INTERNATIONAL MONETARY FUND

IMF Country Report No. 22/197

SENEGAL

June 2022

FIFTH REVIEW UNDER THE POLICY COORDINATION INSTRUMENT, SECOND REVIEWS UNDER THE STAND-BY ARRANGEMENT AND THE ARRANGEMENT UNDER THE STANDBY CREDIT FACILITY, AND REQUESTS FOR AUGMENTATION OF ACCESS, WAIVER OF THE NONOBSERVANCE OF A PERFORMANCE CRITERION, AND MODIFICATION OF A PERFORMANCE CRITERION AND QUANTITATIVE TARGETS—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR SENEGAL

In the context of the Fifth Review Under the Policy Coordination Instrument, Second Reviews Under the Stand-By Arrangement and the Arrangement Under the Standby Credit Facility, and Requests for Augmentation of Access, Waiver of the Nonobservance of a Performance Criterion, and Modification of a Performance Criterion 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 June 22, 2022, following discussions that ended on May 17, 2022, with the officials of Senegal on economic developments and policies underpinning the IMF arrangement under the Stand-By Arrangement. Based on information available at the time of these discussions, the staff report was completed on June 7, 2022.
- A **Debt Sustainability Analysis** prepared by the staff[s] of the IMF and the World Bank.
- A **Statement by the Executive Director** for Senegal.

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

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International Monetary Fund
Washington, D.C.

IMF Executive Board Completes the Fifth Review Under the Policy Coordination Instrument, and the Second Reviews under the Stand-By Credit Facility and the Stand-By Arrangement, and Request for Augmentation for Senegal

FOR IMMEDIATE RELEASE

- The war in Ukraine and trade sanctions against Mali are having significant spillovers on Senegal.
- The authorities are taking temporary and targeted measures to support the most vulnerable and to stabilize food prices, while preserving debt sustainability.
- Rebuilding buffers is critical through an accelerated implementation of the domestic revenue mobilization strategy, prudent debt management, and enhanced spending efficiency, notably by gradually phasing out subsidies and reducing recourse to single source procurement.

Washington DC – June 22, 2022: Today, the Executive Board of the International Monetary Fund (IMF) completed the Fifth Review under the Policy Coordination Instrument (PCI) and the Second Reviews under the Stand-by Arrangement (SBA) and the Arrangement under the Standby Credit Facility (SCF). The completion of the reviews enables the immediate release of about US$215.78 million (SDR 161.82 million) to Senegal. The Board also approved an augmentation of access and a waiver of the non-observance of performance criterion, and the modification of a performance criterion and quantitative targets. As a result, total access under the blended 18-month SBA/SCF arrangements approved in June 2021 (See Press Release No. 21/159) was increased by about US$172.6 million (SDR 129.44 million), from about US$650 million (SDR 453 million), at the time of approval, to about US$776.67 million (SDR 582.44 million).

Soaring global fuel and food prices, compounded by the war in Ukraine, and, to a lesser extent, the freeze on trade with Mali due to sanctions by the Economic Community of West African States (ECOWAS), are disrupting the post-pandemic recovery and exacerbating difficult policy trade-offs. As a result, growth this year was revised down to about 5 percent, whereas inflation is expected to reach 5.5 percent, driven by higher food and energy prices.

The authorities have adopted a supplementary budget in May 2022 to accommodate the temporary and targeted measures to support the most vulnerable and to stabilize food prices consumed by lower and middle-income households, while preserving debt sustainability. The new spending incorporated in the supplementary budget will bring the fiscal deficit this year to 6.2 percent of GDP compared to 4.8 percent of GDP in the initial budget. Public debt is expected to reach 75 percent of GDP in 2022.

Despite these challenges, the outlook points to robust economic activity over the medium term provided appropriate policies are implemented. However, this outlook is subject to significant uncertainty and risks are titled to the downside. These include a protracted war in Ukraine, a prolonged freeze on trade with Mali, a flare-up of the COVID-19 pandemic, a deterioration of the regional security situation, rising social demands, a severe tightening of external financial conditions, and the possible impact of adverse climate conditions.

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

"Performance under the program has been broadly satisfactory despite a challenging environment. The Senegalese economy entered 2022 with strong growth momentum but the spillovers from the war in Ukraine are hampering this rebound.

"The post-pandemic recovery is now facing headwinds from soaring global fuel and food prices and an increasingly challenging external environment. Near-term growth prospects have weakened, inflationary pressures have emerged, and fiscal and external financing needs have increased.

"The authorities' fiscal policy response to these challenges appropriately supports vulnerable households through temporary and targeted measures as well as a relaxation of the fiscal deficit. Reducing debt vulnerabilities, which have been growing steadily over the last decade, will need a steadfast implementation of the medium-term fiscal consolidation strategy anchored by reaching a fiscal deficit of 3 percent of GDP by 2024.

"Rising energy subsidies due to higher global oil prices are an important fiscal risk. The recent increase of selective energy prices, carefully designed to protect the most vulnerable, is a step in the right direction to mitigate this risk. Over the medium-term, a gradual elimination of energy subsidies is a priority, which should be accompanied by measures to strengthen existing social safety nets.

"Fiscal and external resilience will need to be further strengthened through an accelerated implementation of the domestic revenue mobilization strategy, prudent debt management, and enhanced spending efficiency, notably by reducing recourse to single source procurement. Finalizing the fiscal framework to manage oil and gas revenues and improving the business environment to attract private investment and create jobs remain a priority.

"While the financial system is overall sound, vulnerabilities need to be monitored and deficiencies in the AML/CFT framework need to be tackled with greater urgency to avoid possible negative macroeconomic and reputational repercussions."

INTERNATIONAL MONETARY FUND

SENEGAL

June 7, 2022

FIFTH REVIEW UNDER THE POLICY COORDINATION INSTRUMENT, SECOND REVIEWS UNDER THE STAND-BY ARRANGEMENT AND THE ARRANGEMENT UNDER THE STANDBY CREDIT FACILITY, AND REQUESTS FOR AUGMENTATION OF ACCESS, WAIVER OF THE NONOBSERVANCE OF A PERFORMANCE CRITERION, AND MODIFICATION OF A PERFORMANCE CRITERION AND QUANTITATIVE TARGETS

EXECUTIVE SUMMARY

Context and Outlook. The war in Ukraine is disrupting the post-pandemic recovery and exacerbating difficult policy trade-offs. This adds to a series of challenges facing the country, including the pandemic, the Ecowas sanctions against Mali, regional instability, and rising social demands. As a result, growth was revised down to 5 percent and inflation up to 5.5 percent in 2022. Medium-term prospects remain favorable with oil and gas production expected to start in 2023.

Program performance. Program performance was broadly satisfactory. All but one end-December 2021 performance criteria and one of three indicative targets were met. Four out of eight structural benchmarks were implemented on time. Progress is ongoing to finalize the remaining ones.

Augmentation request. The authorities are requesting an augmentation of access by SDR129.44 million (or 40 percent of quota) to cover higher short-term balance of payments needs. The additional financing will bolster food security and help cope with rising and volatile fuel and food prices owing to the war in Ukraine.

Staff views. Staff supports the authorities' requests for: (i) completion of the fifth PCI review, second reviews under the Stand-By Arrangement and the arrangement under the Standby Credit Facility, (ii) augmentation of access, and (iii) modification of a performance criterion and quantitative target.

Approved By
Montfort Mlachila (AFR) and Natalia Tamirisa (SPR)

Discussions were held in Washington DC (April 19-22, 2022) and Dakar (May 5-17, 2022). The mission comprised Mr. Gemayel (head), Messrs. Mbohou Mama, Rosa, Stenzel (all AFR), Hamliri (FAD), and Hart (SPR). The mission was assisted by Mr. Koulet-Vickot (Resident Representative), Messrs. Ba and Fame (local economists), and Ms. Wane (local administrative assistant). Messrs. Andrianarivelo and Diakite (OED) attended some meetings. The mission met with President Macky Sall, Minister of Finance and Budget Abdoulaye Daouda Diallo, Minister of Economy, Planning and Cooperation, Amadou Hott, Minister of Commerce and Small and Medium Sized Enterprises, Aminata Diatta, Minister of Agriculture and Rural Equipment, Moussa Baldé, National Director of the BCEAO Ahmadou Al Aminou Lo, other senior officials, development partners, civil society, and private sector representatives. Ms. Singh and Ms. Pilouzoue (both AFR) contributed to this report.

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CONTEXT

1. **Senegal is confronted with higher global oil and food prices at a time where policy buffers are rapidly shrinking.** This new shock comes at a time when Senegal already grapples with scars from the pandemic, rising social demands, regional insecurity, and depleted policy buffers. Retail prices for fuel, electricity, and key staple food are administered and socially sensitive, resulting in sizeable fiscal pressures. Fiscal space has narrowed rapidly as public debt has increased to over 73 percent of GDP in 2021, up by 10 percentage points since 2019.

2. **The war in Ukraine and, to a lesser extent, ECOWAS sanctions against Mali, are significantly affecting Senegal (Annex I).** Deteriorating terms of trade and lower external demand are expected to dampen growth prospects, increase inflationary pressure, widen energy subsidies, and worsen the trade balance. Food insecurity is becoming a serious concern, which could affect about 5 percent of the population. Financial spillovers, however, are expected to be limited.

3. **Given the current difficult context, the authorities responded by providing support to the economy while preserving debt sustainability.** New emergency measures were adopted that will (i) stabilize staple food prices, (ii) allow for additional resources for energy subsidies, (iii) accommodate additional cash transfers to protect the vulnerable, and (iv) allocate new spending for security and public wages. While debt levels will increase in 2022, the authorities remain committed to their medium-term fiscal consolidation strategy, which is critical to maintaining debt on a sustainable path.

4. **The compounded effect of the deteriorating economic and social environment has prompted the authorities to seek assistance from their main international partners**. To that effect, they have requested an augmentation of access under the Stand-By Arrangement (SBA) and the arrangement under the Standby Credit Facility (SCF) of SDR 129.44 million (40 percent of quota), which will help in addressing the higher balance of payments need in 2022. Other partners, including the World Bank and the African Development Bank, are also increasing their budget support this year.

5. **In contrast, the Covid-19 pandemic has fallen off public concern, though a significant part of the population remains unvaccinated.** Only 15 percent of the population (15 years and older) is fully vaccinated, raising vulnerabilities to future variants of the virus. Whereas the vaccination campaign has stalled due to vaccine hesitancy and the perception of an abating pandemic (Text Figure 1).

6. **Senegal is in the midst of a busy political period.** The long-delayed local elections were held in January 2022. The political attention is now turning to legislative elections slated for July 31, 2022. The social climate is somewhat tense, forcing the government to grant pay increases to end teachers and health workers' strikes.

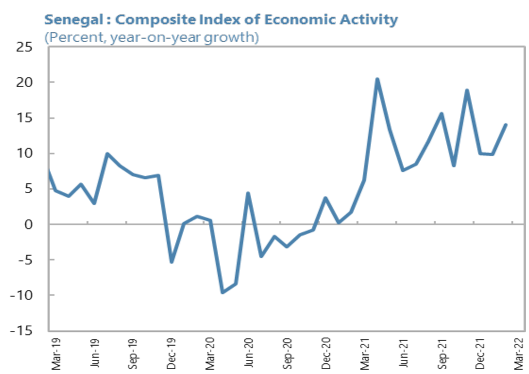
RECENT ECONOMIC DEVELOPMENTS

7. **Economic activity exceeded expectation in 2021 with the momentum enduring early this year.** Growth rebounded to 6.1 percent– higher than the projected 5 percent. While non-agriculture growth exceeded expectations (+7.1 percent) driven by a dynamic secondary (+10.9 percent) and tertiary sectors (+5.7 percent), agricultural production declined (-2 percent) following last years' bumper harvest. High frequency activity indicators suggest last year's growth momentum continued during 2022Q1 (MEFP ¶4).

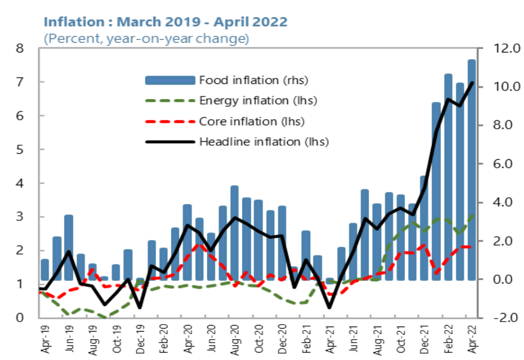
8. **Inflation was under control in 2021 before shooting up in early 2022.** Average annual inflation stood at 2.2 percent in 2021 but picked up to 7.0 percent y-o-y by April 2022, mainly driven by food prices, which increased by 11.3 percent y-o-y. Soaring global food and fertilizers prices, and higher shipping cost, compounded by the war in Ukraine, have begun to pass-through to domestic food prices (Annex II). Core inflation, excluding food and energy prices, rose by less than 2 percent y-o-y, but still exceeded pre-pandemic levels (Text Figure 1).

Text Figure 1. Senegal: Recent Economic Developments and Evolution of the Covid-19 Pandemic

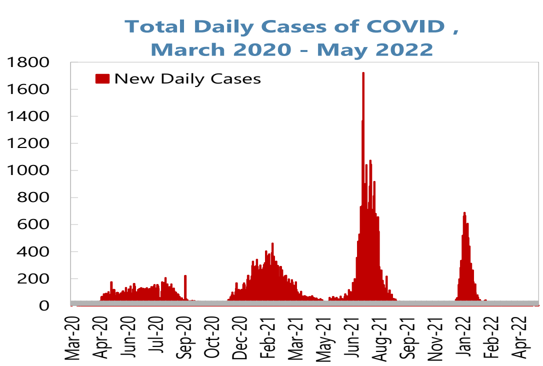
The strong rebound in economic activity observed in 2021 continued into 2022Q1….



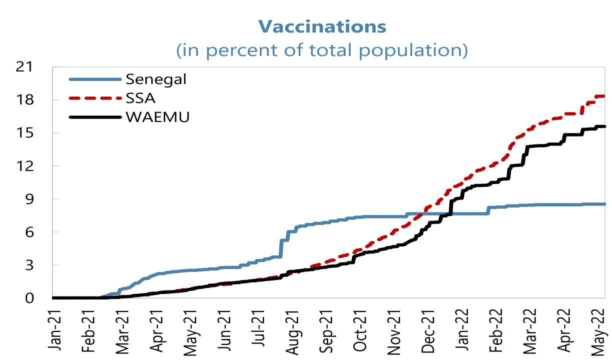
…while food prices have soared in 2022, bringing inflation to 7.0 percent in April-2022.



The last COVID-19 wave in January and February was short-lived.



The vaccination campaign started swiftly but has stalled for almost a year.



Source: Senegalese authorities, John Hopkins University and IMF Staff calculations.

9. The external position weakened. The current account deficit is estimated to have significantly widened to 13.3 percent of GDP in 2021, primarily driven by a surge in FDI-financed services imports related to the hydrocarbon projects. The trade deficit deteriorated to 21.1 percent of GDP, while remittances amounting to 10.6 percent of GDP continued to support incomes (MEFP ¶5).

10. The banking system remained resilient. Broad money grew by 15.6 percent in 2021, buoyed by increasing credit to the economy (+12 percent), which persisted in 2022Q1 (13.9 percent y-o-y). The stock of nonperforming loans declined as of end-March to 11.3 percent, while the banking sector's capital adequacy ratio remained comfortable (12 percent) (MEFP ¶8).

11. The fiscal deficit in 2021 stood at 6.3 percent of GDP, in line with the program target (Text Table 1)**.** Adjustments to externally financed investment spending compensated shortfalls in project grant disbursements and domestic revenues. The underperformance of tax revenues was mostly driven by indirect taxes, partly offset by exceptional dividends from the electricity utility company following the clearance of cross-debt with the central government. The SDR allocation was partially used for the health sector, social protection, and to support economic recovery (Text Table 2). Fiscal developments during 2022Q1 suggest a strong revenue performance and rapid spending execution (MEFP ¶6).

Text Table 1. Senegal: Recent Fiscal Developments

(In billions CFAF, unless otherwise indicated)

	2021		2022		
	Actual	in percent of GDP	Q1 2022	revised 2022 budget	in percent of GDP
Revenues and grants	2,981	19.5	703	3,498	20.7
Revenues (excl. grants)	2,850	18.6	693	3,232	19.1
Tax Revenues	2,595	16.9	660	3,052	18.0
Non-Tax Revenues	255	1.7	33	180	1.1
Grants	131	0.9	10	266	1.6
Budgetary	17	0.1	1	46	0.3
Projects	114	0.7	9	220	1.3
Expenditure	3,945	25.8	1,441	4,553	26.9
Current (excl. interest)	2,231	14.6	692	2,449	14.5
Personnel	908	5.9	227	1,069	6.3
Goods and services	355	2.3	97	321	1.9
Grants, Subsidies and other spending	968	6.3	368	1,059	6.3
Interest	307	2.0	123	350	2.1
Investment	1,407	9.2	626	1,754	10.4
Externally Financed	630	4.1	204	735	4.3
Internally Financed	777	5.1	422	1,019	6.0
Balance	-964	-6.3	-738	-1,055	-6.2

Source: Senegalese authorities and IMF staff calculations.

Text Table 2. Senegal: Use of the SDR Allocation
(In billions of CFAF unless otherwise indicated)

SDR Allocation	246
Percent of GDP	*1.6%*
Uses	
2021 expenditure	**141**
Percent of GDP	*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**
Financial transactions	55
2022 financing	50

Source: Senegalese authorities and IMF staff calculation.

12. **Public debt stood at 73 percent of GDP at end-2021.** The increase in the stock of debt was driven by the fiscal deficit, investments in oil and gas production, and pre-financing. The clearance of pre-2020 unmet obligations,[1] a core program objective, brought total repayments between 2019 and 2021 to 3 percent of GDP.[2] In April 2022, a state-owned enterprise issued Sukuks (2 percent of GDP), which will be used to finance the purchase of currently leased public office buildings (MEFP ¶7).

PROGRAM PERFORMANCE

13. **Program performance through end-December 2021 was broadly satisfactory (MEFP ¶10-¶12).**

- All but one quantitative performance criteria (PCs/QTs) were met.[3] PCs/QTs on the deficit, net financing requirement, debt ceiling, and the non-accumulation of external arrears were met. Tax revenues fell short by 0.6 percent of GDP, half of which due to the off-budget treatment of revenues related to the road fund (TUR), whereas the remainder is related to a weak performance of the VAT and the weaker-than-expected yield of a mid-2021 package of revenue measures.
- One out of three indicative targets (ITs/QTs) were met. The floor on social spending was met with a significant margin. However, the ceiling on the share of contracts awarded through single-source procurement was breached, owing to the persistence of direct awarding of unsolicited offers, tied aid practices, and the waiving of regular procurement procedures for

[1] Unmet obligations are defined as on- and off-budget spending of the central government vis-à-vis third parties for which no resources were set aside in original budget appropriations.

[2] See Text Table 3 in IMF Country Report No. 20/11.

[3] Under the PCI, 5 out of 8 quantitative targets were met.

general interest purposes. The ceiling on the use of simplified procedures for non-personalized services exceeded the program target temporarily due to the large clearance of unmet obligations in 2021Q4.

- Four out of eight December structural benchmarks (SBs) were met. The four unmet SBs included: (i) the work on digitalizing the land management system, which will become operational later this year, (ii) setting up an online collateral registry, for which a pilot is expected to become operational by November, (iii) reducing tax exemptions for a gain of 0.2 percent of GDP, now expected in the 2023 budget, and (iv) merging all funds that support youth and women employment and entrepreneurship in a single fund, which was completed from a budgetary perspective but awaits the legal acts to close the nonoperational agencies, due before year-end.
- Governance measures regarding COVID-19 spending have been mostly implemented with the publication of two key reports prepared by the Fonds Force COVID-19 monitoring committee and the Public Procurement Regulatory Authority.[4] The audit court is in the process of finalizing its special report and has transmitted it to the government for comments. Publication is now expected in July instead of March as the period covered by the report was extended to also cover the first quarter of 2021. The authorities should follow-up on the findings of the COVID-19 related audits and investigate any potential misuse of funds, including by preparing an action plan once the report by the audit court is finalized (MEFP ¶13).

POLICY DISCUSSIONS

Discussions focused on appropriate policies to (i) address the impact of higher food and fuel prices, (ii) promote fiscal and debt sustainability, and (iii) foster private sector-led growth.

A. Outlook and Risks

14. Senegal's near-term outlook is impacted by the war in Ukraine, the terms of trade shock, and the ECOWAS sanctions against Mali; however, medium term prospects should remain robust provided appropriate policies are implemented (Text Figure 2) (MEFP ¶17, ¶18).

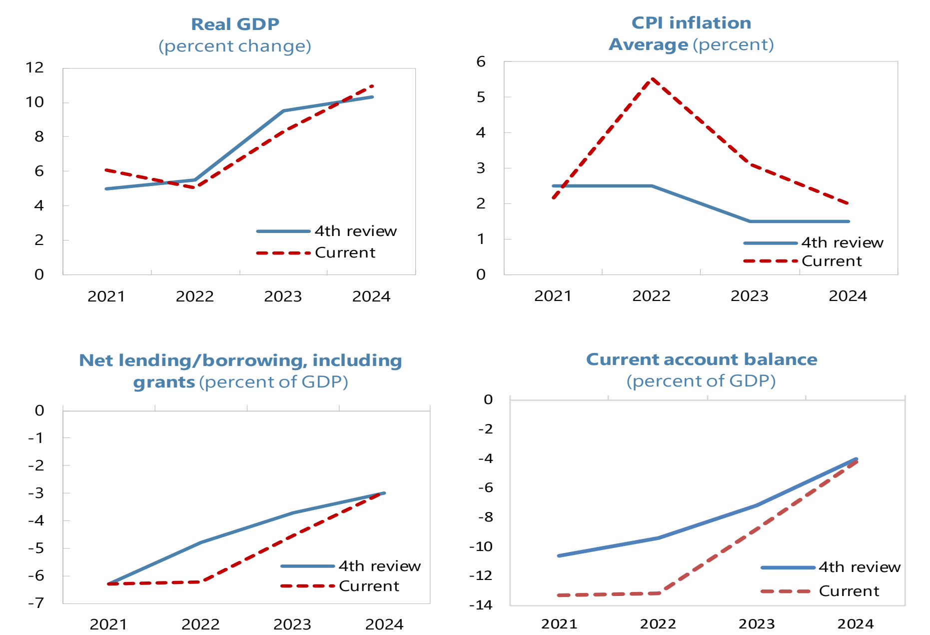
- **Growth**: The economy entered 2022 with a strong growth momentum. However, as a result of the various shocks, growth this year has been revised down to 5 percent (-0.5 percentage point compared to the 4th review), slightly below the estimated medium-term non-oil trend growth of 6 percent. Growth in 2023 and 2024 will receive a temporary boost from oil and gas production and is expected to average around 10 percent before leveling off around 5 percent.
- **Inflation**: Inflation is projected to pick up to 5.5 percent this year (+3 percentage points compared to the 4th review) driven by higher food and energy prices before declining to 2 percent over the medium term.

[4] Summary of main findings in Box 1 of IMF country report no. 22/08.

- **External position**: The current account deficit is expected to remain at about 13 percent of GDP in 2022. The significant deterioration in the terms of trade will be broadly offset by lower services imports as the hydrocarbon projects near their production phase. Over the medium term, the current account deficit will narrow significantly to about 4 percent of GDP, benefitting from oil and gas exports starting in late 2023.

15. The baseline outlook is subject to considerable uncertainty and risks are tilted to the downside (Annex IV). Higher oil and gas prices over the medium-term and European efforts to reduce reliance on Russian energy imports, could increase hydrocarbon-related investments and create upside risks. On the downside, a protracted war in Ukraine and sanctions against Russia combined with supply disruptions could lead to a sharper slowdown in global economic growth or further volatility in commodities prices. A prolonged freeze on trade with Mali –Senegal's main trading partner in the region– could negatively affect production and exports. Further risks include a renewed flare-up of the COVID-19 pandemic, including lockdowns in key manufacturing and trade hubs, a deterioration of the regional security situation, rising social tensions, slower reform implementation in the run up to the July parliamentary elections, a severe tightening of external financial conditions, and adverse weather conditions (MEFP ¶19).

Text Figure 2. Senegal: Macroeconomic Indicators, 2021–2024



Sources: Senegalese authorities; and IMF staff calculations.

B. Balancing Act: Addressing the Fallout from the War in Ukraine While Preserving Debt Sustainability

16. Fiscal pressures have been building since the adoption of the 2022 budget. In response, the authorities decided to recalibrate their fiscal stance given the weaker economic outlook, the social burden associated with soaring food and energy prices, rising social demands amid prolonged strikes in the health and education sector, and heighted regional insecurity.

17. In particular, higher global energy prices are exerting significant pressure on the budget (Annex III). The 2022 budget included 0.9 percent of GDP for energy subsidies based on an average price of US$75 per barrel of oil and a commitment to keep energy subsidies below 1 percent of GDP in 2022 (SB, June 2022). At current oil prices and unchanged fuel and electricity prices, staff estimates that subsidies would triple to 3 percent of GDP, thereby crowding out priority spending. An immediate increase in fuel and electricity prices of about 60 percent and 55 percent, respectively, would be required to eliminate the need for subsidies going forward, which would be devastating for a large part of the population and the economy.

18. Faced with these challenges, staff and the authorities agreed on a supplementary budget, which was approved by Parliament in May (Text Table 3). The revised budget targets an overall deficit of 6.2 percent of GDP—1.4 percentage point higher than the commitment made at the time of the last review. The temporary relaxation balances the short-term needs for higher spending with medium-term sustainability. The budget reflects direct deficit-increasing measures to cope with the food and energy price shock (1.7 percent of GDP), public sector wage increases (0.6 percent of GDP), and additional security-related spending (0.4 percent of GDP) (MEFP ¶20). To contain the deficit, the authorities identified savings of 0.7 percent of GDP and revenue enhancing measures of 0.4 percent of GDP.[5]

Text Table. 3. Senegal: Accommodating Fiscal Pressure while Preserving Debt Sustainability

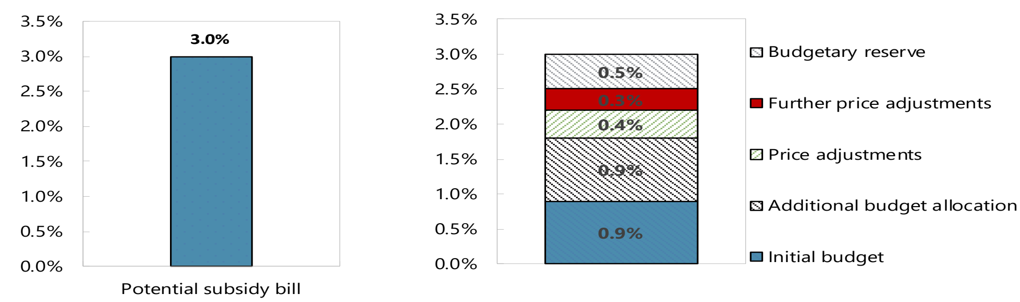
Deficit increasing measures compared to the original budget	in CFAF bn	in % of GDP
Revenue loss from food price stabilization measures	72	0.4
Exceptional cash transfers	43	0.3
Agricultural subsidies	10	0.1
Energy subsidies	150	0.9
Security-related spending	74	0.4
Public sector compensation	100	0.6
Fiscal impact	449	2.7
Offsetting measures to contain the deficit increase	in CFAF bn	in % of GDP
Exceptional non-tax revenue (land sale)	40	0.2
Increase of personal income tax and administrative measures	34	0.2
Lower externally-financed investment spending	65	0.4
Lower domestically-financed investment spending	30	0.2
Savings on current transfers to agencies	9	0.1
Fiscal Impact	178	1.1
Net Impact on fiscal deficit	in CFAF bn	in % of GDP
Net impact of new fiscal measures	271	1.6
Base effect from upward revision of nominal GDP		0.2
New fiscal deficit	1055	6.2
Memo item: NGDP		16922

Source: Senegalese authorities and IMF staff calculations.

[5] The 0.2 percentage points discrepancy between the increase of the fiscal deficit of 1.4 percentage points and the net impact of deficit-enhancing (+2.7 percentage points) and deficit-reducing measures (-1.1 percentage points) is due to the upward revision of nominal GDP.

19. Given the soaring energy bill, staff and the authorities agreed that containing wasteful subsidies should be a priority this year, while protecting the most vulnerable (Text Figure 3). The authorities decided to adjust selected energy prices , which will generate savings of about 0.4 percent of GDP while shielding lower income households. In addition, the authorities agreed to: (i) allocate additional resources to subsidies (+0.9 percent of GDP) in the supplementary budget; (ii) further adjust prices (0.3 percent of GDP), if needed; and (iii) commit to tapping into the budgetary reserves, consisting largely of pre-identified investment projects that could be postponed (about 0.5 percent of GDP) (MEFP ¶20).

Text Figure 3. Senegal: Energy Subsidies in 2022
(In percent of GDP)



Source: IMF staff calculations.

20. With food inflation exceeding 11 percent in April (y/y), food insecurity has become a serious concern (Annex II). To address it, the authorities have adopted a mix of measures that includes: (i) lifting customs duties and VAT on selected staple foods[6] (0.4 percent of GDP), (ii) conducting an emergency, one-off cash transfer operation to support the income of about 25 percent of the population (0.3 percent of GDP), and (iii) increasing subsidies for local food production (0.1 percent of GDP) (MEFP ¶21).[7]

21. Given the heightened uncertainty associated with the spillovers from the war in Ukraine, the authorities have underpinned the supplementary budget with several new measures in order to contain the overall deficit at 6.2 percent of GDP (MEFP ¶¶22-23):

- **Revenue:** Despite the shocks, domestic revenue[8] projections were maintained based on an exceptional revenue from a land sale and the encouraging results from ongoing reforms to expand the tax base.[9] Additional new measures include a slight increase of the personal income tax on high earners, bolstering cooperation between the tax and customs departments, and strengthening controls at customs.

[6] These include wheat, flour, vegetable oil, rice, and sugar.

[7] See Annex II Text Table 1 for a list of measures to stabilize food prices and support the vulnerable.

[8] Domestic revenues increased by 29 percent through April (y-o-y).

[9] The number of registered companies increased by 80 percent since end-2020.

- **Expenditure:** The authorities identified savings of 0.6 percent of GDP by postponing investment projects, mainly in infrastructure, digitalization, and transport services by a year and reducing transfers to public agencies.
- **Budgetary reserve:** A reserve of 0.5 percent of GDP will serve to guard against fiscal risks and to cover possible additional energy subsidy needs.[10]

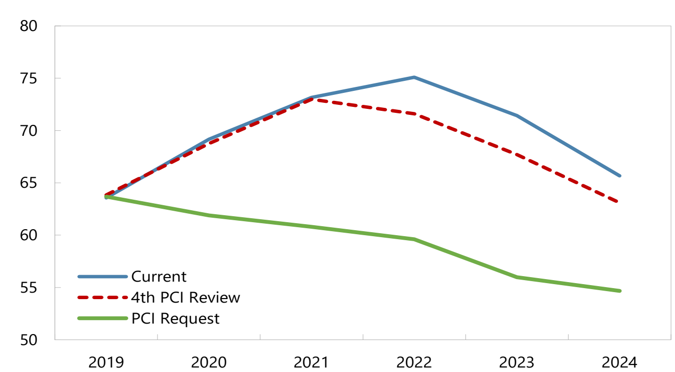
22. Additional financing needs are mostly covered by external concessional support. The World Bank and the African Development Bank are expected to provide higher than programmed budget support this year of 0.5 percent of GDP. Together with the augmentation of Fund financing (0.6 percent of GDP), the total will cover about 2/3 of the additional financing needs. The remainder is expected to be raised on the regional market (MEFP ¶24).

C. Strengthening Medium-Term Fiscal Resilience and Debt Sustainability

23. The authorities and staff agreed that a more efficient and growth-friendly fiscal framework is needed to set public debt on a downward trajectory (MEFP ¶25). The framework will be anchored around a credible fiscal consolidation plan with the aim of reaching a fiscal deficit of 3 percent of GDP by 2024, thus requiring a sizeable annual improvement in the primary balance of 1.5 percent of GDP in 2023 and 2024. To limit the impact on the economy and enhance fiscal resilience going forward, a growth friendly consolidation strategy will be pursued, which will focus on (i) strengthening debt management, (ii) gradually phasing out energy subsidies, (iii) strengthening domestic revenue mobilization, (iv) enhancing fiscal transparency and procurement, and (v) implementing the new oil and gas revenue management framework.

