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SENEGAL

January 2023

SIXTH REVIEW UNDER THE POLICY COORDINATION INSTRUMENT AND THIRD REVIEWS UNDER THE STAND-BY ARRANGEMENT AND THE ARRANGEMENT UNDER THE STANDBY CREDIT FACILITY—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR SENEGAL

In the context of the Sixth Review Under the Policy Coordination Instrument and Third Reviews Under the Stand-By Arrangement and the Arrangement Under the Standby Credit Facility, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on January 9, 2022, following discussions that ended on November 15, 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 December 2, 2022.
- 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 Sixth and Final Review Under the Policy Coordination Instrument, the Third and Final Reviews under the Stand-By Credit Facility and the Stand-By Arrangement, and Initiates Post Financing Assessment with Senegal

FOR IMMEDIATE RELEASE

- Weaker external demand, soaring food and energy prices, tightening financial conditions, and US dollar appreciation have negatively impacted the Senegalese economy.
- As a result, economic activity has slowed in the first nine months of 2022, leading to a modest downward revision of growth projection. Inflation, however, remained stubbornly high, mainly reflecting rising food prices, and is becoming more broad-based as the non-food and non-energy subcomponents of the CPI are also accelerating.
- Rebuilding fiscal buffers and putting public debt on a downward path remain a priority going forward, through an accelerated implementation of the domestic revenue mobilization strategy and the gradual phasing out of energy subsidies.

Washington DC – January 9, 2023: Today, the Executive Board of the International Monetary Fund (IMF) completed the Sixth and Final Review under the Policy Coordination Instrument (PCI) and the Third and Final 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$ 215.96 million (SDR 161.8 million, or about FCAF 133 bn) to Senegal. Weaker external demand, rising food and energy prices, tightening financial conditions, and the US dollar appreciation have negatively impacted the Senegalese economy. The country is facing multiple challenges, including heightened regional insecurity and growing social demands amid soaring cost of living. As a result, growth was further revised down to 4.7 percent and inflation up, while the fiscal accounts are under increasing strain.

Despite these challenges, the authorities are committed to keeping the fiscal deficit at 6.2 percent of GDP in 2022, in line with the previous program review, through additional revenue measures and savings to offset larger energy subsidies. The authorities have also committed to accelerate fiscal consolidation to contain the 2023 budget deficit below 5 percent of GDP, while strengthening their response to alleviate the burden of the cost-of-living crisis. To reduce energy subsidies in 2023, the authorities have decided to raise selected electricity and fuel prices, while cushioning the impact on vulnerable households. In addition, the government has published a roadmap to gradually phase out energy subsidies by 2025. Together with stronger revenue mobilization, these efforts should help rebuild fiscal buffers and put public debt on a firmly downward trajectory over the medium term. Significant progress was achieved in improving transparency and accountability. The audit report of the Court of Accounts on the use of the COVID-19 funds was published and the authorities are considering measures to address expenditure management weaknesses. The adoption of a new public procurement code will also favor more open and competitive tenders. Finally, the fiscal framework for managing hydrocarbon revenues should be operationalized expeditiously to ensure that these windfalls will benefit Senegal's development.

Medium-term growth prospects appear more favorable with the oil and gas production set to start in late 2023, provided appropriate policies are implemented. However, risks to the outlook remain high and heavily tilted to the downside, including lower global growth, tighter financial conditions, inflationary pressures, more intense and prolonged war in Ukraine, and further US dollar appreciation. Further risks include natural disasters related to climate change and a deterioration of the regional security situation. In this challenging environment, the Fund stands ready to continue supporting Senegal.

Following the final reviews under the PCI, SBA, and SCF, the Executive Board of the International Monetary Fund has decided that Senegal is expected to engage in Post Financing Assessment with the Fund.[1]

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

Performance under the programs has been broadly satisfactory despite multiple shocks, and Senegal successfully completed all the reviews.

However, the economy has slowed and external imbalances widened amidst negative spillovers on global growth and commodity prices from Russia's war in Ukraine. Inflation has accelerated, fueled by soaring food prices, and food insecurity has increased. While the challenging external and domestic environments will continue to weigh on the economy in the near term, medium-term macroeconomic prospects appear more favorable with oil and gas production set to start in late 2023 and provided appropriate policies are pursued.

The authorities have provided extensive support to households and firms to mitigate the impact of these shocks, including through untargeted and costly energy subsidies. The recent increase in electricity and fuel prices is well targeted and will help contain the regressive nature of these subsidies. Over the medium-term, the authorities should steadfastly implement their roadmap to gradually eliminate energy subsidies by 2025 while adopting measures to protect vulnerable households.

A strong commitment to revenue mobilization will be critical to reduce the budget deficit to 3 percent of GDP by 2025, rebuild depleted buffers, and set public debt on a downward trajectory. Strengthening debt management and monitoring state-owned enterprises' borrowing are equally important.

While the adoption of a new procurement code will help reduce recourse to noncompetitive tenders, reforms to improve fiscal transparency and accountability should continue, including to address expenditure management weaknesses identified in the recent audit report on the use of COVID-19 funds. Finally, deficiencies in the AML/CFT framework need to be tackled with greater urgency to minimize risks to the financial sector and thus the economy.

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[1] The central objective of PFA is to provide for closer monitoring of the policies of members that have substantial Fund credit outstanding following the expiration of their arrangements. Under PFA, members undertake more frequent formal consultation with the Fund than is the case under surveillance, with a particular focus on macroeconomic and structural policies that have a bearing on external viability.

INTERNATIONAL MONETARY FUND

SENEGAL

December 2, 2022

SIXTH REVIEW UNDER THE POLICY COORDINATION INSTRUMENT AND THIRD REVIEWS UNDER THE STAND-BY ARRANGEMENT AND THE ARRANGEMENT UNDER THE STANDBY CREDIT FACILITY

EXECUTIVE SUMMARY

Context and outlook. Weaker external demand, rising food and energy prices, tightening financial conditions, and the US dollar appreciation have negatively impacted the Senegalese economy. Add to that, multiple challenges facing the country, including heightened regional insecurity and growing social demands amid soaring cost of living. As a result, growth was further revised down to 4.7 percent and inflation up to 8.5 percent in 2022, while the fiscal accounts are under increasing strain. The challenging external and domestic environment will continue to weigh on the economy in the near term and risks are titled to the downside. Medium-term growth prospects appear more favorable with the temporary boost from oil and gas production set to start in late 2023.

Program performance. Program performance was broadly satisfactory. All end-June 2022 performance criteria and two out of three indicative targets were met. Three out of nine structural benchmarks were implemented on time. Revenue collection through end-September was stronger than expected but soaring energy subsidies led the government to delay some investment projects. Spending pressures are mounting in 2023, making the much-needed fiscal consolidation more difficult.

Policy discussions. The authorities and staff agreed on a revised 2022 budget that maintains the fiscal deficit at 6.2 percent of GDP, in line with the previous program review, through additional revenue measures and savings to offset larger energy subsidies. The 2023 budget targets a higher deficit (-5.5 percent of GDP) than previously agreed upon to cope with external and domestic challenges. The authorities committed to limit the deficit to 4.9 percent of GDP by leaving most of the budget reserves (0.8 percent of GDP) untapped and by increasing tax revenue collection. These efforts will help achieve a large fiscal adjustment toward meeting the 3 percent of GDP deficit target by 2025. To contain the energy subsidy bill in 2023, the authorities will raise energy prices effective January 1, 2023, while cushioning the impact on vulnerable households through subsidies to mass transportation and increased cash transfers to the poorest households.

Staff supports the request for completion of the sixth PCI review and the third SBA/SCF reviews.

Approved By
Montfort Mlachila (AFR) and Boileau Loko (SPR)

Discussions were held in Dakar (November 4-15, 2022). The mission comprised Mr. Gemayel (head), Messrs. Mbohou Mama, Queyranne, Rosa (all AFR), Ms. Caselli (FAD), and Mr. Hart (SPR). The mission was assisted by Mr. Koulet-Vickot (Resident Representative), Messrs. Ba and Fame (local economists), and Ms. Wane (local administrative assistant). Mr. Diakite (OED) attended some meetings. The mission met with Prime Minister Amadou Ba, Minister of Finance and Budget, Mamadou Moustapha Ba, Deputy Governor of the BCEAO, Mamadou Diop, National Director of the BCEAO Ahmadou Al Aminou Lo, other senior officials, and development partners. Ms. Singh and Ms. Pilouzoue (both AFR) contributed to this report.

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CONTEXT

1. **Senegal is hard hit by the confluence of multiple shocks.** Soaring commodity prices exacerbated by Russia's war in Ukraine, the sharp appreciation of the US dollar, and the slowdown in advanced and emerging economies are taking a toll on the Senegalese economy, exerting inflationary pressures, eroding households' purchasing power, and weighing on industrial production, while straining fiscal and external accounts. Adding to these challenges, regional insecurity has spiraled into political instability in some neighboring countries and severe floods have resulted in numerous human casualties, displaced thousands of people, and damaged several properties.

2. **As a result of the turbulent economic environment, food insecurity has become a serious concern.** Confronted with skyrocketing food prices that pose serious risks to food security, the authorities adopted a series of fiscal measures to contain food price pressures (0.7 percent of GDP) (Text Table 1).

Text Table 1. Impact of Measures to Stabilize Food Prices and Help the Vulnerable (through end-August 2022)
(In percent of GDP)

Total	0.7
Foregone revenues	0.3
of which: taxes on international trade	0.2
of which: taxes on goods and services	0.1
Agricultural production subsidies	0.1
Cash Transfers	0.3

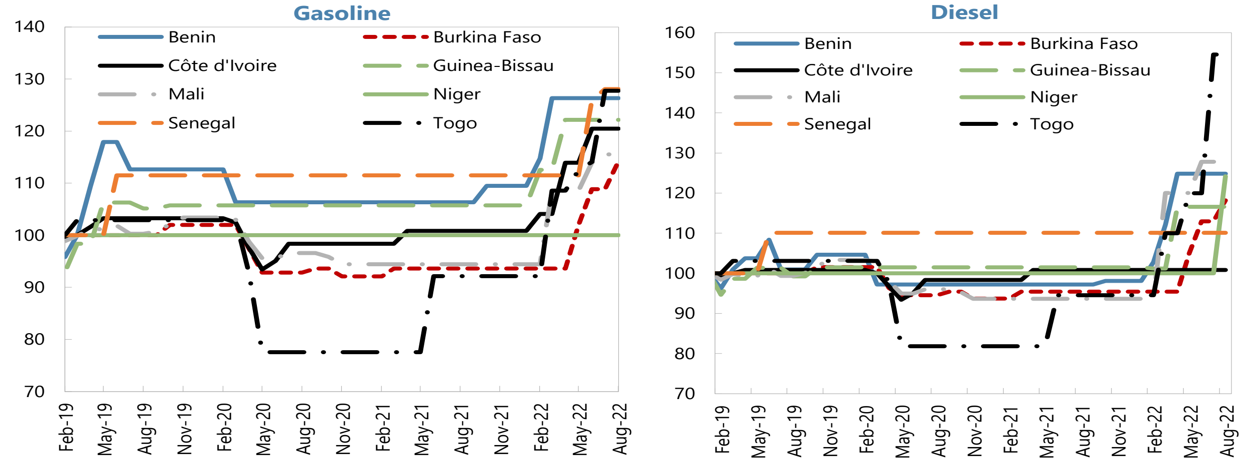
Source: Senegalese authorities and IMF staff calculations.

3. **On the political front, legislative elections were held in July.** A surge in support for the opposition left the ruling coalition with a razor-thin majority in parliament. This configuration could make it somewhat difficult to pass new laws, though the President wields considerable power under the Constitution. In September, President Macky Sall appointed a new prime minister and formed a new government tasked with curbing the soaring cost of living and addressing youth unemployment.

4. **However, the tense socio-political environment led to significant fiscal slippages.** To appease this tension, the government extended salary increases (+0.1 percent of GDP in 2022)—initially granted to education, health, defense, and security sectors—to all civil servants, and allowed energy subsidies to soar by refraining from hiking energy prices in line with their commitment at the time of the last review to keep energy subsidies at 2 percent of GDP. While Senegal increased gasoline prices in June, they lagged most other WAEMU countries in terms of price adjustment on diesel (Text Figure 1).

5. **The COVID-19 pandemic impact has decreased significantly, but challenges remain.** With only 16.6 percent of the population (15 years and older) fully vaccinated, Senegal remains exposed to risks of new variants. COVID-19 vaccination rollout remains slow due to the perception of an abating pandemic and vaccine hesitancy (Text Figure 2).

Text Figure 1. Pump Price Adjustments in WAEMU Countries
(Jan 2019 = 100)



Source: BCEAO and IMF staff calculations.

RECENT ECONOMIC DEVELOPMENTS

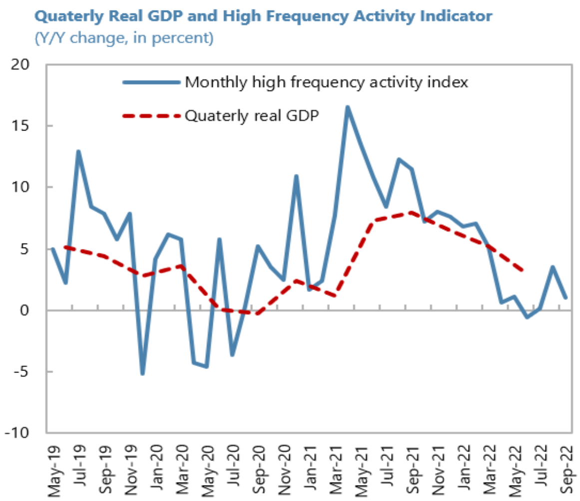
6. **Economic activity through September has slowed, amidst weaker external and domestic demand** (Text Figure 2). Negative spillovers from the protracted war in Ukraine and high commodity prices are dampening economic activity and interrupting the strong rebound observed in 2021. As a result, GDP growth slowed from 5.2 percent in March to 2.9 percent y/y in June, driven by a deceleration in the secondary (+0.5 percent y/y) and tertiary (+3.7 percent y/y) sectors. High frequency indicators suggest that the slowdown continued during 2022Q3.

7. **Inflation has accelerated, fueled by soaring food prices**. Headline inflation through October continued to surprise on the upside, hitting a multi-decade high (13 percent y/y). Core inflation reached 5.1 percent; a fourfold increase relative to pre-pandemic levels. Domestic food inflation (19.5 percent y/y) has been the main driver to headline inflation, but non-food and non-energy prices have also accelerated, pointing to more broad-based price pressures through second-round effects. Rising local food prices have mainly been pushed by external factors, such as global food and fertilizer prices, and the depreciation of the Euro against the US dollar (Annex I).

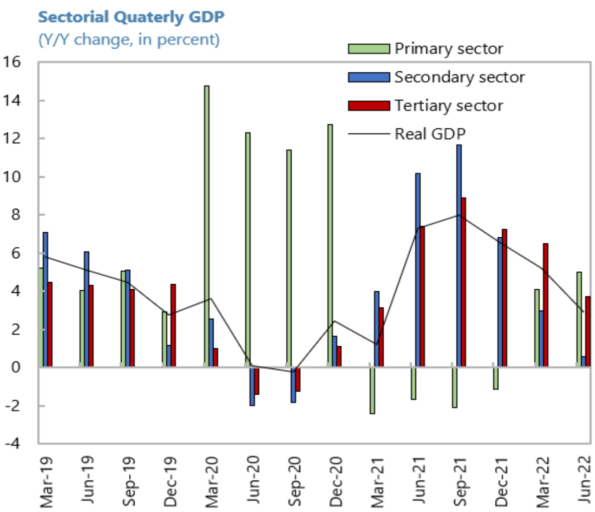
8. **Worsening external conditions have widened external imbalances**. The current account deficit, already elevated in 2021 (13.3 percent of GDP), has widened further due to higher-than-expected services imports associated with the FDI-financed hydrocarbon projects. WAEMU pooled reserves have declined due to elevated regional fiscal deficits amid a slowdown in capital inflows but remain adequate at 4.5 months of prospective imports at end-October. Senegal's external position is projected to strengthen once hydrocarbon exports begin in late 2023 and the high level of imports associated with these projects decline.

Text Figure 2. Recent Economic Developments and Evolution of the COVID-19 Pandemic

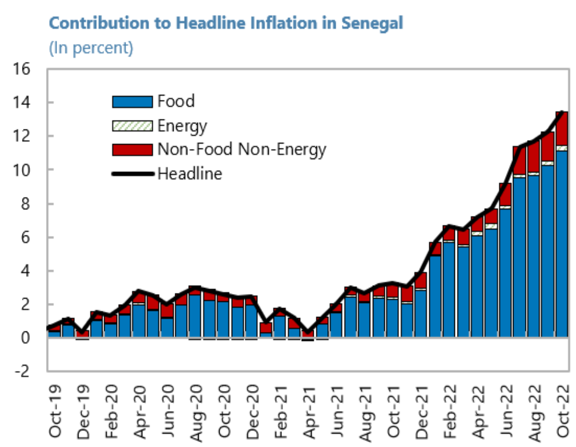
Growth slowed down in 2022Q2 onwards….



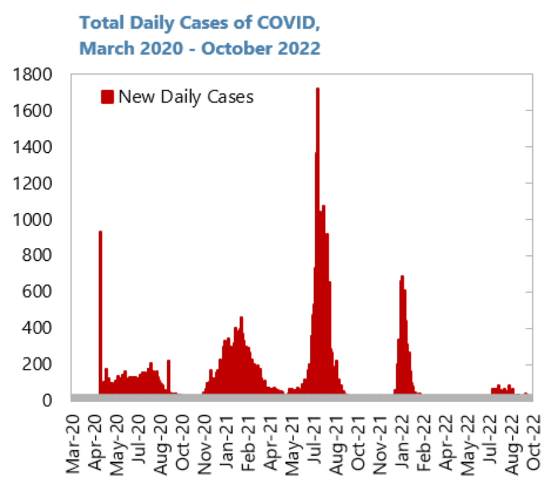
…mainly driven by the secondary and tertiary sectors.



Inflation accelerated further, fueled by food inflation, though contributions from other components are rising.



COVID-19 cases remained low over the recent months



Sources: Senegalese authorities, Haver analytics, John Hopkins University, and IMF staff calculations.

9. **Budget execution through end-September was characterized by strong revenue performance and sustained spending** (Text Table 2)**.** Tax revenues exceeded the authorities' target (+0.3 percent of GDP), driven by higher direct tax revenues (+0.5 percent of GDP) on the back of the strong rebound in 2021, while indirect taxes underperformed (-0.3 percent of GDP), reflecting weaker domestic demand. Despite weak import volume growth, custom revenues were above Q3-targets (+0.1 percent of GDP) due to higher import prices. Budgetary grants were below projected levels. The energy subsidy envelope for the year was entirely spent at end-September, and the government extended the pay increase to all civil servants (+0.1 percent of GDP). The execution rate of investment spending (net of disposal of nonfinancial assets) was also high (87.2 percent), particularly for domestically-financed investment. The deficit at end-September (5.6 percent of GDP) remains consistent with the end-of-year target (6.2 percent of GDP). Public debt continued to

increase during the first semester to reach 74.3 percent of GDP, mainly driven by a higher deficit and the appreciation of the US dollar. The latter also contributed to higher external debt service.

10. The banking sector remains resilient despite the multiple shocks. Broad money increased by 18.4 percent through September (y/y), buoyed by strong credit to the economy (20.2 percent y/y). At end-June 2022, the stock of nonperforming loans to total loans edged down to 11.2 percent compared to 11.5 percent at end-2021, while the banking sector's regulatory capital to risk-weighted assets remained unchanged at 12.0 percent.

Text Table 2. Recent Fiscal Developments
(In billions CFAF, unless otherwise indicated)

	Sep-22	Revised 2022 budget	In percent of GDP
Revenues and grants	2,514	3,587	21.0
Revenues (excl. grants)	2,383	3,344	19.6
Tax Revenues	2,264	3,163	18.5
Non-Tax Revenues	119	181	1.1
Grants	132	243	1.4
Budgetary	5	23	0.1
Projects	126	220	1.3
Expenditure	2,287	4,640	27.1
Current (excl. interest)	1,985	2,898	17.0
Personnel	799	1,093	6.4
Goods and services	293	366	2.1
Grants, Subsidies and other spending	893	1,439	8.4
Interest	301	382	2.2
Investment	1,187	1,362	8.0
Externally Financed	478	635	3.7
Internally Financed	709	727	4.3
Balance	-959	-1053	-6.2

Source: Senegalese authorities and IMF staff calculations.

PROGRAM PERFORMANCE AND MODALITIES

11. Program performance through end-June was broadly satisfactory:

- ***All quantitative performance criteria (PCs) were met.*** The performance criterion regarding the fiscal deficit was met thanks to strong tax revenue performance and the partial transfer to the central government budget of the proceeds from the sale of government buildings to a new real estate public agency (0.5 percent of GDP). Tax revenues exceeded the program target by a significant margin (0.9 percent of GDP), and there was no accumulation of public sector external payment arrears.

- **Two out of three indicative targets (ITs/QTs) were met.** The ceiling on the use of simplified procedures for non-personalized services and the floor on social spending were met. However, the ceiling on the share of contracts awarded through single-source procurement was breached again and has been continuously missed.

- **Three out of nine structural benchmarks (SBs) were met (Text Table 3).** The tax expenditure report for 2020 was published and the semi-annual report on the cooperation between the customs and the tax administration was prepared before end-June. The evaluation framework to monitor the MTRS implementation was also adopted. The remaining six SBs were not met: (i) The tax base was not sufficiently expanded with additional registered taxpayers by end-June; (ii) The SB on the adoption of a new public procurement code to ensure more open and competitive tenders, which is instrumental to reduce vulnerabilities to corruption, was not met (prior action); (iii) The end-August SB on the adoption of a new fiscal framework to manage the oil and gas revenues was met with delays; (iv) the roadmap to eliminate energy subsidies was not published (prior action), (v) the PPP database was not updated; and (vi) the end-November SB on digital payments of the regular cash transfer program was not met. Finally, a prior action was added on raising energy prices to limit electricity and fuel subsidies to 2.7 percent of GDP in 2023 which is critical to achieve the needed fiscal adjustment in 2023. Progress was made on the unmet SBs from the fifth review (MEFP, ¶15).

Text Table 3. Structural Benchmarks/Reform Targets for 2021–22

Description	Met	Not Met	Status
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	
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		Not met	
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.	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	Met		
Publish the tax expenditure report for year N-2 annually on the website of the Ministry of Finance and Budget	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.		Not met	
Raise energy prices to limit electricity and fuel subsidies to 2.7 percent of GDP in 2023 while mitigating the impact on the most vulnerable			Prior action
Publish a roadmap to gradually eliminate energy subisides from 2023 onwards, including a communication phase and measures to protect the vulnerable.		Not met	Prior action
Merge all funds for the financing of youth and women into a single fund	End December 2021	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		Not Met	Prior action
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		Not 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).		Not met	Met with Delays

Sources: Senegalese authorities, and IMF staff.

12. Senegal's capacity to repay the IMF remains adequate. Under the baseline scenario, repayments to the Fund will peak at 4.4 percent of government revenue and 3.6 percent of exports of goods and services in 2026. This is manageable, assuming gradual fiscal consolidation and prudent borrowing by state-owned enterprises that would put public sector debt on a downward trajectory. The capacity to absorb additional shocks is limited and the materialization of risks (Annex III) could render Senegal's capacity to repay more vulnerable, including subsequent waves of COVID-19, continued geopolitical tensions, further tightening of global financial conditions, fiscal slippages, as well as political and social disruptions in the run-up to the 2024 presidential elections. Senegal's strong track record of timely repayment of Fund obligations and commitment to reforms are mitigating factors.

