IMF Country Report No. 15/273

SENEGAL

September 2015

REQUEST FOR A THREE-YEAR POLICY SUPPORT INSTRUMENT—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR SENEGAL

In the context of the Request for a Three-Year Policy Support Instrument, 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, and summarizing the views of the Executive Board as expressed during its June 24, 2015 consideration of the staff report on issues related to the Three-Year Policy Support Instrument and the IMF arrangement.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 24, 2015 following discussions that ended on May 7, 2015, with the officials of Senegal on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on June 10, 2015.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- A **Statement by the Executive Director** for Senegal.

The documents listed below have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Senegal*
Memorandum on Economic and Financial Policies
Technical Memorandum of Understanding*

*Also included in Staff Report

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

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International Monetary Fund
Washington, D.C.

Press Release No.15/297
FOR IMMEDIATE RELEASE
June 24, 2015

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Approves Three-Year PSI for Senegal

The Executive Board of the International Monetary Fund (IMF) today approved a three-year Policy Support Instrument (PSI)[1] for Senegal. The PSI supports implementation of a three-year program of macroeconomic reforms designed to advance the *Plan Sénégal Emergent* (PSE), the authorities' strategy to increase growth and reduce poverty while preserving macroeconomic stability and debt sustainability. The authorities plan to focus on increasing tax revenues by broadening the tax base, as well as on rationalizing current expenditures to create fiscal space for financing infrastructure and social expenditure. Attention will be paid to the quality of expenditure, including investment, and to strengthening public financing, transparency, and economic governance. The authorities intend to accelerate structural reforms to foster a more attractive business environment, thereby promoting development of the private sector.

The authorities aim to achieve an economic growth rate of at least 5 percent in 2015 compared with 4.7 percent in 2014, while maintaining the inflation rate below 2 percent. Sustained efforts to scale back government spending and to improve mobilization of tax revenues will allow for an increase in investment and social expenditures and a decrease in the budget deficit to 4.7 percent. Medium-term targets include increasing the GDP growth rate to over 6 percent, containing inflation below 3 percent, and reducing the budget deficit to 3.6 percent by 2017, with the goal of reducing it to 3 percent by 2018. Export growth should reduce the current account deficit from 9 percent of GDP in 2014 to 6.5 percent of GDP in 2017.

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

[1] The PSI is an instrument of the IMF designed for countries that may not need, or want, IMF financial assistance, but still seek IMF advice, monitoring and endorsement of their policies. The PSI helps countries design effective economic programs that, once approved by the IMF's Executive Board, signal to donors, multilateral development banks, and markets the Fund's endorsement of a member's policies (see http://www.imf.org/external/np/exr/facts/psi.htm).

“The new Policy Support Instrument (PSI) supports a three-year program of macroeconomic reforms embedded in a development strategy for inclusive growth and poverty reduction (Plan Senegal Emergent—PSE). The growth goals of above 7 percent enshrined in the PSE are achievable provided reforms are accelerated, broadened and deepened. Early signs indicate positive momentum owing to progress in reform implementation and favorable external factors. However, more remains to be done to solidify this momentum.

“The authorities are committed to meeting the target of the West African Economic and Monetary Union of a fiscal deficit of 3 percent of GDP by 2018 and implementing structural reforms to boost economic growth, with the 2015 budget targeting a deficit of 4.7 percent of GDP. The authorities plan to strengthen tax and customs administration, and rationalize taxation of the financial sector and telecommunications. On expenditure, they will reorient lower priority spending, particularly public consumption, to provide room for higher public investment.

“Risks to the program are significant but manageable. The political calendar may pose some risks to the planned fiscal consolidation. Reforms to curb unproductive public consumption and raise expenditure efficiency may slow down and there could be revenue shortfalls. External downside risks include slower growth in partner countries, continued volatility in oil prices—which may affect revenue targets and subsidies—and spillovers from regional shocks including extremism and natural disasters. To mitigate these risks, the authorities plan to supplement the fiscal deficit targets with a debt anchor and will expand use of the precautionary reserve envelope to link project financing to reform progress.”

INTERNATIONAL MONETARY FUND

SENEGAL

June 9, 2015

REQUEST FOR A THREE-YEAR POLICY SUPPORT INSTRUMENT

KEY ISSUES

Context

The final review of the 2010-2014 program under the Policy Support Instrument (PSI) was completed in December 2014. The authorities have requested a successor PSI for 2015-2017. Performance under the two previous PSIs was mixed. Fiscal and debt sustainability were broadly achieved, but growth and poverty reduction outcomes were less favorable than initially programmed due to delays in implementing structural reforms.

The new PSI aims to support a three-year program of macroeconomic reforms designed to advance the authorities' growth strategy (Plan Senegal Emergent – PSE). The growth goals enshrined in the PSE are achievable provided reforms are successfully implemented. Early signs indicate positive momentum owing to observed progress in reform implementation and favorable external factors. However, more remains to be done to solidify this momentum. Also, there are significant but manageable risks, which include sluggish implementation of reforms and election-driven pressures in 2016 and 2017.

Main Policy Recommendations

- Broaden, deepen and accelerate structural reforms to preserve macroeconomic stability and improve the business environment.
- Anchor fiscal policy on a deficit reduction path reflecting West African Economic and Monetary Union (WAEMU) convergence criteria (to reach 3 percent of GDP in 2019 from 4.7 percent in the 2015 budget).
- Improve public expenditure efficiency, especially public investment and rationalize public consumption to secure fiscal space for the PSE.
- Increase domestic fiscal revenue in a manner that is supportive of investment by Small and Medium Enterprises (SMEs) and FDI.

Staff supports the authorities' request for a PSI.

Approved By
Roger Nord and Peter Allum

Discussions were held in Dakar from April 23–May 7, 2015. The mission comprised Messrs. Ali Mansoor (head), Alexei Kireyev, Salifou Issoufou (all AFR); Joao Jalles (FAD) and Jean Frederic Noah Ndela Ntsama (SPR). Mr. Boileau Loko, resident representative, participated in the discussions and assisted the mission. The mission met with Minister of Finance and Economic Planning, Mr. Ba; National Director of the Central Bank, Mr. Camara; other senior officials; and representatives of the private sector, civil society, and development partners.

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APPENDIX

BACKGROUND, RECENT DEVELOPMENTS, OUTLOOK, AND RISKS

1. **The Senegalese government launched a national development plan,** the Plan Sénégal Emergent (PSE), in 2014 to transform Senegal into an emerging market by 2035. The PSE is articulated around three pillars: (i) higher and sustainable growth through structural transformation; (ii) human development and social protection; (iii) improved governance, peace and security. The PSE builds on and encompasses earlier development strategies and is a response to growing popular impatience with sub-standard growth, widespread poverty, and high unemployment. Development partners support the PSE and pledged substantial financing over 5 years, of which one fourth in grants. To help deliver the PSE objectives, the government is initiating a three-year program of macroeconomic adjustment and reform as described in their Memorandum of Economic and Financial Policies (MEFP), which forms the basis for requested support under the Policy Support Instrument (PSI).

2. **Performance under the successive 2008-10 and 2011-14 PSI programs was mixed.** The main goals of the two previous PSIs – fiscal and debt sustainability – were broadly achieved with the fiscal deficit declining to 4.9 percent in 2014 from 6.7 percent of GDP in 2011. In 2006–2014, growth averaged 3.5 percent, reflecting insufficiently broad and rapid reforms to deal with a poor business climate, problems in the energy sector, inadequate infrastructure and low efficiency of public investment. As a result, poverty has declined only slightly in recent years and stands at about 47 percent.

3. **Recent macroeconomic developments have been more favorable due to the early results from reform and supportive external circumstances.** The 2014 real GDP growth is estimated at 4.7 percent, 0.2 percentage point higher than initially projected. This higher growth is a welcome break from the low average growth of about 3½ percent registered over the past 30 years. This improvement is partly due to better than expected performance in the primary sector, which in turn is driven by higher than expected agricultural output in response to recent reforms and despite a softening in the tourism sector owing to the Ebola epidemic. Average inflation remains low and stood at -0.5 percent at end-March 2015. The current account deficit is expected to decline from 8.8 percent of GDP in 2014 to about 8 percent in 2015, largely due to declining oil prices. With low risk of debt distress, the current account deficit can be financed through non-concessional and concessional borrowing.

4. **Preliminary indicators suggest that the macroeconomic performance in 2015 may be more favorable than projected.** Staff believes that growth could reach 5.1 percent, 0.5 percentage points above earlier projections. This reflects a combination of fortuitous external circumstances, such as lower oil prices, the depreciation of the CFAF relative to the US dollar, increased remittances from Senegalese migrants in oil producing African economies and possibly the early harvest from reforms in agriculture.

5. The authorities have requested a successor PSI for 2015-17 in support of their effort to improve Senegal's economic performance. The PSI will support a three-year program of macroeconomic reforms designed to advance the PSE. The latter, enjoys strong ownership in Senegal and provides a good road map for achieving inclusive growth. The PSI would build on instruments introduced in the 2015 budget, including the precautionary reserve envelope that improve the quality of spending and instill more realism in growth and revenue projections. Supported by the PSI, the authorities aim to double growth to 7-8 percent in the medium term. Such growth could come from a combination of structural reform that would unlock FDI and exports together with additional public investment, in both human capital and public infrastructure, required to crowd in this private investment.

6. Risks to the new PSI program are significant but manageable. As the 2017 election approaches, there is a risk to the planned fiscal consolidation due to slowing implementation of reforms to curb unproductive public consumption, and delays in raising expenditure efficiency. There could be delays in achieving expenditure rationalization as well as revenue shortfalls if tax reform aimed at improving incentives fails to be revenue neutral. External downside risks include continued volatility in oil prices, which may affect revenue targets and subsidies; more pronounced spillovers from regional shocks, including Ebola and extremism; natural disasters that could affect agriculture; and spillovers from slower growth in partners which may affect exports. These risks can be mitigated through the enlargement of the precautionary reserve envelope and the adoption of a debt anchor for fiscal policy which would facilitate a return to the original fiscal consolidation path in case of deviation. But there is also external upside potential, including from lower oil prices and the weakening of the euro to which the CFAF is pegged.

PILLARS OF THE 2015–17 PROGRAM

7. The three-year program supported by the requested PSI aims to support PSE implementation. With the overriding goal of accelerating growth and making decisive progress in poverty reduction, the program to be supported by the new PSI is fully aligned with the authorities' objectives: (i) achieve high, sustainable, and inclusive growth; (ii) preserve macroeconomic stability through prudent fiscal policy; (iii) strengthen institutions and reform the state; (iv) improve the business climate and governance; and (v) build human capital and social protection.

A. Achieving High, Sustainable, and Inclusive Growth

MEFP ¶4

8. Growth in 2015 can be higher than the projected 5.1 percent and possibly close to 5.5 percent provided that PSE related reforms and projects are put in place sustainably and vigorously. Boosting growth to over 7 percent in the medium-term would require a deep restructuring in the peanuts sector, improved efficiency of public investment, land and property reforms, improved budget process, and reforms in the tourist, fishing and other key sectors. Inflation could remain low over the medium term, partly owing to the recent decline in world oil prices, in response to which the authorities have, in December 2014, reduced the prices of refined fuel at the pump by about 13 percent.

Box 1. Senegal's PSE: Unlocking Growth Potential

Senegal's PSE seeks to promote sustained strong growth through economic reforms designed to boost private investment in key strategic sectors. This box highlights key reforms targeted under the PSE and the role that the IMF and World Bank can play in supporting these steps. The (non-exhaustive) list of reforms provided below could add as much as 3-4 percentage points to Senegal's growth potential, setting the country on the path to high, sustained and inclusive growth.

Early signs are promising. 2015 could be a break-through year where growth could reach 5.4 percent. This is expected to be driven by positive outcomes from foreign direct investment in the phosphate industry and in the cement industry, public investment in infrastructure, and reforms in the agricultural sector. The latter include development of new farming areas, irrigation and better seed preparation, procurement of fertilizers and rehabilitation of stocking facilities, reforms being supported by the World Bank. Growth could accelerate further in 2016-18 to 6-7 percent and reach 7.3 percent in 2019.

Sustained strong growth is feasible, but will require a determined implementation of the PSE and a break with the status quo. Partial implementation of the package could result in a low impact on growth, as a critical mass of reforms is required to unlock the growth rates targeted by the PSE.

Reforms supported by the PSI

- A key goal in the three-year program supported by the PSI is to foster the macroeconomic stability needed for higher levels of private investment.
- In addition to maintaining fiscal stability, budget space will be created for required public investment in human capital and public infrastructure. Savings can be found, for example, by reducing subsidies for loss-making enterprises, such as Senegal Airlines, SUNEOR and other agencies.
- Improvements in PFM will promote the effectiveness of public investment.
- The government's program will promote reforms to the tax system designed to make it simple and easy to comply with. This will encourage informal SMEs to join the formal sector and will support overall investment and job creation.

Reforms to be supported by the World Bank and other development partners

- Strengthen current measures to (i) reduce the costs of production and consumption of electricity and (ii) increase the level of electricity supply through the continued restructuring of SENELEC.
- Reform the peanut sector in line with PSE and development objectives by restructuring Suneor and breaking its quasi monopoly thus creating competitive up and downstream peanut sectors. Keeping Suneor intact and trying to protect against imported palm oil whilst promoting major exports of raw groundnuts is not only costly to growth and equity but ultimately unsustainable. The required reforms are spelled out in the World Bank study: "Etude diagnostique de la chaîne de valeurs arachide au Sénégal: Proposition de réformes".
- Pass a comprehensive land reform, based on best practices but adapted to the realities of the country, in order to create property rights that would encourage private investment in the agricultural sector and introduce additional measures to mobilize resources for irrigation and mechanization.
- Labor market reform to protect workers instead of jobs by making it easy to rotate labor for economic reasons whilst supporting job search and training and an unemployment benefit system. Create an investment regime that is based on rules and that emphasizes ex-post verification over ex ante approval so that FDI and SMEs can flourish.
- Finalize the implementation of the tourism sector's reforms, including (i) diversifying the offer through the development and enhancement of the tourism potential, (ii) improving the quality of services and labor (iii) improving the promotion of Senegal as popular tourist destination, and (iv) improving the connectivity to targeted markets.

9. The authorities have started implementing PSE-related reforms. They took measures to control the wage bill, subjected new investment projects to feasibility studies, reformed university scholarships, began targeting of agriculture subsidies, reduced the number of ghost workers and started reforming agencies. The new Tax Code is bearing fruit as reflected in better than expected revenue performance in 2014 and in January. Visas are being abolished to encourage tourism.

10. Achieving the authorities' growth goals requires further improving the business climate and improving the efficiency of public spending. To this end, the efforts in the medium term will focus on simplifying procedures for attracting private (domestic and foreign) investment; mobilizing savings for long-term financing; reducing red tape and adopting stable, transparent and business-friendly government regulations. The World Bank is actively supporting the government with reforms to improve the business climate. The reforms in the domain of the Fund, which can positively affect the business climate, include improved tax and customs administration, business-friendly tax policies including rapid VAT refunds and reform of corporate taxation. The PSE also calls for fostering financial inclusion, an area which will be supported by the Fund through regional surveillance within the WAEMU. Additional reforms related to the business climate, electricity sector, education and the labor market will be led by the World Bank.

11. The authorities will continue broadening, deepening, and speeding up structural reforms. To boost medium-term growth, the authorities are putting in place a package of reforms required to attract FDI and create space for SMEs, increase the role of private investment, and expand exports, building on the recommendations from a December 2014 workshop and the subsequent visit of Senegalese officials to Mauritius.[1] To achieve inclusive and job-rich growth the authorities also aim to improve governance; women's access to resources and to property rights; reform the state to more effectively deliver public services by developing and/or expanding well-targeted social safety nets; improve the impact of public spending; and freeze public consumption in real terms to create space for investment in human capital and public infrastructure. Box 1 provides a list of required reforms for Senegal to achieve its full potential and the PSI will promote those in the domain of the Fund.

B. Preserving Macroeconomic Stability and a Prudent Fiscal Policy Stance

Fiscal policy for the medium-term

12. Fiscal policies have been prudent over the past three years. The fiscal deficit fell from 6.7 percent of GDP in 2011 to 4.9 percent of GDP in 2014. The government has started implementing PSE-related reforms of public finances, including by freezing public consumption in real terms, introducing a precautionary reserve envelope and revising water tariffs.

[1] From December 15 to 17, 2014 the IMF's Senegal team facilitated a brainstorming between Senegalese officials mainly from the Ministry of Finance, peers from Cabo Verde, Mauritius and Seychelles and experts from the World Bank and the Fund on how best to support Senegal's reform effort for a successful implementation of its development plan, "Plan Senegal Emergent".

13. Going forward, the authorities will anchor fiscal policy on the WAEMU convergence criteria for fiscal deficit. With consolidation policies in place, the convergence criterion of 3 percent of GDP could be achieved in 2018, a year ahead of schedule. The authorities plan to phase in the fiscal adjustment by reducing the fiscal deficit by 0.6 percentage points of GDP annually for the next few years. The anchor for fiscal policy under the PSI will be this deficit path. If supported by planned reforms, the deficit path should also provide the fiscal space for PSE-related spending after taking account of absorptive capacity. The proposed fiscal consolidation would help maintain Senegal's low risk of debt distress and contribute to external stability in the WAEMU as a whole.

MEFP ¶7

14. The authorities are exploring an additional debt anchor for the program to preserve long-term debt sustainability. Starting from the 2016 budget, the government will announce the sustainable debt path for the next five years with a commitment that in case of a deviation, the next budget would include a list of actions aimed at putting the debt back on the original path within four years. This additional anchor will serve to mitigate against risks of election related slippages in expenditure control and allow for a post election correction. The precise mechanics are being worked out with technical assistance from the Fund and will be finalized during the first review. Within the medium-term budget framework, the authorities will maintain the overall public debt at below 53 percent of GDP[2] in the medium term, the level consistent with debt sustainability and low risk of debt distress. The capacity of the National Public Debt Committee will be reinforced.