Public Debt Sustainability and Management

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



Source: Senegalese authorities and IMF staff calculations.

24. Senegal remains at moderate risk of debt distress with limited space to absorb future shocks (see DSA). In addition to the higher fiscal deficit, new borrowing by state-owned enterprises is expected to increase the debt/GDP ratio to 75 percent by end-2022. The updated DSA shows that Senegal has limited space to absorb future shocks and is vulnerable to growth and external sector shocks. Staff emphasized the importance of refraining from any additional external borrowing in 2022 and starting in 2023 to limit new borrowing to concessional financing unless the investment is associated with high returns. Over the

[10] Of which 0.2 percent of GDP general reserve and 0.3 percent of GDP pre-identified domestically and externally financed investment projects annexed to the revised budget.

medium-term, public debt-to-GDP is expected to steadily decline, driven by robust growth and a revenue-based fiscal adjustment towards the regional deficit target (MEFP ¶26).

25. Staff emphasized the importance of continuing to strengthen the effectiveness of debt management practices. Efforts in recent years to strengthen the oversight of public debt by the national debt committee (CNDP) are starting to bear fruit but require ongoing vigilance to ensure that the framework is systematically implemented in practice.[11] The implementation of the authorities' action plan to follow-up on last year's debt audit is needed to strengthen the quality and timeliness of debt data provided by state-owned enterprises (MEFP ¶27).

Phasing out Energy Subsidies

26. Staff and the authorities agreed on the importance of phasing out energy subsidies. Moving towards flexible fuel and electricity prices would limit fiscal risks and have important distributional and environmental benefits. Current investments in the energy sector –e.g. gas-to-power strategy and the upgrading of the domestic refinery—have the potential to durably lower domestic energy production costs. Together with the initiated price adjustments, they are expected to lead to a significant reduction of the subsidy bill starting 2023 even if global oil prices remain elevated. However, staff emphasized that price liberalization should be accompanied by targeted support to vulnerable households and selected industries. Hence, the importance of the publication of the roadmap for the gradual elimination of subsidies starting in 2023 (SB, June 2022), which should include a clear path towards automatic price adjustment, targeted and durable social protection measures, and a comprehensive communication plan (MEFP ¶25).

Strengthening Domestic Revenue Mobilization

27. Efforts are underway to strengthen domestic revenue mobilization, but more needs to be done. Reaching a non-oil tax to non-oil GDP ratio of 20 percent by 2024 requires a decisive break with past performance. Progress has been made with regard to increasing the number of registered taxpayers (SB, June 2022), digitalizing processes, improving coordination between the tax and customs directorates, setting up the medium-term revenue strategy (MTRS) implementing unit, and strengthening the MTRS monitoring by setting up a quantitative evaluation framework (SB, June 2022) (MEFP ¶25).

28. However, tax policy lacks strategic direction. Proposals are currently developed at various levels in the administration without clear coordination. Progress on the reduction of regressive tax exemptions has fallen short of expectations and taxpayer compliance remains unsatisfactory due to the limited effectiveness of controls and the incomplete implementation of the automatic customs fee for importers not current on their tax obligations. The communication within the administration and to taxpayers should be stepped up to better convey the strategic objectives of the MTRS and to strengthen ownership.

[11] The recent sukuk issuance of CFAF 330bn did not go through the regular CNDP procedures.

Enhancing Fiscal Transparency and Procurement

29. The authorities are progressing on the PFM reform agenda. The updating of the 2018 PFM reform strategy to reflect recommendations from donor-provided technical assistance (TA) should support reform momentum going forward and should be finalized quickly. The implementation of the treasury single account (TSA) is ongoing, with the closure of 65 percent of non-necessary general government accounts and progress is ongoing to gradually close the remaining accounts. The transition to program budgeting has been completed for the central government. Budget preparation and execution should be supported by the systemic use and the strengthening of commitment, procurement, and cash plans (MEFP, ¶28-¶30).

30. Efforts to limit single-sourced procurement is ongoing and should be stepped up to increase efficiency and reduce the scope for corruption. The share of single-sourced projects remains above the program target of 15 percent, driven by the continued direct awarding of major projects following unsolicited offers, the persistence of tied aid practices by some donors, and discretionary decisions to waive standard procurement procedures by invoking public interest exceptions. To further limit single-sourced procurement, the authorities intend to update the procurement code by strictly limiting unsolicited offers (SB, June 2022). Staff underscored the importance to further strengthening safeguards in the new code, including by requesting stronger justifications for the overruling of procurement legislation for general interest purposes and strengthening *ex post* controls of such decisions. Staff also strongly recommended to continue monitoring the share of single-sourced contracts based on the value of contracts rather than on the number of contracts as proposed by the authorities. The former provides a better indication of the importance of these contracts relative to overall spending.

Implementing the New Oil and Gas Revenue Management Framework

31. The fiscal framework for transparent oil and gas revenue management is being finalized. The hydrocarbons revenue management law was adopted and is now complemented with implementing decrees to set up a committee for revenue forecasting that follows a clearly established methodology and the intergenerational savings and stabilization funds (MEFP, ¶31). The non-oil fiscal anchor established in the law will become operational as part of the 2023-26 medium-term fiscal framework (SB, June 2022). Fund staff continue to provide the necessary capacity development in this area.

D. Financial Stability and AML/CFT

32. There is a renewed attention to addressing long-standing weaknesses of the three non-systemically ailing banks and the postal group. Staff noted that the restructuring of the three small banks is overdue and recommended that banks that are unable to meet minimum solvency requirements by the agreed timeframe should be liquidated. Regarding the post office group ("La Poste"), given its increasingly dire financial situation, staff underlined the importance of strictly enforcing administrative measures agreed upon to limit budgetary risks and quickly reviewing and implementing the restructuring roadmap (MEFP ¶37, ¶38).

33. Additional efforts are necessary to address the strategic deficiencies in the anti-money laundering and combating the financing of terrorism (AML/CFT) framework. While progress has been noticeable regarding technical compliance with the adoption of thirteen legal and regulatory acts, further efforts are needed, including with respect to targeted financial sanctions. The authorities are working on strengthening the effectiveness of the AML/CFT framework, notably to raise awareness and strengthen the supervision and technical capacities of designated non-financial businesses and professions (DNFBPs). Staff reiterated the importance of completing the implementation of the action plan by the September 2022 deadline to avoid possible negative macroeconomic repercussions should Senegal remain on the enhanced oversight list of the Financial Action Task Force (FATF) (MEFP ¶¶41-42).

E. Social Protection and Inclusive Growth

34. The authorities aim to expand the social safety net, address youth unemployment, and improve the business environment, which are key to withstanding external shocks, attracting investment, and generating high and inclusive growth. Efforts are underway to double the coverage of the national database for social protection (RNU) to one million households (almost half of the population) but gathering all required information will require more time and is now expected to be finalized by June 2023. Cash transfers can now be executed via mobile money instead of the national post office and the authorities committed to switching to digital payments by November 2022 (proposed new SB for November 2022). The three-year emergency program for youth employment, launched last year, continues to be implemented with an annual envelope of about 1 percent of GDP. A new strategy for private sector development bundles the government's efforts to support businesses and develop value chains (MEFP, ¶¶32-33-35).

PROGRAM MODALITIES AND CAPACITY DEVELOPMENT

35. The authorities have requested an augmentation of access to cover the additional short-term balance of payments needs. The external position has deteriorated since the last review owing to higher commodity and food prices, resulting in an additional short-term balance of payments needs. The proposed augmentation of 40 percent of quota with a 2:1 ratio SBA/SCF as specified in the letter of intent (0.6 percent of GDP) will help cope with rising and volatile food and oil prices and bolster food security. As is normally the case for WAEMU member countries, disbursements will be on-lent from the central bank for direct budget support. Fund financing will catalyze additional

Text Table 4. Senegal: Financing 2021 and 2022
(In percent of GDP)

	2021/2022 CR/22/08	proj.
Financing	4.4	6.1
Budget support (grants and loans)	1.4	2.4
Multilateral	1.1	2.1
Bilateral	0.3	0.3
Prospective financing (bilateral partner)	…	0.3
Exceptional Financing (DSSI + Vaccination Campaign)	0.9	0.9
SBA/SCF (without augmentation)	2.1	2.2
SBA/SCF augmentation (40 percent of quota)	…	0.6
Share of Fund financing - with augmentation (in percent)		46
Share of Fund financing - without augmentation (in percent)	48	36

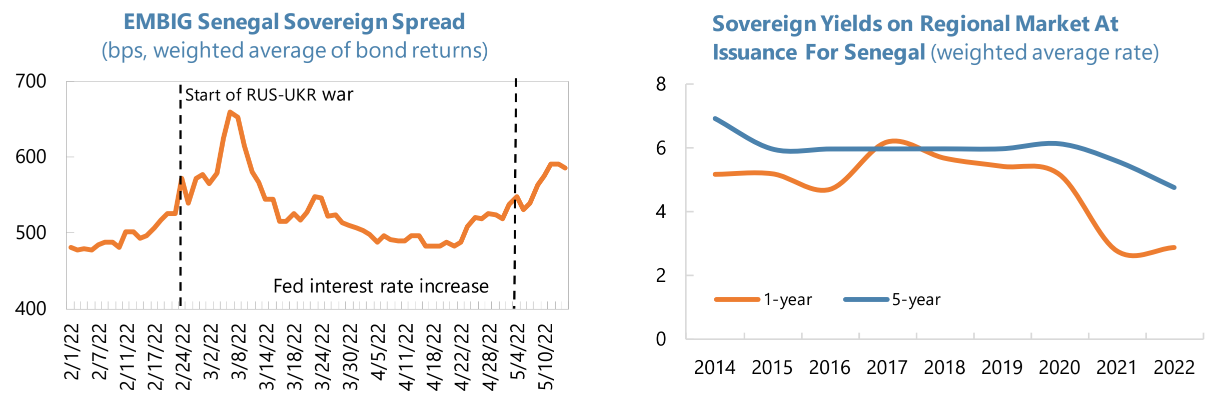
Source: IMF staff calculation

Sources: Senegalese authorities and IMF staff calculation.

financing from the World Bank and the African Development Bank, which are increasing their budget support by 0.5 percent of GDP in 2022. In addition, there are good prospects for additional financing from a major bilateral partner.[12] To maintain the reform momentum, the proposed augmentation would be equally spread over the last two reviews. Fund financing would cover about 46 percent of the financing over the program period (Text Table 4).

36. The program is fully financed, with firm commitments for the remainder of the program. Concessional donor financing is firmly committed. Senegal has access to the regional securities market at relatively favorable conditions. Senegal has also access to the Eurobond market, though spreads increased following the tightening of monetary conditions in advanced economies (Text Figure 5).

Text Figure 5. Senegal: Financing Conditions



Sources: Bloomberg and IMF staff calculation.

37. Staff supports the authorities' requests for a waiver of non-observance of one PC based on corrective actions and for modification of one June 2022 PC/QT. The authorities included the revenues collected by the road fund in the budget perimeter and increased personal income taxes in the supplementary budget. In addition, the strong revenue performance in 2022Q1 suggests MTRS implementation is yielding positive results. It is proposed to modify the June PC/QT on the deficit in line with the revised budget.

38. A new structural benchmark is proposed to support social protection. Cash transfers are currently made via the national post office, which has at times kept funds destined for beneficiaries to cover its liquidity needs. The authorities will modernize the payment modalities of their flagship cash transfer program by relying on mobile payments (new SB, November 2022), which will replace the SB to extend the national registry to one million households; the latter will not be completed before 2023. The structural benchmark regarding energy subsidies for June is proposed to be removed as it is no longer realistic in light of the magnitude of the shock that Senegal is facing, and the steps taken in June to limit energy subsidies. The authorities request more time to complete the

[12] Staff incorporated only firmly committed financing in the baseline.

structural benchmarks regarding the adoption of a fiscal framework reflecting upcoming oil and gas revenues, the publication of the roadmap to gradually eliminate energy subsidies, and the update of the database for PPPs and power purchase agreements.

39. **Senegal's capacity to repay the Fund remains adequate.** With the proposed augmentation, repayments to the Fund will peak at 4.6 instead of 3.8 percent of government revenues and 3.4 instead of 2.7 percent of exports of goods and services in 2026 (Table 9). While Senegal has a strong record of timely repayment of Fund obligations, the materialization of risks to the program could affect repayment capacity (see ¶40).

40. **The program faces material but manageable risks.** Potential risks include subsequent waves of COVID-19, fiscal risks including high energy subsidy needs and possible tax revenue shortfalls, social unrest, and delays to the reform agenda given upcoming legislative and presidential elections. Risks are mitigated through policy actions, including reforms to moderate energy subsidies, increase domestic revenue, and improve debt and expenditure management.

41. **The BCEAO has implemented all recommendations provided in the 2018 safeguards assessment.** The assessment found that the BCEAO has broadly appropriate governance arrangements and a robust control environment. In line with the safeguards policy's four-year cycle for regional central banks, an update assessment of the BCEAO is due in 2022.

42. **Capacity development is well-aligned with the program objectives (Annex VI).** It supports the implementation of the MTRS, public financial management reforms, the fiscal framework to manage oil and gas revenue, as well as efforts to improve the quality and timeliness of macroeconomic data.

STAFF APPRAISAL

43. **Senegal's economy recovered well from the pandemic.** Growth in 2021 exceeded expectation, helped by a swift and decisive policy response. The health impact of the pandemic remained relatively contained with comparatively low cases and fatality numbers.

44. **However, Senegal's economic outlook is highly uncertain.** The economy is now confronted with soaring global energy and food prices and a less favorable external environment, compounded by the war in Ukraine. As a result, in the near term growth prospects have deteriorated, inflationary pressure has increased, the fiscal and external current account deficits are set to widen, and food insecurity is rising. This comes at a time when Senegal grapples with the legacy of the pandemic, shrinking policy buffers, rising social demands, and heightened regional insecurity.

45. **The authorities' response to the new challenges is appropriate and carefully calibrated to protect the most vulnerable households.** Staff supports the relaxation of the fiscal deficit this year to accommodate the temporary and targeted measures to support the most vulnerable and to stabilize food prices consumed by lower and middle-income households.

46. However, policy buffers have significantly shrunk and could limit Senegal's capacity to address future shocks. Public debt has risen steadily over the last decade, most recently propelled by the COVID-19 pandemic and this year by the war in Ukraine. As a result, debt has reached elevated levels. Going forward, it will be essential to steadfastly implement a credible medium-term fiscal consolidation strategy, restrain the borrowing capacity of public sector entities beyond the central government, and ensure that the fiscal deficit converges to 3 percent of GDP by 2024.

47. In this context, streamlining energy subsidies remains an urgent priority. If left unchecked, energy subsidies would triple in 2022, thereby crowding out priority expenditures. The authorities' decision to increase selective electricity and fuel prices, carefully designed to protect the vulnerable, is welcome. Over the medium term, the authorities should gradually phase out energy subsidies while drawing on their improved social safety net to provide targeted support to vulnerable households.

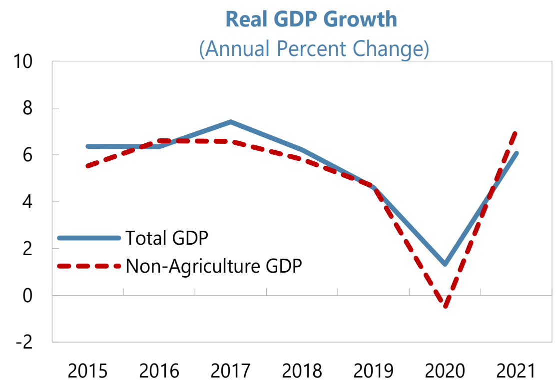
48. Reforms to bolster fiscal resilience will need to continue. Growth friendly fiscal consolidation will hinge on domestic revenue mobilization, energy subsidy reform, and sound management of oil and gas revenues. Further efforts are also needed to improve spending transparency and efficiency as well as to limit fiscal risks, including from the state-owned Post company.

49. Greater urgency is needed to address pockets of vulnerability in the banking sector and improve the AML/CFT framework. Tackling the three undercapitalized banks is overdue and timely decision-making will help limit fiscal and economic costs. Full implementation of the AML/CFT action plan by September 2022, notably with regard to targeted financial sanctions, will be critical to avoid possible negative macroeconomic repercussions from the enhanced oversight by the Financial Action Task Force.

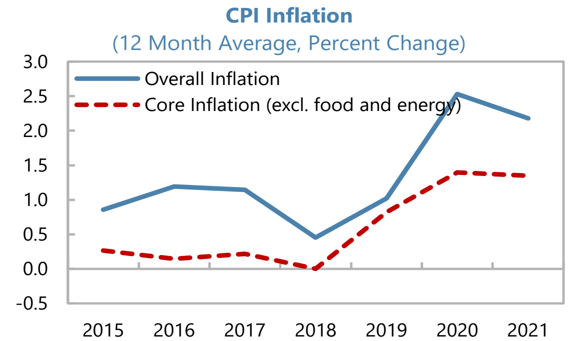
50. Based on the program performance, the additional balance of payment needs, the strength of the authorities' response to recent shocks and policy program, and their commitment to medium-term fiscal sustainability, staff supports the completion of the fifth review under the PCI, second reviews under the SBA and SCF, and the augmentation of access. Staff supports the request for a waiver of non-observance of the end-December 2021 PC on the floor on tax revenue based on corrective actions and the modification to the June PC on the floor on net lending/borrowing. The policies outlined in the attached LOI are adequate to achieve the program's goals.

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

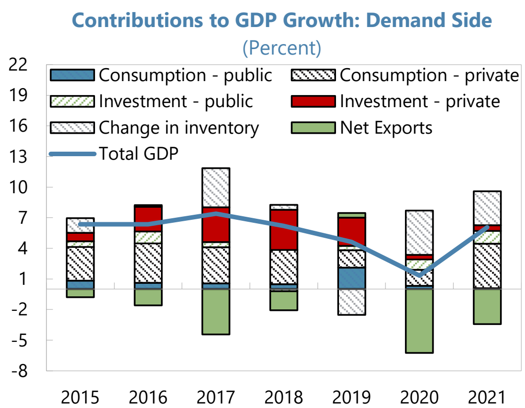
Growth in 2021 returned to the pre-pandemic trajectory…



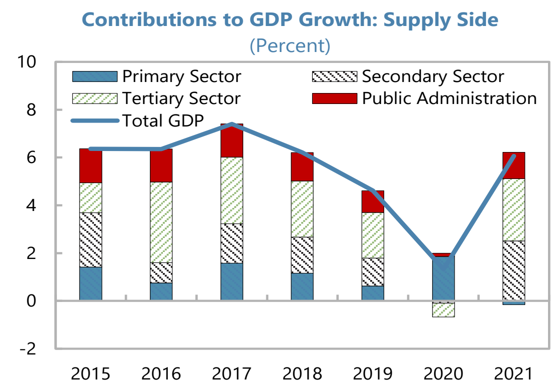
…while inflation declined to 2.2 percent.



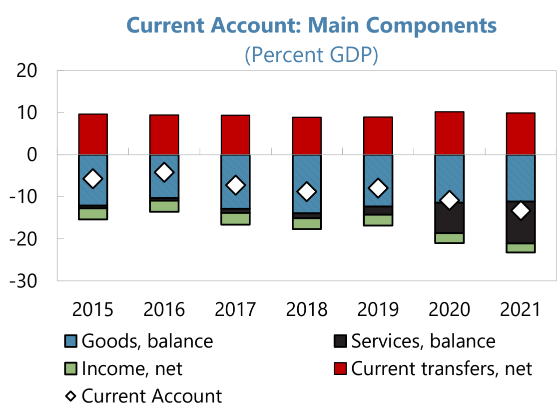
The rebound was driven by private demand, notably investment…



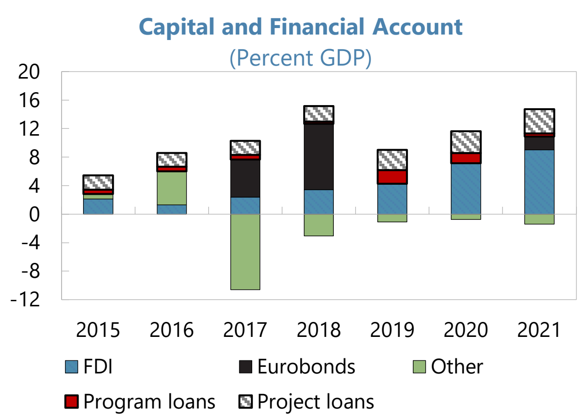
…with a strong expansion of the secondary and tertiary sector.



The current account deficit widened primarily reflecting services imports related to the hydrocarbon projects…



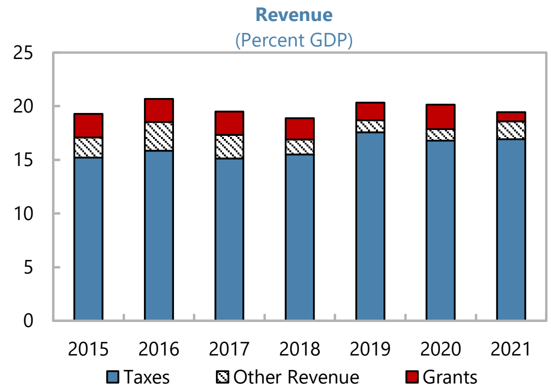
…and was mostly financed by FDI and concessional loans.



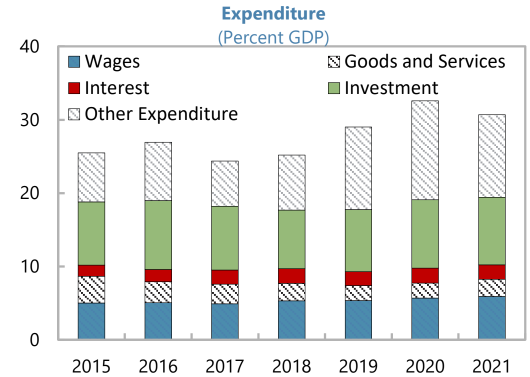
Sources: Senegal authorities and IMF staff calculations.

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

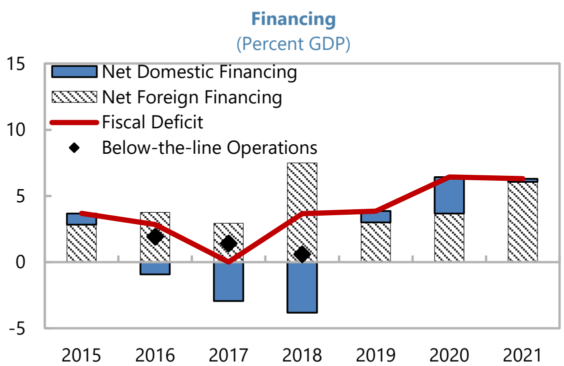
Budget and project grants in 2021 fell and the tax-to-GDP ratio remained broadly unchanged...



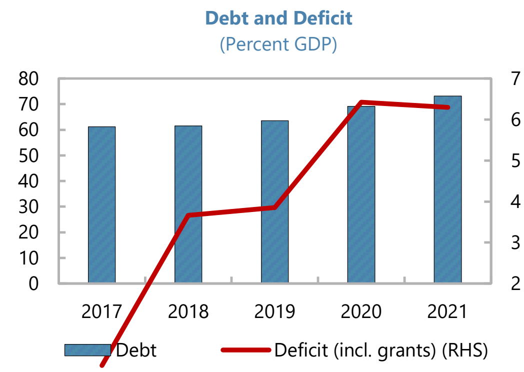
.... while spending increased significantly.



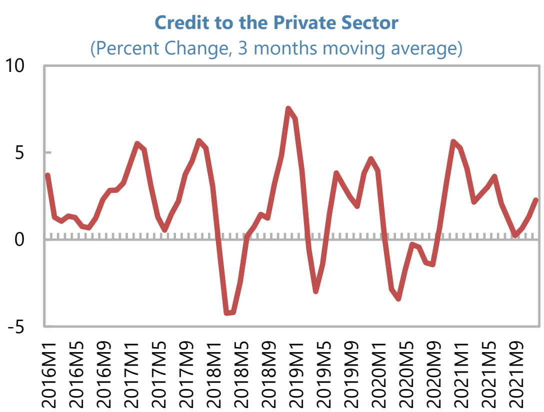
Net financing needs were covered externally...



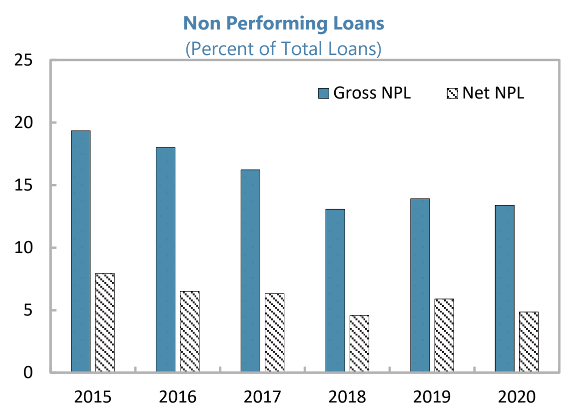
...and the public sector debt ratio increased to 73 percent of GDP.



Credit growth accelerated in line with the recovery...



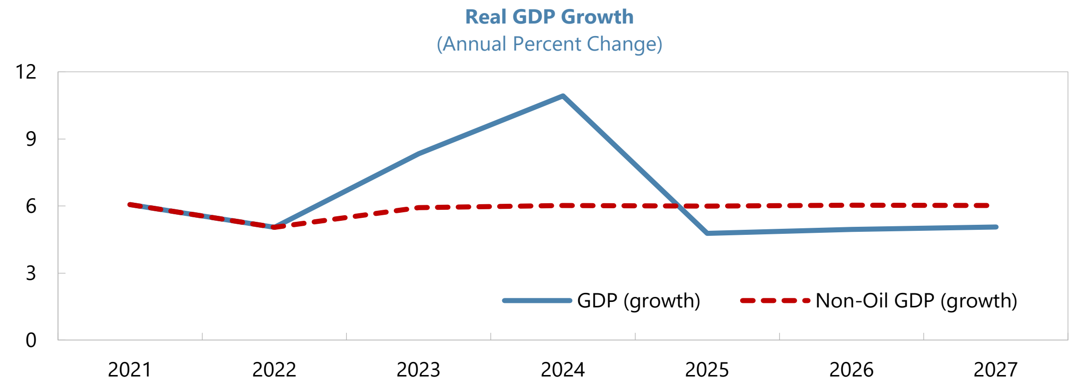
...and non-performing loans have decreased over time.



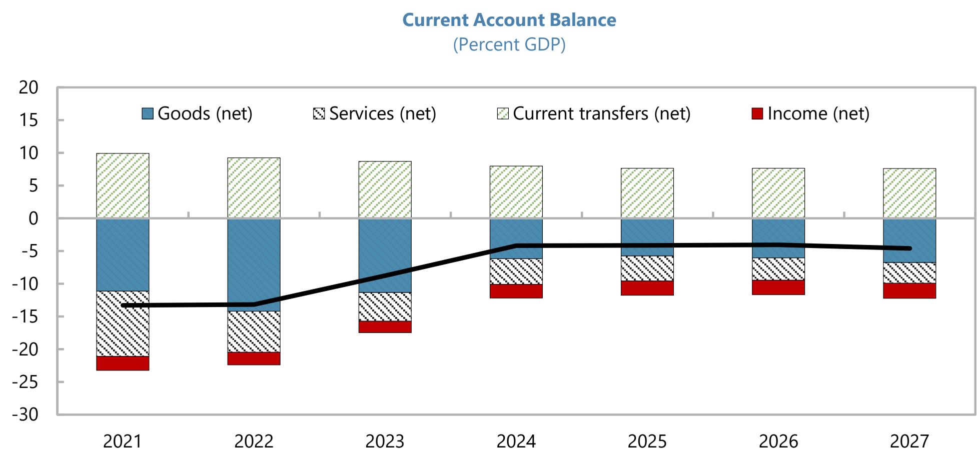
Sources: Senegal authorities and IMF staff calculations.

Figure 3. Senegal: Economic Outlook, 2021–27

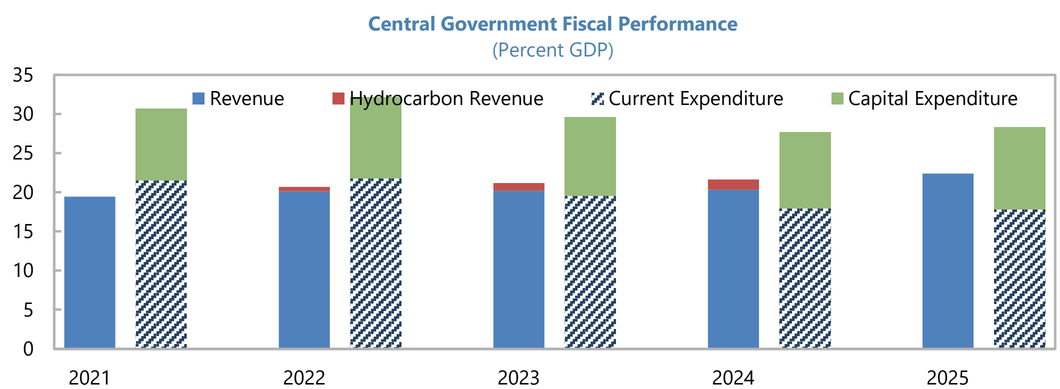
Non-oil growth is expected to be around 6 percent in the medium term while headline growth fluctuates with expected oil and gas production volumes.



The current account deficit is expected to decline to about 4 percent of GDP due to oil and gas exports.



An increase in tax revenues is expected to drive the medium-term fiscal consolidation.



Sources: Senegalese authorities and IMF staff calculations.

Table 1. Senegal: Selected Economic and Financial Indicators, 2020–27[1]

	2020	2021		2022		2023	2024	2025	2026	2027
	Act.	IMF CR 22/08	Est.	IMF CR 22/08	Proj.	Projections				
				(Annual percentage change)						
National income and prices										
GDP at constant prices [1]	1.3	5.0	6.1	5.5	5.0	8.3	10.9	4.8	5.0	5.1
Of which: Non-hydrocarbon GDP	1.3	5.0	6.1	5.5	5.0	5.9	6.0	6.0	6.0	6.0
GDP deflator	1.5	2.5	2.4	2.3	5.2	3.0	2.0	2.0	2.0	2.0
Consumer prices (annual average)	2.5	2.5	2.2	2.5	5.5	3.1	2.0	2.0	2.0	2.0
External sector										
Exports, f.o.b. (CFA francs)	-7.1	17.1	26.4	9.6	17.8	19.6	34.1	4.9	1.4	3.1
Imports, f.o.b. (CFA francs)	-6.1	12.7	18.2	8.1	26.1	7.3	10.0	4.0	3.3	6.5
Export volume	-4.9	-1.5	3.6	7.9	-3.8	11.5	29.1	10.9	6.0	5.0
Import volume	4.0	3.9	3.3	8.6	-0.1	10.2	13.4	8.2	4.3	4.0
Terms of trade ("–" = deterioration)	8.2	9.6	6.6	2.0	-3.0	10.1	7.1	-1.6	-3.5	-4.1
Nominal effective exchange rate	2.9	...	1.0	...	...	...	...	...	...	...
Real effective exchange rate	3.6	...	-1.9	...	...	...	...	...	...	...
				(Changes in percent of beginning-of-year broad money)						
Money and Credit										
Broad money	12.3	15.3	15.6	13.0	12.0	10.6	...	...	...	...
Net domestic assets, *of which*	16.4	9.3	13.7	11.1	18.5	9.4	...	...	...	...
Credit to the government (net)	15.4	7.0	2.4	7.1	8.6	2.9	...	...	...	...
Credit to the economy (net)	1.2	3.7	12.7	5.1	11.3	8.0	...	...	...	...
				(Percent of GDP, unless otherwise indicated)						
Central government operations										
Revenue	20.2	20.4	19.4	21.0	20.7	21.2	21.6	22.4	22.5	23.1
Grants	2.3	1.5	0.9	1.8	1.6	1.5	1.4	1.3	1.3	1.3
Total expenditure	26.6	26.7	25.7	25.7	26.9	25.7	24.6	25.4	25.5	26.1
Net lending/borrowing (including grants)	-6.4	-6.3	-6.3	-4.7	-6.2	-4.5	-3.0	-3.0	-3.0	-3.0
Primary fiscal balance	-4.4	-4.2	-4.3	-2.6	-4.2	-2.5	-0.9	-0.9	-0.9	-0.8
Savings and investment										
Current account balance (official transfers included)	-10.9	-10.6	-13.3	-9.4	-13.2	-8.8	-4.2	-4.1	-4.0	-4.6
Gross domestic investment	35.2	33.7	38.0	32.4	39.7	38.2	34.8	32.9	31.2	31.7
of which: Central Government	7.0	7.7	6.8	8.0	7.7	7.5	7.2	7.3	7.4	7.4
Gross national savings	24.3	23.1	24.7	23.0	26.5	29.4	30.6	28.8	27.2	27.1
of which: Central Government	6.3	4.8	4.9	5.0	6.7	4.8	5.4	5.6	5.1	5.6
Public sector debt										
Total public debt	69.2	73.0	73.2	71.6	75.1	71.4	65.7	64.2	62.9	61.7
Domestic public debt [1]	14.8	15.1	16.1	14.4	17.6	17.8	16.6	17.5	18.5	19.3
External public debt	54.4	57.9	57.1	57.2	57.5	53.6	49.1	46.7	44.4	42.4
Total public debt service (percent of revenue)	27.3	25.3	28.4	26.9	26.5	27.4	28.1	31.1	33.9	30.3
Memorandum items:										
Gross domestic product (CFAF billions)	14,101	15,273	15,319	16,485	16,922	18,881	21,371	22,849	24,467	26,211
of which non-hydrocarbon (CFAF billions)	14,101	15,273	15,319	16,485	16,922	18,610	20,357	21,796	23,532	25,417
Gross domestic product (USD billions)	24.5	...	27.6	...	...	...	...	...	...	...
Share of hydrocarbon in total GDP (%)	...	...	...	...	...	1.4	4.7	4.6	3.8	3.0
National Currency per U.S. Dollar (Average)	575	...	554	...	...	...	...	...	...	...

