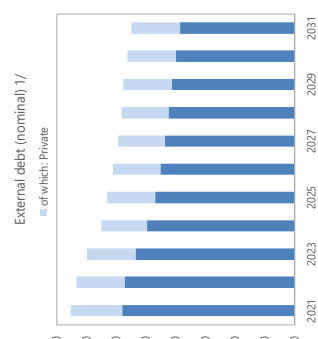
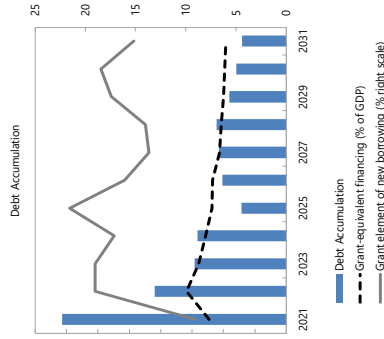


Table 2. Senegal: Public Sector Debt Sustainability Framework, Baseline Scenario, 2018–41

	Actual											Projections											Average 6/				
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	Historical Projections		
Public sector debt 1/	61.5	63.8	68.8	73.0	71.6	67.7	63.1	61.5	60.0	54.7	48.4	49.4	61.8	49.4	61.8	49.4	61.8	49.4	61.8	49.4	61.8	49.4	61.8	49.4	61.8	49.4	61.8
of which: external debt	50.1	52.8	54.0	57.9	57.2	53.4	49.5	46.8	45.0	38.5	23.3	36.4	46.8	36.4	46.8	36.4	46.8	36.4	46.8	36.4	46.8	36.4	46.8	36.4	46.8	36.4	46.8
Change in public sector debt	0.4	2.3	4.9	4.2	-1.4	-3.9	-4.6	-1.7	-1.4	-0.8	-0.6																
Identified debt-creating flows	3.1	3.0	1.8	2.3	0.5	-3.2	-4.0	-1.2	-1.1	-0.8	-0.6																
Primary deficit	1.8	2.4	4.8	4.9	2.9	1.5	0.8	0.6	0.7	0.7	0.6																
Revenue and grants	29.7	31.3	30.9	31.2	31.8	32.3	32.5	33.7	33.7	33.7	33.7																
of which: grants	2.0	1.6	2.3	1.5	1.8	1.8	1.6	1.5	1.5	1.4	1.2																
Primary (noninterest) expenditure	31.5	33.7	35.7	36.0	34.7	33.8	33.3	34.3	34.4	34.5	34.3																
Automatic debt dynamics	0.8	-0.1	-4.3	-2.6	-2.4	-4.7	-4.8	-1.8	-1.7	-1.5	-1.1																
Contribution from interest rate/growth differential	-0.8	-1.3	0.3	-2.6	-2.4	-4.7	-4.8	-1.8	-1.7	-1.5	-1.1																
of which: contribution from average real interest rate	2.8	1.3	1.2	0.7	1.4	1.5	1.5	1.4	1.4	1.3	1.2																
of which: contribution from real GDP growth	-3.6	-2.6	-0.9	-3.3	-3.8	-6.2	-6.3	-3.2	-3.2	-2.8	-2.3																
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																
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	3.1	1.9	-1.9	-0.7	-0.6	-0.4	-0.3	0.0	0.0																
Sustainability indicators																											
PV of public debt-to-GDP ratio 2/	...	...	60.6	64.0	62.6	59.5	55.8	54.9	54.1	50.6	46.4																
Debt service-to-revenue and grants ratio 3/	...	...	196.3	205.3	196.7	184.3	171.8	162.7	160.4	150.0	137.6																
Gross financing need 4/	11.7	9.7	13.4	12.3	11.0	9.6	8.8	9.4	10.3	8.1	8.8																
Key macroeconomic and fiscal assumptions																											
Real GDP growth (in percent)	6.2	4.4	1.5	5.0	5.5	9.5	10.3	5.4	5.5	5.3	4.9																
Average nominal interest rate on external debt (in percent)	4.2	3.7	3.8	3.1	3.9	3.8	3.8	3.8	3.8	3.8	3.7																
Average real interest rate on domestic debt (in percent)	4.6	3.7	4.1	3.3	3.9	4.4	4.4	4.4	4.3	3.8	3.6																
Real exchange rate depreciation (in percent, + indicates depreciation)	4.0	2.4	-8.7	...	...	...	...	...	...	...	...								
Inflation rate (GDP deflator, in percent)	-0.8	1.9	2.3	2.5	2.3	2.0	1.8	1.9	1.9	1.9	2.3																
Growth of real primary spending (deflated by GDP deflator, in percent)	63.0	11.5	7.5	6.1	1.6	6.6	8.6	8.7	5.7	5.3	4.8																
Primary deficit that stabilizes the debt-to-GDP ratio 5/	1.4	0.1	-0.1	0.6	4.3	5.4	5.4	2.2	2.1	1.5	1.1																
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																