MEFP ¶7, 17

15. The medium-term fiscal consolidation will be based on fiscal policy measures aimed at further unlocking growth. The focus is on expenditure rationalization with revenue reforms designed to improve incentives whilst being broadly tax neutral. Policy measures will include further improvements in administration of the new tax code and additional tax policy measures related to corporate taxation, telecommunication and financial sector. Public consumption, including the wage bill, would remain frozen in real terms except for technical and front line staff in health, education and security. Electricity subsidies would be reduced as a result of lower oil prices and, efficiency gains in Senelec (with support from the World Bank) and with new capacity coming on stream that generates electricity at lower average cost, and efficiency gains are expected from the ongoing public expenditure review. In parallel, structural reforms should unlock faster growth, which would help increase revenue and the proposed fiscal consolidation. Under the proposed debt anchor, if growth does not materialize, borrowing and expenditure would have to be scaled down.

16. The authorities plan to expand the "Precautionary Reserve Envelope" (PRE) process. The PRE, introduced in 2015, allows the MoF to withhold financing for projects until feasibility studies are completed. In 2016, the PRE will be strengthened by

MEFP ¶23

[2] The debt to GDP ratio target is after netting out the proceeds of the Eurobond issue amounting to 2½ percent of GDP that have been deposited at the Central Bank pending use to finance PSE projects. This is because it is expected that these balances would be drawn down in 2015 and 2016 to finance PSE projects as a substitute for more borrowing.

adding items of current expenditure and linking disbursement to progress with reforms. Some of the additional spending (relative to the previous year's budget) would be allocated to the PRE instead of being released to Ministries once appropriated by the National Assembly. In the 2016 budget, the reserve would amount to 0.8 percent of GDP and would include both current expenditure (0.3 percent of GDP), including in wages and salaries, goods and services, transfers and other expenditure, and capital expenditure (0.5 percent of GDP) including projects defined in the budget for which financing will not be released until acceptable feasibility studies have been completed. The authorities are relying on technical assistance from the Fund to work out the mechanics for constitution and release of the enlarged reserves. It is expected that these details would be spelled out during the first review.

17. The authorities will increase fiscal space to finance PSE-related projects through additional revenue measures. The authorities aim to increase tax revenue from 19 percent of GDP to 20 percent by 2019 whilst ensuring this is supportive of investment by SMEs and FDI. The non-tax revenue will be maintained at about 1.5 percent of GDP during this period. Over the medium term, a reform of real estate related revenue could raise an additional ½ to 1 percentage point of GDP. Medium-term tax policy reform will focus on the simplification and more efficient application of the new Tax Code, enlarging the tax base by bringing SME and small individual tax payers in the tax network, and rationalizing the tax regime of the financial sector, patent and telecommunications.

MEFP ¶9

18. The authorities will strengthen control of the wage bill and cut low priority public consumption. The government will freeze new hiring in the public sector, except for security and front line workers in health and education. It is taking steps to reduce overtime and rationalize hospital expenditure for civil servants, reduce the diplomatic positions, and wage supplements will be frozen at their current levels pending an ongoing salary review. To control better the wage bill, the authorities will review the structure of the civil service to eliminate duplication of functions and redundancies, reform the salary structure of the public sector by linking salary increases to performance, and will conduct triennial reviews of the wage bill in cooperation with partners in civil society. Starting from the 2016 budget, a substantial part of increases in current expenditure above their levels in the previous fiscal year will be put in the precautionary reserve and used to support reforms.

MEFP ¶14, 15

19. Measures will be taken to improve expenditure composition. The authorities intend to reallocate spending from low priority public consumption, such as electricity subsidies, untargeted tertiary education scholarships, untargeted agriculture subsidies and administrative overhead (including the wage bill for staff not on the frontline of service delivery), to investment in human capital and public infrastructure. In the medium term, the authorities intend to introduce a medium-term budget framework linked to a Program Based Budget (PBB), which would help enforce discipline and would link resources to performance. The MTBF will anchor the public investment plan to ensure resource availability for the life of each project.

20. Public investment management reforms will continue. Focus will be on improving feasibility studies and socio-economic assessments, as well as

MEFP ¶10

information on both financial and physical execution of investment with respect to coverage, timeliness, and accuracy. In the preparation of the 2016 budget, at least 8 capital expenditure projects will be subject to cost-benefit analysis. The investment budget will be revised by clearly identifying operating expenditure. Over the medium term the authorities intend to work closely with development partners to strengthen project design, preparation and execution while ensuring the overall quality and efficiency of public investment. A new project management system will be introduced, which would allow monitoring the whole cycle of project execution. Also, the government will develop a new investment portfolio management strategy to improve investment efficiency.

21. Transparency and fiscal discipline will be strengthened. The Ministry of Finance will publish on its website quarterly budget appropriations and their execution, in a format easily understood by the public and the Finance Commission of the National Assembly. The government will continue implementing its National Strategy on Good Governance and the Strategy for the Prevention of Money Laundering and Financing Terrorism for the period until 2017.

MEFP ¶32

Fiscal policy for the rest of 2015 and preparations for the 2016 budget

22. For 2015, the authorities target a fiscal deficit of 4.7 percent of GDP. This reflects a fiscal consolidation of 0.3 percent of GDP, which would send a positive signal to markets and development partners. Revenue collection is thus far in line with targets. In addition, the authorities intend to recover substantial amounts of unpaid taxes from previous years, strengthen tax and customs administration, and rationalize taxation of the financial sector and telecommunication. On expenditure, the authorities aim to reorient lower priority spending to scale up investment on PSE-related projects to the tune of 2.1 percent of GDP. Moreover, 0.7 percent of GDP for new projects would remain in the Precautionary Reserve Envelope with release of funding contingent on completion of feasibility studies.

MEFP ¶46

23. Strong measures will be taken in 2015 to control the wage bill. The wage bill will be slightly higher than anticipated in the budget. As part of efforts to have truth in budgeting, the Ministry of Finance uncovered that the wage bill is actually CFAF535 billion (6.5 percent of GDP) compared with the CFAF510 billion (6.2 percent of GDP) budgeted due to misclassification of expenditure and underestimations for higher education and embassies. To counteract a projected increase in the wage bill of CFAF25 billion (0.3 percent of GDP) and limit the increase to CFAF16 billion (0.2 percent of GDP), the authorities are curtailing overtime, performance bonuses, automatic grade progression, administrative payments and benefits related to hospitalization. They will also control and limit the number of teachers who are regularized each year and reduce the personnel of embassies and consulates. Going forward, new recruitment in the public sector will be limited as a function of the total financial envelope available and will depend on the financial capacity of the government.

MEFP ¶49

24. Subsidies to the energy sector continue to decline and are expected to be marginal, if not disappear, going forward. Reflecting lower oil prices, the

MEFP ¶36

2015 level of direct subsidies to SENELEC are currently estimated to be about CFAF 40 billion (40 percent lower than in the budget) and are projected to decline or disappear in 2016, especially if lower oil prices remain. The windfall is expected to finance public investment including rural electrification and a UNDP supported rural infrastructure program.

25. The government is seeking to mobilize nonconcessional financing from the World Bank and African Development Bank (ADB) to finance priority projects. If this does not materialize, they would consider a Eurobond issue of up to US$ 1 billion in late 2015 or early 2016. Whilst the primary purpose is to ensure financing of key infrastructure projects, such borrowing would also improve the profile of the public debt by extending maturities. Staff welcomes the efforts of the authorities to move away from reliance on short-term higher cost domestic/WAEMU financing to pay for the expanded infrastructure program and particularly appreciates the efforts to mobilize non-concessional financing from the ADB and World Bank in lieu of Euro-bond issuance.

26. The 2016 budget will target a deficit of 4.2 percent of GDP. The authorities will take additional tax policy measures, including reform of corporate taxation, to unlock FDI and widen the circle of opportunity for SMEs. Revenue-neutral and least distortive measures will be defined with technical assistance from the Fund and the World Bank. Measures will be taken (paragraph 22) to limit the wage bill to CFAF556 bn (6.2 percent of GDP) and remain at 6.2 percent of GDP in 2017. The authorities plan to control spending on telephone services; introduce meters to limit water consumption, and freeze spending on scholarships at current levels.

C. Strengthening Institutions and Reforming the State

MEFP ¶24-25, 30

27. The authorities aim to improve public financial management, budget institutions, and economic governance. Reforms will include macro-fiscal policy design leading to a gradual development of a medium-term expenditure framework to underpin a PBB, better focus of PFM reforms on reporting and the assessment of investment before releasing funds, and improved fiscal discipline in budget execution including policies implemented by public agencies. The authorities will continue implementing WAEMU guidelines on public financial management. The implementation strategy for 2015-19 should be finalized together with a new accounting plan for public finances. The interconnection between ASTER and SIGFIP will be finalized and the general accounting ledger will be improved. With assistance from the Fund, the new GFS framework is to be implemented with the 2016 budget or at latest in 2017.

MEFP ¶9

28. The government will take additional measures to improve tax and customs administration. Tax payments in cash will be discontinued and the payment procedures modernized to allow online payments and through bank transfers; reorganize the tax administration, including the creation of one or two centers for medium enterprises (Centres des Moyennes Entreprises, CMEs); reduce the threshold for CME from 200 to 50 million CFAF; assign the control function to the CME unit, reduce the stock of 'left to recover'; strengthen the capacities of the tax audit service. The authorities will continue recovering unpaid taxes (with the target to recover in 2015 at least 50 percent of the stock of CFAF 250 billion of recoverable but unpaid taxes) and set an office for recovering difficult debts. The application of the Common External Tariff (CET) of ECOWAS from January 2015 expanded the tax base. The Single Taxpayer Identification number (NINEA) will be used for enforcement and cross checking of taxes, in both the customs and the tax directorate.

29. Budget execution reforms are advancing. The execution process will provide sufficient room to face contingencies including in an adverse macroeconomic environment. A mid-year review of budget execution, including projections for the remainder of the year, could help manage strategic execution. A program based budgeting approach will be used for aligning sectoral policies with PSE priorities. The implementation of the single treasury account will be completed.

MEFP ¶28-29

30. Implementation of the agency reform will continue. The authorities have established a technical committee that will prepare recommendations on the closure of 12 agencies identified for closure under the last PSI, redeployment of their staff, the committee will also require an impact analysis before the creation of any new agencies. These agencies account for only about 0.1 percent of GDP and the savings will be lower as staff will be redeployed. Although the impact on spending will be low, this measure is important to improve governance and the quality of spending. Performance contracts will be signed with eight agencies. The authorities aim to develop a timeline for closure of the agencies identified in the reform plan and to merge eight other agencies into three agencies. Pending dissolution of agencies, only the wage bill would be financed for such entities. Reports on the monitoring of budget execution by the agencies would be produced and published on the website of the Ministry of Finance.

MEFP ¶22

D. Improving the Business Climate and Governance

31. The authorities plan to continue working to improve the business environment. Senegal still ranks low on the World Bank ease of doing business survey, although in 2014 it was amongst the top reformers. Senegal also shows signs of eroding competitiveness, with lagging export growth and FDI compared to peers. To accelerate the efforts to improve the business climate, the authorities intend to pursue the reforms inscribed in the triennial program aimed at improving the business climate where only 34 of 56 reforms have been accomplished so far. The authorities are working to reduce the time for obtaining construction permits; create a single step for the property transfer at the land registry; introduce WAEMU regulations on licensing and operation of credit bureaus; strengthen minority investor protections; abolish nuisance taxes, such as the vehicle tax, which raise little revenue but act a dis incentives to investment and economic activity; and review corporate taxation to facilitate compliance and enforcement. The authorities also intend to reinforce collaboration with Mauritius to jointly attract FDI and identify critical reforms required for investment to come to Senegal.

MEFP ¶40-41

32. The authorities plan to continue the comprehensive electricity sector reform program with support from development partners. The authorities' strategy is to invest in lower-cost electricity generation, which would lower electricity prices and eliminate subsidies while increasing production. However, delays in completing some key projects keep tariffs high and require continued subsidies. Expansion of electricity to rural areas would continue and may accelerate using funding initially slated to subsidize SENELEC. Further action on lowering electricity costs is critical as the decline in oil prices, even if sustained, would not lower electricity tariffs to competitive levels. With the reforms reaching project implementation stage, the World Bank and the AfDB will play the leading role on this issue.

MEFP ¶36

33. The financial sector is broadly sound. The relatively high level of NPLs is attributable to a few enterprises, one of which in the chemical sector has been recently recapitalized, and the new owner has largely repaid its debt. The level of NPLs slightly improved recently, declining from 20 percent in 2014 to 19 percent. The authorities are also making progress in working to strengthen banking system resilience, including the issue of NPLs. They continue to work on: (i) a strategy to improve financial information through the development of credit bureaus, which is expected to be fully operational by end-June; (ii) increasing the role of collateral and reducing informational asymmetries; (iii) improving banking crisis resolution mechanisms in line with IMF recommendations at the WAEMU level, as potential costs coming from bank resolutions could translate into fiscal costs for Senegal. Staff welcomes the progress made in these areas and encourages the authorities to continue accelerating these reforms and to work with regional authorities to strengthen banking system resilience. These efforts will be particularly important to ensure that the ramped up efforts for financial deepening and inclusion are undertaken with adequate safeguards on risk taking.

MEFP ¶37-39

E. Technical Assistance

34. The new PSI aims to ensure that TA provision remains aligned with the authorities and program objectives. The authorities are making progress in reform implementation but more hands-on capacity building is needed for a sustained and successful reform implementation. The key technocrats in the Ministry of Finance look to the PSI and wider support from the Fund. In addition to traditional TA on PFM and debt management, the authorities hope that assistance from the Fund and other development partners, including in peer learning and more staff visits to nurture the progress thus far achieved, can help sustain reforms in the run-up to the Presidential elections and accelerate them thereafter.[3] They are building on the peer learning exercise initiated with Fund

[3] A hands-on technical assistance mission, consisting of AFR and STA staff and in collaboration with AFRITAC West, visited Senegal in March 2015 to help the authorities transitioned to the new GFSM 2001/14 presentation of fiscal accounts. This allowed the negotiated new PSI to be consistent with Board requirements in the presentation of fiscal accounts. The authorities followed up with a mission to Washington in April 2015 where a workshop was held to solidify the work started in March. To ensure the continued success of these visits, the authorities stressed the need for more of such visits in-between review missions.

support in December 2014 and the subsequent visit to Mauritius to build consensus at the technical level on reforms required for the country to successfully implement the PSE.

PROGRAM ISSUES

35. Program conditionality. The program will be monitored by way of quantitative assessment criteria (AC) and structural benchmarks. The macroeconomic framework of the PSI will be based on the GFSM 2001/14 presentation of fiscal accounts. The assessment criteria (AC) on the net lending/borrowing (fiscal deficit) and the indicative target on tax revenue will be calculated in line with the GFSM 2001/14 definitions. Other ACs will cover the government's budgetary float, external debt and external payment arrears.

36. Debt limits. Senegal's debt vulnerabilities are low, its debt management capacity is high, and Senegal's risk of debt distress remains low. Accordingly the program accommodates up to US$ 1 billion in non-concessional borrowing to finance PSE projects and refinance short-term and more expensive regional debt with longer-term and lower cost Eurobond financing.

STAFF APPRAISAL

37. The program elaborated by the authorities will help achieve PSE goals if the associated reforms are rapidly implemented. The macroeconomic and structural program for the period 2015-17 has the goal of increasing growth and further reducing poverty while preserving macroeconomic stability and debt sustainability. The program aims to achieve an economic growth rate of at least 5 percent in 2015. In the medium term, growth can exceed 7 percent, while containing inflation below 3 percent. The budget deficit will be reduced to 4.7 percent of GDP in 2015 with the view to reduce it further to 3 percent by 2018 to preserve fiscal and debt sustainability. Meeting these targets will require rigorous and robust efforts to implement the PSE initiatives and the government's structural reforms

38. The fiscal space for PSE-related spending on infrastructure, human capital and social spending as elaborated in the authorities' program should be secured through spending control and increasing domestic revenue. Staff welcomes the intention to reallocate spending from low priority items, such as electricity subsidies, untargeted tertiary education scholarships, and better controlling current expenditure and the wage bill, to investment in human capital and public infrastructure. In particular, staff urges the authorities to use the precautionary reserve envelope as a tool to promote PSE-related sectoral reforms and provide incentives to ministries to improve efficiency and implement critical PSE projects. Staff also encourages the authorities to work closely with development partners to strengthen project design, preparation and execution while ensuring the overall quality and efficiency of public investment. Staff urges the authorities to ensure revenue neutrality in implementing tax reforms aimed at improving the business environment and to respect the overarching principle of the Code Général des Impôts (CGI) reform to incorporate and maintain all tax measures relevant to the mining sector—perhaps with the exception of the royalty regime—in the CGI.

39. It will be important to anchor fiscal policy on long-term debt sustainability within a medium-term budget framework. The sustainable debt path should be announced in the budget with a commitment that in case of a deviation, the next budget would include a list of actions aimed at putting the debt back on the original path within four years. Medium-term fiscal consolidation remains critical to ensure that Senegal's public debt burden remains sustainable and the risk of debt distress remains low. Staff supports the authorities' plan to reach the WAEMU convergence criteria on the fiscal deficit of 3 percent of GDP by 2018.

40. Improving further public financial management, budget institutions, and economic governance should remain high on the authorities' agenda. Reform efforts should focus on key areas that can support the implementation of the PSE. These areas include macro-fiscal policy design leading to a gradual development of a medium-term expenditure framework, better focus of PFM reforms on reporting and the assessment of the socio-economic impact of investment, and improved fiscal discipline in budget execution including policies implemented by public agencies.