Sources: Senegal authorities; and IMF staff calculations.

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

Table 2. Senegal: Balance of Payments, 2020–27

(Billions of CFAF)

	2020	2021		2022		2023	2024	2025	2026	2027
	Act.	IMF CR 22/08	Prel.	IMF CR 22/08	Proj.	Projections				
	(Billions of CFAF, unless otherwise indicated)									
Current account	-1,532	-1,614	-2,038	-1,552	-2,229	-1,656	-896	-941	-987	-1,210
Balance on goods	-1,610	-1,709	-1,706	-1,805	-2,405	-2,140	-1,316	-1,315	-1,475	-1,778
Exports, f.o.b.	2,411	2,823	3,047	3,095	3,589	4,291	5,755	6,036	6,122	6,311
Imports, f.o.b.	-4,020	-4,532	-4,753	-4,900	-5,994	-6,431	-7,072	-7,351	-7,597	-8,089
Services (net)	-1,017	-1,009	-1,527	-924	-1,056	-830	-837	-876	-836	-815
Export	503	497	505	632	638	710	787	830	955	1,101
Import	-1,520	-1,506	-2,032	-1,556	-1,694	-1,540	-1,624	-1,705	-1,791	-1,916
Incomes (net)	-341	-351	-324	-347	-332	-329	-448	-498	-549	-610
Credits	285	191	198	210	218	234	244	254	264	274
Debits	-626	-543	-521	-557	-550	-563	-692	-752	-812	-884
Of which: interest on public debt	-252	-226	-204	-240	-233	-246	-266	-287	-306	-331
Current transfers (net)	1,435	1,455	1,519	1,524	1,565	1,642	1,706	1,748	1,872	1,993
Private (net)	1,267	1,438	1,497	1,489	1,529	1,596	1,667	1,732	1,855	1,975
Public (net)	168	17	22	35	36	45	39	16	17	18
Of which: budgetary grants	195	13	17	45	46	56	49	27	29	30
Capital and financial account	1,135	1,970	2,143	1,747	1,822	1,838	1,680	1,751	1,925	2,018
Capital account	139	234	125	260	230	211	234	274	290	307
Private capital transfers	12	12	12	10	10	10	10	10	10	10
Project grants	130	223	114	250	220	235	250	264	280	297
Debt cancellation and other transfers	-3	-1	-1	-1	-1	-1	-1	-1	-1	-1
Financial account	996	1,736	2,018	1,487	1,592	1,626	1,446	1,477	1,636	1,711
Direct investment	1,005	1,196	1,379	1,330	1,330	1,163	951	986	1,023	1,063
Portfolio investment (net)	240	295	372	160	266	247	389	161	434	409
Of which: Eurobond issuance	0	287	287	0	0	0	272	0	284	284
Other investment	-250	245	268	-3	-4	216	106	331	178	239
Public sector (net)	393	617	640	350	349	327	229	417	270	319
Of which: disbursements	710	598	586	772	796	832	703	830	888	927
program loans	206	47	70	132	221	116	109	108	108	108
project loans	429	551	516	580	515	577	594	612	630	649
other	74	0	0	60	60	140	0	110	150	170
amortization	-317	-323	-266	-423	-447	-374	-474	-414	-618	-607
Private sector (net)	-643	-372	-372	-353	-353	-111	-123	-86	-92	-80
Errors and omissions	300	0	0	0	0	0	0	0	0	0
Overall balance	-97	356	105	195	-407	182	784	810	938	808
Financing	97	-356	-105	-195	407	-182	-784	-810	-938	-808
Net foreign assets [1]	277	-427	-177	-449	35	-182	-784	-810	-938	-808
Net use of IMF resources	264	102	105	0	0	-44	-105	-144	-188	-127
Purchases/disbursements	266	102	105	0	0	0	0	0	0	0
Repurchases/repayments	-3	0	0	0	0	-44	-105	-144	-188	-127
Other	14	-530	-282	-448	35	-137	-679	-666	-750	-681
Deposit money banks	-209	0	0	0	0	0	0	0	0	0
Financing Gap	29	71	71	254	372	0	0	0	0	0
SBA/SCF	0	0	0	254	266	0	0	0	0	0
SBA/SCF Augmentation	0	0	0	0	106	0	0	0	0	0
Exceptional financing (DSSI)	29	71	71	0	0	0	0	0	0	0
Memorandum items:										
Current account balance (percent of GDP)										
Including current official transfers	-10.9	-10.6	-13.3	-9.4	-13.2	-8.8	-4.2	-4.1	-4.0	-4.6
Excluding current official transfers	-12.4	-10.8	-13.5	-9.8	-13.5	-9.1	-4.5	-4.3	-4.2	-4.8
Gross domestic product	14,101	15,273	15,319	16,485	16,922	18,881	21,371	22,849	24,467	26,211

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, 2020–27

(Percent of GDP)

	2020	2021		2022		2023	2024	2025	2026	2027
	Act.	IMF CR 22/08	Prel.	IMF CR 22/08	Proj.	Projections				
				(in percent of GDP)						
Current account	-10.9	-10.6	-13.3	-9.4	-13.2	-8.8	-4.2	-4.1	-4.0	-4.6
Balance on goods	-11.4	-11.2	-11.1	-10.9	-14.2	-11.3	-6.2	-5.8	-6.0	-6.8
Exports, f.o.b.	17.1	18.5	19.9	18.8	21.2	22.7	26.9	26.4	25.0	24.1
Imports, f.o.b.	-28.5	-29.7	-31.0	-29.7	-35.4	-34.1	-33.1	-32.2	-31.0	-30.9
Services (net)	-7.2	-6.6	-10.0	-5.6	-6.2	-4.4	-3.9	-3.8	-3.4	-3.1
Export	3.6	3.3	3.3	3.8	3.8	3.8	3.7	3.6	3.9	4.2
Import	-10.8	-9.9	-13.3	-9.4	-10.0	-8.2	-7.6	-7.5	-7.3	-7.3
Incomes (net)	-2.4	-2.3	-2.1	-2.1	-2.0	-1.7	-2.1	-2.2	-2.2	-2.3
Credits	2.0	1.3	1.3	1.3	1.3	1.2	1.1	1.1	1.1	1.0
Debits	-4.4	-3.6	-3.4	-3.4	-3.3	-3.0	-3.2	-3.3	-3.3	-3.4
Of which: interest on public debt	-1.8	-1.5	-1.3	-1.5	-1.4	-1.3	-1.2	-1.3	-1.2	-1.3
Current transfers (net)	10.2	9.5	9.9	9.2	9.2	8.7	8.0	7.6	7.6	7.6
Private (net)	9.0	9.4	9.8	9.0	9.0	8.5	7.8	7.6	7.6	7.5
Public (net)	1.2	0.1	0.1	0.2	0.2	0.2	0.2	0.1	0.1	0.1
Of which: budgetary grants	1.4	0.1	0.1	0.3	0.3	0.3	0.2	0.1	0.1	0.1
Capital and financial account	8.0	12.9	14.0	10.6	10.8	9.7	7.9	7.7	7.9	7.7
Capital account	1.0	1.5	0.8	1.6	1.4	1.1	1.1	1.2	1.2	1.2
Private capital transfers	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0
Project grants	0.9	1.5	0.7	1.5	1.3	1.2	1.2	1.2	1.1	1.1
Debt cancellation and other transfers	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	7.1	11.4	13.2	9.0	9.4	8.6	6.8	6.5	6.7	6.5
Direct investment	7.1	7.8	9.0	8.1	7.9	6.2	4.4	4.3	4.2	4.1
Portfolio investment (net)	1.7	1.9	2.4	1.0	1.6	1.3	1.8	0.7	1.8	1.6
Of which : Eurobond issuance	0.0	1.9	1.9	0.0	0.0	0.0	1.3	0.0	1.2	1.1
Other investment	-1.8	1.6	1.7	0.0	0.0	1.1	0.5	1.4	0.7	0.9
Public sector (net)	2.8	4.0	4.2	2.1	2.1	1.7	1.1	1.8	1.1	1.2
Of which : disbursements	5.0	3.9	3.8	4.7	4.7	4.4	3.3	3.6	3.6	3.5
program loans	1.5	0.3	0.5	0.8	1.3	0.6	0.5	0.5	0.4	0.4
project loans	3.0	3.6	3.4	3.5	3.0	3.1	2.8	2.7	2.6	2.5
other	0.5	0.0	0.0	0.4	0.4	0.7	0.0	0.5	0.6	0.6
amortization	-2.2	-2.1	-1.7	-2.6	-2.6	-2.0	-2.2	-1.8	-2.5	-2.3
Private sector (net)	-4.6	-2.4	-2.4	-2.1	-2.1	-0.6	-0.6	-0.4	-0.4	-0.3
Errors and omissions	2.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-0.7	2.3	0.7	1.2	-2.4	1.0	3.7	3.5	3.8	3.1
Financing	0.7	-2.3	-0.7	-1.2	2.4	-1.0	-3.7	-3.5	-3.8	-3.1
Net foreign assets [1]	2.0	-2.8	-1.2	-2.7	0.2	-1.0	-3.7	-3.5	-3.8	-3.1
Net use of IMF resources	1.9	0.7	0.7	0.0	0.0	-0.2	-0.5	-0.6	-0.8	-0.5
Purchases/disbursements	1.9	0.7	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repurchases/repayments	0.0	0.0	0.0	0.0	0.0	-0.2	-0.5	-0.6	-0.8	-0.5
Other	0.1	-3.5	-1.8	-2.7	0.2	-0.7	-3.2	-2.9	-3.1	-2.6
Deposit money banks	-1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing Gap	0.2	0.5	0.5	1.5	2.2	0.0	0.0	0.0	0.0	0.0
SBA/SCF	0.0	0.0	0.0	1.5	1.6	0.0	0.0	0.0	0.0	0.0
SBA/SCF Augmentation	0.0	0.0	0.0	0.0	0.6	0.0	0.0	0.0	0.0	0.0
Exceptional financing (DSSI)	0.2	0.5	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Gross domestic product	14,101	15,273	15,319	16,485	16,922	18,881	21,371	22,849	24,467	26,211

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, 2020–27[1]

(Billions of CFAF)

	2020	2021		2022		2023	2024	2025	2026	2027
	Act.	IMF CR 22/08	Prel.	IMF CR 22/08	Proj.	Projections				
Revenue and Grants	**2,843**	**3,109**	**2,978**	**3,461**	**3,498**	**3,999**	**4,620**	**5,119**	**5,508**	**6,045**
Taxes	2,368	2,691	2,593	3,025	3,052	3,550	4,143	4,637	4,994	5,497
Direct taxes	767	820	860	932	959	1,120	1,345	1,582	1,627	1,809
Taxes on goods and services	1,228	1,409	1,293	1,591	1,591	1,837	2,117	2,282	2,514	2,775
Taxes on international trade and transactions	338	421	393	454	454	546	628	717	793	849
Other taxes	35	42	47	48	48	46	53	56	60	65
Grants	325	236	131	295	266	291	298	291	309	328
Budget	195	13	17	45	46	56	49	27	29	30
Projects	130	223	114	250	220	235	250	264	280	297
Other revenue	150	182	255	140	180	158	179	192	205	220
Expenditure	**3,746**	**4,076**	**3,943**	**4,245**	**4,553**	**4,857**	**5,254**	**5,810**	**6,239**	**6,839**
Expense	2,429	2,485	2,537	2,473	2,799	2,959	3,181	3,403	3,603	3,887
Compensation of employees	804	918	908	984	1,069	1,227	1,389	1,485	1,590	1,704
of which: youth employment program	…	22	22	34	32	37	…	…	…	
Use of goods and services	286	328	355	343	321	397	449	480	514	550
Interest	290	324	306	350	350	384	435	474	520	571
Subsidies	472	374	236	374	400	253	182	164	122	131
Grants (current excl. FSE)	377	383	525	248	486	472	470	503	538	577
Social benefits	23	19	23	27	27	38	43	69	73	92
Other expense	178	139	184	147	147	189	214	228	245	262
Net acquisition of nonfinancial assets	1,317	1,591	1,406	1,772	1,754	1,898	2,072	2,407	2,636	2,952
Domestically financed	758	817	776	942	1,019	1,086	1,229	1,531	1,725	2,005
Externally financed	559	774	630	830	735	812	844	876	911	946
Net lending/borrowing *(Overall balance)*	**-903**	**-967**	**-965**	**-784**	**-1,055**	**-858**	**-633**	**-690**	**-730**	**-794**
Transactions in financial assets and liabilities (Financing)	**-913**	**-967**	**-965**	**-784**	**-1,055**	**-858**	**-633**	**-690**	**-730**	**-794**
Net acquisition of financial assets	166	340	402	-90	-90	0	0	0	0	0
Domestic	166	340	402	-90	-90	0	0	0	0	0
Currency and deposits	117	120	386	-120	-120	0	0	0	0	0
Other accounts receivable	49	220	16	30	30	0	0	0	0	0
Foreign	0	0	0	0	0	0	0	0	0	0
Net incurrence of liabilities	1,050	1,236	1,295	441	594	858	633	690	730	794
Domestic	562	473	438	13	29	63	-77	14	-80	-29
IMF and SDRs	264	348	349	0	0	-44	-105	-144	-188	-127
Debt securities (net)	319	189	112	90	94	175	94	208	153	113
Loans	-63	-44	-23	-30	-65	-68	-66	-50	-46	-14
Other accounts payable	35	0	0	0	0	0	0	0	0	0
Foreign	488	762	857	428	565	795	711	677	811	822
Debt securities (net)	170	487	537	78	216	336	482	260	541	503
T-bills and bonds issued in WAEMU	170	199	250	78	216	336	210	260	257	219
Eurobond	0	287	287	0	0	0	272	0	284	284
Loans	319	276	321	350	349	458	229	417	270	319
Program loans	206	47	70	132	221	116	109	108	108	108
Project loans	429	551	516	580	515	577	594	612	630	649
Nonconcessional loans	0	0	0	60	60	140	0	110	150	170
Other	-317	-323	-266	-423	-447	-374	-474	-414	-618	-607
Other accounts payable	0	0	0	0	0	0	0	0	0	0
Financing Gap	**29**	**71**	**71**	**254**	**372**	**0**	**0**	**0**	**0**	**0**
SBA/SCF	…	0	0	254	266	…	…	…	…	…
SBA/SCF Augmentation	…	…	…	…	106	…	…	…	…	…
Exceptional Financing[1]	29	71	71	…	…	…	…	…	…	…
Memorandum items:										
Clearance of unmet obligations (pre-2020)	209	133	133	16	16	…	…	…	…	…
Hydrocarbon revenues	…	…	…	0	0	41	101	219	106	98
Nominal GDP	14,101	15,273	15,319	16,485	16,922	18,881	21,371	22,849	24,467	26,211

Sources: Ministry of Finance; and IMF staff calculations.

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

Table 5. Senegal: Central Government Operations, GFSM 2001 Classification,[1] 2020–27
(Percent of GDP)

	2020	2021		2022		2023	2024	2025	2026	2027
	Act.	IMF CR 22/08	Prel.	IMF CR 22/08	Proj.	Projections				
Revenue and Grants	**20.2**	**20.4**	**19.4**	**21.0**	**20.7**	**21.2**	**21.6**	**22.4**	**22.5**	**23.1**
Taxes	16.8	17.6	16.9	18.4	18.0	18.8	19.4	20.3	20.4	21.0
Direct Taxes	5.4	5.4	5.6	5.7	5.7	5.9	6.3	6.9	6.7	6.9
Taxes on goods and services	8.7	9.2	8.4	9.7	9.4	9.7	9.9	10.0	10.3	10.6
Taxes on international trade and transactions	2.4	2.8	2.6	2.8	2.7	2.9	2.9	3.1	3.2	3.2
Other taxes	0.2	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2
Grants	2.3	1.5	0.9	1.8	1.6	1.5	1.4	1.3	1.3	1.3
Budget	1.4	0.1	0.1	0.3	0.3	0.3	0.2	0.1	0.1	0.1
Projects	0.9	1.5	0.7	1.5	1.3	1.2	1.2	1.2	1.1	1.1
Other revenue	1.1	1.2	1.7	0.8	1.1	0.8	0.8	0.8	0.8	0.8
Expenditure	**26.6**	**26.7**	**25.7**	**25.7**	**26.9**	**25.7**	**24.6**	**25.4**	**25.5**	**26.1**
Expense	17.2	16.3	16.6	15.0	16.5	15.7	14.9	14.9	14.7	14.8
Compensation of employees	5.7	6.0	5.9	6.0	6.3	6.5	6.5	6.5	6.5	6.5
of which: youth employment program	…	0.1	0.1	0.2	0.2	0.2	…	…	…	…
Use of goods and services	2.0	2.1	2.3	2.1	1.9	2.1	2.1	2.1	2.1	2.1
Interest	2.1	2.1	2.0	2.1	2.1	2.0	2.0	2.1	2.1	2.2
Subsidies	3.3	2.4	1.5	2.3	2.4	1.3	0.9	0.7	0.5	0.5
Grants (current excl. FSE)	2.7	2.5	3.4	1.5	2.9	2.5	2.2	2.2	2.2	2.2
Social benefits	0.2	0.1	0.1	0.2	0.2	0.2	0.2	0.3	0.3	0.4
Other expense	1.3	0.9	1.2	0.9	0.9	1.0	1.0	1.0	1.0	1.0
Net acquisition of nonfinancial assets	9.3	10.4	9.2	10.8	10.4	10.1	9.7	10.5	10.8	11.3
Domestically financed	5.4	5.3	5.1	5.7	6.0	5.8	5.8	6.7	7.1	7.7
Externally financed	4.0	5.1	4.1	5.0	4.3	4.3	3.9	3.8	3.7	3.6
Net lending/borrowing *(Overall balance)*	**-6.4**	**-6.3**	**-6.3**	**-4.8**	**-6.2**	**-4.5**	**-3.0**	**-3.0**	**-3.0**	**-3.0**
Transactions in financial assets and liabilities (Financing)	**-6.5**	**-6.3**	**-6.3**	**-4.8**	**-6.2**	**-4.5**	**-3.0**	**-3.0**	**-3.0**	**-3.0**
Net acquisition of financial assets	1.2	2.2	2.6	-0.5	-0.5	0.0	0.0	0.0	0.0	0.0
Domestic	1.2	2.2	2.6	-0.5	-0.5	0.0	0.0	0.0	0.0	0.0
Currency and deposits	0.8	0.8	2.5	-0.7	-0.7	0.0	0.0	0.0	0.0	0.0
Other accounts receivable	0.3	1.4	0.1	0.2	0.2	0.0	0.0	0.0	0.0	0.0
Foreign	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	7.4	8.1	8.5	2.7	3.5	4.5	3.0	3.0	3.0	3.0
Domestic	4.0	3.1	2.9	0.1	0.2	0.3	-0.4	0.1	-0.3	-0.1
IMF and SDRs	1.9	2.3	2.3	0.0	0.0	-0.2	-0.5	-0.6	-0.8	-0.5
Debt securities (net)	2.3	1.2	0.7	0.5	0.6	0.9	0.4	0.9	0.6	0.4
Loans	-0.5	-0.3	-0.2	-0.2	-0.4	-0.4	-0.3	-0.2	-0.2	-0.1
Other accounts payable	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign	3.5	5.0	5.6	2.6	3.3	4.2	3.3	3.0	3.3	3.1
Debt securities (net)	1.2	3.2	3.5	0.5	1.3	1.8	2.3	1.1	2.2	1.9
T-bills and bonds issued in WAEMU	1.2	1.3	1.6	0.5	1.3	1.8	1.0	1.1	1.0	0.8
Eurobond	0.0	1.9	1.9	0.0	0.0	0.0	1.3	0.0	1.2	1.1
Loans	2.3	1.8	2.1	2.1	2.1	2.4	1.1	1.8	1.1	1.2
Program loans	1.5	0.3	0.5	0.8	1.3	0.6	0.5	0.5	0.4	0.4
Project loans	3.0	3.6	3.4	3.5	3.0	3.1	2.8	2.7	2.6	2.5
Nonconcessional loans	0.0	0.0	0.0	0.4	0.4	0.7	0.0	0.5	0.6	0.6
Other	-2.2	-2.1	-1.7	-2.6	-2.6	-2.0	-2.2	-1.8	-2.5	-2.3
Other accounts payable	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing Gap	**0.2**	**0.5**	**0.5**	**1.5**	**2.2**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
SBA/SCF	0.0	0.0	0.0	1.5	1.6	…	…	…	…	…
SBA/SCF Augmentation	…	…	…	…	0.6	…	…	…	…	…
Exceptional Financing[1]	0.2	0.5	0.5	…	…	…	…	…	…	…
Memorandum items:										
Clearance of unmet obligations (pre-2020)	1.5	0.9	0.9	0.1	0.1	…	…	…	…	…
Hydrocarbon revenues	…	…	…	0.0	0.0	0.2	0.5	1.0	0.4	0.4
Non-oil tax to non-oil GDP ratio	…	…	…	18.4	18.0	18.9	20.0	20.5	20.9	21.3
Nominal GDP	14,101	15,273	15,319	16,485	16,922	18,881	21,371	22,849	24,467	26,211

Sources: Ministry of Finance; and IMF staff calculations.

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

Table 6. Senegal: Monetary Survey, 2020–23

	2020	2021		2022		2023
	Act.	IMF CR 22/08	Prel.	IMF CR 22/08	Proj.	Proj.
			(Billions of CFAF)			
Net foreign assets	1,905	2,332	2,082	2,527	1,675	1,856
BCEAO	1,194	1,621	1,371	1,817	964	1,145
Commercial banks	711	711	711	711	711	711
Net domestic assets	5,096	5,690	5,969	6,505	7,333	8,114
Net domestic credit	6,103	6,782	7,068	7,679	8,535	9,441
Net credit to the government[1]	1,435	1,881	1,587	2,405	2,219	2,463
Central bank	74	302	37	676	528	484
Commercial banks	1,361	1,579	1,550	1,729	1,691	1,978
Other institutions	2	2	2	2	2	2
Credit to the economy	4,668	4,901	5,481	5,274	6,316	6,978
Shares and other equity	-771	-830	-837	-896	-925	-1,032
Other items (net)	-236	-262	-262	-278	-278	-295
Broad money	6,389	7,366	7,388	8,326	8,278	9,158
Currency outside banks	1,529	1,934	1,940	2,186	2,174	2,405
Total deposits	4,860	5,432	5,448	6,140	6,104	6,753
Demand deposits	2,984	3,335	3,345	3,770	3,748	4,147
Time deposits	1,876	2,096	2,103	2,370	2,356	2,607
Non-liquid Liabilities	611	656	662	707	729	811
			(Change in percentage of beginning-of-period broad money stock)			
Net foreign assets	-1.2	6.7	2.8	2.6	-5.5	2.2
Net domestic assets	16.4	9.3	13.7	11.1	18.5	9.4
Net credit to the government[1]	15.4	7.0	2.4	7.1	8.6	2.9
Credit to the economy (net)	1.2	3.7	12.7	5.1	11.3	8.0
Broad money	12.3	15.3	15.6	13.0	12.0	10.6
Memorandum items:			(Units indicated)			
Velocity (GDP/broad money; end of period)	2.2	2.1	2.1	2.0	2.0	2.1
Nominal GDP growth (percentage growth)	2.8	7.7	8.6	7.9	10.5	11.6
Credit to the private sector (percentage growth)	2.2	5.6	19.7	8.5	16.9	11.4
Credit to the private sector/GDP (percent)	29.3	28.6	32.3	28.8	34.2	34.2

Sources: BCEAO; and IMF staff calculations.

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

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 profitability [3]							
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, 2021–27

	2021		2022		2023	2024	2025	2026	2027
	IMF CR 22/08	Proj.	IMF CR 22/08	Proj.	Projection				
	(CFAF billions)								
1. Total Financing Requirement	**2479**	**2603**	**2468**	**2686**	**2267**	**2202**	**2191**	**2572**	**2656**
Current account balance (excluding budget grants)	1627	2055	1597	2275	1712	944	968	1016	1241
Debt Amortization (excl. regional market securities)	323	266	423	447	374	474	414	618	607
Repayment to the Fund	0	0	0	0	44	105	144	188	127
Change in Net Foreign Assets BCEAO (- increase) [1]	-530	-282	-448	35	-137	-679	-666	-750	-681
Change in Net Foreign Assets (Other depository institutions) (- increase)	0	0	0	0	0	0	0	0	0
Errors and Omissions	0	0	0	0	0	0	0	0	0
2. Total Financing Sources	**2318**	**2414**	**1991**	**2003**	**2096**	**2045**	**2057**	**2436**	**2518**
Foreign direct investment (net)	1196	1379	1330	1330	1163	951	986	1023	1063
Regional market financing from non-residents (net)	199	250	78	216	336	210	260	257	219
Project grants and loans	723	579	805	710	812	844	876	911	946
Other capital flows (net)	199	207	-222	-253	-216	41	-66	245	290
3. Total Financing Needs	**161**	**189**	**477**	**683**	**171**	**157**	**135**	**136**	**138**
4. Expected Financing	**90**	**117**	**223**	**312**	**171**	**157**	**135**	**136**	**138**
Budget support (grants + loans)	60	87	178	267	171	157	135	136	138
Vaccination campaign financing (World Bank)	30	30	45	45	0	0	0	0	0
5. Residual Financing Gap	**71**	**71**	**254**	**372**	**0**	**0**	**0**	**0**	**0**
IMF (SBA/SCF) [2]	0	0	254	266	0	0	0	0	0
SBA/SCF augmentation	…	…	…	106	…	…	…	…	…
DSSI	71	71	0	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 2022–32

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
IMF obligations based on existing credit											
(SDR millions)											
Principal	0.00	53.93	129.45	149.81	105.46	51.52	40.73	35.94	15.58	0.00	0.00
Charges and interest	3.05	5.93	4.50	2.31	0.74	0.04	0.01	0.01	0.01	0.01	0.01
IMF obligations based on existing and prospective credit											
(SDR millions)											
Principal	0.00	53.93	129.45	176.77	231.29	156.38	64.71	59.93	33.57	0.00	0.00
Charges and interest	4.81	9.20	7.88	5.64	3.17	0.83	0.02	0.01	0.01	0.01	0.01
Total obligations based on existing and prospective credit											
SDR Millions	906.0	852.1	722.7	545.9	314.6	158.2	93.5	33.6	0.0	0.0	0.0
CFA francs	715.4	699.1	591.1	444.5	255.7	128.5	76.0	27.3	0.0	0.0	0.0
Percent of GDP	4.7	4.1	3.1	2.1	1.1	0.5	0.3	0.1	0.0	0.0	0.0
Percent of quota	280.0	263.3	223.3	168.7	97.2	48.9	28.9	10.4	0.0	0.0	0.0
Net use of IMF credit (SDR millions)											
Disbursements	453.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0
Repayments and repurchases	4.8	63.1	137.3	182.4	234.5	157.2	64.7	59.9	33.6	0.0	0.0
Percent of government revenue	0.2	1.8	3.4	3.9	4.6	2.9	1.1	0.9	0.5	0.0	0.0
Percent of exports of goods and services	0.1	1.5	2.7	2.8	3.4	2.2	0.9	0.8	0.4	0.0	0.0
Percent of external debt service	0.7	8.7	16.7	17.7	20.9	11.1	4.6	4.7	3.2	0.0	0.0
Memorandum items:											
Nominal GDP (billions of CFA francs)	15,319	16,922	18,881	21,371	22,849	24,467	26,211	28,633	30,771	33,038	35,469
Exports of goods and services (billions of CFA francs)	3,552	4,226	5,001	6,543	6,866	7,077	7,412	7,767	8,302	8,957	9,855
Government revenue (billions of CFA francs)	2978.3	3498.0	3999.0	4620.3	5119.4	5508.1	6044.7	6687.1	7188.1	7694.3	8276.9
External Debt service (billions of CFA francs)	736.1	727.2	822.9	1028.4	1119.6	1415.7	1397.0	1272.3	1054.1	1092.6	1368.7
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)	790	820	818	814	813	812	813	813	813	813	813

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	June 2021	86.3	43.1	129.4	27	13	40
Second Review	June 7th, 2022	December 2021	107.845	53.975	161.8	33	17	50
Third Review	November 22nd, 2022	June 2022	107.845	53.975	161.8	33	17	50
Total			388.290	194.150	582.440	120	60	180

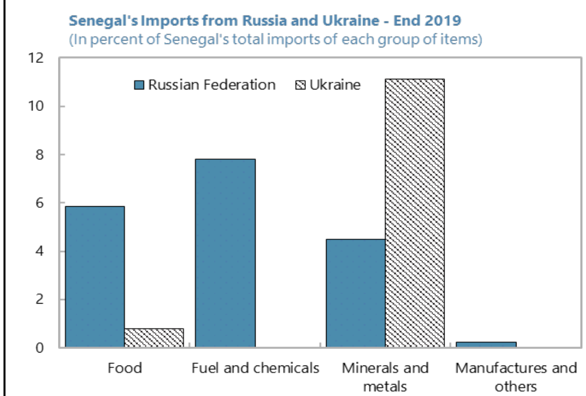
Source: IMF.

Annex I. Macroeconomic Spillovers from the War in Ukraine and Sanctions against Mali[1]

Higher global oil and food prices coupled with reduced external demand are expected to weigh on growth, increase inflationary pressure, and worsen the external and fiscal positions. Financial spillovers are expected to be less important. Over the medium-term, Senegal can benefit from higher oil and gas prices and a re-orientation of Europe's demand for gas, given unexploited oil and gas reserves.

1. **Sanctions against Mali and the impact of the war in Ukraine are affecting Senegal.** ECOWAS countries decided in January to close their borders with Mali, suspend commercial and financial transactions, except for basic goods such as medicine, fuel and food, and freeze Malian assets. It is uncertain how long these sanctions will remain in place. The war in Ukraine has led to soaring global commodity prices and a deteriorating global economic outlook. Senegal will be affected via direct trade disruptions with Mali, Russia, and Ukraine, reduced global supply of key commodities, price increases for oil and food, reduced external demand, and a tightening of external financial conditions.

Annex I. Text Figure 1. Senegal: Imports from Russia and Ukraine



Source: WTO, and IMF Staff calculations.

Senegal has close commercial ties with Mali, Russia, and Ukraine.

- **Exports to Mali:** They account for 20 percent of total exports (or 3.8 percent of GDP) and include petroleum products, food, and cement. Trade of about 1 percent of GDP is affected by the sanctions, notably cement.

