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July 2023

REQUESTS FOR AN EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, AN ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY, AND AN ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR SENEGAL

In the context of the Requests for an Extended Arrangement Under the Extended Fund Facility, an Arrangement Under the Extended Credit Facility, and an Arrangement Under the Resilience and Sustainability Facility, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 26, 2023, following discussions that ended on May 11, 2023, with the officials of Senegal on economic developments and policies underpinning the IMF arrangements Under the Extended Fund Facility, the Extended Credit Facility, and the Resilience and Sustainability Facility. Based on information available at the time of these discussions, the staff report was completed on June 9, 2023.
- **A World Bank Assessment Letter for the Resilience and Sustainability** prepared by the staff of the IMF and the World Bank.
- A **Statement by the Executive Director** for Senegal.

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

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PRESS RELEASE

PR23/239

IMF Executive Board Approves US$1.51 billion Under the Extended Fund Facility and Extended Credit Facility, and US$324 million Under the Resilience and Sustainability Facility for Senegal

FOR IMMEDIATE RELEASE

- The IMF Executive Board approved today an Extended Credit Facility (ECF) and an Extended Fund Facility (EFF) in the amount of US$1.51 billion with Senegal, in addition to a Resilience and Sustainability Facility (RSF) in the amount of US$324 million.
- The EFF/ECF-supported program will help meet Senegal's protracted balance of payment needs and address macroeconomic imbalances. Policy priorities under the EFF/ECF program include reducing debt vulnerabilities by embarking on a growth-friendly fiscal consolidation, strengthening governance, and delivering a more inclusive and job-rich growth.
- The RSF aims to tackle longer-term structural challenges related to climate change and the implementation of climate policies. The RSF will support Senegal's climate change mitigation objectives, accelerate the country's climate change adaptation, and support work to mainstream climate change considerations into the budget process.

Washington, DC – **June 26, 2023:** The Executive Board of the International Monetary Fund (IMF) today approved a 36-month Extended Credit Facility (ECF) and Extended Fund Facility (EFF) of SDR 1.132 billion (about US$1.51 billion) with Senegal. The Executive Board also approved an Arrangement Under the Resilience and Sustainability Facility (RSF) of about SDR 242.7 million (about US$324 million). The EFF/ECF-supported program will provide critical help to address macroeconomic imbalances by reducing debt vulnerabilities, strengthening governance, and delivering a more inclusive and job-rich growth. The RSF arrangement aims to tackle longer-term structural challenges related to climate change through the implementation of appropriate climate policies.

The Executive Board's decision enables an immediate disbursement equivalent to SDR 161.8 million (about US$216 million) under the EFF/ECF.

The Senegalese economy has been severely impacted by different shocks including the rising food and energy prices, tightening financial conditions, weaker external demand, and the US dollar appreciation. The country is also facing multiple challenges, including heightened regional insecurity, and growing socio-political tensions ahead of the presidential elections next year. As a result, 2022 was a challenging year. Growth decelerated to 4.0 percent, inflation accelerated to 9.7 percent, and the fiscal and current account deficits widened.

Despite these challenges, the authorities are committed to embarking on a growth-friendly fiscal consolidation to contain the budget deficit at 3 percent of GDP by 2025. They intend to undertake additional revenue measures and to improve spending efficiency including by a progressive phasing-out of energy subsidies. These efforts should help rebuild fiscal buffers

and put public debt on a downward trajectory over the medium term. The authorities are also committed to strengthening the governance, transparency, and anti-corruption frameworks.

Medium-term growth prospects appear more favorable with the oil and gas production set to start in early 2024. However, risks to the outlook remain high and heavily tilted to the downside, including lower global growth, tighter financial conditions, more intense and prolonged war in Ukraine, and further US dollar appreciation. Further risks include natural disasters related to climate change, a deterioration of the regional security situation and a degradation of the socio-political tensions ahead of the presidential elections.

At the conclusion of the Executive Board's discussion, Mr. Kenji Okamura, Deputy Managing Director, and Acting Chair, made the following statement:

"Despite the progress achieved under the previous Fund-supported programs, Senegal's public finances and external stability have been severely strained by the sequence of adverse external shocks and regional security concerns. In response, the authorities are implementing a growth-friendly fiscal consolidation strategy aimed at safeguarding debt sustainability, strengthening governance, and promoting inclusive growth, supported by Extended Fund Facility/Extended Credit Facility arrangements. To address long-term challenges of climate change, the authorities are also implementing a comprehensive reform agenda under the Resilience and Sustainability Facility (RSF) arrangement that supports the country's climate change mitigation and adaptation goals.

Reducing growing debt vulnerabilities requires a steadfast implementation of the fiscal consolidation strategy anchored on commitments to reach a fiscal deficit of 3 percent of GDP by 2025. On the revenue side, the implementation of the medium-term revenue strategy should be accelerated to enhance revenue mobilization, notably through the streamlining of VAT exemptions and broadening the tax base. On the spending side, a gradual elimination of untargeted energy subsidies is a priority, which should be accompanied by measures to strengthen existing social safety nets. Prudent debt management and enhanced oversight of SOEs borrowing and public-private partnership operations are crucial to mitigate risks to debt sustainability.

Resolute implementation of structural reforms, including by enhancing social safety nets, strengthening governance and transparency, improving the business environment, and addressing weaknesses in the financial sector will promote a more inclusive and private sector-led growth. Empowering the anti-corruption agency (OFNAC) and strengthening the asset declaration system for public officials will be critical to strengthen the anti-corruption frameworks. Urgent actions are also needed to address deficiencies in the AML/CFT framework to avoid possible negative macroeconomic and reputational repercussions and to exit from the FATF's grey list.

Tackling climate change challenges will be critical for Senegal's long-term macroeconomic resilience. The RSF-supported policy reforms should focus on mitigation measures to protect against costal erosion, enhance water management to strengthen agriculture, and help integrate climate change considerations into the budget process. The authorities should take full advantage of the synergies with the World Bank, the Global Center on Adaptation, and other development partners and catalyze further private climate financing."

Table 1. Senegal: Selected Economic and Financial Indicators

	2020	2021		2022		2023		2024	2025	2026	2027
		IMF CR 22/197	Act.	IMF CR 23/20	Est.	IMF CR 23/20	Proj.		Projections		
National income and prices											
GDP at constant prices	1.3	6.1	6.5	4.7	4.0	8.3	5.3	10.6	7.4	4.8	5.1
Of which: Non-hydrocarbon GDP	1.3	6.1	6.5	4.7	4.0	6.0	5.3	6.0	6.0	6.0	6.0
GDP deflator	1.5	2.4	1.8	6.6	8.6	3.1	3.2	2.0	2.0	2.0	2.0
Consumer prices (annual average)	2.5	2.2	2.2	8.5	9.7	3.5	5.0	2.0	2.0	2.0	2.0
External sector											
Exports, f.o.b. (CFA francs)	-7.1	26.4	26.3	13.1	24.6	25.5	15.7	25.6	8.7	5.9	8.1
Imports, f.o.b. (CFA francs)	-6.1	18.2	17.1	23.1	42.4	8.7	2.0	0.7	4.7	6.1	9.1
Export volume	-4.7	3.6	12.4	-8.0	-5.8	21.5	17.5	27.1	10.0	5.7	5.9
Import volume	2.8	3.3	11.3	4.5	7.8	11.4	6.8	3.5	8.4	5.4	7.7
Terms of trade ("–" = deterioration)	6.8	6.6	6.8	4.4	0.2	5.8	3.2	1.7	2.3	-0.6	0.7
Nominal effective exchange rate	2.9	1.0	1.0	...	...	...	...	...	...	...	...
Real effective exchange rate	3.6	-1.9	-1.9	...	...	...	...	...	...	...	...
Money and Credit											
Broad money	12.3	15.6	14.5	14.5	22.5	11.9	20.0	...	...	...	...
Net domestic assets, *of which*	16.5	13.7	11.1	16.2	22.0	13.5	23.1	...	...	...	...
Credit to the government (net)	15.4	2.4	6.0	9.0	12.8	4.9	-0.9	...	...	...	...
Credit to the economy (net)	1.2	12.7	4.3	8.7	13.6	10.0	15.1	...	...	...	...
Central government operations											
Revenue	20.2	19.4	19.5	21.0	19.9	21.3	21.5	21.8	23.3	23.7	23.7
Grants	2.3	0.9	0.9	1.4	0.8	1.7	1.6	1.2	1.2	1.2	1.2
Total expenditure	26.6	25.7	25.8	27.2	26.6	26.2	26.4	25.7	26.3	26.7	26.8
Net lending/borrowing (including grants)	-6.4	-6.3	-6.3	-6.2	-6.6	-4.9	-4.9	-3.9	-3.0	-3.0	-3.1
Primary fiscal balance	-4.4	-4.3	-4.3	-3.9	-4.4	-2.7	-2.2	-1.5	-0.7	-0.7	-0.8
Savings and investment											
Current account balance (official transfers included)	-10.1	-13.3	-11.2	-15.7	-19.9	-11.0	-13.3	-6.1	-4.2	-3.8	-3.7
Gross domestic investment	35.2	38.0	35.4	43.0	46.8	41.4	42.5	36.4	34.7	32.6	32.5
of which: Central Government	7.0	6.8	6.9	5.9	5.5	6.0	5.7	7.3	7.2	7.3	7.3
Gross national savings	25.0	24.7	24.3	27.3	26.9	30.4	29.2	30.3	30.4	28.8	28.7
of which: Central Government	6.3	4.9	4.9	7.1	6.2	5.1	5.0	5.5	6.7	6.5	6.5
Public sector debt											
Total public debt	69.2	73.2	73.3	75.1	76.6	73.7	77.7	73.2	70.4	69.5	68.7
Domestic public debt[1]	14.8	16.1	16.1	16.8	20.2	19.3	18.5	16.8	15.2	15.7	16.4
External public debt	54.4	57.1	57.2	58.2	56.4	54.4	59.3	56.5	55.1	53.8	52.3
Total public debt service (percent of revenue)	27.3	28.4	28.6	25.8	30.7	31.2	32.5	26.1	29.9	32.1	32.2
Memorandum items:											
Gross domestic product (CFAF billions)	14,101	15319.0	15,288	17092.7	17,268	19093	18,770	21,176	23,202	24,806	26,596
of which non-hydrocarbon (CFAF billions)	14,101	15319.0	15,288	17092.7	17,268	18700	18,767	20,171	21,875	23,727	25,656
Gross domestic product (USD billions)	24.5	27.6	27.6	...	...	...	...	...	...	...	...
Share of hydrocarbon in total GDP (percent)	...	...	...	...	...	2.1	0.0	4.7	5.7	4.4	3.5
National currency per U.S. dollar (average)	575	554.2	554	...	...	...	...	...	...	...	...
WAEMU gross official reserves (billions of $US)	...	...	...		...		...	...	...	...	...
(percent of broad money)	...	...	...		...		...	...	...	...	...
(months of WAEMU imports of GNFS)	...	...	...		...		...	...	...	...	...

INTERNATIONAL MONETARY FUND

SENEGAL

June 9, 2023

REQUESTS FOR AN EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, AN ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY, AND AN ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY

EXECUTIVE SUMMARY

Context and outlook. A cascade of external and domestic shocks –including the COVID-19 pandemic, rising global commodity prices and global economic slowdown linked to the Russian invasion of Ukraine, Ecowas sanctions against Mali, the US dollar appreciation, domestic spending pressures, and tightened global and regional financing conditions–have dampened economic activity in 2022, widened external and fiscal deficits, increased debt levels, and eroded regional international reserves. The challenging external environment, together with likely delays in the start of hydrocarbon production, will continue to weigh on economic activity in 2023. In the medium term, economic prospects remain favorable, with the temporary boost of oil and gas production, but ambitious reforms are needed to reduce macroeconomic imbalances, put debt on a downward trajectory, and make growth more inclusive. The impact of climate change in Senegal is projected to be severe and reforms to adapt to climate change while contributing to lower greenhouse emission rank high on the Senegalese authorities' agenda.

ECF/EFF request. The authorities have requested a 36-month ECF/EFF with access of 350 percent of quota to address protracted and structural balance of payment needs. The new IMF-supported economic reform program will provide critical help to address macroeconomic imbalances. Proposed policy priorities under the program include: (i) reducing debt vulnerabilities by embarking on a growth-friendly fiscal consolidation, (ii) strengthening governance, including fiscal transparency, anticorruption and anti-money laundering legislation and financing of terrorism (AML/CFT), and (iii) delivering a more inclusive and job-rich growth, by strengthening social safety nets, promoting gender equality, and improving the business environment.

RSF request. The authorities also requested a 36-month Resilience and Sustainability Facility (RSF) with access of 75 percent of quota to tackle longer-term structural challenges related to climate change and the implementation of climate policies. Proposed reform areas under the RSF include measures to: (i) supporting Senegal's climate change mitigation objectives; (ii) accelerating Senegal's climate change adaptation; and (iii) integrating the climate change considerations into the budget process.

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

Discussions were held in Dakar (April 27-May 11, 2023). The mission comprised Mr. Gemayel (head), Messrs. Mbohou Mama, Nshimiyimana, and Rosa (all AFR), Ms. Caselli (FAD), and Mr. Ungerer (SPR). The mission was assisted by Mr. Koulet-Vickot (Resident Representative), Messrs. Ba and Fame (local economists), and Ms. Wane (local administrative assistant). Ms. Bah (OED) joined the mission. Mr. Verhagen from the Global Center onAdaptation (GCA) joined part of the mission. The mission also benefited from extensive discussions with Mr. Jamal Saghir (Senior Advisor at the GCA). World Bank staff joined some of the meetings. The mission met with President Macky Sall, Prime Minister Amadou Ba, Minister of Armed Forces Sidiki Kaba, Minister of Justice Ismaïla Madior Fall, Minister of Home Affairs Antoine Felix Diome, Minister of Finance and Budget Mamadou Moustapha Ba, Minister of Women, Family and Child Protection Fatou Diané, the Deputy Governor of the BCEAO Norbert Toe, the National Director of the BCEAO, Ahmadou Al Aminou Lo, other senior government officials, representatives of the business community and civil society, and development partners. Ms. Bentum, Ms. Hesse-Triballi, Ms. Jaghori, and Ms. Pilouzoue (all AFR) contributed to this report.

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CONTEXT

1. Over the past three years, Senegal was buffeted by a sequence of adverse shocks which have altered solid fundamentals and reform momentum. As a result, some reforms remained unfinished under the previous IMF-supported program (Box 1), namely: (i) broadening the tax base; (ii) eliminating energy subsidies; (iii) bolstering social safety nets; (iv) addressing weaknesses in the AML/CFT framework; and (v) laying the foundation for job creation and private sector-led growth. In addition, new concerns have emerged, including reducing debt vulnerabilities and enhancing governance, while tackling climate change has become the government's priority.

2. To address these challenges and support their reform agenda, the authorities have requested a 36-month arrangement under the Extended Credit Facility (ECF) and Extended Fund Facility (EFF). The ECF/EFF arrangement aims to reduce debt vulnerabilities based on a credible fiscal consolidation path through further revenue mobilization and the phasing out of energy subsidies, address public sector governance and transparency weaknesses, strengthen the WAEMU external position, and put Senegal on a path of sustained and broad-based growth.

3. Given Senegal's high vulnerability to climate change, the authorities have also requested a 36-month arrangement under the Resilience and Sustainability Facility (RSF). The RSF would underpin ambitious reforms to address significant structural challenges related to the adaptation and mitigation challenges, while helping catalyze additional support.

4. Senegal is gearing up for the February 2024 presidential elections amid socio-political tensions and security challenges in the region. While incumbent President Macky Sall has yet to announce whether he will run for a third term, a coalition comprising opposition political parties and civil society organizations is taking to the streets to oppose it. Meanwhile, the main opposition figure, Ousmane Sonko, who has declared his candidacy, was sentenced to two years in prison for corrupting youth. This sentence, which compromises his chances of running for president next year, has triggered violent protests throughout the country. A cost-of-living crisis, widespread youth unemployment, and threat to security from developments in neighboring countries are adding to this loaded political period.

Box 1. Program Performance Under the Policy Coordination Instrument (PCI), the Stand-By Arrangement (SBA) and the Standby Credit Facility (SCF)

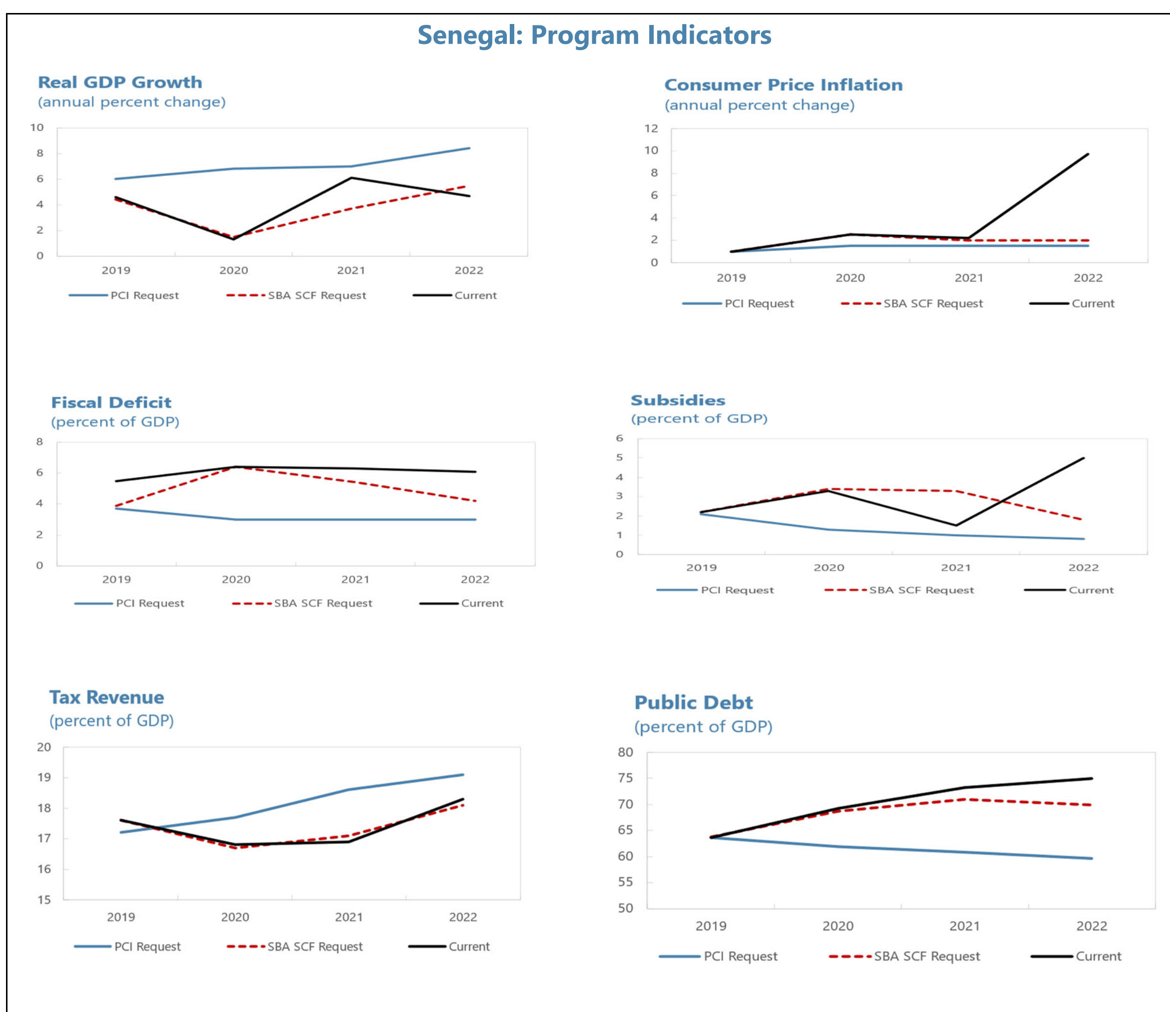
The program supported by the PCI was approved in early 2020 whereas the SBA/SCF was approved in June 2021. These programs were articulated around three main pillars: (i) achieving high, sustainable, and inclusive growth; (ii) consolidating macroeconomic stability through prudent fiscal policy, including through increasing revenues and spending efficiency, and sound debt management; and (iii) managing the oil and gas sector in a sustainable and transparent manner.

All macroeconomic indicators fell short of expectations mostly due to the impact of the pandemic and the war in Ukraine (figure below). Average real growth (2020-22) was lower than initially projected (4 percent compared to 7.4 percent). Inflation reached a record high in 2022—9.7 percent compared to 1.5 percent initially projected. Energy subsidies soared to 4 percent of GDP in 2022 compared 0.8 percent initial projection. The fiscal deficit significantly widened, exceeding 6 percent of GDP for three consecutive years

(2020-22) compared to a 3 percent of GDP target in 2022, which led—together with exchange rate depreciation, and stock-flow adjustments—to a sharp increase in public debt to 76 percent of GDP in 2022 compared to an initial target of 60 percent.

Almost all quantitative targets (QTs) and Quantitative Performance Criteria (QPCs) were met. However, the authorities have consistently missed the QT/QPC on ceiling on public procurement contracts concluded without open tenders. They also missed the QPC on the floor of tax revenues for the fifth review under the PCI and second review under the SBA/SCF and the QT on the floor on the overall budget balance for the second review under the PCI.

The implementation of structural benchmarks (SBs) was mixed. 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, improving public financial management, and developing a fiscal framework for managing oil and gas revenues. However, several structural benchmarks pertaining to energy subsidies, digital payments of the cash transfer program, and business climate reforms were not met.



RECENT DEVELOPMENTS

5. The adverse spillovers from the war in Ukraine, tighter financing conditions, and the regional political instability have hindered the post-pandemic recovery. After a strong rebound to 6.5 percent in 2021, real GDP growth slowed to about 4 percent in 2022, reflecting a contraction in agricultural production due to a disappointing harvest campaign and a sharper deceleration in industrial production affected by supply chains disruptions and rising commodity prices. Average annual inflation reached a multi-decade high of 9.7 percent in 2022 but eased to 9.0 percent y-o-y by April 2023, driven by moderating food prices. However, core inflation has continued to increase (6.3 percent in April 2023 from 5.8 percent in December 2022) reflecting stickiness from the broad-based nature of inflationary pressures.

6. External imbalances widened in 2022. The current account deficit grew sharply to 19.9 percent of GDP compared to 11.2 percent of GDP in 2021, driven by higher imports of goods, largely reflecting a surge in imported energy and food prices, and higher interest payment due to the dollar appreciation (Annex I).[1] Meanwhile, regional reserves have dropped from 5.6 months of imports at end-2019 to 3.8 months at end-April 2023.

7. The budget deficit was wider than anticipated in 2022 (Text Table 1). The overall fiscal deficit rose to 6.6 percent of GDP—0.5 percentage point higher than projected.[2] Revenues underperformed, mainly on account of lower VAT and grants were lower. Higher public wages and transfers were offset by deep cuts in investment spending (0.6 percent of GDP). Energy subsidies soared to 4 percent of GDP. Fiscal developments during 2023Q1 suggest a revenue underperformance and higher interest payments caused by tightened financial conditions in the regional market and the appreciation of the US dollar (MEFP ¶16).

8. Financial conditions in the regional market have significantly tightened. The sharp increase in inflation and the erosion of foreign exchange reserves have prompted the BCEAO to raise its key interest rates by 100 basis points since June 2022. Earlier this year, it moved from the fixed-rate full allotment (FRFA) tender –whereby banks' demand for liquidity is fully satisfied at a fixed rate, against adequate collateral—to a flexible-rate fixed-quantity system—where demand is partially satisfied at interest rates above the minimum (policy) rate. As a result, demand for bond maturities of new issuances have shortened, and interest rates have increased, prompting some governments to cancel auctions (MEFP ¶15).

9. Public sector debt increased significantly to 76.6 percent of GDP in 2022. This reflects both large deficit financing, exchange rate variation, and stock-flow adjustments (SFAs) (Annex VIII).

[1] For the WAEMU region, an adequate range for the level of reserves is 4.5 to 6.4 months of prospective import coverage as per the ARA metric (WAEMU Country Report No. 2023/102).

[2] The government's estimate of the overall fiscal deficit for 2022 is 6.1 percent of GDP. This includes a one-off windfall (0.5 percent of GDP) from unwinding a Eurobonds' SWAP contract, which they classified as nontax revenues. Staff believes that this operation should be recorded below the line, thereby resulting in a higher deficit of 6.6 percent of GDP.

While Senegal's debt risk remains moderate (Debt Sustainability Analysis—DSA), the present value of public debt payments and debt service to exports ratios have edged up nearing levels associated with high risk of debt distress. Central government debt, which made up about 90 percent of total public debt at end-2022, stood at 68.2 percent of GDP, below the WAEMU 70 percent of GDP convergence criterion (MEFP ¶10).

Text Table 1. Recent Fiscal Developments

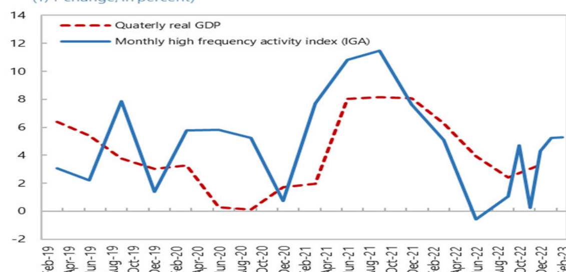
(In percent of GDP, unless otherwise indicated)

	2022		2023		
	IMF CR 23/30	Actual	Q1 Outturn	Latest annual projection	
	In percent of GDP		In billion CFAF		in percent of GDP
Revenue and grants	**21.0**	**19.9**	**791**	**4,029**	**21.5**
Taxes	18.5	18.2	726.3	3,517	18.7
Direct taxes	6.3	6.4	258.1	1,150	6.1
Taxes on goods and services	9.1	8.7	321.9	1,753	9.3
Taxes on international trade and transactions	2.8	2.8	102.8	559	3.0
Other taxes	0.3	0.3	43.5	55	0.3
Other revenues	1.1	0.9	32.7	204	1.1
Grants	1.4	0.8	31.6	308	1.6
Expense	**19.2**	**19.2**	**1026**	**4,948**	**26.4**
Current (excl. interest payment)	17.0	17.0	876.2	3,013	16.1
Personnel	6.4	6.6	318	1,310	7.0
Goods and services	2.1	1.9	92.9	289	1.5
Grants, Subsidies, other spending	8.5	8.5	465.3	1,363	7.3
Subsidies	5.0	4.6		659	3.5
of which energy subsidies	4.4	4.0		556	3.0
Social benefits	0.2	0.1	9.5	52	0.3
Interest payment	2.2	2.2	149.9	502	2.7
Investment	**8.0**	**7.4**	**331.4**	**1,433**	**7.6**
Externally financed	4.3	4.3	169.7	668	3.6
Internally financed	3.7	3.1	161.7	765	4.1
Balance	**-6.2**	**-6.6**	**-566.9**	**-920**	**-4.9**

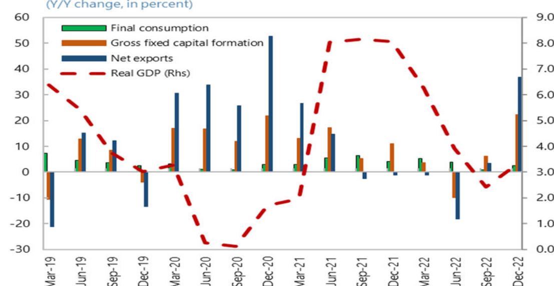
Source: Senegalese authorities and IMF staff calculations

Text Figure 1. Recent Economic Developments

Real growth decelerated in 2022....

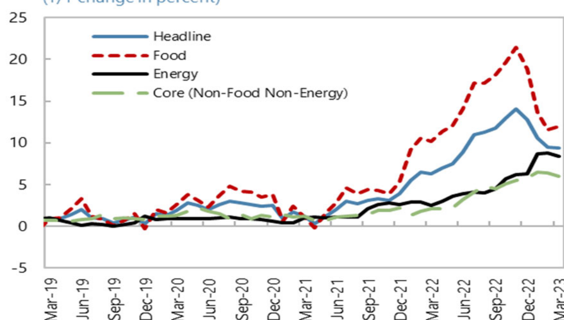


.... driven by weaker external demand and final consumption.

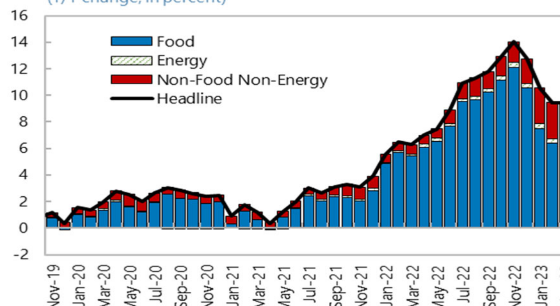


Text Figure 1. Recent Economic Developments
(concluded)

Inflation started easing in December 2022....



...reflecting moderation in food inflation.



Sources: Senegalese authorities and IMF Staff calculations

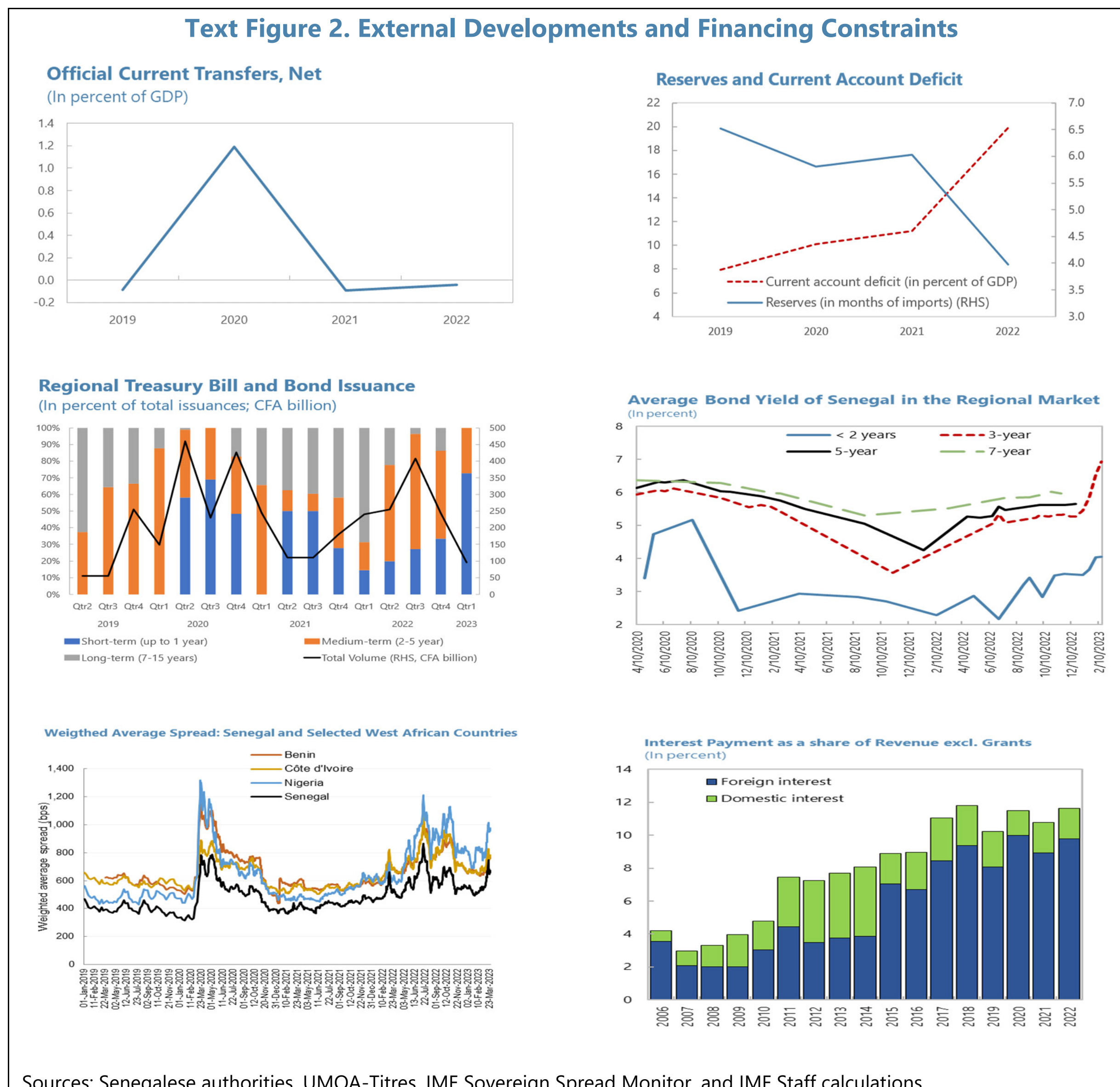
OUTLOOK AND RISKS

10. Global economic slowdown and tighter financial conditions are expected to weigh on the near-term outlook. Amidst a persistently challenging external environment, Senegal's external demand is expected to remain subdued, while high consumer price levels will continue to weigh on households purchasing powers and domestic demand. High frequency indicators show weaker than envisaged pick-up in economic activity during 2023Q1, particularly in the secondary sector, with the General index of economic activity (IGA) growing by 5.2 percent y-o-y. As a result, projected non-hydrocarbon 2023 real GDP growth is revised down to 5.3 percent from an initial projection of 6 percent. Should hydrocarbon production start in the fourth quarter of 2023, total growth could reach 8.3 percent. Inflation is projected at 5 percent – up from 3.5 percent previously projected – reflecting the direct and indirect effects from rising energy prices. The current account deficit is projected to remain high at about 13 percent of GDP driven by high import bills. Access to financing will continue to be constrained (Text Figure 2), forcing the government to tap external official and commercial sources—including syndicated loans—to finance the general budget and on-lend to state-owned enterprises. As a result, risks related to the future external debt service burden and profile (e.g. currency, maturity, and interest rate) will need to be managed carefully.

11. Medium-term growth prospects appear more favorable with the temporary boost of oil and gas production set to start in 2024 (Text Table 2 and Figure 5). Growth will pick up to 10.6 and 7.4 percent in 2024 and 2025, respectively, while non-hydrocarbon GDP is expected to reach its potential (around 6 percent), assuming prudent macroeconomic policies and steadfast structural reforms are implemented.[3] Inflation is projected to gradually abate to 2 percent. The current account deficit is expected to narrow to about 3-5 percent of GDP, as oil-related exports increase by about 2

[3] Pre-COVID-19 pandemic, real GDP growth averaged 6.2 percent during 2014-19.

percent of GDP relative to 2023 and hydrocarbon-related service imports decrease. Debt-to-GDP ratio will improve boosted by the hydrocarbon sector.



Text Figure 2. External Developments and Financing Constraints

Sources: Senegalese authorities, UMOA-Titres, IMF Sovereign Spread Monitor, and IMF Staff calculations

Text Table 2. Macroeconomic Indicators, 2021-2025

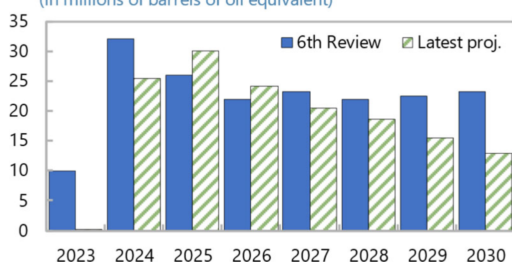
	2021	2022		2023		2024	2025
		IMF CR		IMF CR			
	Est.	23/30	Est.	23/30	Proj.	Proj.	Proj.
Real GDP (percent change)	6.5	5.0	4.0	8.3	5.3	10.6	7.4
Of which: Non-hydrocarbon GDP	6.5	5.0	4.0	5.9	5.3	6.0	6.0
CPI inflation, average (percent)	2.2	5.5	9.7	3.1	5.0	2.0	2.0
Net lending/borrowing, including grants (percent of GDP)	-6.3	-6.2	-6.6	-4.5	-4.9	-3.9	-3.0
Current account balance (percent of GDP)	-11.2	-13.2	-19.9	-8.8	-13.3	-6.1	-4.2
Gross Debt Public Sector (percent of GDP)	73.3	75.1	76.6	71.4	77.7	73.2	70.4

Sources: Senegalese authorities; and IMF staff calculations.

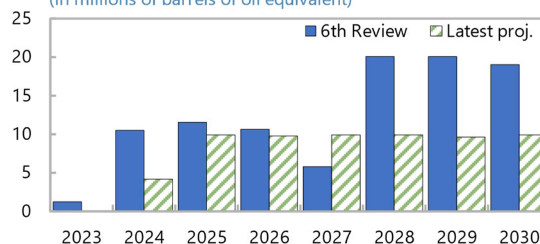
12. The balance of risks to the outlook remains tilted to the downside. On the external side, economic activity is exposed to the risks of escalation of the war in Ukraine with adverse spillovers on external demand and commodity prices, tighter regional and global financial conditions, deterioration of terms of trade, and further appreciation of the US dollar. On the domestic side, the downside risks could stem from increasing political polarization and fiscal slippages in the run up to the presidential elections, as well as extreme climate events (Annex II). Higher oil and gas prices and the launch of phase 2 of the current oil (Sangomar) and gas (GTA) projects, as well as the start of production of the Yaakar-Teranga gas project, could increase hydrocarbon-related investments and create upside risks to growth.

Text Figure 3. Implications of the Revised Hydrocarbon Production Profile on the Macro Framework

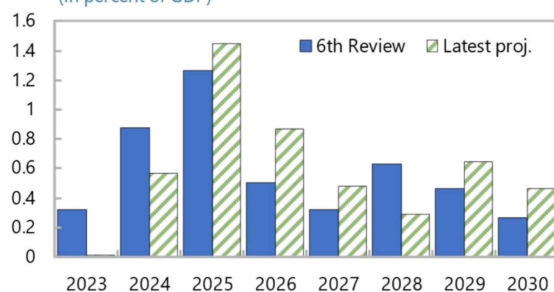
Oil production would be delayed to 2024 with lower volume....



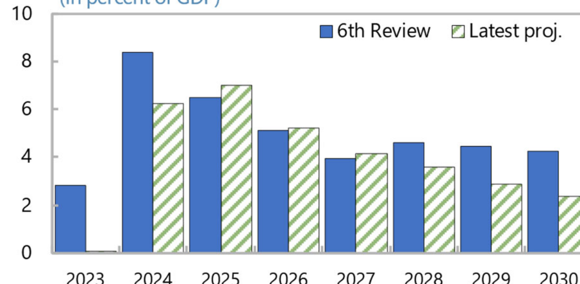
....as well as gas production



...with negative implications on government revenues....



...and exports.



Sources: Senegalese authorities and IMF Staff calculations

POLICIES UNDER THE NEW ARRANGEMENTS

The new ECF/EFF arrangements draw from the government's priorities and provide a policy anchor in a challenging external and domestic environment. The arrangements have three key pillars: (i) building fiscal resilience by putting public debt on a firmly downward trajectory, (ii) strengthening AML/CFT and governance, and (iii) fostering a more inclusive and private sector-led growth. The RSF arrangement will support efforts to strengthen resilience to the effects of climate change.

A. Building Fiscal Resilience (ECF/EFF Pillar I)

Fiscal Consolidation Strategy

13. The new program is anchored on gradually returning to the regional fiscal deficit target of 3 percent of GDP by 2025 reflecting the fiscal consolidation path agreed under the previous program (MEFP ¶20). The authorities are committed to preserving debt sustainability and rebuilding depleted fiscal buffers. With the coming on stream of hydrocarbon revenues, the fiscal strategy will be anchored on a new fiscal rule—the non-hydrocarbon primary balance in percent of non-hydrocarbon GDP—to limit procyclicality and set aside resources, in line with the law on the management of hydrocarbons (Annex IV). As a transition path toward a full-fledged fiscal rule framework, and during the program period (2023-2026), the target for the non-hydrocarbon primary balance is calibrated to achieve the overall deficit objective for each year and the regional fiscal deficit objective of 3 percent by 2025.

14. The fiscal consolidation strategy is designed to be growth friendly (Text Figure 4)**.** On the revenue side, the program is anchored on reaching the medium-term revenue strategy (MTRS) objective of collecting tax revenues of 20 percent of non-oil GDP by 2025. This would require raising additional non-oil tax revenues by 0.5 percentage point of non-oil GDP per year on average between 2023-2025. In 2023, the new program will focus on revenue administration measures, while tax policy measures will be adopted in the context of the 2024 budget. Hydrocarbon revenues are also expected to reduce the fiscal deficit by 0.7 percentage point of GDP on average. On the spending side, the fiscal consolidation strategy rests on rationalizing current spending (-3.4 percentage points of GDP) by gradually eliminating the untargeted and costly energy subsidies and stabilizing the public wage bill in percent of non-oil GDP, to accommodate additional public investment.

15. For 2023, the authorities remain committed to containing the fiscal deficit target at 4.9 percent of GDP. However, since the adoption of the 2023 finance law, new budget pressures have emerged. Based on the 2023Q1 outcome and absent new measures, revenues could be -0.4 percentage point of GDP lower than projected. Additionally, higher interest payments (0.4 percent of GDP) and energy subsidies (+0.6 percentage point of GDP) due to carryovers from 2022 (¶14) are expected. To offset these changes, and thus maintain the fiscal deficit at the agreed level, the authorities have identified revenue-increasing measures of 0.7 percentage point of GDP (Text Table 3), including the one-off proceeds of the sale of government land (0.3 percent of GDP),[4] and committed to generating 0.7 percentage point of GDP in savings, through cuts in other current spending (-0.3 percentage point of GDP) and postponing some domestically-financed projects (-0.4 percentage points of GDP), while maintaining public investment above 7 percent of GDP as in 2022 (MEFP ¶21). The authorities are also committed to take additional measures, namely further cuts in domestically-financed projects, in order to meet the deficit target.

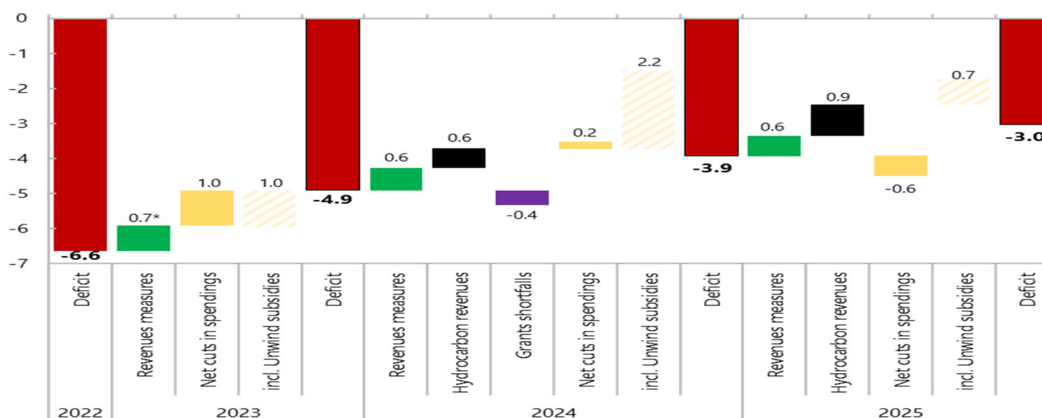
[4] The government intends to sell a part of the land currently occupied by the Aristide Le Dantec Hospital in Dakar. which is expected to generate around CFAF 57 billion.

Text Table 3. Revenues Increasing Measures Identified in 2023

Revenue Increasing Measures Identified in 2023	Expected Fiscal Yield (in percent of GDAP)
Tax administration measures (Institution of the single window for vehicle clearance at the customs, Creation of the transit, transhipment, and reexportation Bureau, Strengthening tax controls).	0.15
Withholding tax on fuel products sales made in Senegal by non resident individuals (CFAF 0.5/Kg)	0.02
Introduction of a levy tax on Insurance Companies (*1% of the companies' turnover for insurance companies and 0.5% for life insurance premiums*)	0.01
Additional income and capital gains taxes collected from subcontracting companies working on oil and gaz projects/fields	0.07
One-off proceeds from the sale of government land (LeDantec Hospital Dakar)	0.30
Additional Income taxes resulting from the increase in the fiscal shield on withholding taxes on government employees' salaries	0.06
Unwinding the suspension of import tax and customs duty on edible oil and sugar, which will yield around CFAF 15 billion	0.08
Total Expected Fiscal Yield	**0.70**

Source: Senegalese authorities and IMF staff calculations.

Text Figure 4. Fiscal Consolidation Path and Composition
(In percent of GDP)



Source: Senegalese authorities and IMF staff calculations.
(*) This includes the one-off proceeds of the sale of government land, estimated at CFAF 57 billion (0.3 percent of GDP)

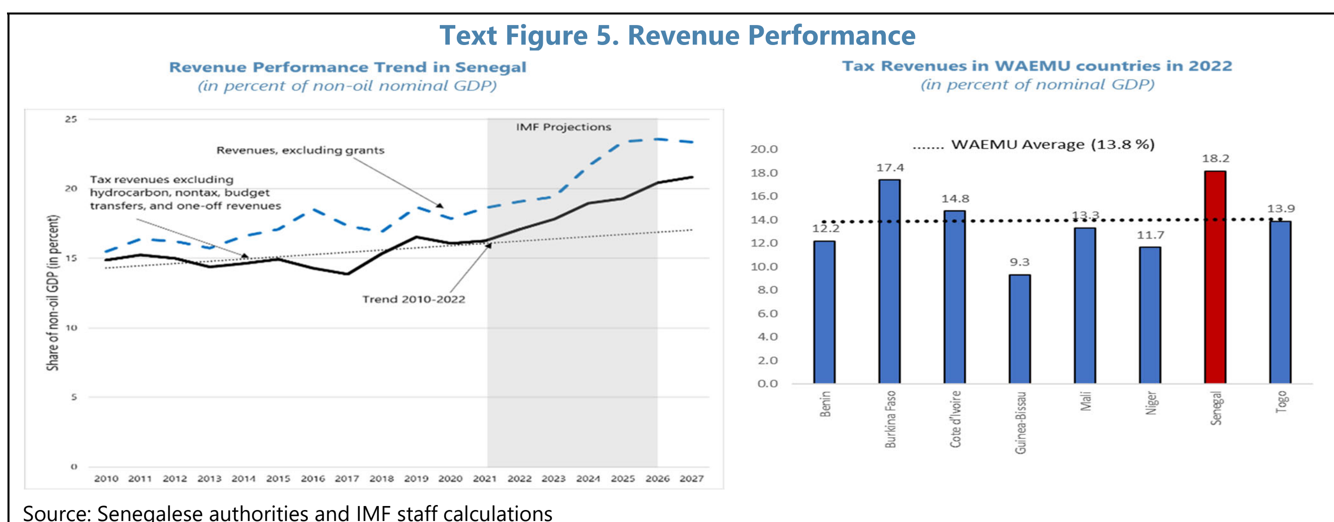
Fiscal Structural Reforms

Tax Policy

16. Ambitious tax reforms are needed to improve domestic revenue mobilization. The Senegalese tax system is complex with many small and unproductive taxes, a limited tax base, and

high tax rates favoring avoidance and discouraging formalization.[5] The absence of a tax policy unit with a clear mandate to coordinate tax policy across agencies and ministries is detrimental to the development of a clear reform plan. As a result, domestic revenue mobilization has increasingly relied on nontax revenues, one-off measures, and earmarking of budget funds to the tax and customs (Text Figure 5). In addition, VAT suffers from multiple rates and exemptions that weaken its neutrality and efficiency. Ownership and implementation of the MTRS remain insufficient. Effective coordination between the Tax and Customs Departments is crucial to combat tax fraud and informality. Moreover, auditing practices need to be considerably strengthened to broaden the tax base. Tax expenditures reached 5.3 percent of GDP in 2020, including 2.4 percent of GDP for households. Revenues from property tax collection remain marginal, absent information on dwellings' owners.