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 stabilize 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.

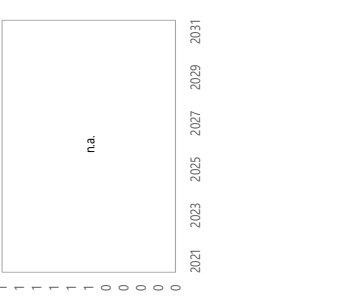
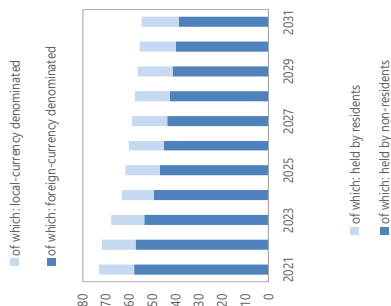


Table 3. Senegal: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2021–31
(percent)

	Projections 1/										
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
PV of debt-to GDP ratio											
Baseline	50	49	46	43	41	40	39	38	37	36	35
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	50	55	60	66	70	74	79	83	87	90	93
A2. Alternative Scenario :[Customize, enter title]	48	47	43	40	39	36	34	33	31	29	28
B. Bound Tests											
B1. Real GDP growth	50	52	54	50	48	47	45	44	43	42	41
B2. Primary balance	50	50	48	45	42	41	40	39	38	37	36
B3. Exports	50	53	58	54	51	50	48	47	46	44	42
B4. Other flows 3/	50	56	57	53	51	49	48	47	45	43	41
B5. Depreciation	50	62	52	49	46	45	44	43	42	41	40
B6. Combination of B1-B5	50	63	67	63	60	58	56	55	53	51	49
C. Tailored Tests											
C1. Combined contingent liabilities	50	53	50	46	44	43	42	42	41	39	38
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	51	48	46	45	43	42	41	40	38
Threshold	55	55	55	55	55	55	55	55	55	55	55
PV of debt-to-exports ratio											
Baseline	229	219	192	154	149	149	147	144	140	133	126
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	229	245	249	235	252	277	299	317	328	336	334
A2. Alternative Scenario :[Customize, enter title]	229	226	210	178	173	174	173	168	158	146	132
B. Bound Tests											
B1. Real GDP growth	229	219	192	154	149	149	147	144	140	133	126
B2. Primary balance	229	221	198	159	153	153	152	150	145	139	130
B3. Exports	229	281	364	292	282	281	278	273	263	248	230
B4. Other flows 3/	229	248	238	191	184	184	182	178	171	161	150
B5. Depreciation	229	219	173	139	134	134	133	131	126	122	115
B6. Combination of B1-B5	229	294	236	262	253	253	250	245	235	221	206
C. Tailored Tests											
C1. Combined contingent liabilities	229	234	206	166	160	161	160	159	154	147	139
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	229	219	192	155	150	150	148	145	139	133	125
Threshold	240	240	240	240	240	240	240	240	240	240	240
Debt service-to-exports ratio											
Baseline	23	20	19	18	17	20	18	16	13	12	13
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	23	21	22	23	24	29	28	26	24	24	29
A2. Alternative Scenario :[Customize, enter title]	23	20	20	21	20	25	22	20	16	14	16
B. Bound Tests											
B1. Real GDP growth	23	20	19	18	17	20	18	16	13	12	13
B2. Primary balance	23	20	19	18	17	21	18	16	13	12	14
B3. Exports	23	24	29	29	29	34	30	26	22	23	25
B4. Other flows 3/	23	20	20	19	19	22	19	17	15	15	16
B5. Depreciation	23	20	19	17	17	20	18	15	12	10	12
B6. Combination of B1-B5	23	23	28	26	26	30	27	24	21	21	23
C. Tailored Tests											
C1. Combined contingent liabilities	23	20	19	18	18	21	19	16	13	12	14
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	23	20	19	18	18	23	22	20	14	10	12
Threshold	21	21	21	21	21	21	21	21	21	21	21
Debt service-to-revenue ratio											
Baseline	17	15	15	16	15	17	15	13	10	10	11
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	17	16	17	21	20	24	23	21	19	20	25