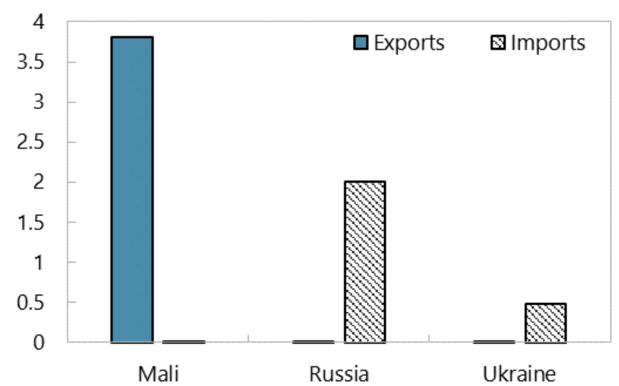
- **Imports from Russia and Ukraine:** They account for 7 percent of total imports (or 2.5 percent of GDP consisting of refined petroleum products, wheat, fertilizers, and iron bars). Trade disruptions are affecting these imports, which could be difficult to substitute in the short-term.

2. **Higher oil and food prices will weigh on the trade and fiscal balances.** Senegal is a major importer of crude oil and refined products as well as food, especially rice, wheat, corn, sugar, and edible oil. Higher import prices and currency depreciation, adding to the price increase of imports in domestic currency, will lead to an increase in the trade balance deficit. The fiscal position will come under increasing pressure as subsidies rise steeply to limit domestic price increases for fuel, electricity, and staple foods.

[1] Prepared by Moustapha Mbohou Mama and David Stenzel (both AFR).

3. Lower external demand dims export prospects. Growth projections in Senegal's main trade partners have been lowered. This could reduce the demand for some of Senegal's key exports, notably for travel and tourism-related services.

Annex I. Text Figure 2. Senegal: Exports and Imports to Mali, Russia and Ukraine 2021
(Percent of GDP)

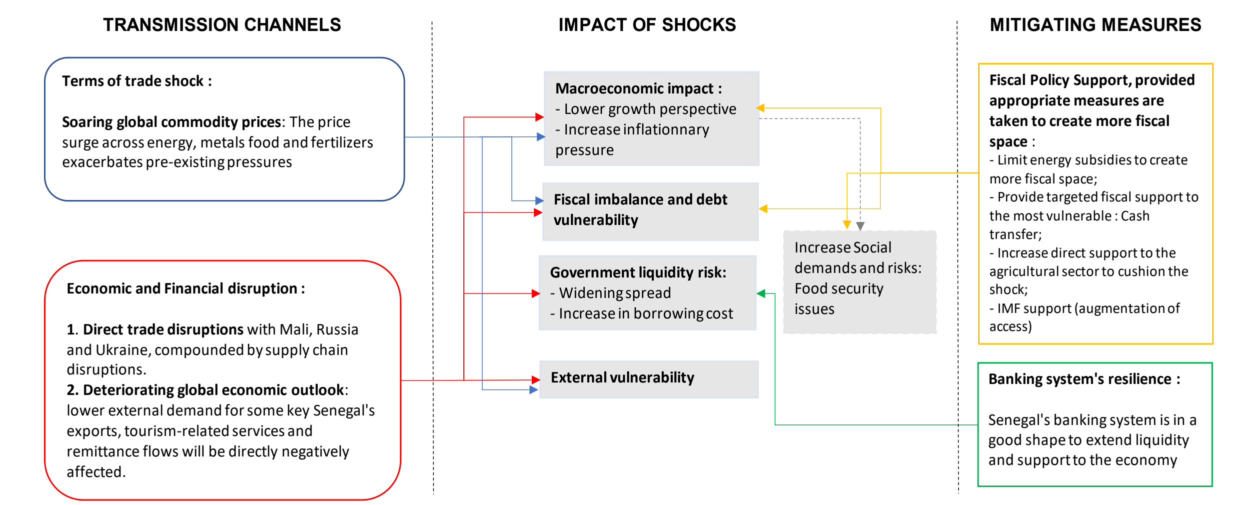


Source: ANSD and IMF staff calculations.

4. The exposure of the Senegalese financial system to Mali, Ukraine, and Russia is, however, limited. Mali has defaulted on sovereign bonds issued on the regional market. Senegalese banks hold a relatively small share of these bonds and do not have significant claims against Mali's banking system, or non-financial corporations.[2] There are minimal direct financial linkages with Ukraine and Russia.

5. Senegal is expected to become an oil and gas producer in 2023 and has unexploited reserves. Two projects, Sangomar (oil) and GTA (LNG-jointly with Mauritania), are expected to start production in 2023 and 2024, respectively. Preparation for exploiting a third field, Yakaar Teranga, is advanced. Higher global gas prices and increased demand for LNG as European countries diversify their energy supply bode well for future investments.

Annex I. Text Figure 3. Senegal: Shocks Transmission and Mitigation Measures



Source: IMF Staff Calculations.

[2] Malian banks hold the majority of the countries' debt issued on the regional market (60.3 percent) and have limited participation in the regional interbank market.

Annex II. Food Inflation in Senegal: Impact and Policies[1]

1. **Global food prices reached a multi-decade high, mainly accelerated by the war in Ukraine.** Global food prices were up 23.5 percent in April 2022 from its level a year earlier. Russia and Ukraine together account for about 25 percent of global wheat exports, 75 percent of sunflower oil exports, and 15 percent of corn exports. Export bans by major producers of key imports for Senegal such as palm oil and wheat further reduce global supply. In addition, rising costs for fuel and fertilizer[2] add to price pressures.

2. **Senegal is particularly exposed to these price swings, given the large share of imported food in the consumption basket and caloric intake.** Over 70 percent of rice and all wheat are imported, of which 64 percent from Russia and Ukraine[3]. Rice, millet, sorghum, wheat, and maize are the foundations of the Senegalese diet, which derive 60 percent of their calories from cereals and grain consumption.

Drivers and Impact of Food Inflation in Senegal

3. **Domestic food prices in Senegal have mirrored international price developments and pushed up headline inflation (see annex II Text figure 1).** The pass-throughs from world food prices and exchange rate depreciation to domestic food prices are estimated to be 25 and 36 percent, respectively.[4] Food inflation stood at 11.3 percent in April 2022 (10.6 percent in February and 10.1 percent in March) and the price for bread increased by 17 percent, reflecting the rise in the international price of wheat. As food accounts for almost half of the CPI basket,[5] food price inflation had a direct impact on annual headline inflation (7.0 percent y-o-y in April 2022, from 2.2 percent at end-December 2021).

4. **Other conjunctural and structural factors contribute to the food prices surge in Senegal.** Due to low natural soil fertility, Senegal relies heavily on chemical fertilizers, whose price and availability are heavily impacted by the war in Ukraine and rising energy costs (Annex II Text figure 1). The prices of imported beef and lamb -key livestock sourced mainly from Mali- have already increased by 15.7 percent and 12.6 percent in the last quarter of 2021, respectively, and are expected to further increase in 2022 due to the entry into force of the economic and financial sanctions against Mali.

5. **Increasing food prices will have an impact on food security.** Food accounts on average

[1] Prepared by Moustapha Mbohou Mama (AFR).
[2] Russia and Belarus account for about one fifth of global fertilizer exports.
[3] The shares of wheat imports from Russia and Ukraine account for 52 percent and 14 percent of total wheat imports of Senegal, respectively.
[4] We followed the methodology used by Alper et al. (2016) to estimate pass-throughs from world food price, oil price and exchange rate variation to domestic food inflation in Senegal. We regressed quarterly domestic food inflation on current and 4 lags of : quarterly world food inflation, quarterly world oil price inflation and quarterly nominal exchange rate depreciation (FCFA/USD) and control for 4 lags of domestic food inflation and energy inflation. We also include a time trend and quarterly dummies to control for seasonal variation. The sample period spans form 2003Q1 to 2022Q1.
[5] While the average for SSA and EMs is 40 and 30 percent, respectively.

for 44.1 percent of overall consumption and the share is even higher for poor households, which spend 53.4 percent of their income on food and have little margin to cope with rising prices.[6] Poorer households could thus increasingly be exposed to food insecurity.[7]

6. Higher food prices could also jeopardize hard-won progress in reducing poverty and inequality. Poverty is still pervasive and concentrated in rural areas. In 2019, the poverty rate was 53.6 percent in rural areas, as opposed to 29.9 percent in urban areas. The rural poor are most vulnerable to external shocks, such as food prices spikes or climate conditions, which affect their income negatively. That said, over the last two decades the poverty rate in Senegal has fallen from 57 percent in 2001 to 37.8 percent in 2019. In the same period, income inequality has slightly improved– the Gini index has dropped from 35.6 percent in 2011 to 35.1 percent in 2019[8.]. Food inflation could quickly undo such progress.

7. For a small open economy dependent on food imports like Senegal, higher food prices could set the stage for second-round inflationary pressures. Rising food and fuel prices have pushed Senegal through its second most severe terms-of-trade (ToT) shock of the last two decades. After a deterioration of 2.4 percent in 2021, Senegal's ToT are projected to deteriorate further by 2.2 percent in 2022. An additional indirect effect of higher food and fuel inflation could trigger second-round effects on core inflation when, for example, wage bargaining is indexed to inflation.

Policy Responses

8. Like in 2007/2008,[9] the governments' policy response consisted of a series of measures to limit pass-through from higher global food prices to domestic prices (Annex II Text Table 1). A first package of revenue measures was adopted in September 2021, including the reduction/suspension of VAT and customs duties on several key staple foods (wheat, corn, vegetable oil, sugar) mostly consumed by the poor. A second package of measures-was adopted in February 2022, covering revenue and expenditure side, and price regulation measures. The additional revenue measures consisted of the extension of the suspension of customs duties to staples like rice. On the expenditure side, higher subsidies were adopted for local rice production (32 CFAF per kg to lower price for consumers) and agricultural inputs. The government lowered the administrative prices for

[6] Source: ANSD's Report of the 2019 Household Survey in Senegal.

[7] According to the 2019 Household Survey, 35 percent of the population faces food insecurity in Senegal – this rate being higher in rural areas where 41.5 percent of the population faces food insecurity.

[8] Source: ANSD's Report of the 2019 Household Survey in Senegal.

[9] In 2007-08, to keep the food prices down, the government suspended VAT and customs duties on a number of important consumer food items (rice, wheat, powdered milk and bread) in July 2007. The revenue loss caused by the tax and duty suspensions was estimated at CFAF 29 billion (0.5 percent of GDP) in 2007. An assessment of the impact of those measures on household welfare showed that they were not well targeted overall. Specifically, while the poor had gained the most from the tariff suspension on rice, the tariff suspension on powdered milk and bread proved to have benefited the most to the richer groups of the population, since the poorest 20 percent of the population consumed relatively little powdered milk and bread in Senegal.

vegetable oil, rice, and sugar[10]. The expected fiscal impact in 2022 is about 0.5 percent of GDP.

9. The government could consider a mix of short- and medium-term policies to alleviate the cost on the poorest of higher food prices and increase agricultural production.

- ***Short term policies.*** Given the threat to food security and imperfect social safety nets, the current tax reduction measures could be maintained for an interim period, as they target key staple foods mostly consumed by the poorest population. However, cash transfers could provide a more targeted option to provide social assistance to the most vulnerable.

- ***Medium term policies.*** The existing social safety net (SSN) in Senegal should be strengthened by : (i) updating and broadening the social registry "*Registre National Unique*" to include not only the poor but also those who are vulnerable to shocks, and (ii) prioritizing digital tools for the targeting and delivery of income support. As the SSN is strengthened, it would be important to gradually pass-through international prices to domestic prices to promote efficiency, mitigate the impact of higher commodity prices on the balance of payments, and reduce negative externalities and smuggling. Structural measures should also be taken to boost productivity in the agricultural sector, for example by strengthening the efficiency of programs to support agricultural inputs, especially for small and medium-sized farmers.

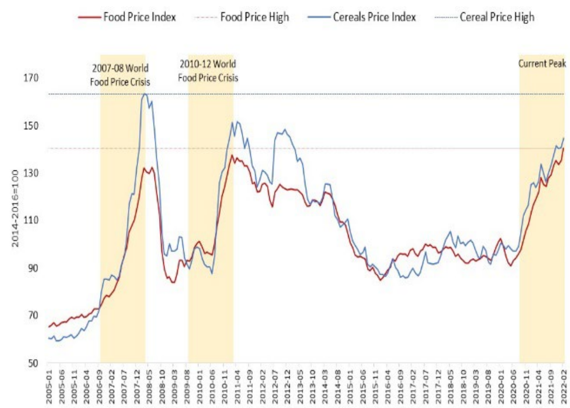
10. Extensive communication strategy associated with transparency measures will be instrumental for the successful implementation of these short- and medium-term policy options. Communication should focus on the current magnitude of tax reduction and subsidies, their current distribution between rich and poor[11] and the crowding out effect on other priority spending (e.g., health and education). The communication strategy should aim to build a broad consensus on the benefits of the pass-through of international prices to domestic prices combined with targeted measures to protect the most vulnerable.

[10] In February, the government announced lower prices for vegetable oil from CFAF 1,200 to 1,100 per liter, for rice from CFAF 15,000 per bag of 50 kg to CFAF 13,750, and for sugar from 625 CFAF to CFAF 600 per kg.

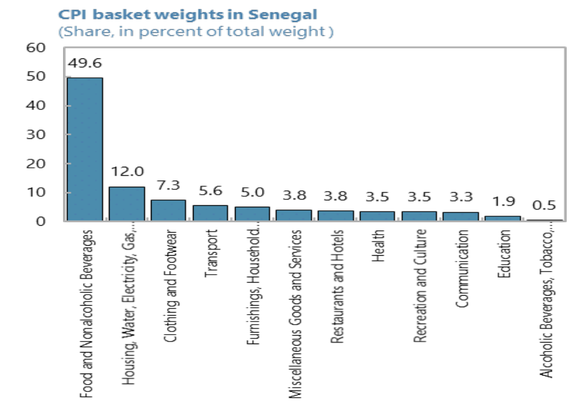
[11] According to IMF estimates, subsidies benefit on average the richest 20 percent of households six time more than the poorest 20 percent. See IMF (2022), *Selected Issues Paper: Transforming Senegal's energy sector for sustained and inclusive growth.*

Annex II. Figure 1. Food Inflation in Senegal

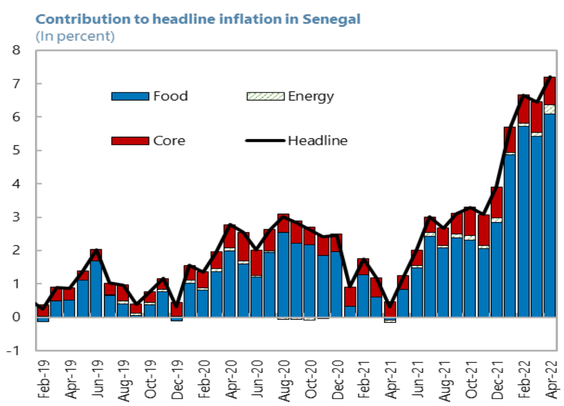
The current spike in global food prices is comparable in size to 2007-08 and 2010-11 shocks.



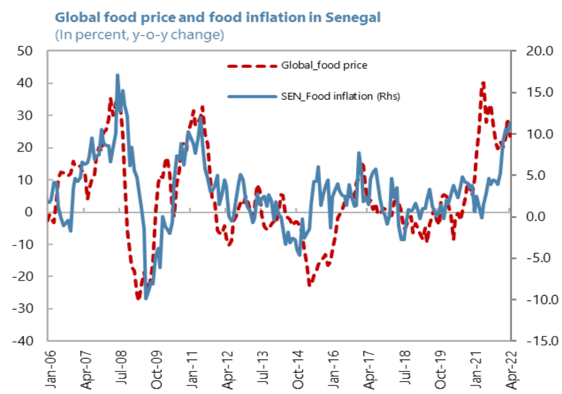
Food account for almost half of CPI basket.



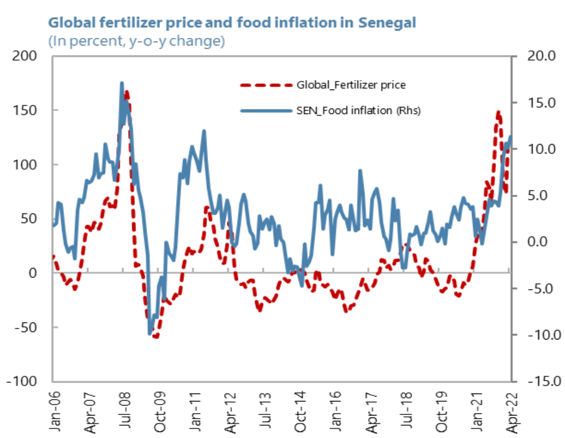
Food inflation is a key driver of cost of living in Senegal...



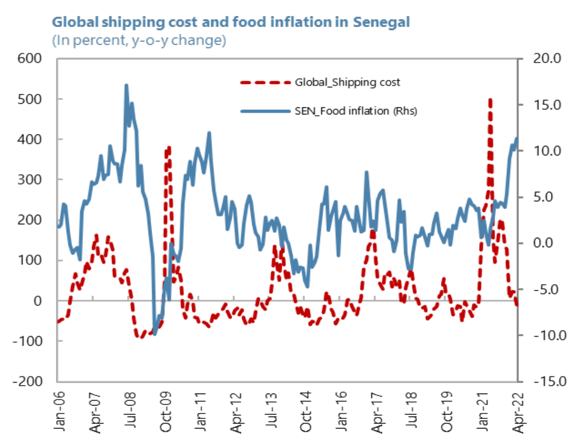
...and is strongly correlated to global food prices evolution...



...as well as to global fertilizer prices ....



...and in a lesser extent to global shipping cost.



Source : Harver, ANSD and IMF Staff Calculations.

Annex II. Table 1: Measures to Stabilize Food Prices and Help the Vulnerable

	Estimated cost in 2022 (in CFAF billion)	in percent of GDP
Customs		
Suspension of the customs duty on soybean meal	3	0.0
Suspension of import tax on refined sugar	1	0.0
Suspension of customs duty on broken rice	24	0.1
Tax base adjustment on edible oil	18	0.1
Suspension of import tax on corn	8	0.0
Suspension of import tax on wheat	4	0.0
Tax Directorate		
Suspension of VAT on wheat flour	14	0.1
Subsidies		
Subsidy for local rice production of CFAF 32 per kg of rice paddy	7	0.0
Increase of agricultural subsidies	10	0.1
Exceptional cash transfer operation	43	0.3
Administered prices		
Lower price for vegetable oil from CFAF1200 to CFAF1100 per liter		
Lower price of broken rice from CFAF15000 to CFAF13750 per bag of 50 kg		
Lower price of sugar from CFAF625 to CFAF600 per kg		
Total	133	0.8

Source : Senegalese authorities and IMF staff calculation.

Annex III. Energy Subsidy Reform[1]

1. The current oil price environment has considerably raised the subsidy bill for 2022[2] and could threaten the authorities' commitment to a gradual phase out of energy subsidies starting next year absent any adjustment measures. The initial 2022 budget included an envelope of 0.9 percent of GDP, in line with an oil price of US$75 per barrel.[3] Based on a forecast of US$110.8 per barrel, subsidies in 2022 are expected to reach CFAF 500 billion (3 percent of GDP) according to the authorities' estimates. Global oil prices were already 15 percent higher than the budgeted level for 2022 before the war in Ukraine. At this level of price, staff estimates that the 2022 subsidy bill would have reached 1.8 percent of GDP absent any adjustment.

2. Limiting subsidies to the program commitment of CFAF 150 billion in 2022 is no longer attainable. Immediately eliminating subsidies would require increasing fuel prices by 60 percent across the board (see text figure 1 for a product-by-product analysis of required price hikes). Electricity tariffs would need to be adjusted by 55 percent across all tariff categories excluding the social tranche (lifeline tariff). Staff concurred with the authorities that such drastic price hikes, if not carefully planned and gradually implemented, would have devastating consequences on vulnerable households in the current context.

3. The authorities and staff concurred on the need to limit the subsidy increase. The authorities increased the budget allocation for energy subsides by 0.9 percent of GDP in the supplementary budget bringing the total to close to 2 percent of GDP. Such a level would *de facto* accommodate the portion of the shock that is attributable to the war in Ukraine while partly adjusting prices to initiate a reform momentum.

4. Given the current political and social context, a successful energy pricing reform strategy would need to focus on achievable outcomes while sending a strong signal on the authorities' willingness to durably reform prices. Thus price increases will need to strike the right balance between a gradual reform and one-off adjustments. A more gradual reform would expose the authorities to a build-up of resistance over time. Thus focusing price increases on lower-priority products and higher consumption tranches as a first step would increase the chances of success of the reform.

5. Staff argued that successful energy price reform requires targeted compensatory measures and a strong communication strategy.

---

[1] Prepared by Nabil Hamliri (FAD).

[2] Senegal currently subsidizes both electricity and fuel products. In any given month, the existing legal framework for energy pricing gives the option to the authorities to either maintain constant prices, in which case they are required to compensate distributors, or to set prices in line with market prices. The state has kept fuel products prices constant since 2019 and compensates fuel importers for incurred losses according to a formula defined by law. Public utility Senelec charges electricity tariffs that are under cost recovery levels (also defined by law and monitored by electricity regulator CRSE) and receives a compensation for that.

[3] The initial budget assumed an oil price of $75/barrel, in line with December 2021 prices. The October 2021 WEO projected prices at $66/barrel and the January 2022 WEO (posterior to the budget estimate) projected prices at $78/barrel.

- **Targeted measures to protect the poor:** support measures should preferably go through existing social safety nets (drawing on the dedicated database RNU) to ensure timely and targeted support. Doubling the existing budgetary envelope for cash transfers would cost 0.2% of GDP annually. The authorities can also consider short-term non-recurrent support to other stakeholders during the transition period (e.g., transportation support in urban areas, support to selected industries).

- **Extensive communication strategy associated with transparency measures:** communication should focus on the current magnitude of energy subsidies, their current distribution between rich and poor[4] and the crowding out effect on other priority spending (e.g., health and education). The communication strategy would aim to build a broad consensus on the benefits of the reform. Clear and transparent information on the projected use of savings may also support acceptability, especially when savings are redirected towards areas with immediate and tangible benefits to affected populations and should be clearly outlined in budget documents.

6. Gradually phasing out energy subsidies over the medium term will be critical. The authorities intend to publish a policy roadmap for a full energy subsidy reform, which should include among other things a clear path towards automatic price adjustment and targeted and durable social protection measures. To ensure durable success of the reform, the following aspects would be important:

- **Automatic and depoliticized price adjustment mechanism:** price setting should rely on existing regulations and institutions (price setting decrees for fuel products and for electricity, and prices determined by the regulators Comité National des Hydrocarbures and Commission de Régulation du Secteur de l"Electricité), and limit government interventions to legal changes to the framework rather than *ad hoc* price freezes. Under automatic price setting, prices can go upwards or downwards depending on world prices.

- **Durable measures to support the poor:** the authorities can set up transparent and automatic increases in cash transfers when automatically set prices exceed a certain threshold.

- **A credible plan for the use of the generated fiscal space and a wider energy sector perspective:** beyond compensatory measures, savings should be reinvested in initiatives that would durably decrease energy costs (and therefore prices) down the road. A credible plan to durably reduce energy costs in the country from their currently high levels, articulating upcoming oil and gas production, the gas-to-power strategy and other investments in the sector (including in the refinery and in renewable power generation) would have broad benefits to all segments of the population and would improve the acceptability of the reform. Energy investment plans should be laid out transparently in budget documents. A redirection of the generation fiscal space towards energy investments would in turn eliminate the need for subsidies (see IMF, 2022).

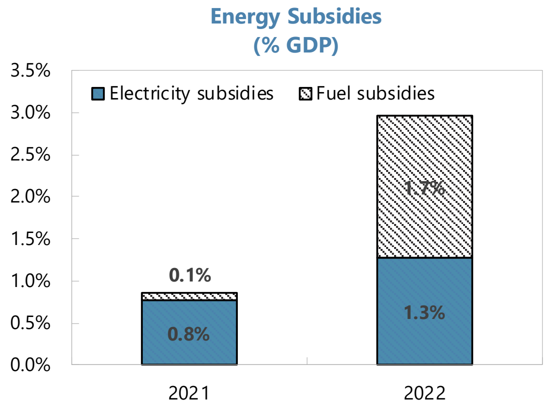
- **Improved efficiency of SOEs to reduce producer subsidies:** efforts to limit price increases in

[4] According to IMF estimates, subsidies benefit on average the richest 20 percent of households six time more than the poorest 20 percent. See IMF (2022), *Selected Issues Paper: Transforming Senegal's energy sector for sustained and inclusive growth*.

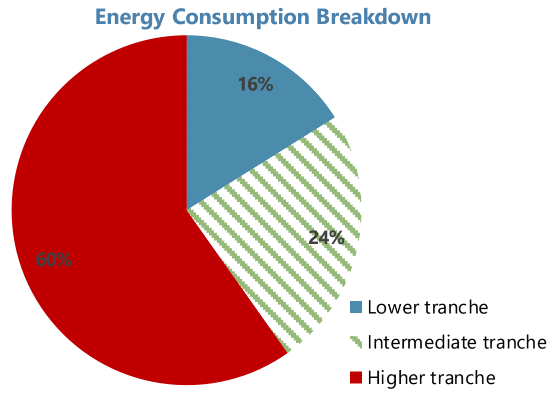
times of high global oil prices should also include measures to strengthen the financial position of Senelec and the Société africaine de raffinage (SAR), including through efficiency gains and regular revisions of the regulated price formulas.

Annex III. Figure 1. Senegal: Energy Subsidies

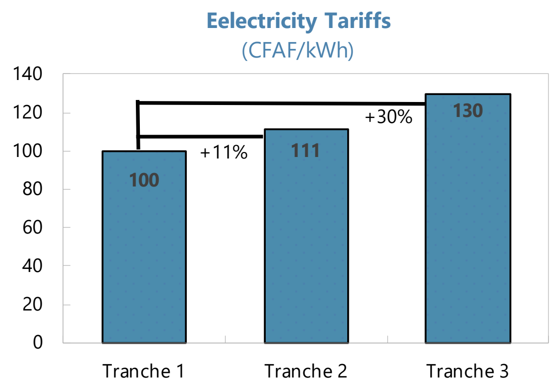
Without adjustments, energy subsidies would triple this year, mainly driven by higher fuel subsidies…



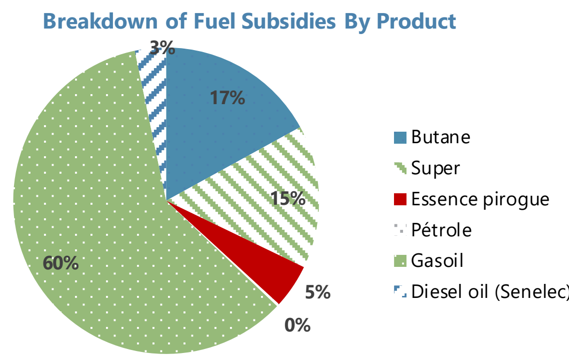
Electricity subsidies are mainly captured by high consumers



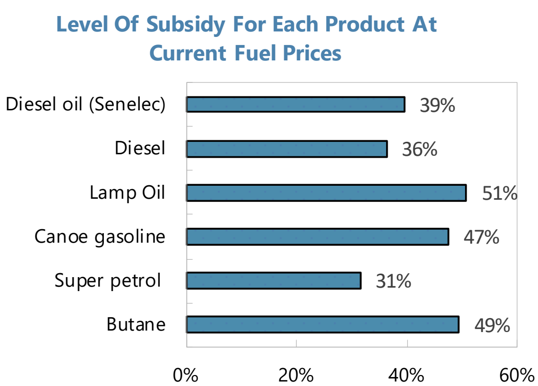
tariff differences remain low from one consumption tranche to another..



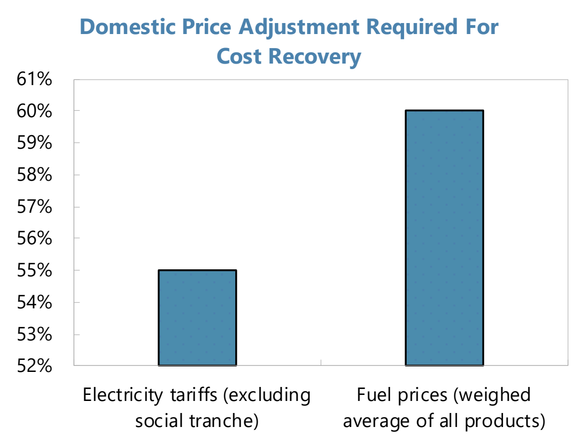
Fuel subsidies are mainly generated by the consumption of gasoil and butane



… which are also the most subsidized products



The elimination of subsidies would require drastic price hikes in the current international price environment



Source: Senegalese authorities and IMF staff calculation

Source: Senegalese authorities and IMF staff calculation.

Annex IV. Risk Assessment Matrix[1]

Risks	Likelihood	Policy Response
Conjunctural risks		
Russia's invasion of Ukraine leads to escalation of sanctions and other disruptions. Sanctions on Russia are broadened to include oil, gas, and food sectors. Russia is disconnected almost completely from the global financial system and large parts of the trading system. This, combined with Russian countersanctions and secondary sanctions on countries and companies that continue business with Russia, leads to even higher commodity prices, refugee migration, tighter financial conditions, and other adverse spillovers, which particularly affect LICs and commodity-importing EMs.	**High**	Strengthen automatic pass-through of global commodity price changes, notably in the energy sector, provide targeted support to the vulnerable, and ensure food supply through forward-looking planning.
Rising and volatile food and energy prices. Commodity prices are volatile and trend up amid supply constraints, war in Ukraine, export restrictions, and currency depreciations. This leads to short-run disruptions in the green transition, bouts of price and real sector volatility, food insecurity, social unrest, and acute food and energy crises (especially in EMDEs with lack of fiscal space).	**High**	Limited policy space to cushion the economic impact will require careful spending prioritization and sustained revenue mobilization efforts.
Widespread social discontent and political instability. Social unrest fueled by increasing prices and shortages of essentials, rising inequality, inadequate healthcare, financial and social scars from the prolonged pandemic, and heavier household debt burdens amid rising interest rates trigger political instability, capital outflows, higher unemployment, and slower economic growth.	**High**	Ensure transparency and effectiveness of fiscal measures and social spending. Expand and better target the social safety net.
Abrupt growth slowdown in China. A combination of extended Covid-19 lockdowns, rising geopolitical tensions, a sharper-than-expected slowdown in the property sector, and/or inadequate policy responses result in a sharp slowdown of economic activity, with spillovers affecting other countries through supply chain disruptions, trade, commodity-price, and financial channels.	**Medium**	Strengthen fiscal resilience and growth-oriented policies.

[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.

Outbreaks of lethal and highly contagious Covid-19 variants. Rapidly increasing hospitalizations and deaths due to low vaccine protection or vaccine-resistant variants force more social distancing and/or new lockdowns. This results in extended supply chain disruptions and a reassessment of growth prospects, triggering capital outflows, financial tightening, currency depreciations, and debt distress in some EMDEs.	**Medium**	Accelerate domestic vaccination campaign.
Risks	**Likelihood**	**Policy Response**
De-anchoring of inflation expectations in the U.S. and/or advanced European economies. Worsening supply-demand imbalances, higher commodity prices (in part due to war in Ukraine), and higher nominal wage growth lead to persistently higher inflation and/or inflation expectations, prompting central banks to tighten policies faster than anticipated. The resulting sharp tightening of global financial conditions and spiking risk premia lead to lower global demand, currency depreciations, asset market selloffs, bankruptcies, sovereign defaults, and contagion across EMDEs.	**Low**	Stand ready for tightening external financial conditions and lower external demand.
Structural risks		
Geopolitical tensions and deglobalization. Intensified geopolitical tensions, security risks, conflicts, and wars cause economic and political disruptions, fragmentation of the international monetary system, production reshoring, a decline in global trade, and lower investor confidence.	**High**	Boost resilience of economy and key supply chains, including through diversification.
Cyberthreats. Cyberattacks on critical physical or digital infrastructure (including digital currency platforms) trigger financial instability or widespread disruptions in socio-economic activities.	**Medium**	Upgrade digital infrastructure and security systems.
Natural disasters related to climate change. Higher frequency of natural disasters cause severe economic damage to smaller vulnerable economies and accelerate emigration. Severe events in large economies hitting key infrastructure reduce global GDP, cause further supply chain disruptions and inflationary pressures, and prompt a recalculation of risk and growth prospects.	**Medium**	Invest in climate adaptation and improve shock response mechanisms to cope with floods and droughts.