13. The BCEAO has implemented all recommendations provided in the 2018 safeguards assessment. The assessment found that the BCEAO had broadly appropriate governance arrangements and a robust control environment. An update assessment of the BCEAO is planned for 2023.

POLICY DISCUSSIONS

A. Outlook and Risks

14. The challenging external and domestic environments will continue to weigh on the economy in the near term. Some risks have materialized since the last review, posing headwinds to the 2022 outlook and likely beyond. Global growth is expected to slow, which would weaken the demand for Senegalese goods and services, while persistently high inflation could further erode real disposable income and weaken domestic demand (Text Table 4 and Text Figure 4). As a result, growth projections for 2022 were revised down from 5 to 4.7 percent despite the recent lifting of sanctions against Mali. Inflation was revised up from 5.5 to 8.5 percent, to reflect persistent domestic food prices and higher commodity prices, as well as the US dollar appreciation pass-through (Text Table 4).

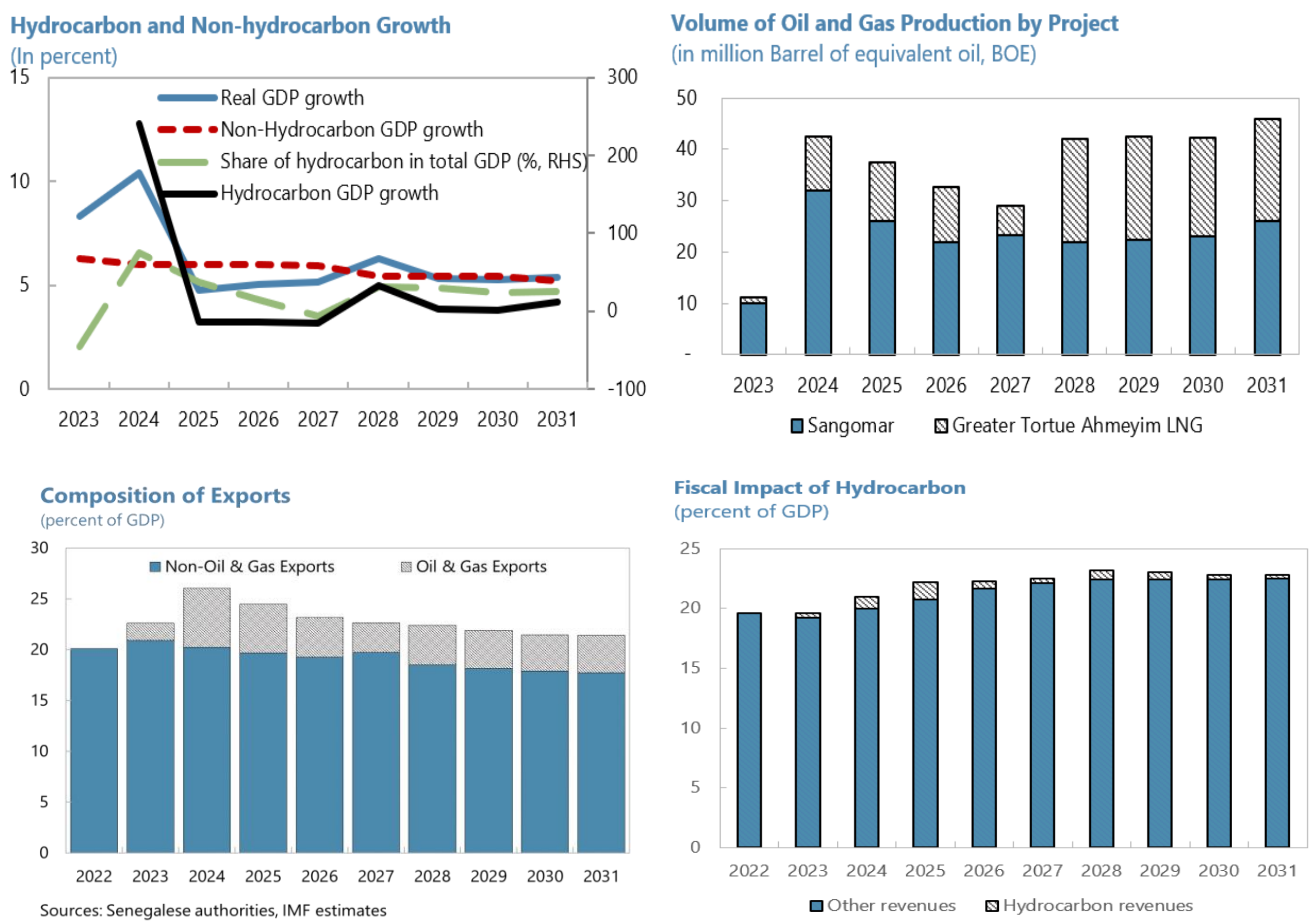
Text Table 4. Macroeconomic Indicators, 2021–24

	2021	2022		2023		2024
	Est.	IMF CR 22/197	Proj.	IMF CR 22/197	Proj.	Proj.
Real GDP (percent change)	6.1	5.0	4.7	8.3	8.3	10.4
Of which: Non-hydrocarbon GDP	6.1	5.0	4.7	5.9	6.0	6.0
CPI inflation, average (percent)	2.2	5.5	8.5	3.1	3.5	2.0
Net lending/borrowing, including grants (percent of GDP)	-6.3	-6.2	-6.2	-4.5	-4.9	-4.0
Current account balance (percent of GDP)	-13.3	-13.2	-15.7	-8.8	-11.0	-4.9
Gross Debt Public Sector (percent of GDP)	73.2	75.1	75.1	71.4	73.7	69.5

Sources: Senegalese authorities; and IMF staff calculations.

15. Medium-term growth prospects appear more favorable with the temporary boost of oil and gas production set to start in late 2023. Growth in 2023 and 2024 is projected at 8.3 and 10.4 percent, respectively, driven by oil and gas production which is set to start at end-2023 and is expected to materially improve both the current account balance and debt-to-GDP ratio. Non-hydrocarbon growth is expected to pick up to around 6 percent from 2023 onwards (Text Figure 3). Growth prospects assume a gradual normalization of the current crisis related to the war in Ukraine as well as appropriate policy making, but risks from intensifying spillovers are high and could pose significant challenges for the debt outlook (Annex III).

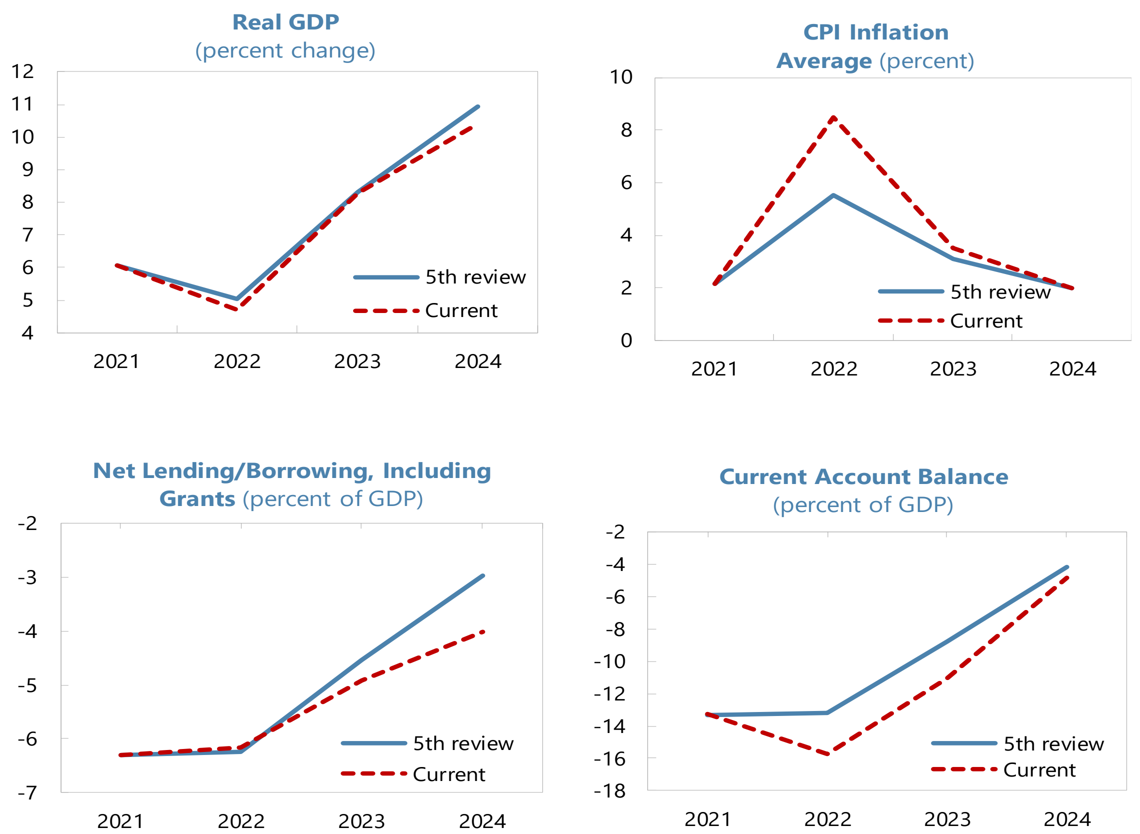
Text Figure 3. Hydrocarbon and Non-hydrocarbon GDP Growth – Senegal



Sources: Senegalese authorities, and IMF staff calculations.

16. Risks to the outlook remain high and heavily tilted to the downside (Annex III). Lower global growth, tighter financial conditions, more intense and prolonged war in Ukraine, and geopolitical tensions, could weigh on external demand and depress Senegal's growth prospects. Higher commodity prices, combined with supply chain disruptions and further US dollar appreciation could lead to persistently higher domestic inflation that would negatively impact domestic demand (Annex I). Further risks include natural disasters related to climate change, a deterioration of the regional security situation, and worsening social tensions amidst a loaded political context, which could lead to increasing pressure on public spending ahead of the 2024 presidential elections. On the upside, hydrocarbon production could benefit from higher oil and gas prices over the medium term and from European countries' efforts to reduce their reliance on energy import from Russia.

Text Figure 4. Macroeconomic Indicators, 2021–2024



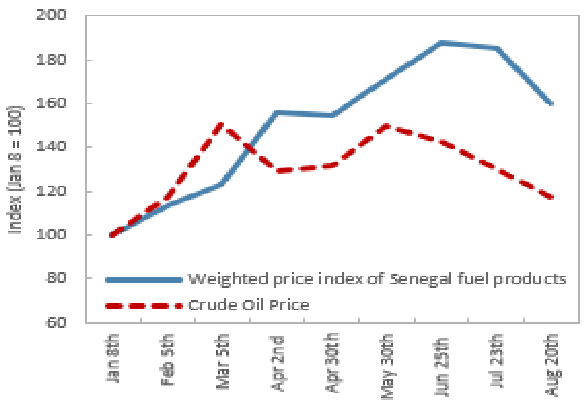
Source: Senegalese authorities and IMF staff calculations.

B. Alleviating the Burden of the Cost-of-Living Crisis with Limited Fiscal Space

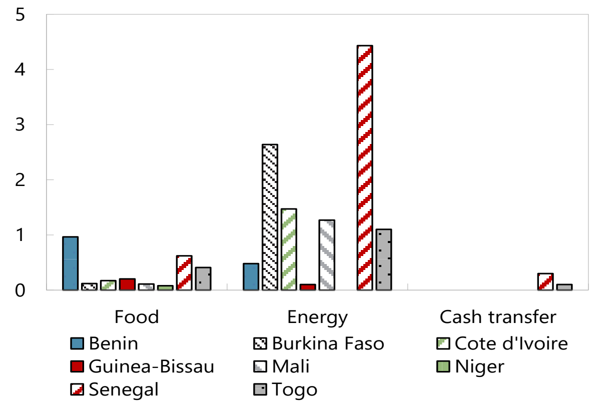
17. Fiscal pressures have emerged since the last review, against the backdrop of the July parliamentary elections. Tax revenues will exceed projections due to the rebound in direct taxes and more stringent revenue collection efforts. Expenditures, on the other hand, are under pressure. To appease social tension amid high inflation, the government provided the first across-the-board pay raise since 2014 (MEFP ¶9). The energy subsidy bill –the highest in the WAEMU region (Text figure 5)—is expected to more than double compared to the commitment at the time of the last review largely driven by higher-than-expected refined fuel prices and the reluctance of the authorities to adjust energy prices. Interest payments are projected to considerably increase pushed by the US dollar appreciation.[1]

Text Figure 5. Oil Prices (Refined Products and Crude Oil) and Energy Subsidies

Evolution of Refined Products Prices relative to Crude Oil Prices



Food and Energy Subsidies in WAEMU – 2022 Countries
(In percent of GDP)



18. In November, the President announced 15 new measures to alleviate the cost-of-living crisis for an additional cost of about 0.2 percent of GDP in 2023. In response to intensifying price pressures, subsidies were extended to additional local and imported food products, cement and iron rods, and education tuition (Text Table 5).[2] These measures come on top of previous measures that were introduced in late 2021. In parallel, temporary price caps on some local food products and housing rentals were also announced that are expected to be borne by distributors and landlords, respectively, with no budgetary impact (MEFP ¶3).

19. Despite these spending pressures, the authorities remain committed to keep the overall fiscal deficit in 2022 at 6.2 percent of GDP (MEFP ¶21). To meet this target, they will: (i) use the one-off proceeds of the sale of government buildings (1.5 percent of GDP) to a new real estate public agency (SOGEPA), which was financed by a Sukuk issuance in April;[3] (ii) enforce revenue administration measures;[4] and (iii) identify savings, including cuts in domestically and externally-financed investments (Text Table 6). As a result, the fiscal stance (as measured by the

[1] About a third of central government's external debt is denominated in US dollars.

[2] Education subsidies will be applied to the next school year (2023/2024), with a fiscal impact in 2024.

[3] SOGEPA is a 100 percent state-owned enterprise, created in 2021 to centralize the management of government real estate. To finance SOGEPA's early operations, the government transferred state-owned property to SOGEPA's balance sheet. This operation is recorded in the central government's budget as a sale of a non-financial asset estimated at CFAF 247 billion. The property was used to back a CFAF 330 billion Sukuk issuance. Consistent with Senegal's broader debt perimeter, the sukuk is treated as public debt.

[4] These measures include actions to improve tax compliance and strengthen tax audit and revenue collection enforcement, better control of imports' warehousing suspensive regime, enhanced collection of customs and import duties due by public entities, and payments due by state-owned enterprises in the energy sector to the government.

change in the primary fiscal balance) would tighten relative to the previous review by about 0.3 point of GDP.

Text Table 5. Budget Impact of Measures to Alleviate the Cost-of-Living Crisis and Help the Vulnerable, 2023

	In CFAF billion	in percent of GDP
New measures with a fiscal impact		
Tax base adjustment on sugar	7	0.04
Tax base adjustment on cement	6	0.03
Tax base adjustment on edible oil	6	0.03
Tax base adjustment on powdered milk	9	0.05
Tax base adjustment on iron rods	7	0.04
Suspension of custom duty on hatching eggs	1	0.01
New measures with no fiscal impact		
Lower tuitions in public secondary education		
Lower tuitions in private primary and secondary education		
Lower tuitions in public tertiary education		
Lower price caps of local onions, potatoes, carrots, chicken, beef, and sheep		
Lower housing rental (-20 percent below CFAF300,000, -10 percent below CFAF 500,000, and -5 percent above CFAF500,000)		
Total for new measures	**37**	**0.19**
Previous measures		
Tax base adjustment on wheat flour	13	0.07
Suspension of the customs duty on soybean meal	3	0.01
Suspension of import tax on refined sugar	10	0.05
Suspension of customs duty on broken rice	19	0.10
Tax base adjustment on edible oil	23	0.12
Suspension of import tax on corn	10	0.05
Lower import tax on wheat	23	0.12
Subsidy for local rice production of CFAF 32 per kg of rice paddy	3	0.02
Increase of agricultural subsidies	10	0.05
Lower price caps for vegetable oil, broken rice, and sugar		
Total for previous measures	113	0.59
Total	**149**	**0.8**

Source: Senegalese authorities and IMF staff calculations.

20. While understanding the authorities' objective to fully offset the sharp increase in international prices to limit inflationary pressures, staff highlighted the high cost and regressive nature of an untargeted subsidy policy. They noted that the fiscal target for 2022 would be achieved thanks to the sale of government buildings and significant cuts in investment spending, which raises concerns about the quality of spending, given that wasteful blanket subsidies are crowding out growth-friendly expenditure. Considering the size of the Sukuk operation, staff and the authorities agreed on the need to ensure that SOGEPA generates sufficient resources to meet its debt service obligations. Staff also called on the authorities to avoid resorting to measures such as price caps and export restrictions to alleviate the burden of the cost-of-living crisis, as they may have adverse consequences on supply. Finally, given the significant changes to the 2022 budget, staff would have preferred, for fiscal transparency purposes, that the government prepares a second supplementary budget law rather than making the changes through advance decrees.

Text Table 6. Budget Measures Agreed in the 2022 Modified Budget

Deficit increasing measures compared to the first revised budget

	in CFAF bn	in % of GDP
Energy subsidies	457	2.7
Interest payment on external debt	32	0.2
Wage bill measures	22	0.1
Lower external budget support	23	0.1
Total	534	3.1

Offsetting measures to contain the deficit increase

	in CFAF bn	in % of GDP
Sukuk proceeds	247	1.5
Revenue administration measures	112	0.7
Savings on current transfers to agencies	30	0.2
Lower externally-financed investment spending	100	0.6
Lower domestically-financed investment spending	45	0.3
Total	534	3.2

Net impact on fiscal deficit

	in CFAF bn	in % of GDP
Net impact of new fiscal measures	0	0.0
New fiscal deficit	-1,054	-6.2
Memo item: NGDP		17093

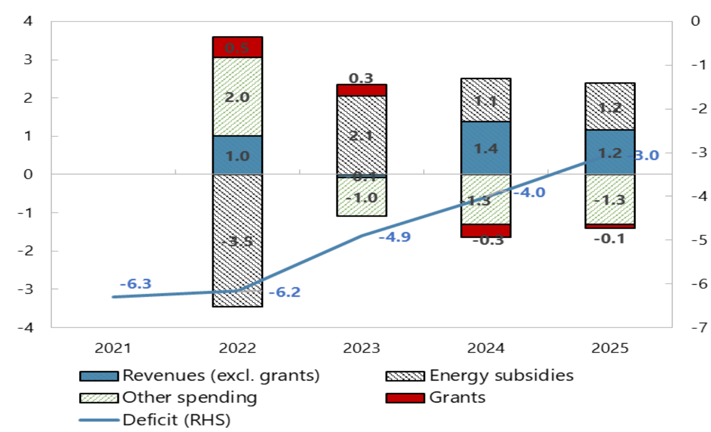
Source: Senegalese authorities and IMF staff calculations.

C. Putting Public Debt on a Downward Trajectory

21. The authorities are committed to putting public debt on a downward trajectory but argue for slower fiscal consolidation to balance other important priorities. This is justified by the need to meet growing social needs, address youth unemployment, strengthen food security, and cope with heightened security risks from neighboring countries. The fiscal strategy targets a return to a central government fiscal deficit of 3 percent of GDP by 2025 instead of the previously

Text Figure 6. Fiscal Consolidation Path and Composition

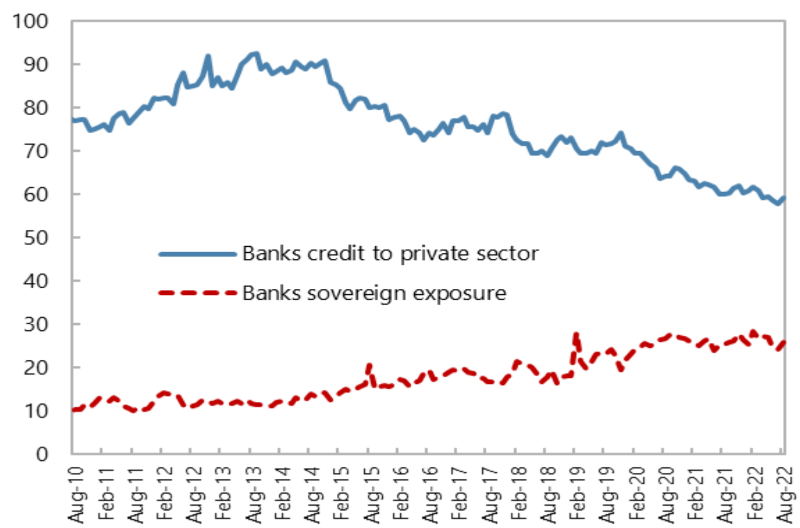
(In percent of GDP)



Source: Senegalese authorities and IMF staff calculations agreed date of 2024 (Text Figure 6). This is consistent with most WAEMU countries' delayed fiscal consolidation path and is expected to have limited impact on pooled international reserves, which would remain broadly adequate over the medium term. The authorities are of the view that this fiscal path strikes the right balance between addressing the above challenges to maintaining social cohesion and preserving medium term sustainability (MEFP ¶22).

22. The looser fiscal stance, however, carries some risks. Emphasizing the financing constraints in the context of tighter global financing conditions and limited depth in the regional CFAF market, staff underscored that higher borrowing from the regional market may lead to increased borrowing costs and debt service, and possibly crowding out the private sector (Text Figure 7). This would result in increasing debt vulnerabilities and adding pressure on international reserves. Finally, a repeated departure from the agreed fiscal consolidation path could undermine the credibility of the medium-term fiscal strategy.

Text Figure 7. Banks Credit to Private Sector and Exposure to Sovereign
(In percent of M2)



Source: Senegalese authorities and IMF staff calculations.

23. Against this backdrop, the authorities adopted a 2023 budget that targets a slightly higher fiscal deficit but still delivers a large fiscal adjustment (MEFP ¶23). The budget that was submitted to parliament in mid-October targets a deficit of 5.5 percent instead of 4.5 percent of GDP (5th review) and includes 0.8 percentage point of GDP of budgetary reserves. To ensure a smooth consolidation process over the medium term, staff and the authorities agreed to target instead a deficit of 4.9 percent of GDP (Text Table 7). To meet this target, the government commits to limit the use of the budgetary reserves to 0.2 percent of GDP and to increase tax revenues by 0.5 percent of GDP through additional revenue administration measures given the strong revenue performance anticipated in 2022 and the authorities' conservative revenue assumptions in 2023. On the spending side, energy subsidies would be higher than in the budget (+0.9 percent of GDP), to better reflect the fiscal impact of electricity and price hikes, whereas domestically-financed investment would be cut by 0.3 percent of GDP relative to the budget. This would result in a fiscal tightening of 1.3 percent of GDP relative to 2022, including a significant decline in the primary deficit of 1.2 percent of GDP. The main features of the 2023 budget are:

- On the revenue side, non-oil tax revenues would increase by 0.3 percent of non-oil GDP to reach 18.8 percent of non-oil GDP, owing to (i) a strong growth rebound; (ii) a base effect from higher revenues projected for end-2022, (iii) tax policy measures, including by reducing PIT exemptions on interest earned on savings accounts and VAT exemptions on private healthcare, accommodation services, and raising taxes on insurance; and (iii) revenue administration measures to improve tax collection on fuel products and to better control cross-border online transactions. These efforts would mark continued progress towards the MTRS objective of reaching 20 percent of non-oil GDP by 2024. The budget will also include for the first-time revenues from oil and gas production, which are expected to generate 0.3 percent of GDP.[5]

- On the spending side, the budget prioritizes non-primary current spending, which accounts for 60 percent of total spending reflecting (i) a higher public wage bill (6.9 percent of GDP) to take into account the full year impact of the across-the-board pay increase granted last June, (ii) a still elevated level of subsidies (2.7percent of GDP) in the context of persistent elevated oil and food prices, and (iii) a shift away of public investment on hard infrastructure towards programs that support the socio-economic integration of young people and women, reduce disparities between cities and rural areas, improve living environment and access to water and electricity, and control floods.