Text Figure 5. Revenue Performance



Source: Senegalese authorities and IMF staff calculations

17. To enhance the tax system, the program includes a number of reforms, which comprise both tax policy and revenue administration measures, which will be anchored in the MTRS. Key reforms during 2023-24 include (MEFP ¶¶22-23):

- Automatically transmit the electricity and water SOEs' address book of clients to the tax department to improve property tax collection. (**Structural Benchmark, end-October 2023**)
- Expand the tax base by increasing the number of registered taxpayers at the Directorate in charge of small and microenterprises that regularly pay taxes by 25,000, by exploiting available information from physical surveys (land registry services, national census of taxable properties) to increase registration and enrollment of new taxpayers. (**Structural Benchmark, end-December 2023**)
- Operationalize SEN'FINANCES Portal, a unified path platform for filing tax returns online and sending requests intended for all the revenue administration, which will increase revenue collection by improving control on enterprises and expanding the tax base.

[5] The authorities estimate that additional tax revenue of 3.4 percentage points of GDP could be collected if 44 percent of businesses formalize.

- Fully implement the prepayment for income taxes levied at customs for importers not current with their domestic taxes (*prélèvement de conformité fiscale*) by fully automatizing its settlement. (**Continuous Structural Benchmark, end-December 2023**)
- Prepare a plan to rationalize tax expenditures by at least CFAF 100 billion per year, over the next two years, starting in 2024 (**Structural Benchmark, end-November 2023**). The government will also audit at least 30 percent of VAT credits and nil returns per year.
- Strengthen the role of the Legislative and International Cooperation Unit in the tax department (*Direction Générale des Impots et des Domaines, DGID*) by providing it with a clear mandate to coordinate the work related to tax policy across agencies and ministries (**Structural Benchmark, end-September 2023**).
- Strengthen the collaboration between the customs (DGD) and the tax department (DGID) regarding fraud risk management through (i) the revitalization of the *Brigade mixte*, and re-focusing its work on exemptions, and (ii) the intensification and extension of the exchange of information, which is currently limited to customs declarations and financial statements and must be extended to significant indications of non-compliance by operators and the characteristics of their activity.
- Finalize the institutional framework for the implementation of VAT on digital transactions (*TVA numérique*) by the end of June 2023. The authorities have also committed to finalizing by the end of December 2023 the technical infrastructure required for the effective implementation of this new tax starting in 2024.

Text Table 4. Revenues Measures and Expected Fiscal Yield During the Proposed Program

Measures	**Expected Fiscal Yield (2023-2025)**
Tax administration measures (measures to expand the tax base, strengthen collaboration betwenn DGD and DGID, Institution of the single window for vehicle clearance at the customs, tighter tax controls).	0.2
Withholding tax on fuel products sales made in Senegal by non resident individuals (CFAF 0.5/Kg)	0.03
Introduction of a levy tax on Insurance Companies (*1% of the companies' turnover for insurance companies and 0.5% for life insurance premiums*)	0.05
Additional income and capital gains taxes collected from subcontracting companies working on oil and gaz projects/fields	0.14
VAT on online transactions and sales (Introduction of a *VAT on digital transactions, which is expected to yield around CFAF10 billion/year starting in 2024*)	0.07
Rationalization of Tax exemptions *(Rationalization of tax expenditure and VAT exemptions by about CFAF 100 billion/year starting from 2024*)	0.90
Unwinding the suspension of import tax and customs duty on some staple foods (*So far, the government has decided to unwind tax and customs duty suspension on edible oil and sugar, which will yield around CFAF 15 billion/year*)	0.13
Total Expected Fiscal Yield	**1.52**

Source: Senegalese authorities and IMF staff calculations.

Expenditure Policy

18. After spiking in 2022, energy subsidies will decline in 2023. Fuel and electricity subsidies amounted to 4 percent of GDP last year. In January 2023, the authorities increased electricity prices by 17 percent on average and prices of gasoline and diesel by 100 CFA (Text Figure 6), which, combined with lower international oil prices, will reduce energy subsidies to about 1.5 percent of GDP this year. However, obligations from last year of 2.2 percent of GDP have yet to be paid (Text Table 5). This carryover is due to delays in the submission of claims by importers, and the time needed to validate them by the Hydrocarbon National Committee (CNH), given the unusually large number of claims submission as a result of the spike in international fuel prices last year.

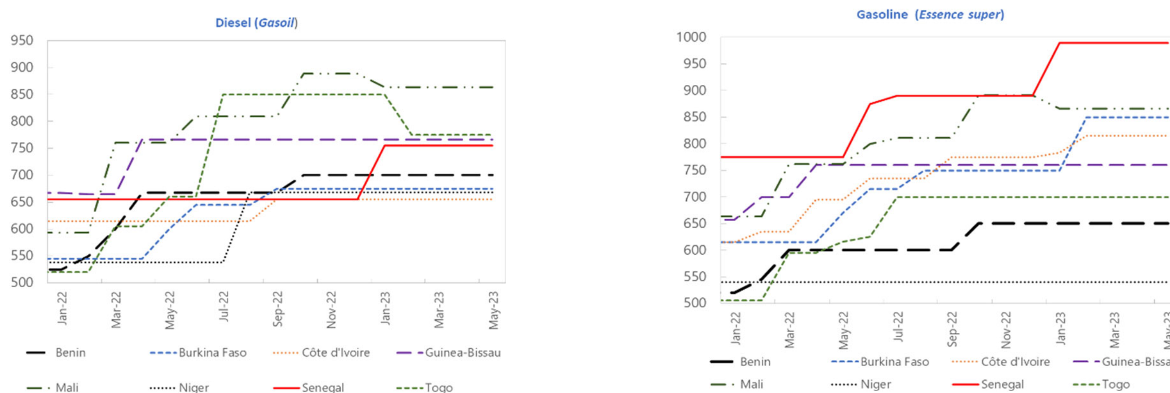
Text Table 5. Subsidies Payment Breakdown in 2023

	Fuel	Electricity	Total FCFA	Total % of GDP	Total with carryover FCFA	Total with carryover % of GDP
Subsidies projected for 2023	100.7	180.5	281.2	1.50	281.2	1.5
Carryover from previous years	343	62			405	2.2
of which already budgeted in 2022	129.6				129.6	0.7
			281.2	**1.50**	**556.6**	**3.0**

Source: Senegalese authorities and IMF staff calculations.

Text Figure 6. Pump Price Adjustments in WAEMU Countries

(Price levels in CFAF)



Sources: BCEAO and IMF Staff calculations.

19. The authorities reiterated their commitments to gradually eliminate untargeted electricity, gasoline, and diesel subsidies by 2025 in line with the roadmap published last January.[6] To follow through on their commitment, key steps this year will include: (i) establishing an independent body with the mandate to regularly determine and publish fuel prices, based on a revised pricing formula, together with the frequency of adjustment and the related smoothing mechanism (**Structural Benchmark, November 2023**) (MEFP ¶24); and (ii) undertaking a study to revise the electricity tariff structure to make it more progressive, including the introduction of a

[6] http://www.finances.gouv.sn/wp-content/uploads/2023/01/FEUILLE-DE-ROUTE-Version-finale-vue-MFB-STABILISE-A-PUBLIER-1.pdf

"social tariff" category, and conducting an external audit of the methodology to determine the subsidy due to SENELEC (MEFP ¶24).

Public Financial Management

20. Ongoing PFM reforms are key to improving budget transparency and spending efficiency. The December 2022 Court of Accounts' audit on the use of the COVID-19 relief funds revealed severe weaknesses in the spending and procurement procedures[7], and the authorities are committed to addressing them. Since then, the authorities have revised the public procurement code. They have also opened prosecution cases against individuals and companies accused of misappropriation and embezzlement of Covid-relief funds. Also, an action plan to address PFM weaknesses identified in the audit report is being implemented under the supervision of the General Inspectorate of Finance. They also plan to eliminate all treasury accounts (*comptes de dépôts*) used by central government's entities to strengthen internal control and improve transparency (**Structural Benchmark, end-June 2024**) (MEFP ¶29). They will also eliminate capital transfers by ensuring that all projects with new procurement contracts will be executed as government investment (**Structural Benchmark, end-December 2023**) (MEFP ¶27). While staff would have preferred that all the projects to be executed as part of government investment, the authorities argued that for existing multi-year projects, the transition will not be feasible. Staff will follow up on this at the time of the next review with appropriate technical assistance.

21. The 2023 PIMA update showed that public investment efficiency score declined from 67 to 57 percent since 2019, driven by comparatively low access to infrastructure. Key concerns are the lack of clear criteria for project selection and the execution of public investment projects (PIP) through capital transfers to public agencies without spending verification.[8] The authorities are committed to following the recommendations of the PIMA review to improve the management of public investment. Priorities will focus on: (i) strengthening the link between PIP planning and budgeting, (ii) monitoring the investments made by public enterprises and PPPs, (iii) clarifying the project selection criteria, and (iv) reducing derogatory expenditure execution procedures (MEFP ¶25).

Debt Strategy

22. The government is committed to preserving debt sustainability, which is assessed to be sustainable over the medium term (DSA, Annex) To bring public sector debt on a downward path, the authorities agreed to (i) embark on a fiscal consolidation path, (ii) implement rigorous

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[7] http://www.courdescomptes.sn/publications/rapports/rapports-particuliers/

[8] In 2022, 88 percent of domestically funded PIPs were executed through capital transfers to public agencies' treasury account ("*Comptes de dépôt*"). Those public agencies do not generally have the capacity to produce timely financial information and do not systematically report on the physical execution of the investment projects they are conducting.

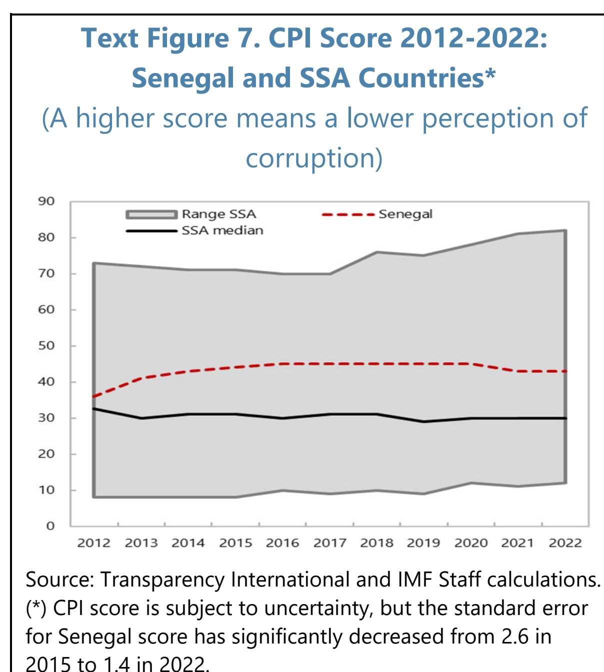
government approval processes for further SOE borrowing[9], and (iii) strengthen contingent risk management, including from PPPs, such as by improving its fiscal risk statement and better incorporating its results in government budget contingency. Towards limiting further growth of public sector debt, the program introduces a quantitative performance criterion (QPC) on the present value of public sector external new borrowing and an indicative target (IT) on the stock of public sector debt.

B. Enhancing AML/CFT and Governance (ECF/EFF Pillar II)

23. Senegal faces some governance weaknesses (Annex VI). A significant part of public spending is executed through the parastatal sector with weak information systems. Several control entities publish their reports with delays while some do not. The country's score on the Transparency International's Corruption Perceptions Index has remained low at 43 out of 100, two points down from the 2020 score. The government's effectiveness remains low. The asset declaration requirements are not effective. While Senegal has made significant inroads since 2021 to address strategic deficiencies in its AML/CFT framework to exit from the FAFT's enhanced oversight (or grey list), the country missed the September 2022 deadline to complete its action plan.

Text Figure 7. CPI Score 2012-2022: Senegal and SSA Countries*

(A higher score means a lower perception of corruption)



Source: Transparency International and IMF Staff calculations.
(*) CPI score is subject to uncertainty, but the standard error for Senegal score has significantly decreased from 2.6 in 2015 to 1.4 in 2022.

24. The authorities acknowledged the need to strengthen fiscal governance. To this end, they intend to strengthen the information system of the main extrabudgetary entities and extend the statement of government financial operations to them with the aim of publishing the statement of public administration's financial operations each year in October. In addition, they plan to enhance public accountability through timely and mandatory publications of the main control entities' reports.

25. Staff and the authorities agreed on the need to improve the anti-corruption framework. The government is currently working on a draft law, which reinforces the powers of the National Office for the Fight against Fraud and Corruption (OFNAC) to investigate corruption and fraud allegations and make it mandatory for the General Prosecutor office to report periodically on referrals received from the OFNAC, including the number of cases that were investigated, the number of indictments and dismissals (**Structural Benchmark, end-October 2023**) (MEFP ¶33). The

[9] Notably, the government will strengthen the role of the National Public Debt Committee, increase publications to improve debt transparency, and adopt a regulation to clarify the conditions under which the government can on-lend to state-owned enterprises.

government is revising the asset declaration framework to ensure its effectiveness with dissuasive sanctions for non-compliance or untruthful declaration (**Structural Benchmark, end-October 2023**) (MEFP ¶34). It is also finalizing a draft law to establish a financial prosecutor office with specialized magistrates responsible to investigate serious financial and economic crimes by October 2023. Finally, it will strengthen the code of ethics and deontology for civil servants by October 2023 (MEFP, ¶36).

26. The authorities are determined to exit the Financial Action Task Force's (FATF)'s grey list by October 2023. The government is taking the necessary actions to address remaining weaknesses pertaining to the operationalization of the beneficial ownership (BO) registry, effective implementation of targeted financial sanctions regime, training of supervisors of designated Non-Financial Business or Profession (DNFBPs) (MEFP ¶32). Measures related to BO also support other program measures related to financial stability, support correspondent banking relationships, support tax revenue, and transparency of public procurement and mining.

C. Building Socioeconomic Resilience (ECF/EFF Pillar III)

27. Continued policy efforts are needed to spur structural transformation and enhance overall productivity (Annex VII)**.** Large public investments in infrastructure have driven Senegal's economic growth over recent years. This public sector-driven growth has not resulted in a structural transformation of the economy and has increased Senegal's debt vulnerabilities in a context of weak public investment efficiency. While Senegal has taken measures to mitigate these risks, continued policy efforts will be needed to ensure sustainable and inclusive growth in the years ahead, by shifting toward supply-side reforms, including strengthening investment efficiency and domestic revenue mobilization. To address these challenges, the authorities plan to implement the following reforms in the near-term:

- Setting up a centralized and integrated land management system, which will digitalize land management procedures (**Structural Benchmark, end-December 2023**) (MEFP ¶39).
- Putting in place a collateral registry that is accessible online and combines data on movable collateral (*registre des suretés mobilières*) as well as mortgages in cooperation with the BCEAO. (**Structural Benchmark, end-December 2023**) (MEFP ¶39).
- Revising the investment code in line with international best practices, including by ensuring that tax incentives are not included in the investment code but rather in the tax code.

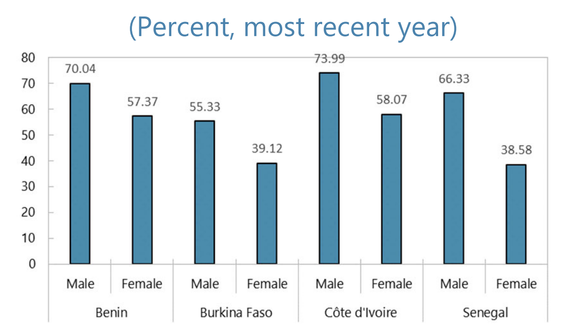
28. Addressing long-standing weaknesses of the postal group and two non-systemically ailing banks is critical. The Post Office group (*la Société nationale La Poste*) is in an increasingly precarious financial situation. Staff underscored the importance of strictly enforcing conservatory administrative measures agreed upon to limit budgetary risks and quickly reviewing and implementing the lingering restructuring roadmap, which aims to transform its financial arm *Poste*

Finances into an independent financial institution.[10] The authorities agreed to speed up the restructuring process of the post office group in order to contain the fiscal risks and indicated that any public support should be contingent upon changes in the business model and governance. With respect to the two ailing small banks, plans are being implemented to recapitalize them paired with efforts to address their governance weaknesses and the authorities are committed to follow through on their restructuring plans (MEFP ¶¶ 43).

29. Senegal has made good progress in establishing its social protection system, however more efforts are needed to refine the existing system (Annex III). To improve the social protection system, the authorities are committed to (i) expanding the Single National Registry (RNU) coverage to one million households to ensure that the most vulnerable individuals are included in the safety net system – the targeting process is underway with the regional, departmental, and communal quotas already determined and transmitted to the administrative authorities (MEFP ¶36); and (ii) adopting a digital payment system to avoid payments delays. In this respect, the authorities intend to settle in June 2023 the outstanding two quarters of cash transfers, which have not been paid since 2021, and would therefore help protect the most vulnerable in the context of energy subsidies phasing out (**Prior Action**), (MEFP ¶44).

Text Figure 8. Labor Force Participation by Gender

(Percent, most recent year)



30. Significant progress is needed to achieve gender equality in Senegal. According to the UNDP Gender Inequality Index, Senegal ranked 131st in 2021. While gender gaps in primary education have reversed and female employment and participation have increased, only 11 percent of the female population 35 and older has some secondary education, compared to 30 percent in the case of males. As a result, labor force participation of women aged 15-64 is 39 percent compared to 66 percent for men and is substantially lower than in other WAEMU countries (Text Figure). Moreover, strong job segregation persists, as well as differences in access to land, credit, and labor, often driven by secular and customary gender laws. Since 2016 Senegal has been implementing gender budgeting. All stages of the budget process consider the gender dimension and budget laws are accompanied by a dedicated document providing an assessment of how budgetary decisions affect gender inequality in each ministry. The government is committed to implement some key reforms in this area (MEFP ¶ 34), including: (i) increasing social spending on programs targeted to young girls and women, (ii) removing obstacles to girls' education, including by facilitating the transition from primary to secondary education, and (iii) providing training and credit to female entrepreneurs.

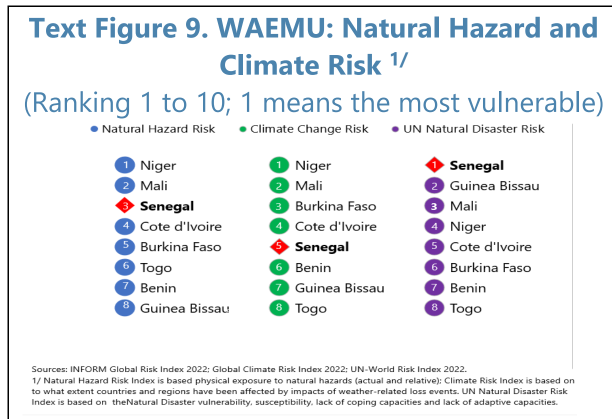
[10] Separating Poste finances from the post office group is important to eliminate financial transfers from Poste finances towards the rest of the group. This will allow it to maintain adequate minimum daily cash balances to cover postal checks.

D. Building Resilience to Climate Change

31. The impact of climate change in Senegal is projected to be severe (Annex V). Climate change could reduce GDP growth by 2 to 4 percentage points across Africa by 2040 and by 10 to 25 percentage points by 2100.[11] Senegal is particularly vulnerable, as 74 percent of its population lives in coastal areas and about 75 percent of the workforce is in agriculture (which relies mostly on raindrop). Vulnerability to climate change translates into sizeable output at risk, undermines Senegal's agriculture and food security, and heightening dependency on imports aggravating its balance of payments.

Text Figure 9. WAEMU: Natural Hazard and Climate Risk 1/

(Ranking 1 to 10; 1 means the most vulnerable)

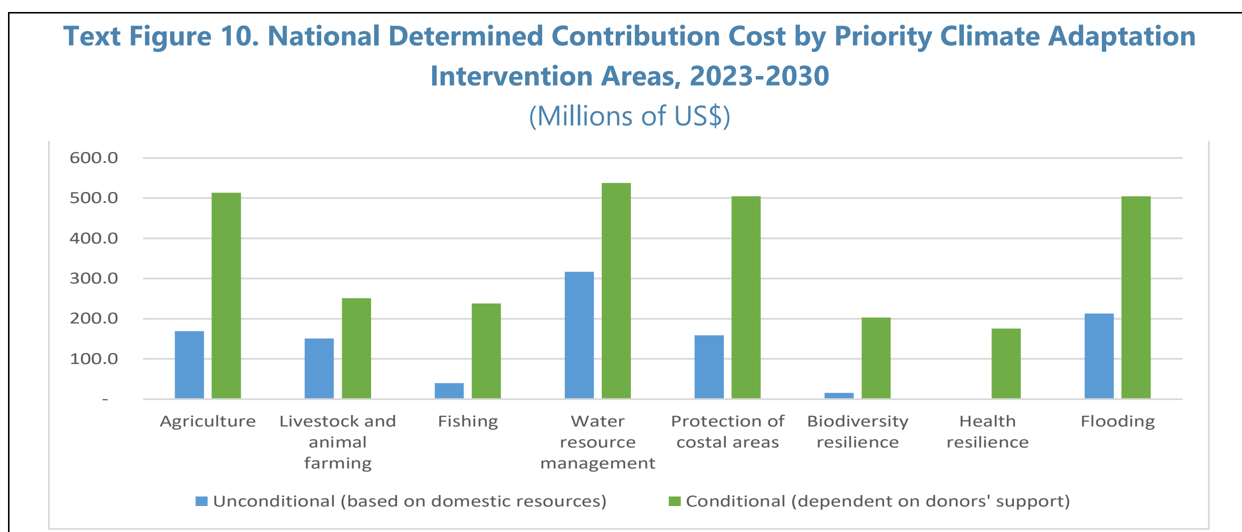


Sources: INFORM Global Risk Index 2022; Global Climate Risk Index 2022; UN-World Risk Index 2022.
1/ Natural Hazard Risk Index is based physical exposure to natural hazards (actual and relative); Climate Risk Index is based on to what extent countries and regions have been affected by impacts of weather-related loss events. UN Natural Disaster Risk Index is based on theNatural Disaster vulnerability, susceptibility, lack of coping capacities and lack of adaptive capacities.

32. The Nationally Determined Contribution (NDC, 2021) outlines a strategy for adaptation and mitigation, including ambitious objectives for the transition to renewables.[12] Adaptation priorities in the NDC focus on the resilience of ecosystems and ensuring the protection of populations against climate risks, with a focus on strengthening resilience of agriculture and protect the coastal area while enhancing geo-tagged climate-risk data collection. The mitigation component of the NDC targets increased carbon sequestration in the agriculture and forestry sectors, the use of renewable energies, the strengthening of energy efficiency and the improvement of waste management and of industrial processes. The NDC estimates the cost of adaptation and mitigation policy reforms and investments at about US$13 billion (of which about US$8 billion related to mitigation), an average of 7 percent of GDP per year during 2023-30.

Text Figure 10. National Determined Contribution Cost by Priority Climate Adaptation Intervention Areas, 2023-2030

(Millions of US$)



[11] United Nations, Report of the UN Intergovernmental Panel on Climate Change, 2007

[12] The NDC is part of Senegal's development plan (Plan Senegal Emergent—PSE), which provides the overarching framework for climate initiatives.

33. The recently completed Climate-PIMA (C-PIMA) identified several shortcomings that undermine coherent climate consideration in the budget/investment process. It found a lack of effective central coordination mechanism for green public investment decision-making in response to climate change. Moreover, the regulations on spatial and urban development and construction only marginally take into account the issues related to climate change. Finally, ex-ante evaluation and project selection are weak and do not include climate-related criteria.

34. Staff closely coordinated with the World Bank, the Global Center on Adaptation (GCA), and other development partners (DP) to capitalize on their comparative expertise and institutional knowledge while establishing policy priorities under the new ECF/EFF and RSF. Staff actively sought input and engaged in productive exchanges with the World Bank who also joined the new program negotiation mission. An assessment letter on the authorities' climate policies, confirming the ambitious climate reform package, was provided by the World Bank in the context of the RSF. The GCA played a pivotal role in providing extensive advice, input, and support for the refinement of adaptation policies. Other DPs, including the AfDB, EIB, and UNDP, are also actively involved in providing technical assistance for climate-related policy reforms.[13]

35. To advance their climate change strategy, the authorities have agreed to a policy reform program that will be centered around three pillars (MEFP ¶¶ 47-50; Text Table 6).

- **Pillar I: Supporting Senegal's Climate Change Mitigation Goals.** The authorities plan to take concrete steps to gradually phase out untargeted subsidies in the electricity sector, as committed under the January 2023 published roadmap, reflecting work by the World Bank to shore up Senelec's operations and finances. They also intend to adopt an implementation plan to enact their strategy for greener public transport, to address mounting congestion and pollution in urban areas, and reflect it in the budget, in line with the objectives of the NDC. While Senegal is not a major contributor of greenhouse gas emissions, yet it has an ambitious agenda to gradually decarbonize and is looking into options for introducing a carbon tax.[14]
- **Pillar II: Accelerating Senegal's adaptation to climate change.** To establish a firm baseline to firm up their adaptation as well as mitigation priority costing, the authorities will adopt their Country Development Strategy. They will strengthen the institution in charge of implementing the government's comprehensive strategic priorities in water management. To support climate vulnerability and risk assessment, response management, and de-risk, they will start collecting and disseminating geo-tagged granular risk climate data. Actions in this area will be key to supporting private sector investment and participation by the banking and insurance sectors.

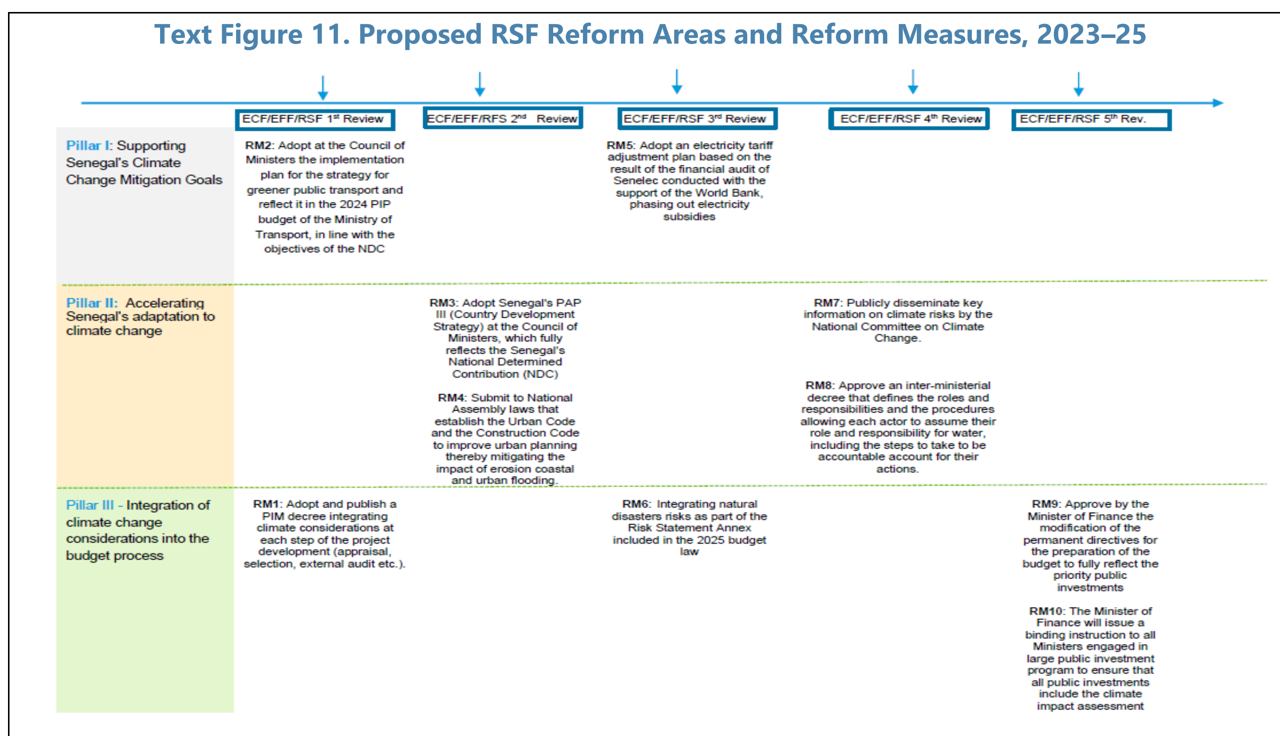
[13] The AfDB is working on decarbonization by supporting green energy, including solar plants. The EIB is supporting investment in green infrastructures and climate action projects. The UNDP is working on several projects to strengthen capacity to better assess the implications of climate change and elaborate a climate change financing strategy.

[14] Meanwhile, Senegal has agreed to adopt, as part of a new environmental code, higher standards in the oil and gas industry to ban the flaring of natural gas and dispersion of methane. The authorities are also working, with support from the World Bank, on a roadmap to define options for establishing a carbon tax, which is expected to be finalized by end-2023

The premises for a permanent policy change to avert the hardships of rising sea level and flooding will be met by enacting the new Urban Code and the new Construction Code.[15]

- **Pillar III: Integration of climate change considerations into the budget process.** The authorities intend to adopt by end-July 2023 the implementation plan of recommendations of the February 2023 C-PIMA. They will also (i) assess and quantify disaster-related fiscal risks as part of the Risk Statement Annex included in the 2025 budget law, and (ii) adopt and publish a Public Investment Management (PIM) decree integrating climate considerations at each step of the project development (appraisal, selection, external audit etc.). Going forward, the authorities are committed to strengthening the budget process and public investment appraisal framework to effectively reflect their climate dimension.

Text Figure 11. Proposed RSF Reform Areas and Reform Measures, 2023–25



36. Implementation of the reform agenda will also necessitate capacity development. Priority areas include: (i) strengthening the institutional and operational framework for collecting, analyzing, and disseminating geo-tagged climate risk information to strengthen disaster risk management and response; (ii) fast-tracking basic budget preparation and implementation reforms to strengthen climate tagging and ex-post assessment of impact of climate spending; (iii) establishing a unified and coherent framework for water resource planning and management with tiered response mechanisms depending on the materialization of climate risk and the prioritization by economic and social consideration; and (iv) revisingthe construction code to incorporate building requirements emerging from projected climate-related risks.

[15] The WB will also work on specific implementation decree for these two codes.

FINANCING AND PROGRAM MODALITIES

37. Staff supports the authorities' request for a 36-month EFF/ECF arrangement with access of SDR 1,132.6 million or 350 percent of quota (Table 10a).[16] The EFF/ECF arrangement will support Senegal's external financing needs, while Senegal addresses its protracted and structural balance of payment problems, including (i) current account pressures due to an immediate commodities terms of trade shock and persistent investment needs to close infrastructure gaps, as well as (ii) financial account pressures reflecting high and persistent external debt service needs amidst global and regional financial market tightening. Absent Fund financial support and prospective donor financing, the foreign reserves are expected to decline significantly, raising risks to the region's external viability. The proposed IMF program is a key building block in a broader coordinated budget support program by donors that closes Senegal's financing gap during the program period.[17] There are firm financing assurances for the first 12 months of the program, and good prospects for the remainder of the program. The access level is calibrated on basis of the size of the balance of payment needs (in particular the need to contribute towards building up regional reserves), the strength of the program reforms (in particular a significant fiscal adjustment), and capacity to repay the Fund. The proposed uniform phasing reflects the profile of annual external financing needs, taking into account the recent difficulties encountered when borrowing in the regional market. The EFF/ECF arrangement will go towards budget support.

38. To underpin policy reforms aimed at building resilience to climate change, staff also supports the authorities' request for a 36-month Resilience and Sustainability Facility (RSF) arrangement with access of 75 percent of quota. The RSF will support Senegal towards financing prospective BoP needs stemming from long-term structural challenges related to the impact of climate change on the economy. The reform measures under the RSF are closely related with priority policy reforms and investment plans under Senegal's own NDC. Senegal is eligible for RSF financing and belongs to interest group B. The RSF arrangement will go towards budget support and will substitute more expensive domestic financing.

39. Senegal's capacity to repay the Fund remains adequate but is subject to risks. The total stock of debt to the Fund is elevated and expected to reach 4.7 percent of GDP (including access under the RSF) while upcoming total debt service to the Fund will be peaking at 4.1 percent of government revenue and 3.0 percent of exports of goods and services in 2026. Nearly all these metrics are well above the 75th percentile of past PRGT arrangements (Figure 1), emphasizing elevated risks. However, these risks are mitigated by the envisaged strategy to reduce debt vulnerabilities, including fiscal consolidation and prudent borrowing by state-owned enterprises,

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[16] SDR 377.53 million (or 116.67 percent of quota) under the ECF and SDR 755.07 million (or 233.33 percent of quota) under the EFF.

[17] Over the program period, around 50 percent of the projected financing gap is covered by the IMF UCT program. The rest is projected to be covered by parallel budget support from partners (see SR table 8). In 2023, the program macroeconomic framework includes budget financing of CFAF 438.2 billion through the IMF, 188.2 billion through the World Bank, CFAF 92.1 billion through the African Development Bank, CFAF 72.2 billion through the French Development Agency and CFAF 31.0 billion from Japan (see DSA text figure 3).

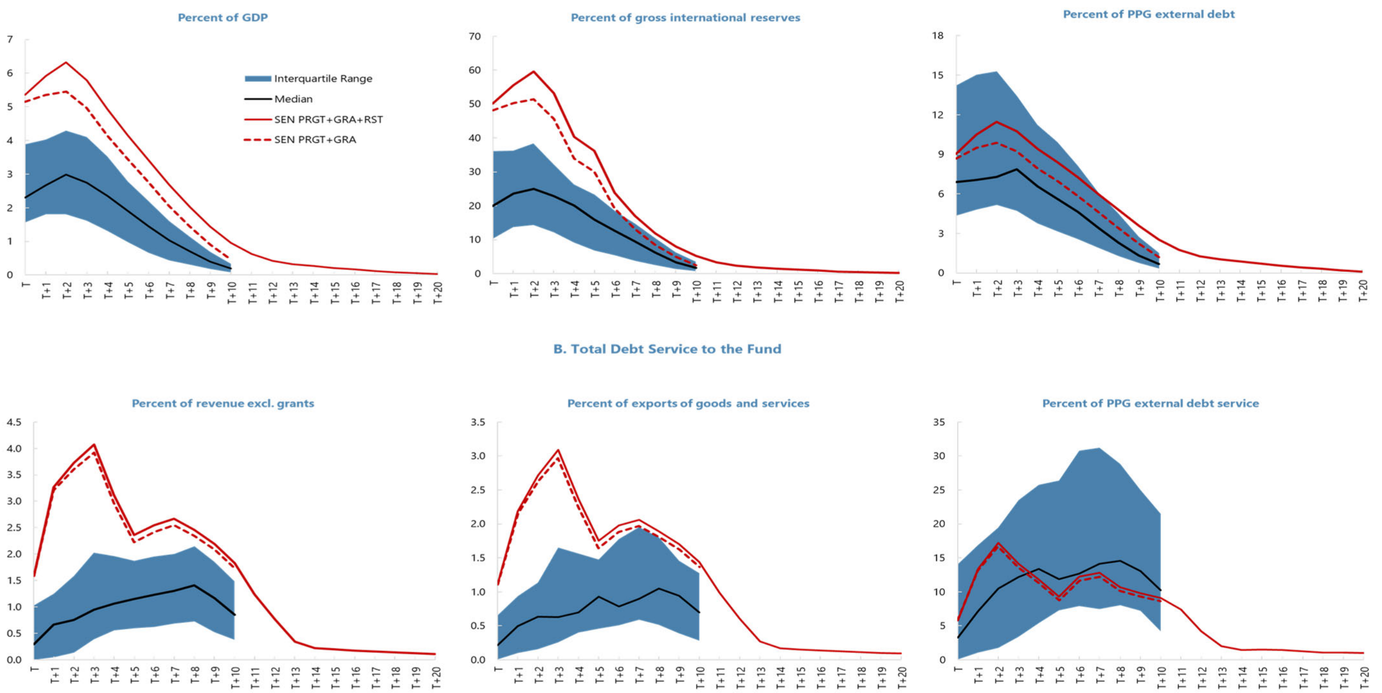
and Senegal's strong track record of timely repayment of Fund obligations, and the authorities' commitment to broad economic reforms.

40. Safeguards assessment. The BCEAO has implemented all recommendations provided in the 2018 safeguards and has broadly appropriate governance arrangements and a robust control environment. An update assessment of the BCEAO is currently in progress.

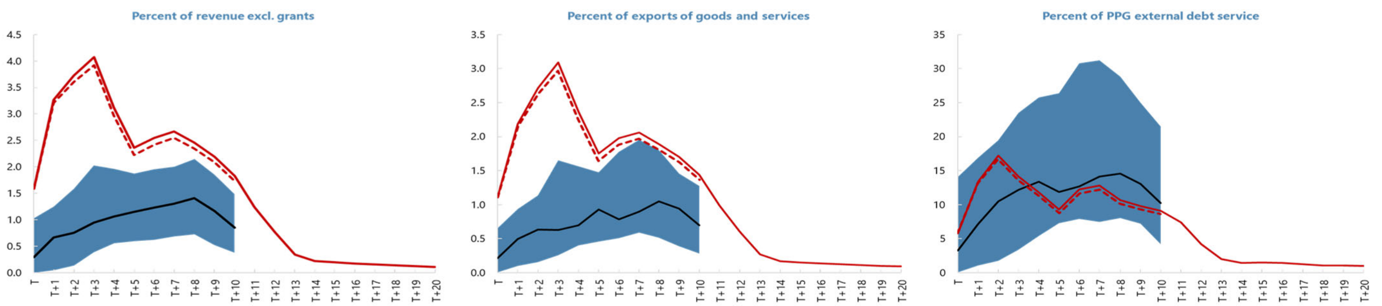
41. Program implementation risks are large, but manageable. On the domestic side, risks to program implementation could increase in case of policy slippages and political unrest in the run up to the presidential elections, and insecurity spillovers from the region. Large risks also appear on the external side, with the possible escalation of the war in Ukraine, further global slowdown, and tighter global and regional financial conditions. If risks materialize, keeping the program on track would require proactive adjustment in macroeconomic policies in consultation with Fund staff.

Figure 1. Senegal: Capacity to Repay Indicators Compared to UCT Arrangements for PRGT Countries

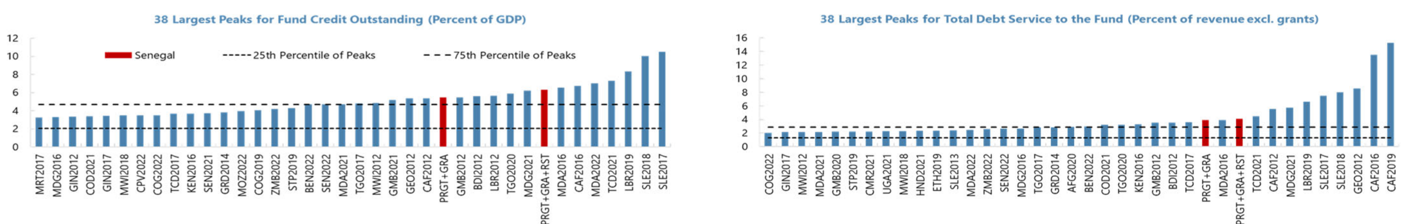
A. Total Fund Credit Outstanding



B. Total Debt Service to the Fund



C. Largest Peaks



Notes:

1) T= date of arrangement approval. PPG = public and publicly guaranteed.
2) Red lines/bars indicate the CtR indicator for the arrangement of interest.
3) The median, interquartile range, and comparator bars reflect all UCT arrangements (including blends) approved for PRGT countries between 2012 and 2022.
4) PRGT countries in the control group with multiple arrangements are entered as separate events in the database.
5) Comparator series is for PRGT arrangements only and runs up to T+10.
6) Debt service obligations to the Fund reflect prospective payments, including for the current year.
7) In case of blenders, the red lines/bars refer to PRGT+GRA. In the case of RST, the red lines/bars refer to PRGT+GRA+RST.

STAFF APPRAISAL

42. Senegal is facing a difficult tradeoff between normalizing policy making in the post pandemic environment and laying the ground for sustained and resilient growth. The authorities appropriately responded to the COVID crisis with a strong fiscal impulse, shielding the vulnerable population. However, the ensuing war in Ukraine, surge in commodity prices, and tight financial conditions have put the Senegalese economy through a longer strain.

43. To address these challenges, the authorities will need to expedite their ambitious reform agenda to strengthen public finances and achieve a more resilient and inclusive growth. Meeting these objectives will necessitate putting debt on a downward trajectory through ambitious fiscal consolidation efforts, scaling up social spending, improving governance, and creating an enabling environment for a sustainable and private sector-led growth. Tackling climate change challenges remains critical for long-term macroeconomic resiliency.

44. The three-year ECF/EFF and concurrent RSF are well tailored to support Senegal's priorities. The new ECF/EFF supported program will provide critical help to address macroeconomic imbalances, support Senegal's medium-term balance of payments needs, and help rebuild regional reserves. The concurrent RSF will support Senegal's climate change mitigation and adaptation goals.

45. The government's fiscal strategy appropriately targets an increase in domestic revenues and reigns in untargeted subsidies in the energy sector. On the revenue side, the authorities are committed to strengthening the implementation of their MTRS objectives with the aim of increasing tax revenues. They are also determined to phase-out energy subsidies by 2025, to create space for more targeted social safety nets. Staff also welcomes the authorities' commitment to strengthen public financial management and enhance forward-looking oversight on SOEs borrowing and PPP operations, as they constitute a major risk to debt sustainability. Delivering on these fronts will be critical to make sure that Senegal remains at a moderate risk of debt distress.

46. Strengthening the AML/CFT and governance and anti-corruption framework will be critical. The government priorities should focus on: improving fiscal governance, particularly with respect to the information system of the main extrabudgetary entities; enhancing the prerogatives and powers of the OFNAC; strengthening the asset declaration system for public officials; and address the strategic deficiencies in its AML/CFT framework to exit from the FAFT's grey list.

47. Important efforts are needed to spur structural transformation and enhance productivity. Reform efforts include solidifying the financial system, particularly the long-standing weaknesses of the postal group and the two non-systemically ailing banks, reducing gender-based inequalities, and improving the social protection system to strengthen socio-economic resilience.

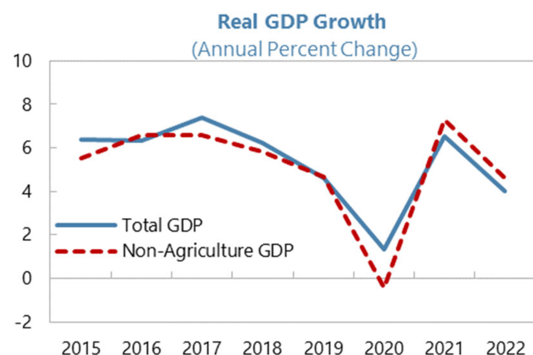
48. The authorities are committed to building resilience to climate change and natural disasters, which will help mitigate macroeconomic and fiscal risks. Priorities should focus on policy reforms to protect against costal erosion, enhance water management, and strengthen

agriculture, together with mitigation measures to phase out untargeted electricity subsidies and strengthen green public transportation.

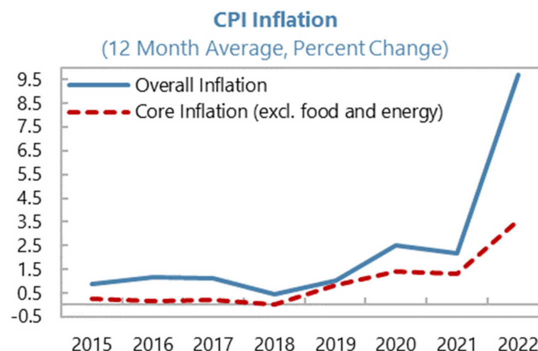
49. Based on the protracted balance of payment needs, substantial climate-related financing requirements, and strong policy commitments, staff supports the request for a new 36-month ECF/EFF- and RSF-supported programs.

Figure 2. Senegal: Real and External Sectors, 2015–2022

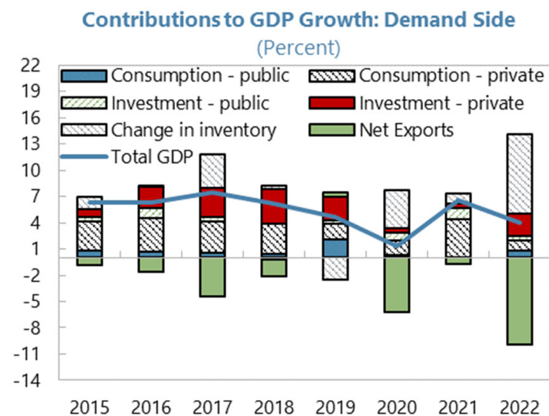
Growth slowed down in 2022....



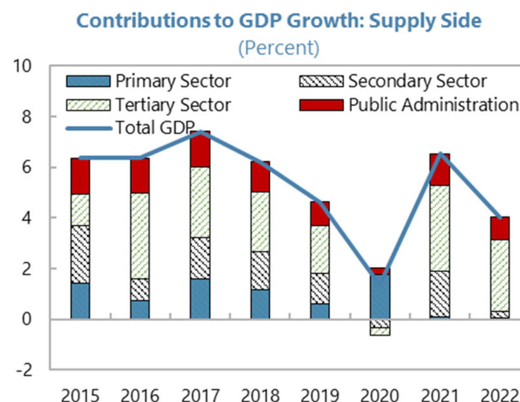
.... and inflation spiked.



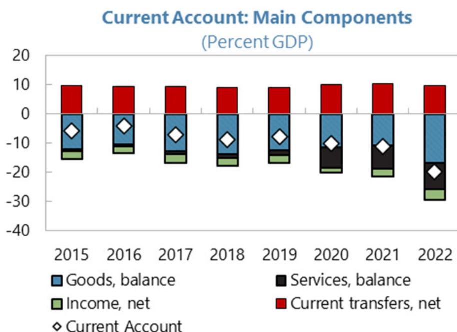
The slowdown was driven by lower private consumption and public investment....



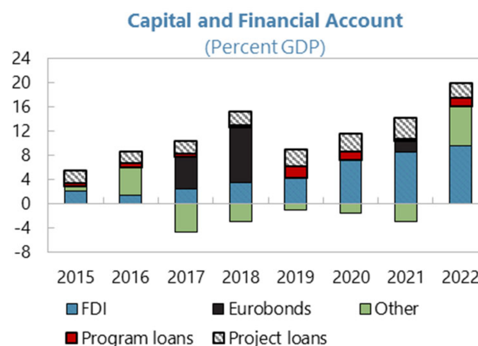
....with a sharp slowdown of the secondary sector.