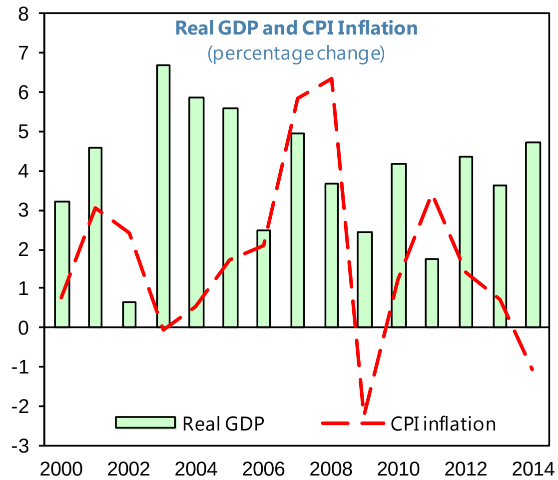
41. Macro-critical structural reforms in the government's program supported by the PSI will be essential for the success of the PSE. Staff commends the authorities for recent progress in improving the business environment and promoting private sector development, as well as courageous steps in reforming university scholarships. Staff welcomes broadening and speeding efforts to alleviate the burden of doing business and identify regulatory changes required to attract private investors. Staff also urges the authorities to accelerate the reform of the energy sector to boost electricity generation while achieving a lower cost. Reform implementation could be facilitated by peer learning arrangements with successful comparator countries.

42. The outlook for the Senegalese economy remains positive and risks manageable. Risks include slow implementation of reforms with resulting revenue shortfalls, failure to curb unproductive public consumption, and delays in raising expenditure efficiency. As the 2017 election approaches, there is a risk to the planned fiscal consolidation. Against this background, strong implementation of reforms in 2015-16 will be important.

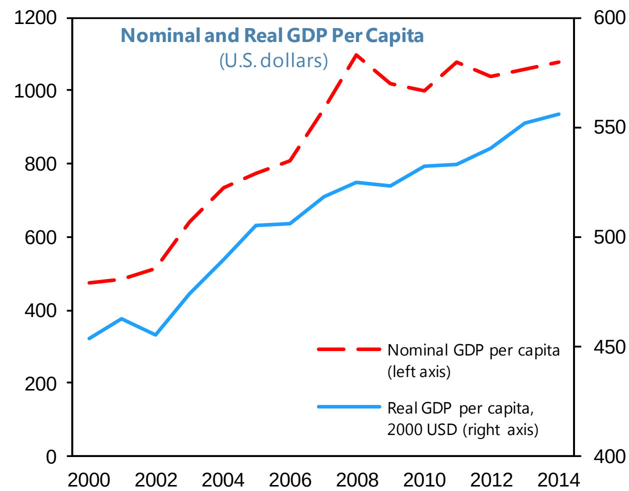
43. Staff recommends approval of the PSI.

Figure 1. Senegal: Historical Perspective 2000–2014

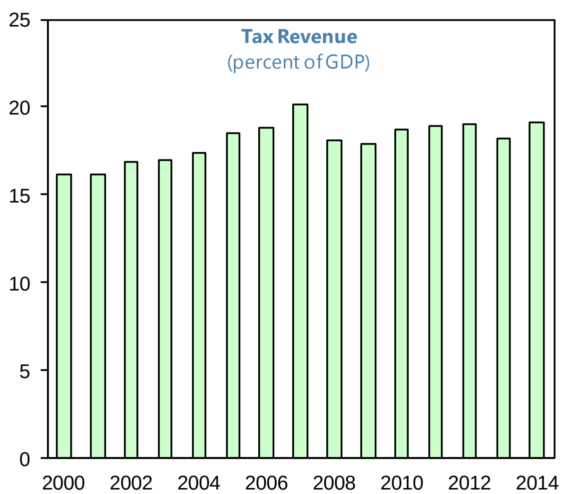
Historically, Senegal 's growth and inflation have been volatile...



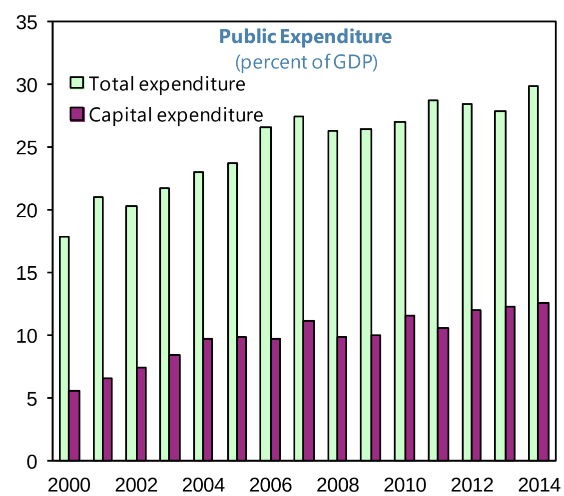
...but nevertheless, its per capita income has risen steadily.



A rising revenue trend, interrupted by the 2008 crisis,



allowed for higher spending, including on capital projects.



Sources: Senegalese authorities; World Bank; and IMF staff calculations and estimates.

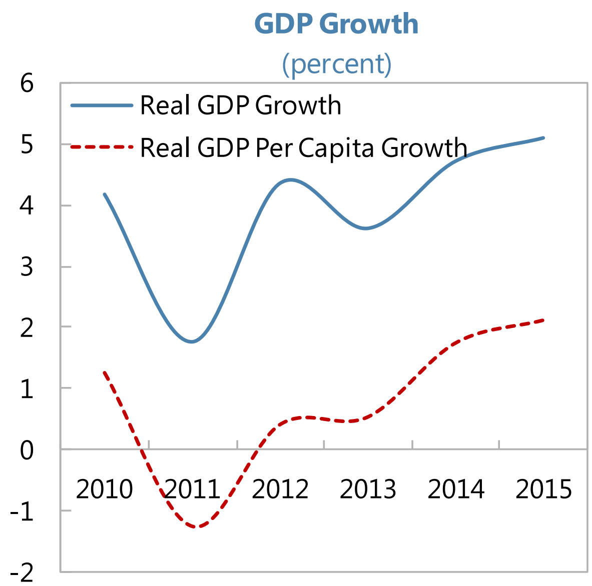
Progress has been made toward the Millennium Development Goals.

Millenium Development Goal	1990	1995	2000	2005	2013
Poverty headcount ratio at $1.25 a day (PPP) (% of population)	66	53	44	34	34
Literacy rate, youth female (% of females ages 15-24)	28	..	41	45	59
Adjusted net enrollment rate, primary (% of primary school age children)	45	50	58	74	79
Ratio of female to male primary enrollment (%)	73	77	87	96	108
Mortality rate, infant (per 1,000 live births)	71	71	69	57	45
Mortality rate, under-5 (per 1,000 live births)	141	143	137	98	58
Births attended by skilled health staff (% of total)	..	47	58	52	65
Prevalence of HIV, total (% of population ages 15-49)	0.6	0.5	0.5	0.6	0.5
Improved water source (% of population with access)	60	63	66	70	74

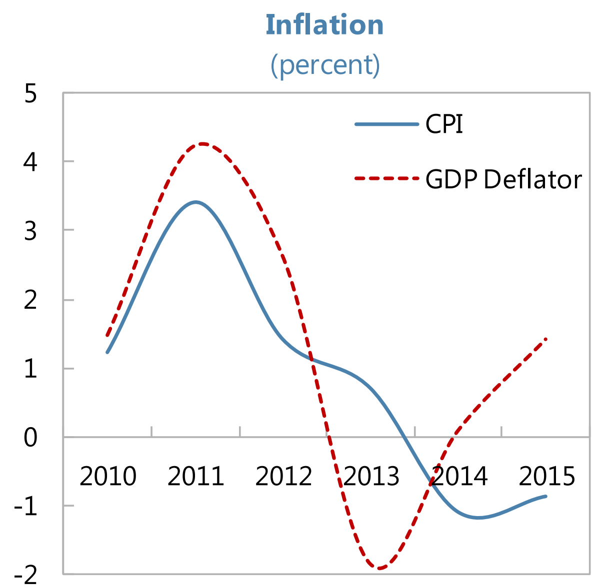
Source: Millennium Development Goals Database, World Bank, 2014.

Figure 2. Senegal: Recent Developments and Short Term Projections

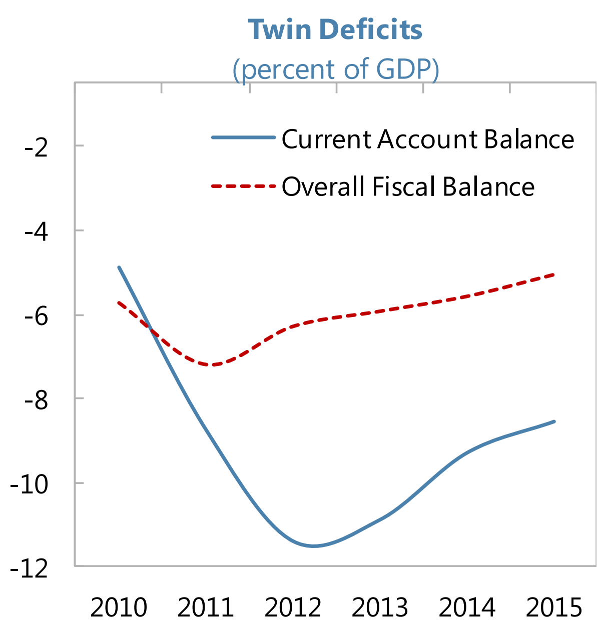
Growth remained moderate in the past few years...



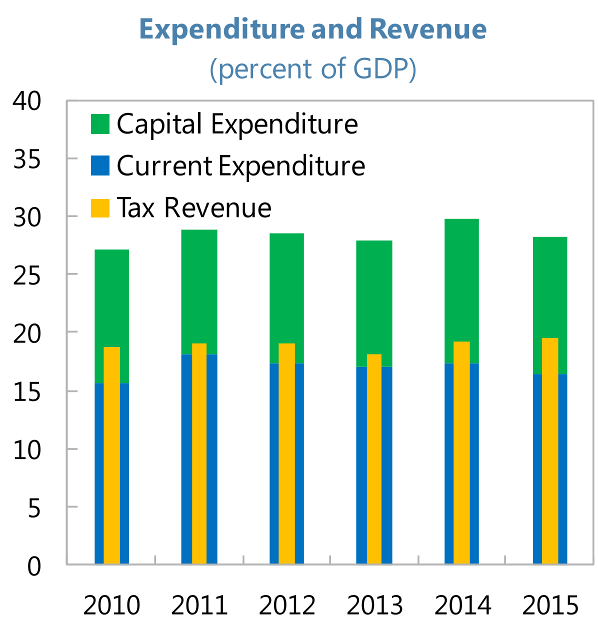
...while inflation has been contained.



The fiscal situation has weighed on the current account deficit...



...reflecting pressures on government expenditures.

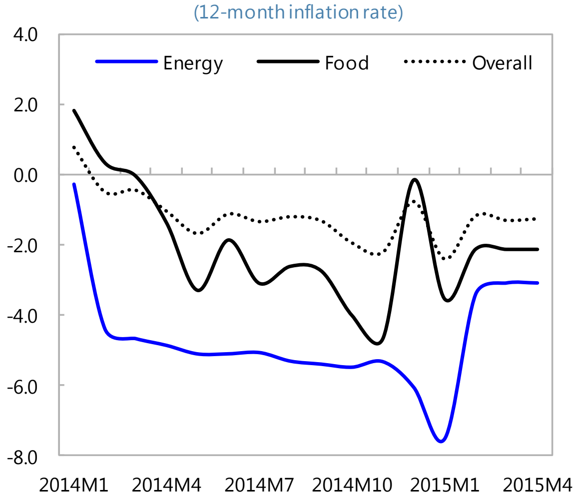


Sources: Senegal authorities; and IMF staff calculations.

Figure 3. Senegal: Recent Developments: High Frequency Indicators

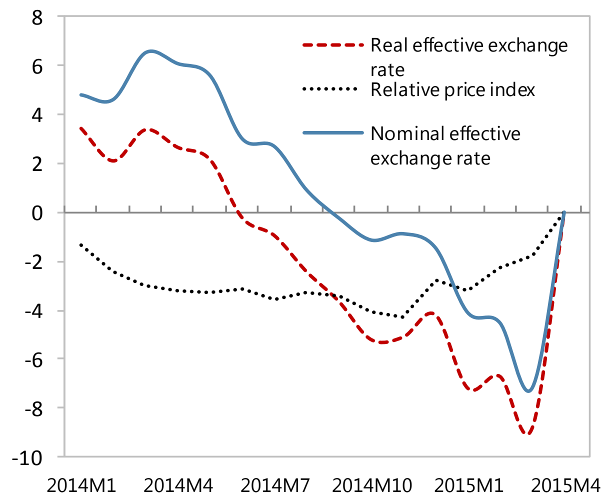
Inflation has been negative through April of 2015, because of negative food price inflation and declines in oil prices.

CPI Inflation
(12-month inflation rate)



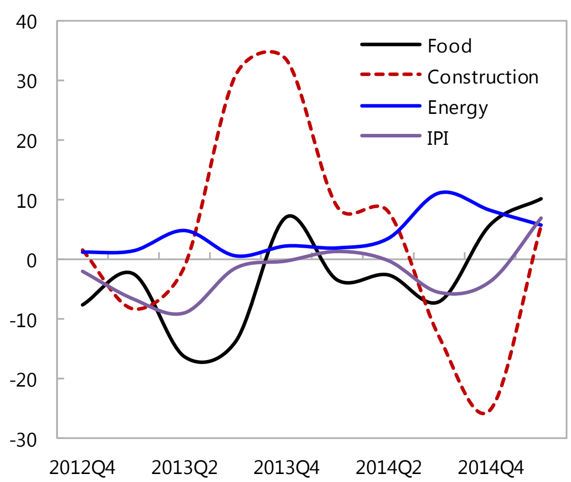
Senegal gained some price competitiveness owing to real depreciation.

Effective Exchange Rate
(12-month percentage change)

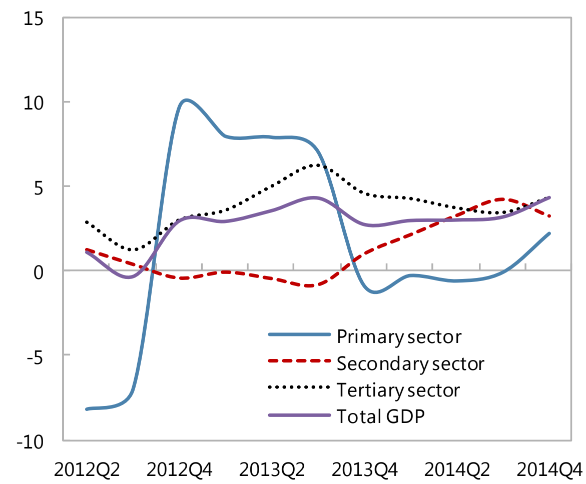


While construction has picked up, growth is now primarily driven by the tertiary sector.

Industrial Production Index
(Annual percentage change, quarterly basis)

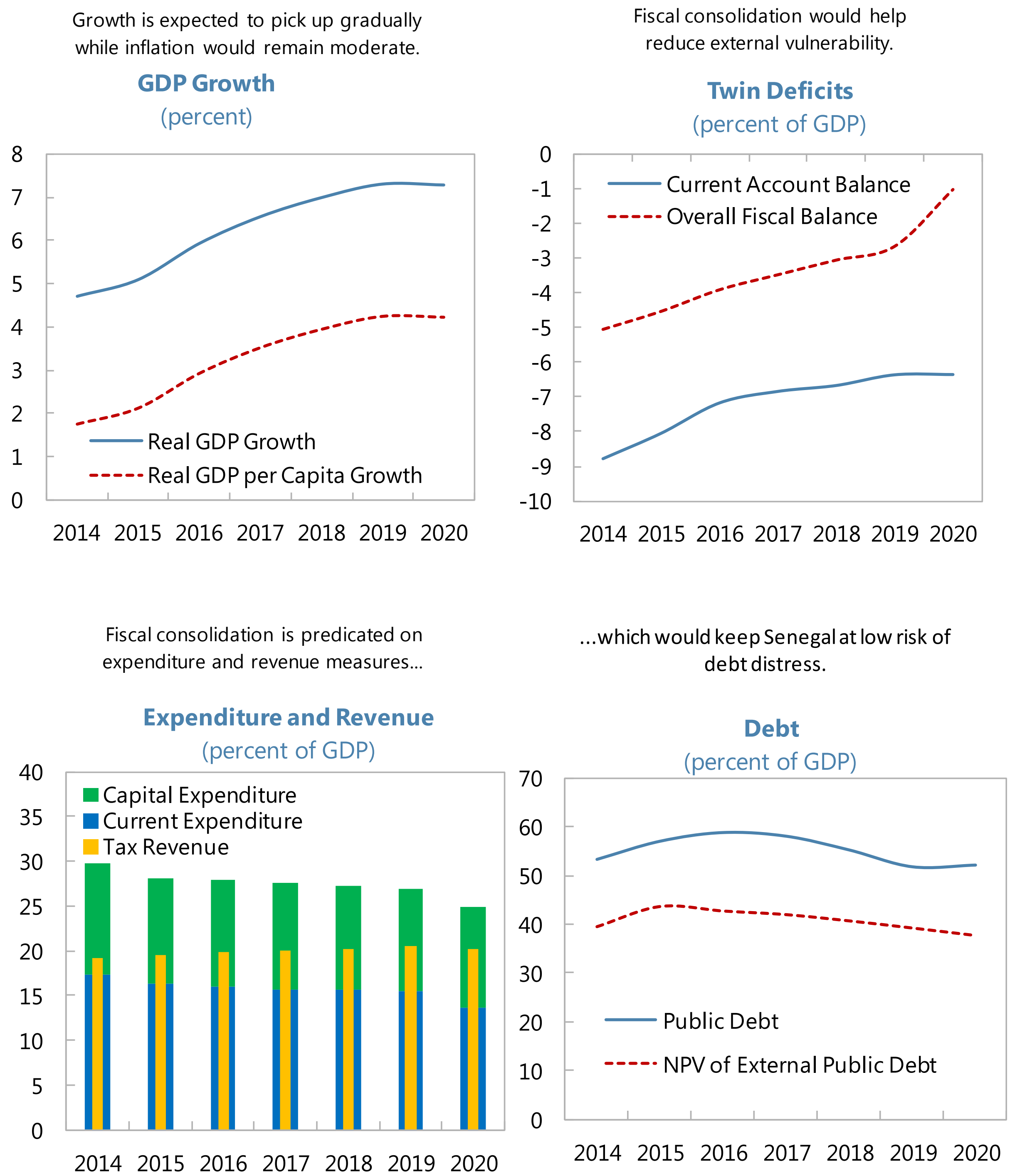


Real GPD Growth
(Annual percentage change, quarterly basis)



Sources: Senegal authorities; and IMF staff calculations.