Text Table 7. 2023 Budget and Staff Projections 1/

(In percent of GDP)

	5th Review	2023 Budget	Projections 2023
Revenues and Grants	**3999**	**3920**	**4061**
Tax revenues	3550	3487	3587
Nontax revenues	158	154	154
Grants	291	279	320
Budget	56	47	88
Projects	235	232	232
Expenditure	**4857**	**4965**	**5001**
Interest	384	424	424
Compensation of employees	1227	1273	1310
Use of goods and services	397	393	393
Current transfers	951	1286	1342
Energy subsidies	300	350	510
Net acquisition of nonfinancial assets	1898	1588	1531
Domestically financed	1086	920	863
Externally financed	812	668	668
Deficit	**-858**	**-1045**	**-940**

1/ Current transfers correspond to subsidies, grants, social benefits, and other expense
Source: Senegalese authorities and IMF staff calculations

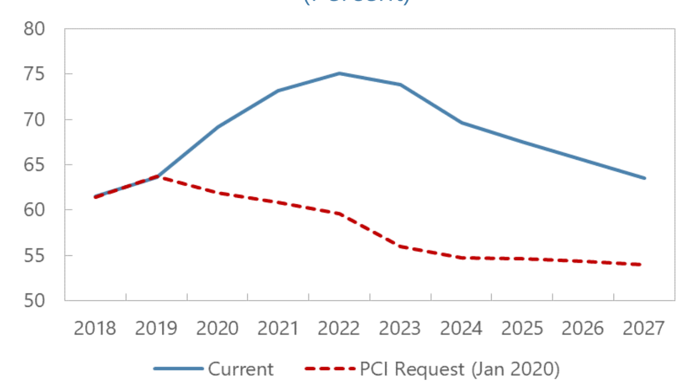
5 The stabilization fund and the intergenerational fund will receive a total of 0.1 percent of GDP in 2023.

24. The authorities are committed to containing the soaring cost of energy subsidies (MEFP ¶18). Absent policy actions, energy subsidies would hover around 4.2 percent of GDP in 2023.[6] However, the government is committed to sharply reduce this amount to 2.7 percent of GDP while increasing support to the most vulnerable households through direct cash transfers and subsidies to limit the cost of mass transport. Over the medium term, the authorities are committed to gradually phase out energy subsidies by 2025 while protecting vulnerable households. A reform roadmap that lays out the strategy will be finalized and published in early December.

25. The Gas-to-Power Strategy (GTP), a key pillar of Senegal's development strategy (Plan Senegal Emergent), would increase reliability and reduce the average cost of electricity (Annex II). To make sure that the financing need for the GTP (yet to be finalized) provides value for money and is consistent with debt sustainability, staff urged the authorities to provide clarity on the timing and key steps of the GTP strategy, and build capacity to manage this large project, in close cooperation with development partners.

26. Pursuing a prudent debt strategy to reduce debt vulnerabilities remains a top priority for the authorities. Total public debt is projected to peak at 75 percent of GDP in 2022, an increase of 15 percentage points relative to pre-COVID projections, before sharply declining as hydrocarbon projects provide a boost to growth in 2023-24 (Text Figure 8). The higher debt level primarily reflects larger fiscal deficits resulting from multiple external shocks, including COVID-19, Russia's invasion of Ukraine, and the strong appreciation of the US dollar, as well as additional borrowing by state-owned enterprises. To reduce debt vulnerabilities, the authorities have recently undertaken debt management operations to reduce risks associated with the external debt profile and intend to tap the regional bond market and seek out concessional and semi-concessional loans from multilateral and bilateral partners to finance budget deficits. They do not plan to tap the international bond market in the near term given the rising global interest rates (MEFP ¶30).

Text Figure 8. Public Debt to GDP
(Percent)



Source: Senegalese authorities and IMF staff calculations

27. Achieving a durable fiscal consolidation, along with ongoing reforms to debt management, is needed to strengthen debt sustainability.[7] The recent strengthening of the oversight of public debt by the national debt committee (CNDP) represents a step in the right

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[6] Fuel subsidies' estimates are based on the October 2022 WEO assumptions for fuel prices (USD85 per barrel) and on growth consumption of 5 percent in 2023.

[7] The Debt Sustainability Analysis conducted in June 2022 found that Senegal remains at moderate risk of debt distress with limited space to absorb shocks.

direction but requires further efforts to ensure that all borrowing by state-owned enterprises is captured in practice. Implementation of the authorities' action plan to follow-up on the recent debt audit is progressing, but additional resources are needed to strengthen the quality and timeliness of debt data provided by state-owned enterprises (MEFP ¶31).

28. The fiscal framework for oil and gas revenue management is expected to become fully operational in 2023. The implementation decrees for the hydrocarbon revenue management law were not all adopted by November 2022. While the authorities issued a decree on the setting up of an expert committee and the definition of a price formula to be used to determine revenue projections, the governance and management of the hydrocarbon stabilization and intergenerational funds have not yet been clarified. In addition, the design of a long-term budget anchor that takes into account oil and gas revenues was not completed (MEFP ¶13).

29. Improving tax policy design and strengthening revenue administration are key to enhancing domestic revenue mobilization, but insufficient coordination among stakeholders impairs the implementation of the MTRS (MEFP ¶27). Although the MTRS governance bodies and performance monitoring are now in place, tax policy still lacks strategic direction; revenue mobilization objectives are not fully reflected in operational revenue collection targets; digitalization lags; and coordination between tax and customs administrations is insufficient. Beyond ongoing efforts to expand the tax base, a comprehensive medium term tax strategy focusing on large revenue items (including rebalancing of taxation between consumption, labor, and capital, eliminating small taxes, rationalizing tax expenditures and exemptions) is needed to support revenue objectives and provide clarity to households and businesses. A communication campaign is needed to explain the benefits of additional government revenues to finance public spending.

30. Progress on PFM reforms has been satisfactory, and efforts should be pursued in the areas of cash management, budget execution, procurement, and transparency (MEFP ¶28-29). Noticeable progress has been made to implement the Treasury single account with the closure of 176 central government bank accounts (out of 276 bank accounts). Efforts to limit direct transfers to entities and reclassify them by the economic nature of spending should be completed. The audit report published by the Court of Accounts on the use of COVID-19 funds identified significant weaknesses in the management of public funds that need to be addressed forcefully (Box 1). Staff encouraged the authorities to follow-up on the findings of this audit by swiftly adopting and implementing an action plan, which would investigate any potential misuse of funds and apply the necessary sanctions. General procurement rules have been strengthened with the adoption of a revised procurement code (prior action) that strictly limits exemptions to open and competitive tenders, including in the oil and gas sector (MEFP ¶13).

Box 1. Main Findings of the Audit Court Report on the Use of COVID-19 Funds 1/

The Court of Accounts' audit of government spending under the emergency COVID-19 plan (Force COVID-19) revealed several shortcomings in procurement and spending execution that should be addressed swiftly to improve public spending efficiency:

- **Emergency suspension of spending and procurement procedures.** The temporary suspension of the public procurement code during the pandemic led to the widespread use of direct awarding of public contracts, sometimes to inexperienced suppliers, at high costs or with substantial costs overruns, without necessarily ensuring faster contract execution. The revised public procurement code should aim at safeguarding open competition even in cases of strictly defined emergency situations.

- **Direct transfers to entities. Spending execution through commercial bank accounts has led to irregularities (excessive use of cash, overpayment or double payments for services, spending not reaching beneficiaries, etc.).** Spending commitment sometimes exceeded budget appropriations and/or allocations, leading to budget overruns or financial liabilities' accumulation. The authorities should accelerate efforts to strictly limit budget transfers to central government entities and centralize spending as much as possible within the budget execution chain. This would also help in fully operationalizing the Treasury single account. Such efforts should be accelerated, including through an improvement of banking services provided by Treasury and a roadmap to eventually close all remaining central government accounts, including for revenue-generating entities (hospitals, universities, financial companies, etc.).

Source: Senegal Court of Accounts

1/ http://www.courdescomptes.sn/publications/rapports/rapports-particuliers/

D. Addressing Vulnerabilities in the Financial Sector

31. The authorities are taking steps to restructure the post office group (La Poste SN-LPSN). They indicated that an action plan has been finalized in July 2022 that will lay the ground for the restructuring of the post office group and a new management team was appointed. The plan includes the group's recapitalization, the adoption of a recovery plan, estimates of the compensation needed for losses associated with quasi-fiscal activities, and specific steps for its transformation into a postal bank (MEFP ¶32).

32. Efforts to strengthen the anti-money laundering and combating of the financing of terrorism (AML/CFT) framework are uneven and need to be stepped up. Progress is still lagging, with Senegal remaining on the Financial Action Task Force's (FATF) grey list following the October Plenary. Efforts should accelerate ahead of the February 2023 Plenary, including on establishing and implementing the targeted financial sanctions regime, strengthening the AML/CFT risk-based supervision of financial institutions, and the country's beneficial ownership framework. The authorities should define a credible roadmap for addressing the remaining deficiencies in this area and minimize vulnerabilities of the financial sector to risks related to AML/CFT (MEFP ¶34).

E. Improving the Business Environment and Promoting Inclusive Growth

33. The government continues to pursue reforms aimed at improving the business environment and promoting private sector-led growth (MEFP ¶35). The revision of the investment code is underway but needs to be better integrated into the authorities' broader macroeconomic and fiscal plans. The digitization of the land registry is slated for the first half of 2023 for the entire territory. The three-year emergency program for youth employment, launched in 2021, continues to be implemented with an annual envelope of about 1 percent of GDP. Finally, a new strategy for private sector development brings together the government's efforts to support businesses and develop value chains and should be implemented without delays.

STAFF APPRAISAL

34. Senegal's economy experienced several acute challenges since 2020. The Covid pandemic, the impact of the war on Ukraine, the tightening of global financial conditions, regional security risks, severe floods, and domestic socio-political tensions. The interplay of these shocks have led to a growth slowdown, high inflation, and a deterioration of both the external and fiscal accounts, while the risks to the outlook remain unusually elevated and to the downside.

35. As a result of these multiple shocks, the program did not manage to achieve all of its objectives. Nevertheless, significant reforms were implemented across the three pillars of the program, including increasing the share of social spending in the budget and institutionalizing social safety nets, strengthening domestic revenue mobilization and debt management, improving budget planning and execution, and developing a fiscal framework for managing oil and gas revenues. However, fiscal consolidation was delayed with energy subsidies soaring in 2022 and public sector debt significantly increasing, while some structural benchmarks were met, notwithstanding the authorities commitment to finalize them.

36. The authorities' response to these shocks has been uneven in a context of dwindling policy space. Energy subsidies doubled in 2022 relative to the previous review and stand largely above WAEMU peers. While the 2022 fiscal target remains unchanged, it will be achieved thanks to the one-off proceeds of the sale of government buildings financed by higher public sector borrowing, and the crowding out of public investment spending. Fiscal adjustment should start in 2023, given the risks of a continued looser fiscal stance on debt sustainability. To this effect, the authorities should refrain from providing untargeted and costly subsidies, improve the composition of fiscal adjustment, and forcefully avoid additional fiscal slippages given their depleted policy space.

37. Putting public debt on a firmly downward trajectory is critical to rebuilding policy buffers. Total public debt is projected to reach 75 percent of GDP at end-2022, reflecting the impact of multiple shocks, additional SOE borrowing, and the recent appreciation of the US dollar. Rebuilding fiscal buffers to cope with future crises will require that Senegal stay the course on fiscal consolidation with the aim of reaching the 3 percent of GDP deficit target by 2025. Given higher borrowing needs, the authorities need to seek out alternative and less costly financing sources to reduce the adverse impact on the regional bond market and strains on WAEMU pooled reserves. In addition, SOEs' borrowing plans should be curtailed to reduce public debt vulnerabilities.

38. Strong revenue mobilization efforts and a gradual elimination of energy subsidies should underpin fiscal consolidation efforts. To mobilize additional tax revenues, efforts to improve tax compliance should be complemented by policy measures to broaden the tax base, increase progressivity, and incentivize formalization. This would help meet development spending needs while achieving durable fiscal consolidation. The recent decision to hike energy prices and the publication of a roadmap to gradually phase out energy subsidies are critical steps to improve spending efficiency and strengthen medium-term fiscal credibility. Full implementation of this roadmap will be critical and should be accompanied by extensive communication efforts to build consensus and by bolstering social safety nets to protect the most vulnerable.

39. Reforms to improve fiscal transparency and accountability should continue. The adoption of a new procurement code demonstrates the authorities' commitment to improving transparency and governance. As a next step, they should adopt measures to address public financial management weaknesses exposed by the audit report on the use of COVID-19 funds. Finally, the full operationalization of the fiscal framework for oil and gas revenue management will be critical to ensure that these windfalls will benefit Senegal's development.

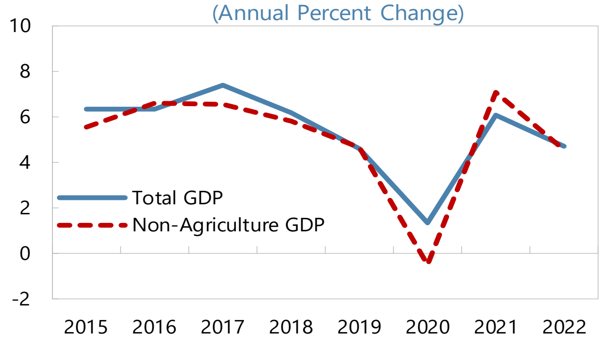
40. Greater urgency is needed to improve the AML/CFT framework. Full implementation of the AML/CFT action plan will be critical to avoid possible negative macroeconomic repercussions from the enhanced oversight by FATF, including strengthening the risk-based supervision of financial institutions and the beneficial ownership framework. Preparing a credible roadmap for addressing the remaining deficiencies would be critical.

41. Based on the program performance and the authorities' commitment to medium-term fiscal sustainability, staff supports the completion of the final reviews under the PCI, SBA, and SCF. It is recommended that Senegal moves to a 12-month cycle for Article IV consultations and, given that outstanding credit to the Fund exceeds 200 percent of quota, a Post-Financing Assessment will need to be initiated.

Figure 1. Real and External Sectors, 2015–22

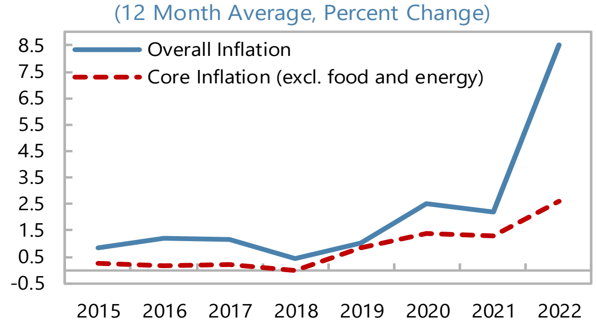
Growth is expected to slow down in 2022...

Real GDP Growth
(Annual Percent Change)



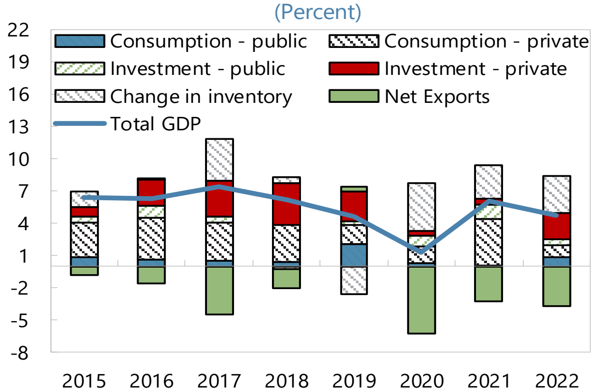
... and inflation to spike.

CPI Inflation
(12 Month Average, Percent Change)



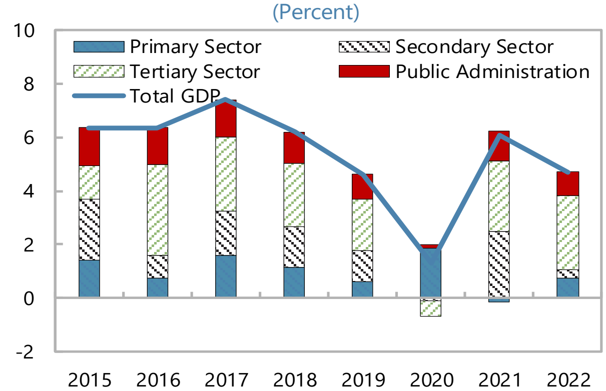
The slowdown would be driven by lower private consumption and public investment...

Contributions to GDP Growth: Demand Side
(Percent)



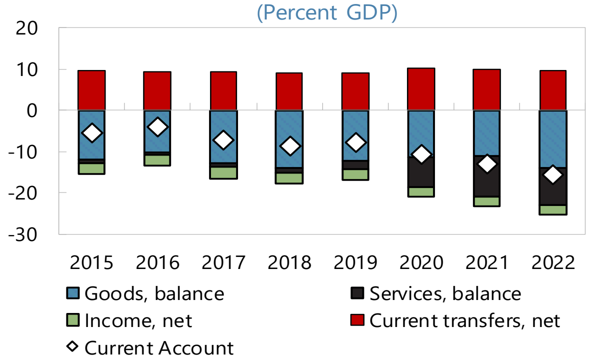
...with a sharp slowdown of the secondary sector.

Contributions to GDP Growth: Supply Side
(Percent)



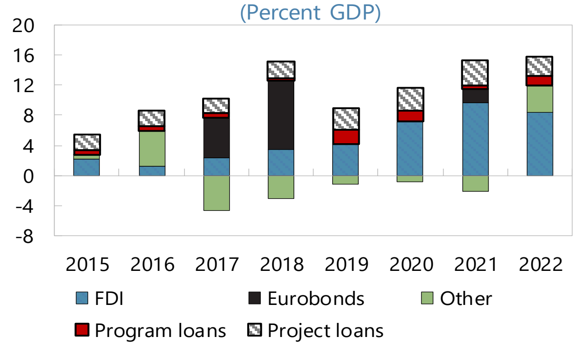
The current account deficit widened, primarily reflecting imports for oil and gas projects...

Current Account: Main Components
(Percent GDP)



...which will mostly be financed by FDI and other financing.

Capital and Financial Account
(Percent GDP)

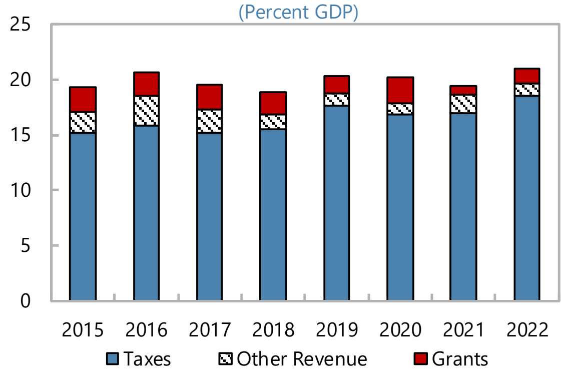


Sources: Senegal authorities; and IMF staff calculations.

Figure 2. Fiscal and Financial Indicators, 2015–22

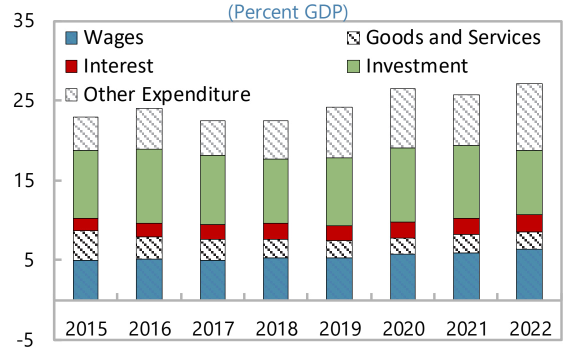
The tax-to-GDP ratio would rise significantly...

Revenue
(Percent GDP)



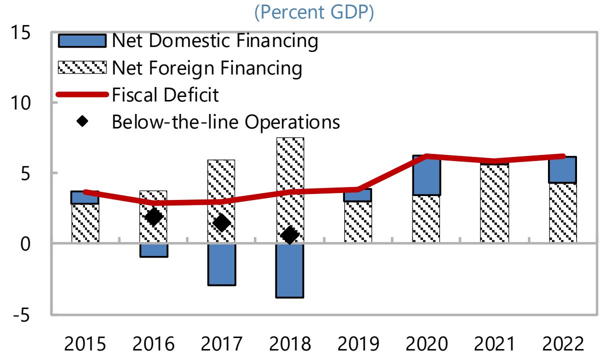
... while spending increased significantly, driven by energy subsidies.

Expenditure
(Percent GDP)



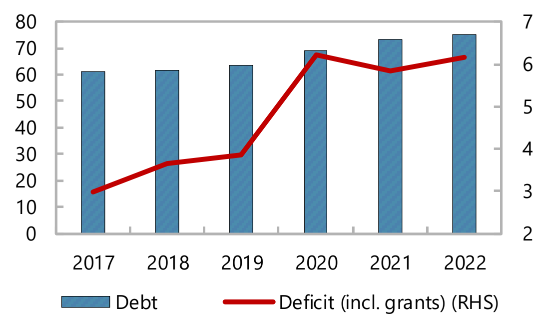
Net financing would be covered from domestic and foreign sources...

Financing
(Percent GDP)



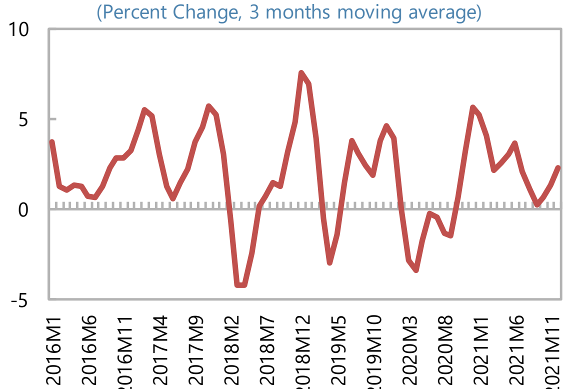
...and the public sector debt ratio increased to 77.8 percent of GDP.

Debt and Deficit
(Percent GDP)



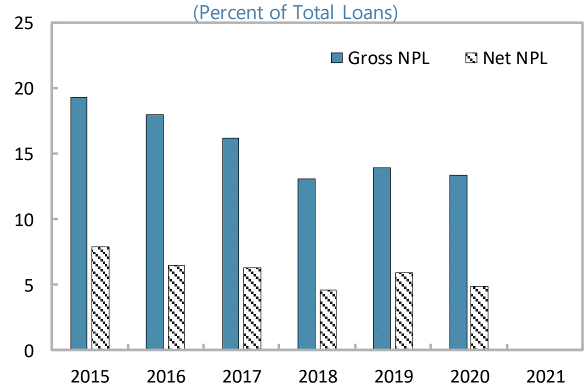
Credit to the private sector continue expanding in 2022...

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



...and non-performing loans to decrease over time.