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



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

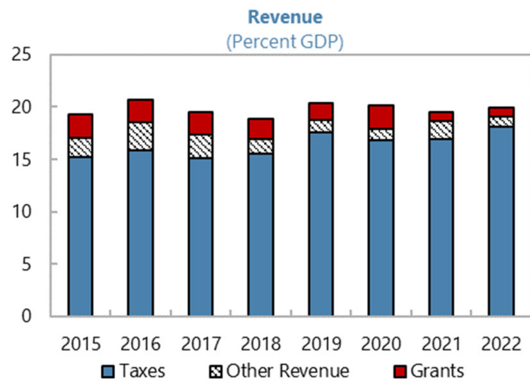


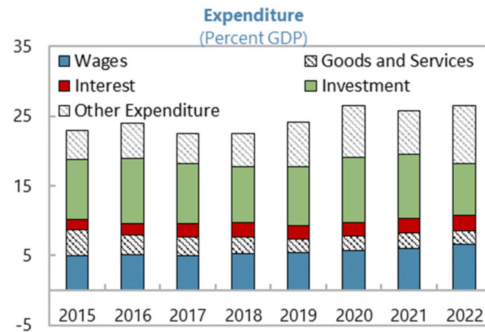
Sources: Senegal authorities; and IMF staff calculations.

Figure 3. Senegal: Fiscal and Financial Indicators, 2015–2022

The tax-to-GDP ratio barely increased...

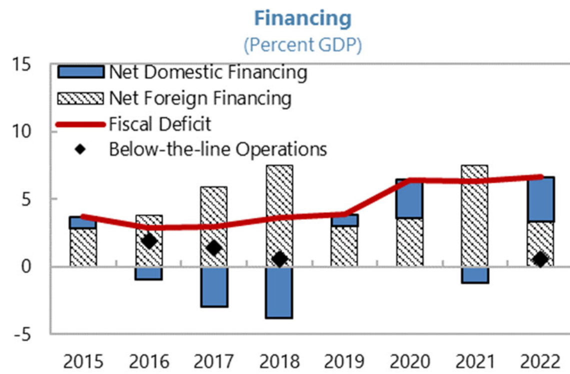
... while spending remained high, driven by energy subsidies.

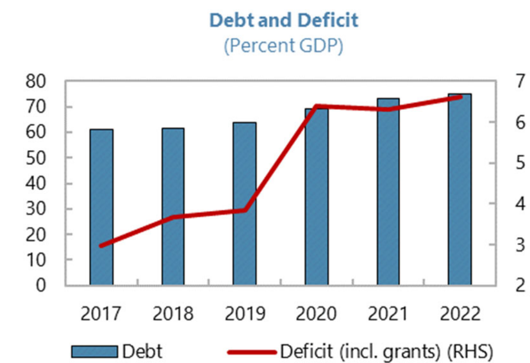




Net financing was covered mostly from foreign sources...

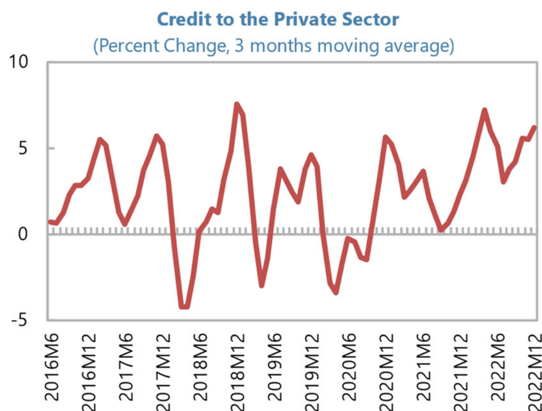
...and the public sector debt ratio increased to 77.8 percent of GDP.

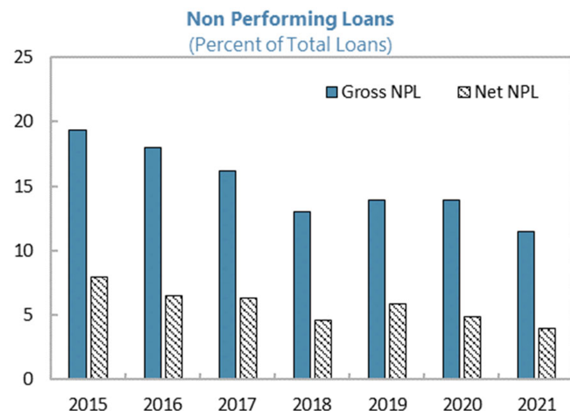




Credit to the private sector continued expanding in 2022...

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

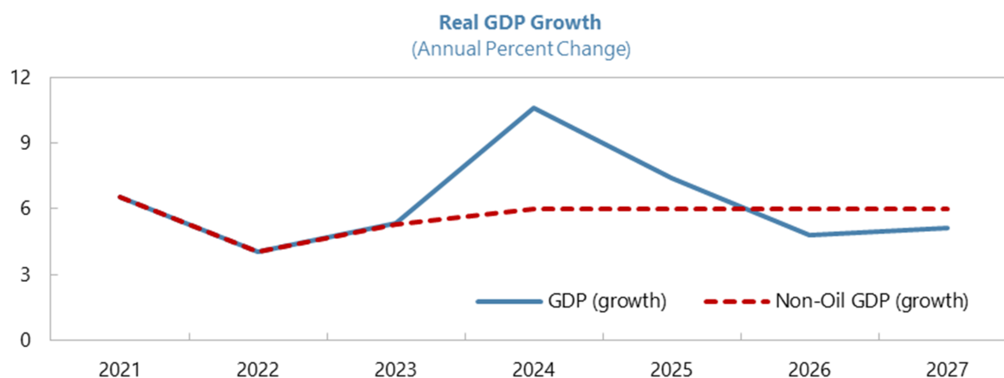




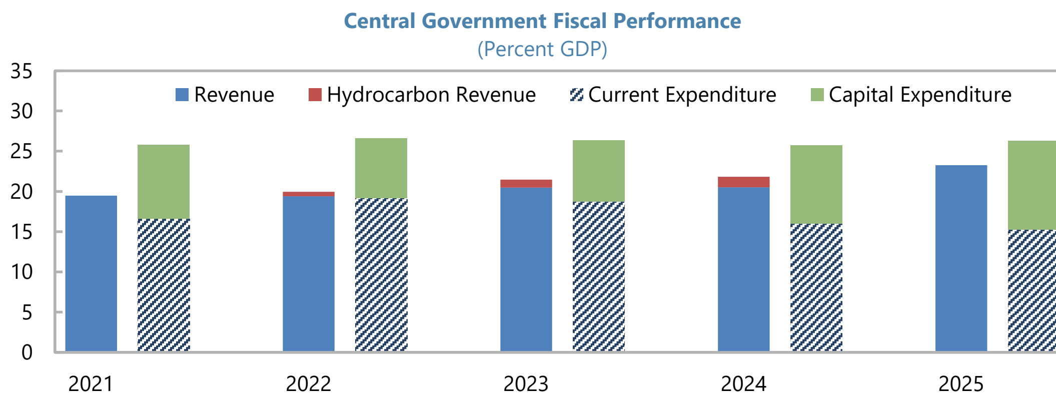
Sources: Senegal authorities; and IMF staff calculations.

Figure 4. Senegal: Economic Outlook 2021–2027

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.



Source: Senegal authorities; and IMF staff calculations.

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

	2020	2021	2022		2023		2024	2025	2026	2027
		Act.	IMF CR 23/30	Est.	IMF CR 23/30	Proj.	Projections			
	(Annual percentage change)									
National income and prices										
GDP at constant prices	1.3	6.5	4.7	4.0	8.3	5.3	10.6	7.4	4.8	5.1
Of which: Non-hydrocarbon GDP	1.3	6.5	4.7	4.0	6.0	5.3	6.0	6.0	6.0	6.0
GDP deflator	1.5	1.8	6.6	8.6	3.1	3.2	2.0	2.0	2.0	2.0
Consumer prices (annual average)	2.5	2.2	8.5	9.7	3.5	5.0	2.0	2.0	2.0	2.0
External sector										
Exports, f.o.b. (CFA francs)	-7.1	26.3	13.1	24.6	25.5	15.7	25.6	8.7	5.9	8.1
Imports, f.o.b. (CFA francs)	-6.1	17.1	23.1	42.4	8.7	2.0	0.7	4.7	6.1	9.1
Export volume	-4.7	12.4	-8.0	-5.8	21.5	17.5	27.1	10.0	5.7	5.9
Import volume	2.8	11.3	4.5	7.8	11.4	6.8	3.5	8.4	5.4	7.7
Terms of trade ("–" = deterioration)	6.8	6.8	4.4	0.2	5.8	3.2	1.7	2.3	-0.6	0.7
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	14.5	22.5	11.9	20.0	…	…	…	…
Net domestic assets, *of which*	16.5	11.1	16.2	22.0	13.5	23.1	…	…	…	…
Credit to the government (net)	15.4	6.0	9.0	12.8	4.9	-0.9	…	…	…	…
Credit to the economy (net)	1.2	4.3	8.7	13.6	10.0	15.1	…	…	…	…
	(Percent of GDP, unless otherwise indicated)									
Central government operations										
Revenue	20.2	19.5	21.0	19.9	21.3	21.5	21.8	23.3	23.7	23.7
Grants	2.3	0.9	1.4	0.8	1.7	1.6	1.2	1.2	1.2	1.2
Total expenditure	26.6	25.8	27.2	26.6	26.2	26.4	25.7	26.3	26.7	26.8
Net lending/borrowing (including grants)	-6.4	-6.3	-6.2	-6.6	-4.9	-4.9	-3.9	-3.0	-3.0	-3.1
Primary fiscal balance	-4.4	-4.3	-3.9	-4.4	-2.7	-2.2	-1.5	-0.7	-0.7	-0.8
Savings and investment										
Current account balance (official transfers included)	-10.1	-11.2	-15.7	-19.9	-11.0	-13.3	-6.1	-4.2	-3.8	-3.7
Gross domestic investment	35.2	35.4	43.0	46.8	41.4	42.5	36.4	34.7	32.6	32.5
of which: Central Government	7.0	6.9	5.9	5.5	6.0	5.7	7.3	7.2	7.3	7.3
Gross national savings	25.0	24.3	27.3	26.9	30.4	29.2	30.3	30.4	28.8	28.7
of which: Central Government	6.3	4.9	7.1	6.2	5.1	5.0	5.5	6.7	6.5	6.5
Public sector debt										
Total public debt	69.2	73.3	75.1	76.6	73.7	77.7	73.2	70.4	69.5	68.7
Domestic public debt [1]	14.8	16.1	16.8	20.2	19.3	18.5	16.8	15.2	15.7	16.4
External public debt	54.4	57.2	58.2	56.4	54.4	59.3	56.5	55.1	53.8	52.3
Total public debt service (percent of revenue)	27.3	28.6	25.8	30.7	31.2	32.5	26.1	29.9	32.1	32.2
Memorandum items:										
Gross domestic product (CFAF billions)	14,101	15,288	17092.7	17,268	19093	18,770	21,176	23,202	24,806	26,596
of which non-hydrocarbon (CFAF billions)	14,101	15,288	17092.7	17,268	18700	18,767	20,171	21,875	23,727	25,656
Gross domestic product (USD billions)	24.5	27.6	…	… …		…	…	…	…	…
Share of hydrocarbon in total GDP (percent)	…	…	…	…	2.1	0.0	4.7	5.7	4.4	3.5
National currency per U.S. dollar (average)	575	554	…	…	…	…	…	…	…	…
WAEMU gross official reserves (billions of $US)	…	…		…		…	…	…	…	…
(percent of broad money)	…	…		…		…	…	…	…	…
(months of WAEMU imports of GNFS)	…	…		…		…	…	…	…	…

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, unless otherwise indicated)

	2020	2021	2022		2023		2024	2025	2026	2027
		Act.	IMF CR 23/20	Est.	IMF CR 23/20	Proj.	Projections			
				(Billions of CFAF, unless otherwise indicated)						
Current account	-1,427	-1,710	-2,689	-3,442	-2,108	-2,497	-1,289	-986	-941	-993
Balance on goods	-1,609	-1,662	-2,419	-2,907	-2,052	-2,443	-1,363	-1,211	-1,300	-1,483
Exports, f.o.b.	2,411	3,045	3,433	3,795	4,308	4,392	5,517	5,995	6,346	6,858
Imports, f.o.b.	-4,020	-4,707	-5,852	-6,702	-6,360	-6,834	-6,880	-7,206	-7,646	-8,340
Services (net)	-1,017	-1,203	-1,512	-1,575	-1,407	-1,401	-1,251	-1,154	-1,110	-1,071
Export	503	715	738	832	841	942	1,005	1,031	1,038	1,045
Import	-1,520	-1,917	-2,250	-2,407	-2,248	-2,343	-2,256	-2,185	-2,148	-2,117
Incomes (net)	-235	-416	-404	-625	-473	-466	-544	-609	-660	-707
Credits	285	267	295	320	305	305	319	333	346	360
Debits	-520	-683	-699	-944	-778	-771	-862	-942	-1,006	-1,067
Of which: interest on public debt	-252	-254	-265	-323	-305	-298	-340	-354	-375	-388
Current transfers (net)	1,435	1,571	1,645	1,665	1,825	1,813	1,869	1,988	2,129	2,268
Private (net)	1,267	1,583	1,659	1,699	1,767	1,767	1,882	1,993	2,135	2,274
Public (net)	168	-11	-14	-35	58	46	-14	-5	-6	-6
Of which: budgetary grants	195	17	17	23	88	76	15	22	24	26
Capital and financial account	1,183	1,979	2,616	3,380	2,031	2,633	1,541	1,191	1,071	1,426
Capital account	139	122	229	127	241	241	251	264	277	293
Private capital transfers	12	13	10	5	9	9	8	9	9	9
Project grants	130	114	220	122	232	232	244	256	269	285
Debt cancellation and other transfers	-3	-4	-1	-1	-1	-1	-1	-1	-1	-1
Financial account	1,044	1,856	2,387	3,253	1,790	2,392	1,290	926	794	1,133
Direct investment	1,005	1,292	1,430	1,651	1,182	1,226	1,057	1,024	1,063	1,105
Portfolio investment (net)	296	822	296	-63	422	313	301	111	483	555
Of which : Private						5	-7	13	14	15
Of which : Eurobond issuance	0	287	0	0	0	0	0	0	284	284
Other investment	-257	-257	660	1,665	187	853	-69	-209	-752	-527
Public sector (net)	393	321	435	389	-71	606	263	317	170	222
Of which : disbursements	710	586	909	904	752	1,276	825	794	835	873
program loans	206	70	242	237	176	359	254	113	113	114
project loans	429	516	415	415	436	436	571	572	572	589
other	74	0	252	251	140	482	0	110	150	170
amortization	-317	-266	-473	-515	-823	-670	-562	-477	-666	-651
Private sector (net)	-650	-578	225	1,276	258	247	-332	-526	-921	-749
Errors and omissions	175	-197	0	0	0	0	0	0	0	0
Overall balance	-68	72	-73	-62	-77	136	252	205	130	433
Gross reserve accumulation targeted[1]	…	…	…	…	…	490	413	327	88	…
Financing gap before accounting for the IMF UCT pogram	…	…	…	…	…	354	161	122	-42	…
Net IMF UCT Financing Support	257	102	378	242	-46	354	161	122	-42	…
Net financing from previous programs	257	102	378	242	-46	89	-107	-147	-178	…
Purchases/disbursements	259	102	378	242	0	133	0	0	0	…
Repurchases/repayments	3	0	0	0	46	44	107	147	178	…
New EFF/ECF	…	…	…	…	…	266	268	270	136	…
EFF	…	…	…	…	…	177	179	180	91	…
ECF	…	…	…	…	…	89	89	90	45	…
Financing Gap after accounting for the IMF UCT pogram	…	…	…	…	…	0	0	0	0	…
RSF Financing Support	…	…	…	…	…	40	80	81	0	…
Gross reserve accumulation including the IMF UCT and RSF program[1]	188	175	305	180	-123	530	493	408	88	…
Memorandum items:										
Current account balance (percent of GDP)										
Including current official transfers	-10.1	-11.2	-15.7	-19.9	-11.0	-13.3	-6.1	-4.2	-3.8	-3.7
Excluding current official transfers	-11.6	-11.4	-15.9	-20.1	-11.5	-13.8	-6.2	-4.4	-3.9	-3.9
Gross domestic product	14,101	15,288	17,093	17,268	19,093	18,770	21,176	23,202	24,806	26,596

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. The historical gross reserve contributon of Senegal is imputed.

Table 3. Senegal: Balance of Payments, 2020–27
(In percent of GDP)

	2020	2021	2022		2023		2024	2025	2026	2027
		Act.	IMF CR 23/20	Est.	IMF CR 23/20	Proj.	Projections			
	(Percent of GDP, unless otherwise indicated)									
Current account	-10.1	-11.2	-15.7	-19.9	-11.0	-13.3	-6.1	-4.2	-3.8	-3.7
Balance on goods	-11.4	-10.9	-14.2	-16.8	-10.7	-13.0	-6.4	-5.2	-5.2	-5.6
Exports, f.o.b.	17.1	19.9	20.1	22.0	22.6	23.4	26.1	25.8	25.6	25.8
Imports, f.o.b.	-28.5	-30.8	-34.2	-38.8	-33.3	-36.4	-32.5	-31.1	-30.8	-31.4
Services (net)	-7.2	-7.9	-8.8	-9.1	-7.4	-7.5	-5.9	-5.0	-4.5	-4.0
Export	3.6	4.7	4.3	4.8	4.4	5.0	4.7	4.4	4.2	3.9
Import	-10.8	-12.5	-13.2	-13.9	-11.8	-12.5	-10.7	-9.4	-8.7	-8.0
Incomes (net)	-1.7	-2.7	-2.4	-3.6	-2.5	-2.5	-2.6	-2.6	-2.7	-2.7
Credits	2.0	1.7	1.7	1.9	1.6	1.6	1.5	1.4	1.4	1.4
Debits	-3.7	-4.5	-4.1	-5.5	-4.1	-4.1	-4.1	-4.1	-4.1	-4.0
Of which: interest on public debt	-1.8	-1.7	-1.5	-1.9	-1.6	-1.6	-1.6	-1.5	-1.5	-1.5
Current transfers (net)	10.2	10.3	9.6	9.6	9.6	9.7	8.8	8.6	8.6	8.5
Private (net)	9.0	10.4	9.7	9.8	9.3	9.4	8.9	8.6	8.6	8.5
Public (net)	1.2	-0.1	-0.1	-0.2	0.3	0.2	-0.1	0.0	0.0	0.0
Of which: budgetary grants	1.4	0.1	0.1	0.1	0.5	0.4	0.1	0.1	0.1	0.1
Capital and financial account	8.4	12.9	15.3	19.6	10.6	14.0	7.3	5.1	4.3	5.4
Capital account	1.0	0.8	1.3	0.7	1.3	1.3	1.2	1.1	1.1	1.1
Private capital transfers	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Project grants	0.9	0.7	1.3	0.7	1.2	1.2	1.2	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
Financial account	7.4	12.1	14.0	18.8	9.4	12.7	6.1	4.0	3.2	4.3
Direct investment	7.1	8.4	8.4	9.6	6.2	6.5	5.0	4.4	4.3	4.2
Portfolio investment (net)	2.1	5.4	1.7	-0.4	2.2	1.7	1.4	0.5	1.9	2.1
Of which : Private	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1
Of which : Eurobond issuance	0.0	1.9	0.0	0.0	0.0	0.0	0.0	0.0	1.1	1.1
Other investment	-1.8	-1.7	3.9	9.6	1.0	4.5	-0.3	-0.9	-3.0	-2.0
Public sector (net)	2.8	2.1	2.5	2.3	-0.4	3.2	1.2	1.4	0.7	0.8
Of which : disbursements	5.0	3.8	5.3	5.2	3.9	6.8	3.9	3.4	3.4	3.3
program loans	1.5	0.5	1.4	1.4	0.9	1.9	1.2	0.5	0.5	0.4
project loans	3.0	3.4	2.4	2.4	2.3	2.3	2.7	2.5	2.3	2.2
other	0.5	0.0	1.5	1.5	0.7	2.6	0.0	0.5	0.6	0.6
amortization	-2.2	-1.7	-2.8	-3.0	-4.3	-3.6	-2.7	-2.1	-2.7	-2.4
Private sector (net)	-4.6	-3.8	1.3	7.4	1.3	1.3	-1.6	-2.3	-3.7	-2.8
Errors and omissions	1.2	-1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-0.5	0.5	-0.4	-0.4	-0.4	0.7	1.2	0.9	0.5	1.6
Gross reserve accumulation targeted[1]	…	…	…	…	…	2.6	1.9	1.4	0.4	…
Financing Gap before accounting for the IMF UCT pogram	…	…	…	…	…	1.9	0.8	0.5	-0.2	…
Net IMF UCT Financing Support	1.8	0.7	2.2	1.4	-0.2	1.9	0.8	0.5	-0.2	…
Net financing from previous programs	1.8	0.7	2.2	1.4	-0.2	0.5	-0.5	-0.6	-0.7	…
Purchases/disbursements	1.8	0.7	2.2	1.4	0.0	0.7	0.0	0.0	0.0	…
Repurchases/repayments	0.0	0.0	0.0	0.0	0.2	0.2	0.5	0.6	0.7	…
New EFF/ECF	…	…	…	…	…	1.4	1.3	1.2	0.5	…
EFF	…	…	…	…	…	0.9	0.8	0.8	0.4	…
ECF	…	…	…	…	…	0.5	0.4	0.4	0.2	…
Financing Gap after accounting for the IMF UCT pogram	…	…	…	…	…	0.0	0.0	0.0	0.0	…
RSF Financing Support	…	…	…	…	…	0.2	0.4	0.3	0.0	…
Gross reserve accumulation including the IMF UCT and RSF program[1]	1.3	1.1	1.8	1.0	-0.6	2.8	2.3	1.8	0.4	…
Memorandum items:										
Current account balance (percent of GDP)										
Including current official transfers	-10.1	-11.2	-15.7	-19.9	-11.0	-13.3	-6.1	-4.2	-3.8	-3.7
Excluding current official transfers	-11.6	-11.4	-15.9	-20.1	-11.5	-13.8	-6.2	-4.4	-3.9	-3.9
Gross domestic product	14,101	15,288	17,093	17,268	19,093	18,770	21,176	23,202	24,806	26,596

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. The historical gross reserve contributon of Senegal is imputed.

Table 4. Senegal: Central Government Operations, GFSM 2001 Classification, 2020–27

	2020	2021	2022		2023		2024	2025	2026	2027
		Act.	IMF CR 23/20	Est.	IMF CR 23/20	Proj.	Projections			
Revenue and Grants	**2,843**	**2,978**	**3,587**	**3,444**	**4,061**	**4,029**	**4,621**	**5,398**	**5,886**	**6,301**
Taxes	2,368	2,593	3,163	3,136	3,587	3,517	4,123	4,755	5,275	5,701
Direct taxes	767	860	1,079	1,103	1,143	1,150	1,358	1,707	1,905	2,006
Taxes on income, profits, capital gains	717	771	1,000	1,011	1,055	1,061	1,238	1,561	1,712	1,785
Taxes on payroll and workforce	8	33	39	39	41	41	46	50	66	84
Taxes on property	42	55	40	53	47	47	75	96	127	136
Taxes on goods and services	1,228	1,293	1,561	1,500	1,813	1,753	2,070	2,287	2,517	2,781
Taxes on international trade and transactions	338	393	478	488	576	559	631	691	778	835
Other taxes	35	47	44	44	55	55	64	70	75	80
Grants	325	131	237	146	320	308	259	278	293	311
Budget	195	17	17	23	88	76	15	22	24	26
Projects	130	114	220	122	232	232	244	256	269	285
Other revenue	150	255	188	162	154	204	239	365	318	289
Expenditure	**3,746**	**3,944**	**4,642**	**4,589**	**5,002**	**4,948**	**5,452**	**6,102**	**6,630**	**7,114**
Expense	2,429	2,537	3,280	3,310	3,471	3,516	3,388	3,531	3,921	4,178
Compensation of employees	804	908	1,093	1,135	1,310	1,310	1,482	1,624	1,736	1,835
of which: youth employment program	…	22	32	32	37	37	…	…	…	
Use of goods and services	286	355	366	332	393	289	345	397	506	545
Interest	290	307	382	384	424	502	507	540	575	611
Subsidies	472	236	854	792	615	659	259	116	149	160
of which: energy subsidies	244	145	754	692	510	556	153	0	0	0
Social benefits	23	23	27	26	38	52	57	63	67	72
Other expense	178	184	147	149	213	170	209	211	243	264
Net acquisition of nonfinancial assets	1,317	1,406	1,362	1,279	1,531	1,433	2,064	2,571	2,709	2,936
Domestically financed	758	776	727	742	863	765	1,249	1,743	1,867	2,062
Domestically financed directly	51	98	-180	-125	215	143	148	514	545	641
Government's grants financed	706	679	907	866	648	622	1,101	1,230	1,322	1,420
Externally financed	559	630	635	537	668	668	815	828	841	875
Net lending/borrowing *(Overall balance)*	**-903**	**-965**	**-1,054**	**-1,145**	**-940**	**-920**	**-831**	**-704**	**-743**	**-813**
Primary balance	**-614**	**-659**	**-672**	**-761**	**-516**	**-417**	**-324**	**-164**	**-168**	**-202**
Non-Hydrocarbon Primary Balance	**-614**	**-659**	**-672**	**-761**	**-582**	**-420**	**-444**	**-500**	**-384**	**-330**
Transactions in financial assets and liabilities (Financing)	**-1,237**	**-965**	**-1,054**	**-1,145**	**-940**	**-920**	**-831**	**-704**	**-743**	**-813**
Net acquisition of financial assets	166	402	161	91	-222	310	0	0	0	0
Domestic	166	402	161	91	-222	310	0	0	0	0
Currency and deposits	117	386	-121	58	0	0	0	0	0	0
Other accounts receivable	49	16	282	33	-222	310	0	0	0	0
Foreign	0	0	0	0	0	0	0	0	0	0
Net incurrence of liabilities	1,404	1,366	837	1,236	718	1,229	831	704	743	813
Domestic	897	220	99	663	373	10	-72	-81	-52	48
IMF and SDRs	264	102	0	242	-46	89	-107	-147	-178	-137
Debt securities (net)	319	140	164	442	486	74	40	93	151	186
Debt securities (net, without RSF)	319	140	164	442	486	114	120	174	151	186
Loans	-56	-23	-65	-86	-68	-7	-5	-27	-25	0
Other accounts payable	35	1	0	63	0	-146	0	0	0	0
Foreign	507	1,146	738	573	346	954	635	515	659	765
Debt securities (net)	218	825	303	185	417	308	292	117	490	542
T-bills and bonds issued in WAEMU	218	538	303	185	417	308	292	117	205	258
Eurobond	0	287	0	0	0	0	0	0	284	284
Loans	319	321	435	389	-71	646	343	398	170	222
Program loans	206	70	242	237	176	399	334	194	113	114
o/w IMF RSF		…	…	…	…	40	80	81	0	0
Project loans	429	516	415	415	436	436	571	572	572	589
Nonconcessional loans	0	0	252	251	-112	482	0	110	150	170
Other	-317	-266	-473	-515	-571	-670	-562	-477	-666	-651
Other accounts payable	0	0	0	0	0	0	0	0	0	0
Financing Gap covered by IMF ECF/EFF	**0**	**0**	**378**	**0**	**0**	**266**	**268**	**270**	**136**	**0**
ECF						89	89	90	45	0
EFF	…	…	…	…	…	177	179	180	91	0
Additional Financing										
RSF	…	…	…	…	…	40	80	81	0	0
Exceptional Financing[1]	0	0	…	…	…	…	…	…	…	…
Memorandum items:										
Clearance of unmet obligations (pre-2020)	209	133	16	16	…	…	…	…	…	…
Hydrocarbon revenues			0	0	66	3	120	336	216	129
Nominal GDP	14,101	15,288	17,093	17,268	19,093	18,770	21,176	23,202	24,806	26,596

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, 2021–27

	2021	2022		2023		2024	2025	2026	2027
	Act.	IMF CR 23/20	Est.	IMF CR 23/20	Proj.	Projections			
Revenue and Grants	**19.5**	**21.0**	**19.9**	**21.3**	**21.5**	**21.8**	**23.3**	**23.7**	**23.7**
Taxes	17.0	18.5	18.2	18.8	18.7	19.5	20.5	21.3	21.4
Direct Taxes	5.6	6.3	6.4	6.0	6.1	6.4	7.4	7.7	7.5
Taxes on goods and services	8.5	9.1	8.7	9.5	9.3	9.8	9.9	10.1	10.5
Taxes on international trade and transactions	2.6	2.8	2.8	3.0	3.0	3.0	3.0	3.1	3.1
Other taxes	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Grants	0.9	1.4	0.8	1.7	1.6	1.2	1.2	1.2	1.2
Budget	0.1	0.1	0.1	0.5	0.4	0.1	0.1	0.1	0.1
Projects	0.7	1.3	0.7	1.2	1.2	1.2	1.1	1.1	1.1
Other revenue	1.7	1.1	0.9	0.8	1.1	1.1	1.6	1.3	1.1
Expenditure	**25.8**	**27.2**	**26.6**	**26.2**	**26.4**	**25.7**	**26.3**	**26.7**	**26.8**
Expense	16.6	19.2	19.2	18.2	18.7	16.0	15.2	15.8	15.7
Compensation of employees	5.9	6.4	6.6	6.9	7.0	7.0	7.0	7.0	6.9
of which: youth employment program	0.1	0.2	0.2	0.2	0.2	...	...	...	...
Use of goods and services	2.3	2.1	1.9	2.1	1.5	1.6	1.7	2.0	2.0
Interest	2.0	2.2	2.2	2.2	2.7	2.4	2.3	2.3	2.3
Subsidies	1.5	5.0	4.6	3.2	3.5	1.2	0.5	0.6	0.6
of which: energy subsidies	0.9	4.4	4.0	2.7	3.0	0.7	0.0	0.0	0.0
Social benefits	0.1	0.2	0.1	0.2	0.3	0.3	0.3	0.3	0.3
Other expense	1.2	0.9	0.9	1.1	0.9	1.0	0.9	1.0	1.0
Net acquisition of nonfinancial assets	9.2	8.0	7.4	8.0	7.6	9.7	11.1	10.9	11.0
Domestically financed	5.1	4.3	4.3	4.5	4.1	5.9	7.5	7.5	7.8
Externally financed	4.1	3.7	3.1	3.5	3.6	3.8	3.6	3.4	3.3
Net lending/borrowing *(Overall balance)*	**-6.3**	**-6.2**	**-6.6**	**-4.9**	**-4.9**	**-3.9**	**-3.0**	**-3.0**	**-3.06**
Primary balance	**-4.3**	**-3.9**	**-4.4**	**-2.7**	**-2.2**	**-1.5**	**-0.7**	**-0.7**	**-0.8**
Non-Hydrocarbon Primary Balance	**-4.3**	**-3.9**	**-4.4**	**-3.0**	**-2.2**	**-2.1**	**-2.2**	**-1.5**	**-1.2**
Transactions in financial assets and liabilities (Financi	**-6.3**	**-6.2**	**-6.6**	**-4.9**	**-4.9**	**-3.9**	**-3.0**	**-3.0**	**-3.06**
Net acquisition of financial assets	2.6	0.9	0.5	-1.2	1.7	0.0	0.0	0.0	0.0
Domestic	2.6	0.9	0.5	-1.2	1.7	0.0	0.0	0.0	0.0
Currency and deposits	2.5	-0.7	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts receivable	0.1	1.6	0.2	-1.2	1.7	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
Net incurrence of liabilities	8.9	4.9	7.2	3.8	6.6	3.9	3.0	3.0	3.1
Domestic	1.4	0.6	3.8	2.0	0.1	-0.3	-0.4	-0.2	0.2
IMF and SDRs	0.7	0.0	1.4	-0.2	0.5	-0.5	-0.6	-0.7	-0.5
Debt securities (net)	0.9	1.0	2.6	2.5	0.4	0.2	0.4	0.6	0.7
Debt securities (net, without RSF)	0.9	1.0	2.6	2.5	0.6	0.6	0.7	0.6	0.7
Loans	-0.2	-0.4	-0.5	-0.4	0.0	0.0	-0.1	-0.1	0.0
Other accounts payable	0.0	0.0	0.4	0.0	-0.8	0.0	0.0	0.0	0.0
Foreign	7.5	4.3	3.3	1.8	5.1	3.0	2.2	2.7	2.9
Debt securities (net)	5.4	1.8	1.1	2.2	1.6	1.4	0.5	2.0	2.0
T-bills and bonds issued in WAEMU	3.5	1.8	1.1	2.2	1.6	1.4	0.5	0.8	1.0
Eurobond	1.9	0.0	0.0	0.0	0.0	0.0	0.0	1.1	1.1
Loans	2.1	2.5	2.3	-0.4	3.4	1.6	1.7	0.7	0.8
Program loans	0.5	1.4	1.4	0.9	2.1	1.6	0.8	0.5	0.4
o/w IMF RSF					0.2	0.4	0.3	0.0	0.0
Project loans	3.4	2.4	2.4	2.3	2.3	2.7	2.5	2.3	2.2
Nonconcessional loans	0.0	1.5	1.5	-0.6	2.6	0.0	0.5	0.6	0.6
Other	-1.7	-2.8	-3.0	-3.0	-3.6	-2.7	-2.1	-2.7	-2.4
Other accounts payable	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing Gap covered by IMF ECF/EFF	**0.0**	**2.2**	**0.0**	**0.0**	**1.4**	**1.3**	**1.2**	**0.5**	**0.0**
ECF	...	...	...	...	0.5	0.4	0.4	0.2	0.0
EFF	...	...	...	...	0.9	0.8	0.8	0.4	0.0
Additional Financing									
RSF	...	...	...	...	0.2	0.4	0.3	0.0	0.0
Exceptional Financing[1]	0	...	...	...	...	...	...	...	...
Memorandum items:									
Clearance of unmet obligations (pre-2020)	0.9	0.1	0.1	...	...	...	...	...	...
Hydrocarbon revenues	...	0.0	0.0	0.3	0.0	0.6	1.5	0.9	0.5
Non-oil tax to non-oil GDP ratio	...	18.5	18.2	18.8	18.7	19.8	20.2	21.3	21.7
Nominal GDP	15,288	17,093	17,268	19,093	18,770	21,176	23,202	24,806	26,596

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 23/30	Prel.	IMF CR 23/30	Proj.
			(Billions of CFAF)			
Net foreign assets	1,905	1,977	1,904	2,386	1,827	2,181
BCEAO	1,194	1,433	1,360	1,186	1,283	1,321
Commercial banks	711	544	544	860	544	860
Net domestic assets	5,096	5,807	6,990	7,415	8,123	9,487
Net domestic credit	6,103	6,759	8,052	8,083	9,304	9,969
Net credit to the government[1]	1,435	1,815	2,474	2,750	2,888	2,673
Central bank	74	326	825	670	779	459
Commercial banks	1,361	1,489	1,649	2,078	2,109	2,213
Other institutions	2	2	2	2	2	2
Credit to the economy	4,668	4,943	5,578	5,939	6,416	7,296
Shares and other equity	-771	-827	-922	-972	-1,030	-1,057
Other items (net)	-236	-125	-139	107	-151	576
Broad money	6,389	7,316	8,375	8,960	9,372	10,756
Currency outside banks	1,529	1,964	2,199	2,147	2,461	2,824
Total deposits	4,860	5,352	6,176	6,813	6,911	7,931
Demand deposits	2,984	3,312	3,822	4,457	4,277	5,188
Time deposits	1,876	2,040	2,354	2,356	2,634	2,743
Non-liquid Liabilities	611	468	519	840	578	912
			(Change in percentage of beginning-of-period broad money stock)			
Net foreign assets	-1.2	1.1	-1.0	5.6	-0.9	-2.3
Net domestic assets	16.5	11.1	16.2	22.0	13.5	23.1
Net credit to the government[1]	15.4	6.0	9.0	12.8	4.9	-0.9
Credit to the economy (net)	1.2	4.3	8.7	13.6	10.0	15.144
Broad money	12.3	14.5	14.5	22.5	11.9	20.0
Memorandum items:			(Units indicated)			
Velocity (GDP/broad money; end of period)	2.2	2.1	2.0	1.9	2.0	1.7
Nominal GDP growth (percentage growth)	2.8	8.4	11.6	13.0	11.7	8.7
Credit to the private sector (percentage growth)	2.2	6.9	14.3	26.1	16.6	20.8
Credit to the private sector/GDP (percent)	29.3	28.9	29.6	32.3	30.9	35.9

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
	December							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, 2022–28

(bn CFA)	2022	2023	2024	2025	2026	2027	2028
Financing Requirements (A)	**3980**	**3243**	**1866**	**1485**	**1631**	**1669**	**2193**
Current account deficit (excl. budget grants)	3465	2573	1304	1008	965	1019	1569
Government external debt amortization (/1)	515	670	562	477	666	651	624
Financing Sources (B)	**3657**	**2944**	**1849**	**1555**	**1624**	**1963**	**2195**
Capital inflows to the private sector (net)	2680	1478	735	492	134	368	565
Government external commercial borrowing (/1)	251	482	0	110	434	454	474
Eurobonds	0	0	0	0	284	284	284
Non-concessional FX loans	251	482	0	110	150	170	190
Project grants and loans from donors	537	668	815	828	841	875	909
Other (/2)	189	316	299	125	214	266	246
Change in FX reserves without budget support (C=B-A)	**-323**	**-299**	**-17**	**69**	**-7**	**294**	**2**
Targeted change in FX reserve to support regional external buffers (D) (/3)		**490**	**413**	**327**	**88**		
Financing gap before accounting for any budget support (E=D-C)		**789**	**430**	**258**	**95**		
Budget support from other donors (F)	**261**	**434**	**269**	**135**	**137**	**139**	**142**
Grants	23	76	15	22	24	26	28
Loans	237	359	254	113	113	114	114
Change in FX reserves including existing budget support (G=C+F)	**-62**	**136**	**252**	**205**	**130**	**433**	**143**
Financing gap including existing budget support (H=D-G)		**354**	**161**	**122**	**-42**		
IMF Financing	**242**	**354**	**161**	**122**	**-42**	**-137**	**-97**
Disbursements from existing programs	**242**	**133**	**0**	**0**	**0**	**0**	**0**
Proposed IMF EFF-ECF program disbursements (I=H)		**266**	**268**	**270**	**136**		
EFF		177	179	180	91		
ECF		89	89	90	45		
Repayments	**0**	**44**	**107**	**147**	**178**	**137**	**97**
Change in FX reserves including proposed IMF UCT program (J=G+I)	**181**	**490**	**413**	**327**	**88**	**296**	**46**
Financing gap including existing budget support and proposed new UCT program (K=D-J)		**0**	**0**	**0**	**0**		
Proposed IMF RSF Program (L)		**40**	**80**	**81**	**0**		
Change in FX reserves including proposed IMF UCT+RSF program (M=J+L))	**181**	**530**	**493**	**408**	**88**	**296**	**46**
Memo items:							
IMF EFF-ECF program (m SDR)		324	324	324	162		
IMF RSF program (m SDR)		49	97	97	0		
Share of financing gap covered by the existing and new IMF UCT program (%)		51	62	105	143		
Share of budget support provided by the IMF UCT and RSF programs (%)		50	56	72	50		
Imputed gross official reserves without programs (months of imports) (/4)	4.5	4.1	4.0	3.9	3.7	3.5	3.6
Imputed gross official reserves with existing budget support (months of imports) (/4)	4.5	4.7	4.9	4.9	4.8	4.6	4.9
Imputed gross official reserves with new UCT program only (month of imports) (/4)	4.5	5.2	5.6	5.7	5.5	5.1	5.3
Imputed gross official reserves after RSF (month of imports) (/4)	4.5	5.2	5.7	6.0	5.7	5.3	5.5

Sources: Senegalese authorities; and IMF staff calculations.
(/1) excludes WAEMU regional market securities
(/2) includes net government WAEMU regional issuances
(/3) The program targets for Senegal to contribute to regional reserve accumulation
(/4) Reserve coverage for Senegal is imputed based on WAEMU reserve coverage at end-22. Reserve coverage projections assume Senegal's reserve contribution is matched by the WAEMU region.

Table 9. Senegal: Capacity to Repay the Fund, 2023–33

	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
IMF obligations based on existing credit											
(SDR millions)											
Principal	53.9	129.5	176.8	211.8	156.4	78.2	59.9	33.6	6.0	0.0	0.0
Charges and interest	14.6	25.0	18.2	11.0	3.9	1.1	1.0	1.0	1.0	1.0	1.0
IMF obligations based on existing and prospective credit 1/											
(SDR millions)											
Principal	53.9	129.5	176.8	211.8	165.4	128.5	167.8	199.0	202.0	201.3	187.0
Charges and interest	18.0	42.7	52.1	59.5	55.5	51.6	47.6	41.5	35.4	29.5	23.4
Total outstanding Fund credit based on existing and prospective drawings											
SDR millions	1224.3	1515.5	1759.4	1709.4	1544.0	1415.5	1247.7	1048.7	846.7	645.4	458.4
CFA francs	748.5	932.7	1086.4	1059.6	962.1	882.0	777.4	653.5	527.6	402.2	285.7
Percent of GDP	4.0	4.4	4.7	4.3	3.6	3.1	2.5	2.0	1.5	1.1	0.7
Percent of quota	378.3	468.3	543.7	528.2	477.1	437.4	385.6	324.1	261.7	199.4	141.7
Net use of IMF credit (SDR millions)											
Disbursements	533.97	420.68	420.68	161.8	0	0	0	0	0	0	0
Repayments and repurchases	53.93	129.45	176.77	211.81	161.9	113.95	153.37	193.43	201.12	201.34	192.51
Percent of government revenue (excl. grants)	1.2	2.5	2.9	3.2	2.3	1.5	1.8	2.1	2.1	1.9	1.7
Percent of exports of goods and services	0.8	1.6	2.1	2.4	1.7	1.1	1.4	1.7	1.6	1.5	1.3
Percent of external debt service	4.3	10.1	13.3	11.0	8.7	5.9	8.7	10.3	9.0	8.5	8.3
Memorandum items											
Nominal GDP (billions of CFA francs)	18,770	21,176	23,202	24,806	26,596	28,900	30,939	33,182	35,498	37,983	40,676
Exports of goods and services (billions of CFA francs)	5,333	6,522	7,026	7,384	7,903	8,721	9,219	9,882	10,632	11,485	12,376
Government revenue, excl. grants (billions of CFA francs)	3,721	4,362	5,120	5,594	5,991	6,456	7,170	7,631	8,172	8,934	9,764
External Debt service (billions of CFA francs)	1,019	1,063	1,109	1,613	1,582	1,640	1,492	1,591	1,889	1,999	1,955
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)	611.4	615.4	617.5	619.9	623.1	623.1	623.1	623.1	623.1	623.1	623.1

Source : IMF staff calculations.

1/ Senegal belongs to Group B for purposes of RSF interest

Table 10a. Senegal: Proposed Schedule of Disbursements and Timing of Reviews Under ECF/EFF Arrangements, 2023–26

Availability Date	Conditions for disbursement	Disbursement					
		SDR million			% of quota		
		EFF	ECF	Total	EFF	ECF	Total
June 26th, 2023	Executive Board approval of the ECF/EFF arrangements	107.87	53.93	161.80	33.33	16.67	50.0
Dec. 26th, 2023	Observance of PCs for end-June 2023, continuous PCs and completion of the first review.	107.87	53.93	161.80	33.33	16.67	50.0
June 26th, 2024	Observance of PCs for end-December 2023, continuous PCs and completion of the second review.	107.87	53.93	161.80	33.33	16.67	50.0
Dec. 26th,2024	Observance of PCs for end-June 2024, continuous PCs and completion of the third review.	107.87	53.93	161.80	33.33	16.67	50.0
June 26th, 2025	Observance of PCs for end-December 2024, continuous PCs and completion of the fourth review.	107.87	53.93	161.80	33.33	16.67	50.0
Dec. 26th, 2025	Observance of PCs for end-June 2025, continuous PCs and completion of the fifth review.	107.87	53.93	161.80	33.33	16.67	50.0
May 26th, 2026	Observance of PCs for end-December 2025, continuous PCs and completion of the sixth review.	107.85	53.95	161.80	33.33	16.67	50.0
Total access		**755.07**	**377.53**	**1132.6**	**233.4**	**116.6**	**350**

Source: IMF Staff estimates.

Table 10b. Senegal: Proposed Schedule of Reviews and Disbursements Under the RSF, 2023–25

Availability date	Millions of SDRs	Percent of Quota	Conditions for Access
December 26th, 2023	24.27	7.5	Completion of RSF review of reform measure 1 implementation
December 26th, 2023	24.27	7.5	Completion of RSF review of reform measure 2 implementation
June 26th, 2024	24.27	7.5	Completion of RSF review of reform measure 3 implementation
June 26th, 2024	24.27	7.5	Completion of RSF review of reform measure 4 implementation
December 26th, 2024	24.27	7.5	Completion of RSF review of reform measure 5 implementation
December 26th, 2024	24.27	7.5	Completion of RSF review of reform measure 6 implementation
June 26th, 2025	24.27	7.5	Completion of RSF review of reform measure 7 implementation
June 26th, 2025	24.27	7.5	Completion of RSF review of reform measure 8 implementation
December 26th, 2025	24.27	7.5	Completion of RSF review of reform measure 9 implementation
December 26th, 2025	24.27	7.5	Completion of RSF review of reform measure 10 implementation
Total	242.70	75	
Memorandum item:			
Quota	323.6		

Source: IMF staff estimates

Table 11. Senegal: Profile of Holders of Public Debt

	Debt stock (end of period)			Debt Service					
	2022			2023	2024	2025	2023	2024	2025
	(m USD)	% total debt	% GDP	(m USD)			% GDP		
Total (/1)	21,357	100.0	76.6	2,860	2,644	3,469	9.3	7.7	9.2
Central Government	19,020	89.1	68.2						
State-owned enterprises (SOEs)	2,337	10.9	8.4						
External	15,732	73.7	56.4	1,666	1,727	1,795	5.4	5.0	4.8
Multilateral Creditors	6,517	30.5	23.4						
IMF	991	4.6	3.6						
World Bank	2,975	13.9	10.7						
ADB/AfDB/IADB	1,161	5.4	4.2						
Other Multilaterals	1,390	6.5	5.0						
of which BID	577.9	2.7	2.1						
of which BOAD	302	1.4	1.1						
Bilateral Creditors	2,766	12.9	9.9						
Paris Club	1,019	4.8	3.7						
of which AFD	871.7	4.1	3.1						
of which ICO (Spain)	40.4	0.2	0.1						
Non-Paris Club	1,747	8.2	6.3						
of which EXIMCP (China)	1233.3	5.8	4.4						
of which EXIMINDE (India)	124.3	0.6	0.4						
Bonds (Eurobonds)	4,045	18.9	14.5						
Commercial/Other international credit	1,270	5.9	4.6						
of which SCBANK	351.3	1.6	1.3						
of which SGCIB	351	1.6	1.3						
SOEs	1,134	5.3	4.1						
Domestic	5,626	26.3	20.2	1,194	916	1,674	3.9	2.7	4.5
Held by residents									
Held by non-residents									
T-Bills	108.70	0.5	0.6						
Bonds	3,811	17.8	13.7						
Loans	437	2.0	1.6						
SOEs	1,203	5.6	4.3						
Memo items:									
Collaterized debt (/2)									
o/w related									
o/w unrelated									
Contingent liabilities	1766								
o/w: public guarantees	1766								
o/w: other explicit contingent liabilities (/3)									
Nominal GDP	27,744			30,700	34,409	37,574			

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

2/ Debt is collaterized when the creditor has the right 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. Collaterization 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, collaterized by oil revenue receipts. See the joint IMF-World Bank note for the G20 "Collaterized 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 public and 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).