Source: IMF.

Annex V. Debt Holder Profile Table

Annex V. Table 1. Senegal: Decomposition of Public Debt and Debt Service by Creditor, 2021-23[1]

	Debt Stock (end of period) 2021			Debt Service					
				2021	2022	2023	2021	2022	2023
	(US$, millions)	(Percent total debt)	(Percent GDP)	(US$, millions)			(Percent GDP)		
Total	19312	100	73	2213	2119	2173	8.4	8.0	8.2
Central Government	17744	92	67	1957	1867	1929	7.4	7.1	7.3
State-owned enterprises (SOEs)	1568	8	6	256	252	245	1.0	1.0	0.9
External	14206	74	54	1248	1080	1093	4.7	4.1	4.1
Multilateral creditors	6014	31	23	168	282	389	0.6	1.1	1.5
IMF	1069	6	4						
World Bank	2668	14	10						
ADB/AfDB/IADB	1174	6	4						
Other Multilaterals	739	4	3						
o/w: IsDB	568	3	2						
EIB	181	1	1						
Bilateral Creditors	3188	17	12	194	364	311	0.7	1.4	1.2
Paris Club	1070	6	4	16	98	88	0.1	0.4	0.3
o/w: France	926	5	4						
Spain	46	0	0						
Non-Paris Club	2118	11	8	178	265	224	0.7	1.0	0.8
o/w: EXIM China	1340	7	5						
EXIM India	191	1	1						
Bonds (Eurobonds)	4236	22	16	775	322	247	2.9	1.2	0.9
Commercial/Other International creditors	768	4	3	111	112	145	0.4	0.4	0.6
o/w: SGCIB	378	2	1						
AFREXIM	57	0	0						
SOEs	854	4	3	137	137	133	0.5	0.5	0.5
Domestic	3538	18	13	709	787	836	2.7	3.0	3.2
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	86	0	0	0	100	0	0.0	0.4	0.0
Bonds	3029	16	11	393	293	554	1.5	1.1	2.1
Loans	423	2	2	168	151	117	0.6	0.6	0.4
SOEs	714	4	3	119	115	111	0.5	0.4	0.4
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	26398								

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).

Source: Senegalese authorities.

Annex VI. Capacity Development

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

1. Capacity development priorities remain well aligned with program objectives under the PCI and the concurrent SBA/SCF, 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
- 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.

3. Two long-term experts support capacity development on revenue mobilization and PFM.

4. 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

A. FAD

Topics	Objectives
Tax policy/ Revenue administration	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	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	No CD activity planned in 2022.

B. MCM

Topics	Objectives
Debt management	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.

C. STA

Topics	Objectives
Government finance statistics	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

June 07, 2022

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

Dear Madam Managing Director,

1. In 2021, Senegal's economic growth returned to its pre-pandemic level. Program performance at end-December 2021 was satisfactory. All quantitative performance criterion were met, except the floor on tax revenues. Tax revenues fell short of the program target due to the non-integration in the budget of the road tax, the poor performance of the VAT and fiscal measures taken to stabilize the prices of certain staple foods mostly consumed by the most vulnerable population. Corrective measures were adopted, including the integration of the road tax into the budget, a slight increase of the personal income tax for top incomes in the 2022 Supplementary Budget Law, as well strengthened implementation of the medium-term revenue strategy to improve domestic revenue mobilization in 2022. The government is requesting a waiver for not meeting this performance criterion.

2. Two of the three indicative targets were not met, including the ceiling on single-sourced procurement contracts. To remedy this, the government has undertaken to revise the public procurement code to better regulate the use of single-sourced procurement contracts. Four out of eight structural benchmarks for end-December 2021 were met. The publication of the special report of the Audit Court regarding COVID-19 related spending has been delayed until July 2022 instead of end-March 2022, as the scope has been extended to include COVID-19 related spending in the first quarter of 2021. The government is committed to implementing the key recommendations from this report.

3. As the economy recovers from the COVID-19 pandemic, Senegal is facing a combination of new shocks. Soaring global energy and food prices and continued disruption of supply chains, compounded by the war in Ukraine and containment measures in China, are weighing on economic activity and fueling inflationary pressures. In addition, there is the impact of sanctions imposed by the Economic Community of West African States (ECOWAS) against Mali, Senegal's largest trading partner.

4. The government approved a 2022 Supplementary Budget Law in May to mitigate the impact of these shocks on the economy and the population, notably the most vulnerable. The supplementary budget law incorporates an increase of the budgetary envelope for energy subsidies of 1 percent of GDP to soften the impact of higher oil prices on the economy and households since the global oil price increased by 50 percent compared to the assumption in the initial budget. Furthermore, additional measures including cash transfers and removal of taxes on certain staple foods have been adopted.

5. The government decided to limit energy subsidies to a maximum of 2 percent of GDP in 2022. If needed, the government will make gradual and targeted adjustments to fuel and electricity prices. Despite the challenging economic environment, the government maintains the revenue targets in the Supplementary Budget Law based on additional measures to improve the performance of the tax administration and the mobilization of exceptional revenues.

6. The government reiterates its determination to maintain debt sustainability by pursuing fiscal consolidation through a rigorous implementation of the Medium-Term Revenue Mobilization Strategy (MTRS) in 2023-2024 and a gradual phasing out of regressive energy subsidies. The ongoing effort to improve and expand the single national registry will allow to deliver rapid and targeted support to households in the event of food and fuel prices shocks.

7. The government will pursue a prudent debt policy. To this end, it will give preference to concessional borrowing and will use non-concessional borrowing only to finance projects with a high internal rate of return. It will also continue to strengthen debt management, by improving the collection, monitoring and management of debt contracted by public and quasi-public entities as well as public-private partnerships. Finally, the government will complete the fiscal framework for a transparent and sustainable management of hydrocarbon revenues before 2023 and will continue implementing the action plan to remove Senegal from the enhanced monitoring by the Financial Action Task Force (FATF).

8. In line with the revised macroeconomic framework, the government is requesting a modification of the performance criterion on the net lending/borrowing floor or overall fiscal balance. To cover additional short-term balance of payments needs resulting from the deterioration in the terms of trade, the government is requesting an increase in access equal to 40 percent of Senegal's quota (SDR 129.44 million), two-thirds under the Stand-By Arrangement (SDR 86.29 million) and one-third under the Stand-By Credit Facility (SDR 43.15 million), to be disbursed in two equal tranches of 20 percent (SDR 64.72 million), which, in line with procedures for existing access, will be on-lent to the Government via the central bank .

9. In view of the achievements under the program and considering the commitments made in the Memorandum of Economic and Financial Policies, the government requests the conclusion of the fifth review under the Policy Coordination Instrument, as well as the second review under the Stand-By Credit Facility/Stand-By Arrangement and the disbursement of 50 percent of the quota, i.e., SDR 161.82 million. The government is confident that the policies and measures outlined in the Memorandum of Economic Policies will help to achieve the program's objectives.

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

11. 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 2022

II. Technical Memorandum of Understanding

Attachment I. Supplement to the Memorandum of Economic and Financial Policies/Program Statement for 2022

Introduction

1. **The Senegalese economy is facing multiple shocks.** At the international level, the war in Ukraine has led to a surge in oil and food prices. In addition, financial conditions have tightened in response to inflationary pressures. At the regional level, the situation is characterized by political instability and the impact of the Economic Community of West African States' sanctions against Mali. Domestically, wage demands by unions representing teachers and healthcare workers are exerting pressure on public finances. These shocks have occurred as the economy was beginning to recover from the COVID-19 pandemic.

2. **This difficult context has led the government to reset the parameters of the economic and financial program supported by the Policy Coordination Instrument (PCI), the Stand-By Arrangement (SBA), and the Standby Credit Facility Arrangement (SCF).** The government's priority is now to preserve social cohesion and security in the country. It will continue the efforts to achieve the program objectives to (i) consolidate macroeconomic stability; (ii) promote robust, sustainable, inclusive, and private sector-led growth; and (iii) prepare a sustainable, transparent framework for the hydrocarbon sector.

3. **This Supplement to the Memorandum/Policy Statement describes the achievements at end-December 2021 compared to the program objectives and presents the economic policy priorities and objectives for 2022, as well as the medium-term outlook.**

Economic Developments in 2021

A. Recent Developments

4. **The economic recovery in 2021 exceeded expectations**. Economic growth is estimated at 6.1 percent, against a forecast of 5 percent. Nonagricultural activity rebounded by 7.1 percent, reflecting the renewed dynamism of the secondary (+10.9 percent) and tertiary (+5.7 percent) sectors, while overall growth was mitigated by the decline in agricultural production (-2.0 percent) after a bumper year in 2020-2021. Inflation averaged 2.2 percent and 2.9 percent for food products.

5. **At end-December 2021, a higher trade deficit contributed to a deterioration of the current account deficit to 13.3 percent of GDP from 10.9 percent of GDP in 2020.** The trade deficit for goods improved slightly, returning to 11.2 percent of GDP in 2021, as opposed to 11.4 percent of GDP in 2020. The increase in international commodity prices during the last quarter of 2021 contributed to the dynamic performance of goods exports, and particularly phosphoric acid (+75.0 percent), oil products (+25.5 percent), and groundnut products (+39.7 percent). Goods imports increased by 18.3 percent in 2021, driven by higher oil (+30.5 percent) and food (+9.6

percent) bills. By contrast, the trade deficit for services widened to 9.7 percent of GDP in 2021 from 7.2 percent of GDP in 2020, driven by imports for hydrocarbon projects. Remittances remained dynamic, accounting for 10.6 percent of GDP in 2021, consolidating the secondary income account surplus.

6. Budget execution at end-December 2021 resulted in a deficit of 6.3 percent of GDP. Total revenue (excluding grants) amounted to CFAF 2850 billion, CFAF 23 billion below the projected level. Tax revenues fell short by CFAF 67 billion, reflecting the poor performance of taxes on goods and services (CFAF 128.9 billion below projections), including CFAF 45.6 billion due to the off-budget treatment of the road use tax (TUR) and CFAF 14 billion from the suspension of the value-added tax (VAT) on wheat flour, partially offset by the sound performance of taxes on international trade. The payment of exceptional dividends by Senelec (state-owned power utility) contributed to an overperformance of nontax revenues (by CFAF 73 billion). Total expenditures reached CFAF 3945 billion, approximately 97 percent of the target, including expenditure related to the SDR allocation which was used for health and social spending as well as the clearing of unmet obligations.

7. Total public debt stood at 73.2 percent of GDP at end-2021, of which central government debt stood at 67.2 percent of GDP and that of state-owned enterprises and other public agencies represented 5.9 percent of GDP. Central government debt grew by 15.6 percent in 2021, from CFAF 8903.3 billion to CFAF 10297.6 billion. It is still dominated by external debt, that accounts for 74 percent of the total (CFAF 7623.3 billion), against 78.0 percent at the end-2020 (CFAF 6946.3 billion), while domestic debt is estimated at 26 percent (CFAF 2673.7 billion), in comparison with 21.9 percent at the end-2020 (CFAF 1597.1 billion). Debt of state-owned enterprises and other public agencies increased by 7 percent from CFAF 849.7 billion to CFAF 909.9 billion; it is largely composed of foreign debt, which represents 54.5 percent of the total (CFAF 495.8 billion).

8. Money supply grew by 15.3 percent, driven by an improved external position and an increase in domestic claims. The BCEAO's net foreign assets (NFA) were buoyed by the resources mobilized by the government of Senegal on the international financial market (Eurobonds) and IMF assistance (special drawing rights (SDR) allocation and other assistance). Trends in domestic claims reflect the increase in net claims of deposit institutions on the central government (an increase of CFAF 424.1 billion; +29.6 percent) and loans to other economic sectors (an increase of CFAF 444.2 billion; +9.5 percent).

9. The banking sector strengthened in 2021. Compared to end-December 2020, banks' equity increased by 6.4 percent. However, the solvency ratio deteriorated slightly from 12.4 percent at end-December 2020 to 12.0 percent at end-December 2021. Gross non-performing loans (NPLs) ratio decreased at the end of December 2021 to 11.5 percent, against 13.3 percent at end-December 2020. The provisioning rate stood at 68.2 percent. The stock of deferred principal payments granted by banks to their customers and overdue payments amounted to CFAF 3.8 billion and CFAF 10.7 billion respectively at the end of January 2022. The residual principal of deferred claims accounted for 0.2 percent of banking sector loans. At end-January 2022, credit institutions have posted a solvency ratio above the minimum threshold of 11.3 percent, except for three institutions which account for a small share of the banking sector.

B. Program Performance

10. All of the program performance criteria for end-December 2021 were met, with the exception of the floor on tax revenues. Net lending/borrowing (fiscal deficit) amounted to CFAF 965 billion, against a target of CFAF 967 billion. No external arrears were accumulated. Net government financing amounted to CFAF 965 billion, against a target of CFAF 997 billion. Total nominal public debt, at the program exchange rate, was CFAF 10997 billion, against a target of CFAF 11270 billion. By contrast, tax revenue was CFAF 67 billion below the target of CFAF 2661 billion. The government is requesting a waiver for the non-observance of the performance criterion. Corrective measures were implemented, particularly in the context of the 2022 Supplementary Budget Law (LFR), and by accelerating the implementation of the Medium-Term Revenue Strategy (MTRS), which has already produced encouraging results for the first quarter of 2022.

11. One of the three indicative targets was met. Social spending accounted for 40 percent of total spending, compared to a floor of 35 percent. By contrast, spending through simplified procedures for non-personalized government services represented 5 percent of total transfer spending, compared to a ceiling of 3 percent, mainly due to additional transfers for clearing unmet obligations as budgeted for in the second Supplementary Budget Law of 2021. The share of government contracts concluded outside of open tenders exceeded the program ceiling (25 percent, compared to 15 percent), due to the conclusion of contracts for the supply of firefighting and medical equipment, as well as for the design and construction of the Regional Express Train (TER) terminal at Blaise Diagne International Airport (AIBD). A review of the public procurement rules is expected to provide a better framework for the use of spontaneous bidding and direct contracting in line with international best practices (structural benchmark, end-June 2022).

12. Four of the eight structural benchmarks/reform targets were achieved as of end-December 2021.

- The semi-annual report on the linking and exchange of information between the Directorate General of Taxes and Government Properties (DGID) and the Directorate General of Customs (DGD) has been produced.

- Sufficient budgetary appropriations to cover energy subsidies (fuel and electricity subsidies due 90 days after validation) were included in the second 2021 Supplementary Budget Law, due to the decision to suspend the application of the decree for revising fuel prices and electricity rates.

- The study to identify all bank accounts belonging to public entities having own resources was completed to determine which accounts could be closed at end-June 2022, and to propose a roadmap for the gradual closing of all accounts of public entities covered by the Treasury Single Account (TSA), including the identification of workable solutions for any legal obstacles that may be encountered as the result of the autonomy under the current provisions for certain units.

- A statement of budget risks was appended to the 2022 Budget Law.

By contrast:

- The 2022 Initial Budget Law did not include measures to reduce tax expenditure by at least CFAF 25 billion; however, some measures are included in the annexes to the Supplementary Budget Law passed at the end of May 2022.

- The digitalization of land management procedures is not yet effective. However, the application has been delivered in May 2022 and its deployment is underway.

- The single collateral registry of guarantees, that is accessible online, and that can combine data on movable collateral and mortgages in collaboration with the Central Bank of West African States (BCEAO), will become operational for pilot centers in November 2022.

- The merging of all funds to finance youth and women entrepreneurship into a single fund is effective from a fiscal standpoint. However, legal acts to dissolve the remaining funds have not yet been taken and are expected by the end of 2022.

13. Progress has been made in meeting the commitments on transparency and accountability for the expenditure of the Force COVID-19 Fund.

- The 2021 quarterly budget execution reports, including Force COVID-19 Fund expenditure execution, have been published on a regular basis.

- The report of the Force COVID-19 Fund Monitoring Committee, that includes expenditure and government procurement agreements executed with Force COVID-19 Fund resources, was published in September 2021 and is available online (http://www.finances.gouv.sn/wp-content/uploads/2021/09/Rapport-final-des-activit%C3%A9s-du-Comit%C3%A9-de-suivi.pdf).

- The audit by the Public Procurement Regulation Authority (ARMP) on compliance with procurement procedures funded with Force COVID-19 Fund resources was published in November 2021. (http://www.armp.sn/images/Documentation/rapport%20public%20armp%20evaluation%20de%20la%20regularite%20des%20depenses%20covid%2019.pdf)

- The Interim Audit Report of the Audit Court on the use of Force COVID-19 Funds was forwarded to the government on May 31, 2022, and, by law, the government has 30 days to submit its observations before the publication of the final report expected by mid-July 2022.

Economic and Financial Program in 2022 and in the Medium-Term

C. Macroeconomic Framework

14. The economic recovery that began in 2021 continued into the first quarter of 2022. On average during the first three months of 2022, the composite index of economic activity, excluding agriculture and forestry, increased by 5.6 percent driven by the strong performance of the secondary (+5 percent) and tertiary (+7.5 percent) sectors, mitigated by the livestock (-4.5 percent) and fishing (-3.1 percent) sectors. However, at the beginning of 2022, concerns persist over geopolitical tensions, specifically the war in Ukraine and the ECOWAS sanctions against Mali, which could have a negative impact on supply chains.

15. Inflation accelerated in early 2022, mainly driven by the increase in food prices. Inflation reached 6.3 percent at the end of March (year-on-year), after having peaked at 6.5 percent at the end of February. Rising global commodity prices have led to higher domestic food prices, that reached 10.1 percent in March after peaking at 10.6 percent in February (year on year). Core inflation, excluding energy and food, that had averaged 1.3 percent in 2021, also increased to 2.1 percent in March 2022 (year-on-year).

16. Budget execution during the first quarter of 2022 was in line with the target. Total revenue collection (excluding grants) was CFAF 693.3 billion, exceeding the objective by CFAF 32.7 billion. Revenues at end-March 2022 increased by CFAF 194 billion in absolute terms compared to last year, and 40 percent in relative terms. Total expenditure amounted to CFAF 1441.8 billion. At the end of March 2022, spending for wages was CFAF 227.2 billion against an annual forecast of CFAF 952 billion, an execution rate of 24 percent. These payments were made to 162,457 public officials. In terms of current spending, it can be noted that out of the allocated CFAF 1170.3 billion, CFAF 456.6 billion were executed, equivalent to an execution rate of 39.8 percent. Capital expenditure amounted to CFAF 626 billion, compared with an allocation in the Initial Budget Law of CFAF 1819.5 billion, equivalent to an execution rate of 34.4 percent.

17. The difficult environment, owing to the spillovers from the war in Ukraine, has clouded the macroeconomic outlook for the rest of 2022. Accordingly, economic growth for 2022 has been revised downward by one half of a percentage point to approximately 5 percent, from an initial forecast of 5.5 percent, to reflect the impact of rising world oil and food prices on private consumption, as well as the economic slowdown in Senegal's major trading partners. Inflation is projected at approximately 5.5 percent in 2022, driven by the sharp rise in food prices. The current account deficit is expected to be approximately 13 percent of GDP as a result of the deterioration in the terms of trade.

18. The medium-term economic outlook remains favorable. Economic growth is expected to average 10 percent during the period 2023-24 due to the start of hydrocarbon production. Inflation should gradually return to its medium-term target of 2 percent. The current account deficit is expected to improve substantially over the medium term with the start of hydrocarbon production and the sharp reduction in imports of related services, as well as the resumption of activities in the tourism sector.

19. The outlook is highly uncertain, with risks titled to the downside. A further spike in global oil and food prices could lead to social unrest and add pressure on the external and fiscal balances. A further slowdown in global economic growth and a more aggressive tightening of monetary policies would further compress external demand and adversely affect growth. Similarly, a resurgence of the pandemic, a deteriorating regional security situation, and climate shocks (droughts and floods) could pose risks to economic activity.

D. Improving Fiscal Resilience

2022 Supplementary Budget Law: Balancing Short-Term Spending Needs with Fiscal Sustainability

20. A Supplementary Budget Law (LFR) was approved by parliament in May, which aims to mitigate the impact of global headwinds, meet commitments to the social partners, and enhance the country's security in light of regional terrorism. The LFR includes CFAF 323.5 billion in additional expenditure, covering the following, *inter alia*:

- Energy subsidies. The budget envelope for energy subsidies (fuel and electricity) has been revised upwards by CFAF 150 billion, bringing the total amount for 2022 to CFAF 300 billion, to cope with the surge in global oil prices. To contain the subsidies to the planned budget envelope, the government decided on June 5 to adjust some energy prices . The government will undertake further targeted price adjustments if necessary.

- Wage bill. The LFR supports the government's commitments to the social partners, designed to make the remuneration system for public officials fairer, particularly those serving in the education, health, and defense and national security sectors. The fiscal cost of these measures is approximately CFAF 100 billion.

- Security. An additional budget allocation of CFAF 73.5 billion is devoted to strengthening defense and national security resources.

21. The LFR also includes measures to support the most vulnerable population. Accordingly, the government has forgone CFAF 72.2 billion in tax revenue to stabilize the prices of certain staple foods. It also made an exceptional cash transfer of CFAF 43 billion supported by highly concessional financing from the World Bank. Last, it increased the agricultural subsidies envelope by CFAF 10 billion to address the increase in fertilizer prices.

22. Despite the current difficult context, the LFR is projecting an increase in revenue (including grants) of CFAF 37.1 billion as a result of exceptional revenue and intensified tax collection efforts by the tax administrations. Globally, this increase derives from exceptional revenues from the national refinery (SAR) (CFAF 48.9 billion), the cross-debt settlement between border control management and civil aviation company Sécuriport and the government (CFAF 5.2 billion), and an upward revision of projected proceeds from the road use tax (TUR) of CFAF 13 billion. However, this increase is mitigated by the decline in project grants of CFAF 30 billion. The tax collection targets for the tax administrations are provided below:

- The revenue collection target for the Directorate General of Customs (DGD) was maintained at CFAF 997 billion, despite the spillovers from the war in Ukraine and the customs measures taken to stabilize prices of certain staple foods (suspension of customs duty on broken rice and oilcake maize and the cyclical import tax (TCI) on 22,000 tons of granulated sugar and import adjustment tax on wheat and maize). The customs revenue target should be achieved through an improved governance of valuations, better control of exemptions, and the permanent availability of the GAINDE software, which is becoming more effective and robust thanks to the investments made within the framework of the implementation of the Program to Modernize the Customs Administration (PROMAD).

- The tax collection target assigned to the Directorate-General of Taxes and Government Properties (DGID) is set at CFAF 2110 billion. This target will be achieved through the uptick in current revenue observed at the end of April 2022, an effective implementation of the administrative measures, with an estimated impact of CFAF 22.5 billion, and exceptional revenues amounting to CFAF 88.7 billion, expected primarily from the sale of the former airport land and from the national refinery (SAR).

- The revenue collection target of the Directorate General of Public Accounting and Treasury (DGCPT) is CFAF 125 billion.

23. To limit the budget deficit to CFAF 1055 billion, the LFR includes measures to save CFAF 104.1 billion in the following areas:

- Externally financed investments through project loans are lowered to CFAF 515 billion from CFAF 580 billion in the 2022 Initial Budget Law, a reduction of CFAF 65 billion.

- Investments financed with domestic resources are being revised downward by CFAF 30 billion.

- Current transfers. A saving of CFAF 9.1 billion was obtained for this line.

- In addition, to cover fiscal risks, the LFR includes a precautionary reserve of CFAF 50 billion and a general reserve of CFAF 30 billion.

24. Government financing needs are expected to amount to CFAF 1963.8 billion. This financing requirement will be covered by:

- Project loans amounting to CFAF 515 billion;

- CFAF 107 billion in program loans;

- A 2021 financing surplus carried forward to 2022 of CFAF 120.7 billion;

- IMF disbursements of CFAF 254 billion; and

- Recourse to financing in the regional market in the amount of CFAF 967 billion.

Medium-Term Fiscal Framework: Gradually Reducing the Deficit to 3 Percent Of GDP

25. Fiscal policy remains anchored by the target of a fiscal deficit of 3 percent of GDP by 2024, in accordance with the decision of the Council of Ministers of the West African Economic and Monetary Union (WAEMU). For that purpose, the government intends, *inter alia*, to:

- **Accelerate implementation of the medium-term revenue mobilization strategy (MTRS).** The government is preparing to launch a series of measures to improve the internalization of the MTRS by all stakeholders in accordance with the commitments made during the previous program review. The government will continue implementing reforms to strengthen administration, in particular by achieving the digitalization of tax collection by 2023. The SENFINANCES solution that is currently being developed, will:

  - Generalize the use of the unique identifier based on the national identification number so that taxpayers can be monitored individually through the establishment of a unified, integrated, readily available, and secure portal for tele-declaration, telepayment, and online requests in connection with all public taxes;

  - Integrate a management tool to monitor times required for processing requests and supervision initiatives;

  - Interconnect the tax, customs, treasury, and budget administrations with a unified, integrated system supported by the portal that enables collection, processing, and use of the transaction data for supervision purposes, in support of a more effective fight against fraud and the expansion of the informal sector.

  - The redrafting of the regulatory framework on the Joint Tax-Customs Control Brigade, in light of its specialization, beginning in June 2022, in monitoring effective implementation of investment commitments by the beneficiaries of preferential systems is being finalized, in accordance with the commitments under the MTRS.

  - The reform of the Evaluation Committee for tax exemptions is also progressing. The aim is to create conditions for permanent monitoring of developments of the most significant exemptions and to monitor effective implementation of streamlining decisions that are adopted. As a result of the automation of the data collection system in SENFINANCES, the annual report on tax exemptions should be published within six months after the end of the fiscal year.

  - The performance monitoring framework for the tax administrations, including clear indicators, is being finalized with support from IMF technical assistance (structural benchmark, end-June 2022). The decree establishing the mechanisms for monitoring the activities of the administrations involved in the MTRS was adopted in April 2022. The content and format of the monitoring statements have been specified in that decree.

- **Gradual phasing out of energy subsidies beginning in 2023.** Considering the spike in global oil prices and the high cost of subsidies in 2022, the government plans to gradually phase out energy subsidies beginning in 2023. This phase out will be implemented with the updating and application of the existing decrees on fuel and electricity price adjustment and intensifying efforts to sustainably reduce the costs of electricity and fuel production (including the gas-to-power strategy and planned investments in the national refinery). The government intends to rely on targeted support to the most vulnerable population in the event of shocks levering on the existing social safety net and temporary support measures, rather than generalized subsidies where most benefits go to rich and large consumers. In this connection, a roadmap including a clear path towards automatic price adjustment, a communication phase and support measures for vulnerable households is being developed (structural benchmark, end of June 2022).

Maintaining Public Debt Sustainability

26. The government is committed to preserving debt sustainability. The Debt Sustainability Analysis shows that Senegal is still at a moderate risk of debt distress, with a very limited buffer to absorb shocks. The debt profile is vulnerable to economic growth slowdowns and deteriorating external conditions. Against this backdrop, the government will give priority to concessional external borrowing and will use non-concessional borrowing only to finance projects having high internal rates of return. The CFAF 330 billion Sukuk issued by a new state-owned enterprise, SOGEPA, in April 2022 is part of this framework, as it is denominated in local currency. The Sukuk was carried out in three tranches, the first of which has a maturity of seven years, in the amount of CFAF 51.6 billion; the second, a maturity of 10 years, in the amount of CFAF 57.5 billion; and the third, a 15-year maturity and a two-year grace period, in the amount of CFAF 220.9 billion. The bulk of the proceeds will be used to buy back the property that was transferred by the government to SOGEPA for use as collateral for the Sukuk. SOGEPA will use the remainder to make further property investments on behalf of the state. In addition, the issue of external commercial debt by the Blaise Diagne International Airport in Dakar (AIBD), scheduled for 2022, will finance an air hub project (the expansion of the AIBD and construction of regional airports).

27. The government will continue its efforts to improve debt management through the implementation of the action plan reflecting recommendations from the audit of the debt database management platform. This plan is being implemented with the updating of access rights in the Debt Management Platform (DAIDA), redrafting of DAIDA add-on modules, implementation of a data quality management process supported by the ISO 9001:2015 certification of the Public Debt Directorate, and implementation of a business continuity plan, including the strengthening of production, backup, and network servers. Actions to strengthen parametric security against threats such as malicious accesses are also in progress. At the functional level, capacity-building for debt managers and deployment of staff are in progress; and at the technical level, resources are made available to the Public Debt Directorate to cover the support function. Looking forward the debt-monitoring platform will be required to incorporate debt of state-owned enterprises and other public agencies. The developments required for that purpose are being evaluated to assess the scope of these activities and the collection and centralization mechanisms required, and to determine the related costs.

Strengthening Public Financial Management

28. The government will launch the implementation of the public financial management strategy. The initial matrix of the public financial management reform strategy has been updated to reflect developments since its introduction in 2018 and the various public financial management assessments. Globally, the six strategic areas of the initial matrix were kept unchanged. The main updates involved the expected results, interim results, and actions to be undertaken. The updated matrix is shared with the concerned services. A technical validation workshop will be organized no later than June 30, 2022. Accordingly, with the new dates and targets to be decided at the end of this workshop, implementation of the strategy should be effective from the second half of 2022.

29. The government intends to continue the effective implementation of the Treasury Single Account. Of the 276 bank accounts identified in 2020, 100 were closed by December 31, 2021. The study found 87 bank accounts to be closed by June 30, 2022, 11 of which for public industrial and commercial institutions (EPIC) operating in the commercial sector with own resources, for which they receive banking services not provided by the treasury. On this basis, 76 bank accounts will be closed on June 30, 2022. For the remaining 89 accounts belonging to organizations operating in the financial, higher education, and health sectors, a gradual, participatory approach is envisaged, in light of the social sensitivity of these sectors as well as their specialized activities. To close the bank accounts of these institutions, discussions have been undertaken to ensure that their concerns are properly addressed, and these matters will be covered in a progress report by the end of July 2022.

30. The government will pursue the reforms aimed at improving budget execution.

- The decentralization of spending authorizations has been effective since January 2022 in all constitutional institutions and ministries, in accordance with the Organic Budget Law. Decree 2021–1799 appointing the delegated and secondary authorizing officers signed on December 31, 2021. To support the process, training sessions were organized for the new stakeholders on the budget execution procedure in the SYSBUDGEP information system. A SYSBUDGEP user guide and a user manual for authorizing officers were made available to the new stakeholders. It was observed in the initial assessment carried out at the end of the first quarter of 2022 that the new stakeholders have gained a proper understanding of the process.

- The budget documentation for the 2022 Budget Law was supplemented with a cash flow plan. A budget module was designed in SYSBUDGEP to enable the stakeholders in the expenditure workflow to prepare commitment plans that are coordinated with the procurement plan in SYSBUDGEP and the cash flow plan. All ministries and institutions were able to prepare 2022 commitment plans in the information system. A workshop was organized during the last quarter of 2021 to share the different infra-annual planning instruments for budget execution and the preparation of quarterly expenditure ceilings in line with the estimated cash flow plan. The draft decree on intra-annual planning was subject to consultation with the various stakeholders and validated at the technical level. Its signature will formally establish the framework for management dialog at the level of the Minister of Finance and the Budget as well as at the various key authorizing officers.

- Significant progress has been made in the reclassification of transfer expenditure, including subsidies, undertaken by the Directorate General of Budget, Public Accounting, and Treasury. Accordingly, specific budget lines for transfers to the agricultural and energy sectors were identified to be reclassified as subsidies as soon as they are programmed, to facilitate the proper classification for execution purposes. Technical exchanges should be finalized in 2022 for the new classification to be considered in the budgetary programming from 2023. The reclassification of capital transfers into investments executed by the government in the budget continued in 2022. As an accompanying measure, the delegated project management instruction was signed in May 2022. This instruction describes the procedure for the execution of capital expenditure carried out in project management delegated by the implementing agencies. It specifies the roles of the different stakeholders and the mechanisms for effective public expenditure execution.

- Significant progress has been observed during the past few years in the process of selecting investment projects and programs. The number of projects and programs evaluated annually increased from 12 in 2015 to 50 in 2020, and to 86 in 2021. Projects evaluated in 2021 correspond to a total volume of CFAF 3059 billion. These projects are covered in an annex to the 2022 Draft Budget Law. In 2022, approximately 90 feasibility studies are planned.