Figure 4. Senegal: Medium-Term Projections



Sources: Senegal authorities; and IMF staff calculations.

Table 1. Senegal: Quantitative Assessment Criteria and Indicative Targets for 2015–16 (GSFM 2014)

	2015				2016			
	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.
	Act.	Prog.	Prog.	Prog.	Prog.	Prog.	Prog.	Proj.
	(CFAF billions, unless otherwise specified)							
Assessment criteria[1]								
Floor on net lending/borrowing[2]	-54	-143	-255	-389	-53	-140	-249	-380
Ceiling on the contracting or guaranteeing of new nonconcessional external debt by the public sector (US$ millions)[3]	...	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Ceiling on spending undertaken outside normal and simplified procedures[3]	...	0	0	0	0	0	0	0
Ceiling on public sector external payment arrears (stock)[3]	...	0	0	0	0	0	0	0
Ceiling on the amount of the budgetary float	...	50	50	50	50	50	50	50
Indicative targets								
Quarterly ceiling on the share of the value of public sector contracts signed by single tender (percent)	...	15	15	15	15	15	15	15
Floor on social expenditures (percent of total spending)	...	35	35	35	35	35	35	35
Floor on tax revenue	...	825	1,190	1,595	402	903	1,303	1,747
Maximum upward adjustment of the overall deficit ceiling owing to								
Shortfall in program grants relative to program projections	...	15	15	15	15	15	15	15
Memorandum items:								
Program grants	...	15	28	40	5	21	40	58

Sources: Senegal authorities; and IMF Staff estimates.

[1]Indicative targets for March and September, except for the assessment criteria monitored on a continuous basis. See Technical Memorandum of Understanding for definitions.

[2]GFSM 2014 definition. Cumulative since the beginning of the year.

[3]Monitored on a continuous basis.

Table 2. Senegal: Selected Economic and Financial Indicators, 2013–2020

	2013	2014	2015	2016	2017	2018	2019	2020
	Act.	Est.	Proj.	Projections				
				(Annual percentage change)				
National income and prices								
GDP at constant prices	3.6	4.7	5.1	5.9	6.5	7.0	7.3	7.3
Of which: nonagriculture GDP	3.9	4.7	5.0	5.8	6.5	7.0	7.3	7.3
GDP deflator	-1.9	0.1	1.4	2.3	2.3	2.3	2.3	2.3
Consumer prices								
Annual average	0.7	-1.1	-0.9	1.5	1.3	1.3	1.3	1.3
End of period	-0.1	-0.8	0.8	1.4	1.3	1.3	1.3	1.3
External sector								
Exports, f.o.b. (CFA francs)	1.5	1.8	3.8	5.3	11.6	9.4	9.1	10.1
Imports, f.o.b. (CFA francs)	0.8	-1.1	4.1	5.6	10.5	9.2	7.4	5.3
Export volume	11.1	3.3	6.0	7.3	6.1	6.3	6.7	7.6
Import volume	1.9	3.8	6.8	5.7	8.6	7.4	5.9	3.7
Terms of trade ("–" = deterioration)	-7.7	3.4	0.5	-1.8	3.4	1.3	0.8	0.8
Nominal effective exchange rate	4.1	2.5	...	...	...	...	...	...
Real effective exchange rate	2.2	-0.7	...	...	...	...	...	...
	(Changes in percent of beginning-of-year broad money, unless otherwise indicated)							
Broad money	8.0	11.4	7.7	7.7	...	...	...	...
Net domestic assets	8.8	6.1	7.3	10.2	...	...	...	...
Domestic credit	11.3	2.8	9.4	7.5	...	...	...	...
Credit to the government (net)	2.0	-2.6	0.5	-1.1	...	...	...	...
Credit to the economy (net) (percentage growth)	12.6	6.4	9.0	9.2	...	...	...	...
				(Percent of GDP, unless otherwise indicated)[1]				
Government financial operations								
Revenue	22.5	24.2	24.3	24.2	24.0	24.0	24.1	23.9
Grants	2.5	3.3	2.9	2.9	2.8	2.7	2.6	2.4
Total expenditure	27.9	29.2	29.0	28.4	27.6	27.0	26.8	26.5
Net lending/borrowing (Overall Balance)								
excluding grants	-8.0	-8.3	-7.4	-6.6	-6.0	-5.5	-5.1	-3.3
including grants	-5.5	-4.9	-4.7	-4.2	-3.6	-3.0	-2.8	-2.6
Primary fiscal balance	-3.9	-3.4	-2.6	-2.0	-1.6	-1.2	-0.9	0.8
Savings and investment								
Current account balance (official transfers included)	-10.4	-8.8	-8.0	-7.2	-6.8	-6.7	-6.4	-6.4
Current account balance (official transfers excluded)	-11.1	-9.7	-9.1	-8.4	-8.1	-8.0	-7.6	-7.4
Gross domestic investment	27.9	27.9	26.9	27.1	27.3	27.5	26.7	27.4
Government [1]	6.1	7.4	6.8	7.3	7.5	7.4	7.3	6.3
Nongovernment	21.8	20.5	20.1	19.8	19.7	20.1	19.4	21.1
Gross national savings	17.5	19.1	18.8	19.9	20.4	20.7	21.0	21.6
Government	0.6	1.7	2.4	2.8	3.4	4.0	4.1	4.2
Nongovernment	16.9	17.4	16.5	17.1	17.0	16.7	16.9	17.5
Total public debt	46.6	53.1	55.0	56.0	55.6	53.0	49.9	48.5
Domestic public debt [2]	14.3	13.8	19.2	18.2	18.1	16.3	14.2	13.9
External public debt	32.4	39.4	35.7	37.8	37.5	36.7	35.6	34.6
External public debt service								
Percent of exports	6.5	7.5	9.7	10.0	9.5	10.0	10.0	10.1
Percent of government revenue	9.2	10.4	12.8	12.8	12.2	12.7	12.5	12.5
Memorandum item:								
Gross domestic product (CFAF billions)[2]	7,387	7,742	8,251	8,946	9,751	10,667	11,709	12,854

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

[1] Reflects reclassification of public investment.

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

Table 3. Senegal: Balance of Payments, 2014–20 (in Billions of CFAF)

	2013	2014	2015	2016	2017	2018	2019	2020
	Act.	Est.	Projections					
			(Billions of CFAF, unless otherwise indicated)					
Current account	-766	-680	-663	-641	-666	-718	-747	-827
Balance on goods	-1,471	-1,413	-1,475	-1,562	-1,706	-1,860	-1,964	-1,968
Exports, f.o.b.	1,423	1,448	1,503	1,582	1,767	1,934	2,109	2,322
Imports, f.o.b.	-2,893	-2,861	-2,977	-3,144	-3,473	-3,793	-4,073	-4,290
Services and incomes (net)	-216	-225	-259	-252	-222	-208	-227	-301
Credits	797	818	818	849	887	950	1,018	1,080
Debits	-1,013	-1,043	-1,077	-1,101	-1,109	-1,159	-1,245	-1,381
Of which: interest on public debt	-65	-70	-84	-93	-86	-89	-86	-124
Unrequited current transfers (net)	921	958	1,070	1,173	1,262	1,350	1,443	1,442
Private (net)	878	901	991	1,070	1,145	1,225	1,311	1,324
Public (net)	43	58	79	103	117	125	132	118
Of which: budgetary grants	20	40	40	58	62	66	70	55
Capital and financial account	744	899	782	664	699	757	789	893
Capital account	176	220	207	212	223	235	248	261
Private capital transfers	7	7	7	8	8	8	9	9
Project grants	168	213	200	204	215	227	240	252
Debt cancellation and other transfers	1	0	0	0	0	0	0	0
Financial account	569	680	574	452	476	522	541	632
Direct investment	137	151	171	192	215	242	274	301
Portfolio investment (net)	-14	558	239	157	153	122	252	99
Of which : Eurobond issuance	0	250	0	0	0	0	0	0
Other investment	446	-29	165	104	108	157	15	232
Public sector (net)	195	97	396	396	362	330	543	648
Of which : disbursements	273	207	278	357	372	367	383	401
program loans	53	54	67	73	79	86	94	102
project loans	167	54	211	214	222	230	239	248
other	53	98	0	70	70	50	50	50
amortization	-80	-109	118	39	-10	-37	160	247
Private sector (net)	223	-31	-232	-292	-254	-173	-528	-415
Errors and omissions	28	-96	0	0	0	0	0	0
Overall balance	-21	220	118	23	33	39	42	66
Financing	21	-220	-118	-23	-33	-39	-42	-66
Net foreign assets (BCEAO)	11	-100	-118	-23	-33	-39	-42	-66
Net use of IMF resources	-3	-9	-18	-21	-20	-20	-13	-3
Purchases/disbursements	0	0	0	0	0	0	0	0
Repurchases/repayments	-3	-9	-18	-21	-20	-20	-13	-3
Other	14	-92	-100	-2	-13	-19	-29	-63
Deposit money banks	10	-119	0	0	0	0	0	0
Residual financing gap	0	0	0	0	0	0	0	0
Memorandum items:								
Current account balance								
Including current official transfers (percent of GDP)	-10.4	-8.8	-8.0	-7.2	-6.8	-6.7	-6.4	-6.4
Excluding current official transfers (percent of GDP)	-11.1	-9.7	-9.1	-8.4	-8.1	-8.0	-7.6	-7.4
Gross official reserves (imputed reserves, billions of US$)	2.2	2.1	2.1	2.2	2.3	2.4	2.5	2.7
(percent of broad money)	33.1	32.6	33.4	31.6	29.7	28.0	26.3	24.9
WAEMU gross official reserves (billions of US$)	13.6	13.2	...	...	...	...	...	...
(percent of broad money)	40.6	41.8	...	...	...	...	...	...
(months of WAEMU imports of GNFS)	4.5	4.6	...	...	...	...	...	...
Gross domestic product	7,387	7,742	8,251	8,946	9,751	10,667	11,709	12,854

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

Table 4. Senegal: Balance of Payments, 2013–20 (in Percent of GDP)

	2013	2014	2015	2016	2017	2018	2019	2020
	Act.	Est.	Projections					
	(Percent of GDP, unless otherwise indicated)							
Current account	-10.4	-8.8	-8.0	-7.2	-6.8	-6.7	-6.4	-6.4
Balance on goods	-19.9	-18.3	-17.9	-17.5	-17.5	-17.4	-16.8	-15.3
Exports, f.o.b.	19.3	18.7	18.2	17.7	18.1	18.1	18.0	18.1
Imports, f.o.b.	-39.2	-37.0	-36.1	-35.1	-35.6	-35.6	-34.8	-33.4
Services and incomes (net)	-2.9	-2.9	-3.1	-2.8	-2.3	-2.0	-1.9	-2.3
Credits	10.8	10.6	9.9	9.5	9.1	8.9	8.7	8.4
Debits	-13.7	-13.5	-13.0	-12.3	-11.4	-10.9	-10.6	-10.7
Of which: interest on public debt	-0.9	-0.9	-1.0	-1.0	-0.9	-0.8	-0.7	-1.0
Unrequited current transfers (net)	12.5	12.4	13.0	13.1	12.9	12.7	12.3	11.2
Private (net)	11.9	11.6	12.0	12.0	11.7	11.5	11.2	10.3
Public (net)	0.6	0.7	1.0	1.2	1.2	1.2	1.1	0.9
Of which: budgetary grants	0.3	0.5	0.5	0.6	0.6	0.6	0.6	0.4
Capital and financial account	10.1	11.6	9.5	7.4	7.2	7.1	6.7	7.0
Capital account	2.4	2.8	2.5	2.4	2.3	2.2	2.1	2.0
Private capital transfers	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Project grants	2.3	2.8	2.4	2.3	2.2	2.1	2.0	2.0
Debt cancellation and other transfers	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	7.7	8.8	7.0	5.1	4.9	4.9	4.6	4.9
Direct investment	1.9	2.0	2.1	2.1	2.2	2.3	2.3	2.3
Portfolio investment (net)	-0.2	7.2	2.9	1.8	1.6	1.1	2.1	0.8
Of which: Eurobond issuance	0.0	3.2	0.0	0.0	0.0	0.0	0.0	0.0
Other investment	6.0	-0.4	2.0	1.2	1.1	1.5	0.1	1.8
Public sector (net)	2.6	1.3	4.8	4.4	3.7	3.1	4.6	5.0
Of which: disbursements	3.7	2.7	3.4	4.0	3.8	3.4	3.3	3.1
program loans	0.7	0.7	0.8	0.8	0.8	0.8	0.8	0.8
project loans	2.3	0.7	2.6	2.4	2.3	2.2	2.0	1.9
other	0.7	1.3	0.0	0.8	0.7	0.5	0.4	0.4
amortization	-1.1	-1.4	1.4	0.4	-0.1	-0.3	1.4	1.9
Private sector (net)	3.0	-0.4	-2.8	-3.3	-2.6	-1.6	-4.5	-3.2
Errors and omissions	0.4	-1.2	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-0.3	2.8	1.4	0.3	0.3	0.4	0.4	0.5
Financing	0.3	-2.8	-1.4	-0.3	-0.3	-0.4	-0.4	-0.5
Net foreign assets (BCEAO)	0.2	-1.3	-1.4	-0.3	-0.3	-0.4	-0.4	-0.5
Net use of IMF resources	0.0	-0.1	-0.2	-0.2	-0.2	-0.2	-0.1	0.0
Purchases/disbursements	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repurchases/repayments	0.0	-0.1	-0.2	-0.2	-0.2	-0.2	-0.1	0.0
Other	0.2	-1.2	-1.2	0.0	-0.1	-0.2	-0.2	-0.5
Deposit money banks	0.1	-1.5	0.0	0.0	0.0	0.0	0.0	0.0
Residual financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum item:								
Gross domestic product (CFAF billions)	7,387	7,742	8,251	8,946	9,751	10,667	11,709	12,854

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

Table 5a. Senegal: Central Government Operations, GFSM 2001 Classification [1], 2014–20 (in Billions of CFAF)

	2014	2015		2016	2017	2018	2019	2020
	Est.	Budget	Prog.	Projections				
	(in CFAF billions)							
Revenue	1,877	1,978	2,004	2,162	2,337	2,561	2,820	3,073
Taxes	1,483	1,602	1,595	1,747	1,914	2,113	2,336	2,581
Taxes on income, profits, and capital gains	402	444	437	497	562	653	752	828
Taxes on payroll and workforce	21	18	18	20	21	23	26	36
Taxes on property	27	25	25	25	26	26	27	24
Taxes on goods and services	786	844	838	898	983	1,074	1,173	1,313
Taxes on international trade and transactions	219	243	226	250	273	286	306	328
Other taxes	28	28	52	57	49	50	53	51
Grants	254	229	240	262	277	293	310	306
Budget	40	35	40	58	62	66	70	55
Projects	213	194	200	204	215	227	240	252
Other revenue	141	147	169	154	145	155	174	186
Expenditure	2,258	2,353	2,393	2,542	2,691	2,877	3,143	3,406
Expense	1,400	1,391	1,417	1,494	1,547	1,642	1,805	1,954
Compensation of employees	490	510	526	556	604	649	717	779
Use of goods and services	361	371	375	378	415	456	502	552
Interest	131	148	151	164	164	173	172	192
Foreign	63	74	77	86	79	82	79	117
Domestic	68	74	74	79	85	91	94	76
Subsidies 2/	60	79	40	20	0	0	0	0
of which: subsidies to SENELEC financed by FSE	22	47	13	0	0	0	0	0
of which: SENELEC from budget	0	19	27	20	0	0	0	0
of which: Fuel subsidies	12	13	0	0	0	0	0	0
of which: Food subsidies	8	0	0	0	0	0	0	0
other	18	0	0	0	0	0	0	0
Grants (current excl. FSE)	174	177	177	216	167	171	159	180
Social benefits	30	26	26	27	29	32	35	32
Other expense	154	80	122	132	168	163	220	218
Net acquisition of nonfinancial assets	858	962	976	1,048	1,144	1,235	1,338	1,453
Domestically financed	99	193	207	220	224	263	298	386
Government's grants financed	368	364	364	391	483	485	496	424
Externally financed	391	405	405	437	438	487	544	643
Net lending/borrowing *(Overall balance)*	-381	-376	-389	-380	-354	-316	-323	-333
Transactions in financial assets and liabilities (Financing)	-381	-376	-389	-380	-354	-316	-323	-333
Net acquisition of financial assets	120	-64	-87	9	27	32	41	36
Domestic	120	-64	-87	9	27	32	41	36
Currency and deposits	96	-74	-88	10	10	10	10	10
Debt securities	13	10	0	0	0	0	0	0
Loans	0	0	0	0	0	0	0	0
Other accounts receivable	11	0	0	-1	17	22	31	26
Net incurrence of liabilities	501	312	301	388	381	348	364	369
Domestic	-109	-8	-108	-14	-26	8	-91	51
FMI and SDRs	-21	…	-27	-30	-29	-28	-22	-11
Debt securities (net)	24		-39	15	2	36	-69	62
Loans	46	-36	-42	0	0	0	0	0
Other accounts payable	-159	-99	0	0	0	0	0	0
Foreign	610	320	410	403	408	340	455	318
Debt securities (net)	341	105	193	118	125	78	203	46
T-bills and bonds issued in WAEMU	91	…	193	118	125	78	203	46
Eurobond	250	…	0	0	0	0	0	0
Loans	112	215	216	285	283	262	252	272
Program loans	54	…	67	73	79	86	94	102
Project loans	54	…	211	214	222	230	239	248
Nonconcessional loans	98	…	0	56	42	12	-8	3
Other	-94	…	-62	-58	-60	-67	-73	-81
Other accounts payable	157	…	0	0	0	0	0	0
Errors and omisions	0	0	0	0	0	0	0	0
Memorandum items:								
Change in net worth: Transactions	477	587	587	668	790	919	1,015	1,120
Net lending /borrowing *(excluding grants)*	477	587	587	668	790	919	1,015	1,120
Nominal GDP	7,742	8,229	8,251	8,946	9,751	10,667	11,709	12,854

Sources: Ministry of Finance; and IMF staff estimates and projections.