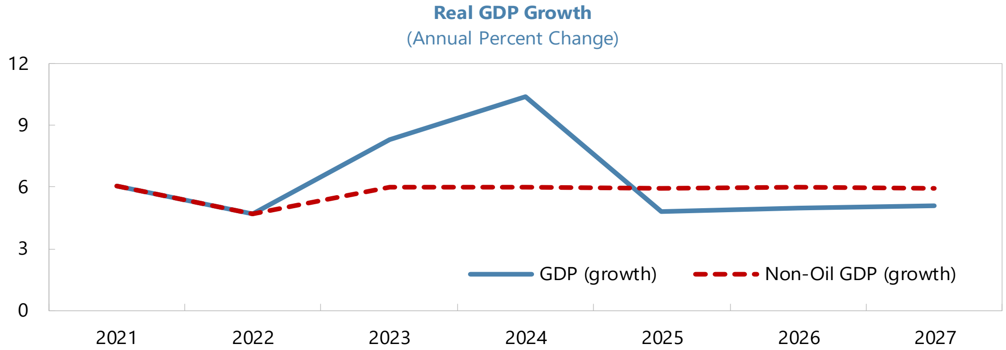
Non Performing Loans
(Percent of Total Loans)



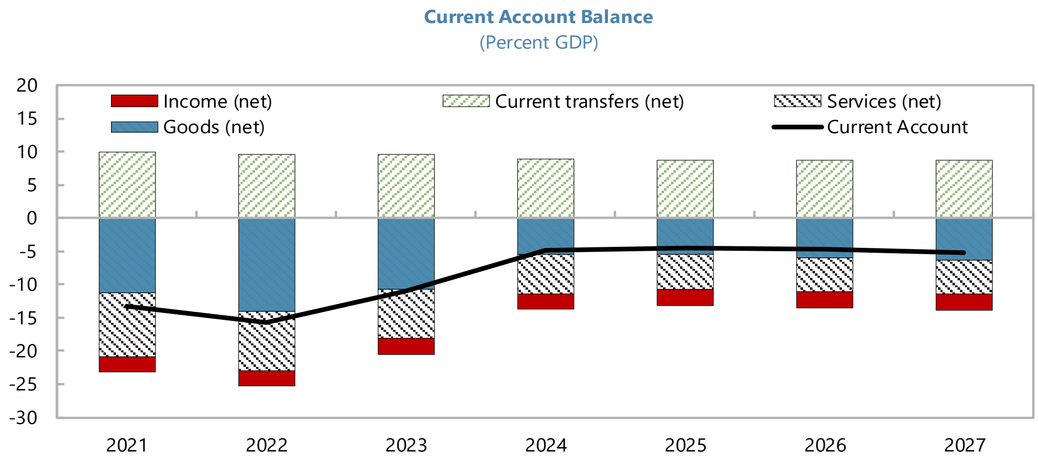
Sources: Senegal authorities; and IMF staff calculations.

Figure 3. Economic Outlook, 2021–27

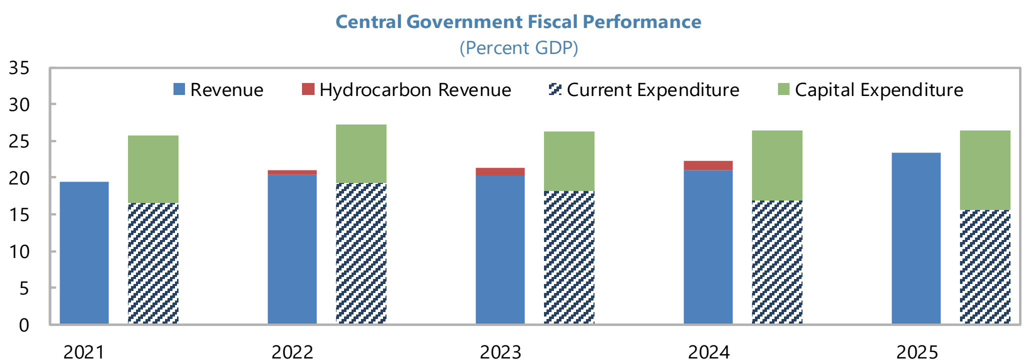
Non-oil growth is expected to be around 6 percent in the medium term while headline growth fluctuates with expected oil and gas production volumes.



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



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



Sources: Senegal 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.	Est.	IMF CR 22/197	Proj.	IMF CR 22/197	Proj.	Projections			
					(Annual percentage change)					
National income and prices										
GDP at constant prices	1.3	6.1	5.0	4.7	8.3	8.3	10.4	4.8	5.0	5.1
Of which: Non-hydrocarbon GDP	1.3	6.1	5.0	4.7	5.9	6.0	6.0	6.0	6.0	6.0
GDP deflator	1.5	2.4	5.2	6.6	3.0	3.1	2.0	2.0	2.0	2.0
Consumer prices (annual average)	2.5	2.2	5.5	8.5	3.1	3.5	2.0	2.0	2.0	2.0
External sector										
Exports, f.o.b. (CFA francs)	-7.1	25.9	17.8	13.1	19.6	25.5	29.6	0.5	1.2	4.8
Imports, f.o.b. (CFA francs)	-6.1	18.2	26.1	23.1	7.3	8.7	6.4	1.7	4.0	6.5
Export volume	-4.6	16.2	-3.8	-8.0	11.5	21.5	26.1	2.5	3.5	4.3
Import volume	2.8	10.5	-0.1	4.5	10.2	11.4	12.1	5.1	4.4	5.8
Terms of trade ("–" = deterioration)	6.7	1.4	-3.0	4.4	10.1	5.8	8.3	1.3	-1.9	-0.3
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	14.5	12.0	14.5	10.6	11.9	...	...	...	...
Net domestic assets, *of which*	16.5	11.1	18.5	16.2	9.4	13.5	...	...	...	...
Credit to the government (net)	15.4	6.0	8.6	9.0	2.9	4.9	...	...	...	...
Credit to the economy (net)	1.2	4.3	11.3	8.7	8.0	10.0	...	...	...	...
					(Percent of GDP, unless otherwise indicated)					
Central government operations										
Revenue	20.2	19.4	20.7	21.0	21.2	21.3	22.4	23.4	23.5	23.7
Grants	2.3	0.9	1.6	1.4	1.5	1.7	1.4	1.3	1.2	1.2
Total expenditure	26.6	25.7	26.9	27.2	25.7	26.2	26.4	26.4	26.5	26.7
Net lending/borrowing (including grants)	-6.4	-6.3	-6.2	-6.2	-4.5	-4.9	-4.0	-3.0	-3.0	-3.0
Primary fiscal balance	-4.4	-4.3	-4.2	-3.9	-2.5	-2.7	-1.8	-0.7	-0.7	-0.6
Savings and investment										
Current account balance (official transfers included)	-10.9	-13.3	-13.2	-15.7	-8.8	-11.0	-4.9	-4.5	-4.8	-5.2
Gross domestic investment	35.2	37.8	39.7	43.0	38.2	41.4	36.6	34.5	33.3	33.6
of which: Central Government	7.0	6.8	7.7	5.9	7.5	6.0	7.1	7.1	7.2	7.2
Gross national savings	24.3	24.5	26.5	27.3	29.4	30.4	31.8	30.0	28.5	28.4
of which: Central Government	6.3	4.9	6.7	7.1	4.8	5.1	6.3	6.7	6.1	6.4
Public sector debt										
Total public debt	69.2	73.2	75.1	75.1	71.4	73.7	69.5	67.4	65.3	63.2
Domestic public debt [1]	14.8	16.1	17.6	16.8	17.8	19.3	19.7	21.0	21.9	22.4
External public debt	54.4	57.1	57.5	58.2	53.6	54.4	49.8	46.4	43.4	40.8
Total public debt service (percent of revenue)	27.3	28.4	26.5	25.8	27.4	31.2	28.0	32.1	36.0	32.9
Memorandum items:										
Gross domestic product (CFAF billions)	14,101	15,319	16922.4	17,093	18881	19,093	21,497	22,974	24,613	26,388
of which non-hydrocarbon (CFAF billions)	14,101	15,319	16922.4	17,093	18610	18,700	20,086	21,790	23,631	25,546
Gross domestic product (USD billions)	24.5	27.6	...	...	...	...	...	...	...	...
Share of hydrocarbon in total GDP (percent)	...	...	...	...	1.4	2.1	6.6	5.2	4.0	3.2
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 22/197	Est.	IMF CR 22/197	Proj.	IMF CR 22/197	Proj.	Projections			
	(Billions of CFAF, unless otherwise indicated)										
Current account	-1,532	-2,038	-2,033	-2,229	-2,689	-1,656	-2,108	-1,045	-1,027	-1,175	-1,368
Balance on goods	-1,609	-1,706	-1,716	-2,405	-2,419	-2,140	-2,052	-1,182	-1,271	-1,483	-1,682
Exports, f.o.b.	2,411	3,047	3,036	3,589	3,433	4,291	4,308	5,585	5,612	5,678	5,948
Imports, f.o.b.	-4,020	-4,753	-4,752	-5,994	-5,852	-6,431	-6,360	-6,767	-6,883	-7,162	-7,631
Services (net)	-1,017	-1,527	-1,488	-1,056	-1,512	-830	-1,407	-1,280	-1,203	-1,238	-1,319
Export	503	505	544	638	738	710	841	948	970	1,043	1,121
Import	-1,520	-2,032	-2,032	-1,694	-2,250	-1,540	-2,248	-2,228	-2,172	-2,281	-2,440
Incomes (net)	-341	-324	-348	-332	-404	-329	-473	-483	-550	-592	-645
Credits	285	198	284	218	295	234	305	319	333	346	360
Debits	-626	-521	-632	-550	-699	-563	-778	-802	-883	-938	-1,005
Of which: interest on public debt	-252	-204	-204	-233	-265	-246	-305	-280	-295	-307	-326
Current transfers (net)	1,435	1,519	1,519	1,565	1,645	1,642	1,825	1,901	1,997	2,139	2,278
Private (net)	1,267	1,497	1,533	1,529	1,659	1,596	1,767	1,882	1,993	2,135	2,274
Public (net)	168	22	-14	36	-14	45	58	18	4	4	4
Of which: budgetary grants	195	17	17	46	17	56	88	47	31	34	36
Capital and financial account	1,135	2,143	2,006	1,822	2,616	1,838	2,031	1,284	1,348	1,574	1,701
Capital account	139	125	117	230	229	211	241	251	264	277	293
Private capital transfers	12	12	5	10	10	10	9	8	9	9	9
Project grants	130	114	114	220	220	235	232	244	256	269	285
Debt cancellation and other transfers	-3	-1	-1	-1	-1	-1	-1	-1	-1	-1	-1
Financial account	996	2,018	1,888	1,592	2,387	1,626	1,790	1,032	1,083	1,297	1,408
Direct investment	1,005	1,379	1,476	1,330	1,430	1,163	1,182	1,070	1,043	1,084	1,127
Portfolio investment (net)	240	372	533	266	296	247	422	637	330	649	694
Of which : Eurobond issuance	0	287	287	0	0	0	0	272	0	284	284
Other investment	-250	268	-121	-4	660	216	187	-674	-289	-436	-414
Public sector (net)	393	640	321	349	435	327	-71	134	323	155	200
Of which : disbursements	710	586	586	796	909	832	752	567	690	743	777
program loans	206	70	70	221	242	116	176	118	117	117	117
project loans	429	516	516	515	415	577	436	449	462	476	490
other	74	0	0	60	252	140	140	0	110	150	170
amortization	-317	-266	-266	-447	-473	-374	-823	-433	-366	-588	-577
Private sector (net)	-643	-372	-441	-353	225	-111	258	-808	-613	-591	-613
Errors and omissions	329	0	100	0	0	0	0	0	0	0	0
Overall balance	-68	105	72	-407	-73	182	-77	239	321	399	333
Financing	68	-105	-72	407	73	-182	77	-239	-321	-399	-333
Net foreign assets [1]	278	-177	-239	35	-305	-182	77	-239	-321	-399	-333
Net use of IMF resources	256	105	102	0	0	-44	-46	-111	-151	-197	-133
Purchases/disbursements	259	105	102	0	0	0	0	0	0	0	0
Repurchases/repayments	-3	0	0	0	0	-44	-46	-111	-151	-197	-133
Other	21	-282	-341	35	-305	-137	123	-128	-170	-202	-200
Deposit money banks	-209	0	167	0	0	0	0	0	0	0	0
Financing Gap	0	71	0	372	378	0	0	0	0	0	0
SBA/SCF	0	0	0	266	252	0	0	0	0	0	0
SBA/SCF Augmentation	0	0	0	106	126	0	0	0	0	0	0
Exceptional financing (DSSI)	0	71	0	0	0	0	0	0	0	0	0
Memorandum items:											
Current account balance (percent of GDP)											
Including current official transfers	-10.9	-13.3	-13.3	-13.2	-15.7	-8.8	-11.0	-4.9	-4.5	-4.8	-5.2
Excluding current official transfers	-12.4	-13.5	-13.4	-13.5	-15.9	-9.1	-11.5	-5.1	-4.7	-5.0	-5.4
Gross domestic product	14,101	15,319	15,319	16,922	17,093	18,881	19,093	21,497	22,974	24,613	26,388

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 22/197	Est.	IMF CR 22/197	Proj.	IMF CR 22/197	Proj.	Projections			
					(in percent of GDP)						
Current account	-10.9	-13.3	-13.3	-13.2	-15.7	-8.8	-11.0	-4.9	-4.5	-4.8	-5.2
Balance on goods	-11.4	-11.1	-11.2	-14.2	-14.2	-11.3	-10.7	-5.5	-5.5	-6.0	-6.4
Exports, f.o.b.	17.1	19.9	19.8	21.2	20.1	22.7	22.6	26.0	24.4	23.1	22.5
Imports, f.o.b.	-28.5	-31.0	-31.0	-35.4	-34.2	-34.1	-33.3	-31.5	-30.0	-29.1	-28.9
Services (net)	-7.2	-10.0	-9.7	-6.2	-8.8	-4.4	-7.4	-6.0	-5.2	-5.0	-5.0
Export	3.6	3.3	3.6	3.8	4.3	3.8	4.4	4.4	4.2	4.2	4.3
Import	-10.8	-13.3	-13.3	-10.0	-13.2	-8.2	-11.8	-10.4	-9.5	-9.3	-9.2
Incomes (net)	-2.4	-2.1	-2.3	-2.0	-2.4	-1.7	-2.5	-2.2	-2.4	-2.4	-2.4
Credits	2.0	1.3	1.9	1.3	1.7	1.2	1.6	1.5	1.4	1.4	1.4
Debits	-4.4	-3.4	-4.1	-3.3	-4.1	-3.0	-4.1	-3.7	-3.8	-3.8	-3.8
Of which: interest on public debt	-1.8	-1.3	-1.3	-1.4	-1.5	-1.3	-1.6	-1.3	-1.3	-1.2	-1.2
Current transfers (net)	10.2	9.9	9.9	9.2	9.6	8.7	9.6	8.8	8.7	8.7	8.6
Private (net)	9.0	9.8	10.0	9.0	9.7	8.5	9.3	8.8	8.7	8.7	8.6
Public (net)	1.2	0.1	-0.1	0.2	-0.1	0.2	0.3	0.1	0.0	0.0	0.0
Of which: budgetary grants	1.4	0.1	0.1	0.3	0.1	0.3	0.5	0.2	0.1	0.1	0.1
Capital and financial account	8.0	14.0	13.1	10.8	15.3	9.7	10.6	6.0	5.9	6.4	6.4
Capital account	1.0	0.8	0.8	1.4	1.3	1.1	1.3	1.2	1.2	1.1	1.1
Private capital transfers	0.1	0.1	0.0	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Project grants	0.9	0.7	0.7	1.3	1.3	1.2	1.2	1.1	1.1	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	0.0
Financial account	7.1	13.2	12.3	9.4	14.0	8.6	9.4	4.8	4.7	5.3	5.3
Direct investment	7.1	9.0	9.6	7.9	8.4	6.2	6.2	5.0	4.5	4.4	4.3
Portfolio investment (net)	1.7	2.4	3.5	1.6	1.7	1.3	2.2	3.0	1.4	2.6	2.6
Of which : Eurobond issuance	0.0	1.9	1.9	0.0	0.0	0.0	0.0	1.3	0.0	1.2	1.1
Other investment	-1.8	1.7	-0.8	0.0	3.9	1.1	1.0	-3.1	-1.3	-1.8	-1.6
Public sector (net)	2.8	4.2	2.1	2.1	2.5	1.7	-0.4	0.6	1.4	0.6	0.8
Of which : disbursements	5.0	3.8	3.8	4.7	5.3	4.4	3.9	2.6	3.0	3.0	2.9
program loans	1.5	0.5	0.5	1.3	1.4	0.6	0.9	0.5	0.5	0.5	0.4
project loans	3.0	3.4	3.4	3.0	2.4	3.1	2.3	2.1	2.0	1.9	1.9
other	0.5	0.0	0.0	0.4	1.5	0.7	0.7	0.0	0.5	0.6	0.6
amortization	-2.2	-1.7	-1.7	-2.6	-2.8	-2.0	-4.3	-2.0	-1.6	-2.4	-2.2
Private sector (net)	-4.6	-2.4	-2.9	-2.1	1.3	-0.6	1.3	-3.8	-2.7	-2.4	-2.3
Errors and omissions	2.3	0.0	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-0.5	0.7	0.5	-2.4	-0.4	1.0	-0.4	1.1	1.4	1.6	1.3
Financing	0.5	-0.7	-0.5	2.4	0.4	-1.0	0.4	-1.1	-1.4	-1.6	-1.3
Net foreign assets [1]	2.0	-1.2	-1.6	0.2	-1.8	-1.0	0.4	-1.1	-1.4	-1.6	-1.3
Net use of IMF resources	1.8	0.7	0.7	0.0	0.0	-0.2	-0.2	-0.5	-0.7	-0.8	-0.5
Purchases/disbursements	1.8	0.7	0.7	0.0	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	-0.2	-0.5	-0.7	-0.8	-0.5
Other	0.2	-1.8	-2.2	0.2	-1.8	-0.7	0.6	-0.6	-0.7	-0.8	-0.8
Deposit money banks	-1.5	0.0	1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing Gap	0.0	0.5	0.0	2.2	2.2	0.0	0.0	0.0	0.0	0.0	0.0
SBA/SCF	0.0	0.0	0.0	1.6	1.5	0.0	0.0	0.0	0.0	0.0	0.0
SBA/SCF Augmentation	0.0	0.0	0.0	0.6	0.7	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional financing (DSSI)	0.0	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:											
Gross domestic product (CFAF billions)	14,101	15,319	15,319	16,922	17,093	18,881	19,093	21,497	22,974	24,613	26,388

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 22/197	Act.	IMF CR 22/197	Proj.	IMF CR 22/197	Proj.	Projections			
Revenue and Grants	**2,843**	**2,978**	**2,978**	**3,498**	**3,587**	**3,999**	**4,061**	**4,805**	**5,378**	**5,779**	**6,256**
Taxes	2,368	2,593	2,593	3,052	3,163	3,550	3,587	4,220	4,732	5,195	5,661
Direct taxes	767	860	860	959	1,079	1,120	1,143	1,461	1,696	1,832	1,974
Taxes on income, profits, capital gains	717	771	771	876	1,000	1,003	1,055	1,360	1,574	1,665	1,781
Taxes on payroll and workforce	8	33	33	41	39	29	41	25	27	41	58
Taxes on property	42	55	55	42	40	88	47	76	95	126	135
Taxes on goods and services	1,228	1,293	1,293	1,591	1,561	1,837	1,813	2,055	2,215	2,444	2,702
Taxes on international trade and transactions	338	393	393	454	478	546	576	639	729	820	879
Other taxes	35	47	47	48	44	46	55	64	92	98	106
Grants	325	131	131	266	237	291	320	291	288	303	321
Budget	195	17	17	46	17	56	88	47	31	34	36
Projects	130	114	114	220	220	235	232	244	256	269	285
Other revenue	150	255	255	180	188	158	154	295	359	282	274
Expenditure	**3,746**	**3,943**	**3,943**	**4,553**	**4,642**	**4,857**	**5,002**	**5,669**	**6,059**	**6,517**	**7,052**
Expense	2,429	2,537	2,537	2,799	3,280	2,959	3,471	3,632	3,606	3,877	4,205
Compensation of employees	804	908	908	1,069	1,093	1,227	1,310	1,462	1,562	1,674	1,794
of which: youth employment program	…	22	22	32	32	37	37	…	…	…	
Use of goods and services	286	355	355	321	366	397	393	451	482	517	554
Interest	290	306	306	350	382	384	424	468	516	566	630
Subsidies	472	236	236	400	854	253	615	402	115	123	158
of which: energy subsidies	244		145		754		510	295	0	0	0
Social benefits	23	23	23	27	27	38	38	43	46	49	53
Other expense	178	184	184	147	147	189	213	247	287	308	330
Net acquisition of nonfinancial assets	1,317	1,406	1,406	1,754	1,362	1,898	1,531	2,036	2,453	2,640	2,847
Domestically financed	758	776	776	1,019	727	1,086	863	1,344	1,735	1,895	2,071
Externally financed	559	630	630	735	635	812	668	693	718	745	775
Net lending/borrowing *(Overall balance)*	**-903**	**-965**	**-965**	**-1,055**	**-1,054**	**-858**	**-940**	**-863**	**-681**	**-738**	**-796**
Transactions in financial assets and liabilities (Financing)	**-854**	**-965**	**-893**	**-1,055**	**-1,054**	**-858**	**-940**	**-863**	**-681**	**-738**	**-796**
Net acquisition of financial assets	166	402	402	-90	161	0	-222	0	0	0	0
Domestic	166	402	402	-90	161	0	-222	0	0	0	0
Currency and deposits	117	386	386	-120	-121	0	0	0	0	0	0
Other accounts receivable	49	16	16	30	282	0	-222	0	0	0	0
Foreign	0	0	0	0	0	0	0	0	0	0	0
Net incurrence of liabilities	1,021	1,295	1,295	594	837	858	718	863	681	738	796
Domestic	562	438	438	29	99	63	373	102	21	-73	-85
IMF and SDRs	264	349	349	0	0	-44	-46	-111	-151	-197	-133
Debt securities (net)	319	112	112	94	164	175	486	278	222	170	62
Loans	-63	-23	-23	-65	-65	-68	-68	-66	-50	-46	-14
Other accounts payable	35	0	0	0	0	0	0	0	0	0	0
Foreign	459	857	857	565	738	795	346	761	660	811	882
Debt securities (net)	170	537	537	216	303	336	417	628	336	656	682
T-bills and bonds issued in WAEMU	170	250	250	216	303	336	417	356	336	372	397
Eurobond	0	287	287	0	0	0	0	272	0	284	284
Loans	319	321	321	349	435	458	-71	134	323	155	200
Program loans	206	70	70	221	242	116	176	118	117	117	117
Project loans	429	516	516	515	415	577	436	449	462	476	490
Nonconcessional loans	0	0	0	60	252	140	-112	0	110	150	170
Other	-317	-266	-266	-447	-473	-374	-571	-433	-366	-588	-577
Other accounts payable	0	0	0	0	0	0	0	0	0	0	0
Financing Gap	**0**	**71**	**0**	**372**	**378**	**0**	**0**	**0**	**0**	**0**	**0**
SBA/SCF	…	0	0	266	252	…	…	…	…	…	…
SBA/SCF Augmentation	…	…	…	106	126	…	…	…	…	…	…
Exceptional Financing[1]	0	71	0	…	…	…	…	…	…	…	…
Memorandum items:											
Clearance of unmet obligations (pre-2020)	209	133	133	16	16	…	…	…	…	…	…
Hydrocarbon revenues	…	…	…	0	0	41	66	227	331	149	103
Nominal GDP	14,101	15,319	15,319	16,922	17,093	18,881	19,093	21,497	22,974	24,613	26,388

Sources: Ministry of Finance; and IMF staff calculations.