- Budgeting for investment projects with a prior commitment authorization and payment appropriation (AE/CP) approach has been in place since 2020. The SYSBUDGEP information system takes into account the presentation of the capital expenditure with the AE/CP approach. Guidelines have been provided in the 2023/2025 budget framework circular to ensure that public investments are optimally budgeted, and that their physical and financial execution is subject to infra-annual monitoring. For that purpose, information collection tools for more effective programming and monitoring are being validated by the technical services of the Directorate General of Budget and will be used in connection with the preparation of the 2023 Draft Budget Law.

- Making SIGIF operational. All the technical issues mentioned during the audit of the Integrated Financial Information Management System (SIGIF) conducted by the General Finance Inspectorate have been resolved, including the issues of change management and user training in the regions. The next steps will be to:

    - Make all shared ministerial and regional service centers operational and establish management control units in all ministries and institutions;

- Identify and appoint all stakeholders in the new management workflow (persons responsible for actions and activities, delegated authorizing officers, secondary authorizing officers, funds and assets accountants, order accountants, and materials accountants) in all ministries and institutions;

- Start budget preparation activities in all ministries and institutions exclusively through the SIGIF platform completely under the results-based management approach;

- In the shared ministerial and regional service centers, organize real twofold control of 2021 budget execution, using the SIGIF production function in all activities carried out on the SYSBUDGEP and ASTER platforms. Take advantage of this twofold control to make all stakeholders in the SIGIF expenditure chain operational. Some stakeholders in the Directorate General of Public Accounting and Treasury, such as the treasury general revenue or general treasury cash authorities, might obtain statements and information to which they currently do not have access.

- Ensure that SIGIF is used exclusively for budget execution as soon as the budget is prepared exclusively with SIGIF by the stakeholders in the new management workflow.

- Publication of the Table of Government Financial Operations. Since 2016, Senegal has been regularly preparing the consolidated statement of government financial operations. This positive development is a result of Senegal joining the Special Data Dissemination Standard (SDDS), that requires some degree of compliance with international transparency standards in public financial management. Accordingly, in addition to budgetary central government, financial operations are expanded to extrabudgetary entities, local units of government, and social security agencies. At the same time, with the support of the IMF Technical Assistance Center for West Africa (AFRITAC West), drafts of the statement of government financial operations are available with the inclusion of public companies. The government will begin to publish this statement on September 30, 2022.

- Strengthening the management of budget risks related to public-private partnerships (PPP). Substantial progress is being made in the process of strengthening budget risk management in connection with PPPs, with the implementation of the new PPP framework. The identification and prioritization phase for the first potential PPP projects is in progress with the firm CPCS recruited by the World Bank. In addition to capacity development with PPP experts recruited by the PPP Unit (UNAPPP), this selection phase is an essential step in managing PPP budget risk. At the end of this phase, a fiscal sustainability study will be conducted for each project that is selected. The budget impact in the preparation phase will be covered primarily by project preparation funds, provided that the initial allocation of US$1 million under the Growth and Employment Acceleration Program (PACE) is available. The projects authorized by the interministerial committee will not be launched until the preliminary assessment has been completed, along with the opinion on budget sustainability. In accordance with the new law, it is a requirement that each project of the contracting authorities must be incorporated into the public expenditure budget cycle, including the government budget projections. This activity will be initiated in connection with the review of the portfolio of potential PPP projects planned by July 2022 between the Directorate General of Budget and the PPP Support Unit. In this context, the mechanisms will be agreed to establish a database to monitor budget and contingent commitments in connection with PPPs. This database may be initialized with the new PPP projects envisaged, as well as by incorporating the results of an inventory of existing PPP projects through requests to the sector ministries in the framework of the budget programming exercise.

Completing the Operational Framework for The Management of Revenue from the Exploitation of Hydrocarbons

31. The government will complete the operational framework for the transparent, sustainable management of future revenue from the exploitation of hydrocarbons before 2023. The Draft Law on Management of Revenue from the Exploitation of Hydrocarbons (LGRH) was promulgated on April 19, 2022. The various provisions of the law are being made operational. The initial work to target a non-oil fiscal balance has been finalized at end of May 2022. The methodology for benchmark revenue forecasting provided in the draft law will be determined by decree. The legal and operational frameworks for the governance and management of the Intergenerational Fund will be specified in the new rules establishing the organization and operation of the Sovereign Strategic Investment Fund (FONSIS), the implementing decrees, and more specifically, the decree establishing the duties, composition, and operating procedures of the Forecasting and Evaluation Committee and provisions establishing the management and administration mechanisms for each Fund will be submitted to the Council of Ministers by August 31, 2022**.**

E. Promotion of Inclusive Growth Driven by the Private Sector

Strengthening the Population's Resilience to Shocks

32. The government has undertaken to expand the coverage of social safety nets. The exercise to update the Single National Register (SNR) has been completed with the data reconciliation phase in the Sédhiou regions. The updated SNR database is being used for the program to provide emergency cash assistance to households affected by COVID-19, which is being funded by the World Bank. Regarding the extension of the SNR from 542,956 to one million (1,000,000) households, the poverty map was validated with the National Agency for Statistics and Demography (ANSD) in conjunction with World Bank experts. This extension process, which was scheduled to be completed in October 2022, has experienced delays. The target (1,000,000 households) will not be achieved in 2022. The second half of 2022 will be used for community targeting, however. The expansion to 1,000,000 households will be completed by June 2023. Concerning the implementation of Decree No. 2021-1052 of August 2, 2021, on the Single National Register (SNR), the draft order establishing the Monitoring Committee is in the process of being signed. An action plan has been developed with an extensive communication component. In addition, the General Directorate for Social Protection and National Solidarity (DGPSN) has undertaken the digitization of the payment of transfers with the implementation of an integrated computer platform that allows for the interoperability of the PNBSF database with the systems of money transfer operators. The government is committed to moving to the digital payment of regular cash transfers by November 30, 2022.

33. The government will continue to implement the Emergency Socio-Economic Integration and Youth Employment Program, which is a key social support program. The *XËYU NDAW NI* (youth employment) program is now in its second year. For the 2022 fiscal year, an envelope of CFAF 150 billion has been allocated to this program. As of May 3, 2022, it had reported expenditures of CFAF 78.5 billion, which represents an implementation rate of 52.3 percent. This spending includes the continuation of programs to recruit security personnel, teachers (5,000 people), volunteers for cleaning public spaces, environmental protection (reforestation activities), sports (stadium workers), health, culture, and tourism sectors, as well as support to productive activities through government/employer agreements, and support for the socio-economic integration of young people and women, through integrated farm development programs, urban renewal operations (street paving, road repair and maintenance) and through credits granted by the General Directorate for Rapid Entrepreneurship among Women and Youth (DER/FJ) and Islamic microfinance.

34. The reform of the governance and management of the program has been delayed. The government does, however, remain committed to establishing a unique identifier and a database of recipients of public funding; taking action to dissolve the entrepreneurship funds whose budgetary allocations have been cut; finalizing the assessment report on the existing system of support for women, young people, and small and medium-sized enterprises (SMEs); and continuing the establishment of employment and entrepreneurship hubs in the form of a one-stop shop in the country's 46 departments.

35. The government will accelerate the implementation of programs to strengthen the resilience of the agricultural sector and improve the country's food security. These are large-scale priority programs such as the Support for the Implementation of the National Horticulture Recovery Program and Improvement of Agricultural Productivity in the South and Southeast Regions of Senegal, the cereal development program (wheat, millet, sorghum, maize, fonio), the national rice self-sufficiency program, and the large-scale initiative to develop plant proteins in Africa (fruits and vegetables, dry vegetables, etc.). In addition, the Ministry of Agriculture and Rural Equipment has finalized an Agricultural Program for Food Autonomy and Sustainability (PASAD) as a means of leveraging sectoral policy, with the aim of increasing agricultural production and productivity, diversifying crops and agricultural production systems, strengthening agricultural services, and improving governance of the agricultural sector. Specifically, this will involve:

- Implementation of a research program to propose appropriate varieties and effective technical methods for the development of crops in the targeted agro-ecological areas;
- Application of appropriate supportive measures for the introduction and accelerated development of wheat farming in Senegal;

- Development of a sub-program for technology transfer and training of producers in wheat-growing techniques;
- Increasing horticultural production to ensure food autonomy in horticultural products for mass consumption in the Niayes area (Dakar, Thiès, Louga, and Saint-Louis regions) and the groundnut basin;
- Optimization of agricultural productivity and production in the southern and southeastern regions of Senegal (administrative regions of Kolda, Sédhiou, Ziguinchor, Kédougou, and Tambacounda, except for the Department of Bakel);
- Strengthening the hydro-agricultural infrastructure in both the river valleys and secondary lowlands;
- Increasing the production of appropriate seeds for different agro-ecological areas;
- Facilitating access to inputs and equipment;
- Significantly increasing investments in sustainable food production and resilient agricultural value chains.

Support for Private Sector Development

36. The government has developed a National Private Sector Development Strategy (SNDSP). The SNDSP is the overall framework for all actions taken by the Senegalese government to promote a robust domestic private sector, competitive industries, and sustainable private sector-led growth. The work was carried out through a participatory and inclusive process involving representatives of the government, the private sector, and development partners. The SNDSP aims to achieve the following three (3) strategic objectives by 2035:

- 3,000,000 formal jobs;
- 300,000 formal companies;
- 300 leading companies.

37. To do this, it will be structured around five (5) programs, broken down into specific projects, with a five-year action plan, as follows:

- Program 1: Support for national companies
- Program 2: Competitiveness strategies for the different sectors
- Program 3: A pro-business government
- Program 4: Attraction and development of regional and multinational firms

- Program 5: Public-private Dialogue and partnerships.

38. Reforms are under way to improve the business environment:

- **One-stop shop at the Agency for the Development and Support of SMEs (ADEPME).** The principle underlying the implementation of the SME one-stop shop is to contribute to the streamlining of the SME support system, through the implementation of an integrated information system for the management of SMEs' data and information (SIGIPME). In practice, this will involve digitizing the key processes related to supporting SMEs in accessing finance. Discussions are underway to harmonize and streamline recent initiatives related to the establishment of Employment and Training Hubs and the government's decision to make the General Directorate for Rapid Entrepreneurship the one-stop shop for youth and women's empowerment.
- **Hybrid Investment Fund.** The OYASS Capital Fund was incorporated as a joint-stock company in November 2021. The recruitment process for a fund manager is under way. The pre-qualification phase has been approved and the second phase of the tender will be launched as soon as discussions on the legal structuring of the fund with the KFW and the World Bank have been completed. In light of this, it is expected to be operational by June 2022.
- **Land reforms and single collateral registry available online.** The establishment of the online registry of property collateral is formalized by Decree No. 2021-420 of April 2, 2021, on the operating procedures of the Trade and Personal Property Credit Registry. Nevertheless, the unified collateral registry will be complete only after the digitization of the land registry, allowing for the interconnection of the real estate under mortgage with the collateral database. The digitization of the land registry is slated 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 end-November 2022 at the latest.
- **Revision of the investment code.** The revision is under way, coordinated by a steering committee and a technical committee, bringing together all the private and public stakeholders. A document containing an overview of the legal framework for private investments was adopted by the steering committee in July 2022. The Reform Steering Committee held a workshop on December 13 and 14, 2021, to review the assessment report submitted by the consultant. The finalization and adoption of the new investment code are expected by June 30, 2022.

Stabilizing the Financial Sector

39. The process of restructuring three distressed non-systemic banks is continuing. An audit mission from the Banking Commission visited two of the three targeted institutions in the first quarter of 2022. For these two banks, the restructuring process is ongoing. One of them, whose largest share of capital is held by the country's main microfinance institution, has taken the necessary steps to complete the second phase of its capital increase before the end of 2022. The first phase, involving CFAF 15 billion, has already been completed. The second bank, whose financial situation has deteriorated significantly, has presented a restructuring plan that requires government intervention given the risks identified in its liabilities, particularly those related to customer deposits. A government intervention in the form of a subordinated loan could be considered, subject to the participation of certain institutional depositors in the recapitalization. The conclusions of the Banking Commission's audit missions on these two institutions should provide a definitive quantification on capital requirements. The third bank has received support from the government to complete the increase in its capital. At end-December 2021, the bank had a solvency ratio of 9.6 percent, compared to the required minimum of 11.3 percent. At end-February 2022, the solvency ratio stood at 14.2 percent, owing to the capital increase.

40. The government intends to accelerate the restructuring of the national company La Poste. A new roadmap will be developed by the Inter-Ministerial Restructuring Subcommittee no later than June 30, 2022, to reflect new strategic guidance from the Head of State regarding the recapitalization, restructuring, recovery plan, restoring the financial situation, and institutional transformation of Poste Finance. In the meantime, with a view to restoring the company's financial equilibrium, the cost accounting system for determining fair remuneration for the public service, developed by an internationally recognized firm, was the subject of a workshop sponsored by the Telecommunications and Postal Regulatory Authority (ARTP). In order to reinforce the separation of the different entities and to avoid the use of Poste Finance cash by the national company La Poste, intra-group transactions, in particular those between La Poste and Poste Finance, are subject to a financial agreement which provides for monthly reconciliation and joint balancing of the amounts, as well as the settlement of the balance within the first 10 days of the following month by the debtor entity. This agreement will be signed no later than June 30, 2022.

Remove Senegal from Enhanced Surveillance by the Financial Action Task Force (FATF) for Strategic Deficiencies in Combating Money Laundering and Terrorist Financing

41. A number of deficiencies identified by the FATF have already been corrected, particularly in terms of technical compliance. Senegal has adopted thirteen (13) major legislative and regulatory acts, the most significant ones are:

- A broader legal regime for the collection, updating, and storage of information on beneficial owners through the amendment of the General Tax Code;
- The complete criminalization of the financing of terrorism and establishment of the National Office for the Recovery of Criminal Assets (ONRAC) through the amendment of the Criminal Code and Code of Criminal Procedure;
- The organization and operation of the National Office for the Recovery of Criminal Assets. The General Director of the ONRAC was appointed in early December 2021;
- The appointment of the chairperson of the Administrative Freeze Advisory Commission (CCGA) in October 2021. The CCGA held its first meeting on December 1, 2021.

42. At the regional level, the Inter-African Conference on Insurance Markets (CIMA) updated its AML/CFT procedures applicable to insurance companies with the adoption of Regulation No. 001/CIMA/PCMA/PCE/SG 2021 of March 3, 2021. By a decision dated September 23, 2021, the West African Monetary Union (WAMU) Council of Ministers adopted the uniform law on stock market offenses in the regional financial market. The Regional Council for Public Saving and Financial Markets (CREPMF) also adopted texts subsequent to Instruction No. 59/2019/CREPMF of September 30, 2019, on AML/CFT issues concerning organization of the internal control system for the financial markets of the WAMU area.

43. The National Committee, supported by an international firm recruited and made available by the European Union, launched the update of the National Risk Assessment for Money Laundering and Terrorist Financing in accordance with FATF Recommendation 1. Work is scheduled to take place over ninety (90) days beginning the last week of December 2021. The results, which will be accompanied by an action plan, will strengthen the understanding of risks among all stakeholders.

- In addition, progress was noted in terms of training on AML/CFT issues, the number of reports filed by reporting entities, which totaled 371 suspicious transaction reports, on-site inspections by supervisors despite the public health situation (53 missions carried out by supervisors), and investigations and criminal prosecutions (24 reports sent to the Public Prosecutor by the National Financial Intelligence Unit (CENTIF), as well as 66 prosecutions initiated by the Public Prosecutor for AML/CFT crimes, some of which were the result of parallel investigations (police and gendarmerie).

44. The government is committed to continuing implementation of the action plan to remove Senegal from enhanced surveillance by the FATF. The most pressing challenges include:

- Reviewing the WAEMU uniform law to fill in the remaining gaps;
- Strengthening judicial cooperation;
- Strengthening the oversight and supervision of reporting entities in general and non-financial institutions in particular;
- Launching the operation of the Administrative Freeze Advisory Board for effective targeted financial sanctions;
- Operationalization of the register of beneficial owners;
- Direct access by the CENTIF to national databases.

PROGRAM MONITORING

45. Program monitoring. Under the Policy Coordination Instrument (PCI), the program will be monitored using quantitative targets, continuous targets, and reform targets. Quantitative targets for end-June 2022 and 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 shown in Table 2. The sixth review under the PCI should be completed by December 31, 2022. Under the Stand-By

Credit Facility/Stand-By Arrangement, the program will undergo semi-annual reviews and will be monitored using performance criteria, indicative targets, and structural benchmarks as shown in Tables 1c and 2. The definitions are provided in the Technical Memorandum of Understanding that is attached to this Memorandum.

Table 1a. Senegal: Quantitative Targets 2021–22

	2021			2021			2022	
	Jun. QT			Dec. QT			Jun. QT	
	Prog.	Act.	Status	Prog.	Act.	Status	Prog.	Prop.
Quantitative Targets								
Floor on net lending/borrowing[1]	-620	-617	Met	-967	-965	Met	-518	-772
Ceiling on central government's overall net financing requirement[2]	…	…		997	965	Met	…	…
Floor on tax revenue	1,082	1144	Met	2,661	2,594	Not Met	1,361	1,361
Ceiling on the share of the value of public sector contracts signed by single tender (percent)	15	57	Not Met	15	25	Not Met	15	15
Floor on social expenditures (percent of total spending)	35	40	Met	35	40	Met	40	40
Ceiling on total nominal public debt (CFAF billion) [3]	…	…		11,270	10,997	Met	…	…
Ceiling on spending through simplified procedures for non-personalized services	25	3	Met	3	5	Not Met	2	2
Ceiling on public sector external payment arrears (stock)[4]	0	0	Met	0	0	Met	0	0
Maximum upward adjustment of the overall deficit ceiling owing to								
Shortfall in program grants relative to program projections	…	…		0	0		…	…
Memorandum items:								
Program grants	…	…		13	17		…	…
Clearance of pre-2019 comptes de dépôt stock	…	…		0	0		…	…
Net Domestic and Regional Financing of the Government	…	…		500	432		…	…

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 the end of the year.

[4] This constitutes a standard continuous target.

Table 1b. Senegal: Continuous Targets

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

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

	2021			2021			2022	
	Jun.			Dec.			Jun.	
	Prog.	Act.	Status	Prog.	Act.	Status	Prog.	Prop.
Performance Criteria								
Floor on net lending/borrowing[1]	-620	-617	Met	-967	-965	Met	-518	-772
Ceiling on central government's overall net financing requirement[2]	…	…		997	965	Met	…	…
Floor on tax revenue	1,082	1144	Met	2,661	2,594	Not Met	1,361	1,361
Ceiling on public sector external payment arrears (stock)[3]	0	0	Met	0	0	Met	0	0
Ceiling on total nominal public debt (CFAF billion)[4]	…	…		11,270	10,997	Met	…	…
Indicative Targets								
Ceiling on the share of the value of public sector contracts signed by single tender (percent)	15	57	Not met	15	25	Not Met	15	15
Floor on social expenditures (percent of total spending)	35	40	Met	35	40	Met	40	40
Ceiling on spending through simplified procedures for non-personalized services	25	3	Met	3	5	Not Met	2	2
Maximum upward adjustment of the overall deficit ceiling owing to								
Shortfall in program grants relative to program projections				0	0		…	
Memorandum items:								
Program grants	…			13	17		…	…
Net Domestic and Regional Financing of the Government	…			500	432		…	…

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.

[4] US$ debt converted at program exchange rate at the end of the year.

Table 2. Senegal: Structural Benchmarks/Reform Targets for 2021–22

Description	Target Date	Status	Proposed Modification
Pillar 1 Achieving inclusive growth			
Set up a centralized and integrated land management system which will digitalize land management procedures.	**End December 2021**	**Not Met**	
Update and extend the existing single national registry (RNU) by identifying vulnerable households above and beyond the 558,000 households already surveyed, to include at least 1 million households	End October 2022		Proposed to be removed as it will take more time
The government, following an evaluation of the platform set up by the DGPSN, adopts a "circulaire" to make digital payments under the regular cash transfer program starting in 2023	End November 2022		New SB
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**	**Not Met**	
Pilar II. Consolidate macroeconomic stability and improve public financial management			
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		
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	
Include in the 2022 budget law measures aiming at reducing tax expenditures by at least CFAF 25 billion	**End December 2021**	**Not Met**	
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**	**Discontinued from January 10, 2022**
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 decree 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 and will proceed to a revision of the decree 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		Proposed to be removed as it is no longer attainable
Publish a roadmap to gradually eliminate energy subisides from 2023 onwards, including a communication phase and measures to protect the vulnerable.	End June 2022		Reset for September as more time is needed for completion
Merge all funds for the financing of youth and women into a single fund	**End December**	**Not Met**	
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		
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**	**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		Reset for September as more time is needed for completion
Publish a fiscal risk statement as annex to the 2022 budget law.	**End December 2021**	**Met**	
Pilar III. Manage the oil and gas sector in a transparent and sustainable manner			
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		Reset for August as more time is needed for completion

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.

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.

- 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:

    - 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.);

- 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

- 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.

- 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.

- 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).

- 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.

Quantitative Performance Criteria (Quantitative Program Targets Under the PCI)[1]

A. 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.

B. 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.

C. Reporting Requirements

9. 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.

10. 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.

D. Floor on Tax Revenues

11. 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).

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

E. Ceiling on Total Nominal Public Debt

Definition. Debt for this quantitative performance criterion is defined as in paragraph 4 above, comprises external and domestic debt of the public sector (i.e. general government and public nonfinancial corporations as defined in paragraph 3), and is measured at its nominal value. The ceiling will be monitored on an annual basis. To evaluate this target, debt denominated in foreign currency will be converted at the exchange rate for the projection of the debt stock, notably for 2020 CFAF/US$ 598 and CFAF/SDR 817 for 2021 CFAF/US$ 534.5 and CFAF/SDR 775.8.

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

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

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

- All retroceded or guaranteed debt emanating from the central administration and from which these public enterprises benefit will be communicated, as well as any retroceded or guaranteed debt benefiting enterprises in the private sector. The data made available to IMF staff will distinguish between guarantees and debt on-lent to public enterprises and those issued to private sector actors.

- All commitments by comfort letter will be communicated quarterly to IMF staff within six weeks after the end of the quarter. If some of these comfort letters are already counted in another category (for example, guarantees), this will be explicitly mentioned in the data.

F. 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.

Indicative Targets (Quantitative Targets Under the PCI) and Memorandum Item[2]

G. 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.

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

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.

H. Floor on Social Expenditure

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

I. 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.

J. 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.

K. 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:

- 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 supplementary 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.

- 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.

- 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:

- Preliminary TOFE and transition tables with a delay of two months;
- SIGFIP execution table, the table for the central Government and a summary table including regions, with a delay of two weeks;
- The amount of the airport tax collected, deposited in the escrow account, and used for the repayment of the loan financing the construction of the new airport, with a delay of one month. Full information on (i) the operations of the Energy Sector Support Fund (FSE); (ii) investment projects in the power sector; (iii) planning and execution of these projects; and (iv) details of financing and updated costs.

SENEGAL

June 7, 2022

FIFTH REVIEW UNDER THE POLICY COORDINATION INSTRUMENT, SECOND REVIEWS UNDER THE STAND-BY ARRANGEMENT AND THE ARRANGEMENT UNDER THE STANDBY CREDIT FACILITY, AND REQUESTS FOR AUGMENTATION OF ACCESS, WAIVER OF THE NONOBSERVANCE OF A PERFORMANCE CRITERION, AND MODIFICATION OF A PERFORMANCE CRITERION AND QUANTITATIVE TARGETS—DEBT SUSTAINABILITY ANALYSIS

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

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

Senegal is assessed to be at moderate risk of external and overall public debt distress, with limited space to absorb shocks. Public debt is projected to commence a downward trajectory in 2023, driven by a positive interest-rate growth differential and revenue-based fiscal consolidation. The key assumptions underpinning this assessment are (i) a boost to growth, exports, and fiscal revenues from hydrocarbon production over the medium term, (ii) fiscal deficits that converge to the regional convergence criterion of 3 percent of GDP by 2024, and (iii) medium-term potential growth of about 5 percent of GDP. Projections are subject to significant uncertainty. A prolonged war between Russia and Ukraine would contribute to higher commodity prices and weigh on external demand, potentially slowing growth and further increasing fiscal costs to Senegal from subsidies. New COVID variants, regional security challenges, higher external financing costs, and potential delays to the hydrocarbon projects are also risks. One potential upside risk is a potential increase in demand for hydrocarbons from Europe as they seek alternative energy sources. 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, primarily by expanding the revenue base and eliminating costly energy subsidies.

[1] Senegal's debt carrying capacity is classified as strong (3.25, calculated based on the April 2022 WEO and 2020 World Bank Country Policy and Institutional Assessment (CPIA) score).

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.[3] 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

	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 team may reduce this to 0%.

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 are following through on an action plan to address these deficiencies. The national debt committee (CNDP), chaired by the Minister of Finance, reviews all large public investment decisions, including those by SOEs. However, ongoing vigilance is required to ensure that the framework is consistently followed in practice.[4] A recent circular and decree to reinforce the regular and timely provision of debt data by SOEs is starting to bear fruit, enhancing the debt authorities' visibility on the wider perimeter of debt.

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

[3] Following the conclusion of the current program, BOAD debt will be reclassified as external debt to ensure consistency with other WAEMU members. As of end-2021, the stock of BOAD debt amounted to 1.3 percent of GDP.

[4] The recently issued CFAF 330bn sukuk, discussed below, did not go through the regular CNDP procedures.

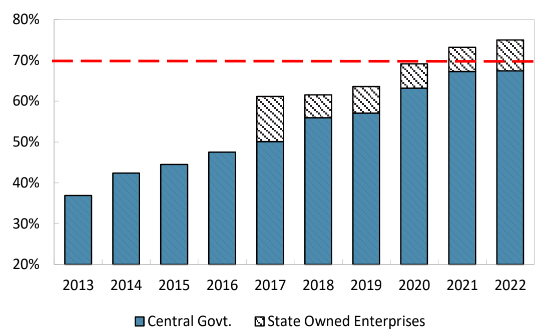
BACKGROUND

3. **Public sector debt levels have increased significantly since the end of 2019.** The fiscal response to the COVID-19 pandemic led to a surge in public debt of about 10 percentage points, from 63.6 percent of GDP at end-2019 to 73.2 percent of GDP as of end-2021. The central government's debt makes up the majority of this amount (67.4 percent of GDP) and remains just below the regional ceiling of 70 percent. The bulk is external debt (57 percent of GDP). For the central government (for which more granular data is available), the largest sources of external debt are multilateral institutions, Eurobonds, and bilateral official sector lending (Text Figure 1).[5]

Text Figure 1. Senegal: Public Sector Debt Characteristics

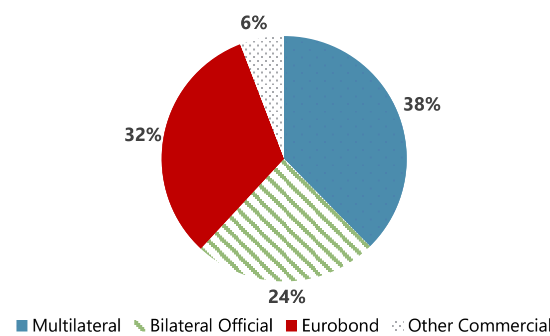
Total Public Sector Debt

(Percent of GDP)



Central Government External Debt

(Percent of total)



Sources: Senegalese authorities and IMF staff calculations.

4. **External and total public debt service are significant**. The ratio of public external debt service to exports reached 21.8 percent in 2021, reflecting both the decline in exports due to the COVID shock and the Eurobond debt management operation. This ratio is projected to average about 17 percent over the medium term as the recovery takes hold and hydrocarbon exports come online. Public external debt service is projected to average about 17 percent of revenues over the medium term (Table 1), while for total public debt service the average is around 29 percent of revenues and grants for the same period (Table 2). Both figures are slightly higher than in the previous DSA, reflecting additional borrowing to finance the higher fiscal deficit in 2022.

5. **Senegal is benefitting from increased financing from multilateral and bilateral partners.** The World Bank and the African Development Bank are increasing their budget support by a combined 0.5 percent of GDP, potentially scaling this up further by 0.2 percent of GDP. Germany is assessing higher budget support in 2022. Fund financing, including the proposed augmentation, would cover 53 percent of the financing need over the entire program period.

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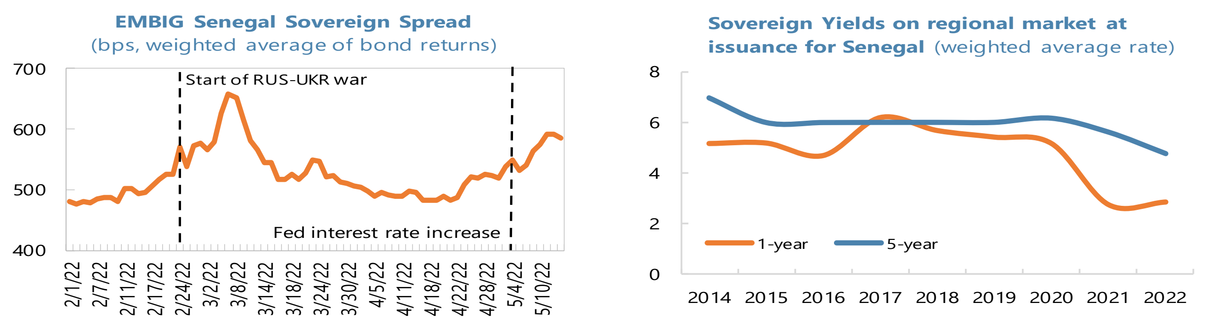
[5] The perimeter of public debt was expanded in 2017 to capture public and para-public enterprises, creating a structural break in the data. Senegal is the only WAEMU member country to use this broader definition of public sector debt.

6. Senegal participated in the G-20 Debt Service Suspension Initiative (DSSI). The DSSI was 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 and CFAF 71 billion (0.5 percent of GDP) in 2021. Deferred payments will be made over 2022–27 and average about CFAF 17 billion per year.

7. Senegal has access to both regional and global capital markets. Senegal has access to the regional securities market at relatively favorable conditions. Senegal also has access to the Eurobond market, though spreads have increased following the tightening of monetary conditions in advanced economies (Text Figure 2). The authorities issued a EUR775 million Eurobond in June 2021, their first Euro-denominated obligation. The proceeds were used to buy back USD-denominated Eurobonds maturing in 2024, thereby reducing rollover and FX risk,[6] and to pre-finance oil and gas investments. The Eurobond issuance also helped support the build-up of WAEMU pooled reserves. More recently, the authorities issued a CFAF 330 billion sukuk in April 2022 (2 percent of GDP) via a new SOE set up to manage government property and other strategic assets. The proceeds of the sukuk will be primarily used to buy back buildings currently being leased by the central government. Planned investments in regional airports to support the tourism industry (1.6 percent of GDP over 2022-24) have also been included in the DSA.

Text Figure 2. Senegal: Financing Conditions



Sources: Bloomberg and IMF staff calculation.

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 January 2022 include a slight slowdown in growth to account for the impact of Russia's invasion of Ukraine and sanctions on Mali, an increase in commodity prices (food and energy) that leads to significantly higher inflation, and higher fiscal deficits in 2022 reflecting elevated subsidy costs. Long-run macroeconomic assumptions remain largely unchanged.[7] The main macroeconomic assumptions are as follows:

[6] The domestic currency, the CFA franc, is pegged to the Euro.

[7] The large residuals in Table 2 are explained primarily by below-the-line COVID measures (2020), arrears clearance following the SDR allocation (2021), and the sukuk (2022). Additional residuals (e.g., 2019) may in part be explained by the inability of the LIC DSF to fully capture exchange rate effects.

- **Real GDP Growth.** Senegal's real GDP growth rate is estimated to be 5 percent in 2022, compared to 5.5 percent in the previous DSA, reflecting a broad-based recovery, particularly in the secondary and tertiary sectors. Preliminary data for 2022Q1 indicates that growth rates have been resilient to external shocks thus far. The anticipated impact of oil and gas production on growth in 2023 and 2024 is broadly unchanged from previous DSA, though it has been pushed back slightly due to delays in the hydrocarbon projects. Long run growth is still expected to average about 5 percent.[8]

- **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 fourth quarter of 2023.[9] The remaining financing needs of Petrosen (the state-owned oil company) for both projects are estimated at CFAF 987 billion from 2022 through 2037 (Text Table 2) and are assumed to be financed as external debt on commercial terms. These estimates are subject to change as the projects and financing strategy 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: Petrosen Borrowing Assumptions[1]

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032-2037	Total
CFAF billions	195	138	110	69	96	66	62	58	51	47	95	987
% of GDP	1.16%	0.73%	0.52%	0.31%	0.40%	0.25%	0.22%	0.19%	0.15%	0.13%	0.21%	4.27%

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

- **Inflation.** Inflation is projected to increase significantly in 2022 to 5 ½ percent, reflecting higher commodity prices. Over the medium term, inflation is expected to return to an average of 2 percent.