1/ Government Finance Statistics Manual (http://www.imf.org/external/pubs/ft/gfs/manual/).

2/ On projections, subsidies do not reflect reclassification changes, which will be done during the mission.

Table 5b. Senegal: Central Government Operations, GFSM 2001 Classification [1], 2014–20 (in Percent of GDP)

	2014	2015		2016	2017	2018	2019	2020
	Est.	Budget	Prog.	Projections				
	(Percent of GDP, unless otherwise indicated)							
Revenue	24.2	24.0	24.3	24.2	24.0	24.0	24.1	23.9
Taxes	19.2	19.5	19.3	19.5	19.6	19.8	20.0	20.1
Taxes on income, profits, and capital gains	5.2	5.4	5.3	5.6	5.8	6.1	6.4	6.4
Taxes on payroll and workforce	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.3
Taxes on property	0.4	0.3	0.3	0.3	0.3	0.2	0.2	0.2
Taxes on goods and services	10.2	10.3	10.1	10.0	10.1	10.1	10.0	10.2
Taxes on international trade and transactions	2.8	3.0	2.7	2.8	2.8	2.7	2.6	2.6
Other taxes	0.4	0.3	0.6	0.6	0.5	0.5	0.5	0.4
Grants	3.3	2.8	2.9	2.9	2.8	2.7	2.6	2.4
Budget	0.5	0.4	0.5	0.6	0.6	0.6	0.6	0.4
Projects	2.8	2.4	2.4	2.3	2.2	2.1	2.0	2.0
Other revenue	1.8	1.8	2.0	1.7	1.5	1.5	1.5	1.5
Expenditure	29.2	28.6	29.0	28.4	27.6	27.0	26.8	26.5
Expense	18.1	16.9	17.2	16.7	15.9	15.4	15.4	15.2
Compensation of employees	6.3	6.2	6.4	6.2	6.2	6.1	6.1	6.1
Use of goods and services	4.7	4.5	4.5	4.2	4.3	4.3	4.3	4.3
Interest	1.7	1.8	1.8	1.8	1.7	1.6	1.5	1.5
Foreign	0.8	0.9	0.9	1.0	0.8	0.8	0.7	0.9
Domestic	0.9	0.9	0.9	0.9	0.9	0.9	0.8	0.6
Subsidies 2/	0.8	1.0	0.5	0.2	0.0	0.0	0.0	0.0
of which: subsidies to SENELEC financed by FSE	0.3	0.6	0.2	0.0	0.0	0.0	0.0	0.0
of which: SENELEC from budget	0.0	0.2	0.3	0.2	0.0	0.0	0.0	0.0
of which: Fuel subsidies	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0
of which: Food subsidies	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
other	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants (current excl. FSE)	2.3	2.1	2.1	2.4	1.7	1.6	1.4	1.4
Social benefits	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Other expense	2.0	1.0	1.5	1.5	1.7	1.5	1.9	1.7
Net acquisition of nonfinancial assets	11.1	11.7	11.8	11.7	11.7	11.6	11.4	11.3
Domestically financed	1.3	2.3	2.5	2.5	2.3	2.5	2.5	3.0
Government's grants financed	4.8	4.4	4.4	4.4	5.0	4.5	4.2	3.3
Externally financed	5.0	4.9	4.9	4.9	4.5	4.6	4.6	5.0
Net lending/borrowing *(Overall balance)*	-4.9	-4.6	-4.7	-4.2	-3.6	-3.0	-2.8	-2.6
Transactions in financial assets and liabilities (Financing)	-4.9	-4.6	-4.7	-4.2	-3.6	-3.0	-2.8	-2.6
Net acquisition of financial assets	1.6	-0.8	-1.1	0.1	0.3	0.3	0.3	0.3
Domestic	1.6	-0.8	-1.1	0.1	0.3	0.3	0.3	0.3
Currency and deposits	1.2	-0.9	-1.1	0.1	0.1	0.1	0.1	0.1
Debt securities	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts receivable	0.1	0.0	0.0	0.0	0.2	0.2	0.3	0.2
Net incurrence of liabilities	6.5	3.8	3.7	4.3	3.9	3.3	3.1	2.9
Domestic	-1.4	-0.1	-1.3	-0.2	-0.3	0.1	-0.8	0.4
FMI and SDRs	-0.3	...	-0.3	-0.3	-0.3	-0.3	-0.2	-0.1
Debt securities (net)	0.3	...	-0.5	0.2	0.0	0.3	-0.6	0.5
Loans	0.6	-0.4	-0.5	0.0	0.0	0.0	0.0	0.0
Other accounts payable	-2.0	-1.2	0.0	0.0	0.0	0.0	0.0	0.0
Foreign	7.9	3.9	5.0	4.5	4.2	3.2	3.9	2.5
Debt securities (net)	4.4	1.3	2.3	1.3	1.3	0.7	1.7	0.4
T-bills and bonds issued in WAEMU	1.2	...	2.3	1.3	1.3	0.7	1.7	0.4
Eurobond	3.2	...	0.0	0.0	0.0	0.0	0.0	0.0
Loans	1.5	2.6	2.6	3.2	2.9	2.5	2.2	2.1
Program loans	0.7	...	0.8	0.8	0.8	0.8	0.8	0.8
Project loans	0.7	...	2.6	2.4	2.3	2.2	2.0	1.9
Nonconcessional loans	1.3	...	0.0	0.6	0.4	0.1	-0.1	0.0
Other	-1.2	...	-0.7	-0.7	-0.6	-0.6	-0.6	-0.6
Other accounts payable	2.0	...	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omisions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:								
Change in net worth: Transactions	6.2	7.1	7.1	7.5	8.1	8.6	8.7	8.7
Net lending /borrowing *(excluding grants)*	6.2	7.1	7.1	7.5	8.1	8.6	8.7	8.7
Nominal GDP	7,742	8,229	8,251	8,946	9,751	10,667	11,709	12,854

Sources: Ministry of Finance; and IMF staff estimates and projections.

1/ Government Finance Statistics Manual (http://www.imf.org/external/pubs/ft/gfs/manual/).

2/ On projections, subsidies do not reflect reclassification changes, which will be done during the mission.

Table 6. Senegal: Monetary Survey, 2012–16

	2012	2013	2014	2015	2016
			Act.	Proj.	
			(Billions of CFAF)		
Net foreign assets	879	858	1,078	1,196	1,219
BCEAO	776	764	865	983	1,006
Commercial banks	104	94	213	213	213
Net domestic assets	2,016	2,269	2,407	2,556	2,823
Net domestic credit	2,240	2,565	2,638	2,885	3,106
Net credit to the government[1]	97	151	70	85	46
Central bank	-38	21	-75	-15	-54
Commercial banks	130	124	142	100	100
Other institutions	5	5	13	13	13
Credit to the economy	2,144	2,414	2,568	2,800	3,060
Other items (net)	-224	-297	-231	-231	-231
Broad money	2,896	3,127	3,485	3,752	4,042
Currency outside banks	585	620	685	634	634
Total deposits	2,310	2,507	2,799	2,916	3,134
Demand deposits	1,192	1,358	1,430	1,592	1,741
Time deposits	1,118	1,150	1,370	1,324	1,393
	(Change in percentage of beginning-of-period broad money stock)				
Net foreign assets	-1.9	-0.7	7.0	3.4	0.6
BCEAO	1.8	-0.4	3.2	3.4	0.6
Commercial banks	-3.7	-0.3	3.8	0.0	0.0
Net domestic assets	8.7	8.8	4.4	4.3	7.1
Net credit to the government[1]	-2.0	2.0	-2.6	0.4	-1.1
Credit to the economy	6.9	9.3	4.9	6.7	6.9
Other items (net)	3.7	-2.5	2.1	0.0	0.0
Broad money	6.8	8.0	11.4	7.7	7.7
Memorandum items:			(Units indicated)		
Velocity (GDP/broad money; end of period)	2.5	2.4	2.2	2.2	2.2
Nominal GDP growth (percentage growth)	5.3	1.7	4.8	6.6	8.4
Credit to the economy (percentage growth)	9.6	12.6	6.4	9.0	9.3
Credit to the economy/GDP (percent)	29.8	32.7	33.2	36.2	37.1
Variation of net credit to the government (yoy; CFAF billions)	-53.7	151.1	-81.3	15.3	45.6
Central bank refinance rate (eop; percent)	4.0	3.5	2.5	…	…

Sources: BCEAO; and IMF staff estimates and projections.

[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, 2008–14

	2008	2009	2010	2011	2012	2013	2014 Dec.
	(Percent, unless otherwise indicated)						
Capital Adequacy							
Capital to risk-weighted assets	13.8	16.3	18.0	16.0	16.7	16.4	16.5
Regulatory capital to risk-weighted assets	13.9	16.5	18.2	15.9	16.3	15.9	16.0
Capital to total assets	9.1	9.3	10.0	9.8	9.6	9.4	9.8
Asset Composition and Quality							
Total Loans to Total Assets	62.8	59.5	57.5	60.6	61.4	60.1	62.1
Concentration: loans to 5 largest borrowers to capital	100.9	71.7	70.6	69.8	196.7	137.4	137.9
Sectoral distribution of loans							
Industrial*	19.5	27.5	26.4	22.2	23.8	25.5	24.2
Retail and wholesale trade*	18.5	24.5	23.8	19.2	21.6	23.8	23.4
Services, transportation and communication*	31.1	34.1	41.9	34.0	30.6	35.9	42.1
Ratio of non-performing loans (NPLs) to total loans	17.4	18.7	20.2	16.2	18.4	19.1	20.3
Of which: without ICS	14.2	15.8	15.8	13.2	15.1	14.8	16.9
Ratio of provisions for NPLs to total NPLs	51.5	53.1	54.9	54.0	56.1	55.8	54.2
Of which: without ICS	65.7	64.7	65.3	68.3	63.0	66.8	58.7
NPLs net of provisions to total loans	9.3	9.7	9.1	8.1	8.2	8.6	9.5
Of which: without ICS	5.4	6.2	6.1	4.6	6.3	5.6	7.7
NPLs net of provisions to capital	63.9	62.3	52.3	50.4	51.4	54.7	60.0
Of which: without ICS	35.3	38.4	41.5	35.7	38.8	43.3	51.3
Earnings and profitability							
Average cost of borrowed funds	2.8	3.4	2.2	2.0	2.1	1.9	1.0
Average interest rate on loans[1]	13.9	15.4	8.1	8.4	8.6	8.1	3.7
Average interest margin[2]	11.1	12.0	5.9	6.4	6.6	6.2	2.7
After-tax return on average assets	1.4	1.3	1.6	2.2	1.7	1.3	1.0
After-tax return on average equity	13.0	16.0	15.4	22.6	17.4	13.7	10.2
Noninterest expenses/net banking income	51.3	60.3	56.7	56.0	57.0	57.6	53.1
Salaries and wages/net banking income	21.1	23.0	24.8	23.8	24.4	25.2	23.5
Liquidity							
Liquid assets to total assets	...	31.7	39.8	36.1	37.0	42.1	44.2
Liquid assets to total deposits	...	49.8	52.4	76.7	52.3	62.9	65.7
Total deposits to total liabilities	70.3	74.9	76.0	62.8	70.7	67.0	67.3

Source: BECAO.

[1]Break in the series in 2010 due to a methodological change.

[2]Excluding the tax on banking operations.

*Latest: September 2013.

Appendix. Letter of Intent

Dakar, Senegal
June 8, 2015

Madame Christine Lagarde
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, D.C. 20431
USA

Madame Managing Director:

1. The government of Senegal requests approval of a new macroeconomic program supported by the Policy Support Instrument (PSI) for the period 2015–2017. In support of this request, the attached Memorandum of Economic and Financial Policies (MEFP) sets forth the government's short- and medium-term objectives and policies under this new program.

2. These policies are consistent with the new economic and social policy reference framework for the medium to long term referred to as the *Plan Sénégal Emergent* (PSE). The PSE focuses on three strategic pillars: (i) structural transformation of the economy and growth; (ii) human capital, social protection, and sustainable development; and (iii) strengthening of governance, promotion of peace and security, and consolidation of the rule of law.

3. The new program is an extension of the first two PSIs. It is intended to guide Senegal in implementing its new development strategy (PSE), which relies on high, sustainable, and inclusive growth to substantially reduce poverty while safeguarding macroeconomic stability and debt sustainability. The program stems from disruptions that will, in the short and medium term, result in the initiation of bold actions to stimulate private initiative and creativity in order to realize the people's aspirations towards well-being. Reforms are aimed at restoring the government's fiscal space and creating a more attractive business environment for private-sector development.

4. The government believes that the policies and measures set forth in the attached MEFP are appropriate for achieving the objectives of the next PSI-supported program. Given its commitment to macroeconomic stability, the government will promptly take any additional measures needed to achieve the program objectives. It will consult with the IMF—at its own

initiative or whenever the Managing Director requests such consultation—before adopting any such measures or in advance of revisions to the policies contained in the attached MEFP. Moreover, the government will provide the IMF with such information as the IMF may request in connection with the progress made in implementing the economic and financial policies and achieving the program objectives.

5. The government authorizes the IMF to publish this letter, the attached MEFP, and the related Staff Report, which includes a debt sustainability analysis.

Sincerely yours,

/s/

Amadou BA
Minister of Economy, Finance, and Planning

Attachments: - Memorandum of Economic and Financial Policies (MEFP)
- Technical Memorandum of Understanding (TMU)

Attachment I. Memorandum on Economic and Financial Policies 2015–2017

1. This Memorandum, divided into four sections, speaks to the government's willingness to accelerate structural reforms in order to support strong, sustainable growth for harmonious economic and social development. The first section summarizes recent economic developments. It is followed by the second section, which sets out the macroeconomic policy and structural reforms for the period from 2015 to 2017. The objectives and a list of key reforms for 2015 are covered in section III, while section IV discusses changes in program monitoring.

I. RECENT ECONOMIC DEVELOPMENTS

2. Global economic activity was driven by more favorable circumstances in 2014. Global GDP growth improved, spurred by a resurgence of economic activity in advanced economies, as the euro area emerged from recession (+1 percent in 2014 after negative growth of 0.4 percent the year before). The key drivers stemming from this upswing, including moderation of fiscal consolidation and a very accommodative monetary policy, remain in most advanced economies. Overall, the rates of growth of global economic activity are assessed at 3.4 percent in 2014 and 2.9 percent in 2013.

3. In Senegal, the domestic economy benefitted from the kick-off of the implementation of the country's development strategy (*Plan Sénégal Emergent* – PSE) and the consolidation of trade with Mali. The real GDP growth rate is estimated at 4.7 percent, compared to 3.6 percent the year before, owing to renewed momentum in the construction and services sectors. The budget deficit also improved, dropping from 5.4 percent of GDP in 2013 to 4.9 percent of GDP in 2014 as a result of not only markedly higher fiscal recovery rates, but also the government's efforts to rationalize public spending. In the same vein, the current account deficit shrank to 8.8 percent of GDP (compared to 10.4 percent of GDP in 2013) in the wake of favorable developments in oil prices, a decline in food and capital goods imports, and higher workers' remittances.

II. MACROECONOMIC POLICY AND STRUCTURAL REFORMS FOR 2015–2017

A. Program Objectives 2015–2017

4. The main objective is to establish conditions conducive to stronger, more inclusive growth for meaningful poverty reduction. Growth is expected to pick up, increasing from 4.7 percent in 2014 to more than 6 percent in 2017 owing in particular to the implementation of major agriculture, mining, energy, infrastructure, and tourism projects set forth in the PSE. However, the effective and rapid implementation of PSE projects and structural reforms to foster a more attractive business environment might lead to even higher growth rates of 5.4 percent in 2015, 6.4 percent in 2016, and 7.0 percent in 2017.

5. During the program period, inflation is expected to remain within the 1–2 percent range. Exports should improve now that the Ebola epidemic has been brought under control in the subregion and in light of better prospects for growth in Mali, which should also help revive tourism activities. The current account deficit on the balance of payments is expected to continue to decrease from 8.8 percent of GDP in 2014 to 6.8 percent of GDP in 2017 on the back of export growth of around 6 to 7 percent annually as of 2016. However, the discontinuation of unconventional monetary policies in advanced economies could firm up interest rates on external financial markets and make nonconcessional financing more costly.

B. Macroeconomic Policies and Structural Reforms for the Medium Term

6. To enable Senegal to build on the recovery in global growth and on the more buoyant subregional environment, the IMF-supported authorities' program will revolve around the following three aims: (i) rebuild the government's fiscal space; (ii) strengthen public financial management and governance; and (iii) improve the business environment.

a) Rebuild the Government's Fiscal Space

7. Fiscal management will continue to fall within the scope of prudent public finance and debt policy in order to maintain macroeconomic stability. In this context, the plan is to reduce the deficit to 3.0 percent of GDP, as provided for by the WAEMU convergence criteria, starting in 2018, one year earlier than required. During this period, the government intends to ensure that the debt ratio does not exceed 55 percent of GDP in 2015, 56 percent of GDP in 2016, and 55.6 percent of GDP in 2017. Starting from the 2016 budget, the government will announce the sustainable debt path for the next five years with a commitment that in case of a deviation, the next budget would include a list of actions aimed at putting the debt back on the original path within four years.