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

Table 5. Senegal: Central Government Operations, GFSM 2001 Classification, 2020–27[1]

(Percent of GDP)

	2020	2021		2022		2023		2024	2025	2026	2027
	Act.	IMF CR 22/197	Act.	IMF CR 22/197	Proj.	IMF CR 22/197	Proj.	Projections			
Revenue and Grants	**20.2**	**19.4**	**19.4**	**20.7**	**21.0**	**21.2**	**21.3**	**22.4**	**23.4**	**23.5**	**23.7**
Taxes	16.8	16.9	16.9	18.0	18.5	18.8	18.8	19.6	20.6	21.1	21.5
Direct Taxes	5.4	5.6	5.6	5.7	6.3	5.9	6.0	6.8	7.4	7.4	7.5
Taxes on goods and services	8.7	8.4	8.4	9.4	9.1	9.7	9.5	9.6	9.6	9.9	10.2
Taxes on international trade and transactions	2.4	2.6	2.6	2.7	2.8	2.9	3.0	3.0	3.2	3.3	3.3
Other taxes	0.2	0.3	0.3	0.3	0.3	0.2	0.3	0.3	0.4	0.4	0.4
Grants	2.3	0.9	0.9	1.6	1.4	1.5	1.7	1.4	1.3	1.2	1.2
Budget	1.4	0.1	0.1	0.3	0.1	0.3	0.5	0.2	0.1	0.1	0.1
Projects	0.9	0.7	0.7	1.3	1.3	1.2	1.2	1.1	1.1	1.1	1.1
Other revenue	1.1	1.7	1.7	1.1	1.1	0.8	0.8	1.4	1.6	1.1	1.0
Expenditure	**26.6**	**25.7**	**25.7**	**26.9**	**27.2**	**25.7**	**26.2**	**26.4**	**26.4**	**26.5**	**26.7**
Expense	17.2	16.6	16.6	16.5	19.2	15.7	18.2	16.9	15.7	15.8	15.9
Compensation of employees	5.7	5.9	5.9	6.3	6.4	6.5	6.9	6.8	6.8	6.8	6.8
of which: youth employment program	…	0.1	0.1	0.2	0.2	0.2	0.2	…	…	…	…
Use of goods and services	2.0	2.3	2.3	1.9	2.1	2.1	2.1	2.1	2.1	2.1	2.1
Interest	2.1	2.0	2.0	2.1	2.2	2.0	2.2	2.2	2.2	2.3	2.4
Subsidies	3.3	1.5	1.5	2.4	5.0	1.3	3.2	1.9	0.5	0.5	0.6
of which: energy subsidies	1.7		0.9		4.4		2.7	1.4	0.0	0.0	0.0
Social benefits	0.2	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Other expense	1.3	1.2	1.2	0.9	0.9	1.0	1.1	1.2	1.3	1.3	1.3
Net acquisition of nonfinancial assets	9.3	9.2	9.2	10.4	8.0	10.1	8.0	9.5	10.7	10.7	10.8
Domestically financed	5.4	5.1	5.1	6.0	4.3	5.8	4.5	6.2	7.5	7.7	7.8
Externally financed	4.0	4.1	4.1	4.3	3.7	4.3	3.5	3.2	3.1	3.0	2.9
Net lending/borrowing *(Overall balance)*	**-6.4**	**-6.3**	**-6.3**	**-6.2**	**-6.2**	**-4.5**	**-4.9**	**-4.0**	**-3.0**	**-3.0**	**-3.0**
Transactions in financial assets and liabilities (Financing)	**-6.1**	**-6.3**	**-5.8**	**-6.2**	**-6.2**	**-4.5**	**-4.9**	**-4.0**	**-3.0**	**-3.0**	**-3.0**
Net acquisition of financial assets	1.2	2.6	2.6	-0.5	0.9	0.0	-1.2	0.0	0.0	0.0	0.0
Domestic	1.2	2.6	2.6	-0.5	0.9	0.0	-1.2	0.0	0.0	0.0	0.0
Currency and deposits	0.8	2.5	2.5	-0.7	-0.7	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts receivable	0.3	0.1	0.1	0.2	1.6	0.0	-1.2	0.0	0.0	0.0	0.0
Foreign	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	7.2	8.5	8.5	3.5	4.9	4.5	3.8	4.0	3.0	3.0	3.0
Domestic	4.0	2.9	2.9	0.2	0.6	0.3	2.0	0.5	0.1	-0.3	-0.3
IMF and SDRs	1.9	2.3	2.3	0.0	0.0	-0.2	-0.2	-0.5	-0.7	-0.8	-0.5
Debt securities (net)	2.3	0.7	0.7	0.6	1.0	0.9	2.5	1.3	1.0	0.7	0.2
Loans	-0.5	-0.2	-0.2	-0.4	-0.4	-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	0.0
Foreign	3.3	5.6	5.6	3.3	4.3	4.2	1.8	3.5	2.9	3.3	3.3
Debt securities (net)	1.2	3.5	3.5	1.3	1.8	1.8	2.2	2.9	1.5	2.7	2.6
T-bills and bonds issued in WAEMU	1.2	1.6	1.6	1.3	1.8	1.8	2.2	1.7	1.5	1.5	1.5
Eurobond	0.0	1.9	1.9	0.0	0.0	0.0	0.0	1.3	0.0	1.2	1.1
Loans	2.3	2.1	2.1	2.1	2.5	2.4	-0.4	0.6	1.4	0.6	0.8
Program loans	1.5	0.5	0.5	1.3	1.4	0.6	0.9	0.5	0.5	0.5	0.4
Project loans	3.0	3.4	3.4	3.0	2.4	3.1	2.3	2.1	2.0	1.9	1.9
Nonconcessional loans	0.0	0.0	0.0	0.4	1.5	0.7	-0.6	0.0	0.5	0.6	0.6
Other	-2.2	-1.7	-1.7	-2.6	-2.8	-2.0	-3.0	-2.0	-1.6	-2.4	-2.2
Other accounts payable	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing Gap	**0.0**	**0.5**	**0.0**	**2.2**	**2.2**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
SBA/SCF	0.0	0.0	0.0	1.6	1.5	…	…	…	…	…	…
SBA/SCF Augmentation	…	…	…	0.6	0.7	…	…	…	…	…	…
Exceptional Financing[1]	0.0	0.5	0.0	…	…	…	…	…	…	…	…
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	0.3	1.1	1.4	0.6	0.4
Non-oil tax to non-oil GDP ratio	…	…	…	18.0	18.5	18.9	18.8	19.9	20.2	21.4	21.8
Nominal GDP	14,101	15,319	15,319	16,922	17,093	18,881	19,093	21,497	22,974	24,613	26,388

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 22/197	Prel.	IMF CR 22/197	Proj.	IMF CR 22/197	Proj.
				(Billions of CFAF)			
Net foreign assets	1,905	2,082	1,977	1,675	1,904	1,856	1,827
BCEAO	1,194	1,371	1,433	964	1,360	1,145	1,283
Commercial banks	711	711	544	711	544	711	544
Net domestic assets	5,096	5,969	5,807	7,333	6,990	8,114	8,123
Net domestic credit	6,103	7,068	6,759	8,535	8,052	9,441	9,304
Net credit to the government[1]	1,435	1,587	1,815	2,219	2,474	2,463	2,888
Central bank	74	37	326	528	825	484	779
Commercial banks	1,361	1,550	1,489	1,691	1,649	1,978	2,109
Other institutions	2	2	2	2	2	2	2
Credit to the economy	4,668	5,481	4,943	6,316	5,578	6,978	6,416
Shares and other equity	-771	-837	-827	-925	-922	-1,032	-1,030
Other items (net)	-236	-262	-125	-278	-139	-295	-151
Broad money	6,389	7,388	7,316	8,278	8,375	9,158	9,372
Currency outside banks	1,529	1,940	1,964	2,174	2,199	2,405	2,461
Total deposits	4,860	5,448	5,352	6,104	6,176	6,753	6,911
Demand deposits	2,984	3,345	3,312	3,748	3,822	4,147	4,277
Time deposits	1,876	2,103	2,040	2,356	2,354	2,607	2,634
Non-liquid Liabilities	611	662	468	729	519	811	578
				(Change in percentage of beginning-of-period broad money stock)			
Net foreign assets	-1.2	2.8	1.1	-5.5	-1.0	2.2	-0.9
Net domestic assets	16.5	13.7	11.1	18.5	16.2	9.4	13.5
Net credit to the government[1]	15.4	2.4	6.0	8.6	9.0	2.9	4.9
Credit to the economy (net)	1.2	12.7	4.3	11.3	8.7	8.0	10.0
Broad money	12.3	15.6	14.5	12.0	14.5	10.6	11.9
Memorandum items:				(Units indicated)			
Velocity (GDP/broad money; end of period)	2.2	2.1	2.1	2.0	2.0	2.1	2.0
Nominal GDP growth (percentage growth)	2.8	8.6	8.6	10.5	11.6	11.6	11.7
Credit to the private sector (percentage growth)	2.2	19.7	6.9	16.9	14.3	11.4	16.6
Credit to the private sector/GDP (percent)	29.3	32.3	28.9	34.2	29.6	34.2	30.9

Sources: BCEAO; and IMF staff calculations.

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

Table 7. Senegal: Financial Soundness Indicators for the Banking Sector, 2015–22

	2015	2016	2017	2018 [1]	2019	2020	2021	2022
	Dec	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	12.0	12.0
Tier I capital to risk-weighted assets	16.3	13.8	13.2	11.4	12.4	11.3	11.3	11.4
Provisions to risk-weighted assets	16.0	13.6	11.6	8.9	10.7	9.8	8.7	8.7
Capital to total assets	8.3	7.2	7.6	7.9	7.1	7.1	6.6	6.1
Composition and quality of assets								
Total loans to total assets	55.5	53.6	60.5	61.3	62.6	59.5	56.4	54.1
Concentration: loans to 5 largest borrowers to capital	46.4	63.7	71.6	69.2	87.4	77.8	76.6	79.1
Sectoral distribution of loans [2]								
Agriculture	2.6	2.2	2.4	2.4	2.3	2.2	2.5	2.6
Extractive industries	0.8	0.8	0.8	1.2	1.4	1.5	1.2	1.2
Manufacturing	21.1	18.7	17.2	15.3	16.0	15.0	14.1	15.1
Electricity, water and gas	1.8	1.7	2.1	2.1	3.0	2.8	4.2	4.4
Construction	3.9	4.9	5.7	4.5	6.9	4.3	5.0	4.6
Retail and wholesale trade, restaurants and hotels	25.4	25.3	23.1	26.0	23.2	22.6	21.5	20.7
Transportation and communication	10.0	12.0	12.9	12.8	11.6	11.9	10.1	9.1
Insurance, real estate and services	7.0	7.1	8.6	7.5	7.5	6.9	7.6	7.4
Other services	27.5	27.2	27.2	28.2	28.2	32.8	33.8	34.6
Gross NPLs to total loans	19.3	18.0	16.2	13.1	13.9	13.3	11.5	11.2
Provisioning rate	57.7	62.5	59.7	68.1	61.5	66.7	68.2	67.3
Net NPLs to total loans	9.2	7.6	7.2	4.6	5.9	4.9	4.0	4.0
Net NPLs to capital	61.4	56.4	57.7	38.7	51.5	41.1	33.8	35.1
Earnings and profitability [3]								
Average cost of borrowed funds	2.2	2.3	2.4	2.2	0.50	0.40	2.00	...
Average interest rate on loans	8.2	8.4	8.6	7.6	7.90	7.20	6.90	...
Average interest margin [4]	6.0	6.1	6.2	5.4	7.40	6.80	4.90	...
After-tax return on average assets (ROA)	0.8	1.0	1.7	0.7	1.23	1.00	1.43	...
After-tax return on average equity (ROE)	9.0	13.0	19.9	7.2	12.62	11.10	16.77	...
Noninterest expenses/net banking income	61.0	57.7	58.0	57.3	60.19	62.34	58.66	...
Salaries and wages/net banking income	26.1	25.0	24.9	26.8	25.28	26.91	25.64	...
Liquidity								
Liquid assets to total assets	27.4	26.8	28.3	31.8	27.0	24.1	22.7	23.1
Liquid assets to total deposits	39.7	40.6	41.8	47.9	34.5	34.5	34.5	34.5
Total loans to total deposits	90.6	91.5	99.1	101.6	97.4	93.7	88.8	83.1
Total deposits to total liabilities	69.0	66.0	67.6	66.3	70.3	69.8	68.9	70.5
Sight deposits to total liabilities [5]	38.3	37.8	37.5	37.1	40.3	39.4	40.4	42.9
Term deposits to total liabilities	30.6	28.2	30.1	29.2	30.0	30.4	28.6	27.6

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
	Proj.	IMF CR	Proj.	IMF CR	Proj.	Projection			
				(CFAF billions)					
1. Total Financing Requirement	**2590**	**2686**	**3484**	**2267.4**	**2942**	**1764**	**1745**	**2196**	**2314**
Current account balance (excluding budget grants)	2050	2275	2705	1712	2196	1092	1058	1208	1404
Debt Amortization (excl. regional market securities)	266	447	473	374.1	823	433	366	588	577
Repayment to the Fund	0	0	0	44	46	111	151	197	133
Change in Net Foreign Assets BCEAO (- increase) [1/]	-341	35	-305	-137	123	-128	-170	-202	-200
Change in Net Foreign Assets (Other depository institutions) (- increase)	167	0	0	0	0	0	0	0	0
Errors and Omissions	-100	0	0	0	0	0	0	0	0
2. Total Financing Sources	**2276**	**2003**	**2802**	**2096**	**2678**	**1599**	**1596**	**2045**	**2161**
Foreign direct investment (net)	1476	1330	1430	1163	1182	1070	1043	1084	1127
Regional market financing from non-residents (net)	250	216	303	336	417	356	336	372	397
Project grants and loans	579	710	610	812	668	693	718	745	775
Other capital flows (net)	-28	-253	459	-216	411	-519	-501	-155	-138
3. Total Financing Needs	**314**	**683**	**682**	**171**	**264**	**165**	**149**	**151**	**153**
4. Expected Financing	**117**	**312**	**303**	**171**	**264**	**165**	**149**	**151**	**153**
Budget support (grants + loans)	87	267	258	**171**	264	165	149	151	153
Vaccination campaign financing (World Bank)	30	45	45	0	0	0	0	0	0
5. Residual Financing Gap	**197**	**372**	**378**	**0**	**0**	**0**	**0**	**0**	**0**
IMF (SBA/SCF) [2/]	0	266	252	0	0	0	0	0	0
SBA/SCF augmentation	…	106	126	…	…	…	…	…	…
DSSI	0	0	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	176.77	171.37	90.47	52.72	47.93	21.58	0.00	0.00
Charges and interest	3.54	16.17	13.14	8.42	3.83	0.61	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	4.08	19.31	16.72	12.00	6.90	1.95	0.07	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	711.6	615.0	466.0	268.5	135.0	79.7	28.6	0.0	0.0	0.0
Percent of GDP	4.7	4.2	3.2	2.2	1.2	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	4.1	73.2	146.2	188.8	238.2	158.3	64.8	59.9	33.6	0.0	0.0
Percent of government revenue	0.1	2.0	3.6	3.9	4.4	2.7	1.0	0.9	0.4	0.0	0.0
Percent of exports of goods and services	0.1	1.8	2.8	2.9	3.6	2.4	0.9	0.8	0.4	0.0	0.0
Percent of external debt service	0.6	10.1	13.8	17.8	20.8	11.0	4.6	4.7	3.2	0.0	0.0
Memorandum items:											
Nominal GDP (billions of CFA francs)	15,319	17,093	19,093	21,497	22,974	24,613	26,388	28,753	30,893	33,167	35,607
Exports of goods and services (billions of CFA francs)	3,581	4,172	5,149	6,533	6,581	6,721	7,070	7,606	7,998	8,466	9,116
Government revenue (billions of CFA francs)	2978.3	3587.4	4061.2	4805.3	5378.5	5779.5	6255.8	6998.7	7465.2	7939.2	8531.6
External Debt service (billions of CFA francs)	736.1	728.6	1059.3	1058.4	1145.9	1444.7	1411.6	1278.8	1049.9	1142.8	1413.4
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	835	851	854	853	853	852	852	852	852	852

Source: IMF staff calculations.

Table 10a. Senegal: Schedule of Reviews Under the Policy Coordination Instrument, 2021–22

Program Review	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: Schedule of Reviews and Disbursements Under the Stand-By Arrangement and the Arrangement Under the Standby Credit Facility, 2021–22

Program Review	Availability Date	Test Date	Disbursement (SDR million)			% of quota		
			SBA	SCF	Total	SBA	SCF	Total
Program Request	June 7th, 2021		86.3	43.1	129.4	27	13	40
First Review	December 7th, 2021	End-June 2021	86.3	43.1	129.4	27	13	40
Second Review	June 7th, 2022	End-December 2021	107.845	53.975	161.82	33	17	50
Third Review	November 22nd, 2022	End-June 2022	107.845	53.975	161.82	33	17	50
Total			388.290	194.15	582.44	120	60	180

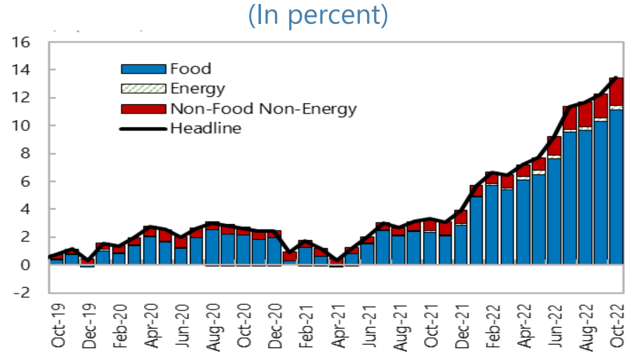
Source: IMF

Annex I. Inflation Persistence in Senegal: To What Extent Domestic Demand Factors Matter?[1]

This annex analyzes inflation persistence in Senegal and the role of demand factors in the recent inflation surge. Univariate time-series indicators show that inflation persistence has considerably increased since the pandemic. The historical decomposition of headline inflation and the estimation of a hybrid open economy Phillips's curve for inflation show that external factors (commodity prices, shipping costs and exchange rate variation) have been the key drivers of inflation, while domestic demand factors (government current expenditures, broad money) have played a limited role.

1. The current rise in inflation in Senegal calls for a fresh look at its drivers and persistence. Inflation has been increasing in Senegal since the start of 2022, with y-o-y headline inflation hitting 13 percent in October 2022, a multi-decade high. Food has been a key driver of inflation so far, but there are growing contributions from non-food and non-energy subcomponents (Figure 1)—meaning inflation is not just getting higher but also broader—suggesting there is a risk of inflation running persistently high even after food price shock fades. Core inflation is at 5.1 percent, more than quadruple its pre-pandemic level. Therefore, an understanding of the inflation-generating process, in particular the speed of inflation adjustment in response to such shocks and its diffusion, is of crucial importance for price stability.

Annex I. Figure 1. Contribution to Headline Inflation in Senegal
(In percent)



2. There is a risk that high inflation becomes entrenched given multiple mutually reinforcing shocks, amidst accommodative fiscal policy. Soaring commodity prices and protracted supply-chain disruptions have fueled inflation and may cause a de-anchoring of inflation expectations. While the commodity prices shock has been the main trigger of the inflation surge, the role of some discretionary fiscal measures like the recent increase in public wages[2] needs to be clarified, as they may elevate the risk that high inflation persists.

Measures of Inflation Persistence in Senegal Have Increased since 2021

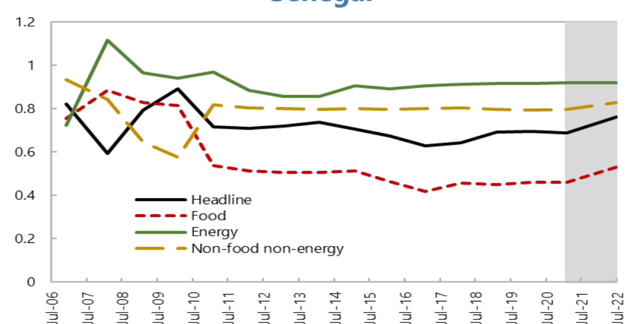
[1] Prepared by Moustapha Mbohou Mama (AFR).

[2] In response to rising social demands amid prolonged strikes in the health and education sector, and heighted regional insecurity, the Senegalese authorities have increased public sector wages by about 20 percent in 2022 and 2023. The additional spending related the increase of public sector wages and security-related spending represents almost 1 percent of GDP in 2022.

3. We assessed inflation persistence in Senegal using univariate time-series approach, widely used in the literature. Inflation is said to be persistent if, other things being equal, the rate of change of the price level shows a tendency to stay near where it has been recently, absent other economic forces that move it elsewhere (Fuhrer, 2010). We used two simple techniques under the univariate approach to assess inflation persistence. First, we apply time-series unit root tests to inflation series (headline and its subcomponents) to determine whether each of these series is non-stationary (*persistent*) or stationary (*non-persistent*). Second, inflation persistence is further probed by estimating an autoregressive model for inflation to evaluate the inertia in the inflation generating process. We examine these measures of inflation persistence across a few subsamples, providing evidence as to whether persistence has changed over time.

4. Inflation persistence has evolved over time in Senegal, showing an upward trend since the pandemic. The results of unit root tests and autoregressive model show that the extent of inflation persistence has been increasing since early 2021, after a decade of continuous decrease. The results presented in Table 1 show that inflation has tended to exhibit stronger inertia in Senegal since the pandemic (period 2021-2022), as the p-values for unit root tests both for headline inflation and for its components are clearly higher for this sub-period compared to the other two sub-periods of our sample (2003-2011 and 2012-2020). Autoregressive models confirm the evidence for a post-pandemic increase in inflation persistence, with the estimated parameter for headline inflation increasing from 0.69 on average during the period 2012-2020 to 0.75 on average after the pandemic.

Annex I. Figure 2. Inflation Persistence Index in Senegal



Note: The persistence index is given by the sum of significant coefficients of the estimated AR(12) model for each of the inflation components.

Annex I. Table 1. Senegal:Unit Root Tests for Inflation in Senegal

(p-values, null = series has a unit root)

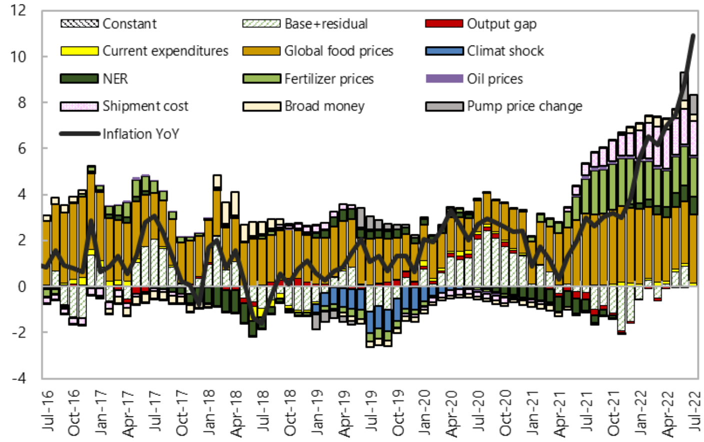
	Augmented Dickey-Fuller				Philips-Perron			
	Whole sample	2003-2011	2012-2020	2021-2022	Whole sample	2003-2011	2012-2020	2021-2022
Senegal								
Headline HICP	0.0529	0.0627	0.0067	0.9286	0.3898	0.4328	0.0079	0.8970
Food	0.0035	0.0072	0.0030	0.8602	0.0343	0.1752	0.0004	0.4572
Alcohol & tobacco	0.0002	0.0263	0.0009	0.8521	0.0140	0.5347	0.2203	1.0000
Clothing & footwear	0.1327	0.1555	0.0070	0.6468	0.0000	0.0438	0.0001	0.2738
Housing & energy	0.0443	0.0829	0.0392	0.7060	0.1887	0.4859	0.2254	0.3076
Furnishings	0.0409	0.0593	0.0358	0.7923	0.2423	0.5955	0.3009	0.7649
Healthcare	0.0028	0.0353	0.0379	0.3272	0.0147	0.2833	0.0038	0.0111
Transportation	0.0077	0.0207	0.0078	0.1250	0.0422	0.3604	0.0149	0.9051
Communication	0.0014	0.0648	0.0021	0.3851	0.0036	0.1882	0.0838	0.7981
Recreation & culture	0.0038	0.0003	0.0002	0.7723	0.0108	0.0064	0.1827	1.0000
Education	0.0012	0.0136	0.0092	0.6361	0.0275	0.3821	0.0940	0.0010
Restaurants	0.0024	0.0459	0.0096	0.9337	0.0016	0.0445	0.2029	0.0505
Miscellaneous	0.0004	0.0021	0.0002	0.9417	0.0000	0.0202	0.0006	0.9251

Source: IMF staff estimates.