A2. Alternative Scenario :[Customize, enter title]	17	15	16	19	17	21	18	16	13	12	14
B. Bound Tests											
B1. Real GDP growth	17	15	16	19	17	21	18	16	13	12	14
B2. Primary balance	17	16	17	19	17	20	17	15	12	11	13
B3. Exports	17	15	15	16	15	17	15	13	11	10	12
B4. Other flows 3/	17	15	15	18	16	18	16	14	12	13	14
B5. Depreciation	17	15	15	17	16	18	16	14	12	12	14
B6. Combination of B1-B5	17	19	18	19	18	21	18	16	12	11	13
B6. Combination of B1-B5	17	17	19	21	19	21	19	17	15	15	17
C. Tailored Tests											
C1. Combined contingent liabilities	17	15	15	16	15	17	15	13	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	17	15	15	17	16	19	18	16	11	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	64	63	59	56	55	54	53	52	52	51	51
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	65	64	65	66	68	69	71	73	74	76	77
A2. Alternative Scenario :[Customize, enter title]	60	61	58	56	55	53	52	52	51	50	49
B. Bound Tests											
B1. Real GDP growth	65	68	77	77	81	84	88	91	95	98	102
B2. Primary balance	65	65	63	59	58	57	56	55	54	53	53
B3. Exports	64	66	70	66	64	63	62	61	60	58	57
B4. Other flows 3/	64	69	70	66	65	64	62	61	60	59	57
B5. Depreciation	65	76	69	63	59	56	52	49	47	44	42
B6. Combination of B1-B5	65	63	63	61	61	61	62	62	62	63	63
C. Tailored Tests											
C1. Combined contingent liabilities	65	70	66	62	61	60	59	58	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	64	63	60	56	55	54	54	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	205	197	184	172	163	160	158	156	154	152	150
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	209	202	202	203	200	204	209	214	218	222	226
A2. Alternative Scenario :[Customize, enter title]	24	28	28	28	27	29	23	23	20	18	20
B. Bound Tests											
B1. Real GDP growth	209	213	236	235	237	248	259	269	279	289	299
B2. Primary balance	209	203	194	181	171	168	165	163	160	158	156
B3. Exports	205	207	217	202	190	187	184	181	178	173	170
B4. Other flows 3/	205	217	218	203	192	188	185	182	178	174	170
B5. Depreciation	209	241	216	193	175	165	156	147	139	131	123
B6. Combination of B1-B5	209	197	197	187	181	182	183	183	185	185	186
C. Tailored Tests											
C1. Combined contingent liabilities	209	220	206	191	181	178	175	172	169	167	164
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	205	197	185	172	164	161	159	156	153	151	149
Debt Service-to-Revenue Ratio											
Baseline	24	25	25	25	26	29	24	23	20	19	22
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	24	26	27	28	30	34	29	29	26	25	29
A2. Alternative Scenario :[Customize, enter title]	24	28	28	28	27	29	23	23	20	18	20
B. Bound Tests											
B1. Real GDP growth	24	27	30	30	32	36	34	35	33	33	38
B2. Primary balance	24	25	25	25	27	29	25	24	21	20	22
B3. Exports	24	25	26	26	27	30	25	24	22	22	24
B4. Other flows 3/	24	25	26	26	27	30	25	24	22	22	24
B5. Depreciation	24	26	29	29	30	33	28	26	22	21	23
B6. Combination of B1-B5	24	25	27	27	29	31	27	27	24	23	26
C. Tailored Tests											
C1. Combined contingent liabilities	24	25	27	26	27	31	27	26	21	20	23
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	24	25	25	25	27	31	27	26	21	18	21