Annex I. External Sector Assessment

Overall Assessment: *The external position of Senegal in 2022 was substantially weaker than the level implied by fundamentals and desirable policies. The 2022 current account deficit widened further relative to 2021, reflecting (i) external factors such as the surge in global commodity prices, depreciation of the WAEMU regional currency (CFA) vis-à-vis the US dollar which in the first instance increases the CFA value of imports, trade disruptions due to conflict in neighboring Mali as well as (ii) domestic factors such as significant temporary infrastructure investments including to start hydrocarbon production and general fiscal deficits, including to alleviate the impact of high global commodity prices.*

For 2023 and beyond, the current account is expected to start gradually narrowing, as terms of trade shifts and the gradual phase-out of energy and food subsidies incentivize import-substitution, trade with Mali partially normalizes, investments in the hydrocarbon sector gradually phase-out, hydrocarbon exports start supporting the current account in 2024, the fiscal deficit narrows, and structural reforms proceed.

Potential Policy Responses: *Fiscal consolidation is needed to bring down and re-anchor fiscal balances, while further debt creation in state-owned enterprises needs to be tightly controlled. Phase out of energy and food subsidies is needed to ensure that real price signaling supports import substitution. Governance reform and structural policies should support private sector growth, facilitating export growth and import substitution, while encouraging foreign investments.*

Foreign Assets and Liabilities: Position and Trajectory

Background. The assessment of the net international investment position is based on the latest data available (2021). The NIIP reached -71.2 percent of GDP in 2021, a substantial increase from -47.1 percent of GDP five years previously (2017), reflecting significant current account deficits driven by external shocks, fiscal imbalances, and significant infrastructure investment needs. The increase in the NIIP reflects growth of gross liabilities towards the rest of the world that significantly outpaced growth of gross assets and growth of Senegal's economic base.

Assessment. Senegal's net international investment position is assessed as sustainable under the baseline, reflecting expected narrowing of current account deficits, growth of the economy – including as hydrocarbon production starts – as well as continued concessional financing support from multilateral and bilateral donors. Risks to external sustainability stem from the possibility of slower than projected fiscal consolidation, a further deterioration in the terms of trade, and a slowdown in real GDP growth. Sustainability of Senegal's external debt is also assessed as part of the 2023 DSA for Senegal.

Data for 2021 (% GDP)	NIIP: -71.2	Gross Assets: 58.2	Debt Assets: 34.2	Gross Liab.: 129.4	Debt Liab.: 100.9

Current Account

Background. The 2022 current account deficit reached 19.9 percent of GDP, which is a significant increase compared to an average historical current account deficit of 9.5 percent of GDP (2017-21). This reflects among others (i) external factors such as the surge in global commodity prices, depreciation of the WAEMU regional currency (CFA) vis-à-vis the US dollar which in the first instance increases the CFA value of imports, trade disruptions due to conflict in neighboring Mali as well as (ii) domestic factors such as significant infrastructure investments including to start hydrocarbon production and general fiscal deficits, including to alleviate the impact of high global commodity prices.

For 2023 and beyond, the current account is expected to start gradually narrowing, as terms of trade shifts and the gradual phase-out of energy and food subsidies incentivize import-substitution, trade with Mali partially normalizes, investments in the hydrocarbon sector gradually conclude and hydrocarbon exports start supporting the current account in 2024, fiscal deficits narrow, and structural reforms proceed.

Assessment. The current account gap is estimated at 7.3 percent of GDP. This adjusts the current account for temporary factors, including the state of the business cycle, the impact of COVID-19 on tourism, the impact of regional conflict as well as a Senegal-specific adjustor[1] of 7.0 percent of GDP to account for the temporary impact of investments for starting up Senegal's hydrocarbon production sector. The assessment then compares this adjusted current account balance against a current account norm, which is the current account for Senegal that would be expected based on country fundamentals and if policies are adjusted to their desirable stance at home and abroad.

Senegal: Model Estimates for 2022 (in percent of GDP)

	CA model 1/	REER model
	(in percent of GDP)	
CA-Actual	**-19.9**	
Cyclical contributions (from model) (-)	0.5	
COVID-19 adjustors (-) 2/	-0.3	
Additional temporary/statistical factors (-)	-7.0	
Natural disasters and conflicts (-)	0.1	
Adjusted CA	**-13.3**	
CA Norm (from model) 3/	**-6.0**	
Adjustments to the norm (-)	0.0	
Adjusted CA Norm	**-6.0**	
CA Gap	**-7.3**	**4.6**
o/w Relative policy gap	0.3	
Elasticity	-0.2	
REER Gap (in percent)	**35.1**	**-22.3**

1/ Based on the EBA-lite 3.0 methodology
2/ Additional cyclical adjustment to account for the temporary impact of the pandemic on tourism (0.6 percent of GDP). 100% percent of the shock to tourism is assumed temporary.
3/ Cyclically adjusted, including multilateral consistency adjustments.

1/ The adjustor is based on estimates from Senegal's FARI model, suggesting that temporary investments to start oil and gas projects required goods imports of 1.7 percent of GDP and service imports of 5.2 percent of GDP in 2022.

Real Exchange Rate
Background. Senegal is part of the WAEMU currency union, with the CFA franc pegged to the euro. The country's real effective exchange rate (REER) depreciated by 9.7 percent in 2022, driven by the depreciation of the euro against third currencies (in particular, the US$) amid spillovers to the euro area from the war in Ukraine. The 2022 average REER was about 10 percent lower than during the five preceding years. **Assessment.** The current account model suggests REER over-valuation of +35.1 percent at end-2022. However, staff assesses that the exchange rate depreciation that took place in 2021-22 will take time to fully reflect in import-substitution and export competitiveness gains, also as price subsidies are gradually phased out, eventually narrowing the current account deficit. Equally, oil and gas investments are expected to yield export gains that will contribute to substantially narrowing the current account deficit going forward. As the current account model does not internalize such forward-looking developments, the model may overestimate the extent of REER over-valuation. In contrast, the REER model suggests an exchange rate under-valuation of -22.3 percent. As in past external sector assessments, staff find the REER model results tend to be an outlier that needs to be treated with caution in the context of Senegal's already-large current account deficits.
Capital and Financial Accounts: Flows and Policy Measures
Background. Against the backdrop of a sharp tightening in global financial conditions and a broad-based reduction in capital flows to emerging and frontier markets, Senegal's capital and financial account had net inflows of 19.5 percent of GDP in 2022. This reflects (i) continued significant foreign direct investment and net borrowing to finance sectoral investments, including the start of hydrocarbon production, (ii) robust financing support from official and bilateral donors and (iii) greater reliance on trade credit to finance higher commodity price imports. For 2023 and beyond, capital, and financial account net inflows are expected to moderate somewhat, as government and private sector imbalances narrow. Fiscal consolidation will reduce the government investment-savings imbalance. As the initial investment phase for the hydrocarbon sector is completed and production starts, the non-government investment-saving imbalances will also moderate. Continued official sector financing support will help buffer the impact of tightening global financial market conditions. **Assessment.** Rising interest rates in advanced economies and higher risk premia on Senegal's debt make for a very challenging external financing environment. Senegal's substantial external financing needs are expected to be met through a combination of Fund credit and budget support from multilateral and bilateral creditors. Fiscal consolidation will help reduce external borrowing needs over the medium term.
FX Intervention and Reserves Level
Background. The challenging external financing environment resulted in a significant decline of regional WAEMU reserves to about 4.5 months of import cover by end-2022. For 2023 and beyond, Senegal is assumed to resume supporting regional reserve accumulation, including through macro-structural reforms to reduce external imbalances and measures to attract external financing from private and official sources. **Assessment.** The ARA metric for credit constrained economies estimates an adequacy range for the level of reserves of 4.5 to 6.4 months of prospective import coverage for the WAEMU (based on available data for 2021), with the lower end calibrated on fragile states and the higher end calibrated on non-resource rich countries. Based on this model, the level of reserves estimated for end-2022 (4.5 months of imports) is assessed as being somewhat adequate. Growth-friendly fiscal consolidation and implementation of structural reforms to diversify Senegal's export base would help rebuild reserves and make an important contribution to external stability at the WAEMU level.

Annex II. Risk Assessment Matrix[1]

Risks	Likelihood	Policy Response
Conjunctural Risks		
Intensification of regional conflict(s). Escalation of Russia's war in Ukraine or other regional conflicts and resulting economic sanctions disrupt trade (e.g., energy, food, tourism, and/or critical supply chain components), remittances, refugee flows, FDI and financial flows, and payment systems.	**High**	Strengthen automatic pass-through of global commodity price changes; in the energy sector, in particular, stick to the roadmap to gradually eliminate untargeted subsidies and provide targeted support to the vulnerable; ensure food supply through forward-looking planning.
Social discontent. Supply shocks, high inflation, real wage drops, and spillovers from crises in other countries worsen inequality, trigger social unrest, and give rise to financing pressures and damaging populist policies with possible spillovers to other EMDEs. This exacerbates imbalances, slows growth, and triggers market repricing.	**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 downturn, with recessions in some countries, adverse spillovers through trade and financial channels, and markets fragmentation. • **U.S.:** Amid tight labor markets, supply disruptions and/or commodity price shocks, inflation remains elevated, prompting the Fed to keep rates higher for longer and resulting in dollar strengthening, a more abrupt financial and housing market correction, and "hard landing." • **Europe:** Intensifying fallout from the war in Ukraine, worsening energy crisis and supply disruptions, and monetary tightening exacerbate economic downturns and housing market corrections. • **China:** Greater-than-expected economic disruptions from COVID resurgence, rising geopolitical tensions, and/or a sharper-than-expected slowdown in the property sector disrupt economic activity. • **EMDEs:** A new bout of global financial tightening, possibly combined with volatile commodity prices, leads to spiking risk premia, debt distress, widening of external imbalances, fiscal pressures, and sudden stops.	**Medium** **Medium** **High** **Medium** **Medium**	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.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood 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 between 30 and 50 percent). 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. The conjunctural shocks and scenarios highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon. **G-RAM operational guidance is available from the SPR Risk Unit website.**

Structural Risks		
Deepening geo-economic fragmentation. Broader and deeper conflict(s) and weakened international cooperation lead to a more rapid reconfiguration of trade and FDI, supply disruptions, technological and payments systems fragmentation, rising input costs, financial instability, a fracturing of international monetary and financial systems, and lower potential growth.	**High**	Boost resilience of economy and key supply chains, including through diversification and more effective coordination at the regional level.
Extreme climate events. Extreme climate events cause more severe than expected damage to infrastructure (especially in smaller vulnerable economies) and loss of human lives and livelihoods, amplifying supply chain disruptions and inflationary pressures, causing water and food shortages and reducing growth.	**Medium**	Invest in climate adaptation and improve shock response mechanisms to cope with floods and droughts.

Annex III. Senegal's Social Protection System: Progress, Challenges, and Reforms

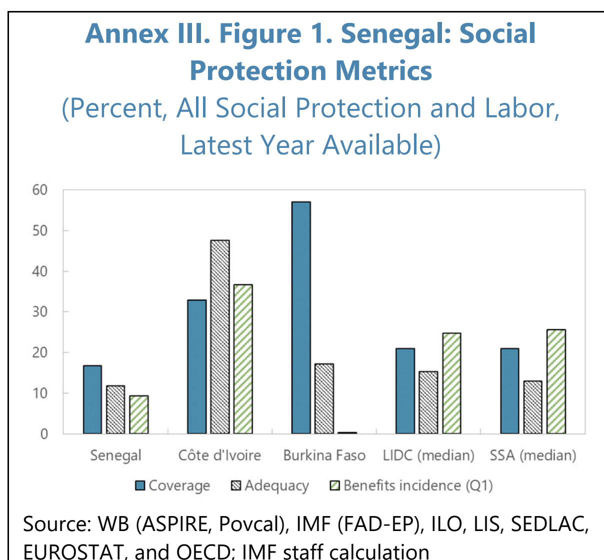
Despite recent progress in improving targeting, progressivity, and coordination across institutions, significant challenges remain to ensure that chronic poverty and vulnerability are being addressed in a coordinated and efficient manner. Key reforms regarding targeting, including the adoption of a digital payment system and the extension of the RNU, and benefits adequacy are urgently needed. Delays in the disbursement of funds should also be avoided.

1. Senegal's main safety net program, *the Programme National de Bourses de Sécurité Familiale* (PNBS), established in 2013, is the national conditional cash transfer program. It is managed by the National Agency for Social Protection and Solidarity and covers 316,493 poor households. Eligible households are identified through the national registry (RNU), instituted in 2015, and are targeted through geographical and social criteria. The RNU combines community-based targeting and a survey to identify the poorest households. Under the PNBS, conditional cash transfers are provided based on three indicators: school attendance, vaccination, and birth registration. However, these indicators are not actively monitored, and the program considers instead the participation in information sessions as conditions for the receipt of transfers (Beegle, Coudouel, and Monsalve 2018). Households are included for five years, after which a recertification process should evaluate whether they are still eligible to receive the transfers or should be excluded. Cash transfers are currently disbursed through the national post office.

2. Other core instruments of the country's social protection system are the Universal Health Insurance program (*Couverture Maladie Universelle* or CMU) and the Equity Card program (*Carte d'Égalité des Chances* – CEC). The CMU objective aims to strengthen financial protection and reduce the impact of catastrophic health shocks on households, while the CEC program supports 50,000 disabled individuals, including through cash transfers.

Annex III. Figure 1. Senegal: Social Protection Metrics

(Percent, All Social Protection and Labor, Latest Year Available)



Source: WB (ASPIRE, Povcal), IMF (FAD-EP), ILO, LIS, SEDLAC, EUROSTAT, and OECD; IMF staff calculation

3. Senegal's social protection system's main features score less favorably than peers. While the PNBS expanded quickly since its establishment, increasing its coverage from 4 percent of the population in 2013 to about 16 percent in 2015 (Beegle, Coudouel, and Monsalve 2018), the overall coverage of the social protection system remains lower than the median of the low-income developing economies and Sub-Saharan Africa groups (Annex III Figure 1). 63 percent of PNBS beneficiaries are women, while other programs do not target women.[1] Adequacy, which

[1] For a discussion of gender equality issues in Senegal see Marzo and Atuesta (2018) and Malta and Tavares (2019).

measures the total transfer amount received by all beneficiaries as a share of the pre-transfer total income/expenditure of beneficiaries, is slightly lower than that of peers. Benefits incidence, as measured by the percentage of benefits going to the first quintile of the pre-transfer welfare distribution relative to the total benefits going to the population, which captures the appropriateness of targeting, scores significantly worse than peers. The government finances over 60 percent of its social safety net spending, while in many countries, development partners fund more than half of the social safety net.

4. Recent progress has been made to improve targeting, progressivity, and coordination across institutions, but challenges remain, particularly linked to the disbursement of funds. In 2021 the institutionalization of the social registry and the creation of a shock response program, constitute significant progress towards strengthening the social protection system (Brunelin 2022). Moreover, a presidential decree established the RNU as the compulsory instrument for targeting social assistance, which is key to enhancing the capability of reaching the most vulnerable, and to improve progressivity of all social programs. By defining its main functionalities, utilization protocols and agencies across sectors, and data-sharing procedures, this decree also improves the reliability and effectiveness of the RNU. A vulnerability map was developed to allow for the extension of the RNU at the communal level. Despite these welcomed developments, significant delays in the disbursement of funds were encountered with only two quarters paid to beneficiaries in 2022. The government is committed to disburse this amount as highlighted in the relevant prior action (PA 3). Despite the completion of the technical work to adopt a digital platform for the disbursement of conditionals transfers and the utilization of mobile payments for other types of social assistance, the PNBS is still disbursed through la Poste.

5. Key reforms are needed to further improve targeting, increase generosity, and avoid payment delays.

- The expansion of the RNU to 1 million households to ensure that the most vulnerable individuals are properly included in the safety net system is expected for early 2024.
- Similarly, an appropriate process of recertification for the PNBS is needed to ensure that beneficiaries that do not meet the eligibility criteria are excluded from the program.
- The adoption of a digital payment system is key to avoiding payment delays and ensures predictability of cash transfers.
- While the recent announced increase in the PNBS amount from CFAF 25,000 to 35,000 is a welcome development, overall social spending remains low by international standards, calling for an increase in government expenditure devoted to social protection and social assistance.
- A clearer institutional framework for regular and shock-responsive cash transfer programs is pivotal to ensure that chronic poverty and vulnerability to climate shocks are being addressed in a coordinated, efficient manner, rather than on an ad-hoc basis.

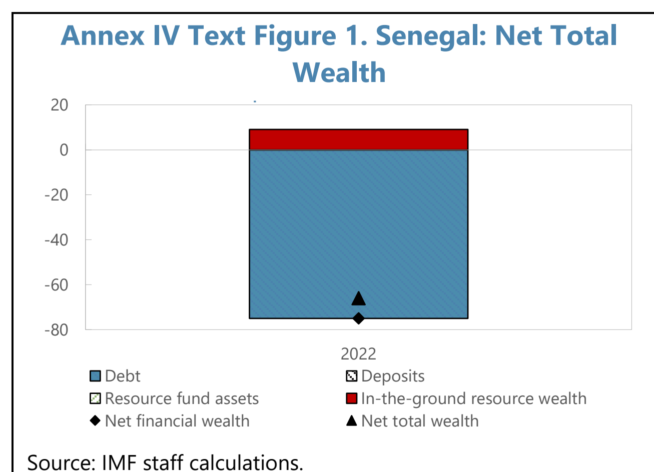
Annex IV. A New Fiscal Rule

Senegal recently adopted a new fiscal framework to manage oil and gas revenues (which will start in 2024) that calls for a fiscal rule excluding resource revenues to limit procyclicality and set aside resources for the time when resources will be depleted, while complying with the regional convergence criterion for the fiscal deficit. After 2025, the non-resource primary balance relative to nonhydrocarbon GDP is estimated at -0.1 percent of GDP to achieve the WAEMU deficit criterion of 3 percent of GDP while gradually bringing down public debt below the regional ceiling of 70 percent of GDP.

1. **In 2022, the law on the management of hydrocarbons created a new fiscal framework to ensure debt sustainability, intergenerational wealth sharing, and macroeconomic stabilization.** This fiscal framework includes: (i) a fiscal rule excluding resource revenue, which should be consistent with the WAEMU fiscal deficit convergence criteria; (ii) two funds: a stabilization fund to shield fiscal policy from volatility in resource revenues, and an intergenerational fund to ensure a fair distribution of resource wealth across generations; (iii) a revenue sharing rule, with at least 10 percent of oil and gas revenues allocated to the intergenerational fund each year, and (iv) a ceiling on the accumulation of resources in the stabilization fund that serves to determine annual resources allocated to reach this ceiling within 6 years.

2. **Given debt vulnerabilities, priority should be given to reducing public debt before accumulating resources into the intergenerational fund (see Appendix - DSA).** The definition of a long-term fiscal anchor is key to allocate natural resources wealth between current and future generations and to ensure the sustainability of public finances. Given that the government net wealth is largely negative (due to high public debt relative to limited resource wealth (Annex IV Text Figure 1), reducing public debt to strengthen its sustainability would be preferable to accumulating resources into the intergenerational fund over the short and medium terms. The latter may have difficulties generating a higher return on investment than government borrowing costs (interest rate on government bonds are around 6 percent on average in the regional market) without taking significant investment risks.

Annex IV Text Figure 1. Senegal: Net Total Wealth

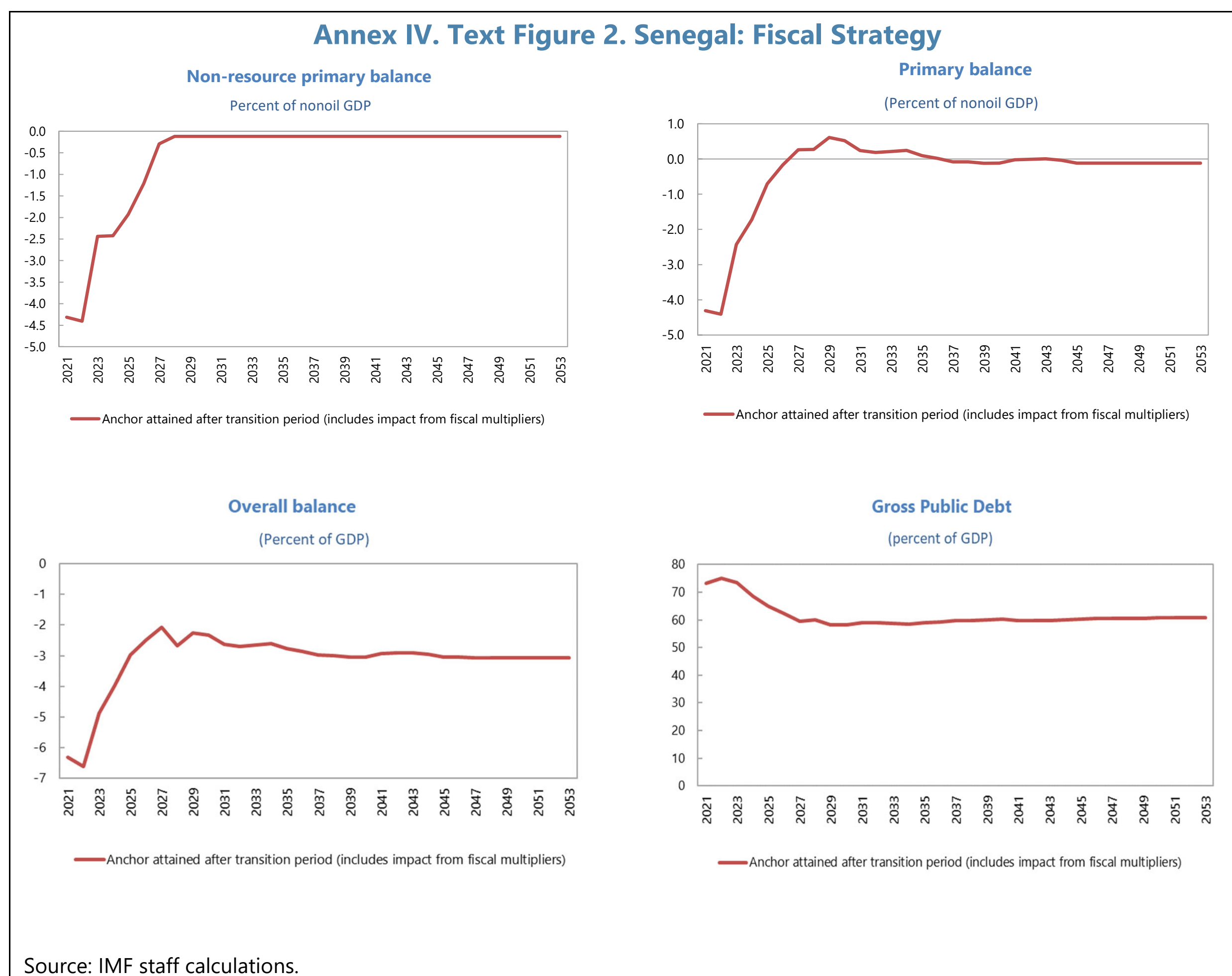


Source: IMF staff calculations.

3. **The law on the management of hydrocarbon revenues establishes a new fiscal rule based on the non-resource primary balance (NRPB) relative to nonhydrocarbon GDP.** In resource-rich countries, this ratio is often used to define the long-term fiscal anchor to reflect the permanent income hypothesis. It allows these countries to run a non-resource primary deficit, financed with the expected permanent income generated from future resource revenues. It also ensures that fiscal policy is disconnected from resource revenues to limit procyclicality and reflects the non-renewable nature of oil and gas resources by setting aside resources for the time when

resources will be depleted. According to the Senegalese law, this fiscal rule should ensure that the trajectory of the overall balance complies with the regional convergence criterion for the fiscal deficit. The NRPB is estimated at -0.1 percent of GDP to achieve the WAEMU deficit criterion of 3 percent of GDP while gradually bringing down public debt below the regional ceiling of 70 percent of GDP.[1]

4. A transition path toward the long-term objectives could be set up in the multi-year budget framework (Figure 3). A transition period to reach the 3 percent of GDP deficit target in 2025 has been estimated, consistent with staff baseline, which could be reflected in the government medium-term fiscal framework.



Annex IV. Text Figure 2. Senegal: Fiscal Strategy

Source: IMF staff calculations.

[1] Our estimates are calibrated with the interest rate – GDP growth differential broadly neutral over the medium-term.

Annex V. Coping with Climate Change

Senegal has ambitious targets under its current Nationally Determined Contribution to cut greenhouse emission by one third (compared with a BAU scenario) and invest in infrastructure to mitigate the impact of climate change. Together, mitigation and adaptation financing needs are estimated at about US$13 billion over 7 years. The priority going forward will be to strengthen the institutional framework underpinning a coherent response to climate change and embed the climate dimension in the budget preparation, execution, and control.

The Architecture of Climate Governance in Senegal

1. The 2015 Paris Agreement, often referred to as the Paris Accords, covers climate change mitigation, adaptation, and finance. Nationally determined contributions (NDCs), at the heart of the Paris Agreement and the achievement of its long-term goals, define priorities for each country to reduce national emissions and adapt to climate change. Senegal ratified the agreement on September 21, 2016.

2. The National Committee on Climate Change (COMNACC) plays a central role in climate governance. The COMNACC, under the authority of the Minister of Environment, is composed of representatives of state, local, and associative structures. The COMNAC has ultimate responsivity for coordination, consultation, training, awareness raising, management and monitoring of the various activities identified in the implementation of the United Nations Framework Convention on Climate Change. Three framework laws govern Senegal's climate action (Box 1).

Senegal's Adaptation and Mitigation Strategic Priorities

3. Building resilience to climate change in Senegal is an imperative. By 2060, climate change is projected to impact Senegal through several channels, including: (i) lower rainfall (by up to 16 percent); (ii) higher mean annual temperatures (1.4 to 2.5°C), (iii) longer-lasting heat waves (by 6-18 days on average per year), (iv) longer dry spells (by up to 22 days on average per year), and (v) rising sea levels (by 17 to 45 cm). Due to climate change, water supply could drop by 20 percent and seasonal variability could be 110 percent higher (Water risk atlas). Agriculture productivity could drop by 20-50 percent in a 3C world and the terms of trade more than 50% (Moore et al., 2017, RFF, 2022). Sea-level rise could cost $500-700m per year, 2% of 2020 GDP (Brown et al., 2011; Hinkel et al., 2012).

4. NDC strategic priorities are part of the country's development plan (*Plan Senegal Emergent* - PSE). The PSE includes sectoral programs for the sustainable management of natural resources in response to climate change. In terms of mitigation, the NDC commits to cut greenhouse gas emissions by almost 1/3 by 2035, relative to BAU.

This is achieved through (i) change in the energy mix (increasing renewables), (ii) support to public transportation, (iii) waste management, (iv) climate-resilient technologies in the agriculture sector, and (v) forest management. In terms of adaptation, the NDC includes measures to: (i) strengthen climate risk data collection, (ii) create early warning systems, (iii) strengthen water management to support agriculture, (iv) enhance management of stock of fisheries, and (v) build protection systems in areas at risk of flooding or rising sea levels. NDCs are to be complemented by more detailed and adequately costed strategies in the area of adaptation (National Adaptation Policy) and mitigation (Decarbonization Strategy) to climate change; these documents are being developed by Senegal with help ensure a rigorous climate program budgeting.

Senegal: National Determined Contribution (Dec. 2020) Projected Cost of Policies and Reforms to Address Climate Change

	Conditional (1)	Unconditional (2)	Total
	US$ billion		
Mitigation	3.4	5.3	8.7
Adaptation	1.4	2.9	4.3
Total	4.8	8.2	13.0

Source: United Nations Climate Change Portal - https://unfccc.int/

(1) Committmens conditional to support from donors

(2) Committmens not conditional to support from donors

5. Adaptation activity has not gone to scale in Senegal. Effective adaptation requires a series of proactive incremental changes such as changing planting dates to suit new rainfall and temperature regimes. At times transformative changes will be necessary, such as changing livelihoods or moving to less exposed places. These changes are needed not only in households and communities, but throughout the private sector and across all levels of government. In developing counties much adaptation is still implemented as projects supported by funds such as the Adaptation Fund and the Green Climate Fund, and by bilateral and multilateral finance organizations. Senegal will need to tap much more on these available funds. On the other hand, most Multilateral Development Banks (MDBs) and Development Finance Institutions (DFIs) have begun to actively protect their development investments and now seek development that is not only low carbon, but also climate resilient.

6. An analysis of the implementation process of climate action and adaptation policies in Senegal highlights a certain number of gaps and barriers related to:

- Poor integration of climate risks in the planning of sectoral development policies.
- Inequalities in access to climate financing between priority adaptation sectors.
- Weakness of technical capacity to transfer and take ownership of innovative adaptation strategies with a high impact on communities; and
- Lack of a framework to monitor and evaluate performance in climate policies implementation.

7. While Senegal is making noticeable progress in implementing priority adaptation policies according to several priority sectors under the NDC, climate change adaptation strategies and initiatives need to be mainstreamed into Senegal's development process.

Water Security

8. Water is key to Senegal's economic development and in particular for the agricultural sector that accounts for more than 80% of the annual water consumption. According to the World Bank, under a business-as-usual scenario, floods and droughts, together with pollution, may put more than 10 percent of Senegal's GDP at risk. By 2050, per capita availability of renewable freshwater is projected to drop to around 500 m^3 per capita per year. At this point, coverage of basic needs will be challenging and competition for available freshwater resources will increase. The impacts of climate change are expected to exacerbate water stress and pose serious constraints on the country's economic growth, as water is a key contributor to the country's economy. Agriculture, representing about 70 percent of employment[1], is by far the main water consumer (83 percent), with rice, a water-intensive crop, alone accounting for 80 percent of agricultural withdrawals.

9. The Directorate General of Water Resources Planning is not equipped to fulfil its crucial mandate. As per a recent World Bank report[2], there is a clear institutional and legal framework to govern water resources. The Directorate General of Water Resources Planning (Direction Générale de la Planification des Ressources en Eau, DGPRE), under the Ministry of Water and Sanitation (Ministère de l'Eau et de l'Assainissement, MEA), is the main body in charge of water resources management in Senegal. Through progress has been made during, the actual implementation of the water resource management remains insufficient as DGRPE lacks the resources, capacity, and mandate to fulfil its mandate.

Coastal Erosion

10. Over two thirds of the Senegalese population resides in urban coastal areas, which also houses over 90% of its industry. Urban floods have sharply increased in frequency and intensity during the past decades. For instance, it is estimated that floods – pluvial and fluvial – experienced in 2017 along the coast1 cost the Senegalese economy a total of $230 million which is equivalent to approximately 1.4% of its GDP. Mitigating the impacts of urban flood requires urban master planning and zoning, and adequate urban infrastructure. Especially, the maintenance of urban drainage networks has been challenging in Senegal.

11. The Word Bank and the UNDP led various projects to build Senegal's resilience against climate change. These projects focus on areas such as (i) climate data collection to support early warning systems and track the impact of climate change; (ii) interventions to track and address the high vulnerability of Senegal's coast to rising sea levels and flooding; (iii) better livestock management; (iv) protection of touristic sites (particularly in the costa area) to climate change, and (v) the regulatory framework supporting the development of sustainable energy.

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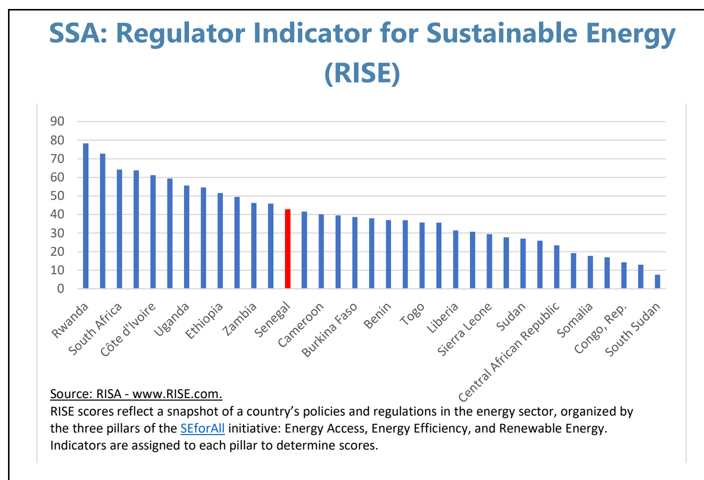
[1] See https://climateknowledgeportal.worldbank.org/.

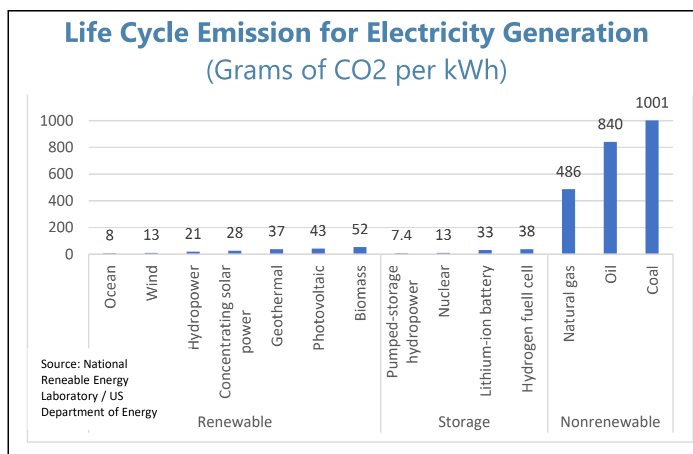
[2] World Bank 2022. Senegal Water Security : Executive Summary (English). Washington, D.C.: World Bank Group. http://documents.worldbank.org/curated/en/099625203082232347/P17223301605d00ed0af590aabc6bf858c8

The Gas-to-Power Strategy

12. The World Bank is working to enhance efficiency in the electricity sector, which has clear implications in terms of a greener energy mix (Table 1). Senegal has recently adopted a roadmap, which sets a pathway for gradually eliminating untargeted subsidies in the energy sector by end-2025. About 1/3 of the energy subsidies, which climbed above 4 percent of GDP in 2022, is for subsidizing the distribution of electricity sold below the average production cost by the state-owned electricity company (Senelec). The freed up fiscal resources can then be redirected just energy transition in Senegal.



13. The World Bank is also supporting the authorities in enhancing efficiency and shoring up Senelec's finances, which is a precondition to reduce production cost. In the authorities' view, their Gas-to-Power strategy will provide additional efficiencies by directing to the domestic market considerable amounts of cheaper gas coming onstream from large offshore reserves, which is a cleaner source compared to heavy fuel. Based on WB preliminary estimates, by 2030 about 77 percent of electricity will be generated by natural gas and 22 percent by renewable sources. Senelec could turn its cash flow positive by 2027. Moreover, wider use of natural gas can support using gas for cooking instead of firewood or charcoal, while using oil and gas revenues could help finance mitigation and adaptation investments.



14. Senegal will need to ensure there is a coherence between its forthcoming fossil fuel production and the need to reduce carbon emissions. Senegal is about to become an oil and gas producer, which will require sizeable investments by Petrosen (the state's owned oil company) and the construction of combined cycle power plant. It would be important that Senegal and its foreign partners adopt modern technologies, backed by state-of-the-art legislation, to curtail as much as possible CO2 emission in the fuel and gas production chain and the use of the latter to produce electricity.

Conclusion

15. Senegal needs to operationalize its institutional and governance framework to respond to climate change. The first challenge is to ensure a coherent, unified, and transparent management of investments related to climate change. The second challenge is to finalize a detailed plan of priority projects to adapt and mitigate climate change. The final challenge is to collect and maintain a central database to monitor the budget process in this area from selection to execution. These reforms will require time and buy-in at the highest level.

Annex V. Box 1. Climate and Green Economy - Senegal Legal Framework

Senegal's legal framework in the climate and green economy area is governed by three laws:

Environment Code: The Code recognizes the environment as national and international patrimony, establishing that all citizens have the right to live in a healthy environment, but are also responsible for its protection. Thus, environmental conservation must be integrated in national policies addressing socio-economic development and cultural issues.

Renewable Energy Law: It establishes the legal framework for the sustainable development of renewable energy. Goals outlined in this legislation include reducing dependence on fossil fuels, diversifying the energy mix, reducing GHG emissions and facilitating domestic energy production.

The Law Regulating the Biofuel Industry: It aims to develop the biofuels sector, establishing norms and conditions for the production and exploitation of biofuels in the national territory and for international co-operation. More broadly, this law aims to contribute to environmental protection and increase the value of forest and agricultural resources.

Annex VI. Tackling Governance and AML/CFT Issues

Senegal's development plan, launched in 2014, has been hindered by governance issues, impeding progress towards becoming an emerging market. Despite recent progress, Senegal still faces challenges in fiscal governance, corruption, and AML/CFT framework. The proposed governance reform agenda will prioritize fiscal governance, anti-corruption framework, and AML/CFT issues. Reform priorities include gradually eliminating capital transfers to public agencies, centralizing information on public investment, and strengthening financial information systems. Additionally, the agenda aims to reinforce the powers of the anti-corruption agency and expand asset declaration laws. Reform priorities for AML/CFT issues will focus on exiting the grey list.

1. The Senegalese authorities launched in 2014 a multidecade development plan (PSE) to boost growth, yet governance issues impede policy implementation, hindering progress towards the nation's goal of becoming an emerging market. Although strong, the country's economic growth performance falls short of the ambitious GDP growth targets of 8 percent set by the PSE. Moreover, the 2014-2019 growth episode has been associated with low investment efficiency (See Jan. 2022 Staff SIP "Jump starting growth after the pandemic"). In addition, Senegal is facing significant challenges in generating sufficient revenue to finance its development plan, owing to weaknesses in tax administration and the large size of the informal sector combined with vested interests. Therefore, achieving and sustaining higher growth rates will require, among others, addressing policy implementation gaps.

2. Senegal has recently made some progress in tackling governance weaknesses (Annex VI Figure 1). The country scores well (above the 20 percent best SSA scores) in the Mo Ibrahim governance index and in implementing the EITI standards[1]. The recently adopted law to ensure sustainable and transparent management of hydrocarbon revenues could help avoid the resource curse. Governance effectiveness has also improved over the last years. Steps have been taken to combat corruption with the passing of an anti-corruption law in 2014 and the establishment of a new anti-corruption agency (OFNAC) in 2019, as well as the digitalization and automation of the fiscal administration and government operations. More recently, a new procurement code was adopted and is expected to ensure more open and competitive tenders.

3. Despite recent progress, Senegal continues to face governance challenges in some key aspects of fiscal governance and corruption. The 2023 PIMA assessment shows that public investment efficiency remains low in Senegal.[2] The execution of public investment projects (PIP) through capital transfers to public agencies is a critical concern as they lack spending verification and have weak governance and financial oversight. In 2022, 88 percent of domestically funded PIPs were executed through capital transfers to public agencies' treasury account ("*Comptes de dépôt*"). Those public agencies do not generally have the capacity to produce timely financial information

[1] Senegal achieved a very high overall score in implementing the 2019 EITI Standard: 93 points

[2] According to the 2023 PIMA assessment, Senegal's overall efficiency score deteriorated from 67 to 57 percent from 2019-2023.

and do not systematically report on the physical execution of the investment projects they are conducting. Other issues highlighted by the PIMA assessment include (i) the fragmentation of the monitoring system for project implementation, and (ii) the absence of a government's balance sheet. The December 2022 Audit Court's report revealed COVID-19 funds misappropriation and spending irregularities due to weaknesses in budget procedures (direct transfers to public entities) and procurement practices in emergency situations (suspension of public procurement code). The asset declaration framework still has a very limited scope and is unevenly enforced. Finally, although improving, governance effectiveness remains low.

4. There are also gaps in the AML/CFT framework. Senegal remains on the list of jurisdictions under close monitoring by the Financial Action Task Force's (FATF) largely due to gaps in the targeted financial sanctions regime, the AML/CFT risk-based supervision of financial institutions, and the country's beneficial ownership framework. A list of 30 residual actions mostly pertaining to regulations to be adopted, training to be provided, controls to be performed, and operational tools and mechanisms to be put in place.

Proposed Governance Reform Agenda

5. Against this backdrop, the governance reform agenda will focus on three areas, namely (i) fiscal governance, (ii) anti-corruption framework, and (iii) AML/CFT.

(i) On fiscal governance, building on the unfinished reform agenda and drawing on the findings and recommendations of the 2023 PIMA TA and the Audit court on the use of Covid-19 funds, reform priorities could include:

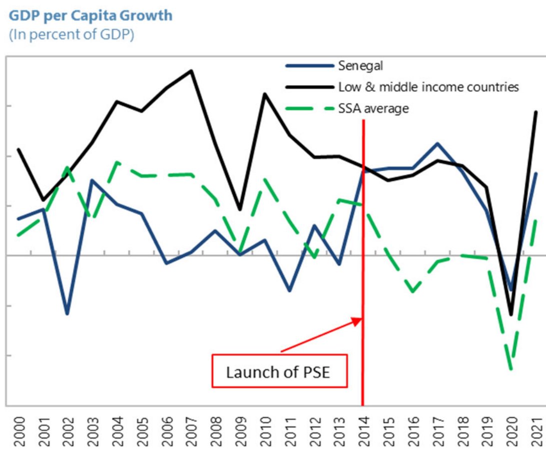
- Eliminating capital transfers to public agencies executing central government projects and properly budget and execute spending according to their economic nature. Achieving this objective would partly require streamlining the expanded public agencies/parastatal sector to which have been transferred to execute core public administration activities/responsibilities.
- Centralizing information on the physical execution of public investment.
- Preparing and publishing public sector/central government balance sheets
- Strengthening the financial information system of public agencies executing government projects.
- Completing the transition towards a fully functioning Treasury Single Account (TSA) and closing all non-necessary general government accounts to improve cash management.
- Finalizing the operational framework for the hydrocarbon revenue management law.
- Strengthening public accountability through mandatory publications of all Audit court and public procurement authority's reports.
- Increasing transparency of the public land management system.

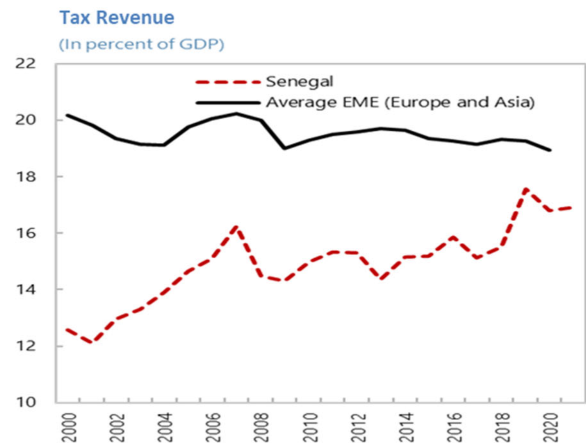
(ii) On the anti-corruption framework, reform priorities will build on recommendations of the anti-corruption agency (OFNAC) in its various annual reports. Key reforms could focus on:

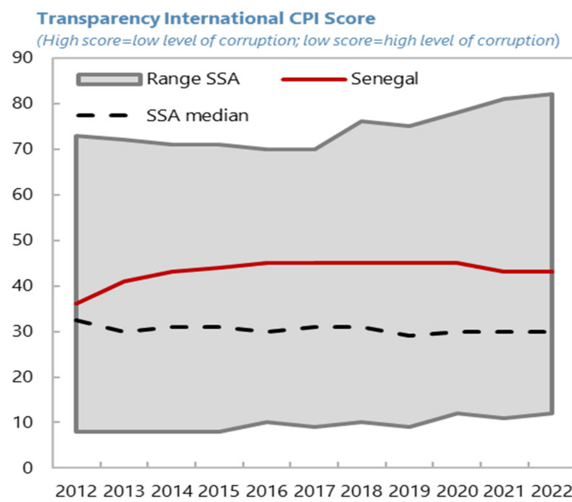
- Reinforcing the powers and the independence of the OFNAC.
- Strengthening the enforcement mechanisms of the anti-corruption and asset declaration laws
- Expanding the coverage of the asset declaration law to include conflicts of interests.

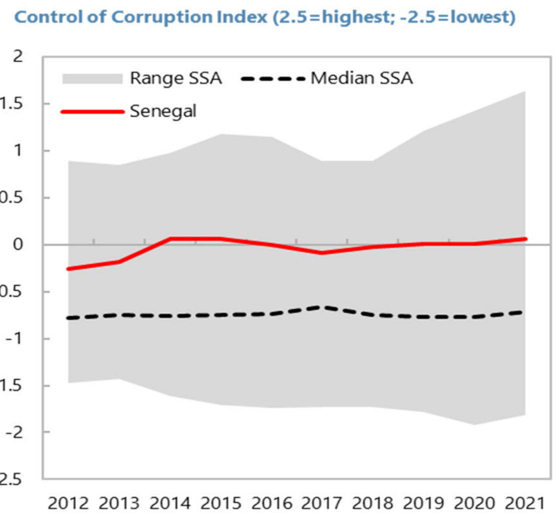
(iii) On AML/CFT issues, reform priorities should focus on addressing the 23 remaining actions to exit from the grey list.

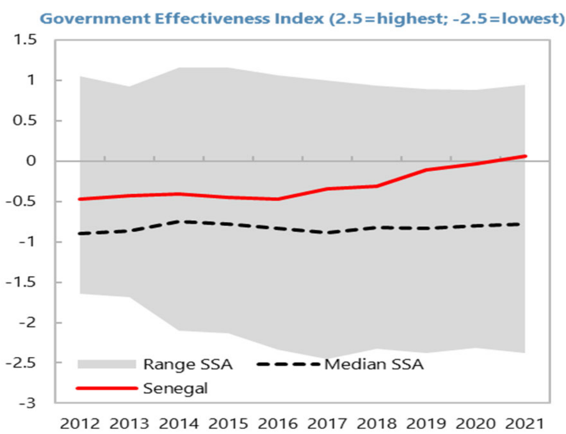
Annex VI. Figure 1. Senegal: Selected Macroeconomic and Governance Indicators

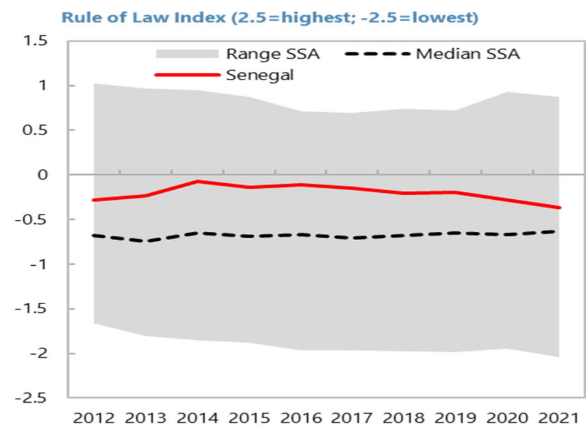












Source: Transparency International, World Bank, and IMF staff calculations.