- **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 7.3 percent of GDP in 2022. This increase over the previous DSA mainly reflects the higher projected fiscal deficit for the central government and the new airport investments by the SOE sector. 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 commodity subsidies and enhanced revenue-mobilization) and financing needs in the hydrocarbon sector decline.

- **Revenues.** Public sector revenues are estimated at 28.4 percent of GDP in 2021. Projections assume a gradual increase to about 31 percent of GDP, driven by increasing non-hydrocarbon tax revenues of the central government which are projected to gradually increase from 17 percent to 20 percent of non-hydrocarbon GDP by 2024, in line with the objectives of the Medium-Term Revenue Strategy (MTRS). This outlook assumes the steady implementation of MTRS reforms to support revenue mobilization, with a focus on expanding the tax base and

[8] The methodology to project the impact of oil and gas production on real GDP is unchanged compared to the last DSA using an expenditure-side approach .

[9] GTA is exploited jointly with Mauritania.

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 about 13 percent in 2022, an increase of about 4 percent of GDP since the previous DSA, primarily reflecting deteriorating terms of trade due to higher import prices. Although the net effect is negative, higher prices will also result in higher nominal exports. Starting in 2023, the current account deficit is projected to sharply decline as oil and gas exports come online (boosting exports and reducing investment-related imports), with a gradual recovery in tourism also contributing.

Text Table 3. Senegal: Evolution of Selected Macroeconomic Indicators

	2022	2023	2024	2025	2026	2027	Med. Term[1]	Long term[2]
Real GDP growth								
Current DSA	5.0	8.3	10.9	4.8	5.0	5.1	6.5	5.0
Previous DSA[3]	5.5	9.5	10.3	5.4	5.5	5.1	6.9	5.0
Public Sector fiscal deficit (percent of GDP)[4]								
Current DSA	7.3	4.9	3.0	3.0	3.1	2.9	4.0	2.8
Previous DSA	4.9	3.2	3.1	2.9	2.9	2.8	3.3	2.7
Current account deficit (percent of GDP)								
Current DSA	13.2	8.8	4.2	4.1	4.0	4.6	6.5	4.4
Previous DSA	9.4	7.2	4.0	3.2	4.4	3.9	5.4	3.3
Exports of goods and services (percent of GDP)								
Current DSA	25.0	26.5	30.6	30.0	28.9	28.3	28.2	31.2
Previous DSA	22.6	24.1	27.9	27.6	26.8	26.3	25.9	31.7
Inflation (percentage change)								
Current DSA	5.5	3.1	2.0	2.0	2.0	2.0	2.8	1.5
Previous DSA	2.5	1.5	1.5	1.5	1.5	1.5	1.7	1.5

Source: Senegalese Authorities; IMF staff calculations
[1] 2022-2027
[2] 2028-2042
[3] 4th PCI Review and 1st SBA/SCF Review (January 2022)
[4] Includes General Government and state-owned enterprises.

9. The DSA assumes the authorities will continue implement a prudent borrowing strategy that includes support from multilateral and bilateral partners. About two-thirds of the higher 2022 fiscal deficit (relative to the previous DSA) will be financed by loans from the World Bank, AfDB, and the proposed augmentation of Fund financing. The remaining third will be financed on the regional market. The authorities' medium-term debt strategy 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 EUR-denominated debt. 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 global capital markets more regularly. In the regional CFAF market, Senegal's credit is strong, and the country is able to issue at increasingly longer maturities. Accordingly, the DSA assumes that domestic borrowing will average about 46 percent of total financing over 2022–27, a small increase from the 40 percent projected for 2022.

Text Table 4. Senegal. 2022 Borrowing Strategy

PPG Debt	CFAF billions
Central Government	1843
External	1108
Concessional/Semi-concessional 1/	1048
Domestic	735
State Owned Enterprises (net)	452
Total Public Sector	2295
Use of funds	
Fiscal deficit (central government) 2/	989
Amortization	854
SOE sector (net) 3/	452

1/ Debt with a positive grant element
2/ Budget deficit minus pre-financing, plus operating expenditures and other financial operations
3/ Minus pre-financing for Petrosen

Source: Senegalese authorities, IMF calculations

10. **The realism tools suggest that the proposed fiscal adjustment path is ambitious, but staff believe it is possible under the circumstances.** The assumed primary balance adjustment path of 4.3 percent of GDP over 2022–24 is in the top quartile of the historical distribution for LICs (Figure 4). In the case of Senegal, a significant portion of the adjustment would reflect an unwinding of the fiscal costs of energy subsidies over the medium-term, consistent with the roadmap agreed as part of the program. The robust implementation of the authorities' medium-term revenue strategy is also required to achieve this target. Separately, the projected economic growth rates in 2023 are above the range of potential growth paths under various fiscal multipliers, but the expected growth from hydrocarbon projects is not captured by the exercise. The realism tools related to the share of government investment and the contribution of investment to growth do not signal any concerns (Figure 4). In terms of historical forecast errors, the large residual is the result of the one-off expansion of the public debt perimeter in 2017 to include state-owned enterprises (Figure 3).

COUNTRY CLASSIFICATION AND DETERMINATION OF STRESS TEST SCENARIOS

11. **Senegal's debt carrying capacity remains strong.** Based on data from the April 2022 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 is unchanged compared to the last vintage (3.25) (Text Table 5).

Text Table 5. Senegal: Debt Carrying Capacity

Country	Senegal
Country Code	722

Debt Carrying Capacity	Strong

Final	Classification based on current vintage	Classification based on the previous vintage	Classification based on the two previous vintages
Strong	Strong 3.25	Strong 3.25	Strong 3.23

Applicable thresholds

APPLICABLE	
EXTERNAL debt burden thresholds	
PV of debt in % of	
Exports	240
GDP	55
Debt service in % of	
Exports	21
Revenue	23

APPLICABLE	
TOTAL public debt benchmark	
PV of total public debt in percent of GDP	70

Source: IMF staff estimates

12. **The standard stress tests have been applied, along with a market financing shock.** The use of a tailored stress test for market financing reflects Senegal's outstanding Eurobonds. The test assumes a temporary increase in the cost of new commercial external borrowing by 400 basis points, a nominal depreciation of the CFAF relative to the US dollar, and a shortening of maturities and grace periods.

EXTERNAL DSA

13. **External debt indicators remain below their thresholds under the baseline scenario (Figure 1).** The present value of debt to GDP is close to the risk threshold in the first year of the baseline projection but steadily declines thereafter, driven by growth and a declining non-interest current account deficit. The present value of debt to exports sharply declines in 2023-24 due to export growth from the oil and gas projects. The two liquidity indicators – external debt service to exports ratio and the external debt service to revenues ratio – remain below the risk thresholds throughout the projection period.

14. **All four external debt risk indicators breach their threshold under the sensitivity analysis.** For the present value of debt-to-GDP ratio and the debt service-to-revenue ratio, the most extreme shock is a combination shock. For the two export-related indicators, the most extreme shock is a shock to exports. Overall, these results point to vulnerabilities to Senegal's debt profile under adverse conditions, including a slower external demand or a significant downgrade in the expected output of the hydrocarbon sector. The breaches from the stress tests result in an external debt distress risk rating of Moderate. A key difference between the baseline and the historical scenario (which would result in sharp increases in all four indicators) is the non-interest current account deficit, reflecting prospective hydrocarbon exports under the baseline.

15. **The market financing risk indicators point to moderate risks.** Senegal's spreads have recently widened beyond the EMBI benchmark, reflecting the tightening of global financial conditions. Under the

shock scenario, the debt service-to-exports ratio would breach the risk threshold 2026-2028 (Figure 5). This period corresponds to large forthcoming principal payments that are associated with maturing Eurobonds (and which coincides with the peak of repayments to the Fund). This result suggests that Senegal could have potential market financing vulnerabilities in the medium-term. An active debt management strategy that smooths out these debt service peaks would help reduce this risk.

OVERALL RISK OF PUBLIC DEBT DISTRESS

16. There are no breaches of the overall public debt risk indicator in the baseline scenario. Total public debt is projected to peak at about 75 percent of GDP in 2022 before gradually declining due to fiscal consolidation and favorable interest rate-growth dynamics (Table 2). The present value of public debt to GDP is very close to the risk threshold in 2022-2023 under the baseline scenario, gradually declining to below 60 over the medium-term. The present value of debt to revenues is also projected to gradually decline. Debt service is projected to remain substantial, averaging about 28 percent of total revenues and grants over the next five years.

17. 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), all three public debt indicators would be set on an explosive growth path. 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. The breaches under the stress tests result in a public sector debt distress risk rating of Moderate.

RISK RATING AND VULNERABILITIES

18. 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 fiscal support to the population with medium-term debt sustainability. The authorities should aim to return to the regional deficit target by 2024, complemented with reforms to contain fiscal risks and enhance debt management.

19. 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 in the near term.

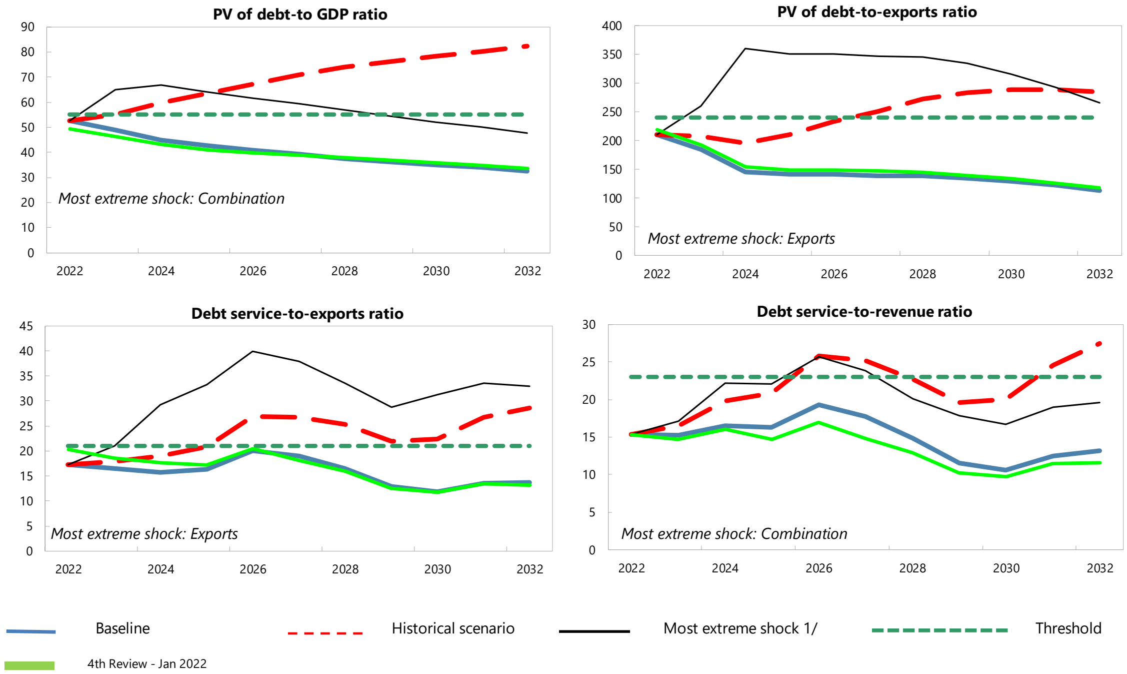
20. There are significant risks to the assessment. The near-term outlook depends primarily on external developments, primarily related to the spillovers from Russia's invasion of Ukraine. Sustained higher commodity prices would negatively impact Senegal's terms of trade and fiscal balances (due to subsidies). Slower global growth could hinder the recovery while still-limited access and uptake of vaccines leaves the country vulnerable to future waves of COVID-19. A tightening in global financial conditions would raise the cost of external financing. Senegal is also subject to risks from natural disasters and a deterioration in regional security. Significant delays in hydrocarbon production would have a material impact on growth and revenues. By contrast, sustained higher oil prices and the potential for higher demand from Europe for alternative energy sources represents a source of upside risk for Senegal in the medium-term, and investments in higher tourism capacity at regional airports could support growth and exports.

21. A prudent borrowing strategy needs to leave space for further downside risks to materialize. This will require exercising some restraint in terms of new borrowing initiatives, focusing on concessional and domestic regional financing and continued efforts to strengthen debt management. Active debt management will be needed to manage potential financing risks from maturing Eurobonds in the medium-term. Fiscal policy should seek to increase fiscal space over the medium-term to provide space to respond to future shocks by enhancing the revenue base and gradually eliminating costly subsidies to food and energy over the medium-term.

AUTHORITIES' VIEWS

22. The authorities broadly agree with staff's analysis. They share the outlook and assessment of debt risks and recognize that the margin to absorb new shocks is limited. Nevertheless, they remain optimistic, notably with regard to the positive impact of the hydrocarbon projects on medium-term growth and the positive spillovers this will have to many related sectors. The authorities are determined to gradually reduce their reliance on borrowing by growing domestic revenues through the implementation of the MTRS and containing fiscal deficits in line with regional targets. At the same time, they will continue to look for opportunities to proactively manage the public debt, smooth debt service payments, and further mitigate risks to the debt profile.

Figure 1. Senegal: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2022–32



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

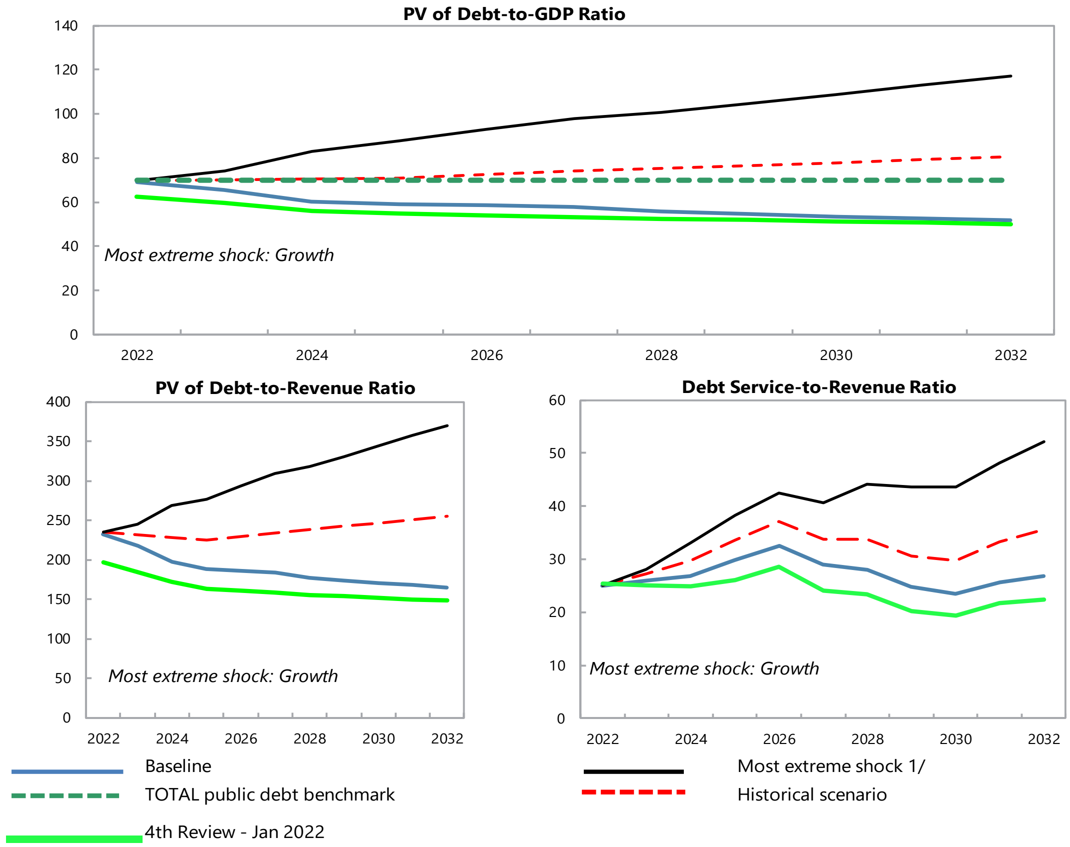
Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

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	4.0%	4.0%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	17	17
Avg. grace period	5	5

* 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 2032. 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, 2022–32



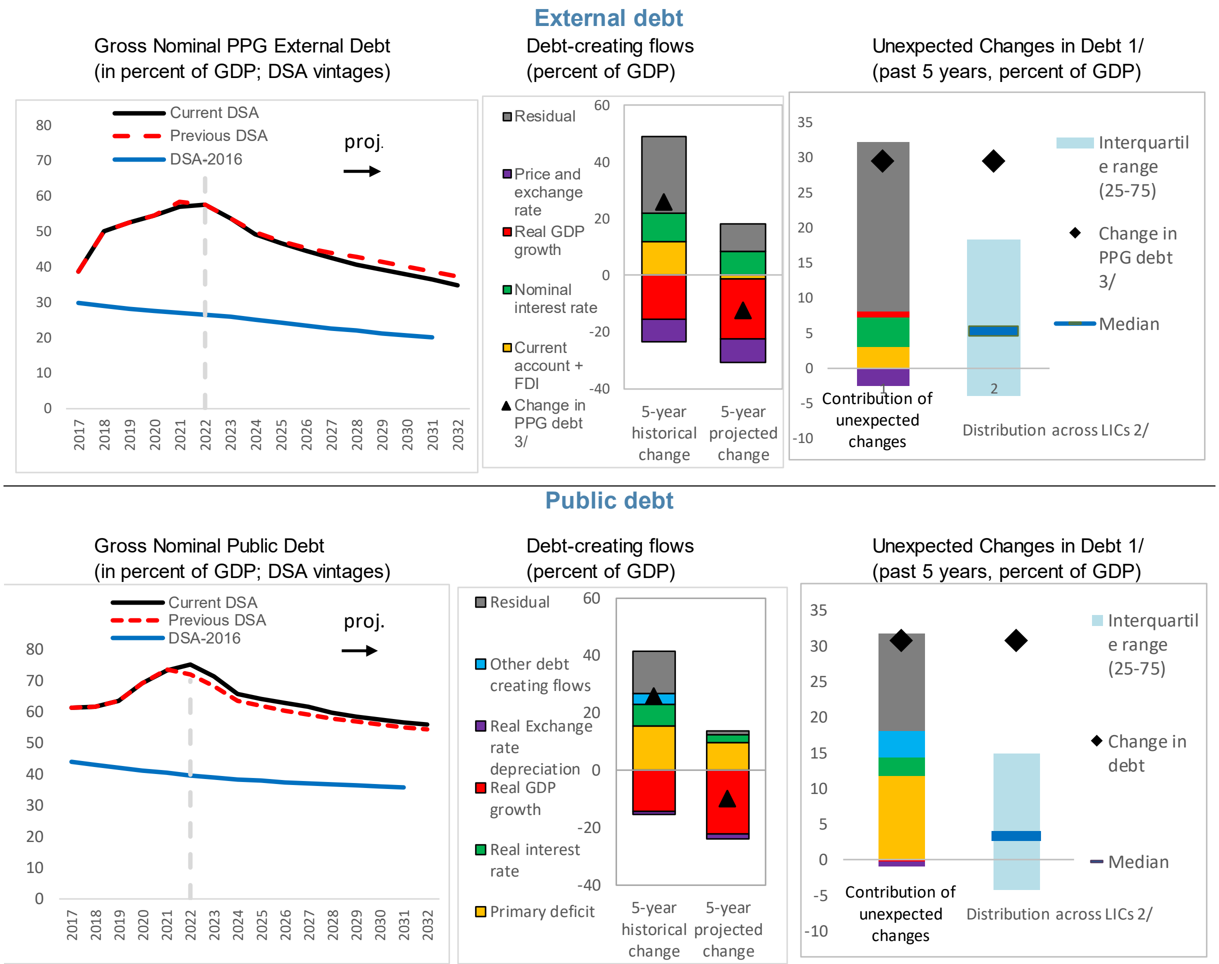
Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	50%	50%
Domestic medium and long-term	45%	45%
Domestic short-term	5%	5%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	4.0%	4.0%
Avg. maturity (incl. grace period)	17	17
Avg. grace period	5	5
Domestic MLT debt		
Avg. real interest rate on new borrowing	3.5%	3.5%
Avg. maturity (incl. grace period)	5	5
Avg. grace period	3	3
Domestic short-term debt		
Avg. real interest rate	2.6%	2.6%

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

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2032. 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 3. Senegal: Driver of Debt Dynamics—Baseline Scenario, 2017–32



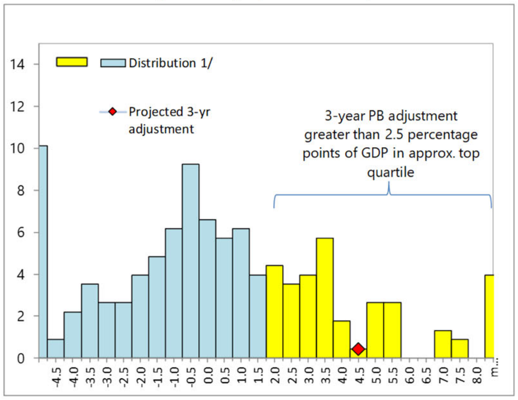
1/ Difference between anticipated and actual contributions on debt ratios.

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.

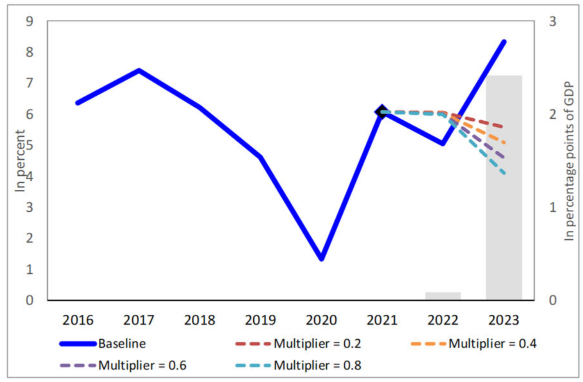
Figure 4. Senegal: Realism Tools, 2016–27

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



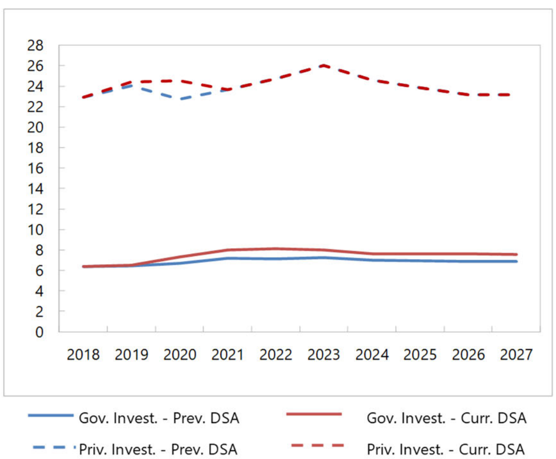
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/



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

Public and Private Investment Rates
(percent of GDP)



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

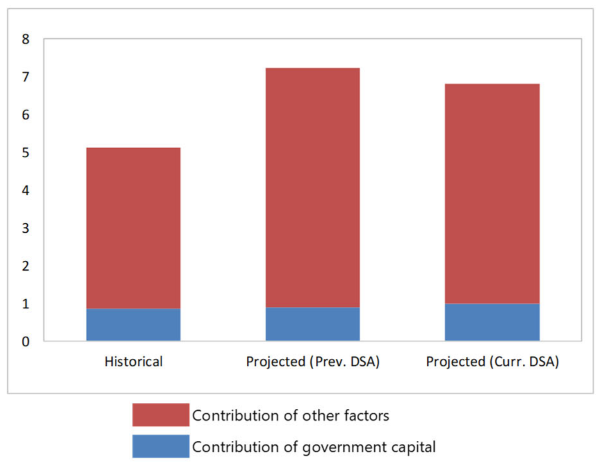
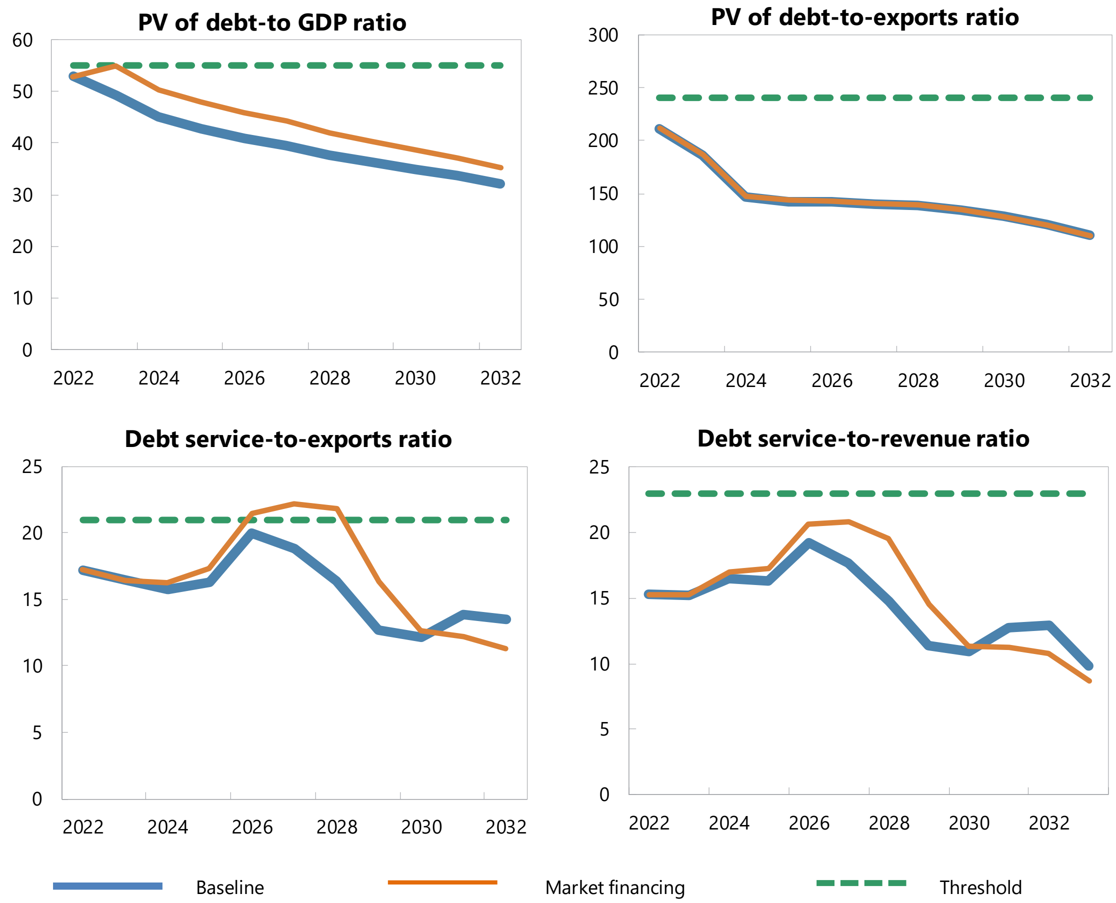


Figure 5. Senegal: Market-Financing Risk Indicators, 2022–32

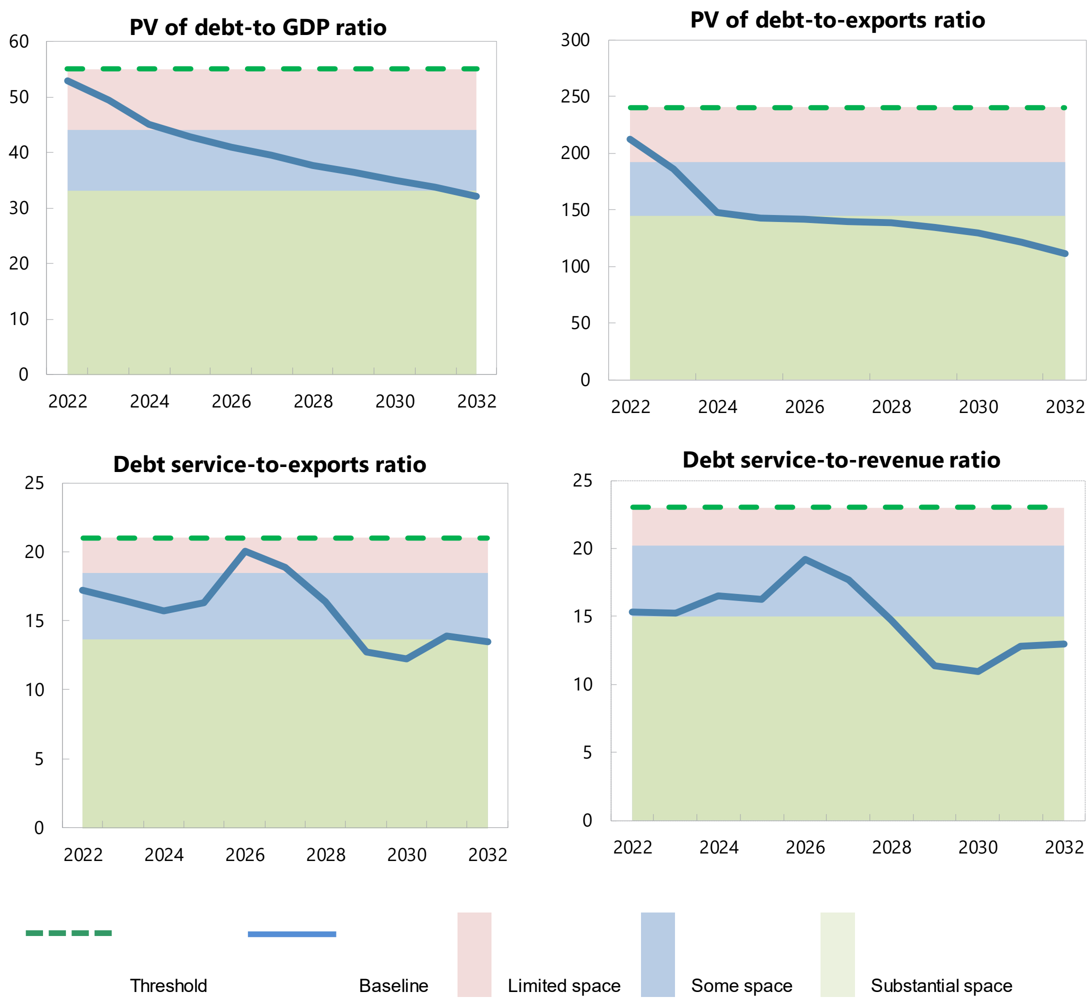
	GFN 1/	EMBI 2/
Benchmarks	14	570
Values	12	583
Breach of benchmark	No	Yes
Potential heightened liquidity needs	Moderate	

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, 2022–32[1]



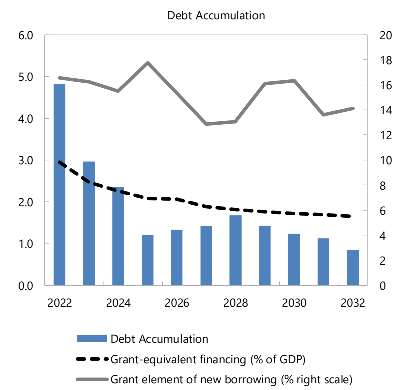
Sources: Country authorities; and staff estimates and projections.

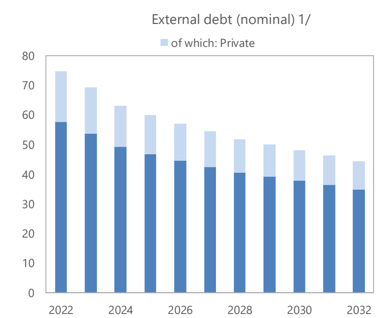
1/ For the PV debt/GDP and PV debt/exports thresholds, x is 20 percent and y is 40 percent. For debt service/Exports and debt service/revenue thresholds, x is 12 percent and y is 35 percent.