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.

Annex I. Debt Holder Profile Table

Senegal: Decomposition of Public Debt and Debt Service by Creditor, 2020–22 ¹									
	Debt Stock (end of period)			Debt Service					
	2020			2020	2021	2022	2020	2021	2022
	(US\$, millions)	(Percent total debt)	(Percent GDP)	(US\$, millions)	(Percent GDP)				
Total	18094	100	69	1838	2079	2412	7.0	7.9	9.2
Central Government	16518	91	63	1562	1780	1882	5.9	6.8	7.2
State-owned enterprises (SOEs)	1576	9	6	276	299	531	1.0	1.1	2.0
External	13395	74	51	1002	1222	1210	3.8	4.6	4.6
Multilateral creditors	5302	29	20	136	198	296	0.5	0.8	1.1
IMF	508	3	2						
World Bank	2665	15	10						
ADB/AfDB/IADB	1063	6	4						
Other Multilaterals	1066	6	4						
o/w: IsDB	496	3	2						
EIB	185	1	1						
Bilateral Creditors	3243	18	12	274	209	451	1.0	0.8	1.7
Paris Club	1042	6	4	31	0	111	0.1	0.0	0.4
o/w: France	894	5	3						
Spain	51	0	0						
Non-Paris Club	2201	12	8	243	209	340	0.9	0.8	1.3
o/w: EXIM China	1363	8	5						
EXIM India	234	1	1						
Bonds (Eurobonds)	4193	23	16	265	780	427	1.0	3.0	1.6
Commercial/Other International creditors	657	4	2	326	35	37	1.2	0.1	0.1
o/w: SGCIB	301	2	1						
AFREXIM	91	1	0						
SOEs	852	5	3	N/A	N/A	N/A	N/A	N/A	N/A
Domestic	3123	17	12	561	558	671	2.1	2.1	2.6
Held by residents, total	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Held by non-residents, total	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
T-Bills	102	1	0	0	100	0	0.0	0.4	0.0
Bonds	2298	13	9	393	293	554	1.5	1.1	2.1
Loans	723	4	3	168	151	117	0.6	0.6	0.4
SOEs	725	4	3	N/A	N/A	N/A	N/A	N/A	N/A
Memo items:									
Collateralized debt ²	0	0	0						
o/w: Related									
o/w: Unrelated									
Contingent liabilities	0	0	0						
o/w: Public guarantees									
o/w: Other explicit contingent liabilities ³									
Nominal GDP	26317								

1/As reported by Senegalese authorities according to their classification of creditors, including by official and commercial. Debt coverage is the same as the DSA.

2/Debt is collateralized when the creditor has rights over an asset or revenue stream that would allow it, if the borrower defaults on its payment obligations, to rely on the asset or revenue stream to secure repayment of the debt. Collateralization entails a borrower granting liens over specific existing assets or future receivables to a lender as security against repayment of the loan. Collateral is "unrelated" when it has no relationship to a project financed by the loan. An example would be borrowing to finance the budget deficit, collateralized by oil revenue receipts. See the joint IMF-World Bank note for the G20 "Collateralized Transactions: Key Considerations for Public Lenders and Borrowers" for a discussion of issues raised by collateral.