External Factors Have Been the Main Driver of Inflation in Senegal, While Domestic Demand Factors Have Played a Limited Role

Annex I. Figure 3. Headline Inflation Decomposition

(Percent, YoY Growth)



Sources: IMF staff estimates.

5. **Two models are used to better understand the drivers and dynamics of inflation.** First, a semi-structural model based on a hybrid open economy Philips's curve for inflation is used for the decomposition analysis of the drivers of inflation. It is estimated with a seemingly unrelated regression.[3] Second, a local projection model is used to determine the pass-through to headline inflation of external (commodity prices, shipping costs, nominal exchange rate) and domestic shocks (government current expenditures, broad money and output gap, climate shock). We use monthly data on inflation and its potential drivers over the period 2003M1–2022M7 from the national statistics office, the Ministry of Finance, the IMF Primary Commodity Price Indices, and the Baltic Exchange Dry index for shipment cost.

6. **Commodity prices, shipping costs and nominal exchange rate developments are found to be associated with the recent inflation surge in Senegal.** Unsurprisingly, higher commodity prices (food and fertilizer), shipping costs and the nominal exchange rate depreciation (CFA F vs US dollar) have been the key drivers of the recent surge in inflation. The recent increase of 15 percent of gasoline ("essence super") in early June 2022 has contributed to higher inflation in June and July. The results show, however, that domestic factors, including the output gap, broad money, and government current expenditures, have had a limited role in the increase of inflation since the beginning of 2021, meaning that inflation has been mainly driven by external factors. Local supply shocks such as erratic rainfall—which notably led to a poor agricultural harvest in 2021 in the absence of drought—have also played a role in accelerating inflation[4]. Going back to pre-pandemic

[3] Four equations represent the system of equations estimated using the SUR approach: (i) the headline inflation identity: $\pi_t^{HICP} = w_t^f \pi_t^f + w_t^e \pi_t^e + w_t^{nf-ne} \pi_t^{nf-ne}$; and (ii) one equation for each type of inflation (food, energy and non-food non-energy), modeled as a hybrid open-economy Philips curve equation, which includes lagged inflation, and domestic and external variables : $\pi_t^j = \alpha_j + \alpha_{1j}\pi_{t-1}^j + \alpha_{2j}Ygap_t + \alpha_{3j}Currexp_t + \alpha_{4j}bmoney_t + \alpha_{5j}foodp_t + \alpha_{6j}fuelp_t + \alpha_{7j}fertilizer_t + \alpha_{8j}Ship_t + \alpha_{9j}NER_t + \alpha_{10j}Climateshock_t + \alpha_{11j}Pump_t + \ \varepsilon_t^j$, for $\mathrm{j} = \{\mathrm{food, energy, non-food\ non-energy}\}$. Equations for some exogenous variables (output gap and nominal exchange rate) are estimated outside the system, and predicted values are used to control for potential endogeneity. The output gap is modeled from an IS curve-type regression and nominal exchange rate by its past values.

[4] The data available on climatic events relate only to episodes of drought or flooding and not to the frequency of rainfall. Our estimates therefore do not accurately capture the impact of rainfall irregularity.

period, external factors remained the key determinants of inflation in Senegal, although with lower contribution.

7. Results from the estimation of the pass-through of each factor to headline inflation, using a local projection model[5], confirm the large explanatory power of external factors. The results show that commodity prices (food and fertilizer) shocks have the highest pass-through to headline inflation in Senegal, reflecting the high share of food and tradable goods in CPI consumption basket in Senegal (Figure 4). A one-standard deviation increase in global food prices increases headline inflation in Senegal by about 1 percentage point after 3 or 4 months, with the effect building up to 3 percentage points over the course of 12 months. Although similar in magnitude to the impact of a shock on global food prices, the pass-through of a one standard deviation increase in global fertilizer prices to headline inflation takes longer to build up, but also lasts longer. A shock to the nominal exchange rate tends to pass through to headline inflation very quickly, but does not last, although with less magnitude than shocks to global food and fertilizer prices. On the domestic demand side, only monetary shock (broad money) has a significant impact on headline inflation with two or three quarters lag, while shocks to government current expenditures do not significantly affect inflation. The limited contribution of domestic factors may reflect the fact that domestic demand pressures have remained subdued, and that output is still well below its pre-pandemic trend.

8. The authorities should closely monitor potential second round effects from external shocks, as inflation is becoming broad-based and persistent. Despite the limited role of domestic demand pressures, higher commodity prices (food, fuel, and fertilizer) could indirectly affect production, harvesting and transport costs, which may indirectly impact core inflation. Furthermore, with food accounting for almost half of the CPI consumption basket, large movements in global food prices can result in large swings in living costs, which can then feed into larger wage demands and a subsequent increase in prices in Senegal.

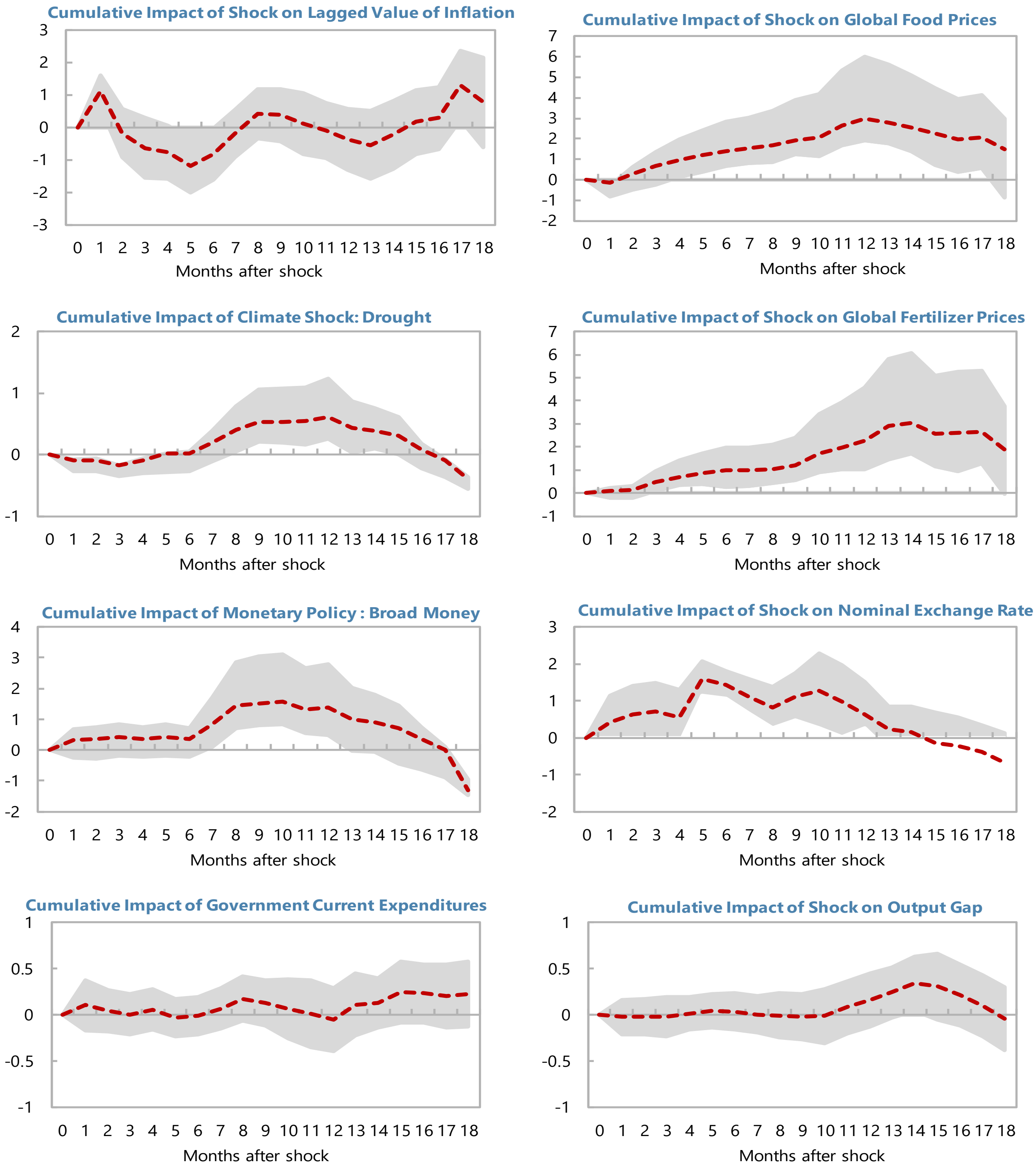
9. With inflation largely driven by commodity prices, food and energy subsidies are not sustainable policy options over the medium term. The authorities' policy response to soaring global food and commodity prices consisted of a series of measures, both price regulation and subsidies (food and energy), aiming to limit pass-through from higher global food and energy prices to domestic prices. But, increasing untargeted subsidies is not an optimal and sustainable policy response as these tend to be distortive, delay ultimately necessary adjustment in case the commodity price hikes are not reversed quickly, and lead to higher fiscal costs and crowding-out of

[5] We examine the response of headline inflation to changes in external factors—commodity prices, shipment cost, nominal exchange rate—and domestic demand factors (government current expenditures, broad money and output gap) by estimating the following equation on monthly data: $\pi_{t+h} = \alpha^h + \sum_{j=1}^{l} \gamma_j^h \pi_{t-j} + \sum_{j=1}^{l} \beta_j^h X_{t-j} + \sum_{j=1}^{l} \theta_j^h Y_{t-j} + \varepsilon_t^h$, with h the response horizon in months, π the y/y log change in headline CPI, X is a vector of external factors (y/y log changes in commodity price indexes, global shipping cost, and nominal exchange rate CFAF vs US dollar), and Y is a vector of domestic demand factor (y/y change in government current expenditure, output gap, broad money) and a dummy variable capturing the occurrence of climate shock (drought). We estimate heteroskedasticity-robust standards errors. The confidence bands are constructed using the standard errors of the $\gamma_j^h, \beta_j^h, and\ \theta_j^h$ coefficients estimated for each horizon h={0,1,...,18}. We display impulse-responses that have been re-scaled for a one-standard deviation shock to each of the variables.

other spending. The authorities should prioritize targeted measures, for example through cash transfers to the most vulnerable population. This requires strengthening the existing social safety net (SSN). And as the SSN is strengthened, it would be important to gradually pass-through international prices to domestic prices to promote efficiency and mitigate the impact of higher commodity prices on the fiscal deficit. 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.

Annex I. Figure 4. Impacts of External Factors and Domestic Demand Factors Shocks on Headline Inflation

(Percentage points)



Source: IMF staff estimates.

Note: The charts present the impact of one standard deviation increases in each shock (lagged value of inflation, global food prices, fertilizer prices, government current expenditures, etc.) on headline inflation, using monthly data spanning from Jan-2003-July-2022. The dashed red line is the impulse response function, and the gray shaded region indicates the 95 percent confidence band, and *t*=0 denotes the month of the shock.

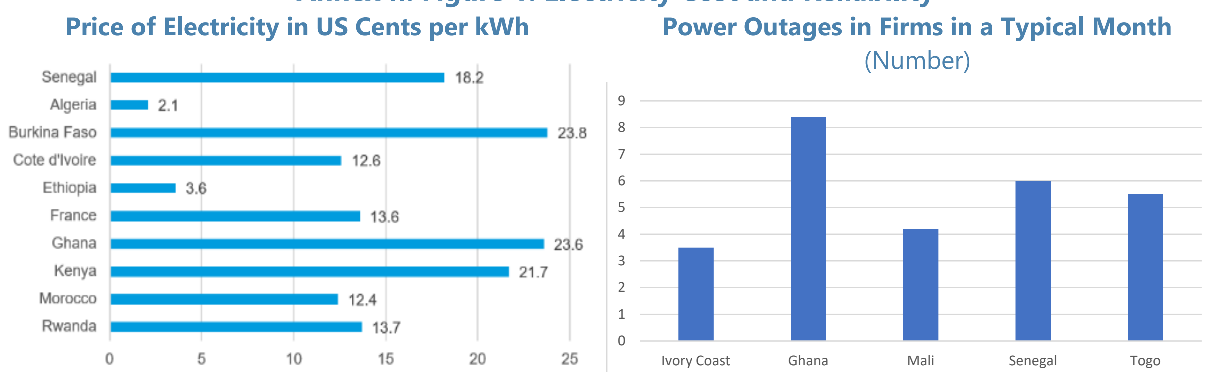
Annex II. The Impact of the Gas-to-Power Strategy

The gas to power strategy holds the promise to reduce electricity costs, support stronger economic activity, and increase access to electricity. These outcomes depend critically on enhancing governance and provide an effective regulatory framework.

Context

1. **The lack of reliable and affordable electricity is a major bottleneck hampering sustained and higher economic growth in Senegal** (Figure 1). Coupled with unreliable supply (especially for electricity), the high cost of energy is a key constraint to private sector growth and also contributes to undermining the fiscal framework.[1] Availability of electricity in Senegal is also a binding constraint to investment due to frequent power outages; in turn, this reduces firms' cost effectiveness by increasing the cost of production and adding uncertainties in value chain creation. Finally, low access to electricity directly affects human development.[2]

Annex II. Figure 1. Electricity Cost and Reliability



Source: World Development Indicators (WB); latest available data

2. **The government of Senegal has embarked on an ambitious plan to create the condition for cheaper, more reliable electricity and contribute to addressing climate change** (Figure 2). A key pillar of Senegal's government development strategy (Plan Senegal Emergent-PSE) is to increase the supply of reliable electricity to about 3 GW (from the current 1 GW) and reduce cost of electricity (currently at about 25 US cents/kWh) by more than 20 percent. The energy recovery pillar of the PSE also aims to expand the grid and improve the reliability of Senelec distribution network (the country's state-owned electric producer). The PSE also supports steps toward diversifying the Senegal's energy mix policy in the medium to long term towards lower carbon options such as solar and wind, leveraging on domestic resources of natural gas in power

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[1] See *Senegal Constraints Analysis* (Millennium Challenge Corporation, 2017).

[2] Lack of reliable electricity access is holding back achievement of some key development priorities, including improvements in health (SDG3), education (SDG4), gender equality (SDG5), provision of water for agriculture and drinking (SDG6), all of which contribute towards poverty reduction (SDG1). Access to modern electricity also helps with climate change mitigation efforts (SDG13).

generation, and taking advantage of opportunities arising from regional interconnections to access low-cost hydroelectricity.

3. Senegal can leverage sizeable domestic oil and gas resources to support its vision for cheaper electricity. A number of world-class oil and gas discoveries took place in Senegal between 2014 and 2017.[3] Oil and gas reserves comprising more than 400 million of barrels of oil and in excess of 40,000 billion cubic feet of gas have been identified[4] in Senegal, while several fields (mostly deep-sea water) are still under exploration. The country is now preparing to ensure that its vast natural gas reserves will help guarantee energy security for many years to come as the authorities have made the development of the energy sector one of the fundamental pillars for the country's economic emergence by 2035.

Macroeconomic Impact

4. Cheaper electricity can spur growth. Reducing the average cost of electricity generation can directly support economic activity in energy-intense industries, thereby supporting value creation. Reducing the cost of energy input is also consistent with the priority on horizontal policies needed to tackle the main constraints to growth support competitiveness in Senegal (IMF, 2021). Moreover, increasing GDP per capita in the path from developing to emerging and middle-income country is clearly linked to higher energy consumption, though the causality works in both ways.[5] If access is the enabler of economic transformation, then usage is the driver.

5. Lower electricity cost helps create fiscal space. Reducing the cost of electricity can directly reduce energy subsidies, creating the space for growth-enhancing and social fiscal policies. Total energy subsidies in Senegal have reached the very high level of 4.4 percent of GDP in 2022, of which about one-third (or 1.3 percent pf GDP) are directly related to subsidies to compensate for losses in the sector.

6. The GTP implementation can also promote know-how in an emerging energy sector, anchored in more modern, greener, technologies. Several countries in the region are engaged in reducing their CO2 emissions. The GTP strategy is seen by the authorities as a first transitional step to move away from highly polluting, heavy fuel electricity production and towards cleaner electricity production.

7. By increasing the supply of cheaper and more reliable energy, the GTP strategy can improve household living conditions. Cheaper energy can directly impact human capital formation. In particular, by improving the supply of electricity to households there would be a reduction in inequalities, especially in rural areas, and improve education and health outcomes.

[3] The main fields are: GTA (a deep-sea gas field that straddles in the north between Mauritania and Senegal); Sangomar field (an oil and gas sea field in the south); and Yakaar-Terranga (a sea gas field, closer the coast of Dakar).

[4] These are "producible" amounts (e.g., quantities that can be extracted at current technologies and projected market prices); oil and gas "in place" are larger amounts.

[5] See Lemma et al, *What Are the Links between Power, Economic Growth and Job Creation*, 2016

Without electricity, children cannot do their schoolwork at night and businesspeople cannot get information on markets or trade with each other. Worse, as the COVID-19 pandemic has shown so starkly, limited access to energy constrains hospital and emergency services[6].

Policy Issue

8. For these benefits to materialize, it is of utmost importance to ensure good governance and to address uncertainties which could delay project development. This effort will require ensuring a clear and transparent fiscal framework that leverages the fiscal space freed by lower energy costs to support growth enhancing, inclusive spending.

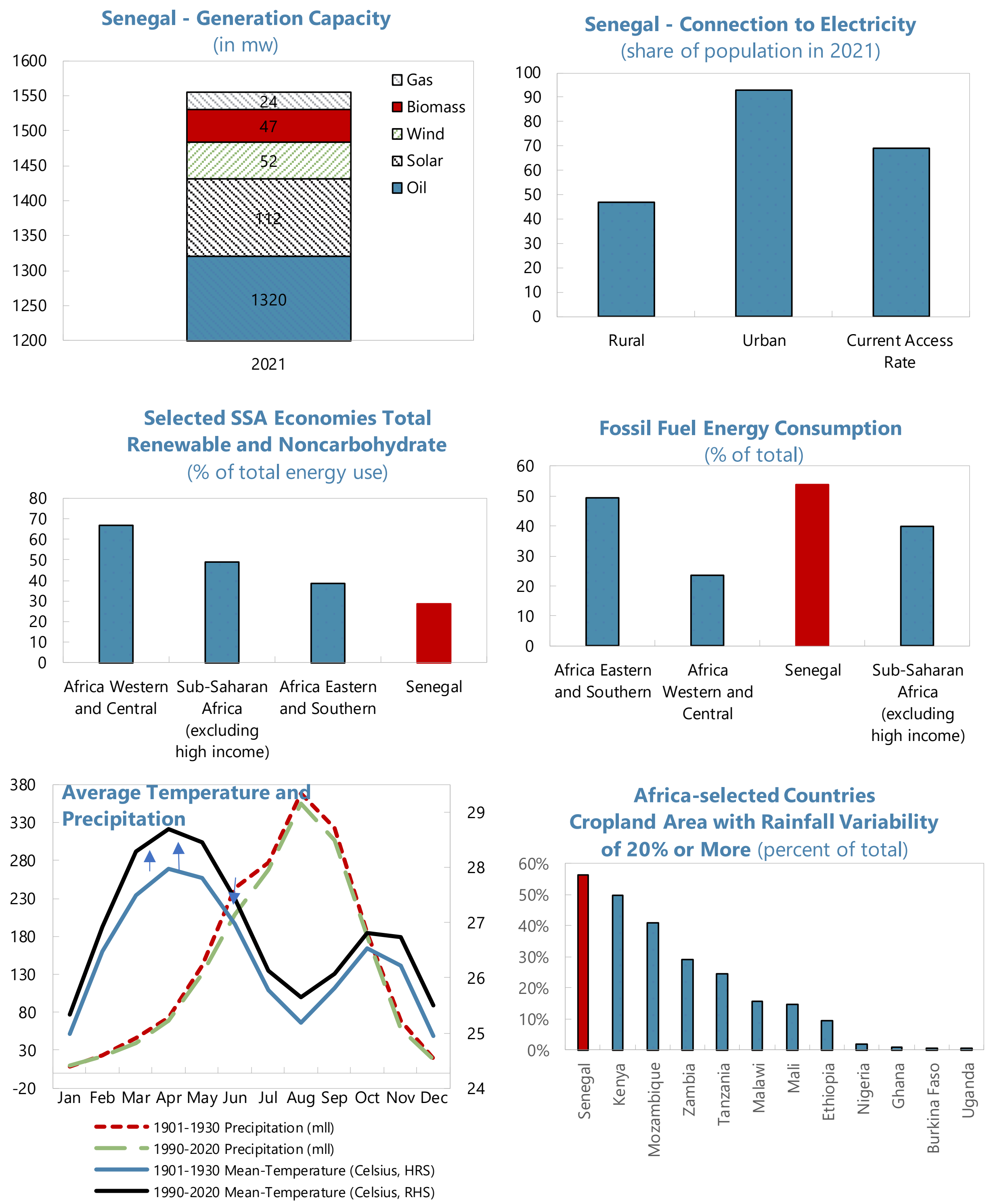
- *The first priority is to ensure that the GTP strategy implementation reflects highest governance standards and regulatory framework, to ensure value-for-money*. This requires transparency in the process of bidding for the different components (up-, mid-, and down-stream) of the GTP strategy and ensuring competition in the electricity production/distribution process. International experience shows that value-for-money requires participation from the private sector and openness to foreign investors.

- *The second priority is to ensure consistency between the development agenda and fiscal sustainability*. The key idea is to create the fiscal space now, by gradually reducing energy subsidies, supporting the vulnerable with targeted measures, and to use part of the fiscal space to support the GTP and create the condition for a greener economy

- *Finally, it is paramount for the authorities to provide clarity on the key elements and timing of the GTP strategy, while managing expectations*. It is important to communicate that the strategy is not a silver bullet solving all the problems of high energy cost and financial viability of the electricity sector and overall development of the power sector including universal electricity access. Its impact depends largely on how it is implemented and on ensuring high standards in the governance of the electricity sector.

[6] See *Putting Africa on the path to universal electricity access* (worldbank.org).

Annex II. Figure 2. Selected Energy and Climate Indicators



Source: USAID and WB (Climate Database and World Development Indicators)

Annex III. Risk Assessment Matrix[1]

Risks	Likelihood	Policy Response
Conjunctural risks		
Intensifying spillovers from Russia's war on Ukraine. Further sanctions resulting from the war and related uncertainties exacerbate trade and financial disruptions and commodity price volatility, with Europe, LICs, and commodity-importing EMs among the worst hit.	**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.
Commodity price shocks. A combination of continuing supply disruptions (e.g., due to conflicts and export restrictions) and negative global demand shocks causes recurrent commodity price volatility and social and economic instability.	**High**	Limited policy space to cushion the economic impact on key commodities (related to energy and food) will require careful spending prioritization and sustained revenue mobilization efforts.
Systemic social unrest. Rising inflation, declining incomes, and worsening inequality amplify social unrest and political instability, causing capital outflows from EMDEs, slowing economic growth, and giving rise to economically damaging populist policies (e.g., preserving fossil fuel subsidies).	**High**	Ensure transparency and effectiveness of fiscal measures and social spending. Expand and better target the social safety net.
Abrupt global slowdown or recession. Global and idiosyncratic risk factors combine to cause a synchronized sharp growth slowdown, with outright recessions in some countries, spillovers through trade and financial channels, and downward pressures on some commodity prices. **EMDEs:** Sharp tightening of global financial conditions combined with volatile commodity prices leads to spiking risk premia, widening of external imbalances and fiscal pressures, capital outflows, sudden stops, and debt and financial crises across EMDEs.	**Medium**	Strengthen fiscal resilience; create the fiscal space for growth-oriented policies through gradually re-orienting untargeted and wasteful energy subsidies.