Annex VII. Recent Growth Drivers and Implications for Debt Vulnerabilities

Large public investments in infrastructure have driven Senegal's economic growth over the recent period. This public sector-driven growth has not resulted in a structural transformation of the economy and has increased Senegal's debt vulnerabilities in a context of weak public investment efficiency. While Senegal has taken measures to mitigate these risks, continued policy efforts will be needed to ensure sustainable and inclusive growth in the years ahead, by shifting toward supply-side reforms, including strengthening investment efficiency and domestic revenue mobilization.

Drivers And Characteristics of the Recent Growth Spell in Senegal

1. During the last decade, Senegal experienced a strong growth performance[1], partly driven by significant demand-side measures implemented by the government as part of its overall development plan. Senegal launched its *Plan Senegal Emergent* (PSE) in 2014 to transform its economy into an emerging economy by 2035 through a series of structural reforms and investments. So far, PSE's implementation has focused on infrastructure development related to transport (the new Dakar airport, the toll highway, the Regional Express Train), sport and entertainment (Dakar stadium) and administrative buildings. Public investment spending increased from 10.9 to 12.7 percent of GDP, between 2008-2013 and 2014-2019, with a ripple effect on private investment and consumption, which increased by 15.1 and 4.7 percent on average respectively over the period 2014-2019[2]. As a result, after a 2004-2013 decade of volatile and sluggish growth, Senegal's average real growth and average per capita growth jumped to 6 percent and 3.5 percent respectively over the period 2014-2019, interrupted by the COVID-19 crisis.

2. Aggregate productivity and structural transformation did not accompany this robust growth spell, confirming the limit of a public sector-led demand-driven growth model. Growth in Senegal has been largely driven by capital and labor increases, with total factor productivity (TFP) having a modest or negative contribution. Sectoral decomposition of TFP reveals weak contributions from services, retail trade, manufacturing, and agriculture, while mining and construction had positive contributions. There was no significant structural transformation – the distribution of value added between sectors has remained broadly unchanged over the last two decades, with the predominance of the tertiary sector and a limited contribution from the secondary sector – or export diversification, and labor reallocation from primary to tertiary sectors was offset by declining services sector productivity per worker. Overall, TFP growth has been slow.

3. Another characteristic of the country's economic growth is low productivity of investment. A broader look on overall investment efficiency – measured by the incremental capital

[1] Interrupted by the recent multiple crisis (COVID-19 in 2020 and the spillovers from the Russia's war in Ukraine in 2022).

[2] Average growth of private investment and final consumption was 8.1 and 3 percent over the decade prior to the implementation of the PSE (2004-2013).

output ratio (ICOR)[3]– points to a lower investment efficiency in Senegal compared to WAEMU average. Although a big deterioration happened during the pandemic, investment efficiency in Senegal was already deteriorating since 2017. The residential capital formation's rising share of fixed capital formation may explain Senegal's declining ICOR (See Jan. 2022 Staff SIP "Jump starting growth after the pandemic").

Implications For Debt Vulnerabilities

4. Despite the strong growth performance, public debt rose substantially between 2014 and 2019, and further surged since 2020. Between 2013 and 2019, public debt rose by 26.7 percentage points, more than double the increase seen in the period before the implementation of the PSE, partly reflecting investments to implement the national development plan[4]. The additional revenue generated by the economy (growth rate) was therefore not sufficient to service rising debt to finance public investments. This suggests that domestic resources mobilization is insufficient and/or the return on public investments is low due to weak spending efficiency. It may also suggest that that debt was used to finance projects that did not boost productivity and improve living standards (new administrative buildings, sport, and entertainment infrastructure).

5. The shift towards external commercial debt has also increased debt vulnerabilities. To fund its extensive investment program, Senegal has increasingly relied on non-concessional loans and commercial loans, as well as more complex financing mechanisms such as Public-Private Partnerships (PPPs). The high cost of debt service and the high risks associated with these debt instruments, coupled with the continuous increase in the volume of debt, have contributed to increasing Senegal's debt vulnerabilities. As a result, Senegal moved to moderate risk of debt distress in 2019 and has limited scope to absorb shocks in the near term.

6. To mitigate risks associated with rising debt, the revised PSE should shift toward supply-side reforms, improve investment efficiency and domestic revenue mobilization. In their revised PSE, the authorities should focus on supply-side reforms that lift growth in a lasting manner to gradually lower public debt**.** These include improving the business climate and enhancing governance to foster private investment without incurring large fiscal costs. Continuous efforts are also needed to strengthen spending efficiency to boost growth dividends by strengthening fiscal governance and prioritizing investment projects with high economic and social returns as well as to build more fiscal space by improving domestic revenue mobilization.

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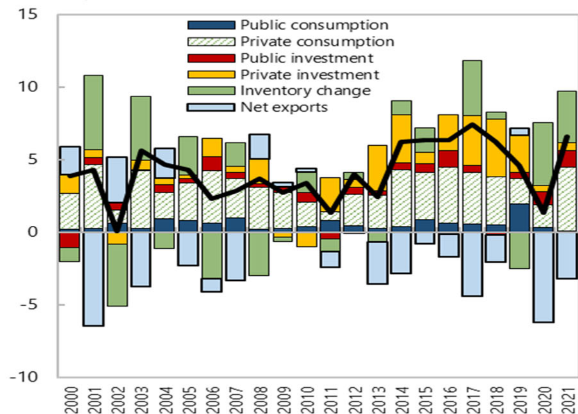
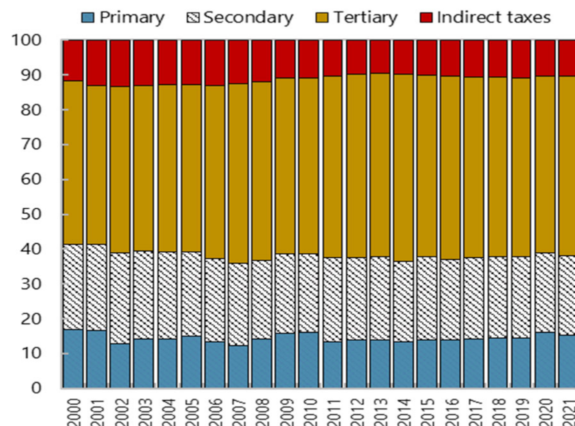
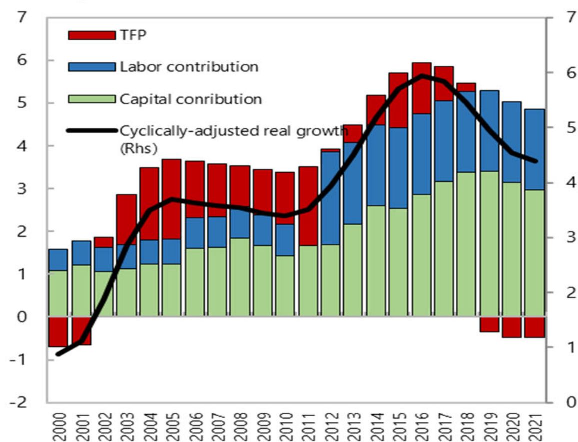
[3] A lower ICOR indicates higher efficiency.

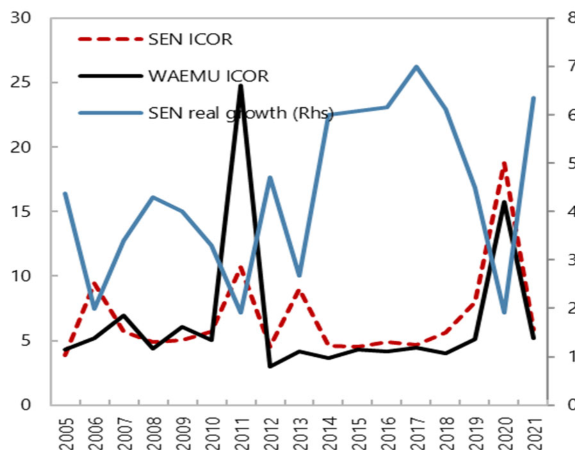
[4] As well as extrabudgetary financing needs and real exchange rate depreciation (See Jan. 2022 Staff SIP "Jump starting growth after the pandemic"). It's also worth noting that the coverage of public debt in Senegal was broadened in 2017 to include SOE and other public entities debt.

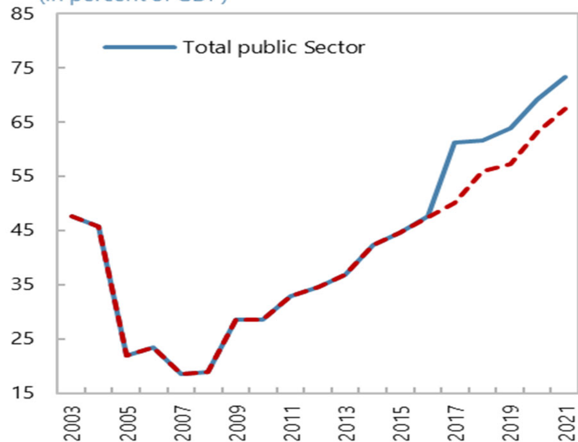
Annex VII. Figure 1. Senegal: Selected Macroeconomic Indicators - Senegal

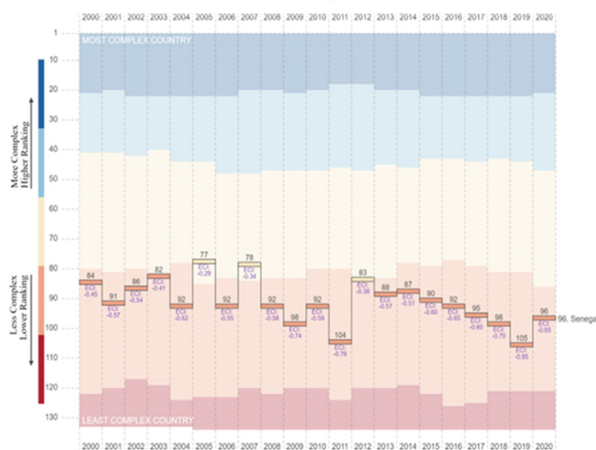












Source: ANSD, Harvard Atlas of Economic Complexity, and IMF staff calculations.

Annex VIII. Tackling Stock-Flow Adjustments in Public Debt Dynamics

This annex reviews key drivers of Senegal's (SEN) government and public sector debt dynamics in the period 2011-2022. A significant share of debt growth cannot be explained by the main identified debt drivers and is attributed to residual stock-flow adjustments (SFAs). The note discusses (i) possible reasons for Senegal's large SFAs, (ii) possible implications, as well as (iii) remedial actions.

The Role of Stock-Flow Adjustments on Senegal's Public Debt Dynamics

1. Total stock-flow adjustments in Senegal are volatile and, on average, contribute significantly to increasing debt. Annual changes in the government and public sector debt-to-GDP ratio can be decomposed into contributions from main identified debt-ratio drivers (i) the fiscal balance, (ii) the estimated valuation changes of foreign-currency debt due to exchange rate movements, and (iii) nominal GDP growth. The residual change in debt that cannot be explained by the contribution of these three main identified debt drivers is generally labeled as an estimated stock-flow adjustment (SFA) item. Table 1 estimates annual SFAs for Senegal's government and public sector.[1] SFAs are highly volatile from year-to-year, but on average contribute significantly to increasing debt-to-GDP ratios for both the government (1.8pp of GDP annually on average) and the public sector (1.2pp of GDP annually on average).

Annex VIII. Table 1. Senegal: Decomposition of SFAs

		2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	*Average 18-22*
Central government debt to GDP ratio	%	**32.9**	**34.5**	**36.9**	**42.4**	**44.5**	**47.5**	**50.1**	**55.9**	**57.1**	**63.1**	**67.4**	**68.2**	
Change in public debt ratio	pp	4.4	1.6	2.4	5.5	2.1	3.0	2.6	5.8	1.1	6.1	4.2	0.9	3.6
Contribution from fiscal balance	pp	4.9	4.2	4.3	3.9	3.7	3.3	3.0	3.7	3.9	6.4	6.3	6.6	5.4
Contribution from estimated valuation effects linked to FX	pp	0.0	0.1	-0.5	1.4	2.0	0.5	-1.6	0.7	0.5	-2.2	2.0	1.5	0.5
Contribution from nominal GDP growth	pp	-1.4	-2.3	-1.2	-1.6	-3.0	-3.1	-3.5	-2.5	-3.6	-1.6	-4.9	-7.7	-4.1
Stock-flow-adjustments (SFAs)	pp	0.8	-0.4	-0.2	1.9	-0.5	2.3	4.7	4.0	0.3	3.5	0.8	0.5	1.8
Public sector debt to GDP ratio	%							**61.1**	**61.5**	**63.6**	**69.2**	**73.3**	**76.6**	
Change in public debt ratio	pp								0.4	2.1	5.6	4.1	3.3	3.1
Contribution from fiscal balance	pp								3.8	5.0	6.5	7.1	7.1	5.9
Contribution from estimated valuation effects linked to FX	pp								0.7	0.5	-2.4	2.1	1.5	0.5
Contribution from nominal GDP growth	pp								-3.1	-3.9	-1.8	-5.4	-8.4	-4.5
Stock-flow-adjustments (SFAs)	pp								-1.1	0.4	3.2	0.4	3.1	1.2

Source: Senegalese Authorities and IMF staff calculations

2. SFAs can stem from a range of sources. These include – but are not limited to - the following categories, which create debt-financing needs beyond those identified in Annex VIII Table 1:

- Below-the-line financial transactions: this could include (i) changes in government deposits (including those not covered by standard fiscal accounts), (ii) sales/purchases of property or other privatization proceed, (iii) sales/purchases of equity stakes or lending to entities outside of the government/public sector debt perimeter (for instance to provide financial support to

[1] SEN's public sector includes the General Government as well as state-owned enterprises (SOEs). Since visibility on the SOE perimeter is limited, historical public sector fiscal balances are estimated. Public sector debt is tracked for SEN since 2017.

strategic businesses), (iv) payments of government's obligations which are not recorded within the current year's fiscal balance because they were accrued in past years, and (v) payments made/received linked to realized financial transactions (for instance the unwinding of a foreign exchange hedge made by the government).

- Above-the-line expenditures or revenues: Senegal's broader public sector operating balance (and so, the deficit) is estimated and those estimates are used to project debt, given limited visibility on actual SOE finances. Under/over estimation of SOE balances could contribute to unidentified public sector SFAs. Equally, differences between the definition of government (or the perimeter of public sector) used to compute fiscal balances and the debt stock can lead to unrecorded expenditures/revenues that contribute to debt dynamics.
- Unidentified revaluations in the debt stock: (i) changes in the definition of government / private sector liabilities (for instance if the government recognizes a liability as part of government debt, or if an SOE liability is newly identified as being a liability to be consolidated out of overall public sector debt) or (ii) debt write-offs can lead to year-to-year changes in the debt-to-GDP ratio that are unexplained by basic fiscal balance, exchange rate valuation effects or nominal GDP growth changes.

3. SFAs are significant not just in Senegal, but in the broader WAEMU region. A recent IMF regional study compares SFAs for all countries of the WAEMU region,[2] and finds that SFAs are endemic to the broader region.

SFAs Can Have Significant Implications for Fiscal Policy and Public Financial Management

4. Significant historical positive SFAs may indicate downwards bias in public debt projections, which could lead to underestimating the primary balance needed to stabilize the debt to GDP ratio. Public debt projections are generally based on forecasts for key identified debt drivers. Consequently, if SFAs continue to be on average positive during the forecast period and are not identified ex-ante, these debt projections would be biased downwards. A given projected path of the fiscal balance may therefore look more sustainable than it will ultimately turn out to be. Consecutive higher than projected debt growth could undermine capital market confidence in debt forecasts and hence fiscal sustainability.

5. SFAs can undermine fiscal anchors and public financial management systems. Fiscal anchors are generally calibrated to ensure debt sustainability, safeguarding that long-term debt stock and debt service projections remain within manageable levels. If debt projections are biased downwards, then this may lead to overly loose calibration of fiscal anchors. Equally, the presence of unidentified SFAs may be a symptom of weaknesses in public financial management systems, suggesting that Governments are able to circumvent conventional fiscal anchors defined based on

[2] IMF WAEMU Staff Report (March 7, 2023)

the fiscal balance. Unplanned emerging financing needs from previously unidentified SFAs can undermine debt issuance strategies and cash management of the Government.

6. **SFAs that are not transparently explained undermine the accountability of how public funds are raised and used n.** Without full transparency on how public funds are raised and used, the public cannot effectively hold the Government accountable. Limited transparency on how public finances are managed can also undermine taxpayer willingness to contribute to the system, weighing down on tax compliance.

Recommendations to Better Manage SFAs

7. **Identifying all historical SFAs should be a priority for Senegal.** A deep analysis of all the drivers behind Senegal's increase in government and public sector debt is needed, with the aim of clearly identifying the source of all historical SFAs. This requires a systematic review of above-the-line and below-the-line transactions, as well as debt stock revaluations, at the level of the central government, the general government and the public sector encompassing the SOEs. The results of this analysis should be shared with the public to enhance government accountability. Towards this aim, Senegal has started work towards publication of comprehensive public sector financial accounts of all above-the-line and below-the-line financial transactions,

8. **Undesirable SFAs should be eliminated.** For instance, quasi-fiscal operations (for instance through SOEs or exceptional expenditure procedures) should be executed as part of the above-the-line government budget going forward. Payment claims to the Government should be paid without unwarranted delays.

9. **As SFAs remain significant in Senegal and visibility on the nature of some of these SFAs remains limited for the time being, fiscal anchors should be set conservatively.** The results of public sector debt projections – such as debt sustainability analysis results – need to be assessed while being aware of the potential for further unidentified SFAs during the projection period. Fiscal anchors should therefore be calibrated conservatively, reflecting risks from higher than anticipated debt growth.

Annex IX. Capacity Development Strategy

1. IMF Technical Assistance (TA) will support the ECF/EFF and RSF programs' objectives. The core of Fund TA will focus on domestic revenue mobilization to support the implementation and effectiveness of the MTRS, improved public finance management and implement the framework for the management of the upcoming hydrocarbon revenue, to help safeguard fiscal and debt sustainability. With respect to RSF program objectives, Fund TA will be provided to establish a comprehensive "climate tagging" in the budget process and to introduce the climate dimension in the selection criteria in the public investment projects selection process.

2. Two long-term experts will continue to support capacity development on revenue mobilization and PFM.

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

4. Authorities' views. The authorities expressed great satisfaction with Fund TA, which helped put in place key tax and administrative reforms, improve public financial management, debt management, and better and more timely compilation of macroeconomic statistics which resulted in Senegal reaching SDDS status. They stressed the willingness to work with TA experts to move forward revenue administration and tax policy reforms and deliver on the ambitious program's objectives. They stated keen interest in the following areas: (i) implementation of the MTRS and the tax arrears strategy; (ii) implementation of the PIMA/C-PIMA main recommendations; (iii) capacity building with the quantification and monitoring of fiscal risks; and (iv) LEG's assistance in implementing the priority reforms on the revision of the existing framework for assets dec

Annex IX. Table 1. Senegal: Key Overall CD Priorities			
Program Priorities	**Recent Capacity Development Activities**	**Planned/Proposed Capacity Development Under the ECF/EFF and RSF Arrangements**	**Objectives**
		Pillar I : Building Fiscal Resilience	
Revenue Administration	Revenue administration, MTRS MTRS, legal drafting, international tax Planning MTRS and immediate revenue measures Building Institutional Capacity in Tax Administration Customs Valuation	Tax administration: Advise and assist on developing the MTRS implementation plan. (2023H2)	Strengthen the capacity in implementing the MTRS action plan and assessing its effectiveness/ take stock of recent delays in MTRS implementation and prepare corrective measures.
		Prepare a performance management and accountability framework in line with MTRS targets. (2023H2)	Improve the monitoring framework of tax performance
		Customs administration: Assist on automating the settlement of the prepayment for the income taxes levied *(prélevement de conformité fiscale)* at customs for importers not current with their domestic taxes. (2023H2)	Identify fraud and improve control efficiency in the implementation of the prepayment for the income taxes levied.
Tax Policy	Fiscal Rules choice and calibration (oil and gas revenues projections)	Specify the fiscal rule by defining long and medium-term fiscal anchors to ensure the sustainability of public finances and intergenerational equity based on the May 2023 mission findings. (2023H2-2024H1)	Strengthen the macro-fiscal framework for the management of hydrocarbon revenues
	Tax policy diagnostic assessment	Tax Policy Unit capacity building. (2023H2-2024H1)	Equip the Legislation and International Cooperation Unit of the DGID with technical skills and tools for tax policy design and implementation.
		Prepare a tax expenditure rationalization strategy. (2023H2)	Identify concrete tax exemptions to be abolished and the strategy to phase out them out.

Annex IX. Table 1. Senegal: Key Overall CD Priorities
(continued)

PFM reforms	PIMA assessment update Capital projects budgeting	Strengthen public investment management. (2023H2-2024H1) Strengthen capacity to manage PPPs and related fiscal risks. (2023H2-2024H1) Strengthen in year budget execution programming	Follow up on the PIMA assessment and provide advice on the action plan to gradually eliminate capital transfers and ensure that all new investment projects are classified as central government investment. Strengthen in year budget execution control monitoring. Better articulation of in year planning tools (procurement plan, Commitment plan and cash flow plan).
	Hydrocarbon revenues forecast and management (FARI model update)	Capacity building in forecasting hydrocarbon-related revenues (FARI model update). (2023H2-2024H1)	Strengthen the authorities' capacity to set-up and update a model to forecast hydrocarbon revenues, using the FARI model.
		Finalize the implementing laws and operating procedures for the intergenerational and stabilization funds envisaged within the framework for the management of hydrocarbon revenues. (2023H2-2024H1)	Assist the authorities in preparing the implementation decrees of the framework for the management of hydrocarbon revenues.
		Capacity building on the reporting framework to monitor the performance of the intergenerational and stabilization funds. (2024H1-2024H2)	Improve transparency in the management of hydrocarbon revenues.
Government Finance Statistics	Improve quality and regularity of in-year budget execution reports	Public sector TOFE consolidation – Assets and debts stock-flow-consistency. (2023H1-2023H2)	Improve the consolidation of the public sector TOFE and reconcile between flows and stocks of assets and liabilities.
	Refine the TOFE of public sector Strengthening DBA and the infra-annual spending programming	Technical assistance to finalize the implementation of the Single Treasury Account. (2024H2)	Improve cash management

Annex IX. Table 1. Senegal: Key Overall CD Priorities (continued)			
Debt management	MTDS and ABP formulation and implementation Domestic debt market development	Debt Unit capacity building. (2023H2-2024H1)	Enhance the capacity of the Debt Unit and support the authorities in the operationalization of the national debt committee (CNDP)
		Debt and cash management. (2024H1-2024H2)	Assist the authorities on better integrating debt and cash management
Pillar II: Enhancing AML/CFT and Governance			
Framework for assets declaration	No CD activity done previously.	Assist the authorities on the revision of the existing framework for assets declaration. (2024H1-2024H2)	Strengthen governance and transparency.
Governance and anti-corruption framework	No CD activity done previously.	Governance diagnostic (TBD)	Governance and anti-corruption framework assessment
AML/CFT framework	No CD activity done previously.	Strengthening the AML/CFT framework, including the transparency of Beneficial Ownership (BO) of legal entities operating in Senegal. (2024H1-2024H2)	Assist the authorities to build on recent progress, namely the issuance of procedures for identifying, declaring, storing and controlling information relating to beneficial owners including with the implementation of new electronic forms to submit to the DGID (*Direction Générale des Impots et des Domaines*) the BO information for legal persons and for legal arrangements and the establishment of procedures for routinely checking that the BO information provided is accurate and maintained up-to-date.
Pillar III: Building Socio-Economic Resilience			
National Account Statistics	Rebasing the national accounts with benchmark year 2021– Updating the natural resources (oil and gas) estimates in the national accounts' framework.	Finalize the rebasing of the national accounts (2025H1)	

Annex IX. Table 1. Senegal: Key Overall CD Priorities (concluded)			
Improve the business environment	Revision of the investment code	Complete the ongoing revision of the investment code. (2023H2-2024H1)	Assist in finalizing the new investment code by ensuring that it is in line with international best practices.
Pillar IV: Building Climate Change Resilience			
Strengthen climate tagging in budget preparation, execution, and ex-post assessment, in particular in the public investment program.	February 2023: first comprehensive Climate PIMA TA mission from FAD, part of the overall PIMA assessment. May 2023: follow-up C-PIMA TA mission to establish a C-PIMA recommendation implementation plan	Support the implementation of capital investment though the normal ("Titre V") PFM circuit. (ongoing)	
		Assist the authorities to improve their framework for a comprehensive "climate-tagging" in the budget process. (2025H1-2025H2)	
Embed climate adaptation and mitigation consideration in project selection process	No CD activity done previously.	Establish climate dimension as key selection criteria in the project selection process. (2023H2-2025)	

Appendix I. Letter of Intent

Dakar, June 9, 2023

Ms. Kristalina Georgieva

Managing Director

International Monetary Fund

Washington, DC 20431

USA

Madam Managing Director:

In 2022, the war in Ukraine, soaring commodity prices, the slowdown in external demand and the tightening of financial conditions in regional and international markets have had a considerable impact on the Senegalese economy. Growth slowed to around 4.2 percent from 6.5 percent in 2021, inflation rose sharply to an annual average of 9.7 percent, the budget deficit remained high at 6.2 percent of GDP and the current account deficit widened to almost 20 percent of GDP. Despite this difficult environment, Senegal has successfully concluded the latest reviews of its economic and financial program supported by the Policy Coordination Instrument (PCI), the Stand-by Arrangement (SBA) and the Standby Credit Facility (SCF).

The macroeconomic outlook remains uncertain, due to the ongoing war in Ukraine, tighter financing conditions and slowing global economic growth. In this context, the Government of Senegal is requesting access to the Extended Fund Financing (EFF) and the Extended Credit Facility (ECF) for an amount of SDR 1,132.6 million (350 percent of the quota in order to support its reform program articulated around three pillars. The amount of SDR 1,132.6 million consists of SDR 377.53 million (or 116.67 percent of quota) under the ECF and SDR 755.07 million (or 233.33 percent of quota) under the EFF. The first pillar relates to the strengthening of the public finances resilience through the implementation of a fiscal consolidation strategy, the pursuit of efforts to improve the domestic revenues mobilization to reach a tax to GDP ratio of 20 percent by 2025 (community target) and strengthening the efficiency of public expenditure and transparency in the management of public finances. The second pillar concerns measures intended to strengthen governance and the fight against corruption, including the completion of reforms to improve financial information and public accountability, as well as actions aimed at removing Senegal from enhanced surveillance of the FATF. The third pillar relates to socio-economic resilience through the pursuit of reforms to improve the social protection system and promote the development of the private sector. This ECF/EFF-supported program is in line with our poverty reduction and growth strategy (Plan Senegal Emergent).

The government is committed to strengthen the resilience to climate change. To this end, the Government requests access to the Resilience and Sustainability Facility for an amount of SDR 242.70 million (75 percent of quota) to implement a program articulated around three pillars: (i) supporting the objectives of mitigating the effects of climate change in Senegal, (ii) accelerating

adaptation to climate change and (iii) integrating climate change considerations in the budget process. The program will also support measures to improve water management in the agricultural sector, build resilience to coastal erosion and design a climate risk management framework.

We are convinced that the measures and policies set forth in the MEFP are appropriate for meeting the objectives of the ECF/EFF-supported program and RSF arrangement but stand ready to take any additional measures that might be necessary to achieve these objectives. The government plans to consult with the IMF in advance of any revisions to the policies contained in the MEFP, in accordance with the rules on such consultation. Moreover, we will provide Fund staff with all data and information necessary to assess the policies and measures presented in the Technical Memorandum of Understanding (TMU).

We intend to publish the IMF staff report, including this letter of intent and the attached MEFP and TMU as well as the Debt Sustainability Analysis. We therefore authorize Fund staff to publish these documents on the IMF website once the Executive Board has approved the new programs under the ECF/EFF and RSF arrangements.

Very truly yours,

/s/

Mamadou Moustapha Ba

Minister of Finance and Budget

Attachments:

I. Memorandum of Economic and Financial Policies (MEFP) 2023–24

II. Technical Memorandum of Understanding (TMU).

Attachment I. Memorandum of Economic and Financial Policies

INTRODUCTION

1. **Senegal has successfully implemented its economic and financial program supported by the Policy Coordination Instrument, the Stand-By Arrangement, and the Arrangement under the Stand-By Credit Facility.** All of the program reviews have been positive. Significant reforms have been implemented in all three pillars of the program, including improving domestic revenue mobilization and debt management, strengthening budget planning and execution, increasing the share of social spending in the budget and strengthening the institutional framework for social safety nets, and developing an institutional and macro-fiscal framework for transparent and optimal management of oil and gas revenues.

2. **Over the past three years, however, the economy has suffered a series of exogenous shocks that have had a negative impact on the government finances and external stability.** In 2020-2021, Senegal faced the shock of the Covid-19 pandemic and the different variants of the virus. In 2022, the war in Ukraine led to a surge in commodity prices, a slowdown in global economic growth, and strong inflationary pressures. In addition to these factors, the significant appreciation of the U.S. dollar and some extreme weather events also impacted the macroeconomic performance of the country. These shocks led to a slowdown in economic activity, an increase in public debt, and a deterioration in external accounts.

3. **To mitigate the impact of these shocks, the government has provided significant support to households and businesses through tax deferrals, cash transfers to poor families, and price subsidies for staple foods and energy products.** These measures have contributed to an increase in the budget deficit. Given this challenging environment, important reforms could not be completed. These include broadening the tax base, eliminating energy subsidies, finalizing the Single National Registry, measures to exit the Financial Action Task Force (FATF) grey list, and other reforms to promote strong, sustainable, and inclusive growth driven by the private sector.

4. **In this context, strengthening the economy's resilience remains the main objective of the government's economic policy.** To this end, the measures envisaged are centered around four main pillars. The **first pillar** focuses on strengthening the resilience of government finances through the implementation of a fiscal consolidation strategy and the continuation of efforts to improve the efficiency of government spending and transparency in the management of government finances. The **second** pillar involves measures to strengthen governance and the fight against corruption, including the completion of reforms to improve financial reporting and public accountability and to remove Senegal from enhanced monitoring by the FATF. The **third pillar** relates to socio-economic resilience through the pursuit of reforms to improve the social protection system and promote private sector development. The **fourth pillar** concerns building resilience to climate change**.**

5. **This MEFP describes recent economic developments and outlines the Senegalese**

government's economic and financial program supported by the Extended Fund Facility (EFF), the Extended Credit Facility (ECF), and the Resilience and Sustainability Facility (RSF).

RECENT ECONOMIC DEVELOPMENTS

A. Economic Developments in 2022

6. Economic activity slowed in 2022, due to sluggish domestic and external demand in the face of a challenging international environment. Real growth is estimated at 4.2 percent in 2022, compared to 6.5 percent in 2021, due to deceleration in the primary (agricultural and fisheries subsectors) and secondary (mining, food production, construction materials) sectors activities. On the other hand, activity in the tertiary sector has remained dynamic with a growth rate of 6.7 percent, compared to 7.5 percent in 2021, driven mainly by trade, transport, hospitality services, telecommunications, and financial and insurance services.

7. Inflation has risen sharply, fueled by soaring food prices. Recent developments in the external in the environment have played an important role in driving domestic prices in Senegal. Inflation as measured by the national harmonized consumer price index is expected to rise to 9.7 percent in 2022, driven mainly by higher food prices (+17.9 percent). In terms of origin, the rise in prices in 2022 was due primarily to local products, which posted a rate of 11.2 percent, compared to 5.6 percent for imported products. Core inflation (excluding food and energy) also accelerated to 6.6 percent in 2022 from 2.6 percent in 2021.

8. Budget execution at end-December 2022 showed an overall deficit of CFAF 1,054.17 billion, or 6.1 percent of GDP, in line with the annual target set under the previous program.

- ***On the revenue side.*** Revenues (excluding grants) reached CFAF 3,297.9 billion, broadly in line with the annual target, thanks in part to the inclusion of the one-off windfall (CFAF 92.5 billion) from unwinding a Eurobonds' SWAP contract. Domestic taxes, however, were slightly lower than expected, by about CFAF 82 billion, mainly due to: (i) underperformance in the collection of taxes on goods and services (CFAF 38.8 below the target) due to tax and customs exemption measures to support households and the sharp increase in tax exemption certificates (CFAF 74 billion); and (ii) the failure to recover the balance of the claim on the Deposit and Consignment Fund (Caisse de Dépôts et de Consignations, or CDC) relating to the sale of former airport land (CFAF 40 billion). Overall, the budget execution shows a tax to GDP ratio of 18.2 percent.
- ***On the expenditure side***, current expenditure was under pressure from the government's policy to support the purchasing power of the population, with the civil servant wage bill exceeding forecasts by CFAF 55 billion due to higher-than-expected wage increases, and energy subsidies reaching a record level of CFAF 692 billion in 2022, or 4 percent of GDP. The scale of current expenditure has led to the crowding out of capital expenditure in the amount of CFAF 83 billion compared to the appropriations included in the Revised Budget Law.

- ***The financing of the fiscal deficit.*** The overall deficit of CFAF 1054.2 billion was financed by a net accumulation of liabilities totaling CFAF 1391.49 billion and a net acquisition of financial assets totaling CFAF 335.55 billion.

9. External imbalances have widened due to the impact of external shocks. The current account deficit is estimated at 19.9 percent of GDP in 2022, up from 12.1 percent in the previous year, due to an increase in the deficit in the balance of goods and services and the primary income account. Imports of goods rose sharply by 42.4 percent, while exports of goods grew at a slower pace (+24.6 percent). The balance of services deteriorated by 13.6 percent, due to an increase in the cost of freight, slightly mitigated by the recovery of the travel sector. On the other hand, there was a larger surplus on the secondary income account, thanks to the strong performance of migrant remittances, which grew by 6.7 percent. The impact of this widening current account deficit on foreign assets was mitigated by a large increase in trade credits.

10. Overall public debt, including quasi-public sector entities, amounted to CFAF 13,231 billion (or 76.6 percent of GDP) at end-2022. It grew by CFAF 2,023.6 billion, due to the budget deficit, borrowing by state-owned enterprises, and the impact of the appreciation of the U.S. dollar against the CFA franc. The debt of state-owned enterprises increased by CFAF 766.6 billion, driven in particular by the borrowing of PETROSEN, SOGEPA, Blaise Diagne International Airport (BDIA), and SENELEC. Regarding the debt of the central government, it is estimated at 68.2 percent of GDP at end-2022.

11. The money supply grew by 21.6 percent, reflecting strong growth in domestic lending. The latter increased by 28.4 percent year-on-year, in connection with the rise in net claims on the central government (+955.6 billion; +51.5 percent) and loans to the economy (+1,027.4 billion; +20.0 percent). Net foreign assets, on the other hand, fell by 3.1 percent (-62.2 billion).

12. The banking sector remains strong despite the multiple shocks. At end-December 2022, deposits were up 23.5 percent and net loans had increased by 19.8 percent. The portfolio activity of credit institutions was relatively dynamic in 2022, following the borrowing by the various states of the monetary Union in the regional financial market. The securities issued by other monetary union states and held by Senegalese banks grew by 31.5 percent. In the first quarter of 2023, however, this dynamic slowed down sharply due to the tightening of the monetary policy stance adopted by the Central Bank of West African States (BCEAO), with banks' acquisitions of securities growing by 2 percent compared to end-March 2022. The gross volume of non-performing loans has improved with a gross portfolio impairment rate of 9.3 percent at end-2022 compared to 11.5 percent in 2021 and a net impairment rate of 2.9 percent. The prudential situation has improved thanks to a strengthening of the equity capital of credit institutions, bringing the solvency ratio to 12.96 percent at end-December 2022. Banks posted a ratio above the minimum threshold of 11.5 percent, with the exception of two (2) banks whose share of the sector's total balance sheet is very low at 1.9 percent. The liquidity ratio was 104.8 percent at end-December 2022.

B. Economic Developments in the First Quarter of 2023

13. The development of activity in the first quarter of 2023 bodes well for the economy in 2023. Domestic economic activity, excluding agriculture and forestry, as measured by the General Activity Index, rose by 5 percent year-on-year in March 2023, driven mainly by dynamic activity in the primary (+9.5 percent) and tertiary (+5.6 percent) sectors.

14. Inflationary pressures are gradually easing but remain strong. After peaking at 14.0 percent in November 2022, inflation gradually declined during the first three months of 2023 and stood at 9.4 percent at end-March 2023. This slowdown in inflation is largely attributable to a moderation in the growth of food prices from 21.4 percent in November 2022 to 11.9 percent in March 2023. Energy inflation and core inflation, on the other hand, remain on the rise.

15. Budget execution at end-March was broadly in line with the budget law, despite a revenue shortfall. It shows an overall budget deficit of 566.5 billion resulting from the execution of revenues in the amount of CFAF790.6 billion and expenditures of CFAF1,357.1 billion. More specifically:

- Revenues (excluding grants) stood at CFAF 759 billion at end-March 2023, compared to a forecast of CFAF 814.8 billion, i.e., a shortfall of CFAF 55.8 billion, primarily due to the underperformance of taxes on goods and services (-CFAF 42 billion). Tax revenues amounted to CFAF 726.3 billion, below the 2023 Initial Budget Law projection of CFAF 784 billion. Non-tax revenues, for their part, recorded an increase of CFAF 1.9 billion compared to the Initial Budget Law projections, reaching CFAF 32.7 billion.
- The execution of expenditures excluding interest payments is broadly in line with the 2023 Initial Budget Law projections, with an execution rate of 27 percent of the envelope at end-March 2023. Interest payments on debt at end-March amounted at CFAF 149.9 billion, and are expected to be CFAF 78 billion higher than the initial budget law forecast for the entire year, mainly due to tighter financial conditions in the regional securities market and the appreciation of the U.S. dollar against the CFA franc.

16. Monetary policy has become tighter with an increase in the central bank's key rates and a return to liquidity injections by the BCEAO through the auction system. At the regional level, the sharp rise in inflation and the decline in foreign exchange reserves led the BCEAO to raise its key rates by 100 basis points since June 2022, in increments of 25 basis points. As of mid-February 2023, the BCEAO moved from a fixed-rate full liquidity allocation system, under which all bank requests for liquidity are met, subject to adequate collateral, to a variable-rate system, under which banks bid at a certain interest rate to receive a portion of the liquidity made available to the banking system by the BCEAO. The BCEAO's key rates are set at 3 percent for the minimum bid rate for liquidity injection auctions and 5 percent for the marginal lending rate. At end-December 2022, the volume of refinancing from liquidity injection auctions was up 13.1 percent compared to 2021. It increased by 8.1 percent at end-March 2023 compared to the same period of the previous year. In the international financial market, yields on Senegal's Eurobonds in the secondary market have risen

with the tightening of international financial conditions.

ECONOMIC AND FINANCIAL PROGRAM FOR 2023 AND THE MEDIUM TERM

C. Macroeconomic Framework

17. Economic growth is expected to accelerate in 2023. The economic growth forecast for 2023 is expected to be 8.8 percent, assuming that oil and gas production actually starts in the last quarter of 2023. The economic growth rate excluding hydrocarbons is expected to be 6.3 percent. The economic developments observed at the international level, however, could lead to a decline in the growth rate excluding hydrocarbons to around 5.3 percent. Inflation measured by the GDP deflator is expected to be 4.1 percent taking into account the current economic situation, which is likely to result in higher food prices in particular. The current account deficit is expected to remain high at 15.6 percent of GDP.

18. The medium-term macroeconomic outlook remains favorable. Economic growth is expected to accelerate to 12.8 percent in 2024 and 5.0 percent in 2025, boosted by the start of hydrocarbon production. Growth excluding hydrocarbons is expected to strengthen to about 6.6 percent on average over the period 2023-2027 in parallel with the implementation of vigorous structural reforms. Inflationary pressures are expected to gradually ease to around 2.8 percent. The current account deficit is expected to narrow to about 5 percent of GDP, reflecting lower imports of goods and services related to oil and gas projects and higher hydrocarbon exports. The debt-to-GDP ratio is expected to improve as a result of GDP growth from hydrocarbon production and fiscal consolidation.

19. However, this outlook is subject to significant uncertainties. There is still uncertainty about the start-up date and the rate of production of hydrocarbons. A number of factors, however, such as a further weakening of external demand, a tightening of regional and global financial conditions, escalation of the war in Ukraine, appreciation of the U.S. dollar, and rising commodity prices, could adversely affect this outlook. The same goes for a deterioration of the security situation in the region and unfavorable weather conditions that could negatively affect agricultural production.

D. Economic Policies

Pillar 1: Strengthen the Resilience of Government Finances

Fiscal Policy

20. The government believes that a resilient economy depends on strong government finances. In this regard, we intend to pursue a fiscal consolidation policy and continue to implement

reforms to strengthen public financial management. Fiscal consolidation is aimed at preserving the sustainability of government finances, improving the public debt sustainability, and restoring the fiscal space eroded by the multiple shocks that the Senegalese economy has faced. The goal is to reduce the budget deficit to achieve the WAEMU target of 3 percent of GDP by 2025. Regarding public financial management reforms, they are aimed at increasing the transparency and efficiency of public spending, particularly spending on subsidies and public investment.

21. In response to the underperformance of tax revenues in 2023Q1 and higher-than-expected interest payments, the government has taken fiscal measures to ensure that the deficit target of CFAF 919.7 billion (4.9 percent of GDP) in 2023 is met. With the underperformance in the collection of taxes on goods and services at end-March 2023, and given the gloomy economic growth outlook , revenues could be CFAF 69 billion lower than projected. Additionally, with the tightening of financial conditions in the regional market and the appreciation of the U.S. dollar against the CFA franc, interest payments are expected to be CFAF 78 billion higher than projected, and current expenditures are also expected to be CFAF 76.4 billion higher than projected due to the increase in the amount of the family security grant by CFAF 10,000 and the enrollment of Equal Opportunity Card holders in the Single National Registry, as well as energy subsidies carryovers from 2022. Absent new measures, these revenue shortfalls and higher-than-expected expenditures could result in a deviation of about CFAF 220 billion from the deficit target of CFAF 919.7 billion. To maintain the deficit at CFAF 919.7 billion, the government has taken measures to consolidate budget revenues and to reduce certain expenditure lines.

- ***On the revenue side***, the government has undertaken organizational changes within the tax administration in order to expedite the implementation of the new tax policy measures introduced by the 2023 Initial Budget Law (withholding tax on hydrocarbon sales by persons not domiciled in Senegal, revision of the special insurance tariff, elimination of the VAT exemption on hospital fees, withholding tax on salaries, etc.), with the expected fiscal yield of about CFAF 33.4 billion for the rest of the year. Given the downward trend of global prices of some food products, the government has also decided to lift the suspension on customs duty and import tax on edible oil and sugar, which is expected to generate additional revenue of CFAF 15 billion. Additionally, some identified measures to strengthen customs control (creation of a one-stop shop for vehicle clearance; creation of a transit, transshipment, and re-export office; and restrictions on the warehousing of revenue-generating products) will yield CFAF 28 billion. Additional nontax revenues of CFAF 57 billion, are also expected from the sale of government's land (LEDANTEC hospital).
- ***On the expenditure side***, the government has committed to generating CFAF 133 billion in savings through cuts in current expenditures by about CFAF 60 billion and delaying some domestically-financed investment projects, which will reduce total government expenditure to CFAF 133 billion by the end of the year.
- ***The financing of the fiscal deficit.*** The overall deficit of CFAF 919.7 billion is expected to be financed by program drawdowns of CFAF 306 billion, project-loan drawdowns of CFAF 435.6 billion, and resource mobilization in the market of CFAF 178 billion.

22. Improving the mobilization of domestic revenues remains one of the pillars of our fiscal consolidation strategy. The goal is to achieve a tax to GDP ratio of 20 percent of GDP (excluding hydrocarbons) by 2025 through the implementation of the Medium-Term Revenue Strategy (MTRS). This would entail an average increase of 0.5 percentage point of GDP (excluding hydrocarbons) in tax revenues (excluding hydrocarbons) per year over the period 2023-2025 through tax administration and policy measures.

23. The tax administration measures will essentially be aimed at strengthening the administration's capacity to collect, process, and utilize quantitative and qualitative data, which will be used to improve tax compliance through greater efficiency in the management, programming, and execution of control and collection. These measures primarily include:

- Operationalization of the SEN'FINANCES portal, a unified platform for remote filing and sending of requests to the entire tax administration by end-December 2023. This tool will contribute to the improvement of tax revenue collection through the strengthening of business audits, an increase in the taxpayer base, and the monitoring of collection agents' performance.
- Reinforcement of the legal obligation for certain entities such as public service concession companies to communicate information related to the identity of their customers, the nature of their subscriptions or services, and their personal or professional location, to the tax authorities in order to improve the collection of property tax (**Structural Benchmark at end-December 2023**). This reinforcement of the obligation to communicate information for tax purposes will also be extended to digital platforms and gaming and leisure companies, in compliance with the regulations governing these sectors and the personal data protection framework.
- A study for the implementation of an electronic invoicing system in Senegal. This system should make it possible to detect taxpayers engaged in activities without invoicing, to ensure better planning of tax audits on the basis of identified risks, to automatically detect false declarations of charges on local purchases as well as undeclared value-added tax (VAT) invoices.
- Strengthening the Legislation and International Cooperation Directorate of the General Directorate of Taxes and Property (DGID) with a more robust domestic tax policy coordination mandate (planning objectives and actions; ensuring consistency of reforms; building consensus on issues such as the effectiveness of the VAT, the impact of the investment incentive framework, the fiscal potential of the informal sector and its taxing strategy; and preparing a report on tax expenditures) (**Structural Benchmark, end-September 2023**).
- . To achieve this, the resources of this directorate will have to be increased.
- Establishment of a legal framework in line with the strategy for full digitization of the administration's procedures.
- Completion of the control and taxation framework for the digital economy.
- Establishment of a framework for the full digitization of property procedures and the land registry.

- Strengthening the collaboration between the General Directorate of Customs (DGD) and the DGID in terms of fraud risk management through: i) the reactivation of the Joint Control Unit; ii) intensification of the exchange of information, which is currently limited to customs declarations and financial statements, and should be extended to significant indications of non-compliance by operators (violations detected, outstanding amounts to be recovered, information to the extent that it cannot be used by the administration that has collected it), and to the characteristics of their activity (economic arrangements or special procedures for the DGD);
- Strengthening of the capacities of the Joint Control Unit with regard to exemptions, economic arrangements, and verification of the existence of investments made with tax benefits.
- Establishment of a One-Stop Shop Vehicle Clearance Office and a Transit, Transshipment and Re-export Office, which would strengthen controls along the customs corridor, with estimated revenue gains of 18.8 billion and 5.5 billion per year, respectively.
- The creation of the Directorate of Intelligence and Risk and Value Analysis will enable the DGD to establish better governance of customs value, and by extension, better control of the tax base.