Table 1. Senegal: External Debt Sustainability Framework, Baseline Scenario, 2019–42

	Actual			Projections								Average 8/	
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2032	2042	Historical	Projections
External debt (nominal) 1/	**72.7**	**75.8**	**74.3**	**74.6**	**69.2**	**63.0**	**59.9**	**56.9**	**54.4**	**44.3**	**27.3**	**62.0**	**56.2**
of which: public and publicly guaranteed (PPG)	**52.6**	**54.4**	**57.1**	**57.5**	**53.6**	**49.1**	**46.7**	**44.4**	**42.4**	**34.8**	**20.3**	**39.8**	**43.9**
Change in external debt	-2.4	3.1	-1.5	0.3	-5.5	-6.2	-3.1	-3.0	-2.6	-2.0	-2.6		
Identified net debt-creating flows	**2.8**	**0.4**	**-4.2**	**1.7**	**-2.9**	**-6.8**	**-3.0**	**-2.9**	**-2.1**	**-2.0**	**0.8**	**2.2**	**-2.1**
Non-interest current account deficit	**5.2**	**8.6**	**11.5**	**11.5**	**7.0**	**2.5**	**2.4**	**2.3**	**2.9**	**2.4**	**4.6**	**6.6**	**4.1**
Deficit in balance of goods and services	14.2	18.6	21.1	20.5	15.7	10.1	9.6	9.4	9.9	8.5	9.4	**15.5**	**11.2**
Exports	24.9	20.7	23.2	25.0	26.5	30.6	30.0	28.9	28.3	29.0	45.7		
Imports	39.2	39.3	44.3	45.4	42.2	40.7	39.6	38.4	38.2	37.4	55.1		
Net current transfers (negative = inflow)	-8.9	-10.2	-9.9	-9.2	-8.7	-8.0	-7.6	-7.6	-7.6	-7.2	-6.8	**-9.6**	**-7.8**
of which: official	0.1	-1.2	-0.1	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1		
Other current account flows (negative = net inflow)	-0.1	0.1	0.4	0.3	-0.1	0.4	0.5	0.5	0.6	1.1	2.1	**0.8**	**0.6**
Net FDI (negative = inflow)	**-4.2**	**-7.1**	**-9.0**	**-7.9**	**-6.2**	**-4.4**	**-4.3**	**-4.2**	**-4.1**	**-3.6**	**-3.6**	**-3.4**	**-4.5**
Endogenous debt dynamics 2/	**1.8**	**-1.1**	**-6.8**	**-2.0**	**-3.7**	**-4.9**	**-1.1**	**-1.0**	**-1.0**	**-0.9**	**-0.3**		
Contribution from nominal interest rate	2.7	2.3	1.8	1.7	1.8	1.7	1.7	1.7	1.7	1.5	0.9		
Contribution from real GDP growth	-3.4	-0.9	-4.1	-3.6	-5.5	-6.6	-2.8	-2.8	-2.7	-2.3	-1.2		
Contribution from price and exchange rate changes	2.5	-2.4	-4.4	...	...	...	...	...	...	...	...		
Residual 3/	**-5.2**	**2.7**	**2.8**	**-1.4**	**-2.6**	**0.7**	**-0.1**	**-0.1**	**-0.4**	**0.0**	**-3.3**	**0.8**	**-0.6**
of which: exceptional financing	-1.1	1.3	-0.5	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	**...**	**...**	**50.2**	**52.9**	**49.3**	**45.0**	**42.9**	**41.0**	**39.4**	**32.1**	**19.3**		
PV of PPG external debt-to-exports ratio	**...**	**...**	**216.3**	**211.6**	**186.2**	**147.2**	**142.7**	**141.7**	**139.5**	**111.0**	**42.3**		
PPG debt service-to-exports ratio	**13.3**	**22.8**	**20.7**	**17.2**	**16.5**	**15.7**	**16.3**	**20.0**	**18.8**	**13.5**	**5.3**		
PPG debt service-to-revenue ratio	**11.4**	**17.5**	**17.4**	**15.3**	**15.2**	**16.5**	**16.3**	**19.2**	**17.7**	**12.9**	**7.7**		
Gross external financing need (Billion of U.S. dollars)	1.3	1.8	2.5	2.6	2.0	1.3	1.5	2.0	2.3	2.3	5.5		
Key macroeconomic assumptions													
Real GDP growth (in percent)	4.6	1.3	6.1	5.0	8.3	10.9	4.8	5.0	5.1	5.4	4.3	**5.1**	**6.1**
GDP deflator in US dollar terms (change in percent)	-3.3	3.5	6.2	-1.0	4.5	3.4	3.0	2.7	2.4	1.8	2.2	**-0.4**	**2.3**
Effective interest rate (percent) 4/	3.6	3.3	2.6	2.3	2.7	2.9	3.0	3.1	3.2	3.4	3.3	**2.7**	**3.1**
Growth of exports of G&S (US dollar terms, in percent)	6.7	-13.1	26.4	12.0	20.0	32.6	5.9	3.8	5.1	11.9	46.0	**5.9**	**11.0**
Growth of imports of G&S (US dollar terms, in percent)	2.3	5.1	27.0	6.7	5.2	10.6	5.1	4.3	7.0	7.7	37.7	**7.3**	**6.9**
Grant element of new public sector borrowing (in percent)	...	...	...	16.6	16.2	15.5	17.7	15.4	12.9	14.1	6.3	**...**	**15.2**
Government revenues (excluding grants, in percent of GDP)	29.0	26.9	27.6	28.1	28.6	29.2	30.1	30.1	30.2	30.2	31.4	**20.2**	**29.8**
Aid flows (in Billion of US dollars) 5/	1.5	1.7	1.3	0.8	0.8	0.9	0.9	1.0	0.9	1.1	0.3		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	2.9	2.5	2.3	2.1	2.1	1.9	1.6	0.0	**...**	**2.0**
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	29.9	34.0	32.5	35.7	31.7	30.5	35.8	6.3	**...**	**33.8**
Nominal GDP (Billion of US dollars)	23	25	28	29	33	37	40	43	47	68	135		
Nominal dollar GDP growth	1.2	4.8	12.7	4.0	13.2	14.7	7.9	7.8	7.5	7.3	6.7	**4.7**	**8.5**
Memorandum items:													
PV of external debt 7/	...	...	67.4	70.0	64.9	59.0	56.1	53.5	51.4	41.6	26.3		
In percent of exports	...	...	290.9	280.1	244.9	192.6	186.6	185.0	181.8	143.7	57.6		
Total external debt service-to-exports ratio	18.7	28.2	28.3	21.2	19.8	18.3	18.9	22.7	21.5	16.0	6.7		
PV of PPG external debt (in Billion of US dollars)			13.9	15.2	16.1	16.8	17.3	17.8	18.4	21.8	26.0		
(PVt-PVt-1)/GDPt-1 (in percent)				4.8	3.0	2.4	1.2	1.3	1.4	0.8	-0.8		
Non-interest current account deficit that stabilizes debt ratio	7.6	5.5	13.0	11.2	12.4	8.6	5.4	5.3	5.5	4.4	7.2		

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





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

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

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

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

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

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

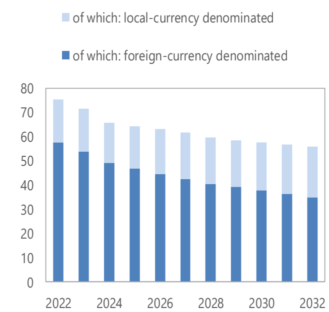
8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

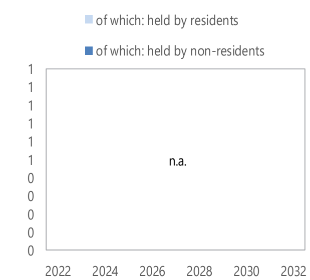
Table 2. Senegal: Public Sector Debt Sustainability Framework, Baseline Scenario, 2019–42

	Actual			Projections								Average 6/	
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2032	2042	Historical	Projections
Public sector debt 1/	63.6	69.2	73.2	75.1	71.4	65.7	64.2	62.9	61.7	55.9	18.9	53.4	62.6
of which: external debt	52.6	54.4	57.1	57.5	53.6	49.1	46.7	44.4	42.4	34.8	20.3	39.8	43.9
Change in public sector debt	2.1	5.6	4.0	1.9	-3.7	-5.7	-1.5	-1.3	-1.3	-0.8	-32.2		
Identified debt-creating flows	3.4	0.5	7.0	0.2	-2.8	-5.2	-1.1	-1.0	-1.1	-0.8	-32.2	2.8	-1.5
Primary deficit	3.1	4.5	5.0	4.9	2.5	0.7	0.7	0.7	0.6	0.6	-31.4	2.8	1.2
Revenue and grants	30.7	29.2	28.4	29.7	30.2	30.6	31.4	31.4	31.4	31.4	31.4	22.2	31.1
of which: grants	1.6	2.3	0.9	1.6	1.5	1.4	1.3	1.3	1.3	1.2	0.0		
Primary (noninterest) expenditure	33.8	33.6	33.4	34.6	32.7	31.3	32.1	32.1	32.0	32.0	0.0	25.0	32.2
Automatic debt dynamics	-0.4	-3.7	0.7	-4.7	-5.3	-5.9	-1.8	-1.8	-1.7	-1.4	-0.8		
Contribution from interest rate/growth differential	-1.6	0.9	-3.2	-4.7	-5.3	-5.9	-1.8	-1.8	-1.7	-1.4	-0.8		
of which: contribution from average real interest rate	1.1	1.7	0.8	-1.2	0.5	1.2	1.2	1.3	1.4	1.5	1.4		
of which: contribution from real GDP growth	-2.7	-0.8	-4.0	-3.5	-5.8	-7.0	-3.0	-3.0	-3.0	-2.9	-2.1		
Contribution from real exchange rate depreciation	1.2	-4.6	3.9	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	0.7	-0.2	1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.7	0.0
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (below-the-line operations)	0.7	-0.2	1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	-1.4	5.1	-3.0	1.7	-0.9	-0.6	-0.4	-0.2	-0.2	0.0	0.0	1.2	0.0
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	...	...	68.6	69.3	66.0	60.8	59.6	58.9	58.1	52.9	17.9		
PV of public debt-to-revenue and grants ratio	…	...	241.3	233.6	218.8	198.5	189.7	187.5	185.1	168.5	56.9		
Debt service-to-revenue and grants ratio 3/	21.2	25.1	27.5	25.1	26.0	26.8	29.8	32.5	29.1	27.5	27.2		
Gross financing need 4/	10.3	11.5	14.0	12.3	10.3	8.9	10.1	10.9	9.7	9.3	-22.9		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	4.6	1.3	6.1	5.0	8.3	10.9	4.8	5.0	5.1	5.4	4.3	5.1	6.1
Average nominal interest rate on external debt (in percent)	3.7	3.8	2.9	2.7	3.1	3.2	3.4	3.5	3.6	3.9	3.9	2.9	3.5
Average real interest rate on domestic debt (in percent)	3.4	5.0	3.7	0.6	2.8	3.8	3.8	3.8	3.8	4.2	3.7	4.7	3.4
Real exchange rate depreciation (in percent, + indicates depreciation)	2.4	-8.7	7.7	...	...	...	...	...	...	...	...	1.8	...
Inflation rate (GDP deflator, in percent)	2.1	1.5	2.4	5.2	3.0	2.0	2.0	2.0	2.0	1.8	2.2	1.1	2.4
Growth of real primary spending (deflated by GDP deflator, in percent)	71.9	0.8	5.4	8.6	2.4	6.3	7.4	5.1	4.5	5.3	-100.0	11.1	5.6
Primary deficit that stabilizes the debt-to-GDP ratio 5/	1.0	-1.1	1.0	3.0	6.1	6.4	2.2	2.0	1.8	1.4	0.8	0.3	2.8
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

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

Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.

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

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

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

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

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

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

Table 3. Senegal: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2022–32

(Percent)

					Projections 1/						
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
					PV of debt-to GDP ratio						
Baseline	53	49	45	43	41	39	38	36	35	34	32
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	53	**55**	**60**	**64**	**68**	**71**	**74**	**77**	**79**	**80**	**82**
A2. Alternative Scenario	49	46	43	41	40	39	38	37	36	35	33
B. Bound Tests											
B1. Real GDP growth	53	53	55	52	50	48	46	44	43	41	39
B2. Primary balance	53	50	48	46	44	42	41	40	38	37	35
B3. Exports	53	**55**	**63**	**61**	**58**	**56**	54	52	49	46	44
B4. Other flows 3/	53	55	54	51	49	47	45	44	42	40	37
B5. Depreciation	53	**62**	51	49	47	45	43	41	40	39	37
B6. Combination of B1-B5	53	**65**	**67**	**64**	**62**	**60**	**57**	55	52	50	47
C. Tailored Tests											
C1. Combined contingent liabilities	53	52	48	46	44	43	41	40	39	37	36
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	53	55	50	48	46	44	42	40	39	37	35
Threshold	55	55	55	55	55	55	55	55	55	55	55
					PV of debt-to-exports ratio						
Baseline	212	186	147	143	142	140	139	135	129	121	111
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	212	209	196	212	234	**252**	**274**	**285**	**290**	**289**	**285**
A2. Alternative Scenario	212	194	161	155	154	151	151	144	134	121	106
B. Bound Tests											
B1. Real GDP growth	212	186	147	143	142	140	139	135	129	121	111
B2. Primary balance	212	189	157	152	152	150	150	147	141	132	121
B3. Exports	212	**262**	**363**	**353**	**353**	**348**	**347**	**336**	**316**	**292**	**263**
B4. Other flows 3/	212	207	176	171	170	168	167	161	153	142	129
B5. Depreciation	212	186	134	130	129	127	126	122	118	111	102
B6. Combination of B1-B5	212	**264**	177	**274**	**273**	**269**	**269**	**259**	**246**	228	207
C. Tailored Tests											
C1. Combined contingent liabilities	212	198	157	153	152	152	153	149	143	135	124
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	212	186	148	144	143	141	140	135	128	120	110
Threshold	240	240	240	240	240	240	240	240	240	240	240
					Debt service-to-exports ratio						
Baseline	17	16	16	16	20	19	16	13	12	14	14
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	17	18	19	21	**27**	**27**	**25**	**22**	**23**	**27**	**29**
A2. Alternative Scenario	17	17	18	18	**23**	**22**	20	15	14	15	15
B. Bound Tests											
B1. Real GDP growth	17	16	16	16	20	19	16	13	12	14	14
B2. Primary balance	17	16	16	17	21	19	17	14	13	15	15
B3. Exports	17	21	**29**	**33**	**40**	**38**	**33**	**29**	**32**	**34**	**33**
B4. Other flows 3/	17	16	16	18	**21**	20	18	15	15	17	16
B5. Depreciation	17	16	16	16	19	18	16	12	11	13	12
B6. Combination of B1-B5	17	20	**27**	**28**	**34**	**32**	**28**	**25**	**25**	**27**	**26**
C. Tailored Tests											
C1. Combined contingent liabilities	17	16	16	17	20	19	17	13	13	15	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	17	16	16	17	**22**	**22**	**22**	16	13	12	11
Threshold	21	21	21	21	21	21	21	21	21	21	21
					Debt service-to-revenue ratio						
Baseline	15	15	16	16	19	18	15	11	11	13	13
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	15	16	20	21	**26**	**25**	23	20	21	**25**	**27**
A2. Alternative Scenario	15	16	18	18	22	21	18	13	12	14	14
B. Bound Tests	15	16	18	18	22	21	18	13	12	14	14
B1. Real GDP growth	15	16	20	20	**23**	22	18	14	13	16	16
B2. Primary balance	15	15	17	17	20	18	15	12	12	14	14
B3. Exports	15	15	17	19	22	20	17	15	16	18	18
B4. Other flows 3/	15	15	17	17	20	19	16	13	14	15	15
B5. Depreciation	15	19	21	20	**23**	22	18	14	12	15	15
B6. Combination of B1-B5	15	17	22	22	**26**	**24**	20	18	17	19	19
C. Tailored Tests											
C1. Combined contingent liabilities	15	15	17	17	20	18	15	12	12	13	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	15	15	17	17	21	21	20	15	11	11	11
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, 2022–32

(Percent of GDP, unless otherwise indicated)

	Projections 1/										
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
PV of Debt-to-GDP Ratio											
Baseline	69	66	61	60	59	58	56	55	55	54	53
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	**70**	**70**	**71**	**72**	**73**	**75**	**76**	**77**	**79**	**80**	**82**
A2. Alternative Scenario	63	59	56	55	54	53	52	52	51	51	50
B. Bound Tests											
B1. Real GDP growth	**70**	**75**	**84**	**88**	**94**	**99**	**102**	**106**	**110**	**115**	**119**
B2. Primary balance	**70**	68	67	65	65	64	62	60	59	58	58
B3. Exports	69	**71**	**78**	**76**	**75**	**74**	**71**	70	68	65	64
B4. Other flows 3/	69	**71**	69	68	67	66	64	63	61	60	58
B5. Depreciation	**70**	**80**	**71**	66	63	60	56	53	50	47	45
B6. Combination of B1-B5	**70**	67	69	70	**71**	**72**	**72**	**73**	**73**	**74**	**75**
C. Tailored Tests											
C1. Combined contingent liabilities	**70**	**74**	68	66	66	65	62	61	60	59	58
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	69	66	61	60	59	59	57	55	54	53	53
TOTAL public debt benchmark	70	70	70	70	70	70	70	70	70	70	70
PV of Debt-to-Revenue Ratio											
Baseline	234	219	199	190	188	185	179	176	174	171	169
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	237	232	230	227	231	236	240	245	249	253	258
A2. Alternative Scenario	25	28	29	33	30	24	26	23	22	23	24
B. Bound Tests											
B1. Real GDP growth	237	246	271	279	295	311	321	334	348	362	376
B2. Primary balance	237	226	218	208	206	203	196	192	189	186	184
B3. Exports	234	236	254	243	239	235	227	222	215	208	203
B4. Other flows 3/	234	236	227	217	214	211	204	199	194	189	186
B5. Depreciation	237	265	231	212	202	192	178	169	159	150	142
B6. Combination of B1-B5	237	224	225	222	226	229	228	230	233	235	238
C. Tailored Tests											
C1. Combined contingent liabilities	237	244	221	211	209	206	198	195	192	188	186
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	234	219	199	191	189	187	180	176	173	170	168
Debt Service-to-Revenue Ratio											
Baseline	25	26	27	30	33	29	28	25	25	27	28
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	25	27	30	34	37	34	34	31	31	35	37
A2. Alternative Scenario	25	28	29	33	30	24	26	23	22	23	24
B. Bound Tests											
B1. Real GDP growth	25	28	33	38	43	41	45	44	46	50	54
B2. Primary balance	25	26	27	31	34	31	32	28	27	29	30
B3. Exports	25	26	27	32	35	31	30	28	30	32	32
B4. Other flows 3/	25	26	27	31	34	30	29	27	27	29	30
B5. Depreciation	25	27	31	34	37	34	31	27	26	29	29
B6. Combination of B1-B5	25	26	30	34	37	33	35	33	32	35	36
C. Tailored Tests											
C1. Combined contingent liabilities	25	26	29	31	34	34	33	27	26	29	30
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	25	26	27	31	34	32	33	28	25	26	26

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

Annex I. Table 1. Senegal: Decomposition of Public Debt and Debt Service by Creditor, 2021–23[1]

	Debt Stock (end of period)			Debt Service					
	2021			2021	2022	2023	2021	2022	2023
	(US$, millions)	*(Percent total debt)*	*(Percent GDP)*	*(US$, millions)*			*(Percent GDP)*		
Total	19312	100	73	2213	2119	2173	8.4	8.0	8.2
Central Government	17744	92	67	1957	1867	1929	7.4	7.1	7.3
State-owned enterprises (SOEs)	1568	8	6	256	252	245	1.0	1.0	0.9
External	14206	74	54	1248	1080	1093	4.7	4.1	4.1
Multilateral creditors	6014	31	23	168	282	389	0.6	1.1	1.5
IMF	1069	6	4						
World Bank	2668	14	10						
ADB/AfDB/IADB	1174	6	4						
Other Multilaterals	739	4	3						
o/w: IsDB	568	3	2						
EIB	181	1	1						
Bilateral Creditors	3188	17	12	194	364	311	0.7	1.4	1.2
Paris Club	1070	6	4	16	98	88	0.1	0.4	0.3
o/w: France	926	5	4						
Spain	46	0	0						
Non-Paris Club	2118	11	8	178	265	224	0.7	1.0	0.8
o/w: EXIM China	1340	7	5						
EXIM India	191	1	1						
Bonds (Eurobonds)	4236	22	16	775	322	247	2.9	1.2	0.9
Commercial/Other International creditors	768	4	3	111	112	145	0.4	0.4	0.6
o/w: SGCIB	378	2	1						
AFREXIM	57	0	0						
SOEs	854	4	3	137	137	133	0.5	0.5	0.5
Domestic	3538	18	13	709	787	836	2.7	3.0	3.2
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	86	0	0	0	100	0	0.0	0.4	0.0
Bonds	3029	16	11	393	293	554	1.5	1.1	2.1
Loans	423	2	2	168	151	117	0.6	0.6	0.4
SOEs	714	4	3	119	115	111	0.5	0.4	0.4
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	26398								

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. Andrianarivelo, Executive Director for Senegal, Mr. Sylla, Alternate Executive Director and Mr. Diakite, Advisor to the Executive Director June 22, 2022

I. Introduction

1. On behalf of our Senegalese authorities, we would like to thank the Executive Board, Management, and staff for their continued support to Senegal's efforts to maintain macroeconomic stability, and implement key reforms in the framework of their development strategy, the "*Plan Senegal Emergent"* (PSE). They value the constructive policy dialogue held with the IMF team in the context of the fifth review under the Policy Coordination Instrument (PCI), and the second reviews under the Stand-By Arrangement (SBA) and the Standby Credit Facility (SCF).

2. The Senegalese economy is confronting multiple shocks including from rising global food and energy prices which is exacerbated by the war in Ukraine, climate shock, and the tightening of global financial conditions. The regional political instability and the sanctions imposed by the Economic Commission of West African States (ECOWAS) on Mali are also weakening economic activity and fueling inflation. These adverse developments affecting the most vulnerable households are putting additional pressures on fiscal and external positions as the economy is barely recovering from the Covid-19 pandemic.

3. In this context, the authorities are requesting an augmentation of access under the SBA and SCF by 40 percent of quota (SDR 129.44 million) to address the additional balance of payments needs in 2022. They also request a waiver for the nonobservance of a performance criterion for which corrective actions have been taken, and the modification of a performance criterion and quantitative target in line with the revised macroeconomic framework. The authorities remain committed to the objectives of the program supported by the PCI, the SBA and the SCF. They will tackle the new pressing social and security needs, while continuing to consolidate macroeconomic stability, promote strong and inclusive private sector-led growth, and establish a framework for the sustainable and transparent management of the hydrocarbon sector.

II. Recent economic developments and outlook

4. Real GDP growth in 2021 was stronger than expected at 6.1 percent against a forecast of 5 percent, owing to the rebound of non-agricultural activities. However, the dynamism of the secondary and tertiary sectors was offset by the decline in agricultural production following the record 2020/21 campaign. Average inflation stood at 2.2 percent and at 2.9 percent for food products.

5. In the external sector, the current account deficit worsened to 13.3 percent, up from 10.9 percent in 2020. While the trade balance improved slightly due notably to increased exports of phosphoric acid, and petroleum and peanut products, fuel and

food imports also progressed while the deficit of the services account worsened in line with the imports related to the development of hydrocarbon projects. The surplus in the secondary income account was consolidated with strong remittances flows representing 10.6 percent of GDP.

6. In the fiscal area, budget execution resulted in a deficit of 6.3 percent of GDP consistent with the program target. Total revenue (excluding grants) fell short of target, owing notably to the underperformance of tax revenues, while total expenditure reached 97 percent of the target, including expenditure financed from the SDR allocation for the health sector, social protection, and for settling unpaid obligations. The stock of public sector debt stood at 73.2 percent of GDP, up from 69.2 percent of GDP in 2020.

7. The banking sector remained resilient despite the pandemic, with capital adequacy strengthening by 6.4 percent compared to 2020. The gross volume of non-performing loans also improved with the stock of NPLs falling from 13.3 percent at end-December 2020 to 11.5 percent at end-December 2021.

8. The authorities broadly concur that the outlook remains highly uncertain, and that downside risks are significant. The war in Ukraine has clouded the outlook for the remainder of 2022, resulting in a downward revision of economic growth to 5 percent, against an initial forecast of 5.5 percent. Inflation is projected at around 5.5 percent in line with the sharp rise in food prices. The current account deficit is expected to hover around 13 percent of GDP, owing to the deterioration of the terms of trade. Nonetheless, the authorities believe that the medium-term outlook remains favorable, notably with economic growth averaging 10 percent over the period 2023-24 on the back of the prospective hydrocarbon production.

III. Performance under the PCI and SBA/SCF- supported program

9. Program performance remains satisfactory amid challenging conditions. All end-December 2021 performance criteria were met except the one related to the floor on tax revenue for which the authorities are requesting a waiver. In this regard, corrective actions have been taken in the 2022 Supplementary Budget Law (LFR), including by integrating the road use tax (TUR) in the budget. Furthermore, the authorities are accelerating the operationalization of their medium term revenue strategy (MTRS).

10. The indicative target on social spending reached 40 percent of total spending, thus exceeding the floor of 35 percent by a notable margin. Two indicative targets were missed namely the ceiling on spending through simplified procedures for non-personalized government services, and the ceiling on government contracts using sole sourcing procurement. A review of the procurement code is underway to bring it in compliance with international standards. On the structural front, four of the program's eight structural benchmarks/reform targets have been met. The authorities remain committed to advance the reform agenda and are stepping up their efforts to implement the structural measures that have been delayed.

11. Progress has been made in meeting the commitments on transparency and accountability of "Force-Covid-19" expenditures. Quarterly budget execution reports for 2021 including Covid-19 expenditures have been regularly published. Furthermore, the report of the monitoring committee of "Force-Covid-19" expenditures was published on-line in September 2021, as well as the report on the audit of the Public Procurement Regulatory Agency (ARMP) in November 2021. Regarding the audit court, its provisional report has been submitted to the government in end- May 2022, and the final report is expected to be finalized by mid-July 2022 in accordance with the regulatory timeline.

IV. Medium-term macroeconomic policies and structural reform

Improving fiscal resilience

12. Looking ahead, the authorities will continue their fiscal consolidation efforts while mitigating the impact of the difficult international situation on vulnerable groups, and addressing social and security needs. To this effect, the 2022 Supplementary Budget Law that was approved in May 2022 aims at balancing priority spending and adjustment to preserve fiscal sustainability. In addition, it reflects higher energy subsidies to cope with higher global oil prices, foregone tax revenue to stabilize the prices of basic food products, exceptional cash transfers to poor households, and increased agricultural subsidies to take into account higher fertilizer prices. To limit the fiscal deficit to 6.2 percent of GDP, the supplementary budget also provides for measures to increase revenue, and savings to be achieved by reducing notably externally-financed and domestically-financed investments, and current transfers to agencies. In addition, to guard against fiscal risks, the supplementary budget includes precautionary and management reserves.

13. Nonetheless, the authorities' medium-term fiscal policy remains anchored on the gradual reduction of the fiscal deficit to 3 percent of GDP by 2024, in accordance with regional commitments. The pursuit of this objective entails strengthening revenue mobilization by broadening the tax base and enhancing the efficiency of revenue agencies through ambitious digital innovations and reorganization. In this context, wide-ranging reforms will be launched in the framework of the MTRS.

14. The authorities are mindful of the need to phase out energy subsidies. To contain them in the agreed envelope in 2022, adjustments were made to electricity tariffs and some fuel products at the end of May 2022. Starting in 2023, energy subsidies will be gradually phased out by updating and implementing the fuel and electricity price revision decrees, and a concomitant acceleration of efforts to sustainably reduce the cost of electricity and fuel production. Going forward, the authorities plan to rely on mechanisms that target directly vulnerable groups in the event of shocks, through existing social safety nets and temporary support, rather than using untargeted subsidies.

15. The authorities take note that Senegal's debt remains sustainable with a moderate risk of debt distress, albeit with little space to absorb further short-term shocks. In this regard, they are committed to preserving debt sustainability, notably by pursuing a prudent debt policy focused on mobilizing highly concessional resources and giving priority to financing through the regional market. Furthermore, they will step up their efforts to upgrade debt management and data through a computerized database management.

16. The Government will continue reforms aimed at improving budget execution and the evaluation and selection of investment projects and plans to launch the implementation of the updated budget and financial management reform strategy in the second half of 2022. Furthermore, the improvement of cash management will be continued by consolidating further the Treasury Single Account (TSA). In this connection, of the 276 bank accounts identified in 2020, 100 accounts were closed as of December 31, 2021, and 87 more will be closed by end-June 2022. Concerning the remaining 89 accounts belonging to entities operating in the financial sector, and higher education and health sectors, a gradual and participatory approach is envisaged, taking into account the social sensitivity of these sectors and the specificity of their missions.

17. The efforts to complete the operational framework for the transparent and sustainable management of future hydrocarbon revenues by 2023 will continue. The draft Law (LGRH) was promulgated in April 2022, and the operationalization of various mechanisms provided for by the Law is progressing. Furthermore, the preliminary work related to the anchoring of the non-oil fiscal deficit has been finalized at the end of May 2022. Various decrees are being prepared notably to operationalize the methodology for forecasting reference revenues, and the framework for the governance and management of the intergenerational Fund.

Achieving high and inclusive private sector-led growth

18. The authorities remain committed to promoting the development of a strong private sector which is a key component of Senegal's development strategy (PSE) to foster strong and inclusive growth, and generate employment and income. To this end, a comprehensive private sector strategy (*Stratégie Nationale de Développement du Secteur Privé,* SNDSP) has been adopted. It constitutes the overall framework for all public interventions to promote a strong private sector, and create competitive value chains in priority sectors such as agriculture, agrobusiness, infrastructure, hydrocarbons, digital economy, and tourism and finance. Efforts will be accelerated to improve the business climate, notably through the rationalization of support mechanisms to small and medium enterprises (SMEs), and digitalizing key processes including access to financing for SEMs.

19. In the financial sector, the restructuring process of the three non-systemic banks in difficulty continues with the support of WAEMU's regional bodies. The Government also plans to accelerate the restructuring of the postal office. A new roadmap will be finalized by end-June 2022 to take into account the new guidance from the higher authority concerning the recapitalization, restructuring, recovery plan, and institutional transformation of Poste Finance. On AML/CFT, the authorities are determined to

continue implementing the action plan aimed at removing Senegal from the enhanced oversight by the Financial Action Task Force (FATAF) by addressing the most pressing challenges, including the review of the Uniform Law of the WAEMU, strengthening of judicial cooperation, and the control and oversight of reporting entities in general and particularly non-financial institutions.

20. With the increased level of vulnerability revealed by the pandemic and the war in Ukraine, the authorities are keen to extend the coverage of social safety nets which are a priority in their inclusive growth strategy. To this end, the single national register (*Registre National Unique*, RNU) has been updated and is being used to make exceptional cash transfers to vulnerable households impacted by the Covid-19 pandemic with the support of the World Bank. The authorities now plan to extend the coverage from the current 542,956 to one million households by June 2023 given the delays experienced. Efforts are underway to promote the digital payment of regular cash transfers by November 2022.

21. Another key social safety net is the emergency socio-economic integration of youth employment program which will continue to be implemented. With the view to enhance the efficiency of the program, the authorities remain committed, notably to establish a unique identifier and database of recipients of public funding, and create single windows for employment and entrepreneurship services in the 46 departments of the country.

22. As Senegal is particularly vulnerable to the impacts of climate change, including from drought, flooding, rising sea levels and costal erosion, mitigation and adaptation policies are also key priorities in the PSE reform agenda. The climate change dimension is integrated in the formulation and programming of development policies taking into account other priorities such as health, the fight against poverty and malnutrition, the promotion of renewable energies and energy efficiency, and gender mainstreaming.

V. Conclusion

23. Our Senegalese authorities remain strongly committed to the program supported by the PCI, the SBA and the SCF. In this regard, they will continue to implement reforms aimed at preserving macroeconomic stability, improve public financial management and the business environment, and achieving strong inclusive growth consistent with the goals of the PSE.

24. In view of Senegal's satisfactory program performance and their strong commitment to pursue reforms, the authorities seek Directors' support for the completion of the fifth review under the PCI, and the second reviews under the SBA and the SCF. In addition, they request an augmentation of the level of access, a waiver of the non-observance of a performance criterion, and the modification of a performance criterion and quantitative targets.