3/Includes other one-off guarantees not included in publicly guaranteed debt (e.g. credit lines) and other explicit contingent liabilities not elsewhere classified (e.g. potential legal claims, payments resulting from PPP arrangements).

**Statement by Mr. Aivo Andrianarivelo, Executive Director for Senegal
Mr. Facinet Sylla, Alternate Executive Director,
and Mr. Oumar Diakite, Advisor to the Executive Director
January 5, 2022**

I. Introduction

1. We would like to thank the Executive Board, Management, and staff for their continued support to our Senegalese authorities' efforts to preserve macroeconomic stability and foster high, sustainable, and inclusive growth. Our authorities value the constructive dialogue held with staff in the context of the fourth review under the Policy Coordination Instrument (PCI), the first reviews under the Stand-By Arrangement (SBA) and arrangement under the Standby Credit Facility (SCF), and the 2021 Article IV consultation. They are also grateful to the Managing Director for her high-level visit to Senegal in December 2021, and this, in spite of a challenging health context.
2. Policy discussions focused on maintaining macroeconomic stability and debt sustainability, strengthening the provision of public services, and boosting post-pandemic growth. In this regard, the authorities broadly concur with staff's assessment and main recommendations aimed notably at ensuring a downward trajectory of the fiscal deficit, enhancing revenue mobilization and efficiency of spending, and implementing a sustainable debt policy. Furthermore, the authorities remain committed to address key structural impediments to private sector-led and inclusive growth. To this effect, they will continue to strengthen job training, economic support to youth and women as well as social protection while also improving education.
3. Despite the difficult health and economic environment, economic indicators point to a rebound in economic activity in 2021, and the performance under program remains largely satisfactory. Going forward, the authorities will continue to implement sound policies and reforms to strengthen macroeconomic stability, achieve strong and sustainable economic growth, and firmly establish the country on the path of emergence, in line with their development strategy, *the Plan Sénégal Emergent* (PSE).

II. Economic Developments in 2021 and Outlook

4. The economic recovery in 2021 was stronger than anticipated. Real GDP growth is estimated to have reached 5 percent after the sharp slowdown in 2020. The strong health and economic policy responses of the authorities have helped to mitigate the impact of Covid-19 on economic activity, notably in the tertiary sector. The secondary sector recorded strong growth, driven in particular by the dynamism of mining activities. Growth in the primary sector, on the other hand, has slowed after the record 2020 agricultural season, and the decline in activity in the fishing sub-sector. Inflation accelerated to 3.2 percent in October (year-on-year), on the back of higher food prices. Core inflation (excluding energy and fresh produce) stood at 3.9 percent on a monthly basis, compared to October 2020.

5. In the fiscal area, budget execution at end-September 2021 was broadly in line with the objectives of the supplementary budget, thanks to the good performance of tax revenue, savings in the wage bill, and under-execution of investment expenditures. The authorities remained committed to maintaining the fiscal deficit at 5.4 percent of GDP and are confident that they are on course to attaining the regional norm of 3 percent deficit in 2024.
6. The banking sector continued to be resilient. Credit to the economy recorded a moderate increase of 3.6 percent over the first eight months of 2021, against 1.5 percent in 2020. Despite the pandemic economic impacts, the ratio of gross NPLs to total loans improved, declining from 13.3 percent in December 2020 to 12.9 percent at end-August 2021.
7. In the external sector, the trade balance improved on the back of the dynamism of exports of mining, groundnut, and chemical products, as well as a moderate increase in imports of intermediate and capital goods. Migrant remittances remained resilient with flows increasing by 25.3 percent year-on-year at end-June 2021. The current account deficit should remain high at around 10 percent of GDP in connection with the development of oil and gas projects.
8. The authorities broadly share the assessment of risks to the outlook, notably a resurgence of the pandemic, a deterioration of the security situation in the region, and a rise in commodity prices which would put pressure on external and fiscal accounts. They are also cognizant of risks related to climatic shocks (droughts and floods) and tightening of international financial conditions. Notwithstanding, they are optimistic that economic growth should accelerate to 5.5 percent in 2022, and average 10 percent over the period 2023-2024 in connection with the start of oil and gas production. The authorities also take note of debt sustainability risks but believe that the central government's outstanding debt-to-GDP ratio still remains below the regional threshold of 70 percent. This ratio is expected to start falling gradually from 2022, thanks to the consolidation of economic growth and domestic resources mobilization which will reduce the need for higher borrowing.