8. The government plans to institutionalize the precautionary management reserve. It will organize a process for competitive access to some financial resources for the 2016 budget (June 2015). Furthermore, a fraction of the budget envelope will be reserved and allocated using a competitive procedure linking these additional resources to the implementation of structural reforms. The government will clearly define expenditures eligible for the precautionary reserve at the initial budget stage, in addition to the access terms and rules (for example, following a midterm implementation review) (September 2015).

9. Revenue will be mobilized primarily by broadening the tax base and strengthening fiscal and customs administrations (see Box). With respect to fiscal policy measures, the authorities are planning on reviewing the implementation of the new General Tax Code (*Code général des impôts*) with the help of an IMF technical assistance mission. This review will make it possible to further streamline and refine the new code. Discussions on the tax system in the financial and telecommunications sectors as well as on the imposition of a business license tax (*patente*) on factories and industrial facilities will be finalized in the first quarter of 2016. They should lead to the introduction, by September 2016, of legislation designed to rationalize taxation on telecommunications and in the financial sector.

Modernization of tax and customs administrations

- **Modernization of tax administration**. Key modernization objectives include the continued implementation of paperless processing and structural reforms as well as, to a lesser extent, the reduction of timeframes for processing tax disputes, closer monitoring of the largest taxpayers and tax creditors, and increased tax audit efficiency. Paperless processing will involve the consolidation of e-filing and e-payment as of 2016, owing to increased gains resulting from their use by businesses, and the discontinuation of cash tax payments of more than CFAF 100,000. This means that taxpayers will be able to use bank transfers and certified checks to make payments. Structural reforms will enshrine the new organization of the Directorate General of Taxes and Government Property (*Direction générale des impôts et domains* – DGID) by: (i) lowering the eligibility threshold for the Medium Taxpayer Office (*Centre des Moyennes Entreprises* – CME) from CFAF 200 to 50 million; (ii) transforming the Large Taxpayer Office (*Centre des Grandes Entreprises* – CGE) into the Large Taxpayer Directorate (*Direction des Grandes Entreprises* – DGE); (iii) creating one or two new CMEs; and (iv) creating the Medium Taxpayer Directorate (*Direction des Moyennes Entreprises* – DME). The other administrative actions will be developed through: (i) improved tax collection support by making enforcement officers available to the DGID and through capacity-building among staff regarding means of amicable collection; (ii) regular audits of the largest tax contributors; (iii) the gradual transfer of the tax audit function from the Tax Audit and Intelligence Directorate (*Direction du Contrôle fiscal et du Renseignement* – DCFR) over to operational directorates (e.g., DGE); and (iv) the modernization of management tools with the operationalization of the cadastral identification number (*numéro d'identification cadastral* – NICAD), the digitization of the land register, and the creation of a new lease model for greater transparency and easier management of state fees, to be henceforth collected through the national tax management software (SIGTAS). The final aim will be to improve management of tax disputes through (i) a comprehensive audit of the stock of acceptances followed by proposed clearance procedures, and (ii) the establishment of a special collection unit.

- **Customs administration will be modernized** through further automation of administrative and customs procedures, particularly the expansion of the electronic customs clearance system within the Customs computer network and more widespread use of the GAINDE system as a whole in areas covered by telephony operators. The latter falls within the 2015 benchmark in terms of its expansion to border offices covered by SONATEL, the complete changeover to paperless processing, the automation of suspended VAT management, and electronic payment of duties and taxes (CORUS). Customs will also step up collection of revenue from disputed cases and the activities of the joint customs–tax unit. Lastly, actions will be taken over the course of this period in relation to the implementation of new customs supervision mapping, the roll-out of a database on requests for action against counterfeiting, security risk assessments, and joint inspections with the Gendarmerie's explosive detection dog teams. All these actions fit into the implementation of the strategic plan running until 2017. This plan is based on three key strategic areas, namely: (i) the continued pursuit of modernization efforts to boost competitiveness among businesses; (ii) improved mobilization of customs revenue for greater contribution to budget resources; and (iii) anti-fraud and anti-counterfeiting measures as well as involvement in the implementation of the national security policy.

10. The government plans to increase investment effectiveness. To this end, actions will focus on improving feasibility studies and socio-economic assessments. As it continues to strive towards efficiency, the government will issue a decree to create a progress review and evaluation committee in order to optimize project selection (June 2015). This committee will be charged with following up on feasibility studies, conducting assessments, and selecting projects. For this purpose, the cost–benefit analysis will be extended with a view to submitting at least ten (8) investment projects contained in the 2016 budget for such assessments (structural benchmark for October 15, 2015). These will be annexed to the 2016 budget law. The entire project assessment chain will be exhausted, from the midterm assessment through to the ex post assessment. The government will make the necessary arrangements to enhance consistency: sectoral policies/programs and projects, and economic and social development strategy. To do this, the government will ensure that public investment program and project preparation fits into the operationalization of the defined sectoral policies in line with the PSE. The investment budget will be revised, like the year before, by differentiating between the operating expenditures of institutional projects and all projects with low annual appropriations.

Public Finance Reforms

<u>Measures for 2015</u>

- Put in place a mechanism to systematically conduct feasibility studies of investment projects in order to ensure that all major projects are subject to a feasibility study before being included in the budget law (December 2015).

- Impose strict limits on the composition of public investments. Once the budget has been approved, significant changes in the composition of public investments should be avoided.

- Align all ministerial sectoral policy documents with the PSE by end-2016. For 2015, ten (10) ministries have been selected to receive guidance in relation to this process. This number will increase to 14.

- Improve the methodology used to allocate investments (end-2015) in the budgetary circular. The system should allow for projects that are underway to be completed before budgeting for new projects.

- Align the project assessment cycle with the annual budget cycle. In that regard, the project cycle should follow the two key dates from the macroeconomic framework.

- Introduce, by decree, a multicriteria evaluation grid for project and program selection, subject to consensus and applicable to all ministries (December 2015). Cost–benefit analyses should be required for each project above a certain threshold.

Public Finance Reforms (Concluded)

- Improve project classification (September 2015); a project should not be classified as an investment until after the share of recurrent expenditures it includes has been verified. The definition of an investment project should therefore be clarified and applied.

- Create an exhaustive database for projects financed using external resources (July 2015). Finalize the module being considered for tracking and communicating information on investments financed using external resources within the Integrated Public Financial Management System (*Système intégré de gestion des finances publiques* – SIGFIP) and connect it to the assistance management platform (PGFE) via an interface.

- Create a mechanism designed to monitor whether public investment projects have been carried through to completion to avoid including projects that will only be completed years after being announced and to reduce activity in capital expenditures (June 2015).

Medium-term measures

- Introduce multiyear commitments and annual payment authorizations for capital budgeting (2017 budget); send spending ministries budget envelopes for the medium term.

- Introduce a new shared management system to strengthen institutional project management capacity (2017 budget), which covers the launch, the negotiation of proposals, the signature of the loan or agreement, project implementation, the communication of information, and follow-up.

11. The government will assess all projects financed under a public-private partnership (PPP), pursuant to Article 38 of Law No. 2014-09 on partnership contracts and in accordance with the decree implementing this law. These assessments will be carried out periodically, at least during each semester—preferably ex ante but also midterm and ex post—and submitted to the IMF (continuous structural benchmark). The two projects financed under a PPP, namely the toll road and its extension (Diamniadio-AIBD), are already subject to such an assessment.

12. These assessment efforts could be capitalized and form a critical mass of knowledge that would likely pass on national expertise to another level so that projects could be reviewed with greater specificity and efficiency in the medium term. In the same vein, foreign companies that perform large PSE projects under contract will be expected to transfer skills for the benefit of national expertise, as will technical assistance from the nonconcessional facilities of multilateral lenders (AfDB, WB, AFD, etc.), to bring Senegal into line with the highest international standards on project preparation and management.

13. Improved efficiency of investments in financial and nonfinancial assets is also one of the concerns identified by the authorities. Although the government portfolio includes many strategic assets, it is not managed holistically. To rectify this, a management strategy for government and public enterprise portfolios will be defined in the first quarter of 2016 (structural benchmark). Work to collect information has already begun with a census of financial assets held in the country. However, in the interests of ensuring overall consistency, a comprehensive review of assets held abroad will also be carried out.

14. The implementation of the PSE requires that current expenditures be rationalized. Government spending will therefore continue to be reduced in various areas (miscellaneous supplies, phone bills, staff housing, foreign travel, office building leases, etc.). Changes in the wage bill will be curtailed through a hiring freeze (excluding defense and security forces) beyond replacements and through the reduction of envelopes for overtime and for health care services for government officials. Other savings will be achieved by downsizing diplomatic personnel stationed overseas. Pending the results of the study on the remuneration of government employees, the government will put a freeze on any new allowances and will cap existing allowances at current levels. The following actions are planned in order to contain the wage bill: (i) explore the need to set up a sole operator for the entire payroll process; (ii) review all legislation on the allowance system currently in force; and (iii) analyze the impact of ongoing reforms on the wage bill of local governments and thus on budget transfers. The human and material resources of the Payroll Directorate (*Direction de la Solde*) will also need to be built up for better control of the various wage bill variables.

Wage Bill Reforms

Measures for 2015

- Freeze salary supplements at 2014 levels until a new pay policy is firmly established.
- Fully implement a selective hiring freeze in nonpriority areas.
- Put in place procedures to ensure that, going forward, the automatic integration of new recruits is in keeping with the budget presented to the Ministry in charge of education.
- Enhance the payroll management computer application.

Medium-term measures

- Streamline government size and structure (2016). Functional reviews of government departments may help identify areas where overlap and duplication exist.
- Reform public-sector remuneration (2016). A closer linkage between wage increases and performance needs to be established; eligibility should follow stricter rules and the number and extent of salary supplements should be streamlined.
- Introduce a more systematic approach to formulating the annual wage policy (2016 budget).
- Improve integration of the wage policy and staff cost forecasts into the budget process and in achieving the government's medium-term objectives (2016 budget).
- Review the central administration's wage policy every three years in consultation with social partners (2016).

15. Current expenditures will be reduced through the adoption of a program to terminate publicly funded public utility plans for non-public-sector consumers (*polices d'abonnement hors administration*) and through the installation of smart meters and fixtures that limit consumption in office buildings. The government has already revised water rates. Lastly, the amount of grants will be capped at its actual level, and the audit recommendations on university expenditures will be implemented.

16. In its pursuit of the objectives of the second pillar of the PSE, the government will continue to improve access to resources and production factors for vulnerable groups in order to give them an opportunity to be creators of wealth just like other segments of the population. It will also regularly monitor the conditionalities of granting the Family Security Allowance (*Bourse de sécurité familiale* – BSF) and will develop a mechanism to assess its effectiveness in enhancing recipients' well-being and children's academic performance. Lastly, tools designed to evaluate the roll-out of Universal Medical Coverage (*Couverture Maladie Universelle* – CMU) will be put in place, distinguishing notably between the execution of public expenditure to that effect and the impact on user health.

17. Senegal is now recognized as a country with the capacity to autonomously manage its debt. However, in order to strengthen the debt management framework and make it more credible, legislation on public debt will be tabled in the National Assembly by end-2015. The debt strategy is appended to the budget law and is therefore of a legislative nature. The activities of the National Public Debt Committee (*Comité national de la dette publique* – CNDP) will also need to be stepped up and improved. One of the responsibilities of the CNDP will be to coordinate debt-related initiatives and to provide advice on the appropriateness of taking on any new debt, particularly in view of its impact on public debt sustainability. For this purpose, the composition of the Committee membership will be redefined and extended, particularly to the President's Office, to the Prime Minister's Office, and to other government instrumentalities. With regard to national and sectoral guidelines, the CNDP will contact the Directorate General in charge of Planning (*Direction générale en charge de la planification*) as needed for a notice of compliance for major debt projects. A decree will be issued to give effect to these reforms. By the same token, the government will establish a medium-term budget framework (MTBF) in early 2016. Multi-year commitments would enable more fiscal discipline and better management of cash flow requirements. The MTBF could also positively affect public debt sustainability.

18. Over the program period, the government plans to mobilize a nonconcessional external loan envelope with a ceiling set at US$1000 million. This envelope is intended for financing investment projects, particularly those involving road infrastructure, the energy sector, urban water, and sanitation. To this end, the government could intervene in international financial markets or use the nonconcessional facilities of multilateral donors (World Bank and AfDB), which are equipped to finance large projects within short timeframes.

19. As part of the PSE, technical and financial partners (TFPs) have joined Senegal to provide assistance. Donors have made a commitment to allocate more than 28 percent of this envelope in the form of grants, thereby creating more fiscal space than expected. The challenge now lies in mobilizing these funds.

b) Strengthen Public Financial Management

20. In the medium term, public administration reform should consist in enhancing professionalism in human resources management, streamlining and standardizing administrative procedures, introducing paperless processing, against the backdrop of the proper development of e-government, rationalizing organizational structures and strengthening capacities for the design, formulation, implementation, monitoring, and evaluation of public policies.

21. In human resources management specifically, with a view to improving productivity and the quality of services provided to individuals and businesses, and in addition to a proper strategy for strengthening human resources capacities, the use of new performance management tools (code of conduct, job descriptions, ethics code, individual performance contract, performance appraisal maintenance system, etc.) should be geared more towards measurable results.

22. Implementation of the agency restructuring plan will continue. An impact study will be carried out for any new agency created, in accordance with the framework law on agencies. An evaluation could be considered to revisit the issue of salary scales and the reassignment of staff to PSE projects or the administration. The use of agency performance contracts (PCs) will be widespread by 2020. With support from the World Bank, at least eight (8) PCs will be signed in 2015; their implementation will be closely monitored by the authorities (structural benchmark).

23. We plan to expand the "Precautionary Reserve Envelope" (PRE) process. In the 2016 budget, the reserve would amount to 0.8 percent of GDP and would include both current expenditure (0.3 percent of GDP), including in wages and salaries, goods and services, transfers and other expenditure, and capital expenditure (0.5 percent of GDP) including [8] projects defined in the budget for which financing will not be released until acceptable feasibility studies have been completed.

24. One of the major reforms in fiscal management has to do with the manner in which the innovative budget process is overseen at the political level, with the organization of two high-level meetings between government members to discuss budget issues before binding arbitration on the budget and the passing of the budget review law. Moreover, strict performance criteria for the allocation of additional budget resources will be defined in the circular letter on budget preparation. Staff will be assessed primarily on the basis of: (i) regular stock account holding; (ii) the ability to formulate proper project files; (iii) the performance level in opening and closing activities and projects; (iv) the rate of completion of public contracts; and (v) the rationalization measures taken (grouping budget chapters, cleaning up unnecessary budget headings, tight control over bonuses and allowances for eligible parties, etc.). In the same vein, the government will institutionalize the precautionary management reserve, with the same arbitration system as for the performance criteria. The Budget Directorate (*Direction du budget*) will prepare a TOFE translation module for the Government Finance Statistics Manual (GFSM) 2001/14 in a new budget nomenclature (June 2015).

25. As part of public finance reform, the 2019 accounting reform implementation strategy will be finalized. It is conveyed through the Strategic Development Plan of the Treasury Administration (*Plan de Développement Stratégique de l'Administration du Trésor* – PDSAT) as follows: improved reliability of government accounts through the clearance of old balances in Class 4 accounts (December 2015); enhancement of government accounting with asset information taken from the census and valuation of government shareholdings (July 2016) and the census of government financial debt (July 2015); monitoring of government shareholdings and financial debt in public accounting (as of July 2015); development of a compendium of government accounting standards (*recueil des normes comptables de l'État* – RNCE) (December 2015); accrual accounting with government opening balance initialization (January 2017, structural benchmark) and the application of new operative events of accrual accounting (2017); and the finalization of the minimum framework of the government flow-of-funds table (*Tableau des Opérations financières de l'État* – TOFE) according to the GFSM published in 2001 by the International Monetary Fund (as of December 2015, structural benchmark).

26. However, the implementation of these major reforms requires specific expertise. To this end, the government will take steps to build government employees' material accounting capacities. Thus, regular stock account holding—the starting point for wealth management—will gradually take place. High-level training will also be given to Macroeconomic Framework Committee (*Comité de Cadrage Macroéconomique*) experts on platform use for macroeconomic DMX programming pertaining to projections and program monitoring.

27. Strengthen the economic aspect of the Ministry of Economy, Finance, and Planning. Ministry authorities launched an institutional reform that led to the creation of the Directorate General of Planning and Economic Policies (*Direction générale de la planification et des Politiques économiques* – DGPPE) and that gives the Directorate General of Finance (*Direction générale des Finances* – DGF) greater cohesion (investment integration into the DGF). This reform will strengthen the link between the macroeconomic framework and the budget framework, on the one hand, and improve the quality of public spending with more systematic project cost–benefit assessments, on the other hand.

28. Program budgets will be introduced as part of efforts to improve budget quality. To do this, sectoral public policies in line with the PSE will first be defined, before being divided into budget programs. A performance appraisal and monitoring framework will inevitably be developed for this purpose. Lastly, the government will take support measures to (i) adapt the budget information system to assist in program budget programming and execution, and (ii) develop a budget account of the payment authorizing officer (*ordonnateur*) for 2014 and a performance report to be in line with the program manager accountability system.

29. Government cash flow management will be further modernized in the medium term and will be driven by the momentum of Single Treasury Account (STA) implementation. The following actions will be taken to continue to rationalize deposit accounts: (i) review the terms applicable to opening, operating, and closing such accounts; (ii) limit the number of such accounts; (iii) ensure that credit balances are not carried over automatically; and (iv) perform an audit and reallocate dormant funds in these accounts. The plan for the first quarter of 2016 is threefold: to extend the first-generation STA—limited to the bank accounts of direct Treasury accountants (*comptables directs du Trésor* – CDT)—to all bank accounts within the network of accounting staff in public institutions and agencies; to finalize the model of the cash flow forecast plan tailored to CDTs; and to systematize its transmission to the Treasurer General. In the meantime, the practice of opening a deposit account for autonomous public agencies and transmitting a cash flow forecast plan to the Treasury will remain in effect. In addition to these measures, the government could adopt a principle in 2016 whereby any appropriation in favor of a government department or an agency will only be released up to a degree commensurate with the department's or agency's progress in implementing reforms leading to the STA. Lastly, donors will be encouraged to work in complete agreement with the MEFP by discussing any accounts opened for ministries and agencies.