24. The tax policy measures are centered primarily around:

- The establishment of a withholding tax on the sale of hydrocarbons in Senegal by nondomiciled persons (CFAF 0.5/kg), which should bring in approximately CFAF4.6 billion in additional revenue per year.
- The introduction of VAT on digital services. This VAT is applied to the prices of digital services (online sales or sales on digital platforms, online markets) and, where applicable, to the commissions received by intermediaries. An order by the Minister of Finance specifying the procedures for application of the digital VAT will be adopted in the third quarter of 2023, with a view to its entry into force in 2024. This new tax should bring in approximately CFAF 10 billion in additional revenue per year.
- Revision of the special tax on insurance contracts (Article 542 of the General Tax Code) and modification of the tax regime governing the levy on insurance companies applicable, in particular, to reinsurance and life insurance companies.
- Effective enforcement of the tax compliance levy (prélèvement de conformité fiscale). In this regard, the government is committed to automating the process of settling the tax compliance levy by automatically integrating into the GAINDE application the list of regulated taxpayers produced by the DGID each quarter (**structural benchmark, December 2023**). In addition, the government is determined to ensure the resolution by end-September 2023 of the 21,854 cases identified as non-compliant with the tax compliance levy for the year 2022 (actual payment of 12 percent by the non-compliant). Finally, it will report information on the increase in the number of new taxpayers obtained through the tax compliance levy.
- VAT tax expenditures in 2020 reached CFAF 743.27 billion, including CFAF 335.24 billion for households. The 2023 Initial Budget Law calls for the elimination of VAT exemptions on hospital charges, room rentals, and other hotel amenities practiced by private companies. This measure

would generate additional revenues of CFAF 0.5 billion per year. The government is committed to preparing a tax expenditure rationalization plan that clearly identifies the specific tax measures to be eliminated, including those related to the VAT, and to reducing tax expenditures by at least CFAF 100 billion per year, starting in 2024 (**Structural Benchmark, end-November 2023**). The government is also committed to auditing at least 30 percent of VAT credits and zero refunds per year.

- Expanding the tax base by increasing the number of registered taxpayers at the Directorate in charge of small and microenterprises that regularly pay taxes by 25,000, by exploiting available information from physical surveys (land registry services, national census of taxable properties) to increase registration and enrollment of new taxpayers (**Structural Benchmark, end-December 2023**)
- Increasing specific taxes on tobacco and alcoholic beverages to bring them into line with the target rates set in the Economic Community of West African States (ECOWAS) standards. The rates currently applicable to the above products (tobacco and alcohol) are lower than those provided for by the ECOWAS community standards. To this end, there are plans to increase the tax rates applicable to excise duties on tobacco, as well as the specific duties on alcoholic beverages.
- Revision of household support measures. The tax measures taken to support household purchasing power are already being evaluated and the necessary adjustments are being made to take account of changes in international prices. It is within this context that the prices of certain products (oil and sugar) have been revised upwards. These adjustments will generate additional revenues of CFAF 15 billion.

Expenditures

- **The rationalization of spending on subsidies is the second pillar of our fiscal consolidation strategy.** In this regard, the government is committed to implementing the roadmap published in January 2023 to reduce energy subsidies to 3 percent of GDP in 2023 and to 1 percent of GDP in 2024, and to completely eliminate them by 2025. The government is committed to establishing an independent body with the mandate to regularly determine and publish fuel prices, based on a revised pricing formula, together with the frequency of adjustment and the related smoothing mechanism (**Structural Benchmark, November 2023**). Revise and publish the current pricing formula for petroleum products (gasoline and diesel) to ensure that prices at the pump reflect developments in international markets. The revision will cover: (i) the various elements of the price structure; (ii) the reference price, a gradual price adjustment mechanism to avoid large variations, and the frequency of price adjustments (**Structural Benchmark, December 2023**).
- The government will revise the electricity tariff structure by introducing a social rate applicable to the vulnerable segment of the population
- There will be a financial audit of SENELEC by end-2023 with a view to revising the maximum allowable revenue formula.

- A scaling up of cash transfer programs to mitigate the impact of energy price increases on vulnerable households through the re-certification of data in the Single National Registry for all regions for the 558,000 households already registered and its expansion to one million households by June 2024 (**structural benchmark at end-June 2024**) and the migration to digital payment of cash transfers, which is a more efficient and faster method.
- An improvement in the performance of state-owned companies in the energy sector and a reduction in production costs.
- The launching of a campaign from 2024 onwards to publicize the reform to be implemented and the expected impact on the state budget.

Fiscal Reforms

25. The government will accelerate the implementation of the budget and financial reform management strategy in order to strengthen credibility and transparency in budget execution. The 2023 Public Investment Management Assessment (PIMA) provisional report reaffirmed the need to improve the investment planning and programming mechanism. The Government commits to follow the recommendations of the 2023 PIMA report to improve the management of public investment. The priorities will be: i) strengthening the link between public investment planning and budgeting, ii) monitoring the investments made by public enterprises (EPs) and PPPs, iii) clarifying the project selection criteria and iv) the reduction of derogatory expenditure execution procedures. In particular, the following measures will be implemented:

- Ensuring comprehensive and unified management of the budget through the inclusion of the budgets of public entities (national public institutions and local government authorities) and public private partnership (PPP) projects in the budget documents.
- Better consideration in project documents of recurring maintenance expenses for the investments to be made, to ensure that assets are more durable.
- Improvement of the selection process for public investment projects through: (i) application of the criteria defined in the order of July 28, 2015, creating the committee for the development and evaluation of investment projects/programs; and (ii) the revitalization of said committee.
- Full application of commitment authorization/payment appropriation budgeting and priority consideration in the budget of projects with feasibility studies.
- Closer monitoring of the execution of public investment projects.

26. We are working to follow up on the priority recommendations of the recent Climate-PIMA, to fill the gaps identified in the framework for preparing and executing the climate-related budget. As a first step, we will flesh out climate change requirements and considerations in national and sectoral public investment strategies and plans. Second, we are working to strengthen effective coordination for the selection and execution of climate-related public investments. A roadmap for the implementation of C-PIMA recommendations will be finalized by end of June 2024.

27. The following measures have been taken at the regulatory level and their effective application by the parties involved should be monitored:

- **Improved budget execution and increased efficiency of public spending:** Order No. 037031 of December 7, 2022, was issued to establish the procedures for implementation of intra-annual budget planning, in order to provide a framework for consistency between the Procurement Plans, the Quarterly Commitment Ceilings, and the Cash Flow Plans. During the preparation phases of the 2021 and 2022 initial budget laws, the intra-annual budget planning of public expenditures was tried and tested in collaboration with the ministries and institutions. An instruction defining the tools and processes for intra-annual budget planning, the decision-making bodies, as well as the roles and responsibilities of the various parties involved will be signed by the Minister of Finance before end-October 2023.

Once the regulatory mechanism is in place, the objective for the Ministry of Finance and the Budget will be to ensure the effectiveness of intra-annual planning through the operation of committees and sub-committees and proper implementation in the Information System starting in 2024.

- **We will ensure that all new investment projects are classified as central government investment (Title V)** (**Structural Benchmark, Quarterly monitoring, from the end-December 2023**)**.** An instruction of the Minister of Finance and Budget was signed in July 2022; it concerns the implementation of delegated project management agreements within ministerial departments, in the context of the reclassification of capital transfer expenses as investments executed by the state. The main objective is to comply with the standards for classification of expenditures and to return to the execution of investments according to the normal procedure for physical and financial control and monitoring of investments by the principal authorizing officers of the state budget who use agencies to execute such investments. These provisions will be implemented as part of a gradual approach, with the programming of all new public investment projects in capital expenditure executed by the state:

    - All capital transfers to ministries that are not multi-year in nature will be reclassified as investments executed by the state. In the case of capital transfers for which contracts are in progress, they will be carried through to completion in accordance with the contractual terms. In the circular for the implementation of appropriations, however, each ministerial department will be asked to report on the quarterly implementation status of the appropriations transferred for each project.

    - In addition, the General Budget Directorate will continue to remove institutional support projects from the investment budget so as to include only those that contribute to gross fixed capital formation. More broadly, the General Budget Directorate will follow up on the implementation of all PIMA and Climate-PIMA assessment recommendations.

    - Integrated Financial Information Management System (SIGIF) audit**:** this item is included in the 2023 mission program of the General Finance Inspectorate. The Terms of Reference have been approved by the Ministry of Finance and the Budget. Work is underway to develop the draft budget and to begin the process of selecting a firm.

- **For ongoing investment projects under Titre VI, we will improve transparency and traceability of transferred resources through enhanced and systematic monitoring of these projects.** Going forward, the transfer of resources will be contingent upon two conditions. Firstly, for initial requests, it will require the submission of the projected cash flow of the project. Secondly, for any subsequent transfer request, it will be subject to the submission of two documents: the financial execution statement of previously provided resources and the projected cash flow plan associated with the project.

28. Publication of a roadmap for implementation of the recommendations contained in the Court of Accounts' audit of Covid-19 expenditures: The final audit report on the management of the COVID-19 Fund for the 2020 and 2021 fiscal years contains 82 recommendations, 21 of which apply to the Ministry of Finance and the Budget and the rest to other ministries and public entities. For the latter, it should be noted that the Court of Accounts recommends that the Minister of Justice open a judicial inquiry into the actions of certain officials involved in the public expenditure chain. Overall, the recommendations are in the process of being implemented in cooperation with the Court of Accounts. In this regard, a summary table of the Court of Accounts' recommendations has been prepared and sent to IMF staff. It will be monitored on a regular basis.

29. In terms of budgetary reforms, the government undertakes to implement the following measures:

- **Elimination of all deposit accounts for non-personalized government services:** The government will continue to close the deposit accounts for non-personalized government services with the repatriation of transfer appropriations for operating and investment purposes in the state budget (**Structural Benchmark, June 2024**).
- **Publication of the table of government financial operations**: The government will publish the table of government financial operations on the websites of the Ministry, the Treasury, and the National Agency for Statistics and Demography no later than the end-October 2023.
- **Improved management of fiscal risks associated with PPPs:** The Minister of Finance has issued Order No. 008655 of March 30, 2023, on the methodology for the provisioning of fiscal risks in the budget law, including those related to PPPs. Provisions for guarantees and sureties take into account the financial risks inherent in PPPs, which are quantified by the department in charge of monitoring PPPs, according to the extent and probability of occurrence of each risk.
- **Treasury Single Account (TSA).** The government will continue to consolidate the Treasury Single Account in accordance with its roadmap for the closure of the 113 remaining accounts out of the 276 accounts initially identified and concerning, in particular, public industrial and commercial establishments, public health institutions, and higher education institutions with their own resources and management autonomy. To this end, a strategy will be defined including improvements of the banking services offered by the Treasury.

Debt Policy

30. The government is committed to reducing public debt vulnerabilities and strengthening the public debt management framework. In accordance with its medium-term debt management strategy, the government will give priority to concessional financing and CFAF financing on the regional market, limiting recourse to commercial debt for projects with economic, financial, and social profitability that is compatible with the financing conditions. As part of vulnerability management, the government will implement an active debt management strategy to stabilize debt service and limit foreign exchange risk to ensure better alignment with the thresholds set in the debt sustainability analysis.

31. As part of improving debt management, the government will proceed with:

- Implementation of the action plan resulting from an audit of the debt management platform, and it will define a roadmap for the integration of debt data of quasi-public sector companies;
- Strengthening the National Public Debt Committee (CNDP) by providing it with a permanent secretariat and making it mandatory for all new public sector borrowing to be submitted to the CNDP within at least 15 days, supported by an analysis of the costs and benefits of each project;
- Increasing transparency by providing for the publication of the financial statements of all entities that have borrowed, in accordance with the law;
- Strict compliance with the debt ceiling aligned with the objective of public sector debt sustainability. To this end, the government will conduct a debt sustainability analysis on a semi-annual basis. The public sector debt maturity schedule will be monitored to ensure its fiscal responsibility and sustainability. In addition, the table of government financial operations (TOFE) for the public sector will be published by December 31 of the fiscal year;
- The adoption of a regulation to establish the conditions and procedures for on-lending by the government to state-owned enterprises.

Pillar 2: Improve Governance

32. The government intends to implement the remaining measures of its action plan to be removed from enhanced monitoring of FATF. The measures deal mainly with making the register of beneficial owners operational, providing clarification to experts regarding the targeted financial sanctions (TFS) mechanism, and secondary issues related to the training of control and supervisory authorities and reporting entities in anti-money laundering/combating the financing of terrorism (AML/CFT) and TFS. The government will do its utmost to ensure that these remaining measures of its action plan are fully implemented and will make every effort to facilitate its removal from the grey list by end-October 2023.

33. The government intends to strengthen the prerogatives and powers of the National Office for Combating Fraud and Corruption (OFNAC). In this regard, the law establishing OFNAC is currently being revised. This new text will strengthen OFNAC's investigation techniques. It introduces provisions relating to the protection of whistleblowers. It obliges the Public Prosecutor to

send to the Minister of Justice on a quarterly basis, a report on the treatment of the files referred to him and for which he will have to take concrete action within a maximum period of one year. It introduces sanctions against obstructing the operation of OFNAC. And finally, it increases the limitation period for public action to seven (07) years for facts falling within the scope of competence of the Office. The Government undertakes to adopt in the Council of Ministers and transmit to the National Assembly a draft law amending the law creating OFNAC (**Structural Benchmark, October 2023**).

34. The government will enhance the framework of asset declaration. A draft law amending the law on asset declaration is currently being prepared. The proposed changes aim to consolidate its effectiveness, by strengthening the system of penalties for non-declaration, false declaration, or late declaration. The Government commits to adopt it in the Council of Ministers and transmit to the National Assembly (**Structural Benchmark, October 2023)**.

35. The government will establish a Financial Prosecutor's Office with special authority to deal with matters related to economic and financial crimes. There are also plans for a College of Financial Investigating Judges, a Financial Trial Chamber, a Financial Indictment Chamber, and a Financial Appeals Chamber, so that this new enforcement mechanism will be applied at all stages of criminal proceedings. These magistrates, who have jurisdiction throughout the national territory, will be supported in the performance of their respective tasks by assistants specialized in the handling of economic and financial offenses. In this regard, the government is committed to adopting in the Council of Ministers by October 2023 and transmitting to the National Assembly a draft law amending Law No. 65-61 of July 21, 1965, on the Code of Criminal Procedure.

36. The government intends to promote ethical and moral values in the management of public affairs. In this regard, a draft law on a general code of ethics and professional conduct is currently being finalized. It is aimed at renewing the contract of trust between users and public officials, on the one hand, between public officials and the government, on the other hand, and finally, between the government and citizens. More specifically, this draft law brings together the rules of ethics and professional conduct found in scattered texts and strengthens them so as to ensure greater effectiveness in public service. This draft law is intended to constitute the ordinary law in this area. The government plans to adopt this draft law on the General Code of Ethics and Professional Conduct for Public Officials in the Council of Ministers by October 2023.

37. The government is committed to improving financial reporting and public accountability by.

- Strengthening the reporting system for the main extrabudgetary entities and including them within the scope of the government's financial operations. In addition to the TOFE of the central government, the TOFE of the general government will be produced and published no later than October 30 of the fiscal year.
- Strengthening public accountability through the mandatory and timely publication of reports from key oversight entities.

Pillar 3: Build a More Resilient and Inclusive Economy

38. The government is committed to increasing the private sector's contribution to wealth and employment creation, strengthening the financial system, reducing gender-based inequalities, and improving the social protection system to build socio-economic resilience.

39. The government will continue to implement the reforms outlined in the Business Environment and Competitiveness Reform Program (PREAC III).

- **Labor legislation**. The steering committee discussed the main points of the labor code reforms and adopted a new work plan for the completion of this reform in the second half of 2023. A preliminary draft of the new labor code will be available in the second quarter of 2023 to allow for the convening of the Advisory Council on Labor and Social Security. The Advisory Council stage is necessary before moving on to the adoption of the text of the new labor code by the Council of Ministers and the National Assembly. It should be noted that the simplification and computerization of social tax procedures are in effect with the deployment by the Senegal Retirement Benefits Institution (IPRES) and the Social Security Fund of the "NDAMLI" digital portal (https://secusociale.ipres.sn), making the online reporting and payment of social security contributions a single process.
- **Commercial judicial system**. The commercial court is now functional with digitized procedures. As for the next steps, it is expected that a commercial court of appeal and a second commercial court covering the Thiès-Mbour economic hub and possibly Diourbel will be created, while strengthening the commercial courts outside Dakar (Saint-Louis, Kaolack, and Ziguinchor). Work to strengthen the commercial judicial system in Senegal will be undertaken in order to continue to maintain the dynamics of securing investments through diligent and transparent management of economic disputes in Senegal, a guarantee of stability and respect for entrepreneurial freedom.
- **Investment Code.** The preliminary draft of the new investment code was adopted by the steering committee on November 23, 2022. The procedures for integrating these observations will be discussed at the national validation workshop with the steering committee and all stakeholders during the second quarter of 2023 before moving on to the political adoption phase (Government Secretariat General, Council of Ministers, National Assembly, and enactment) under the leadership of the Minister of Finance and the Budget and the Minister of the Economy, Planning, and Cooperation.
- **National Private Sector Development Strategy (SNDSP):** The National Private Sector Development Strategy will make it possible to better support National Champions by drawing on global best practices in order to benefit more from the contribution of the African common market (the African Continental Free Trade Area, or AfCFTA), in addition to ensuring better coordination of pro-business public action to create more value and productive jobs.
- **Establishment of a centralized and integrated land management system that will digitize land management procedures** (**Structural Benchmark, end-December 2023)**. Regarding access to property, a priority for workers as well as for companies, the ongoing updating of the

building code and the urban planning code will give more clarity to citizens and investors regarding the procedures in force and will facilitate access to property in a more congenial living environment. This updating incorporates innovations in terms of the use of high-quality and sustainable building materials as well as risk management. The two draft Codes have been adopted by the Council of Ministers after a formulation and technical validation phase with all stakeholders. It has been agreed with the World Bank Group that support for implementation of the reform will continue after the entry into force of the laws on the building code and the urban planning code. In terms of the management and improvement of land information, the actions underway to set up the electronic land register should be stepped up in order to enable the Directorate General of Taxes and Property to launch the register in the second half of 2023

- **Establishment of a register of collateral available online and gathering data on movable collateral and mortgages in collaboration with the BCEAO (Structural Benchmark, end-December 2023)**: It should be noted that the establishment of the guarantee register has become a community reform at the BCEAO. It will capitalize on the establishment of the electronic register of real collateral (movable property) in Senegal, governed by Decree No. 2021-420 of April 2, 2021, on the operating procedures of the Trade and Personal Property Credit Register. This decree establishes the rules for maintaining the Trade and Personal Property Credit Register in each relevant jurisdiction, as well as the National Directory, and provides for the establishment of a Trade and Personal Property Credit Register Management Committee. As part of the implementation of this decree, a joint order of the Minister of Finance and the Minister of Justice will be issued to set the cost of the electronic online access service.

40. The reduction of gender-based inequality is receiving increasing attention from the government. Since 2016, the government has made a critical decision in the management of public resources by choosing the following two (2) options: (i) institutionalization of the Gender Thematic Review, which provides input for the Joint Annual Review of the Emerging Senegal Plan; (ii) annual preparation of the Gender Budget Document appended to the Initial Budget Law. These two instruments are essential tools for measuring the level of performance in gender mainstreaming in sector-based public policies. Each year, they make it possible to address weaknesses and propose corrective measures depending on the sector.

41. The government will continue to step up efforts to reduce gender inequality by:

- Increasing social spending on programs for girls and women, including those aimed at eliminating gender disparities and barriers to girls' education, particularly in specialized scientific and technical fields at the secondary and higher levels;
- Taking measures to ensure the effectiveness of international and regional commitments in support of gender, particularly in the implementation of the model gender institutionalization plan in West African Economic and Monetary Union (WAEMU) member states;
- Strengthening the gender statistics component of the National Strategy for the Development of Statistics through flagship projects and programs;

- Increasing the resources allocated to gender-related training and capacity development for government agencies and other stakeholders in the implementation of the National Strategy for Equity and Gender and the sectoral gender institutionalization plans;
- Providing training and credit to women entrepreneurs in promising sectors and industries;
- Developing programs to involve women and girls in crisis management, including the R1325 Action Plan on Women, Peace, and Security to build resilience to climate change hazards, risks, and crises;
- Adopting administrative and regulatory acts for the functioning of the National Strategy for Equity and Gender governance bodies (2023-2024), including the Gender and Development Inter-ministerial Committee and the Technical Monitoring Committee;
- Mobilizing adequate resources for implementation of the national gender policy communication strategy (2023).

42. The government will initiate the restructuring of the national company La Poste: The restructuring measures adopted by the inter-ministerial committee and approved by the Prime Minister are now being implemented, including:

- Reform of the Treasury guarantee;
- The holding of general meetings to decide on the continuation of operation;
- A hiring freeze;
- The drafting and adoption by the Board of Directors of a negotiated severance and staff retraining plan;

The following measures need to be added to these measures in the future:

- Recapitalization of La Poste and its branches through: (i) consolidation of the credit balance of the cross-capital debt agreement; and (ii) revaluation of assets;
- The institutional evolution of Poste Finances into a financial institution before its transformation into a postal bank.

43. The government will ensure that the restructuring process of the two distressed banks is completed. As guarantor of last resort for the financial sector, the government will ensure the implementation of credible plans to restore the capital of the distressed banks. With regard to the first bank, the government has succeeded in bringing together shareholders, depositors, and creditors such as the West African Development Bank (BOAD) and certain insurance companies, as well as other community institutions, around the recapitalization plan approved by the West African Monetary Union (WAMU) Banking Commission. The recapitalization process is continuing. Regarding the second bank, the increase in share capital is ensured by the majority shareholder with regular monitoring of the scheduled actions by the competent authorities. The credibility of the actions proposed in support of these banks convinced the community supervisor to issue decisions in favor of the requests for authorization to modify their shareholding structure at its March 2023

session. The turnaround of these institutions will be carried out within the time frame set for each bank by the Banking Commission.

44. The government intends to continue its efforts to improve the social protection system. We will settle the outstanding two quarters of cash transfers dating back to 2021 in June 2023 (**prior action**). Decree No. 2023-847 creating and setting the rules for the organization and operation of the National Family Security Grant Program (PNBSF) has been adopted by the government. This regulatory framework defines, among other things, the procedures for the enrollment of beneficiary households in the program and their removal from the program and ensures its sustainability. Measures to expand the number of beneficiaries (coverage of all Equal Opportunity Card holders) and to increase the amount of the grant (from CFAF 25,000 to CFAF 35,000) have been adopted and will take effect with the payment for the first quarter of 2023. The fiscal cost of the program is estimated at CFAF **51,501,025,200** per year. To improve targeting of social programs, the extension the Single National Register to one million households to include poor and vulnerable households in underway. Using poverty and vulnerability maps, regional, departmental, and municipal quotas were determined and transmitted to the administrative authorities. The process of targeting eligible households is underway and will be completed by end-2023. In addition, the government has started the process of digitizing the payment of grants with the development of an IT platform that offers the possibility of partnership with payment operators. It also allows for bulk payments, the pilot phase of which was successful in the Sédhiou region.

Pillar 4: Build Resilience to Climate Change

45. The government is devoting particular attention to issues related to climate change. Efforts have been undertaken to incorporate international climate-related commitments into national plans and sectoral strategies. The government has adopted a strategy to phase out heavy fuels and switch to domestic gas for power generation based on more modern and green technologies (Gast-to-Power strategy - GtP). Actions to build our resilience to climate change include both mitigation and adaptation measures.

46. The program supported by the Resilience and Sustainability Facility will help better integrate climate change issues into public policy. The RSF is also intended to support the government in meeting its Nationally Determined Contribution (NDC) commitments. The program supported by the RSF is based on three pillars: (i) support Senegal's climate change mitigation objectives; (ii) accelerate Senegal's adaptation to climate change; and (iii) mainstream climate change considerations into the budget process. The program also supports measures to improve water management in the agricultural sector, build resilience to coastal erosion, and design a climate risk management framework.

Axe 1: Support Senegal's Climate Change Mitigation Objectives

47. The key reform measures (RM) include the following:

- (i) Adopt a greener public transportation strategy and (ii) reflect it in the Ministry of Transport's Priority Investment Program 2024 budget. (RM2, by end-November 2023).

- Adopt an electricity rate adjustment plan based on the results of the World Bank-supported financial audit of Senelec, gradually eliminating electricity subsidies (RM5, by end-June 2024).

48. We are also working with the World Bank to minimize greenhouse gas emissions throughout the life cycle of oil and gas, from their extraction to their use in power generation. Work in this area will result in a revised petroleum code and a new environmental code, which will be finalized by in 2024.

Axe 2: Accelerate Senegal's Adaptation to Climate Change

49. Key measures include the following:

- Adopt a PAPIII (Country Development Strategy) for Senegal that fully reflects Senegal's National Determined Contribution (RM3, by end-April 2024). This measure is intended to ensure that strategic priorities are integrated into Senegal's long-term development planning and annual budget processes.
- Submit to National Assembly laws that establish (i) the Urban Code (CU) and (ii) the Construction Code (CC) (RM4, by end-June 2024).
- Publicly disseminate key information on climate risks by the National Committee on Climate Change. (RM7, by March 2025). Downscaled and geo-located information on climate risks is a prerequisite for effective climate adaptation. More accurate information on climate risks will support the expansion of the agricultural insurance program, which currently covers only 10 percent of farmers.
- Approve the inter-ministerial decree which defines the roles and responsibilities and the procedures allowing each actor to assume their role and their responsibility in terms of water, including the steps to follow to be accountable for their actions (RM8, by end-Marc 2025).

Axe 3: Mainstream Climate Change Considerations into the Budget Process

50. Key measures include the following:

- Adopt and publish a PIM decree integrating climate considerations at each step of the project development (appraisal, selection, external audit etc.) (RM1, by end-October 2023).
- Assess and quantify disaster-related fiscal risks as part of the Risk Statement Annex included in the 2025 budget law (RM6, by end-September 2024)

- Approve by the Minister of Finance the modification of the permanent directives for the preparation of the budget in order to fully reflect the priority public investments (reflecting the ADF recommendation included in the C-PIMA) in terms of climate for mitigation and adaptation identified in the PES (RM9, by September 2025).
- The Minister of Finance will issue a binding instruction to all Ministers engaged in large public investment program (PIP) to ensure that all public investments and PPP projects executed or

supported by the State budget will include as part of documents required for the appraisal (i) a technical assessment of the impact of the investment on adaptation to climate change (both in the pre-feasibility study, if any, and in the feasibility study), and: (ii) .the climate implications of the project, i.e. say the impact on GHG emissions. (RM10, by September 2025). The proposed measure will integrate the risks associated with climate change into the budget process and support the monitoring of progress of climate change mitigation and adaptation measures.

PROGRAM MONITORING

51. The program will be reviewed semi-annually and will be monitored using quantitate performance criteria, indicative targets, and structural benchmarks, as shown in Tables 1 and 2. The definitions are provided in the Technical Memorandum of Understanding that is attached to this MEFP. Under the RSF, monitoring will be done by means of the reform measures. These are detailed in Table 3.

Table 1. Senegal: Quantitative Performance Criteria and Indicative Targets Under the ECF and the EFF, June 2023 - June 2024

		2023	2023	2024
	M	Jun.	Dec.	Jun.
	In	QPC	QPC	QPC
Performance criteria				
Floor on nonhydrocarbon Primary Balance (CFA billion)[1]		-335	-417	-335
Floor on nonhydrocarbon tax revenue (CFA billion)		1,602	3,514	1,882
Ceiling on the present value of public sector new external borrowing (USD million)[2]		3,755	3,755	1,828
Ceiling on public sector external financial arrears (stock)		0	0	0
Ceiling on central government domestic payment arrears (stock)		0	0	0
Indicative Targets				
Ceiling on total nominal public debt (CFAF billion) [3]		14,591	14,591	15,507
Floor on social expenditures (percent of total spending)		40	40	40
Ceiling on the stock of government amounts payable (CFA billion)		40	40	40
Maximum upward adjustment of the overall deficit ceiling owing to				
Shortfall in program grants relative to program projections (CFA billion)		18.8	18.8	15.2
Memorandum items:				
Budget grants		...	76	...
Ceiling on the share of the value of public sector contracts signed by single tender (percent)		15	15	15
Ceiling on spending through simplified procedures for non-personalized services (percent)		2	2	2
Net Domestic and Regional Financing of the Government		...	340.2	...

Sources: Senegalese authorities; and IMF staff calculations.

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

[2] This excludes IMF financing. The public debt includes both GG and SOEs as described in the TMU

[3] US$ debt converted at program exchange rate at the end of the year.The public debt includes both GG and SOEs as described in the TMU

Table 2. Senegal: Prior Actions and Structural Benchmarks		
#	Description	Target dates
	Prior Actions	
	Pay the outstanding two quarters of cash transfers dating back to 2021 to vulnerable beneficiary households	5 days before the board meeting
	Structural Benchmarks	
	Pilar I. Building Fiscal Resilience	
	Tax Policy and Administration Measures	
1	Reinforce the legal obligation for public service companies and certain public entities to automatically communicate all information about their customers (identities, nature of accounts, and addresses of customers) to the tax authorities in order to improve the tax compliance of these customers	End-October 2023
2	Broaden the tax base by increasing by 25,000 the number of taxpayers registered with the Department in charge of small and micro-enterprises	End-December 2023
3	Automate the tax compliance (prélevement de conformité fiscale) liquidation Process	End-December 2023
4	Prepare a tax expenditure rationalization strategy that clearly identifies the specific tax measures to be abolished, in particular on VAT, and from 2024 reduce them by at least 100 billion CFA francs per year over the next two years	End-November 2023
5	Strengthen the Legislation and International Cooperation Directorate at the DGID through a ministerial decision by giving it the mandate to coordinate all issues relating to domestic tax policy	End-September 2023
	PFM reforms	
6	Eliminate all treasury deposit accounts (comptes de depot) used by public entities without legal personality (*services non-personnalisés de l'État*) to strengthen internal control and improve the transparency of public finances	End- June 2024
7	Ensure that all new investment projects will be classified as central government investment (Title V). Capital transfers that are not multi-year in nature will also be reclassified as state-executed investments. For capital transfers concerning projects in progress and which have a multi-annual nature, execution will be continued for the contracts in progress. And for the new contracts, the imputation will be made under Titles V, with the transmission to the Ministry of Finance and Budget of a quarterly situation of execution of credits, with a view to gradually eliminating capital transfers (title VI).	Quarterly monitoring, from the end-December 2023

Table 2. Senegal: Prior Actions and Structural Benchmarks (continued)		
	Energy subsidies reforms	
8	Revise and publish the current pricing formula for petroleum products (gasoline and diesel) to ensure that prices at the pump reflect developments in international markets. The revision will cover: (i) the various elements of the price structure; (ii) the reference price, a gradual price adjustment mechanism to avoid large variations, and the frequency of price adjustments.	End-December 2023
9	Put in place an independent body with the mandate to regularly determine and publish petroleum product prices, based on the revised petroleum product pricing formula, including the frequency of adjustment and the related smoothing mechanism.	End-November 2023
	Pilar II. Enhancing AML/CFT and Governance	
10	Submit to the National Assembly a draft law amending the existing law creating the anti-corruption body (OFNAC), which strengthens its powers and prerogatives, according to the details provided in paragraph 33 of the Memorandum of Economic and Financial Policies	End-October 2023
11	Submit to the National Assembly a draft law amending the existing law on assets declaration to strengthen its effectiveness, according to the details provided in paragraph 34 of the Memorandum of Economic and Financial Policies	End-October 2023
	Pilar III. Building Socio-economic Resilience	
12	Set up a centralized and integrated land management system which will digitalize land management procedures	End-December 2023
13	Put in place, in consultation with the BCEAO, a register of real guarantees accessible online which combines data on movable assets (registry of movable assets) as well as non-immovable assets.	End-December 2023

Table 3. Senegal: Proposed RSF Reform Areas and Reform Measures, 2023–25

#	Focus	Area	Measures	Target dates
Pillar I - Supporting Senegal's Response to Climate Change				
RM2	M	Support decarbonization	(i) Adopt at the Council of Ministers an implementation plan for the strategy for greener public transport and (ii) reflect it in the 2024 PIP budget of the Ministry of Transport, in line with the objectives of the NDC.	End-November, 2023
RM5	M	Support decarbonization	Adopt an electricity tariff adjustment plan based on the results of the financial audit of Senelec, which is conducted with the support of the World Bank, with the aim of phasing out electricity subsidies by 2025. *The plan should restore cost recovery (operating and capital costs) by the end of 2025 and set annual targets to gradually achieve full cost recovery by the end of 2025. Each annual target should reflect a cost recovery higher, compared to 2023, for 2024 and 2025 respectively.*	End-June, 2024
Pillar II - Accelerating Senegal's adaptation to climate change				
RM3	A	Climate response: strategy and costs	Adopt Senegal's PAP III (Country Development Strategy) at the Council of Ministers, which should fully reflect the Senegal's National Determined Contribution (NDC) . *This should include the list of priority adaptation and mitigation projects of the NDC, the estimated costs, the financing mobilization strategy and the implementation modalities, including an implementation timetable.*	End-April 2024
RM4	A	Protection of coastal zones	Submit to the National Assembly two laws that establish (i) the Urban Code (CU) and (ii) the Construction Code (CC) to improve urban planning, thereby mitigating the impact of coastal erosion and urban flooding.	End-June, 2024

Table 3. Senegal: Proposed RSF Reform Areas and Reform Measures, 2023–25 (continued)				
RM7	A	Climate Risk Impact Assessment	Publicly disseminate key information on climate risks by the National Committee on Climate Change. *Meeting this RM will require the adoption by the Council of Ministers a decree that strengthens the role of the National Committee on Climate Change by (i) determining its composition and functioning; and (ii) establishing the regular collection and analysis of information.*	End-December, 2024
RM8	A	Agriculture and Water Resources Management	Approve an inter-ministerial decree that defines the roles and responsibilities and the procedures allowing each actor to assume their role and responsibilities for water, including the steps to take to be accountable for their actions.	End-March, 2025
Pillar III - Integration of climate change considerations into the budget process				
RM9	A, M	PFM	(Ministry of Finance to (i) develop guidelines for climate budget tagging (deadline end-2024); and (ii) to issue in the budget call circular directives in order to fully reflect the priority mitigation and adaptation public investments (end-2025) *To this end, the government should include in the budget, information on all climate change mitigation and adaptation projects. Projects identified in the public investment plan in the budget documents should be clearly labeled to indicate that they have a strong climate change mitigation and adaptation component, with an accurate assessment of their expected impact. To ensure rigorous monitoring, a decree signed by the Ministry of Finance should require an assessment of the impact these projects, with a reference to the stated objectives,*	End-September 2025

Table 3. Senegal: Proposed RSF Reform Areas and Reform Measures, 2023–25 (concluded)				
RM10	A, M	PIP	The Minister of Finance will issue a binding instruction to all Ministers engaged in large public investment program (PIP) to ensure that all public investments and PPP projects executed or supported by the State budget will include as part of documents required for the appraisal (i) a technical assessment of the impact of the investment on adaptation to climate change (both in the pre-feasibility study, if any, and in the feasibility study), and: (ii) the climate implications of the project, i.e. say the impact on GHG emissions. The concerned ministers include: Minister of Infrastructure and Land Transport; Minister of Agriculture, Rural Equipment, and Food Sovereignty; Minister of Water and Sanitation; Minister of Health, and Social Action; Minister of Environment and Sustainable Development; Minister of Urban Planning, Housing, and Public Hygiene.	End-September, 2025
RM1	A, M	Budget presentation	Adopt and publish a PIM decree integrating climate considerations at each step of the project development (appraisal, selection, external audit etc.)	End-October 2023
RM6	A, M	Budget presentation	Assess and quantify disaster-related fiscal risks as part of the Risk Statement Annex included in the 2025 budget law	End-September, 2024
(1) A =Adaptation ; M = Mitigation				

Attachment II. Technical Memorandum of Understanding

This technical memorandum of understanding (TMU) defines the quantitative performance criteria, indicative targets, and continuous targets described in the memorandum of economic and financial policies, to monitor the arrangement under the Extended Fund Facility (EFF) and Extended Credit Facility (ECF) for the period June 30, 2023-June 30, 2026. 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 and indicative targets at the specified test dates and on a continuous basis. Specifically, the test date for the first review will be June 30, 2023, and the test date for the second review will be December 31, 2023.

DEFINITIONS

1. Unless otherwise indicated, "state" or "government" in this TMU means the central government sector responsible for finance and budget of the Republic of Senegal. It excludes the central bank and the public sector outside the central government responsible for finance and budget (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, with the exception of debt with the West African Development Bank (BOAD). The BOAD debt and IMF programs debt are included in external debt

4. Program exchange rate. In the context of the program, the applicable exchange rates are those as of December 31, 2022. The source of information is the IMF's International Financial Statistics (IFS) database. As of December 31, 2022, the main rates are 1US$/619.481CFAF, 1US$/1.059 Euro and 1SDR/1.329 US$. For exchange rates not covered by IFC, mutually agreed sources for exchange rate data will be used.

QUANTITATIVE PERFORMANCE CRITERIA

A. Floor on the Non-Hydrocarbon Primary Fiscal Balance (Program Definition)

5. Definition. The non-hydrocarbon primary fiscal balance is the difference between (i) total government revenue (including grants), excluding revenue from the exploitation of hydrocarbons and proceeds from the sale of central government's non-financial assets to public sector entities, which are normally recorded in the net acquisition of non-financial assets; and (ii) domestic government expenditure, excluding interest expenditure on domestic and external debt. The definition of revenue and expenditure is consistent with the definition provided in the 2001/14 Government Financial Statistics Manual (GFSM). Petroleum revenue paid to the government, including dividends paid by the national petroleum company (PETROSEN), and all fees and taxes paid by companies that operate oil and gas reserves in Senegal are considered revenue from hydrocarbon exploitation. Hydrocarbon revenue is recorded in the accounting system on a cash basis. Government expenditure is defined on a payment order basis accepted by Treasury, as well as those executed with external resources. This quantitative performance criterion has been set as a cumulative floor on the non-hydrocarbon primary fiscal balance since the beginning of the year.

6. 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 the non-hydrocarbon primary fiscal balance will be reduced by up to a maximum amount as specified in Table 1 of the memorandum of economic and financial policies. The adjustment will be applied with the criterion on a semiannual basis.

7. Reporting Requirement. During the program period, the authorities will report provisional data on the non-hydrocarbon primary fiscal balance (program definition) and its components monthly to Fund staff with a lag of no more than six weeks after the end of the relative month. Data on revenue and expenditure that are included in the calculation of the non-hydrocarbon primary fiscal balance will be drawn mainly from provisional 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. Floor on Non-Hydrocarbon Tax Revenue

8. Definition. Tax revenue is the sum of revenue from taxes and levies on income, profits and capital gains, wages and labor, on assets (excluding the proceeds from the sale of central government's non-financial assets to public sector entities, which are normally recorded in the net acquisition of non-financial assets); taxes on goods and services; on foreign trade and international transactions; and other tax revenue. The performance criterion excludes revenue deriving from oil and gas exploitation, as defined above. The quantitative criterion will be assessed based on data for these revenue items provided in the quarterly table of government financial operations (TOFE).

9. Reporting Requirements. Reporting requirements are the same as for the quantitative performance criterion on the non-hydrocarbon primary balance.

C. Ceiling on the Present Value of New Public Sector External Borrowing

10. Definition: The performance criterion (PC) for the present value (PV) of new external debt contracted or guaranteed by the public sector applies to all new external debt (concessional or otherwise), including commitments contracted or guaranteed for which no value has been received. This performance criterion does not apply to (i) import-related trade debts with an original maturity of less than one year, (ii) rescheduling agreements and (iii) IMF disbursements.

11. For program monitoring requirements, external debt is considered contracted or guaranteed when all conditions have been met for it to enter into force, including government approval of the relevant agreement if required. For euro bond issues, the amount considered to be arranged is the amount subscribed or purchased at the end of the subscription or purchase period as specified in the final exchange clauses.

12. The present value of new external debt is calculated by applying the PV procedure to all future debt service payments (principal and interest) based on a program discount rate of

5 percent, reflecting all of the conditions of the loan, including the maturity, grace period, payment schedule, upfront fees, and management fees. The present value is calculated using the IMF template for this type of calculation based on the amount of the loan. A debt is considered concessional if, at the date of its conclusion, the ratio between its present value and nominal value is below 65 percent (equivalent to a grant element of at least 35 percent). In the case of loans for which the grant element is less than or equal to zero, the present value is equal to the nominal value.

13. The present value (PV) of new external debt contracted or guaranteed by the public sector is valued at program exchange rates. For variable interest rate debt in the form of a benchmark interest rate plus a fixed spread, the PV of the debt is calculated based on the program benchmark rate plus a fixed spread (in basis points) specified in the loan agreement. For program purposes, the program reference rate for the six-month euro Financial Institution Repo Facility (FIRF) is 2.97 percent. The difference between the six-month US FIRF and the six-month euro FIRF is 50 basis points.

14. Adjustments for the performance criterion on the present value of new external debt: the program ceiling applicable to the present value of new external debt is adjusted upward to a maximum of five percent of the ceiling on the present value of external debt when discrepancies in relation to the performance criterion on the present value of new debt are caused by changes in the financing conditions (interest, maturity, grace period, payment schedule, initial fees, and management fees) for the debt or debts. The adjuster cannot be applied when the discrepancies derive from an increase in the nominal value of the total contracted or guaranteed debt.

15. The authorities will inform IMF staff of any new planned external borrowing planned over a 12-month horizon and the conditions for such borrowing before the loans are contracted or guaranteed by the public sector.

16. Reporting requirements. During the program period, the government will report the present value of new public sector external borrowing, on a quarterly basis, within one month after the end of the quarter. Such data must be accompanied with (i) the IMF present value calculation tool used by the government to calculate the present value; and (ii) a summary table of all external debt issues as well as their financial conditions and procedures that were used to calculate the present value.

D. Ceiling on Public Sector External Debt Payment Arrears (Continuous)

17. 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.

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

E. Ceiling on Domestic Government Payment Arrears (continued)

19. In the context of the program, payment arrears with private nonfinancial corporations are defined as obligations to private nonfinancial corporations that remain unpaid for more than 90 days (as established by the administrative regulatory texts) after the date the treasury has accepted them. Domestic debt service arrears refer to debt service obligations (excluding the Central Bank of West African States—BCEAO) for which the payment date exceeds 30 days. The quantitative performance criterion for the government's domestic payment arrears (central government) will be monitored on a continuous basis.

20. Reporting requirements. The authorities undertake to report any accumulation of domestic payment arrears to IMF staff on a monthly basis.

INDICATIVE TARGETS

F. Ceiling on Total Nominal Public Debt

21. Definition. Debt for this quantitative performance criterion is defined as in paragraph 3 above, comprises external and domestic debt of the public sector (i.e., central government and public nonfinancial corporations as defined in paragraph 3), and is measured at its nominal value. Debt is valued using program exchange rates. 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 using the program exchange rates as defined in Table 1 mentioned above.

22. 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 on-lent or guaranteed debt emanating from the central administration and from which these public enterprises benefit will be communicated, as well as any on-lent 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.

G. Ceiling on the Share of the Value of Public Sector Contracts Signed on a Non-Competitive Basis (in percent)

23. 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 semi-annual 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 clauses 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.

24. 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

25. Definition. Social spending is defined as spending on health, education, the environment, the judicial system, social safety nets, sanitation, and rural water supply, rural electrification, equipment support for vulnerable groups, and economic and social support for women and young persons (as provided in the table on social expenditure). The ceiling will be evaluated on a semi-annual basis.

26. Reporting Requirements. The authorities will report semiannual data to Fund staff within two months after each six-month period.

I. Accounts Payable, Including Domestic Payment Arrears (Indicative Target)

27. Definition. "Accounts Payable" (or "unpaid balances") include domestic payment arrears and floating debt and represent all of the central government's obligations due and pending payment. They are defined as all expenditure liquidated but not yet paid by the government accounting officer. Under the program, these obligations include (i) total payments due and unpaid to public and private nonfinancial corporations; and (ii) public domestic debt service (excluding the BCEAO).

28. Floating debt is the stock of unpaid liquidated expenditure items for which the duration overdue is below 90 days for obligations to public and private nonfinancial corporations and 30 days for debt service arrears to commercial banks, insurance companies, and other financial institutions).

29. Accounts payable are broken down by maturity and length of the period overdue (less than 90 days, 90-365 days, and more than one year for nonfinancial corporations, and less than 30 days, 30-365 days, and more than one year for financial corporations.

30. In the context of the program, the government undertakes to: (i) contain the stock of accounts payable amount to less than CFAF 40 billion in 2023, and (ii) no longer accumulate new domestic arrears throughout the program period.

Memorandum Items

J. Ceiling on Spending Through Simplified Procedures for Non-Personalized Services (Services non-personnalisés)

31. 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.

32. 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 (*comptes de dépôt du Trésor*), within six weeks of the end of each six-month period.

K. Net Domestic and Regional Financing of the Government

33. 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 by the budgetary central government.

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

L. Additional Information for Program Monitoring

35. 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, decree, 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 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 SYSBUDGEP 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;
- A quarterly report on FSE operations in terms of revenues and expenditures; and
- 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.

36. 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.

37. A monthly table from the expenditure tracking system in the financial information system, 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 monthly table of expenditure in the financial information system will exclude delegations for regions and embassies. The monthly expenditure table in the financial information system will also indicate any payments that do not have a cash impact on the Treasury accounts. The stock of accounts payable are broken down by payer and spending category, as well as by maturity and length of time overdue.

38. Regarding expenditures using exceptional procedures, the authorities will report to IMF staff at the end of each quarter: (i) the status of the various types of suspense 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 exceptional 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.

39. 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.
- 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 lag of four and a half months after the closing of accounts for prudential ratios and six months for the financial soundness indicators.

40. 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 lag of two months.
- The SYSBUDGEP budget execution table, the table for the central Government and a summary table including regions, with a lag of two weeks.

INTERNATIONAL MONETARY FUND

SENEGAL

June 9, 2023

REQUESTS FOR AN EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, AN ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY, AND AN ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY—DEBT SUSTAINABILITY ANALYSIS

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

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

Senegal is assessed to be at moderate risk of external and overall public debt distress, with limited space to absorb shocks. However, while debt indicators generally remain below their risk thresholds under the baseline scenario, two marginal one-off breaches (the external debt service to exports ratio in 2026 and the present value of total public debt to GDP ratio in 2023) highlight the urgent need for Senegal to implement critical measures to bring external and total public debt onto a downward trajectory, as currently projected. All risk indicators breach their threshold under the sensitivity analysis. The key assumptions underpinning this assessment are (i) a boost to growth, exports, and fiscal revenues from the start of hydrocarbon production as well as (ii) implementation of a strong macro-fiscal reform program that re-anchors the government deficit at 3 percent of GDP, contains broader public sector borrowing and accelerates the structural reforms that can sustain medium-term growth at around 5 percent. Key risks which may lead to an increased risk of debt distress include failure to implement the reform program (e.g., expansion of the tax base, reduction of tax expenditures, mitigation of fiscal risks, and enhancement of debt management), further delays in hydrocarbon production, continued tightening of market financing conditions and further depreciation of the CFA. More detrimental impacts of climate change on the economy or climate spending above what is projected in the baseline are also key risks. Strengthening debt sustainability requires a prudent debt management strategy that prioritizes (i) concessional external borrowing to keep down interest payments, (ii) domestic regional financing to lower exchange rate risks and limit the external debt service burden, and (iii) smoothing out the debt service profile across years.

[1] Senegal's debt carrying capacity is classified as strong, with a composite indicator of 3.15 based on the April 2023 WEO and 2021 Word Bank Country Policy and Institutional Assessment (CPIA) score. The Senegal DSA risk ratings remain unchanged compared to the previous Senegal DSA vintage (June 2022).