III. Program Performance

9. All performance criteria and quantitative targets at end-June 2021 were met, with the exception of the indicative quantitative target related to the ceiling on single-sourced procurement contracts. In addition, six out of eight structural benchmarks were implemented. Progress has also been made on the commitments related to the governance of the "Force COVID-19" resources. The budget execution reports, including detailed information on the execution of the fund's expenditure, the report of the monitoring committee, as well as the audit report of the public procurement office have been published. While the Court of Auditors was not able to produce its detailed audit report on the use of Covid-19 funds within the agreed deadline, the final report will be published in March 2022.

IV. Program Objectives and Policies for the Medium Term

10. The authorities remain committed to addressing the dual health and economic crises caused by the pandemic. The fight against the pandemic will continue given the recurrence of epidemic waves. To achieve the goal of vaccinating 80 percent of the population, the authorities will accelerate the implementation of their action plan against pandemics by intensifying the vaccination and communication campaigns and supporting the domestic production of vaccines against COVID-19 and other endemic diseases, as of 2022. This domestic production is supported by multiple technical and financial partners including, the European Union, the Partnerships for African Vaccine Manufacturing (PAVM), Germany, France, and Belgium.

Maintaining macroeconomic stability and debt sustainability

11. The authorities will continue their fiscal consolidation efforts in accordance with their commitment under the West African Economic and Monetary Union (WAEMU). To this end, they will enhance domestic revenue mobilization, improve the efficiency of public spending, and address underlying vulnerabilities and risks to public finances.
12. On the revenue side, the authorities will ensure strong ownership of the Medium-Term Revenue Mobilization Strategy (MTRS) by revenue administrations with the goal to achieve a tax-to-GDP ratio of 20 percent (excluding hydrocarbons) in 2024. The action plan for the implementation of the SRMT has been finalized, and encompasses notably a draft master plan for the digitalization of revenue administrations, the overhaul of regulations and prerogatives of the mixed tax-customs control brigade, and ensuring that the implementation unit of the SRMT is provided with adequate human and financial resources to carry out its mission. The authorities will also continue to reduce tax expenditures, and implement fiscal policy measures and reforms to strengthen the efficiency of revenue administrations.
13. The government will pursue its efforts to strengthen the legal and fiscal frameworks governing the distribution and management of future oil and gas revenues, based on international best practices. In this regard, the authorities have reiterated their commitment to four fundamental principles in a draft law relating to the distribution and management of future hydrocarbons revenues, namely (i) the prohibition of any early transfer of hydrocarbon resources and/or any anticipated security on these resources, (ii) the full budgeting of fiscal and non-fiscal revenues derived from the exploitation of hydrocarbons, (iii) the creation of an intergenerational fund to create prosperity for present and future generations, and (iv) the creation of a stabilization fund to protect against shocks from the volatility of hydrocarbon prices.
14. Regarding public spending, the priorities remain to continue fighting the Covid-19 pandemic, and revitalizing the economy through the implementation of the priority action plan (PAP2A), and key economic integration programs targeting young people and

women. After the significant investments made in capital-intensive sectors (transport, energy infrastructure, and services), the authorities are keen to put the cursor back on “social infrastructure” to stimulate the development of the education, health, and social services sectors. To contain the fiscal risk related to energy subsidies, the government will reactivate, if necessary, the decree relating to the revision of fuel prices, and will revise the decree on electricity prices taking into account the evolution of international fuel prices, while taking measures to protect the most vulnerable segments of the population through existing social safety nets and temporary support measures. On the other hand, the government will publish by the end of June 2022 a roadmap for the gradual elimination of energy subsidies from 2023, including a communication phase and support measures for disadvantaged households. The authorities would like to reiterate their appreciation for the recent SDR allocation which they plan to put to good use in a transparent manner.