[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.

Local COVID-19 outbreaks. Outbreaks in slow-to-vaccinate countries or emergence of more contagious vaccine-resistant variants force new lockdowns or inhibit commerce. This results in extended supply chain disruptions, slower growth, capital outflows, and debt distress in some EMDEs.	**Low**	Accelerate domestic vaccination campaign.
Structural risks		
Risks	**Likelihood**	**Policy Response**
Deepening geo-economic fragmentation and geopolitical tensions. Broadening of conflicts and reduced international cooperation accelerate deglobalization, resulting in a reconfiguration of trade, supply disruptions, technological and payments systems fragmentation, rising input costs, financial instability, a fracturing of international monetary and financial system, and lower potential growth.	**High**	Boost resilience of economy and key supply chains, including through diversification and more effective coordination at the regional level.
Natural disasters related to climate change. More frequent natural disasters deal severe damage to infrastructure (especially in smaller vulnerable economies) and amplify supply chain disruptions and inflationary pressures, causing water and food shortages and reducing medium-term growth.	**Medium**	Invest in climate adaptation and improve shock response mechanisms to cope with floods and droughts.

Source: IMF.

Annex IV. Capacity Development

The FY2022 Capacity Development (CD) strategy remains appropriate and well aligned with the priorities set by the authorities.

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	• Implement the base-broadening tax and customs administration measures identified in the MTRS strategy. • Reduce tax expenditures, and implement other tax policy reforms, notably a more streamlined investment code. • 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.

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. • Improve the issuance strategy and ensure better integration of 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)

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)			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	2014	2291	8.4	7.6	8.7
Central Government	17744	92	67	1957	1775	2069	7.4	6.7	7.8
State-owned enterprises (SOEs)	1568	8	6	256	239	222	1.0	0.9	0.8
External	14206	74	54	1248	1028	1311	4.7	3.9	5.0
Multilateral creditors	6014	31	23	168	267	305	0.6	1.0	1.2
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	350	282	0.7	1.3	1.1
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	252	203	0.7	1.0	0.8
o/w: EXIM China	1340	7	5						
EXIM India	191	1	1						
Bonds (Eurobonds)	4236	22	16	775	306	224	2.9	1.2	0.8
Commercial/Other International creditors	768	4	3	111	106	499	0.4	0.4	1.9
o/w: Standard Chartered	378	2	1						
AFREXIM	57	0	0						
SOEs - External	854	4	3	137	130	121	0.5	0.5	0.5
Domestic	3538	18	13	709	747	758	2.7	2.8	2.9
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	320	81	0	1.2	0.3	0.0
Bonds	3029	16	11	236	578	674	0.9	2.2	2.6
Loans	423	2	2	152	88	84	0.6	0.3	0.3
SOEs - Domestic	714	4	3	119	109	101	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).

Appendix I. Letter of Intent/Program Statement

Dakar, Senegal
December 2, 2022

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

Dear Director General,

1. The Senegalese economy, like those of many countries around the world, is suffering the repercussions of the war in Ukraine, the consequences of the COVID-19 pandemic, the appreciation of the US dollar, the tightening of financial conditions and the global economic slowdown. These shocks, combined with the major floods experienced by the country and the political and security tensions in the region, have led to a slowdown in economic activity, pushed inflation to a level not seen in several decades, weighed on public finances and aggravated the deterioration of external accounts. Senegal is facing a cost-of-living crisis and rising food insecurity. To maintain social stability by preserving the purchasing power of the population, the Government has taken measures to contain the rise in food and energy prices.

2. On the political front, Senegal once again demonstrated its political maturity by organizing two elections in the same year, including the legislative elections held in July with results accepted by all political actors and good representation of all political forces in the assembly. To give new impetus to political action, a Prime Minister was appointed, and a new Government formed in September.

3. Despite global and internal environmental constraints, the results achieved against the program's end-June objectives were generally satisfactory. With the exception of the quantitative target relating to the ceiling on public procurement by direct agreement, all performance criteria and quantitative objectives at the end of June were met. Three (3) of the nine (9) reform objectives or structural benchmarks by the end of November were met on time, and three others were implemented with delay. The Court of Auditors' audit report on the use of funds under the Economic and Social Resilience Plan has been published. The Government is committed to implementing the key recommendations of this report.

4. As preconditions for the conclusion of this review, the government took steps to limit energy subsidies to a maximum of around CFAF 450 billion in 2023, adopted and published a roadmap for better targeting and phasing them out by 2025 with the implementation of an appropriate plan, a communication phase as well as support measures for vulnerable households, and approved a new public procurement code to better regulate the use of contracts by direct agreement.

5. The economic outlook for 2023 looks favorable, although it is subject to high uncertainties and risks. The government approved a budget law for 2023 that projects a deficit of 5.5% of GDP, including precautionary and management reserves of 0.8% of GDP. As part of the discussions in the last review of the program, the government committed to limit the possible use of these fiscal reserves to a maximum of 0.2% of GDP, so as to reduce the budget deficit to 4.9% of GDP in 2023. The Government reiterates its determination to reduce public debt vulnerabilities by pursuing fiscal consolidation, prioritizing concessional borrowing, and strengthening debt management.

6. The government will complete in 2023 the ongoing work to update and expand the Single National Register (RNU), which is the database for government intervention in social protection. It is also determined to finalize the development of the platform allowing digital payments of cash transfers to beneficiary households.

7. In the financial sector, the government will continue to implement residual actions to get Senegal out of close surveillance by the Financial Action Task Force (FATF) and accelerate the restructuring process of the postal group.

8. In view of the performance recorded under the program to date and taking into account the commitments contained in the memorandum of economic and financial policies, the Government requests the conclusion of the sixth review of the arrangement under the Policy Coordination Instrument as well as the third review under the Stand-By Credit Facility/Stand-By Arrangement and the disbursement of 50 per cent of quota, or SDR 161.82 million.

9. The Government believes that the policies set forth in the attached Memorandum of Economic and Financial Policies (MEFP) are adequate to achieve the objectives of its program and will take any further measures that may become appropriate for this purpose. The Government will consult with the Fund on the adoption of these measures, and in advance of any revision to the policies contained in the MEFP, in accordance with the Fund's policies on such consultation.

10. The government plans to request a Fund-supported program in 2023 to address balance of payments needs that would result from the materialization of risks to the macroeconomic outlook.

11. The Government authorizes the IMF to publish this Letter, the Memorandum of Understanding, the Technical Memorandum of Understanding, and the Staff Report on this program.

12. Please accept, Madam Director-General, the assurance of my distinguished consideration and respectful tributes.

/s/
Mamadou Moustapha Ba
Minister of Finance and Budget

Attachments:

I. Supplement to the Economic and Financial Policy Memorandum/Economic Policy Statement 2022–23

II. Technical Memorandum of Understanding

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

INTRODUCTION

1. The economy of Senegal continues to suffer the consequences of many shocks. The spike in prices of raw materials, the strong appreciation of the US dollar and the slowdown of advanced and emerging economies are exacerbating inflationary pressures, weighing on demand and worsening fiscal and external imbalances. In addition, there have been negative effects from the July and August floods and security tensions in the region.

2. Politically speaking, once again Senegal has demonstrated its political maturity by holding peaceful elections for the second time this year. All political stakeholders accepted the results of these legislative elections. The new configuration of the National Assembly gives a slight edge to the presidential majority. This democratic consolidation will benefit plurality and the quality of parliamentary debates.

3. In the social realm, the high cost of living is a primary concern. Given the ongoing exogenous shocks that affect household purchasing power, the government has placed absolute priority on fighting the high cost of living. To this end, dialogues on the high cost of living began on Monday, September 26, 2022 with the key stakeholders: organizations of producers, merchants, consumers and industrial entities. At the end of this high-level meeting, 11 priority measures and 4 structural measures were taken. These 15 key measures include subsidies for wheat, taxes reduction/suspension, strengthening control, easing congestion in the port of Dakar and other measures to contain rising prices. However, to achieve the country's self-sufficiency objectives and to promote supply-side economics, a special emphasis will have to be placed on improving and promoting value chains in strategic sectors.

4. Against this challenging backdrop, the government's priority in 2023 is to maintain social stability. Likewise, the government will continue to build on the accomplishments of the economic and financial program supported by the Policy Coordination Instrument (PCI), the Stand-By Arrangement (SBA) and the Standby Credit Facility (SCF). It will pursue efforts to bolster macroeconomic stability, mainly by further mobilizing domestic revenue and streamlining expenses, and subsidies in particular. It will accelerate reforms to promote strong, sustained and inclusive private sector-led growth. It will ensure that the hydrocarbon resources are managed sustainably and transparently.

5. This supplement to the Memorandum/Policies Statement describes the progress in the program and presents the key orientations for 2023 and the medium-term outlook.

ECONOMIC DEVELOPMENTS IN 2022

A. Recent Economic Developments

6. Economic activity slowed in the first nine months of the year, due to the drop-off in external and domestic demand. The strong economic recovery observed in 2021 was interrupted by the compounded exogenous shocks, namely the protracted war in Ukraine, soaring commodity prices and US dollar appreciation, both of which have a negative effect on Senegal's economy. Thus, GDP growth slowed from 5.2 percent in March to a 2.9 percent y-o-y in June, driven by a slowdown in the services and industrial sectors. Leading indicators show that the slowdown continued during Q3 2022, as the general index of economic activity excluding agriculture and forestry only rose by 2.7 percent during the first nine (9) months of 2022, versus 7.7 percent during the same period in 2021. This deceleration is explained essentially by the slowdown industrial and agricultural sectors (-0.8 percent) during the period. Activity in the services sector climbed by 4.5 percent.

7. Inflationary pressures worsened, driven by soaring food prices. Overall inflation hit a multi-decade high of 13 percent y-o-y in October 2022, mainly driven by food inflation, which increased by 19.5 percent y-o-y. Non-food and non-energy prices have also accelerated to 5.1 percent y-o-y, almost quadrupling its average level from last year, reflecting the more widespread pressures on all prices.

8. Deteriorating terms of trade intensified external imbalances. The trade balance deficit and the services account deficit worsened during the first six months of 2022, due to higher prices of key import products and the ongoing development of oil and gas projects. Imports of goods were up by 38.9 percent, mainly due to higher prices for oil and food. Exports of goods rose 24.6 percent thanks to a rise in foreign sales of chemicals, fish and mining products.

9. Budget execution performed well at end-September in terms of revenues and showed strong spending execution.

- Tax revenues (excluding grants) reached 2,382.8 billion at end-September, versus a target of 2,335.1 billion, for a gain of 47.7 billion thanks to tax administration collection efforts. Tax revenue amounted to 2,263.6 trillion versus 1,5068.9 billion in end-June. This overall performance was possible due to optimal collection of the corporate tax, the expansion of the tax base of salary withholdings, and progress in recovering tax-related claims. In addition, the maturity reached in the customs information system as part of the Medium-Term Revenue Mobilization Strategy (MTRS) and tighter control of customs operations (IT/Tracking/Scanning and maritime control) contributed significantly.

- Total expenditures executed amounted to 3,473.8 billion. The wage bill was up sharply in Q3, to 807.4 billion, due to pay raises given to the government employees. Investment spending were executed in the amount of 1,2761 billion. Of that amount, 798.2 billion was executed directly by the central government or by capital transfers, and 477.9 billion were externally financed.

Subsidies for energy products amounted to 267.5 billion as of end-September 2022. Of that amount, 152.1 billion was for tariff offsets, while 115.4 billion was for commercial losses and other related charges compared to an annual envelope of 757 billion.

- The budget deficit stood at 959.4 billion in end-September. It is financed by a net accumulation of liabilities in a total amount of 1,1625 billion and 204.8 billion in net acquisitions of assets.

- As of September 30, the government of Senegal had raised a total of 799.5 billion in the regional financial market, 637.05 billion of which was in T-bills and 162.4 billion in Treasury bonds (with 35 billion in a cash operation). However, it should be noted that as part of active debt management, this amount includes the buyback operation of 105.5 billion in securities that should mature in August, September and December, in order to make debt service more sustainable. Thus, net financing is 764.5 billion. Moreover, it should be specified that thanks to the new framework and for the WAMU Securities Agency, the total requirement to be raised in the market is now 1,0642 billion. Compared to this requirement, the execution rate (excluding cash operation) is 71.8 percent.

10. Credit activity remained dynamic in the first nine months of 2022 with an increase in bank lending extended to the central government and private sector. The money supply was up 18.4 percent in annual shift as of end-September 2022, driven by an increase in domestic loans. Senegalese bank subscriptions of government securities and loans extended to the central government continued their climb in end-September. Lending to the economy jumped 19.1 percent as of end-September (year-on-year?) on loans extended to businesses and households. In a context of not resorting to the international financial market and higher costs of imports, net external assets declined by 21.1 percent compared to their end-September 2021 level.

11. The banking sector remains on solid ground despite a multitude of shocks. Deposits rose 23.7 percent as of end-September 2022 (year-on-year), driven by an increase in client deposits. Lending increased 20.8 percent as of end-September (year-on-year), driven by short-term loans (+33.7 percent), medium-term loans (+11.2 percent) and long-term loans (+18.4 percent). Gross nonperforming loans improved as of end-September, with a gross portfolio impairment rate of 11.0 percent versus 12.6 percent one year earlier, while the provisioning rate reached 65.6 percent. Compared to end-August 2021, the prudential situation is satisfactory overall. The solvency ratio was 13 percent as of end-August, versus 12.6 percent in 2021. Regarding risk coverage, banks posted a ratio above the minimum 11.25 percent threshold, except for three (3) banks, whose share of the sector's total balance sheet is 3.8 percent.

B. Program Performance

12. All the performance criteria and two of the three program quantitative indicators were met. Tax revenue surpassed the 1.361 trillion ceiling target. Net lending/borrowing (budget deficit) amounted to CFAF 771 billion versus a target of CFAF 772 billion. No external arrears were established. Social expenditures accounted for 40 percent of total spending, in line with the objective. Spending using simplified procedures for nonpersonalized government services amounted to 1 percent of total transfer spending, versus a ceiling of 2 percent. By contrast, the portion of public sector contracts signed by single tender exceeded the program ceiling (43 percent versus a ceiling of 15 percent).

13. Three of the nine structural benchmarks/program reform objectives were implemented on time.

- The tax expenditures report for 2020 was published in June 2022. The report reveals an increase in the rate of coverage of assessments, which rose to 79 percent, i.e. 339 measures, versus 77.3 percent, i.e. 270 measures in 2020. This generated tax expenditures of 846.1 billion, which was 95.8 billion more than in 2019. Thus, they account for 31.6 percent of tax revenue, or 6 percent of GDP. By type of tax, 88.2 percent of tax expenditures were for VAT (743.3 billion), 5 percent for the income tax (42.5 billion) and 5 percent for customs duties (41 billion).

- The twice-yearly report on us of information from the interconnection and information-sharing between the General Directorate of Taxes and Government Property (DGID) and the General Directorate of Customs (DGD).

- The evaluation framework for monitoring the implementation of the SRMT was adopted by Minister of Finance Order No. 7402 of April 20, 2022.

14. The following structural benchmarks/targets were met, but not on time:

- The structural benchmark on the adoption of a new government procurement code to ensure more open and competitive tenders was not met as of end-June. The revised government procurement code was just adopted to better manage the use of spontaneous offers and direct contracting in line with best international practices (prior action).

- The end-August structural benchmark on the adoption of a new budgetary framework to manage oil and gas resources was met, but not on time.

- The roadmap to gradually eliminate energy subsidies, which include a communication phase and measures to support vulnerable households, was finalized and published only in November instead of September (prior action).

15. By contrast, the following structural benchmarks/targets were not met:

- The structural benchmark on the quarterly update of the database for all PPPs and power purchase agreements was not met.

- The circular for making digital payments in the Family Security Grants Program starting in 2023 was not adopted. The adoption of this circular depended on the success of the experimentation in the Sédhiou region. The outcome was a 93 percent rate of hybrid payments and there were several operational difficulties, so that immediate universal use of digital payment is not possible. Consequently, the General Delegation for Social Protection and National Solidarity

(DGPSN) will use a more holistic approach to identify those fintechs that are most likely to ensure mass digitized payments. Likewise, a roadmap was prepared to broaden the base of the National Single Registry to about one million households no later than end-2023.

- The tax base expanded with the effective registration of 57,995 new taxpayers versus a target of 75,000. With the ongoing processing of the results of the general census of taxable properties, it will be possible to exceed the annual target before mid-December. The implementation of withholding contribution for 40,000 additional employees that regularly contribute to the pension and social security funds is not yet in place, as the databases of these two public social entities have yet to be merged. This causes the information used for establishing the tax base to be unavailable.

16. Progress was made in implementing the following commitments:

- The audit report on the use of the Force COVID-19 Office funds was published and is available online.
- The strategy to consolidate the Treasury Single Account (TSA) by expanding it to government entities closed 158 of the 276 bank accounts identified, for an outstanding balance of 118 accounts used by public industrial and commercial entities, public health entities (hospitals) and public tertiary education institutions that have their own resources.
- The single register of guarantees, accessible online, which will be able to combine the data on movable collateral and mortgages in cooperation with the BCEAO will be operational for the pilot centers only beginning in November 2022. The BCEAO is working in the eight (8) WAEMU countries to put a national register of movable and immovable guarantees in place.
- The dematerialization of government property, real estate and registration procedures by putting in place an integrated and centralized real estate management system, is in progress. As scheduled, deployment began in end-May 2022 with the delivery of the first two lots (of a total of 5 lots, each one comprised of a set of procedures). It is expected that the system will be fully implemented at the end of Q3 2023.
- The grouping of funds to finance programs to promote women's entrepreneurship and jobs for youth into a single fund is effective from a budgetary standpoint.
- A statement of budgetary risks was annexed to the 2023 budget law.

ECONOMIC AND FINANCIAL PROGRAM IN 2022 AND 2023

A. 2022 and 2023 Outlook

17. The challenging external environment and persistent inflationary tensions will continue to weigh on the macroeconomic outlook for the rest of 2022. Hence, the 2022 growth projection was revised downward by 0.3 percentage points to 4.8 percent, due to sluggish domestic and external demand. The inflation projection was revised upward again and should reach an average of 9.1 percent in order to reflect the acceleration of inflation during the first nine months of the year, the persistence of high commodity prices, and the US dollar appreciation. The deficit in the current account should deteriorate further in 2022 15.7 percent of GDP, due to higher deficits in the balance of payments, the services account and the primary income account. The secondary income account should strengthen, thanks to strong remittances from migrants.

18. Nonetheless, the economic outlook for 2023 remains favorable. Economic growth should reach 10.1 percent in 2023 as the production of hydrocarbons starts. Non-hydrocarbon growth should bounce back up to 6.1 percent, thus moving back to its medium-term trend. Inflationary pressures should gradually ease with the good 2022-2023 farming season and the anticipated drop in global commodity prices beginning in 2023.

19. Still, this outlook is subject to uncertainties and high risks. To be sure, growth projections in 2023 and 2024 depend on assumptions on the start date and pace of development of the production fields. Moreover, a more pronounced slowdown in global economic growth and more aggressive tightening of monetary policies would further compress external demand and negatively affect growth. Likewise, a deterioration in the security situation in the region and unfavorable climate conditions could be risks for economic activity. Inflation projections could be impacted significantly by a greater and unrelenting increase in oil and food prices, which would accentuate inflationary pressures and tensions on the external and budgetary accounts.

B. Ease the Cost of Living in the Context of a Substantial Reduction in Fiscal Space

20. The government took the needed budgetary measures to incorporate new expenditures amounting to CFAF 336 billion (2 percent of GDP) and additional revenue of CFAF 112 billion (0.7 percent of GDP), mainly for:

21. The following additional expenditures:

- Energy subsidies (fuel products and electricity). The budget envelope was revised upward by CFAF 457 billion, bringing the total amount for 2022 to CFAF 757 billion (4.4 percent of GDP). This reflects the political choice of freezing consumer prices in a context of soaring international prices.
- Wage bill. The government's decision to expand the wage pay measures to all civil servants, decided in June for one category, will generate an additional budget cost of roughly CFAF 22 billion.
- Interest payments on debt. An additional budget allocation of CFAF 32 billion is allocated to interest payments on debt due to the strong appreciation of the US dollar.

22. The revenue adjustment consisted of a 112 billion increase in tax revenue and a CFAF 22 billion drop in grants. To be more precise, DGID revenue targets were revised upward by 59.5 billion. To be aligned with the new revenue targets, the DGID decided to strengthen its organizational process for managing, controlling and collecting by: (i) strengthening the control of the tax compliance rate, the fiscal coverage rate by strengthening control; and (ii) optimizing the collection of tax administration receivables. For DGD, an annual gain of CFAF 52.5 billion is projected thanks to the continuation of measures mentioned above, especially the operationalization of the last quarter's action plan.

23. The government also issued a decree accruing one-off resources of 247.3 billion from the sale of administrative buildings to SOGEPA, a government-owned company. This acquisition was financed by issuing Islamic bonds (Sukuk) in CFAF by SOGEPA in the WAEMU regional market.

24. To keep the budget deficit unchanged at 1055.1 billion, 175 billion in budgetary savings measures were taken:

- Drawings on project loans were brought down to 415 billion, or 100 billion less than in the Supplementary Budget Law.
- Domestically-financed investments . The envelope was reduced by 45 billion.
- Current expenditures. Budget cuts of 30 billion were made.

C. Place Public Debt on A Downward Path

Fiscal Policy

25. The government will accelerate fiscal consolidation efforts while preserving priority expenditures that are necessary to maintain social stability. To do so, the government plans:

- To bolster domestic revenue mobilization by vigorously implementing the Medium-Term Revenue Mobilization Strategy (MTRS).
- To reform the energy subsidy policy by adopting a roadmap to gradually eliminate energy subsidies by 2025.

26. Accordingly, the government adopted a draft budget law for 2023 that lowers the budget deficit to 5.5 percent of GDP. However, this budget deficit includes precautionary and management reserves of 0.8 percent of GDP. As part of the discussions for this program review, the government agreed to limit the use of these budgetary reserves to 0.2 percent of GDP in order to bring the budget deficit down to 4.9 percent of GDP in 2023. It also committed to mobilize additional tax revenue mobilization of CFAF 3,587 billion. This 100 billion additional relative to the 2023 budget law take into account large revenue overperformance recorded since the 2023 draft budget law was finalized. Finally, given the high level of international oil prices and measures to adjust energy prices taken in November (prior action), the government committed to raising the ceiling for energy subsidies to about CFAF 450 billion, which is 100 billion more than in the draft 2023 budget law. The two-fold increase in monetary transfers to 0.4 percent of GDP, will mitigate the impact of higher energy prices on the most vulnerable households.

27. Consequently, the revenue collection targets of the revenue agencies are established as follows:

- The target for collecting tax revenue is 3,587 billion, for an increase of CFAF 368 billion compared to the last 2022 revenue estimates. This target will be achieved through a combination of measures to expand the tax base and tax policy measures. The SRMT, which will be in its optimal phase of operationalization, will focus on its activities to: i) adapt the tax and customs system to developments in the economic, social, environmental and digital context; ii) improve the productivity of revenue entities; and iii) lower taxpayers' costs to comply with their obligations to the tax administrations.

- The government adopted and published a roadmap to gradually eliminate regressive energy subsidies by 2025 (prior action). This roadmap consists of several components: (i) an adjustment of electricity prices and prices of oil products, combined with increased monetary transfers to mitigate the impact on the most vulnerable households; (ii) a revision of the electricity pricing structure; (iii) efforts to improve performance of public enterprises in the energy sector, and hence, production costs; and (iv) heightened communication efforts.

28. The government took measures to support firms and household purchasing power through:

- Direct subsidies *compensations* for the energy sector to subsidize consumer prices (CFAF 450 billion);

- Support for household staples and services (wheat, oil, sugar, rice and corn) for CFAF 100 billion.