30. Efforts to improve accounting, fiscal, and financial information are continuing. In the medium term, the automated processing of financial and accounting information in the parapublic sector through the creation and operationalization of the Parapublic Sector Observatory (*Observatoire du Secteur parapublic*) at end-2016 would make the information instrument more reliable. The establishment of a Local Finance Observatory (*Observatoire des Finances locales*) to improve access to the financial information of local governments for citizens and various stakeholders is also a major step. The effective application of the national registration number for enterprises and associations (NINEA) by the Directorate General of Customs (*Direction générale des douanes* – DGD) and the DGID before end-2015 should make it possible to more thoroughly identify economic operators. Furthermore, the introduction within directorates of IT services of the Directorate General of Finance (*Direction générale des Finances* – DGF) and the Directorate General of Public Accounting and the Treasury (*Direction générale de la Comptabilité publique et du Trésor* – DGCPT) should foster the interconnection between ANSD, DGD, DGCPT, and DGF in 2015 as well as the completion of the ASTER-SIGFIP component of the interface, which should enable automatic authorization of payments in SIGFIP. Modernization of the payroll management system will also continue. Software is expected to be rolled out in the offices of regional finance comptrollers in order to decentralize document consultation, production, and submission for the purpose of updating the family cluster. In another vein, a tax database will be set up effective end-September 2015. Moreover, final touches will be done in the third quarter of 2015 to produce the procedures manual on work method standardization and to improve taxpayer services. Lastly, as part of efforts to bring about conditions conducive to achieving accounting quality, the trial balance will be cleaned up before end-2015 (clearance of some budget allocation accounts with balances dating back to before 2011 that could not be confirmed by supporting documents).

31. The government is determined to continue improving economic and financial governance. Capacity-building will take place within the National Financial Information Processing Unit (*Cellule nationale de traitement des informations financières* – CENTIF) and the National Office for Anti-Fraud and Anti-Corruption Measures (*Office national de lutte contre la fraude et la* *corruption* – OFNAC). The amendment to Article 3 of the law establishing OFNAC, passed in the first quarter of 2014, gives impetus to the power entrusted to the institution to receive asset declarations from public authorities.

32. Furthermore, the National Good Governance Strategy (*Stratégie nationale de Bonne Gouvernance*) will continue to be implemented. The main actions planned are as follows: (i) to strengthen democracy and the rule of law; (ii) to promote public integrity, transparency, and accountability; (iii) to strengthen local governance; (iv) to strengthen the governance of strategic sectors (mining, land, education, health, etc.); (v) to develop social communication to drive civic ownership of good governance; and (vi) to implement governance assessment tools. Specific short-term issues include the completion and rationalization of the legal and organizational framework for monitoring government action in order to increase transparency and efficiency in public governance, and the implementation of the transparency code (law on asset disclosure passed by the National Assembly on March 21, 2014). The CENTIF will join all the other stakeholders in striving to implement the national strategy for combating money laundering and terrorist financing for the period from 2013 to 2017.

c) Promote the Private Sector

33. The PSE has set aside a very large portion for the development of the national and international private sector. The objectives of the first pillar relating to the structural transformation of the economy have been set, placing private businesses and their performance over time at the center of economic policy. Focusing on efforts to bolster the economic framework, the government is taking steps to achieve strong, sustainable growth by establishing a more suitable business climate.

34. High-impact investment requires a new strategy for attracting foreign direct investment (FDI), which is struggling to exceed 2 percent of GDP. This is not in keeping with the desired private-sector momentum and the integration of products with higher value-added into world trade. One of the current challenges lies in defining quantified investment targets for each strategic sector. The government could also take up the challenge of establishing an aggressive joint venture strategy between the domestic private sector and multinationals.

35. To achieve the PSE objectives, it is imperative to meet the prerequisites or create the building blocks for settling the critical energy issue, implementing next-generation infrastructure for production support, improving the business environment, strengthening human capital, and meeting the financing needs of the economy.

Energy Sector

36. Energy sector development is a prerequisite to emergence, given the high electricity rates and the capacity constraints of SENELEC, the publicly owned power utility. Accordingly, the development of the energy sector is a pillar of the PSE, given the high prices of electricity and capacity constraints of the electricity company SENELEC. To meet the challenge of electricity supply in quantity and quality to businesses and households, the Government has defined and uses its energy mix policy by 2025 through an injection into the grid of at least 1000 MW. An investment plan was crafted for this purpose. The development of planned production capacity is mainly focused on the development of ten (10) projects with renewable energy power plants between 2016 and 2018 (230 to 280 MW), coal plants between 2016 and 2019 (715 MW) and dual-fuel plants between 2015 and 2016 (123 MW) as well as imports from Mauritania from 2015 (80 to 125 MW). In 2016 at least four (04) plants are expected to start production. This is the dual fuel power plant of 70 MW in Taiba Ndiaye, central Contour Global (ex IWG) of 53 MW of coal power and Sendou 125 MW of coal power and the solar power plant of 15 MW in Diass. The Government undertakes to take all necessary measures for the effective realization of these projects. The commissioning of the new units would allow for increased production, lower production costs, and a gradual decline in tariff compensation to SENELEC and eventually reduced costs for the user. Finally, the national rural electrification program (PNER) aims to achieve a rural electrification rate of 60% by 2017 and universal access by 2025. Funding is currently being sought to this end.

Financial Sector

37. To facilitate access to bank lending, the government is also committed to: (i) developing and implementing a financial education program for small- **a*nd medium-sized* enterprises** (SMEs); (ii) putting in place a national financial inclusion strategy in 2016; and (iii) continuing to promote the use of banking facilities and non-cash methods of payment (continuous structural benchmark). Furthermore, the effectiveness of introducing credit information bureaus (*bureaux d'informations sur le crédit* – BIC) in June 2015 will help establish a healthy lending environment, promote the credit culture, contain bank indebtedness, and safeguard financial stability.

38. The year 2015 will be one for consolidating the gains made in supporting small- and medium-sized enterprises and industries (SMEs/SMIs), particularly with the ramped-up efforts of the National Economic Development Bank (*Banque Nationale de Développement Economique* – BNDE) to meet the financial needs of SMEs. The Priority Investment Guarantee Fund (*Fonds de Garantie des Investissements Prioritaires* – FONGIP) will consolidate the guarantee activities it already has in place for SMEs/SMIs. It will do so notably by continuing the youth incentive program through decentralized financial system (DFS) refinancing, by promoting entrepreneurship education and youth training, and by promoting the entrepreneurial potential of women.

39. The government will continue to diversify financial instruments that are not necessarily bank-related. To that end, particular focus will be placed in 2016 on (i) producing an action plan for the development of factoring in Senegal, (ii) promoting the development of Islamic finance in Senegal, notably by establishing an Islamic microfinance institution, and (iii) developing capital markets.

Other factors to improve the business climate and private-sector promotion

40. Notable progress has been made in streamlining administrative procedures. Out of the fifty-six (56) measures under the Three-Year Program for the Reform of the Business Climate and

Competitiveness for the Period 2013–2015 (*Programme triennal de réformes de l'environnement des affaires et de la compétitivité pour la période 2013-2015* – PREAC), thirty four (34) in the fields of taxation, commercial justice, transfer of ownership, labor laws, housing, energy, and training have been fully completed. At present, fourteen (14) measures have already been finalized to enable Senegal to cement its position at the forefront of reforming countries. For 2015, a priority action plan comprising some 30 measures is being prepared. These measures are considered to be triggers or initiators of a real change of course in: (i) eliminating the minimum capital requirement in the wake of a lower minimum capital for limited liability companies (LLCs), which dropped from one million (CFAF 1,000,000) to one hundred thousand (CFAF 100,000) francs; ensuring the proper operation of the platform (www.orbus-entreprise.sn) for no-charge online business start-ups; (ii) strengthening the building permit examination procedure (filing and technical consultation) through the "teledac.gouv.sn" electronic platform to secure the issuance of building permits to businesses within the legal 40-day timeframe; and (iii) improving the administrative tax reporting and payment procedure, which can be done online on the e.taxe platform (www.dgid.sn/etaxe).

41. The government has also taken measures to reduce the costs of issuing administrative documents for business start-ups, transfers of ownership, electricity connections, and cross-border trade. These measures include the elimination of stamp duties for business start-ups, a reduction in registration fees to 5%, a 50% decrease in payment of the advance on consumption, and the adoption of a billing system on a per-container basis at the Autonomous Port of Dakar (PAD).

42. At the sectoral level, some measures will be taken to facilitate the successful implementation of flagship PSE projects. These include: (i) developing special economic zones for agricultural and fishery hubs, including the introduction of investor packages; (ii) establishing a revamped sectoral code for "social housing and construction" (easier access to ownership, simplified pre-construction procedures, and tax incentives to draw new builders and investments by private individuals); (iii) simplifying reporting and taxation requirements for micro-businesses; (iv) updating the mining code to guarantee both an attractive tax framework and greater acknowledgement of the government's strategic interests (higher royalties, etc.); (v) introducing implementing decrees to enact the agro-sylvo-pastoral framework law; and (vi) conducting strategic studies on the investment promotion policy.

43. The government plans to expedite the finalization of work being carried out by the commission in charge of land reform and to erect investment platforms to support local governments in promoting investment opportunities in Senegal's eco-geographical areas. The Program for the Inclusive and Sustainable Development of Agribusiness (*Programme de développement inclusif et durable de l'agrobusiness* – PDIDAS) in the Senegal River Valley, Ngalam Valley, provides for technical assistance in 2015 for rural communities to enable them to allocate land to private operators according to an inclusive, transparent, and competitive process. This technical assistance will focus on (i) identifying 500 ha of land to be made available to private commercial agricultural producers, and (ii) launching the land allocation process, involving in particular the identification of private-sector entities interested in leasing land and consultations with stakeholders. Moreover, the following will take place in 2015:

44. The government is firmly committed, together with the National Employers' Association (*Patronat national*) in particular and the private sector in general, to working towards business development. In this context, the government will also adopt a consultative framework by end-2015 in connection with the Ministry of Economy, Finance, and Planning, establishing a very clear linkage with the Ministry in charge of PSE monitoring, the Ministry in charge of SME promotion, the Ministry in charge of investment promotion, and the Ministry in charge of industry. Each ministry's role in PSE progress will need to be specified as well (Annex I).

III. Objectives for 2015

45. Our objective for 2015 is to achieve a growth rate of at least 5 percent in 2015, while containing inflation below 3 percent. The current account deficit is projected to be 8 percent of GDP and will be financed mainly through public borrowing and external private capital. Achievement of these objectives relies on good performance in agricultural production and an effective implementation of the projects and reforms provided for in the PSE. More expeditious project and reform implementation could drive the growth rate higher. However, factors such as weather conditions, commodity prices, security issues in the subregion, and slower global growth, especially in partner countries, could have the opposite effect.

Fiscal Policy

46. The target for the fiscal deficit of 4.7 percent in 2015, compared to 4.9 percent in 2014, is still feasible in light of the developments noted in the first quarter. It is essentially dependent on good revenue collection, proper current expenditure control, and higher investment spending to support growth.

47. In the interest of further consolidating public finances, the Ministry of Finance will continue its efforts towards budget transparency and honesty. In that vein, it appears that the embassy wage bill is underestimated and that there is a lack of control over the number of teachers to be integrated into the civil service (6,614 instead of the planned 4,000). These factors will drive the wage bill up to CFAF 25 billion. However, as the government is aware that the wage bill needs to be curbed so that more financing can go towards social and infrastructure spending, it has decided to take immediate action to limit the increase in the wage bill to CFAF 16 billion, thereby bringing the total wage bill to CFAF 526 billion compared to CFAF 510 billion, as provided for in the initial budget law. The measures taken include an audit of health care expenses and the limitation of these expenditures in a circular, a reduction in overtime costs, and a decrease in the wage bill for consulates and embassies. The government is also committed to improving oversight of the fiscal impact of integrating new teaching recruits (contractual professors, contractual teachers, and term employees) for better control of the wage bill. As part of the PSE, the government aims to position Senegal as a regional aviation hub, an objective that can be achieved by accelerating work to finalize the new airport. Another measure involves the restructuring of Groupe AIR SENEGAL (GAS). To that end, the government will ensure that an appropriate restructuring plan setting out the fiscal implications is developed promptly.

48. A total financial envelope of CFAF 13 billion will be released to finance the **acquisition of seeds for agricultural purposes** (CFAF 8 billion), the purchase of vaccines (CFAF 2.5 billion), and support for the PAQUET program in the education sector (CFAF 2.5 billion).

49. In the context of the wage policy, the primary purpose of the review being conducted on the government employee remuneration system is to identify sources of budget management tensions, to correct the identified distortions, and to restore system balance and coherence. This is with a view to, on the one hand, ensuring full control of the wage bill and improving government budget programming and management, and, on the other hand, laying the groundwork for a performance-based pay policy in line with the ROMCES and the consolidated government employee database (*Fichier unifié des données du personnel de l'État* – FUDPE) in order to transform our administration from its current status as a career civil service into a true employment civil service.

IV. New program monitoring indicators

50. Quantitative assessment criteria for end-June 2015, end-December 2015, and end-June 2016, as well as indicative targets for end-September 2015, end-March 2016 and end-September 2016 have been proposed to monitor program implementation in 2015 (see Table 1 of the MEFP below). The government and Fund staffs have also agreed on the preliminary actions and structural benchmarks presented in Table 1 of the MEFP. Reviews will take place every six months. The first review is expected to be completed by end-December 2015, the second by end-June 2016, and the third by end-December 2016.

Table 1. Senegal: Quantitative Assessment Criteria and Indicative Targets for 2015–16 (GFSM 2014)

	2015				2016			
	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.
	Act.	Prog.	Prog.	Prog.	Prog.	Prog.	Prog.	Proj.
	(CFAF billions, unless otherwise specified)							
Assessment criteria[1]								
Floor on net lending/borrowing[2]	-54	-143	-255	-389	-53	-140	-249	-380
Ceiling on the contracting or guaranteeing of new nonconcessional external debt by the public sector (US$ millions)[3]	…	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Ceiling on spending undertaken outside normal and simplified procedures[3]	…	0	0	0	0	0	0	0
Ceiling on public sector external payment arrears (stock)[3]	…	0	0	0	0	0	0	0
Ceiling on the amount of the budgetary float	…	50	50	50	50	50	50	50
Indicative targets								
Quarterly ceiling on the share of the value of public sector contracts signed by single tender (percent)	…	15	15	15	15	15	15	15
Floor on social expenditures (percent of total spending)	…	35	35	35	35	35	35	35
Floor on tax revenue	…	825	1,190	1,595	402	903	1,303	1,747
Maximum upward adjustment of the overall deficit ceiling owing to								
Shortfall in program grants relative to program projections	…	15	15	15	15	15	15	15
Memorandum items:								
Program grants	…	15	28	40	5	21	40	58

Sources: Senegal authorities; and IMF Staff estimates.

[1]Indicative targets for March and September, except for the assessment criteria monitored on a continuous basis. See Technical Memorandum of Understanding for definitions.

[2]GFSM 2014 definition. Cumulative since the beginning of the year.

[3]Monitored on a continuous basis.

Table 2. Senegal: Structural Benchmarks for 2015 and 2017

Measures	Target Date
Conduct an ex ante, midterm, and ex post evaluation of all projects financed under a public-private partnership (PPP)	Continuous structural benchmark
Sign performance contracts for eight agencies (MEFP ¶22)	December 2015
Eliminate cash tax payments above CFAF 100,000	June 2015
Operationalize the connection between the DGD and the DGID to facilitate data exchanges with the NINEA unique ID	December 2015
Submit at least 10 investment projects listed in the 2016 budget for cost–benefit analysis	October 2015
For the 2016 budget, announce the debt ratio sustainable over five years with a commitment in case thresholds are exceeded; corrective measures (over four years) would be taken in the budget that follows	December 2015
Expand the precautionary reserve envelope for the 2016 budget	December 2015
Collect at least 50 percent of taxes left unpaid in 2014	December 2015
Finalize the Single Treasury Account (MEFP ¶29)	December 2015
Implement the agency reform plan by limiting allocated budget resources solely to the payment of wages for the 16 agencies whose dissolution is pending	December 2015
Institutionalize the precautionary management reserve (MEFP ¶8)	September 2015
Finalize the government flow-of-funds table (TOFE) according to GFSM 2001/14	December 2015
Define a management strategy for government and public enterprise investment portfolios (MEFP ¶13)	March 2016
Establish accrual accounting with the initiation of the government's opening balance	January 2017

Attachment II. Technical Memorandum of Understanding

1. This technical memorandum of understanding (TMU) defines the quantitative assessment criteria, indicative targets, and structural benchmarks necessary to monitor the Fund-supported program under the Policy Support Instrument (PSI) in 2015-2017. It also establishes the terms and timeframe for transmitting the information that will enable Fund staff to monitor the program.

Program conditionality

2. The assessment criteria for end-June 2015, end-December 2015 and end-June 2016 and the indicative targets for end-March 2015 and end-September 2015 and end-March 2016 are set out in Table 1 of the Memorandum of Economic and Financial Policies (MEFP). The structural benchmarks established under the program are presented in Table 2.

Definitions, adjusters, and data reporting

A. The Government and Public Sector

3. Unless otherwise indicated, "government" in this TMU means the central government of the Republic of Senegal. It excludes the central bank and the non-government public sector (see paragraph 4).

4. Unless otherwise indicated, "public sector" in this TMU means the government, local governments and all majority government-owned or controlled entities.