15. On-going reforms to enhance the efficiency of public spending will also be pursued. The priorities in 2022 include the implementation of the multi-year budget framework. The 2020 budget was presented in program format, and steps are being taken to operationalize the programmatic chain of responsibility as part of the expected deconcentrating of procurement to be completed in 2022. In addition, significant progress has been made in recent years in the selection process of investment projects and programs. As a result, the number of projects and programs evaluated annually has increased from 12 in 2015 to 86 in 2021, and are now annexed to the Budget.
16. The authorities take good note of the debt sustainability analysis and recommendations. In this regard, they will continue to implement a prudent debt policy in order to remain at moderate risk of debt distress. In the short term, external borrowing will be limited, and non-concessional financing will only be used to finance projects with high internal rate of returns. This prudent debt policy will be supported by efforts to improve debt management. An action plan will be implemented to address shortcomings, notably the monitoring of the debt of public and parastatal entities, the governance of the information system, as well as technical and functional issues.

Strengthening the foundations for high and inclusive private sector-led growth

17. The Covid-19 pandemic has made clear the need to rapidly deploy support mechanisms to the poorest households in the event of shocks. The authorities are mindful of the need to continue improving the social protection system in order to increase the resilience of vulnerable households. In this connection, the family security scholarship program (*Programme de bourses de sécurité familiale, PBSF*) will be institutionalized and the single beneficiary registry (*Registre national unique, RNU*) extended, notably to include new vulnerable groups hit by the pandemic. The goal is to reach at least one million households by October 2022. Furthermore, the reform of the governance and management framework of the emergency socio-economic integration and youth employment program will be accelerated with the view to ensure its full effectiveness.

18. The PSE seeks to boost a strong endogenous development, based notably on the involvement of a strong national private sector. The authorities believe their policy goals in this area are ambitious and achievable for fostering deep economic transformation. In this regard, Senegal continues to make inroads, including in improving the business environment and promoting private sector development. Wide-ranging reforms are underway under the triennial program for reforming the business environment and competitiveness (PREAC), and the "Compact with Africa CwA", including in the areas of energy, real estate, and the judicial environment, while rationalizing administrative procedures, labor legislation, and improving credit information.
19. Achieving strong and inclusive economic recovery also hinges on enhancing financial inclusion. In this regard, the authorities are committed to implement their national financial inclusion strategy (2021-25) and achieve a financial inclusion rate of 65 percent of adults and 90 percent of small and medium enterprises (SMEs). The authorities are also keen to maintain financial stability and the restructuring process of the three non-systemic banks with capital shortfalls is being closely monitored by the BCEAO, the Banking Commission and the government.
20. On AML/CFT, the authorities continue to implement the action plan to take Senegal out of the reinforced surveillance of the International Financial Action Group (FATF). Strategic deficiencies in the fight against money laundering and the financing of terrorism are being steadfastly addressed in this context.

V. Conclusion

21. Our Senegalese authorities remain committed to the objectives of the PCI, and the program supported by the SBA/SCF. These objectives continue to be consistent with their own grown development strategy- PSE. They will continue to implement sound policies and reforms aimed at achieving strong and sustainable economic growth, preserving macroeconomic stability, and improving public financial management and the business environment to firmly establish Senegal on the path of emergence.
22. Based on the satisfactory progress achieved in program implementation and the authorities' strong commitment to pursue needed reforms, we seek Directors' support for the completion of the fourth review under the PCI, the first reviews under the SBA and arrangement under the SCF, and the request for modification of performance criteria and quantitative targets.