DEBT COVERAGE

1. This DSA uses a broad definition of public debt. The assessment includes public and publicly guaranteed (PPG) debt held by (i) the central government, (ii) para-public entities and state-owned enterprises (henceforth SOEs) (Text Table 1).[2] The DSA uses a currency-based definition of external and domestic debt as data constraints prevent the use of a residency-based definition.[3] At end-2022, public debt under this definition stood at 76.6 percent of GDP, consisting of (i) government debt of 68.2 percent of GDP and (ii) SOE debt of 12.7 percent of GDP (of which 4.3 percent of GDP are loans from the Government to the SOE sector, which are netted out of consolidated public debt).[4]

2. To assess risks from outside of the public debt perimeter, stress testing considers scenarios in which contingent liabilities materialize from the PPP sector and financial markets. As per LIC DSA standard parameterization, stress testing considers a scenario in which contingent liabilities valued at 35 percent of the PPP capital stock materialize and financial sector recapitalization needs of 5 percent of GDP become due.[5]

3. Historical public debt growth in excess of levels predicted by standard debt drivers suggests the presence of significant volatile – and on average positive – stock-flow-adjustors (SFAs) that create risks for the accuracy of public debt projections. In the period 2011-22, changes in the debt-to-GDP ratio beyond the levels expected by recorded fiscal deficits, valuation changes due to exchange rate fluctuations and nominal GDP growth were on average annually 1.8 pp for Government debt and 1.2 percent for public sector debt (for years available). [6] SFAs for Government debt dynamics in part

[2] The inclusion of para-public enterprises and SOEs began in 2017. Senegal is the only country in the WAEMU area to use such a broad definition of public debt for the DSA. The 2023 DSA for Senegal consolidates the following para-public enterprises and SOEs with the General Government: LONASE, SN LA POSTE, RTS, SN PAD, SONES, SENELEC, SN HLM, SAED, SNR, Air Senegal, SOGIP SA, SOGEPA SN, SAPCO, SODAGRI, CICES, SSPP SOLEIL, PETROSEN, SIRN, SICAP, DDD, SONACOS, MSAD, ONFP, ONAS, CNQP, OFOR, OLAG, CDC, FONSIS, AIBD, APIX, FERA, ASER, ANAM, FSE, FHS, COUD, ACMU.

[3] Debt from the regional development bank BOAD is treated as external debt starting end-2022, for consistency with other WAEMU member DSAs and remains classified as domestic debt before 2022 to maintain consistency with earlier reviews under the IMF PCI and SBA/SCF programs. As of end-2022, the stock of BOAD debt amounted to 1.1 percent of GDP. Relatedly, Senegal's SDR allocation has been on-lent by the regional Central Bank BCEAO to Senegal as a bullet loan in CFA currency and is treated as domestic debt. To capture the concessional nature of SDR on-lending, it is included in the present-value calculations of the DSA (usually PV debt figures in the DSA include the PV of external debt, but domestic debt is presented at face value).

[4] Beyond this financial debt, the Government also ended 2022 with (i) payment claims by suppliers related to the energy subsidy which were in the process of validation and in the order of CFA 405 billion (2.3 percent of GDP) and (ii) unpaid cash transfers (CFA 16 billion). The Government is projected to clear these payments in 2023 (see the financing table in this DSA). Due to data limitations, the DSA does not include arrears incurred by the SOE sector.

[5] The World Bank PPP database estimates that the PPP capital stock in Senegal stands at 10.1 percent of GDP. Under the FY23 Sustainable Development Finance Policy (SDFP) Performance and Policy Actions (PPAs), the Word Bank supported the government's efforts in implementing the recently passed PPP Decree No 2021-1443 through the publication of a database on new PPPs. The FY23 PPAs under the SDFP also support the government in developing a methodology for provisioning for the main fiscal risks in the 2024 budget.

[6] The presence of large – and on average positive – SFAs is endemic across the WAEMU region. See the WAEMU 2023 Selected Issues paper (March 7, 2023).

reflect an intricate web of financial transactions between the Government and SOEs.[7] But beyond this, the presence of large and on average positive SFAs – which sometimes cannot clearly be explained - suggests lack of transparency regarding above-the-line fiscal and below-the-line financial transactions and statistical weaknesses that can undermine public debt projections, since the latter are based on identified debt drivers.[8]

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

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

		Default		Used for the analysis	Reasons for deviations from the default settings
1	The country's coverage of public debt	The entire public sector, including SOEs			
2	Other elements of the general government not captured in 1.	0	percent of GDP	0.0	
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2	percent of GDP	0.0	Already included in definition of government debt
4	PPP	35	percent of PPP stock	3.53	
5	Financial market (the default value of 5 percent of GDP is the minimum value)	5	percent of GDP	5.0	
	Total (2+3+4+5) (in percent of GDP)			8.5	

1/ The default shock of 2% of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1.). If it is already included in the government debt (1.) and risks associated with SoE's debt not guaranteed by the government is assessed to be negligible, a country team may reduce this to 0%.

4. The authorities are taking steps to strengthen the quality and coverage of public debt data. An audit of the quality and coverage of the public debt database did not identify major weaknesses, but noted risks related to the timeliness and reliability of SOE debt data. The authorities are following through on an action plan to address these deficiencies. The national debt committee (CNDP), chaired by the Minister of Finance, reviews all large public investment decisions, including those by SOEs. However, ongoing vigilance is required to ensure that the framework is consistently followed in practice.[9] A recent circular and decree to reinforce the regular and timely provision of debt data by SOEs is starting to bear fruit, enhancing the debt authorities' visibility on the wider perimeter of debt. On the fiscal side, government data are compiled in accordance with the classification of GFSM2001.[10]

[7] For instance, in 2022 the Government transferred property to SOGEPA (an SOE), which used the property as collateral to issue a Sukuk and thereby financed the SOE's purchase of the property from the Government. The airport operator AIBD (a SOE) received bridge financing from the Government.

[8] A key statistical weakness for public sector debt projections is that Senegal does not yet publish a consolidated above-the-line and below-the-line representation of public sector transactions. Instead, for public debt DSAs, the public sector fiscal balance is estimated, based on the government fiscal balance and reported below-the-line transactions, as well as reported investments of major SOEs. The Government is currently developing a consolidated public sector representation of above-the-line and below-the-line transactions (public sector TOFE), which will help address this statistical weakness and is expected to help reduce SFAs that cannot be explicitly explained.

[9] For instance, the CFAF 330 billion Sukuk issued by the SOGEPA SOE in 2022 did not go through the regular CNDP procedures.

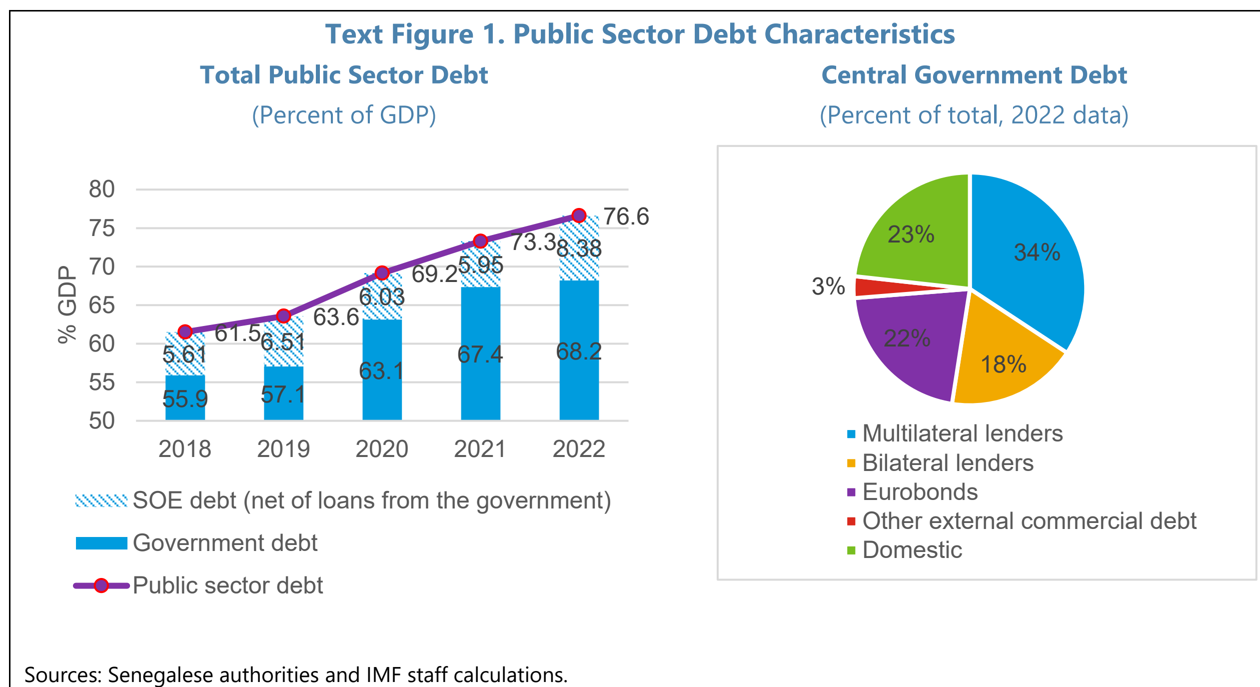
[10] Ongoing capacity development initiatives supported by the IMF continue to assist Senegal authorities in migrating to the GFSM2014 framework and improving the overall quality of government finance statistics.

BACKGROUND

5. **Public sector debt levels have increased significantly in recent years.** The fiscal response to the COVID-19 pandemic led to a surge in public debt of about 10 percentage points, from 63.6 percent of GDP at end-2019 to 73.3 percent of GDP as of end-2021. In 2022, public debt further increased to 76.6 percent of GDP, given (i) still large government deficits, (ii) significant debt-financed investments in the SOE sector, including through Petrosen's spending to launch Senegal's hydrocarbon sector, as well as (iii) depreciation of the CFA vis-à-vis key currencies like the US dollar, which led to revaluation of the CFA value of outstanding external debt.[11]

6. **The composition of public sector debt is evolving.** The share of external debt fell from 81.4 percent in 2018 to 73.7 percent in 2022, reflecting the Government's debt management priority to reduce foreign exchange rate risks and develop domestic financial markets. At the same time, the share of SOE debt relative to consolidated public sector debt increased from 12.4 percent in 2018 to 16.6 percent in 2022, including due to significant investments executed by the SOE sector in this period linked to the hydrocarbon, transport, and real estate sectors. The government debt (which made up 89.1 percent of total public debt at end-2022) is at 68.2 percent of GDP and therefore remains below – but is gradually approaching - the 70 percent of GDP ceiling for the WAEMU region. At end-2022, the largest sources of government debt were multilateral institutions, domestic issuances and Eurobonds (Text Figure 1).

Text Figure 1. Public Sector Debt Characteristics



Sources: Senegalese authorities and IMF staff calculations.

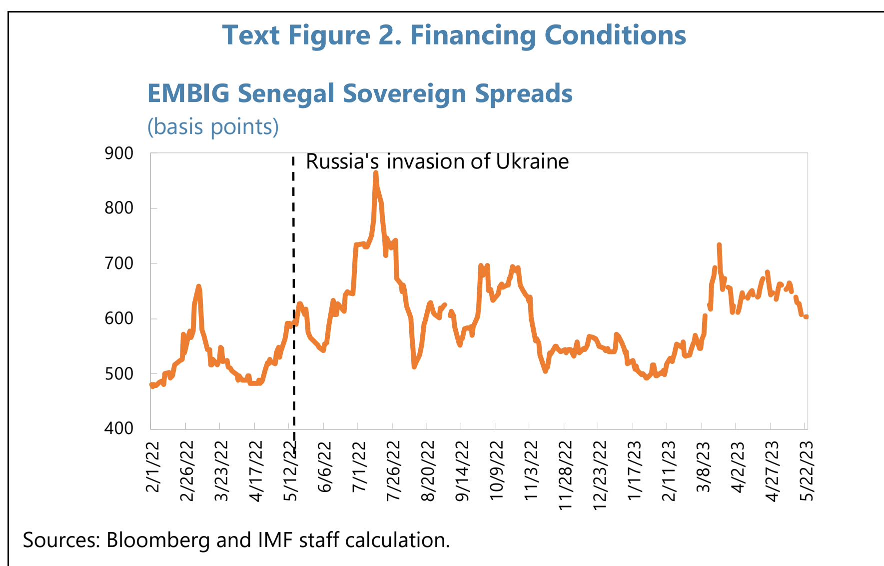
7. **The build-up of public debt implies that debt servicing needs are significant.** For 2023, the forecasted external Public and Publicly Guaranteed (PPG) debt service is 19.1 percent of exports (LIC DSA threshold for country with strong debt carrying capacity: 21) or 18.8 percent of public sector revenues (LIC

[11] The previous 2022 DSA for Senegal projected public sector debt of 75.1 percent of GDP at end-22. As such, public debt was slightly larger than projected. A key driver was larger than forecast debt creation in the SOE sector.

DSA threshold: 23). The total PPG debt service is 30.5 of revenues.[12] To service existing debt, Senegal plans to increase its domestic market issuances.

8. Both external and domestic financing conditions have deteriorated, given global monetary tightening. Eurobond annual interest rates for Senegal have increased to around 10 percent, reflecting higher global policy rates and a significant spread of over 600 basis points for Senegal (Text Figure 2). On the regional WAEMU CFA market, the BCEAO has increased policy rates by 100 basis points and, in early 2023, shifted towards an auction-based system of rationing liquidity for the regional banks, which has in turn reduced the ability of the regional market to absorb government debt issuances.

Text Figure 2. Financing Conditions



Sources: Bloomberg and IMF staff calculation.

BASELINE SCENARIO

9. The macroeconomic baseline scenario assumes continued growth fueled by (i) the start of hydrocarbon exploration and (ii) determined implementation of economic reforms. Relative to the 2022 DSA, the updated macroeconomic projections reflect delays in the start of hydrocarbon extraction into 2024, slippages in the speed of fiscal consolidation in 2022, tighter financing conditions and further depreciation of the CFA (and Euro) vis-à-vis the US dollar. The main macroeconomic assumptions are as follows (text table 3):

- **Real GDP Growth.** Senegal's real GDP growth rate is estimated to be 5.3 percent in 2023, compared to 8.3 percent in the previous DSA, reflecting (i) slower than previously anticipated growth in the non-oil sector, including due to tightening of WAEMU monetary policy and slower growth on global markets, as well as (ii) delays in the start of production in the hydrocarbon sector to 2024. Domestic consumption and private investment will be the primary drivers of

[12] Senegal participated in the G-20 Debt Service Suspension Initiative (DSSI). The DSSI was a NPV neutral exercise intended to provide eligible members with liquidity relief to allow them to focus more resources on responding to the COVID-19 pandemic. The DSSI provided around CFAF 30 billion in debt service relief (0.2 percent of GDP) over May-December 2020 and CFAF 71 billion (0.5 percent of GDP) in 2021. Deferred payments will be made over 2022–27 and average about CFAF 17 billion per year.

growth in 2023. In 2024 and 2025, growth will pick up to 10.6 and 7.4 percent respectively, while non-hydrocarbon GDP will remain robust at around 6 percent[13]. Long run growth is still expected to average about 5 percent, as long-term assumptions remain unchanged compared to the last DSA.[14] Climate change is expected to weigh on long run productivity growth in key sectors, such as agriculture, despite assumed adaptation actions by the government and private sector. Uncertainty about the physical impacts of climate change on the economy is high.

- **GDP deflator.** After the inflation spike of 2022, the GDP deflator is expected to moderate in 2023 to 3.2 percent. Over the medium term, the GDP deflator is expected to return to an average of 2 percent.

- **Public sector primary deficit.** The public sector primary deficit—which includes both the central government deficit and the net lending and borrowing of SOEs—is estimated to be at 4.3 percent of GDP in 2023. This increase over the previous DSA mainly reflects the higher projected fiscal deficit for the central government as well as further expected investments in the SOE sector (including for hydrocarbon, transport and real estate investments). In the medium term, the government fiscal deficit is projected to converge to the regional target of 3 percent of GDP (as in the previous DSA, supported by the unwinding of commodity subsidies and enhanced revenue-mobilization) and SOE sector deficits are projected to moderate (including as hydrocarbon investments are completed). Climate-change related public spending is assumed to be accommodated within this government balance target, though uncertainty about climate-related spending needs remains high at the current juncture.

- **Public sector revenues.** Public sector revenues are estimated at 28.8 percent of GDP in 2022. Projections assume a gradual increase to about 32.1 percent of GDP by 2025, driven by the medium-term revenue strategy (MTRS) reforms focusing on expanding the tax base and reducing tax expenditures. This will be supported by tax policy measures under the ECF/EFF pillar I. Hydrocarbon revenues are also expected to contribute to the reduction of the fiscal deficit.

- **Current account deficit and exports.** The baseline scenario assumes a current account deficit of about 13.3 percent in 2023, an increase since the previous DSA, primarily reflecting delays in the start of hydrocarbon production and higher import prices. Compared to 2022, the improvement of the current account balance deficit will be driven by (i) higher exports, including due to the normalization of Mali's situation[15], (ii) the impact of gradually declining import prices and (iii) lower services (in part reflecting lower oil-related services) due to delayed oil production. In the projection period, the current account deficit is projected to sharply decline

[13] Pre-COVID-19 pandemic, real GDP growth averaged 6.2 percent during 2014-19.

[14] The methodology to project the impact of oil and gas production on real GDP is unchanged compared to the June 2022 DSA using an expenditure-side approach.

[15] The national oil refinery company is an important provide of fuel to Mali. In our framework (based on BCEAO volume data), average total export in the region (including Mali) were about 1.3 million of tons in the three years preceding the introduction of sanctions to Mali at end-2021; these exports declined by almost 20% in 2022 (to about 1 million of tons) as a consequence. We project these export volumes to go back to pre-sanctions level in 2024 (about CFAF 660 nm).

and hover around 3 percent of GDP as oil and gas exports[16] come online (boosting exports and reducing investment-related imports), with a gradual recovery in tourism also contributing. Globally, hydrocarbon revenues' contribution to the budget will be 0.7 percent of GDP on average per year over 2023-2026.

Text Figure 3. Government Financing Plan for 2023

(bn CFA)	2023
Financing needs	**2645.2**
CG Fiscal Deficit	**919.7**
Amortizations	**1269.6**
OPEX	**30.0**
Transfers to SOEs	**279.8**
Arrears clearance (below the line)	**146.0**
Energy subsidy carry-over	130.0
Cash transfer carry-over	16.0
Financing sources	**2645.2**
External (in USD/EUR/other)	**1739.3**
Budget support loans	**821.7**
IMF	438.2
BAD	92.1
WB	188.2
AFD	72.2
Japan	31.0
Project loans	**435.6**
External commercial borrowing	**482.0**
Eurobonds	0.0
Syndications with international banks	482.0
Domestic/Regional (in CFA)	**905.9**
1-3 Years	436.2
4-7 Years	339.8
Beyond 7 years	129.9

Memo: The Government rolls over 100m treasuries not in financing table. The government financing plan is based on the contracted amortization schedule.

Share of external financing from the IMF (%)	25.2
Share of external budget support from the IMF (%)	53.3
Share of total financing from official sources (%)	47.5
Share of total financing from external sources (%)	65.8
Share of CFA financing in Senegal (%)	40.0

Source: Senegalese Authorities and IMF Staff

[16] Oil and gas exports are valued at WEO prices, compared with the June 2022 Senegal DSA where they were valued at an historic constant prices of 60 dollars per barrel (or barrel equivalent).

Text Figure 4. Evolution of Selected Macroeconomic Indicators

	2022	2023	2024	2025	2026	2027	2028	Medium Term (/1)	Long term (/2)
Real GDP growth									
Current DSA	4.0	5.3	10.6	7.4	4.8	5.1	4.4	6.3	5.0
Previous DSA (/3)	5.0	8.3	10.9	4.8	5.0	5.1	6.2	6.7	5.0
GDP deflator (percentage change)									
Current DSA	8.6	3.2	2.0	2.0	2.0	2.0	2.0	2.2	2.0
Previous DSA	5.5	3.1	2.0	2.0	2.0	2.0	1.5	2.1	1.5
Public Sector primary fiscal deficit (percent of GDP) (/4)									
Current DSA	4.3	4.2	1.2	0.5	0.5	0.4	0.1	1.2	0.2
Previous DSA	4.9	2.5	0.7	0.7	0.7	0.6	0.5	0.9	0.6
Public Sector revenues (percent of GDP) (/4)									
Current DSA	28.8	30.3	30.6	32.1	32.6	32.5	32.3	31.7	32.9
Previous DSA	29.7	30.2	30.6	31.4	31.4	31.4	31.4	31.1	31.4
Current account deficit (percent of GDP)									
Current DSA	19.9	13.3	6.1	4.2	3.8	3.7	5.3	6.1	3.0
Previous DSA	13.2	8.8	4.2	4.1	4.0	4.6	5.1	5.1	4.4
Exports of goods and services (percent of GDP)									
Current DSA	26.8	28.4	30.8	30.3	29.8	29.7	30.2	29.9	30.7
Previous DSA	25.0	26.5	30.6	30.0	28.9	28.3	27.1	28.6	30.2

Source: Senegalese Authorities; IMF staff calculations
(/1) 2023-28
(/2) 2028-42
(/3) 5th PCI Review and 2nd SBA/SCF Review (June 2022)
(/4) Includes General Government and state-owned enterprises.

10. **While disruptions on the WAEMU financial markets are forcing Senegal to temporarily make increased use of external financing in 2023, the DSA assumes that the authorities will resume their prudent borrowing strategy from 2024 onwards, reducing their reliance on external borrowing as the absorption capacity of the WAEMU financial market improves.** Given global and WAEMU monetary tightening, as well as a switch to an auction-based liquidity allocation system in the WAEMU which has disrupted the local banking market, regional CFA financing is restricted in 2023. The Government has therefore been forced to turn to external non-CFA financing from official and commercial sources to finance the general budget and investment projects, accessing CFA borrowing only at low maturities and at the low volumes that the regional market is able to absorb. However, as regional market conditions are assumed to gradually normalize from 2024 onwards, the DSA projects that Senegal will resume implementing its prudent borrowing strategy – focusing on domestic CFA financing to limit the future external debt service. In terms of external borrowing, Senegal is assumed to focus on external concessional and semi-concessional finance from multilateral and bilateral donors at the average rate of annually around US$0.8 billion over the forecast horizon. This includes a new proposed IMF EFF-ECF and RSF program. It also includes substantial World Bank financing support of annually USD 0.4bn on average

in the period 2023-28—expected to remain at similar levels over the long term.[17] After 2023, external commercial borrowing, including Eurobond issuances, is assumed to be restrained to better manage the external debt service burden. The DSA continues to assume that, in the medium term, the authorities will proceed with implementing their medium-term debt strategy, increasing their reliance on domestic issuances – thereby reducing their exchange rate risk and lowering borrowing costs – and broadening the maturity spectrum of issuances - thereby reducing rollover risks. A key assumption underlying the DSA financing plan assumptions is that the regional CFA market normalizes by the end of 2023 – and that the WAEMU CFA market then resumes gradually maturing and deepening over the projection period.

11. Terms for new borrowing in the projection period reflect tight conditions on financial markets. In line with current secondary market data from Senegal's existing Eurobonds, yields on new Eurobonds have been benchmarked at an interest rate of 10 percent. Other commercial lending in foreign currency has been adjusted accordingly. Equally, given the abovementioned tightening financing conditions on the domestic market, the DSA has benchmarked domestic rates based on recent Government issuances (a 3-year CFA bond was issued at 6.9 percent in February 2023). Interest rates on domestic markets are forecast to partially normalize in 2024 onwards, as the regional banking system adapts to the new WAEMU liquidity regime. External official loans remain a significant source of financing for Senegal during the projection period and lending terms for these loans are estimated to be less responsive to tighter global financing conditions, reducing the extent to which Senegal's external and public debt dynamics respond to tighter commercial financing conditions.

12. The DSA reflects how debt dynamics have been impacted by the significant 2022 depreciation of the CFA, which is fixed to the Euro, in particular vis-à-vis the US dollar. Relative to the 2022 DSA, this new DSA reflects sharper than anticipated further depreciation of the CFA vis-à-vis the US dollar in 2022, which is expected to carry through into the projection period. This effect increases the CFA value of the US dollar denominated debt stock at end-2022. The impact of the depreciation on future debt service payments depends on the currency studied. Given a significant share of public sector debt is denominated in Euros (at end-22, 53.3 percent of external government debt was denominated in Euros), the depreciation lowers the US dollar value of external debt service payments during the projection period. However, in terms of CFA, debt service costs increase for the future debt service payments due in US dollars - though the effect is muted by the comparatively small share of US dollar debt (at end-22, 33.6 percent of external government debt was denominated in US dollars).

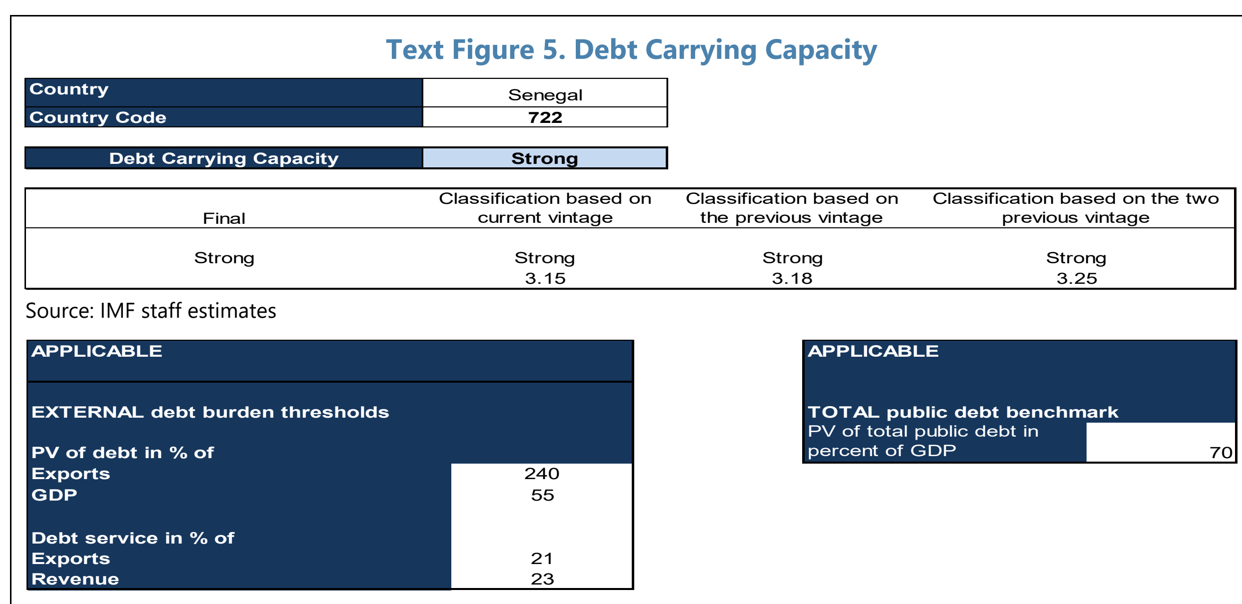
13. The realism tools suggest that the proposed fiscal adjustment path is ambitious, but staff believe it is possible under the circumstances. The assumed primary balance adjustment path is in the top quartile of the historical distribution for LICs (Figure 4). In the case of Senegal, a significant portion of the adjustment would reflect an unwinding of the fiscal costs of energy subsidies over the medium-term, consistent with the roadmap agreed as part of the program. The robust implementation of the authorities' medium-term revenue strategy is also required to achieve this target. Separately, the projected economic growth rates in 2023 are above the range of potential growth paths under various fiscal multipliers, but the expected growth from hydrocarbon projects is not captured by the exercise. The share of government investment and the contribution of investment to growth are in line with benchmarks (Figure 4), while

[17] This includes IDA 20 loans under the new Short Maturity Loans financing terms, with a grant element of 36 percent.

higher than historical non-investment growth contribution is driven by the COVID recovery and the onset of oil and gas exports. In terms of historical forecast errors, the large residual is the result of the one-off expansion of the public debt perimeter in 2017 to include state-owned enterprises (Figure 3).

COUNTRY CLASSIFICATION AND DETERMINATION OF STRESS TEST SCENARIOS

14. Senegal's debt carrying capacity remains strong. Senegal's Composite Indicator (CI) is 3.15 - a marginal decrease from the CI of 3.25 in the June 2022 DSA. Since Senegal remains above the CI threshold of 3.05, its debt carrying capacity continues to be assessed as strong. This assessment affects the thresholds used to calculate the mechanical external debt risk ratings.



Text Figure 5. Debt Carrying Capacity

Country	Senegal
Country Code	722

Debt Carrying Capacity	Strong

Final	Classification based on current vintage	Classification based on the previous vintage	Classification based on the two previous vintage
Strong	Strong 3.15	Strong 3.18	Strong 3.25

Source: IMF staff estimates

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

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

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

EXTERNAL DSA

16. External debt indicators generally remain below their thresholds under the baseline scenario – except for a one-off marginal breach in 2026 for the debt-service-to-exports indicator (Figure 1). The ratios of (i) present value of external debt relative to GDP and (ii) external debt service relative to exports are close to the risk threshold in the first year of the baseline projection. The external debt service to exports ratio marginally breaches the risk threshold in 2026 with Eurobond amortizations coming due, but this risk signal can be discounted given a one-off breach in the outer years of the assessment period. The present value of debt declines, driven by growth and a declining non-interest current account deficit. The ratio of debt service to exports (as well as the present value of external debt to

exports) declines given projected growth of exports, including as oil and gas projects come online. The external debt service to revenues ratio remains below the risk thresholds throughout the projection period.

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

18. The market financing risk indicators point to high risk of potentially heightened liquidity needs. Senegal's spreads have widened, reflecting the tightening of global financial conditions. Upcoming financing needs are large, including to refinance Senegal's debt stock. This result suggests that Senegal could have potential market financing vulnerabilities. An active debt management strategy that smooths out future debt service peaks would help reduce this risk.

OVERALL RISK OF PUBLIC DEBT DISTRESS

19. Total public debt indicators generally remain below their thresholds under the baseline scenario – except for a one-off marginal breach in 2023 for the Present Value of Public Debt to GDP ratio (Figure 1). Total public debt is projected to peak in 2023 before gradually declining due to fiscal consolidation and favorable interest rate-growth dynamics (Table 2). The present value of public debt to GDP marginally breaches the risk threshold in 2023 under the baseline scenario, but this risk signal can be discounted given a one-off marginal breach and given benign subsequent debt dynamics (gradually declining PV of public debt to GDP to below 60 over the medium-term). The present value of debt to revenues is also projected to gradually decline. Debt service is projected to remain substantial, averaging more than 30 percent of total revenues and grants over the next five years.

20. Stress tests indicate that Senegal is most vulnerable to a growth shock. Under the standard growth shock (in which GDP growth for the first two years of the projection period are one standard deviation lower than the forecast or the historical average, whichever is lower), all three public debt indicators would be set on an explosive growth path. This represents an extreme shock, one that ignores the expected growth impact of hydrocarbon production. Nevertheless, it underscores the importance of reforms to strengthening Senegal's resilience by building fiscal space and enhancing its medium-term growth potential. The breaches under the stress tests result in a public sector debt distress risk rating of Moderate.

RISK RATING AND VULNERABILITIES

21. Senegal remains at moderate risk of external debt distress, with limited space to absorb shocks (Figure 6). Senegal is considered to have "limited space to absorb shocks" because the realization of the median observed shock is expected to result in a downgrade to high risk of debt distress. While debt indicators generally remain below their risk thresholds under the baseline scenario, two marginal one-off breaches (the external debt service to exports ratio in 2026 and the present value of total public debt to GDP ratio in 2023) highlight the urgent need for Senegal to bring external and total public debt onto a downward trajectory. Senegal's vulnerability to growth and export shocks, combined with heightened uncertainty over the global economic outlook, points to the need for a balanced approach that combines near-term fiscal support targeted to the most vulnerable segments of the population with medium-term debt sustainability. The authorities should aim to return to the regional deficit target, complemented with reforms to contain fiscal risks and enhance debt management.

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

23. There are significant risks to the assessment. On the downside, further delays in hydrocarbon production would hurt the economic foundation for repayment of external and public debt. Equally, in light of Presidential elections in 2024, further fiscal slippages on-budget or in the SOE sector could further push up public debt levels. Further deterioration in global commodity prices could delay the phase out of costly food and energy subsidies, delaying fiscal consolidation. Tight external and domestic financing conditions highlight (i) risks from higher interest rates for refinancing debt and (ii) potential liquidity risks if markets seize up. The external debt service burden could rise further if the absorption capacity of the WAEMU regional market does not further recover from 2024 onwards, forcing Senegal to draw on more external borrowing than currently planned in the DSA baseline. More detrimental impacts of climate change on the economy or climate spending above what is projected in the baseline are also key risks for Senegal's outlook. On the upside, determined implementation of structural reforms and the recovery of tourism could support growth more than projected.

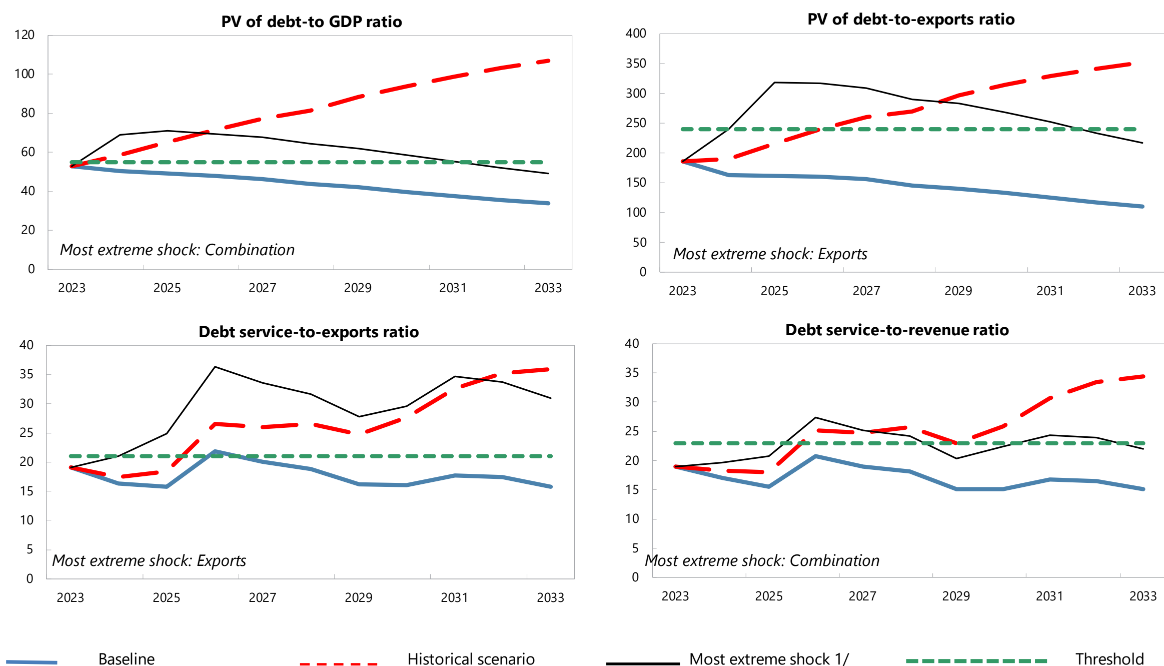
24. A prudent borrowing strategy needs to leave space for further downside risks to materialize. This will require exercising some restraint in terms of new borrowing initiatives, focusing on concessional and domestic regional financing and continued efforts to strengthen debt management. Active debt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

AUTHORITIES' VIEWS

The authorities agree with the conclusions of the debt sustainability assessment. They confirm that - as soon as the CFA regional market allows – they will resume their debt management strategy to gradually shift government debt towards the domestic CFA market, including to limit Senegal's future external debt

service burden. They will actively consider debt management operations to smooth out the external debt service profile.

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



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

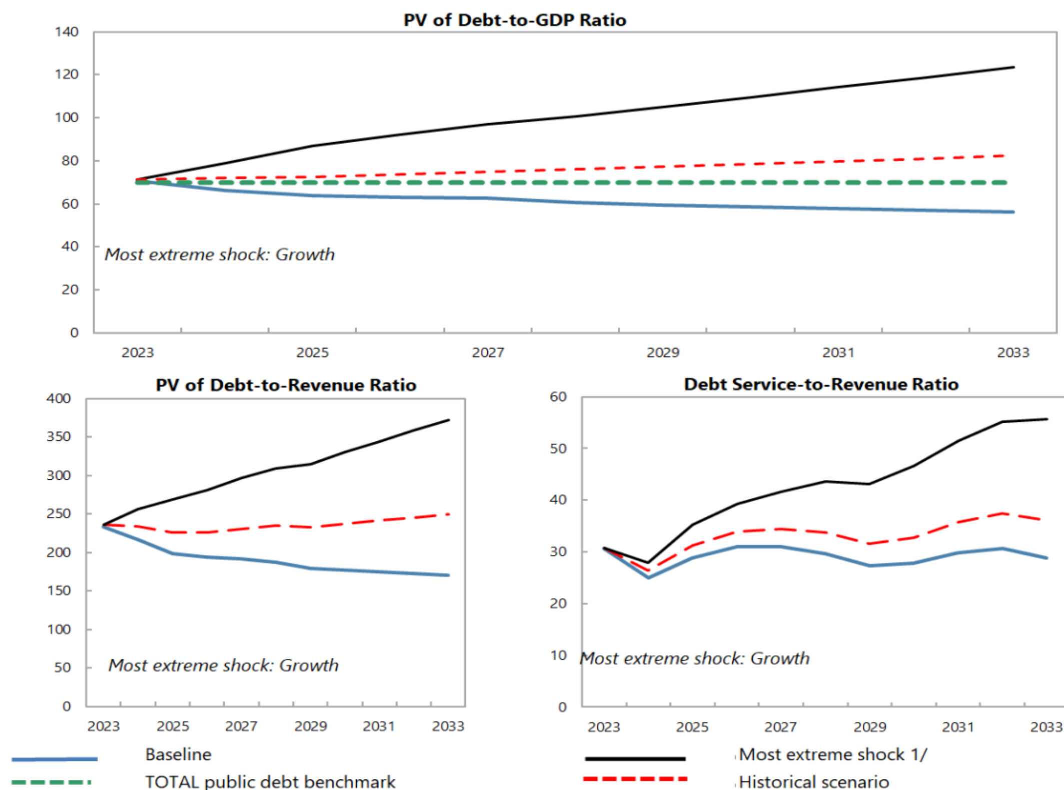
Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

Borrowing assumptions on additional financing needs resulting from the stress tests*		
	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	5.4%	5.4%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	16	16
Avg. grace period	5	5

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

Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in or before 2033. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Figure 2. Senegal: Indicators of Public Debt Under Alternative Scenarios



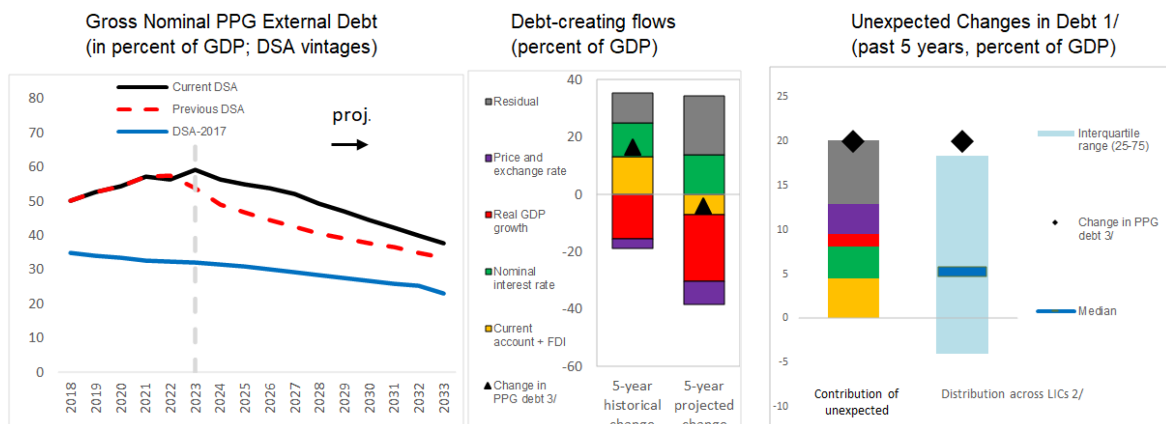
Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	53%	53%
Domestic medium and long-term	43%	43%
Domestic short-term	5%	5%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	5.4%	5.4%
Avg. maturity (incl. grace period)	16	16
Avg. grace period	5	5
Domestic MLT debt		
Avg. real interest rate on new borrowing	3.5%	3.5%
Avg. maturity (incl. grace period)	5	5
Avg. grace period	2	2
Domestic short-term debt		
Avg. real interest rate	2.8%	2.8%

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

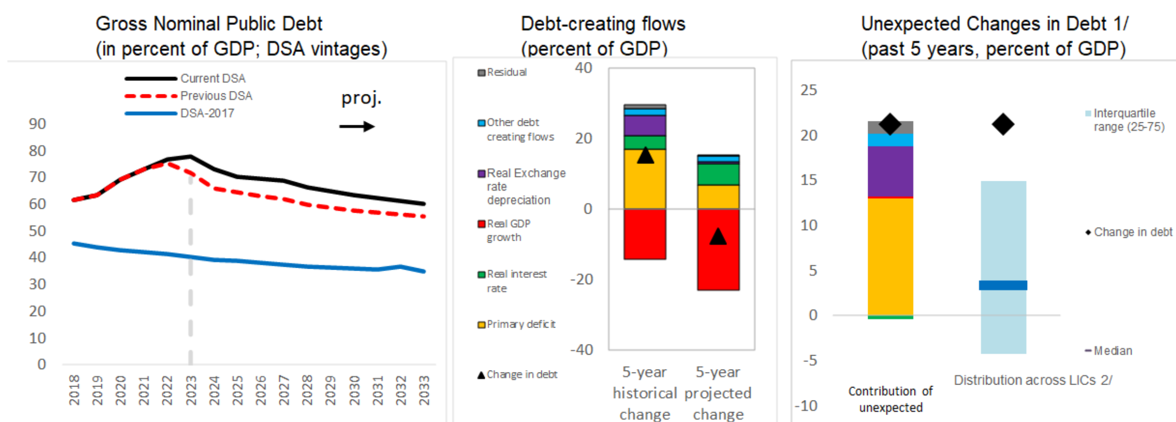
Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2033. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Figure 3. Senegal: Driver of Debt Dynamics—Baseline Scenario



Public Debt



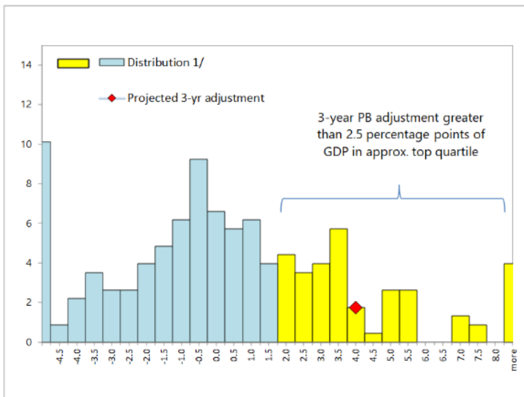
1/ Difference between anticipated and actual contributions on debt ratios.