29. The 2023 financing requirement for the government would be CFAF 2,222 billion. This financing requirement will be covered by:

- Project loans amounting to 435 billion;

- Other program loans of 158 billion;

- The use of market financing for 1,637 billion, 251.2 billion of which is for refinancing the debt of the Blaise Diagne International Airport (AIBD).

Budget Reforms

30. The implementation of the MTRS will accelerate in 2023. The numerical results of the national program to survey taxable properties, performed by the tax administration as part of the component to expand the SRMT base, should be presented in Q1 2023. Work to put in place a digitization and infrastructure interconnection solution for the revenue and spending administrations is in progress. The SEN'FINANCES Portal, which should be operational in the first half of 2023, will be a unified path for filing tax returns online and requests intended for all the revenue administrations. The inclusion of many sources of information, the monitoring of control actions and time frames for processing taxpayer requests, and the availability of statistics in real time, which are digital maturity goals, will thus be improved significantly. For the evaluation of tax expenditures, an order of the Minister of Finance will be issued to stabilize the scope of the report before the end of Q1 2023, after the statements of monitoring the actions to implement the SRMT are formulated.

31. The government will continue to implement the budget and financial reform management strategy. A new budget and financial reform matrix was adopted with six (6) strategic objectives as follows:

- Improve the comprehensiveness, credibility and the taking into consideration of public policies in preparing the budget
- Bolster the identification, monitoring and management of budget risks
- Improve budget execution and its control
- Improve the coverage and quality of financial and accounting information
- Improve the management of government assets and liabilities
- Put in place sound legal and institutional frameworks for the management of public finances.

32. The key reforms in progress are for the following:

- Payment authorization has been decentralized among senior payment officers and secondary payment officers since January 2022. This transfer of financial responsibility generates a considerable need to strengthen the stakeholder capacities in the managerial chain in the sectoral and deconcentrated levels. This decentralization should be accompanied by tools and arrangements for the 2023 internal budget control to: (i) better assessing the sustainability of the various budgetary programs and monitoring their execution; and (ii) have regular budgetary bookkeeping among senior payment authorization officers. This monitoring should be in effect in 2023 once the internal budget control order is signed.
- The infra-annual budget execution programming is being put in place in stages. As of the 2022 draft budget law, a forward-looking cash plan is produced as an annex to the draft budget law. As a starting point, the payment authorization officers produce their commitment plans , and they subsequently include the disbursement due dates in the forecasts for contracts to acquire goods and services and other contracts. An organizational framework for infra-annual planning

was prepared in conjunction with the various stakeholders. A draft order that was issued for this framework is expected to be signed before the budget law execution begins in January 2023.

- Since FY 2020, efforts have been under way to reclassify budget entries of capital transfers into government investment. The various Minster of Finance and Budget circulars provide guidelines on the process for reclassifying capital transfers and on delegated project management. Capital transfers linked to government investments executed as delegated project management in the 2023 government budget are those that pertain to commitments for contracts currently being performed. The performance of these contracts and systematic efforts to classify investment spending for new projects performed by the agencies with government investment will generate an exhaustive classification of government investments executed by the agencies that is more compliant and that streamlines the implementing agencies' treasury account (*compte de dépôt)*.

- The reclassification of transfer expenditures continued in the 2023 draft budget law to improve budget transparency and the comprehensiveness of financial information. Capital transfers decreased by 4.3 percent. However, projects with older contracts that are now being finalized are still classified as capital transfer expenditures to avoid restarting the procurement process.

- Operationalize the Integrated Financial Information Management System (SIGIF).

33. The terms of reference for the functionality audit are finalized for it to be performed by an independent firm in 2023.

- Publish the Table of Government Operations (TOFE) for the government agencies. In accordance with Senegal's commitments in the Special Data Dissemination Standard (SDDS), the consolidated statement of the financial operations of government agencies, which includes the central budgetary administration, the financial operations of extrabudgetary entities, the territorial governments and social security entities, is produced and published annually in the PNRD platform (national data summary page). Trial productions of the statement of financial operations for the public sector are available and include government-owned companies. The TOFE for the government agencies will be published on the DGCPT website.

- Strengthening the management of budgetary risks regarding PPPs. The document that sets forth the budgetary risks for 2023 was improved to quantify risks and identify mitigation measures. For PPP projects specifically, 14 PPP projects are now being examined in the National Unit to Support Public-Private Partnerships (UNAPPP), and one of these projects had a positive assessment.

- Single Treasury Account (STA). In 2022 there were many requests for exemptions to closing the bank accounts of government entities. Moreover, the STA arrangement analysis report, prepared in December 2021, revealed the specificity of the institutions of higher learning and public health institutions. To complete the reform, a new strategy must be designed and include an appropriate response to the issue of managing the entities' own resources.

- Improve the programming, budgeting and monitoring of investment project execution. A budgetary programming form for investment projects was validated and submitted to the project coordinators as part of the exercise of AE/CP budget program in execution authorizations and public accounting. The exercise was initially for projects financed using external sources.

Public Debt

34. The government is determined to curtail debt-related vulnerabilities. Public debt has increased in recent years, mainly because of the COVID-19 pandemic and the impact of the war in Ukraine, and is expected to reach about 75 percent of GDP at end-2022. The Debt Sustainability Analysis (DSA) performed in June 2022, shows that Senegal remains at a moderate risk of debt distress, with a limited margin for absorbing shocks. The debt profile is vulnerable to a slowdown in economic growth and a deterioration of external conditions. To lower debt-related vulnerabilities, the government plans to implement a debt policy that prioritizes concessional loans. Accordingly, the government does not plan to issue Eurobonds in the short-term due to higher global interest rates, and it will limit other commercial loans to highly profitable projects.

35. The government will accelerate the implementation of the action plan generated by the technical and functional audit of the computerized public debt database management platform. The implementation of the action plan to mitigate the vulnerabilities of the debt management platform (DAIDA) is continuing in order to strengthen the quality and integrity of debt data. Complementary modules are being consolidated, the backup system is being upgraded, access is being secured, a continuity plan is being adopted, and there is a system to protect against malicious intrusions. This work is continuing with USAID funding. In the next stage, the government is committed to prioritize the interoperability of the state-owned enterprises debt management platform with the DAIDA platform.

D. Remedy the Vulnerabilities in The Financial Sector

36. The government will take strong measures to restructure Société nationale La Poste. In restructuring the postal service, the government made changes to LA Poste management, who will have to work on finalizing the preparation of financial statements and convening the General Assemblies to recapitalize Société nationale de la Poste and its subsidiaries. A strategic development plan for the postal service has been prepared. One of the major pillars is the identification of a business model that will bolster the efficiency and competitiveness of postal services in a more competitive environment. To this end, a cost accounting system has been adopted and submitted to the regulator for validation. This should help streamline the postal service's operating expenses and determine an adequate level of compensation for the public postal service. The separation between La Poste's businesses will be strengthened, mainly by the transformation of Poste-finances into a financial entity that in the long run should evolve into a banking institution with direct access to clearing operations without the Treasury's guarantee.

37. The government will ensure that the restructuring process of three small banks in difficulty will be completed. For the bank whose capital is mostly public, the central government, in conjunction with a new private shareholder, raised the bank's capital stock from 15 billion to 35 billion. The process was finalized at the extraordinary meeting of bank shareholders in June 2022. The change in capital structure was submitted to the WAMU Banking Commission for approval. For the second bank, whose shares are held by a microfinance entity, restructuring is in the final phase with the increase in the majority shareholder's stake, and the disposal of real estate assets related to a company that specializes in estate management. For the third bank, placed under the Banking Commission's close monitoring due to the severe deterioration in equity, a recapitalization process is currently being implemented driven by the government of Senegal, with the involvement of the shareholders and all interested investors. This operation should be submitted to the Banking Commission's December 2022 meeting.

38. The government remains determined to continue implementing the action plan to exit increased FATF monitoring. After finding that 30 residual actions remained to be completed when Senegal's action plan expired in September 2022, the FATF plenary session held in October 2022 decided to keep Senegal on the list of jurisdictions under close monitoring, with a recommendation to fully implement the action plan without delay, and to make a strong statement in the declaration that the FATF will publish on its website in jurisdictions under close monitoring. Thus, the government of Senegal is determined to exit this list by immediately mobilizing all the stakeholders around the 30 residual actions in order to implement them promptly before the next in-person meeting with the joint group, scheduled for January 2023. These are essentially implementing regulations to be adopted, training to be provided, controls to be performed, and operational tools and mechanisms to be put in place.

E. Improve The Business Climate and Foster Inclusive Growth Driven by The Private Sector

39. Reforms are in progress to improve the business environment:

- The new PAP2A guidelines due to COVID-19 and the ensuing reforms are the basis for adjusting the third phase of the Program to Reform the Business Environment and Competitiveness (PREAC III).
- Indeed, the first two cycles of the PREAC (PREAC I, 2013-2015 and PREAC II, 2016-2018) were used to undertake major reforms that improved the business climate in Senegal. This also facilitated the burst of innovative SMEs and nearly 275 percent growth in direct foreign investment, whose absolute value soared from $403 million (in 2014) to $1.5 billion (in 2020) according to UNCTAD figures.
- The third phase of the PREAC (PREAC III, 2019-2023) is under way. It launched the reforms that cover labor law, improvements in commercial justice, the Investment Code makeover, the legal framework in energy and access to ownership, the completion of telepayments, the continuation

of streamlining pricing systems, the operationalization of systems for warehouse receipts, the development of Startups and SMEs, competition and regulation, the adoption of the public-private partnership law, and the implementation of investment platforms.

40. It is also important to stress that special attention is being paid to the execution of the following projects which will without a doubt have a highly significant impact in the short and medium term on improving the business environment in Senegal:

- The Investment Code makeover, which is in its last phase (finalization and adoption), which aims to be an optimal way to address current challenges and anticipating changes in the continental African Free Trade Zone (ZLECAF) and on the global level;

- The assessment of the various PREAC cycles (I, II, III) in order to learn lessons from its implementation and to establish a new reform program for 2030, which will address the current developments and the need to scale up the attraction of private investments in Senegal.

- Operationalization of the Hybrid Investment Fund.

- The Investment Code reform is part of the key reform projects in PAP2A in order to encourage the private sector to channel its investments into growth engines. To be sure, the reform should develop a framework of incentives that makes it easier to understand the private sector and provides assurance in order to use its capital and know-how to promote development. The Investment Code reform is in its final technical validation phase and is expected to take effect in 2023.

- The government finalized/adopted a national private sector development strategy (SNDSP), which is a reference framework for private sector development. It sets forth the vision of a Senegalese private sector that is substantially reconfigured by 2023-2035, with the goal of densifying the Senegalese economic system to have 150 enterprises per 100,000 inhabitants, versus nine (9) today. The formalization of the economy will be accelerated, with 300,000 formal enterprises versus 12,000 to 14,000 today. Three hundred (300) champion enterprises will operate from Senegal in the subregion and abroad and create three (3) million formal jobs, or twenty-three (23) times more than today. To breathe life into this ambition, the strategy is based on five programs: i) support for national enterprises; (ii) category competitiveness strategies; (iii) administration that facilitates conducting business; (iv) attraction and development of regional and global groups; and (v) dialogue and a public-private alliance. These programs are broken down into sixteen (16) projects and roughly twenty priority categories will be developed.

41. Emergency socioeconomic integration program for youth. The emergency program for jobs for youth and socioeconomic integration, "XËYU NDAW ÑI," with a total cost is 450 billion, has been implemented since 2021. Its goal is to create 65,000 direct jobs through special hiring, public community interest projects and job assistance programs that will be piggy-backed onto a government-employer agreement. It includes but is not limited to job training to integrate beneficiaries into production categories. The program has already raised an allocation of CFAF 300 billion for 2021 and 2022 and an allocation of 150 billion is projected for 2023. To date, the program has been able to create 32,354 jobs and it has trained 27,422 youths in various areas in order to seize the opportunities that freelancing offers. A study is in progress to estimate the number of youths that have taken advantage of freelancing. An interim program implementation report will be available in end-2023 on the various components of hiring, learning and the development of categories.

Table 1a. Senegal: Quantitative Targets for 2021–22

	2021			2021			2022		
	Jun. QT			Dec. QT			Jun. QT		
	Prog.	Act.	Status	Prog.	Act.	Status	Prog.	Act.	Status
Quantitative Targets									
Floor on net lending/borrowing[1]	-620	-617	Met	-967	-965	Met	-772	-771	Met
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	1,507	Met
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	43	Not Met
Floor on social expenditures (percent of total spending)	35	40	Met	35	40	Met	40	40	Met
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	1	Met
Ceiling on public sector external payment arrears (stock)[4]	0	0	Met	0	0	Met	0	0	Met
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 d épôt 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 to 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.	Act.	Status
Performance Criteria									
Floor on net lending/borrowing[1]	-620	-617	Met	-967	-965	Met	-772	-771	Met
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	1,507	Met
Ceiling on public sector external payment arrears (stock)[3]	0	0	Met	0	0	Met	0	0	Met
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	43	Not Met
Floor on social expenditures (percent of total spending)	35	40	Met	35	40	Met	40	40	Met
Ceiling on spending through simplified procedures for non-personalized services	25	3	Met	3	5	Not Met	2	1	Met
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	
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**	**Not met**	
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**	**Met**	
Publish the tax expenditure report for year N-2 annually on the website of the Ministry of Finance and Budget	**Annually, starting at end June 2021**	**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**	**Not met**	
Raise energy prices to limit electricity and fuel subsidies to 2.7 percent of GDP in 2023 while mitigating the impact on the most vulnerables	End November 2022		Prior action
Publish a roadmap to gradually eliminate energy subisides from 2023 onwards, including a communication phase and measures to protect the vulnerable.	End September 2022	Not Met	Prior action
Merge all funds for the financing of youth and women into a single fund	End December 2021	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	Not Met	Prior action
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 September 2022**	**Not met**	
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 August 2022**	**Not met**	

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 – January 10, 2023 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-June 2022, 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

13. 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.

14. Reporting Requirements.

- 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, COUD, ACMU, CDC, Dakar Dem Dik, ITA, MIFERSO, CEREEQ, Air Senegal, SOGEPA, 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, within two months following the end of each quarter. 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)

15. 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.

16. 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)

17. 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.

18. 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

19. 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.

20. 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

21. 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.

22. 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)

23. 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 Sukuk) 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.

24. 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

25. 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.

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

27. 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.

28. 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.

29. 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.

30. 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.

Statement by Mr. Sylla, Executive Director for Senegal and Mr. Diakite, Senior Advisor to the Executive Director
January 9, 2023

I. Introduction

1. Our Senegalese authorities would like to thank Management and staff for the quality of the policy dialogue in the context of the sixth and last review under the Policy Coordination Instrument (PCI), and the third and last reviews under the Stand-By Arrangement (SBA) and the Standby Credit Facility (SCF). They wish to express their deep appreciation for the Fund's support to their determined reform efforts under the "Plan Sénégal Emergent" (PSE).

2. The Senegalese economy is hit by the negative spillovers of the war in Ukraine and the Covid-19 pandemic, as well as the global tightening of financial conditions and economic downswing. These shocks, aggravated by major floods and regional political and security tensions, have led to a slowdown in economic activity, pushed inflation upwards at unprecedented levels in decades, and weighed heavily on fiscal and external accounts. Given their negative impacts on the purchasing power of households, the authorities have made it a priority to contain the rise in food and energy prices, and maintain social stability.

3. Despite the difficult global and domestic environment, program performance at end-June 2022 has been broadly satisfactory, and the authorities have fulfilled the prior actions. The authorities are determined to preserve their hard-won reform gains and continue to strengthen the resilience of the economy to shocks. In this perspective, and given the risks weighing on the macroeconomic outlook, they intend to request a new IMF-supported reform program in 2023. In addition to help meet the country's potential balance of payments needs, the new program would support national efforts to bolster private sector-led sustainable and inclusive growth, preserve fiscal and debt sustainability, and ensure transparency and efficiency in the management of the hydrocarbon sector.

II. Recent Economic Developments and Outlook

4. The post-pandemic recovery slowed down in 2022 reflecting a new weakening of external and domestic demand. Real GDP growth projection was revised downwards from 5.1 percent to 4.8 percent on the back of weaker activity in the secondary and tertiary sectors. Inflationary pressures increased as a result of rising food prices and headline inflation hit 13 percent y-o-y in October 2022, a level not seen in many decades. In the fiscal area, strong revenue will help contain the fiscal deficit at 6.2 percent, in line with the program target, despite sustained spending pressures. Underpinning factors include increased interest payments on external debt due to strong appreciation of the US dollar, and higher public wages and petroleum products and electricity subsidies. Confronted by sharply

reduced fiscal space and increasing energy prices, the authorities intend to contain the impact on the cost of living for the population while preserving macroeconomic and fiscal stability. A difficult challenge and balancing act they intend to stick to.

5. In the external sector, the current account deficit has widened on account notably of deteriorating terms of trade. The deficit in the trade balance and that of the services account worsened over the first six months of 2022, driven by higher import prices and the continued development of oil and gas projects.

6. The banking sector remained resilient and supportive of the economy despite the multiple shocks. Indeed, credit activity was strong in the first nine months of 2022, with increased net bank loans to both the central administration and the private sector.

7. Senegal's economic prospects are favorable. Growth is forecasted to reach 10.1 percent in 2023 with large positive spillovers from the start of hydrocarbon production. Non-hydrocarbon growth should also rebound to 6.1 percent, thus returning to its medium-term trend. Inflationary pressures should gradually decline starting in 2023, reflecting a good food harvest in 2022-2023 and the anticipated drop in world commodity prices.

8. The authorities broadly share the assessment that the risks to the outlook are elevated. Growth projections in 2023 and 2024 depend significantly on the assumptions regarding the start date and pace of oil and gas production. Moreover, a greater slowdown in global growth, additional monetary policy tightening, and a deterioration of the regional security situation would further weaken external demand, put pressure on fiscal and external accounts, and negatively affect growth. On the positive side, the authorities are of the view that the positive spin-offs from a good agricultural season and the efficient management of hydrocarbon resources, backed by the implementation of their ambitious reform program, should help the country achieve the expected strong performance of the economy.

III. Program Performance

9. Program performance has been broadly satisfactory. All quantitative performance criteria were met, as well as two of three indicative targets. Among the positive results, the fiscal deficit target was observed notably on the back of tax revenue largely exceeding the target floor. Furthermore, no external arrears have been constituted; and social spending represented 40 percent of total spending, in line with the relevant program objective. However, the ceiling on the share of contracts awarded through single-source procurement was missed, and only three of the nine structural benchmarks/reform targets were implemented on time. The authorities have taken corrective actions to implement the remaining structural benchmarks, albeit with delays.

IV. Medium-Term Macroeconomic Policies and Structural Reforms

10. The authorities will pursue their ambitious development goals in the framework of the PSE, while sustaining their reform efforts to further enhance resilience to shocks, expand the fiscal space, and improve public financial management, the governance of hydrocarbon resources, and the business climate.

Maintaining macroeconomic stability and debt sustainability

11. Looking ahead, the authorities aim to put public debt on a downward path by accelerating their fiscal consolidation efforts while preserving priority spending needed to maintain social stability. They are committed to reduce the fiscal deficit to 4.9 percent of GDP in 2023, and to remain on course for reaching the regional deficit norm of 3 percent in 2025. To this end, domestic revenue mobilization is being enhanced, and the authorities are improving the efficiency of public spending and addressing underlying vulnerabilities and risks to public finances.

12. On the revenue side, the authorities are committed to steadfast implementation of their Medium-Term Revenue Mobilization Strategy (SRMT), aiming to achieve a tax-to-GDP ratio of 20 percent by 2024. The focus in on adapting the tax and customs system to the changes in the economic, social, environmental, and digital fields; improving the productivity of revenue agencies; and reducing compliance costs for taxpayers.

13. Regarding public spending, the authorities are determined to continue easing the cost of living for the majority of the Senegalese population. In this connection, the 2023 budget steps up support notably for household consumer goods (such as wheat, oil, sugar, rice, and maize) and energy products, which have seen their costs rise due to tensions on international markets and the appreciation of the U.S. dollar. These measures, while costly, are warranted in the current juncture to address food insecurity concerns and support the purchasing power of vulnerable households.

14. Despite the lingering impact of the pandemic, and the spillovers from the war in Ukraine, the authorities are mindful that energy subsidies are not a sustainable policy option over the medium term. In this regard, they have taken steps to increase energy prices and better target the beneficiaries and have adopted a roadmap for the phasing out of energy subsidies by 2025 to avoid slippages likely to affect fiscal sustainability.

15. The on-going progress with public financial reforms will continue, notably through the implementation of the national budget and financial reform management strategy. Key components of the strategy include strengthening the identification, monitoring, and management of fiscal risks; improving budget execution and control; and establishing sound legal and institutional frameworks for public finance management.

16. The authorities are committed to strictly adhere to their prudent debt policy and management with a slower but consistent consolidation path that ensures the sustainability of public finances, while continuing to meet their economic and social development needs. They are mindful that public debt has increased in recent years due

notably to the Covid-19 pandemic and the impact of the war in Ukraine, and that debt vulnerabilities need to be addressed. To preserve Senegal's moderate risk of debt distress status, the Government will continue to strengthen debt management, and closely pursue a debt policy that favors concessional loans. In this perspective, the government does not plan to issue short-term Eurobonds given the rise in global interest rates, and will limit and exclusively allocate other commercial borrowing to highly profitable projects.

Promoting inclusive growth and private sector development

17. Private sector development remains a key pillar of Senegal's development agenda (PSE). Under the Business Environment and Competitiveness Reform Program (PREAC), significant progress was made in its two previous phases with the emergence of innovative small and medium enterprises (SMEs) and an increase of nearly 275 percent in foreign direct investment. The on-going phase III of the program (PREAC III) builds on these advances with key reforms to improve labor legislation and the investment code, strengthen the commercial justice system, and facilitate access to property. Furthermore, the adoption of the law on public-private partnerships, and the establishment of investment platforms represent important program milestones.

18. The authorities have finalized a national private sector development strategy (SNDSP) for the long haul, 2023- 2035, which represents the reference framework for private sector development policy. The ambitious agenda seeks to densify the country's economic fabric and create up to 150 businesses per 100,000 inhabitants, compared to nine today. It will also accelerate the formalization of 300,000 businesses in comparison to 12,000 to 14,000 presently. The strategy also puts a strong emphasis on the economic integration and employment of young people, including women.

19. Achieving strong and inclusive economic growth hinges also on enhancing financial inclusion. In this regard, the reforms and projects undertaken under the financial inclusion strategy for 2021-2025 aim to achieve a financial inclusion rate of 65 percent for adults and 90 percent for small and medium enterprises (SMEs), and cover all municipalities in the country. The authorities will also ensure that financial stability is preserved by completing the restructuring process of the three non-systemic banks in close collaboration with the regional Central Bank (BCEAO) and Banking Commission. Likewise, the institutional transformation of "Postefinances" into a postal bank is progressing well.

20. On AML/CFT, the government remains determined to exit from the enhanced oversight of the Financial Action Task Force (FATF). The joint group that oversees related developments is scheduled for January 2023. The authorities are working with all concerned actors with a view to ensuring full implementation of the 30 residual actions before the meeting takes place.

V. Conclusion

21. The authorities value the constructive policy dialogue with the Fund which has helped Senegal maintain macroeconomic stability, and implement policies and reforms aimed at achieving the goals of the PSE. The Government remains strongly committed to continue building on this progress, and, in this perspective, intends to request Fund's support for a new program in 2023.

22. In view of the broadly satisfactory program performance, and the authorities' commitment to preserve macroeconomic stability, pursue reforms to improve public financial management and the business environment, and achieve strong and inclusive economic growth, the authorities seek Executive Directors' support for the completion of the final reviews under the PCI, SBA, and SCF.