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

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

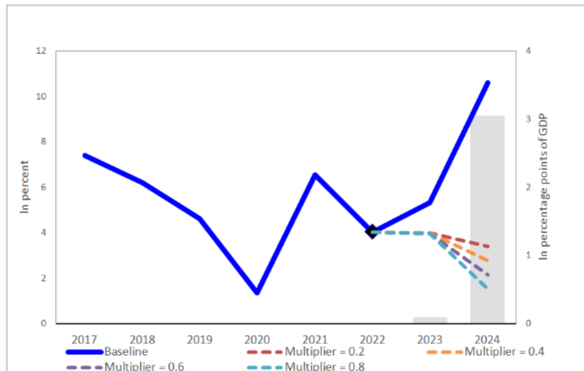
Figure 4. Senegal: Realism Tools

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



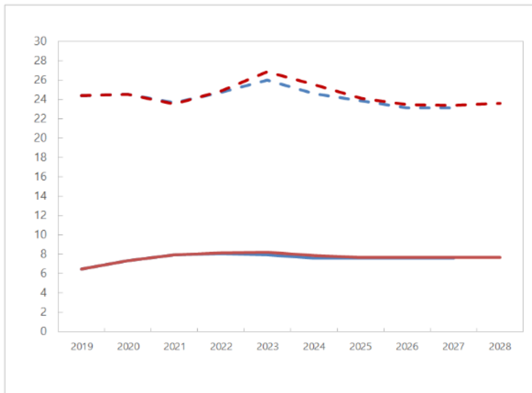
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/



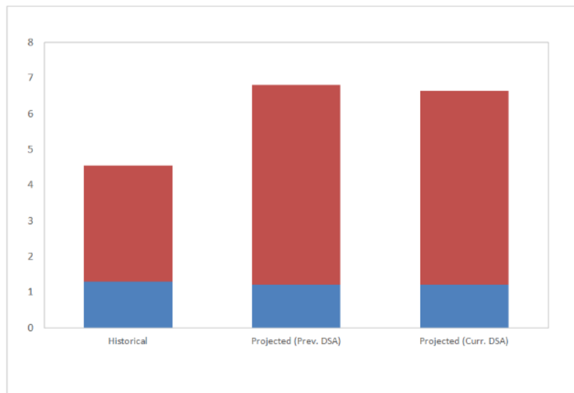
1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates
(percent of GDP)



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

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

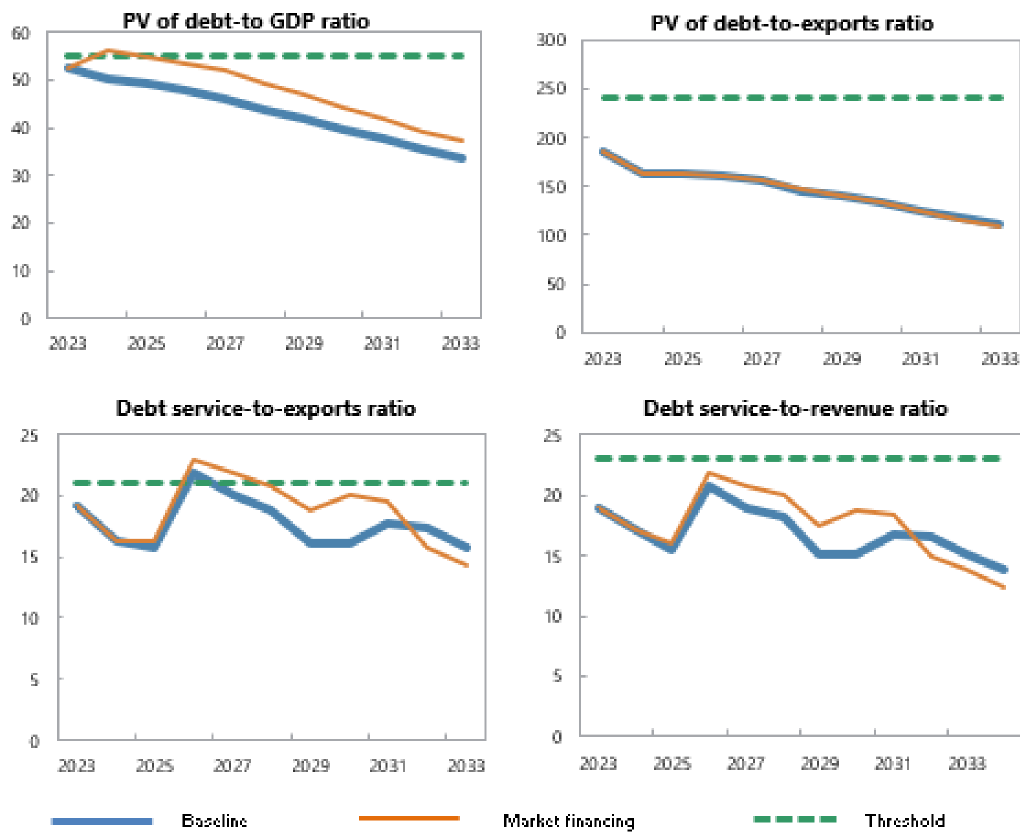


Contribution of other factors
Contribution of government capital

Figure 5. Senegal: Market-Financing Risk Indicators

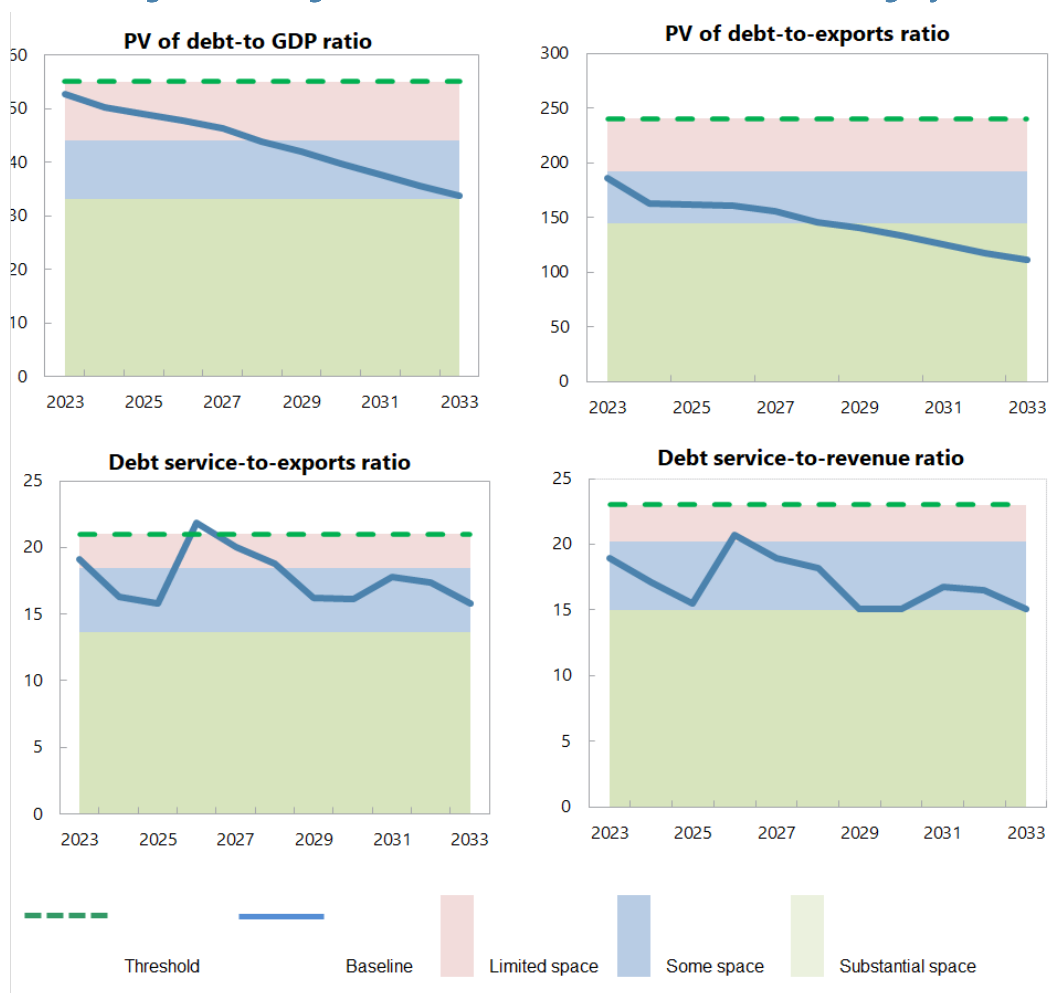
	GFN 1/	EMBI 2/
Benchmarks	14	570
Values	14	637
Breach of benchmark	Yes	Yes
Potential heightened liquidity needs	High	

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



Sources: Country authorities; and staff estimates and projections.

Figure 6. Senegal: Qualification of the Moderate Risk Category[1]



Sources: Country authorities; and staff estimates and projections.

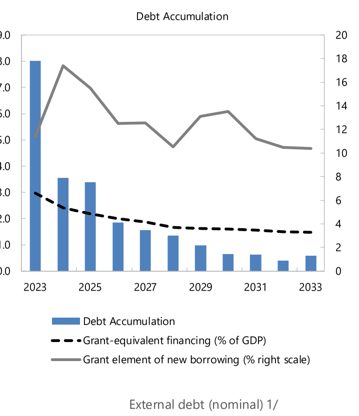
1/ For the PV debt/GDP and PV debt/exports thresholds, x is 20 percent and y is 40 percent. For debt service/Exports and debt service/revenue thresholds, x is 12 percent and y is 35 percent.

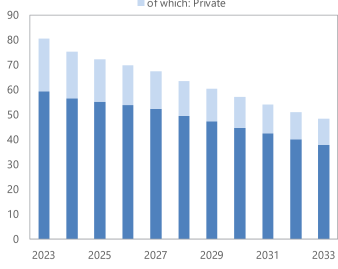
Table 1. Senegal: External Debt Sustainability Framework, Baseline Scenario

(Percent of GDP unless otherwise indicated)

	Actual			Projections								Average 8/	
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2033	2043	Historical	Projections
External debt (nominal) 1/	76.0	74.4	78.2	80.4	75.1	72.2	69.8	67.3	63.4	48.3	23.7	65.4	63.5
of which: public and publicly guaranteed (PPG)	54.4	57.2	56.4	59.3	56.5	55.1	53.8	52.3	49.4	37.9	23.7	43.3	48.9
Change in external debt	3.3	-1.6	3.8	2.3	-5.3	-3.0	-2.3	-2.5	-3.9	-2.7	-8.2		
Identified net debt-creating flows	-0.4	-5.7	9.9	3.0	-6.5	-5.3	-3.8	-3.8	-1.4	-3.0	-2.7	2.2	-3.4
Non-interest current account deficit	7.8	8.8	17.6	10.8	3.3	1.5	0.9	0.8	2.5	0.8	1.1	7.2	1.9
Deficit in balance of goods and services	18.6	18.7	26.0	20.5	12.3	10.2	9.7	9.6	11.0	8.7	7.4	16.2	10.5
Exports	20.7	24.6	26.8	28.4	30.8	30.3	29.8	29.7	30.2	30.4	30.6		
Imports	39.3	43.3	52.7	48.9	43.1	40.5	39.5	39.3	41.2	39.1	38.0		
Net current transfers (negative = inflow)	-10.2	-10.3	-9.6	-9.7	-8.8	-8.6	-8.6	-8.5	-8.4	-8.2	-7.6	-9.6	-8.5
of which: official	-1.2	0.1	0.2	-0.2	0.1	0.0	0.0	0.0	0.0	0.0	-0.1		
Other current account flows (negative = net inflow)	-0.6	0.3	1.2	-0.1	-0.2	-0.1	-0.3	-0.3	-0.2	0.3	1.2	0.7	-0.1
Net FDI (negative = inflow)	-7.1	-8.4	-9.6	-6.5	-5.0	-4.4	-4.3	-4.2	-4.0	-3.9	-3.9	-4.2	-4.4
Endogenous debt dynamics 2/	-1.1	-6.0	1.9	-1.2	-4.8	-2.4	-0.3	-0.4	0.1	0.1	0.2		
Contribution from nominal interest rate	2.3	2.4	2.4	2.6	2.8	2.7	2.9	2.9	2.9	2.4	1.7		
Contribution from real GDP growth	-0.9	-4.4	-3.0	-3.8	-7.6	-5.1	-3.3	-3.3	-2.7	-2.3	-1.5		
Contribution from price and exchange rate changes	-2.4	-4.0	2.5	...	...	...	...	...	...	...	...		
Residual 3/	3.7	4.1	-6.1	-0.8	1.2	2.3	1.4	1.2	-2.5	0.3	-5.5	0.9	0.7
of which: exceptional financing	1.5	-1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	...	...	50.3	52.7	50.2	49.1	47.8	46.3	43.8	33.7	21.6		
PV of PPG external debt-to-exports ratio	...	...	187.8	185.5	163.0	162.0	160.6	155.8	145.3	110.9	70.6		
PPG debt service-to-exports ratio	22.8	19.6	17.4	19.1	16.3	15.8	21.8	20.0	18.8	15.8	8.9		
PPG debt service-to-revenue ratio	17.5	17.5	16.7	18.9	17.1	15.5	20.7	19.0	18.2	15.1	8.5		
Gross external financing need (Billion of U.S. dollars)	1.5	1.9	4.0	3.1	1.8	1.3	1.9	1.8	2.6	2.0	1.4		
Key macroeconomic assumptions													
Real GDP growth (in percent)	1.3	6.5	4.0	5.3	10.6	7.4	4.8	5.1	4.4	4.8	5.2	5.1	5.8
GDP deflator in US dollar terms (change in percent)	3.4	5.5	-3.3	5.1	1.3	1.7	1.6	1.5	4.1	2.2	2.2	-0.3	2.2
Effective interest rate (percent) 4/	3.3	3.6	3.2	3.6	3.9	3.9	4.3	4.5	4.6	5.0	5.9	2.9	4.5
Growth of exports of G&S (US dollar terms, in percent)	-13.1	33.8	9.6	17.4	21.5	7.4	4.7	6.5	10.3	7.8	6.8	7.2	9.5
Growth of imports of G&S (US dollar terms, in percent)	5.1	24.0	22.4	2.6	-1.1	2.4	3.9	6.2	13.9	8.1	6.9	8.4	5.3
Grant element of new public sector borrowing (in percent)	...	...	...	11.4	17.4	15.5	12.5	12.6	10.5	10.4	5.5	...	12.6
Government revenues (excluding grants, in percent of GDP)	26.9	27.5	27.9	28.6	29.4	30.9	31.4	31.3	31.2	31.8	31.9	23.4	31.1
Aid flows (in Billion of US dollars) 5/	1.7	1.3	1.3	0.7	0.8	1.0	1.0	1.0	0.9	1.0	1.7		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	3.0	2.4	2.2	2.0	1.9	1.7	1.5	1.1	...	1.9
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	22.3	29.9	28.9	25.9	27.8	27.4	31.0	44.2	...	29.2
Nominal GDP (Billion of US dollars)	25	28	28	31	34	38	40	43	46	65	133		
Nominal dollar GDP growth	4.8	12.4	0.6	10.7	12.1	9.2	6.5	6.7	8.7	7.1	7.6	4.8	8.1
Memorandum items:													
PV of external debt 7/	...	...	72.0	73.8	68.9	66.1	63.8	61.3	57.8	44.2	21.6		
In percent of exports	...	...	268.9	259.9	223.6	218.3	214.4	206.2	191.4	145.2	70.6		
Total external debt service-to-exports ratio	26.0	26.8	24.0	21.2	22.6	21.3	27.2	25.2	23.8	20.3	12.7		
PV of PPG external debt (in Billion of US dollars)			14.0	16.2	17.3	18.4	19.1	19.8	20.3	22.0	28.9		
(PVt-PVt-1)/GDPt-1 (in percent)				8.0	3.5	3.4	1.8	1.6	1.4	0.6	0.1		
Non-interest current account deficit that stabilizes debt ratio	4.5	10.4	13.8	8.5	8.6	4.5	3.2	3.3	6.4	3.5	9.2		

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





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

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

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

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

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

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

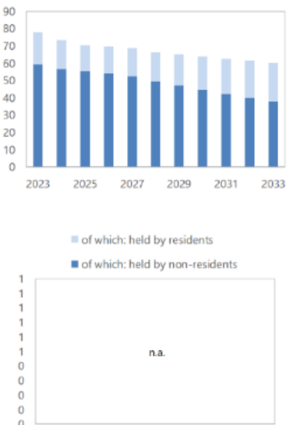
8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Table 2. Senegal: Public Sector Debt Sustainability Framework, Baseline Scenario, 2020–2043

(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2033	2043	Historical	Projections
Public sector debt 1/	69.2	73.3	76.6	77.7	73.2	70.4	69.5	68.7	66.3	60.2	53.2	57.7	67.1
of which: external debt	54.4	57.2	56.4	59.3	56.5	55.1	53.8	52.3	49.4	37.9	23.7	43.3	48.9
Change in public sector debt	5.6	4.1	3.3	1.1	-4.5	-2.9	-0.8	-0.8	-2.4	-1.1	-0.1		
Identified debt-creating flows	0.1	6.8	1.6	1.6	-4.8	-3.1	-1.0	-1.2	-1.4	-1.0	-0.1	2.2	-1.5
Primary deficit	4.0	4.6	4.3	4.2	1.2	0.5	0.5	0.4	0.1	0.0	0.8	2.3	0.7
Revenue and grants	29.2	28.3	28.8	30.3	30.6	32.1	32.6	32.5	32.3	32.9	32.9	25.3	32.3
of which: grants	2.3	0.9	0.8	1.6	1.2	1.2	1.2	1.2	1.1	1.1	1.0		
Primary (noninterest) expenditure	33.2	33.0	33.1	34.5	31.8	32.6	33.1	33.0	32.4	33.0	33.8	27.6	33.0
Automatic debt dynamics	-3.7	0.9	-2.4	-3.6	-6.1	-3.7	-1.7	-1.8	-1.6	-1.2	-0.9		
Contribution from interest rate/growth differential	0.9	-3.1	-5.9	-3.6	-6.1	-3.7	-1.7	-1.8	-1.6	-1.2	-0.9		
of which: contribution from average real interest rate	1.7	1.2	-3.1	0.3	1.4	1.3	1.5	1.6	1.3	1.6	1.7		
of which: contribution from real GDP growth	-0.8	-4.2	-2.8	-3.9	-7.5	-5.0	-3.2	-3.4	-2.9	-2.8	-2.6		
Contribution from real exchange rate depreciation	-4.6	4.0	3.5	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	-0.2	1.2	-0.4	0.9	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.7	0.2
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	-0.2	1.2	-0.4	0.9	0.1	0.1	0.1	0.1	0.1	0.1	0.1		
Residual	5.5	-2.6	1.7	-0.5	0.2	0.2	0.2	0.4	-1.0	-0.1	-0.1	2.0	0.0
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	...	...	69.4	70.6	66.4	63.8	63.1	62.5	60.5	56.1	51.2		
PV of public debt-to-revenue and grants ratio	...	...	241.3	233.1	216.6	198.8	193.8	192.1	187.3	170.2	155.5		
Debt service-to-revenue and grants ratio 3/	25.1	27.7	29.8	30.8	25.1	28.8	31.0	31.1	29.6	28.8	26.4		
Gross financing need 4/	11.1	13.7	12.5	14.5	9.0	9.9	10.8	10.7	9.8	9.6	9.6		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	1.3	6.5	4.0	5.3	10.6	7.4	4.8	5.1	4.4	4.8	5.2	5.1	5.8
Average nominal interest rate on external debt (in percent)	3.8	2.9	3.0	3.0	3.5	3.5	4.0	4.1	4.3	4.6	5.4	2.9	4.1
Average real interest rate on domestic debt (in percent)	5.0	4.4	-1.5	2.2	3.6	3.6	3.5	3.5	1.4	3.3	3.5	4.3	3.3
Real exchange rate depreciation (in percent, + indicates depreciation)	-8.7	7.7	6.8	...	...	...	...	...	...	...	...	2.5	...
Inflation rate (GDP deflator, in percent)	1.5	1.8	8.6	3.2	2.0	2.0	2.0	2.0	4.1	2.2	2.2	1.5	2.2
Growth of real primary spending (deflated by GDP deflator, in percent)	1.0	5.8	4.5	9.9	2.0	10.0	6.4	4.7	2.6	4.6	6.6	10.0	5.8
Primary deficit that stabilizes the debt-to-GDP ratio 5/	-1.6	0.5	1.0	3.1	5.7	3.4	1.4	1.2	2.5	1.1	0.9	0.0	2.2
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

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



of which: held by residents
of which: held by non-residents
n.a.
2023 2025 2027 2029 2031 2033

Sources: Country authorities; and staff estimates and projections.
1/ Coverage of debt: The entire public sector, including SOEs . Definition of external debt is Currency-based.
2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.
3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.
4/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.
5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilizes the debt ratio only in the year in question.
6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Table 3. Senegal: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2023–2033

(Percent)

	Projections 1/										
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
PV of debt-to GDP ratio											
Baseline	53	50	49	48	46	44	42	40	38	36	34
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	53	**58**	**65**	**71**	**77**	**81**	**88**	**94**	**99**	**103**	**107**
B. Bound Tests											
B1. Real GDP growth	53	**56**	**59**	**57**	**55**	53	50	47	45	43	40
B2. Primary balance	53	52	54	53	52	49	48	46	44	41	39
B3. Exports	53	**58**	**67**	**66**	**64**	**61**	**59**	**56**	52	49	46
B4. Other flows 3/	53	55	**57**	**56**	54	51	49	47	44	41	39
B5. Depreciation	53	**63**	**56**	55	53	50	48	45	43	41	39
B6. Combination of B1-B5	53	**69**	**71**	**69**	**68**	**64**	**62**	**58**	**55**	52	49
C. Tailored Tests											
C1. Combined contingent liabilities	53	55	54	52	51	49	48	45	43	41	40
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	53	**56**	55	53	52	49	47	44	42	39	37
Threshold	55	55	55	55	55	55	55	55	55	55	55
PV of debt-to-exports ratio											
Baseline	185	163	162	161	156	145	140	133	126	118	111
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	185	190	215	240	**260**	**269**	**297**	**314**	**329**	**341**	**352**
B. Bound Tests											
B1. Real GDP growth	185	163	162	161	156	145	140	133	126	118	111
B2. Primary balance	185	169	179	178	174	164	160	153	145	137	130
B3. Exports	185	240	**319**	**317**	**309**	**290**	**283**	**269**	**251**	233	217
B4. Other flows 3/	185	177	188	187	182	170	165	157	147	137	128
B5. Depreciation	185	163	147	146	141	131	127	119	113	106	101
B6. Combination of B1-B5	185	233	193	**248**	**241**	226	220	208	195	182	170
C. Tailored Tests											
C1. Combined contingent liabilities	185	178	177	176	172	163	160	152	145	137	130
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	185	163	162	161	157	146	141	133	125	117	109
Threshold	240	240	240	240	240	240	240	240	240	240	240
Debt service-to-exports ratio											
Baseline	19	16	16	**22**	20	19	16	16	18	17	16
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	19	17	18	**27**	**26**	**27**	**25**	**28**	**33**	**35**	**36**
B. Bound Tests											
B1. Real GDP growth	19	16	16	**22**	20	19	16	16	18	17	16
B2. Primary balance	19	16	16	**23**	**21**	20	17	18	20	19	18
B3. Exports	19	**21**	**25**	**36**	**34**	**32**	**28**	**30**	**35**	**34**	**31**
B4. Other flows 3/	19	16	16	**23**	**21**	20	17	18	21	20	18
B5. Depreciation	19	16	16	**21**	19	18	15	15	16	16	14
B6. Combination of B1-B5	19	20	**22**	**31**	**28**	**26**	**23**	**25**	**27**	**27**	**24**
C. Tailored Tests											
C1. Combined contingent liabilities	19	16	17	**23**	21	20	17	17	19	18	17
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	19	16	16	**23**	**22**	21	19	20	19	16	14
Threshold	21	21	21	21	21	21	21	21	21	21	21
Debt service-to-revenue ratio											
Baseline	19	17	15	21	19	18	15	15	17	17	15
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	19	18	18	**25**	**25**	**26**	**23**	**26**	**31**	**33**	**34**
B. Bound Tests											
B1. Real GDP growth	19	19	19	**25**	23	22	18	18	20	20	18
B2. Primary balance	19	17	16	22	20	19	16	17	19	18	17
B3. Exports	19	17	17	**24**	22	21	18	19	23	22	21
B4. Other flows 3/	19	17	16	22	20	19	16	17	19	19	17
B5. Depreciation	19	22	20	**25**	**23**	22	18	18	19	19	17
B6. Combination of B1-B5	19	20	21	**27**	**25**	**24**	20	22	**24**	**24**	22
C. Tailored Tests											
C1. Combined contingent liabilities	19	17	16	21	20	19	16	16	18	17	16
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	19	17	16	22	21	20	17	19	18	15	14
Threshold	23	23	23	23	23	23	23	23	23	23	23

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

Table 4. Senegal: Sensitivity Analysis for Key Indicators of Public Debt, 2023-33
(Percent of GDP unless otherwise indicated)

	Projections 1/										
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
PV of Debt-to-GDP Ratio											
Baseline	**71**	66	64	63	62	61	60	58	58	57	56
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	**71**	**72**	**73**	**74**	**75**	**76**	**77**	**79**	**80**	**81**	**82**
B. Bound Tests											
B1. Real GDP growth	**71**	**79**	**87**	**92**	**97**	**100**	**105**	**109**	**114**	**119**	**123**
B2. Primary balance	**71**	**70**	**73**	**72**	**71**	69	68	67	66	65	64
B3. Exports	**71**	**73**	**80**	**79**	**79**	**76**	**75**	**73**	**71**	69	67
B4. Other flows 3/	**71**	**71**	**72**	**71**	**70**	68	67	66	64	63	61
B5. Depreciation	**71**	**79**	**73**	69	66	62	58	55	52	49	46
B6. Combination of B1-B5	**71**	**70**	**73**	**74**	**75**	**75**	**75**	**76**	**76**	**77**	**78**
C. Tailored Tests											
C1. Combined contingent liabilities	**71**	**76**	**73**	**72**	**71**	69	68	66	65	64	64
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	**71**	66	64	63	63	61	60	59	58	57	56
TOTAL public debt benchmark	70	70	70	70	70	70	70	70	70	70	70
PV of Debt-to-Revenue Ratio											
Baseline	233	217	199	194	192	187	180	178	175	173	170
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	236	234	226	225	230	235	233	238	241	245	249
B. Bound Tests											
B1. Real GDP growth	236	256	269	281	297	309	315	330	344	358	372
B2. Primary balance	236	230	228	222	220	214	206	203	200	197	194
B3. Exports	233	239	250	244	242	236	226	222	216	210	204
B4. Other flows 3/	233	231	224	218	216	211	202	199	195	191	186
B5. Depreciation	236	257	227	213	203	191	176	167	158	149	141
B6. Combination of B1-B5	236	230	227	227	231	231	227	230	232	234	235
C. Tailored Tests											
C1. Combined contingent liabilities	236	247	226	220	218	213	204	201	198	196	193
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	233	217	199	194	193	188	180	178	175	172	169
Debt Service-to-Revenue Ratio											
Baseline	31	25	29	31	31	30	27	28	30	31	29
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	31	26	31	34	34	34	32	33	36	37	36
B. Bound Tests											
B1. Real GDP growth	31	28	35	39	42	44	43	47	51	55	56
B2. Primary balance	31	25	30	33	34	34	32	32	33	34	33
B3. Exports	31	25	30	34	34	32	30	31	35	36	34
B4. Other flows 3/	31	25	29	32	32	31	29	30	32	33	31
B5. Depreciation	31	26	32	36	35	33	30	30	32	33	31
B6. Combination of B1-B5	31	25	32	35	35	35	33	35	37	38	37
C. Tailored Tests											
C1. Combined contingent liabilities	31	25	31	32	35	34	32	30	32	33	31
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	31	25	29	32	33	31	30	31	31	29	28

Sources: Country authorities; and staff estimates and projections.

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

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

3/ Includes official and private transfers and FDI.

INTERNATIONAL MONETARY FUND

SENEGAL

June 9, 2023

REQUESTS FOR AN EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, AN ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY, AND AN ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY—WORLD BANK ASSESSMENT LETTER FOR THE RESILIENCE AND SUSTAINABILITY FACILITY

WORLD BANK ASSESSMENT LETTER FOR THE RESILIENCE AND SUSTAINABILITY FACILITY

A. Senegal Vulnerability to Climate Change

Climate change means Senegal is already experiencing rising temperatures and erratic rainfall, weather-related hazards, and rising sea-levels. Senegal is getting warmer: since the 1950's, the country's average annual temperature has increased by nearly 2°C and there are about 50 more days with a Heat Index above 35°C and about 30 more so-called "Tropical Nights" (>20°C), two indicators of higher discomfort and lower recuperation capacity for human bodies when exposed to high temperatures.[1] Senegal is also becoming drier: isohyets[2] are migrating southward and the number of consecutive dry days is increasing (about 4 days per decade since the 1950's).[3] Sea-level rise is another marker of climate change for Senegal, increasing the risk of erosion (25 percent of the coastline threatened today) and storm surges (50 percent of the coastline threatened today). The costs of erosion for Senegal were estimated at US$ 537 million in 2017 (3.3 percent of 2017 GDP), mainly due to the loss of land and its associated value.[4] In the meantime, climatic hazards, particularly excess or lack of water, are having an increasing human and economic toll. Over the last 40 years, floods have accounted for nearly half of weather-related hazards while droughts have had the largest impact, in terms of people affected.

[1] World Bank Climate Change Knowledge Portal: Country webpages for Senegal, consulted April 2023. https://climateknowledgeportal.worldbank.org/country/senegal

[2] A line on a map connecting points receiving the same amount of rainfall in a given period.

[3] Same as FN#1

[4] Croitoru, L., JJ. Miranda, and M. Sarraf. 2019. *The Cost of Coastal Zone Degradation in West Africa: Benin, Côte d'Ivoire, Senegal and Togo*. Washington, DC: World Bank.

Finally, population movements due to deteriorating environmental conditions related to climate change can be observed (i.e., pastoralists leaving dry and depleted pastures or people relocating away from flooded coastal settlements).[5]

1. **Climate change will intensify, and Senegal is particularly vulnerable given its coastal exposure and reliance on natural resources for jobs and livelihoods.** Coastal zones are home to 52 percent of Senegal's population, 68 percent of its GDP, and 90 percent of its industrial facilities.[6] These areas are threatened by accelerated sea-level rise, which will intensify coastal erosion, flooding, and salinization (of water bodies and agricultural land). In Dakar alone, for instance, the population at risk of coastal flooding due to sea-level rise and extreme events is expected to increase by 20-30 percent in 2050, while economic damages could increase by 30% over the same period.[7] Inland, agriculture, which is mainly rainfed and has low productivity, is particularly vulnerable to climate change, jeopardizing the jobs of 30 percent of the working population and the livelihoods of many (including two-thirds of the poor). Warmer and drier climatic conditions will reduce the yields of many crops and negatively affect livestock. Many sectors relevant to climate action (such as agriculture, disaster-risk management, energy, human health, social protection, transport, tourism, urban planning, water, and sanitation) are also critical for growth, as highlighted in the *Plan Senegal Emergent (PSE 2014-2035)* and its *Priority Action Plan 2 – Adjusted and Accelerated (2019-2023)*. Without any action, climate change could cause Senegal's GDP to decrease by 1.3 percent by 2030 and 3.9 percent by 2050 in a 3°C scenario.[8] Further, under high climate change stress, the poverty rate could double as early as 2030, mainly due to higher food prices and reduced food production, as well as negative health impacts. Finally, worsening environmental conditions and depleted natural resources could trigger internal climate migration in Senegal up to 1 million persons by 2050, and the share of these migrants as a percentage of the total population in Senegal could be one of the highest in West Africa. The emergence of internal climate migration hotspots in Senegal – and their convergence with both impoverished areas and centers of economic growth – requires holistic and far-sighted approaches to ensure sustainable outcomes.[9]

2. **Senegal's Greenhouse Gas (GHG) emissions have been gradually increasing, with a slight decoupling from economic growth overtime, but this could change with the upcoming exploitation of oil and gas resources.** In 2019, Senegal emitted 29.2 million tons of CO_2

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[5] Rigaud, KK., A. de Sherbinin, B. Jones, NE. Abu-Ata, and S. Adamo. 2021. *Groundswell Africa: Deep Dive into Internal Climate Migration in Senegal*. Washington, DC: World Bank.

[6] Senegal's country profile on the website for West Africa Coastal Areas Management Program (WACA): https://www.wacaprogram.org/country/senegal

[7] Quiroga, IA., ES. de Murieta, I. Losada, A. Toimil, S. Torres, A. Markandya et al. (2021). "Coastal flooding and erosion under climate change: risk assessment risk in Dakar". *BC3 Policy Briefs* #2021-2.

[8] World Bank. 2020. *The Next Generation Africa Climate Business Plan: Ramping Up Development-Centered Climate Action.* Washington, DC: World Bank.

[9] Same as FN#5.

equivalent, representing less than 0.07 percent of global emissions.[10] Agriculture accounted for 42 percent, energy 30 percent and the other sectors (waste, and industrial processes) for the remainder in equal shares. Emissions from agriculture are expected to continue growing at the same pace while emissions from the energy sector are expected to grow exponentially, with economic and population growth and exploitation of oil and gas resources. A closer look at the energy sector reveals its high carbon dependence (comparatively to the average for Sub-Saharan Africa), highlighting scope for a clean transition for this sector. Statistics show, for instance, the predominance of oil in power production (more than 80 percent vs. 64 percent for the regional average) and the low share of renewable energy in total final energy consumption (39 percent vs. 68 percent for the regional average). In addition, it is estimated that only 24 percent of Senegal's population has access to clean fuels and technologies for cooking, with wood energy being a major cause of forest degradation in the southeast (and hence a further source of GHG emissions from forest degradation and deforestation). The exploitation of oil and gas resources expected to begin in 2024-25, might further change the context for Senegal's energy system and require additional efforts to accelerate the transition to cleaner energy.

B. Government Policies and Commitments in Terms of Climate Change Adaptation and Priority Areas to Strengthen Resilience

3. Senegal has made progress in climate-related policy, as reflected in the Nationally-Determined Contribution (updated in 2020), but implementation – particularly coordination, needs to be stepped up. On the adaptation front, the country released a *National Adaptation Plan* in 2006. Since then, the PSE (especially via the PSE Vert) includes climate change considerations (through a co-benefit approach) and the NDC, in its 2020 update, identifies priority directions for adaptation.[11] Sectoral adaptation plans are also being prepared (expected through 2023). To date, very few sectors have climate action plans in place and when they do, alignment with existing regulations (e.g., sectoral codes) and strategies for the sector, integration into sectoral projects and programs, and monitoring and reporting are not systematic. For successful adaptation commensurate to the challenges of climate change, there is a need to consider the cross sectoral (e.g., availability and quality of water resources and competing demands from different sectors) and long-term (e.g., shifting form a reactive to anticipative approach in disaster-risk management) dimensions of adaptation. There is also a broad need for awareness raising and capacity building on climate risks and climate adaptation solutions.

[10] Global Climate Watch, consulted April 2023

[11] The NDC includes three adaptation pillars (observation networks and environmental monitoring, resilience of ecosystems and production activities, and disaster risk management (with a particular focus on floods)), across seven sectors: agriculture, livestock, fisheries, coastal zones, water resources, biodiversity, and human health.

C. Government Policies and Commitments in Terms of Climate Change Mitigation and Priority Areas to Reduce Greenhouse Gas Emissions

4. On the mitigation front, the Government commits in its NDC to reducing unilaterally GHG emissions in 2025, by 5 percent, and in 2030, by 7 percent, below “business as usual”, and, conditional to external support, by 23.7 percent in 2025 and 29.5 percent in 2030. Key mitigation areas include carbon sequestration (via activities in forestry and agriculture), biomass energy, and energy transition (around deployment of renewable energy and energy efficiency improvements across the economy). Progress has been made on deploying renewable energy and expanding public transportation. The Government has abandoned plans to further develop coal-fired power generation and continues to pursue its gas-to-power strategy to shift its electricity production from largely heavy oil fuel to fossil gas. The upcoming exploitation of oil and gas resources will add a new dimension, which must be considered in the Long-Term Strategy under development.

D. Financial Challenges

5. The NDC measures have the potential to accelerate development, but they will require the mobilization of significant resources. Senegal’s NDC estimates financial needs at US$13billion over 2020-30. Mitigation needs are about twice larger than those for adaptation. Three sectors account for 70 percent of the mitigation needs: Power Production (30 percent), Waste Management (21 percent), and Transport (18 percent). On the adaptation front, four sectors represent nearly 70 percent of financing needs: Water Resource Management (20 percent), Flood Risk Management (17 percent), Agriculture (16 percent), and Coastal Zone Management (15 percent). US$8.2billion in external support are needed over 2020-30 to implement the NDC and meet its more ambitious targets. This corresponds to financial inflows of about US$800million a year for climate action (on top of a bit less than US$500million to support unconditional climate action). For comparison, the latest climate-related development finance inflows in Senegal average US$400-500 million a year over 2018-2020, of which only one quarter is considered grant.[12] Mobilizing finance at scale to implement Senegal’s NDC will thus require tremendous effort and ingenuity, across sources and instruments. Senegal has experience in accessing climate funds[13] and carbon markets. It has registered and effectively implemented the largest number of Clean Development Mechanism projects in West Africa and has already entered into a bilateral agreement with Switzerland for international emissions reductions trading under Article 6 provisions.[14] Under the Partnership for Market Implementation, Senegal is also developing a roadmap for the

[12] Source: OECD DAC. https://www.oecd.org/dac/financing-sustainable-development/development-finance-data/climate-change.htm

[13] Senegal was among the first countries to have an accredited entity to the Green Climate Fund (GCF) and an approved project (the third one to be approved). It now can boast 13 projects (including with participation to regional initiatives) for commitments totaling US$174 million. It is also well positioned in terms of accessing the resources of other climate finance funds, such as the Adaptation Fund (3 projects).

[14] https://senegal.klik.ch/en

deployment of a carbon tax and the framework and infrastructure to enable Senegal's participation in international carbon markets. Those are encouraging perspectives, but more active engagement of private sector and financial markets will be needed to mobilize financing at scale.

E. World Bank Engagement in Climate Change

6. In line with the International Development Association's priority of, addressing climate change and development together, climate action is a cross-cutting dimension of the World Bank's Country Partnership Framework (2020-24) for Senegal. The World Bank is thus actively supporting a broad range of policies and initiatives for adaptation and mitigation in Senegal along the country's NDC priorities, through a combination of lending, technical assistance, and knowledge instruments. The World Bank has also started the preparation of the Country Climate and Development Report (CCDR) for Senegal, a new core diagnostic tool to (i) analyze how the development goals of a country can be achieved in the context of climate change and the global decarbonization effort; and prioritize climate-smart interventions to improve development outcomes in key sectors. The CCDR will support Senegal in the implementation of its NDC, by identifying concrete ways to increase resilience and adaptation and reduce GHG emissions in a manner that supports development. The CCDR will also inform the next CPF for Senegal. Recent activities include:

- **Coastal resilience:** A combination of projects are working together to improve the management of coastal resources and strengthen the resilience of coastal communities, with core investments in the erosion hotspots areas of Saint Louis, Dakar, and Gorée Island. Those are the West Africa Coastal Areas Resilience Investment Project and the Saint-Louis Emergency Recovery and Resilience Project. The now-closed Senegal Tourism and Enterprise Project intervened in the touristic city of Sally to restore the beach and protect it from erosion.
- **Flood Risk Management:** A sequence of projects is working towards reducing flood risks in peri-urban areas of Dakar and improving capacity for integrated urban flood risks planning and management for selected cities in Senegal. Those are the (now closed) Flood Prevention and Drainage Project and the follow-on Stormwater Management and Climate Change Adaptation Project.
- **Social protection:** The Social Safety Net project and the Adaptive Safety Net project are helping strengthen Senegal's social protection system, in particular responsiveness in the aftermath of (climate) shocks, which is a contribution to adaptation.
- **Climate-smart agriculture:** Financing for the sector promotes the adoption of climate-smart strategies, practices, and investments as exemplified by the Agriculture and Livestock Competitiveness Program for Results, supporting access to seeds for more resilient varieties and for crop diversification as well as forage production, the Sahel Irrigation Initiative Support Project, targeting water management improvement and development of small-scale irrigation schemes, or the (regional) Sahel Pastoralism Support Project, securing access to water and pasture for herders and includes alert systems for climate-related crisis prevention across six countries (Senegal, Burkina Faso, Chad, Mali, Mauritania and Niger).

- **Sustainable energy access:** The Senegal Energy Access Scale Up Project delivers both adaptation and mitigation co-benefits as it will help make the energy system more resilient and thus avoid the power disruptions to schools, hospitals, businesses that happen during natural hazards and as it will help populations access a reliable supply, cleaner than many back-up options.
- **Sustainable cities:** two projects are supporting transformative investments in urban mobility and waste management to accompany the rapid urbanization for cleaner, resilient, and productive cities. The Senegal Municipal Solid Waste Management Project and the Dakar Bus Rapid Transit Pilot Project are financing investments in two key sectors for mitigation as per the NDC.
- **Exploring carbon pricing:** In Senegal, the Partnership for Market Implementation is providing technical assistance to advance the understanding of carbon pricing instruments and facilitate their implementation. It will develop a roadmap for the deployment of a carbon tax and support the policy and institutional framework to enable Senegal's participation in international carbon markets based on the provisions of Article 6 of the Paris Agreement.

Statement by Mr. Sylla, Executive Director for Senegal and Mrs. Bah, Advisor to the Executive Director, on Senegal
June 26, 2023

Introduction

1. Our Senegalese authorities are thankful to management and staff for the candid and constructive discussions held during the 2023 Spring meetings, as well as during the staff visit and program negotiation missions in Dakar. Our authorities broadly view staff's reports as a fair summary of the discussions on immediate priorities, and economic, fiscal and climate policies needed to support a sustainable growth trajectory in the medium and long term.

2. Although very resilient in a context of overlapping external shocks, the Senegalese economy remains challenged by elevated vulnerabilities emanating mainly from the surge in food and commodity prices, tighter financial conditions coupled with the strong appreciation of the U.S. dollar, and recurring extreme weather events. Against this backdrop, financing needs have significantly increased, while fiscal buffers have deteriorated. Therefore, with the view to safeguard their hard-won development gains and pursue their reform agenda, our authorities are requesting a blend arrangement under the Extended Fund Financing (EFF) and the Extended Credit Facility (ECF) for an amount of SDR 1,132.6 million, equivalent to 350 percent of quota. In addition, they are also requesting an access to the Resilience and Sustainability Facility (RSF) of SDR 242.7 million, equivalent to 75 percent of quota. Our authorities are confident that this blended program will help them to strengthen public finances, enhance the social protection system, and support the resilience to climate change.

Recent economic developments and outlook

3. In 2022, real GDP growth moderated at 4.2 percent compared to 6.5 percent in 2021, due to lower domestic and external demand induced by multiple shocks. While activity in the tertiary sector remained vibrant, the primary and secondary sectors decelerated markedly. Inflation accelerated significantly in 2022 and is estimated at 9.7 percent, driven mainly by soaring food prices (+17.9 percent). To contain price hikes, the authorities introduced costly but necessary temporary measures, including price controls on major consumer staples. With these measures and higher security-related expenditures to protect the borders and the homeland from neighboring Sahel terrorist pockets, public spending continued to outpace fiscal revenues, resulting in a wider fiscal deficit, which rose from 4.9 percent of GDP in 2021 to 6.1 percent of GDP in 2022.

4. The outlook for 2023 is favorable with domestic activity rising by 5 percent year-on-year in March 2023, driven mainly by dynamic activity in the primary (+9.5 percent) and

tertiary (+5.6 percent) sectors. The economic growth forecast for 2023 is expected to be 8.8 percent, if oil and gas production starts in the last quarter of 2023 as planned. Inflationary pressures are cooling down with headline inflation declining at 9.4 percent at end-March 2023. Furthermore, despite a revenue shortfall, budget execution at end-March was broadly consistent with the budget law.

5. The outlook for medium term growth is more favorable, notably with the projected start of hydrocarbon production by end-2023. Economic growth is expected to accelerate to 12.8 percent in 2024. Growth in the non-hydrocarbon sector is expected to strengthen to about 6.6 percent on average over the period 2023-2027. Nonetheless, the authorities agree that significant downside risks remain, including the uncertainty about the start date and the rate of production of hydrocarbons; the risks related to a further tightening of regional and global financial conditions; adverse developments in the war in Ukraine; spillovers from the security situation in the Sahel region; and unfavorable weather conditions that could affect the agricultural production.

THE EFF/ECF PROGRAM: ECONOMIC POLICIES AND REFORMS

6. The blend EFF/ECF arrangement aims notably at strengthening public finances to foster a resilient economy. In this regard, the authorities will pursue fiscal consolidation with the view to restore internal and external buffers and preserve the sustainability of public finances and public debt. Moreover, they will continue to carry out their structural transformation agenda to support a stronger, more inclusive, and more sustainable growth, consistent with the latest National Development Plan and the *Plan Senegal Emergent*.

Fiscal policy

7. The authorities intend to execute an ambitious fiscal consolidation plan to converge towards the regional deficit target of 3 percent of GDP by 2025. The new fiscal framework created in 2022 by the law on the management of hydrocarbons to ensure debt sustainability, intergenerational wealth sharing, and macroeconomic stabilization will be instrumental on that front. The authorities’ fiscal policy goals will continue to focus on enhancing revenue mobilization and rationalizing expenditures to ensure that the deficit target is met, while maintaining high priority programs and social sectors spending.

8. To strengthen credibility and transparency in budget execution and safeguard efficiency gains, the government intends to accelerate fiscal reforms, including those identified in the 2023 PIMA and C-PIMA reports. The authorities will continue implementing the budgetary reforms including, closing the deposit accounts for non- personalized government services, and pursuing the consolidation of the Treasury Single Account in accordance with its roadmap.

9. On debt sustainability, the government intend to reduce debt vulnerabilities and strengthen the public debt management framework. Senegal is currently at a moderate risk of debt distress and the authorities are strongly committed to containing the country's DSA at the same or a lower risk of debt distress. The country's strong track record of market access and the government's history of successful implementation of reforms are notable mitigating factors. Additionally, the authorities are committed to continuing to closely manage public debt and monitor new borrowing terms. They will give priority to concessional financing or financing denominated in CFAF in the regional market and limit commercial debt for projects with higher economic, financial, and social rates of return. In the international financial market, yields on Senegal's Eurobonds in the secondary market have risen with the tightening of international financial conditions, highlighting the gloomier prospects on that front. As a result, the authorities are confident that they will be able to avail themselves of the temporary increase in GRA access limits to secure much needed relief and better navigate the current financing squeeze.

Monetary and financial sector policies

10. The protracted inflationary pressures and the decline in foreign exchange reserves led the regional central (BCEAO) to raise its key rates by 100 basis points since June 2022 and resume the liquidity injections through the auction system. The monetary authorities have indicated their readiness to tighten the monetary stance further, as needed, to achieve price stability. Despite these dire circumstances, the banking system remained resilient and profitable. The authorities will continue to closely monitor the banking sector to safeguard its soundness. The government is committed to implement the few remaining measures to be removed from the FATF's grey list, notably the operationalization of the register of beneficial owners and the clarification to experts regarding the targeted financial sanctions (TFS) mechanism. Sustained efforts are underway to ensure that all these measures are fully implemented by end-October 2023.

Structural reforms

11. The authorities commit to implementing transformative reforms to boost an inclusive and private sector-led growth. To this end, they intend to improve governance and the business environment.

12. On governance, the authorities plan to forcefully combat corruption. In this regard, the government will strengthen the prerogatives of the National Office for Combating Fraud and Corruption (OFNAC) and its investigation techniques and powers. A law amending the law creating the OFNAC will be adopted by October 2023. Additionally, to strengthen the system of penalties for non-declaration and false or late declaration, an amendment to the law on the

declaration of assets will be adopted by October 2023. The government will also improve financial reporting and accountability and establish a Financial Prosecutor's Office with authority to deal with cases related to economic and financial crimes.

13. To improve the business environment and foster a private sector-led inclusive growth, the authorities will continue to rationalize the public administration, simplify labor legislation, digitalize procedures for business creation and registry, and enhance the commercial judicial system. A preliminary draft of the new labor code will be available in the second quarter of 2023. In that respect, the simplification and digitalization of the social tax procedures have been completed. The commercial judicial system has also been upgraded with commercial courts fully functional and expanding in the inner regions.

14. The reduction of gender-based inequality is receiving increasing attention from the government which will continue to step up efforts to continue increasing social spending on programs for girls and women, including those aimed at eliminating gender disparities and barriers to girls' education. They intend to strengthen gender statistics and increase the resources allocated to gender-related training and capacity development for government agencies and other stakeholders.

15. The authorities will pursue their efforts to improve the social safety nets. They are expanding the number of beneficiaries and will pursue the identification of new eligible households until end-2023. The 40 percent increase in the amount of the *Family Security Grant* is effective with the payment for the first quarter of 2023.

RSF-related reforms

16. The authorities plan to accelerate the implementation of their ambitious climate strategy and their commitments under their Nationally Determined Contributions. Actions include mitigation and adaptation measures, as well as steps to mainstream climate change considerations into the budget process. The RSF program will also help improve water management in the agricultural sector, build resilience to coastal erosion, and design a climate risk management framework.

17. On mitigation, the key reform measures include the adoption of a greener public transportation strategy. The authorities also commit to revise the petroleum Code and finalize a new Environment Code in close collaboration with the World Bank, to minimize greenhouse gas emissions throughout the life cycle of oil and gas projects.

18. On adaptation, the authorities will implement reform measures aimed at integrating adaptation priorities into Senegal's long-term development planning and annual budgeting. They intend to establish the regular collection, analysis, and dissemination of key climate risk

information to support the expansion of the agricultural insurance program, which currently covers only 10 percent of farmers. They will also introduce measures to improve urban planning and maintenance of key infrastructure, to mitigate the impact of coastal erosion. Additional measures will be implemented to enhance drainage system and attenuate urban flooding. The authorities will implement additional measures to support water security and meet the current challenges of water resources management, notably the impact of climate change and inefficient use on water resources.

19. To mainstream climate change considerations into the budget process, the Government will implement important measures, including the modification of the standard budget preparation guidelines and the selection criteria for public investments to incorporate climate change considerations and integrate the associated risks.

Conclusion

20. Senegal is an important pole of stability in West Africa, reinforced by a strengthening economic fabric. The authorities have consistently shown commitment in implementing the transformative reforms needed to support an inclusive growth, the fruits of which they are striving to share among the Senegalese population, while keeping a responsible eye on the sustainability of public finances.

21. In view of the authorities' strong track record of implementing impactful policies, we would appreciate Executive Directors' support to the authorities' requests for arrangements Under the Extended Fund Facility and the Extended Credit Facility, combined with an arrangement under the Resilience and Sustainability Facility.