B. Net lending/Borrowing (Program Definition)

Definition

5. Net lending/borrowing (program definition), or the overall fiscal balance, is the difference between the government's total revenue and total expenditure (costs and acquisition net of nonfinancial assets). The operations of the Energy Sector Support Fund (FSE) are integrated in the TOFE. The definition of revenues and expenditures is consistent with that in the 2001/14 Government Financial Statistics Manual (GFSM). Government expenditure is defined on the basis of payment orders accepted by the Treasury , as well as those executed with external resources. This assessment criterion is set as a floor on the overall fiscal balance as of the beginning of the year.

Sample calculation

6. The floor on net lending/borrowing (program definition) as of December 31, 2014 is minus CFAF 381 billion. It is calculated as the difference between revenue (CFAF 1,877 billion) and total expenditure (CFAF 2,258 billion).

Adjustment

7. The floor including grants is adjusted downward by the amount that budget grants fall short of program projections up to a maximum of CFAF 15 billion at current exchange rates (see MEFP Table 1).

Reporting requirements

8. During the program period, the authorities will report provisional data on the overall fiscal balance (program definition) and its components monthly to Fund staff with a lag of no more than 30 days after the end of the relative month. Data on revenues and expenditure that are included in the calculation of the overall fiscal balance will be drawn mainly from preliminary Treasury account balances. Final data will be provided as soon as the final balances of the Treasury accounts are available, but no later than two months after the reporting of the provisional data.

C. Social Expenditure

Definition

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

Reporting requirements

10. The authorities will report semiannual data to Fund staff within two months following the end of each period.

D. Budgetary Float

Definition

11. The budgetary float (*instances de paiement*) is defined as the outstanding stock of government expenditure for which bills have been received and validated but not yet paid by the Treasury (the difference between *dépenses liquidées* and *dépenses payées*). The assessment criterion is set as a ceiling on the budgetary float, monitored at the end of the quarter.

Reporting requirements

12. The authorities will transmit to Fund staff on a weekly basis (i.e., at the end of each week), and at the end of each month, a table from the expenditure tracking system (SIGFIP) showing all committed expenditure (*dépenses engages*), 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 payees*). The SIGFIP table will exclude delegations for regions and embassies. The SIGFIP table will also list any payments that do not have a cash impact on the Treasury accounts.

E. Spending Undertaken Outside Simplified and Normal Procedures

13. This assessment criterion is applied on a continuous basis to any procedure other than the normal and simplified procedures to execute spending. It excludes only spending undertaken on the basis of a supplemental appropriation order (*décret d'avance*) in cases of absolute urgency and need in the national interest, pursuant to Article 12 of the Organic Budget Law. Such spending requires the signatures of the President of the Republic and the Prime Minister.

14. The authorities will report any such procedure, together with the SIGFIP table defined in paragraph 12, to Fund staff on a monthly basis with a maximum delay of 30 days.

F. Public Sector External Payments Arrears

Definition

15. 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 19 is applicable here. The assessment criterion on external payments arrears will be monitored on a continuous basis.

Reporting requirements

16. The authorities will promptly report any accumulation of external payments arrears to Fund staff.

G. Contracting or Guaranteeing of New Nonconcessional External Debt by the Public Sector

Definition

17. Debt. For the purposes of the relevant assessment criteria, the definition of debt is set out in Executive Board Decision No. 6230-(79/140), Point 9, as revised on August 31, 2009 (Decision No. 14416-(09/91).

a) The term "debt" will be understood to mean a direct, i.e., non-contingent, liability created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, according to a given repayment schedule; these payments will discharge the principal and/or interest. Debts can take a number of forms, the primary ones being as follows:

i. Loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, 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 funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements.);

ii. Suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and

iii. Leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property.

b) Under the definition of the debt above, arrears, penalties, and judicially awarded damages and interest arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

18. Debt guarantees. For the purposes of the relevant assessment criteria, 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.)

19. Debt concessionality. For the purposes of the relevant assessment criteria, a debt is considered concessional if it includes a grant element of at least 35 percent;[1] the grant element is the difference between the present value (PV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The PV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt.[2] The discount rate used for this purpose is 5 percent.

[1] The following reference on the IMF website creates a link to a tool that allows for the calculation of the grant element of a broad range of financing packages: http://www.imf.org/external/np/pdr/conc/calculator.

[2] The calculation of concessionality will take into account all aspects of the debt agreement, including maturity, grace period, payment schedule, upfront commissions, and management fees.

20. **External debt**. For the purposes of the relevant assessment criteria, external debt is defined as debt borrowed or serviced in a currency other than the CFA franc, regardless of the residency of the creditor.

21. **Debt-related assessment criteria**. The relevant assessment criteria apply to the contracting and guaranteeing of new nonconcessional external debt by the public sector, including SENELEC and the Energy Sector Support Fund (FSE). The criteria apply to debt contracted or guaranteed as defined in paragraphs 16 and 17. The assessment criteria are measured on a cumulative basis from the time of approval of the PSI by the Executive Board. Assessment criteria will be monitored on a continuous basis. No adjuster will be applied to these criteria.

22. **Special provisions**:

a) The assessment criteria do not apply to: i) debt rescheduling transactions of debt existing at the time of approval of the PSI; ii) debts contracted by the airport project company (AIDB) to finance construction of the new Dakar Airport; and; iii) short-term external debt (maturity of less than one year) contracted by SENELEC and the FSE to finance the purchase of petroleum products and (iv) Short-term trade related financing.

b) A total ceiling of US$1,000 million applies over the period 2015–17 for nonconcessional external debt financing to be used for investment projects, in a full amount including in road infrastructure, agriculture, and the energy sector.

23. **Reporting requirements**. The government will report any new external borrowing and its terms to Fund staff as soon as external debt is contracted or guaranteed by the government, but no later than within two weeks of such external debt being contracted or guaranteed.

H. Public Sector Contracts Signed by Single Tender

Definitions

24. 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 sector contracts are considered "single-tender" contracts when the contracting agent signs the contract with the chosen contractor without competitive tender. The quarterly 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 allows SENELEC to but fuel from SAR on the basis of the current price structure.

Reporting requirements

25. The government will report quarterly to Fund staff, with a lag of no more than one month from the end of the observation period, the total amount of public sector contracts and the total value of all single-tender public sector contracts.

I. Tax Revenues

Definition

26. Tax revenues are the sum of revenues from taxes and levies on income, profits and capital gains, salaries and labor, on assets; taxes on goods and services; on foreign trade and international transactions; and other tax revenues. The indicative target will be assessed on the basis of data for these revenues provided in the quarterly TOFE.

27. Specifically, petroleum revenues are the subject of specific monitoring in connection with international price trends. These are the VAT on oil, excise taxes on oil, customs duties on oil, vehicle taxes, and the Petroleum Product Imports Security Fund (FSIPP).

Additional information for program monitoring

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

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

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

Tax receipts and tax and customs assessments by category, accompanied by the corresponding revenue on a monthly basis;

The monthly amount of expenditures committed, certified, or for which payment orders have been issued;

The monthly situation of checks issued by agencies from their deposit accounts at the Treasury but not paid to beneficiaries, with the dates of issuance of the checks.

The quarterly report of the Debt and Investment Directorate (DDI) on the execution of investment programs;

The monthly preliminary government financial operations table (TOFE) based on the Treasury accounts;

The provisional monthly balance of the Treasury accounts; and

Reconciliation tables between the SIGFIP table and the consolidated Treasury accounts, between the consolidated Treasury accounts and the TOFE for "budgetary revenues and expenditures," and between the TOFE and the net treasury position (NTP), on a quarterly basis; and

(c) Final data will be provided as soon as the final balances of the Treasury accounts are available, but not later than one month after the reporting of provisional data.

29. 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.

30. The central bank will transmit to Fund staff:

- The monthly balance sheet of the central bank, with a maximum lag of one month;
- The monthly consolidated balance sheet of banks with a maximum lag of two months;
- The monetary survey, on a monthly basis, with a maximum lag of two months;
- The lending and deposit interest rates of commercial banks, on a monthly basis; and
- Prudential supervision and financial soundness indicators for bank financial institutions, as reported in the table entitled *Situation des Établissements de Crédit vis-à-vis du Dispositif Prudentiel* (Survey of Credit Institution Compliance with the Prudential Framework), on a quarterly basis, with a maximum delay of two months.

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

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

b. SIGFIP execution table, the table for the central government and a summary table including regions, with a delay of two weeks;

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

INTERNATIONAL MONETARY FUND

SENEGAL

June 9, 2015

REQUEST FOR A THREE-YEAR POLICY SUPPORT INSTRUMENT—DEBT SUSTAINABILITY ANALYSIS UPDATE

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

Senegal remains at a low risk of debt distress with a slight improvement in the assessment compared with that in EBS/14/139 in December 2014. Under the baseline scenario, which is consistent with higher program ceilings for non-concessional and semi-concessional borrowing, all the debt burden indicators remain below their policy-dependent indicative thresholds. The probability approach also shows a favorable outlook. The stress tests result in one spike in debt service to revenue ratio, corresponding to the repayment of the Eurobond, but this does not lead to a breach of the threshold. The Debt Sustainability Analysis (DSA); however, suggests that achieving projected growth and a cautious approach to non-concessional borrowing are critical for safeguarding debt sustainability. In turn this will require the broadening, deepening and acceleration of reforms.

BACKGROUND

1. **Senegal's total public debt and external debt ratios both increased in 2014.** The ratio of the total public debt to GDP ratio amounted to about 53.1 percent at end 2014, up from 46.6 percent in 2013. At the same time, the stock of total external public and publicly guaranteed debt has increased from 32.4 percent in 2013 to about 39.4 percent at end 2014. These developments mainly reflect the authorities' increasing reliance on external non-concessional or semi-concessional borrowing to finance projects.

Table 1. Senegal: Total External Debt, Central Government

(Percent of total, as of end of year)

	2008	2009	2010	2011	2012	2013	2014
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Multilateral creditors	61.2	65.1	66.4	62.3	62.1	63.7	54.4
IDA/IBRD	35.6	29.7	29.2	30.5	30.2	29.6	26.8
AfDB/AfDF	7.6	8.3	9.0	9.9	9.8	11.0	9.5
IMF	2.6	6.8	10.8	5.3	6.1	7.4	5.1
OFID/BADEA/IsDB	8.6	11.9	10.1	9.7	8.4	8.0	6.7
EIB	0.9	1.0	1.0	0.9	0.8	0.8	0.5
Others	5.9	7.4	6.4	6.0	6.9	6.8	5.8
Bilateral creditors	38.7	29.3	27.8	24.9	26.5	26.2	25.6
OECD countries	11.2	10.2	9.7	7.3	10.4	10.1	11.8
Arab countries	21.2	14.1	10.3	7.7	6.9	6.1	5.7
Others	6.3	5.0	7.8	9.9	9.1	10.0	8.0
Commercial creditors	0.1	5.6	5.8	12.8	11.4	10.1	20.0
Memorandum Item							
Nominal GDP (CFAF billions)	5994	6050	6395	6783	7264	7387	7742

2. **In terms of composition, the bulk of Senegal's debt remains external and provided on concessional terms, but the share of financial market instruments—specifically, Eurobonds—has increased in 2014.** This reflected the use of a Credit Suisse line of credit (Euro 150 millions) and the issuance of a US$500 million Eurobond in July 2014. Although most of Senegal's (central government) external debt is still owed to multilateral creditors – primarily the World Bank and the African Development Bank -, the proportion of multilateral debt decreased in 2014, while that of bilateral debt remained broadly stable. The increase in gross public debt also overstates somewhat the increase in net debt. Market requirements generally require operations of at least US$500 million, and the government has also over-financed on the regional market. This, together with delays in implementing projects, has resulted in only part of the Credit Suisse and Eurobond actually being spent. The equivalent of about $550 million has been

built up in Government deposits at the Central Bank. Netting this out, public debt would only have risen from 46.6 percent of GDP in 2013 to 49.6 percent in 2014.

UNDERLYING ASSUMPTIONS AND BORROWING PLAN

3. **The DSA is consistent with the macroeconomic framework outlined in the staff report and updates the government borrowing plan produced in EBS/14/139 in December 2014 for the 2014 Article IV consultation and Eight Review under Policy Support Instrument (PSI).** As in the previous DSA, the baseline scenario assumes the implementation of sound macroeconomic policies and structural reforms, leading to an increase in economic growth, a better revenue mobilization and a narrowing of fiscal deficits over the long term. Other notable features include:

- **Real GDP growth** is expected to increase to above 5 percent in 2015 and to accelerate to 7.8 percent on average in 2020–34, compared to 7.3 percent long-term growth in the previous DSA. This continues to assume efficiency gains from reform implementation under the Plan Senegal Emergent (PSE)[1] and an opening of economic space to SMEs and FDI with a resultant increase in export growth.
- **Fiscal deficit.** The overall fiscal deficit is projected to decline to 4.7 percent of GDP in 2015 and gradually drop to 3 percent of GDP by 2018 in line with the authorities' commitment to meet the key WAEMU convergence criterion on the fiscal deficit, which they aim to reach one year ahead of the 2019 deadline.
- **Current account deficit.** The current account deficit is projected to narrow gradually from 8.8 percent of GDP in 2014 to 6.4 percent in 2020 and further down in the long term. This would be driven by projected fiscal consolidation and stronger dynamism in exports (mining in particular). Remittances are projected to remain significant as a share of GDP.
- **Inflation.** Inflation is expected to remain moderate, on average less than 1.3 percent in the medium term.
- **Financing.** Under this DSA update, financing assumptions take into account the costs and benefits of alternative sources, and it is assumed that government borrowing will remain consistent with Senegal's medium term debt strategy completed in the fall of 2012. This strategy aims at reducing rollover risks by extending the maturity of debt and giving priority to concessional financing to keep borrowing costs low. Where the government needs to resort to non-concessional financing of infrastructure projects, their preferred option is to explore access to financing from multilaterals, notably the World Bank and African Development Bank. The DSA baseline assumes that financing on such terms would be available. If such financing is not available, the authorities would consider issuing a new Eurobond in late-2015 or early-2016. While this would result in less favorable terms than multilateral financing, it would not affect the calculated low risk of external debt distress. The authorities intend to monitor closely the relative

[1] The Senegalese authorities' new development strategy,

benefits of tapping regional markets, particularly if conditions on international markets tighten. The DSA baseline also assumes that mobilizing concessional project financing would continue, specifically, in the short term as the PSE benefits from donor support. However, as Senegal progresses to middle income status, reliance on non-concessional financing will increase. As a result, the average grant element of new external borrowing is projected to decline gradually to about 9 percent.

- Discount rate: A discount rate of 5 percent has been used for this DSA.

Evolution of Selected Macroeconomic Indicators

	2012	2013	2014	2015	Long term 1/
Real GDP growth					
Current DSA	4.4	3.6	4.7	5.1	7.8
Previous DSA	3.4	3.5	4.5	4.6	7.3
Overall fiscal deficit (percent of GDP)					
Current DSA	5.2	5.5	4.9	4.7	2.6
Previous DSA	5.9	5.5	5.2	4.7	2.6
Current account deficit (percent of GDP)					
Current DSA	10.9	10.4	8.8	8.0	6.1
Previous DSA	10.8	10.9	10.3	8.8	7.5

1/ Defined as the last 15 years of the projection period. For the current DSA update, the long term covers the years 2020-2034 (same as the full DSA in December 2014).

EXTERNAL DSA

4. Under the baseline scenario (Figure 1), and taking remittances into account, public and publicly guaranteed (PPG) external debt ratios remain comfortably below thresholds, but stress tests lead to some spikes. The ratios of the PV of external PPG debt remain below their respective thresholds even under the most extreme stress tests. One spike in debt service reflects the repayment of the Eurobonds at maturity, but it does not lead to a breach of the threshold even under the most extreme stress test (a 30 percent depreciation of the currency). The PV of external PPG debt under the "historical" scenario (holding real GDP growth and the primary deficit constant at their historical levels), though below thresholds, bumps up after 2025, which underscores the importance of continuing the fiscal effort—that improves the current account - and raising growth.

5. The probability of debt distress also appears to be low (Figure 2). Under the extreme shock scenario, the debt service-to-revenue tends to breach for 2015, given the significant depreciation of the CFAF relatively to the US dollar. As the breach falls within a ±10 percent band of threshold, the probability approach is taken; this confirms that the debt service remains below thresholds under the baseline and extreme scenarios. Other indicators for Senegal also remain below the thresholds in all cases. The requirements for low risk of debt distress are, accordingly, maintained. The depreciation of the CFAF, induces valuation effects which need to be looked at more closely going forward. Under the probability approach, the projected probability of debt distress (expressed as a percent) associated with each debt burden indicator is compared to a threshold level, which is different from the threshold used in the traditional approach.

PUBLIC DSA

6. **Under the PSI baseline scenario, indicators of overall public debt (external plus domestic) do not show significant vulnerabilities.** The PV of total public debt to GDP decreases over the projection period and remains well below the benchmark level of 74 percent associated with public debt vulnerabilities for strong performers. The PV of total public debt to revenue also remains below benchmark. Similar to the previous DSA, the thresholds for PPG external debt reflect Senegal's new CPIA score – which classified Senegal as a stronger performer - and designate levels above which the risk of public debt distress is heightened. The benchmarks are in PV terms. Benchmarks for total public debt differ from thresholds for PPG external debt in that they serve as reference points for triggering a deeper discussion of public domestic debt. Thresholds for PPG external debt play a fundamental role in the determination of the external risk rating.

7. **The public debt outlook would be much less favorable in the absence of fiscal consolidation (Table 4 and Figure 3).** In a scenario that assumes an unchanged primary fiscal deficit (as a percent of GDP) over the entire projection period, the PV of public debt to GDP slightly increases but does not reach the 74 percent benchmark level. Under the "historical" scenario (holding real GDP growth and the primary deficit constant at their historical levels), the PV of public debt to GDP approaches the benchmark level closely. The debt service-to-revenue ratio spikes in 2015 due to high amortization but declines in the medium term given the projected improvement in Government revenue. Overall risks remain low but stress tests highlight the importance of continuing the fiscal consolidation, enhancing fiscal revenues, and raising growth through a widening, deepening and acceleration of reforms.

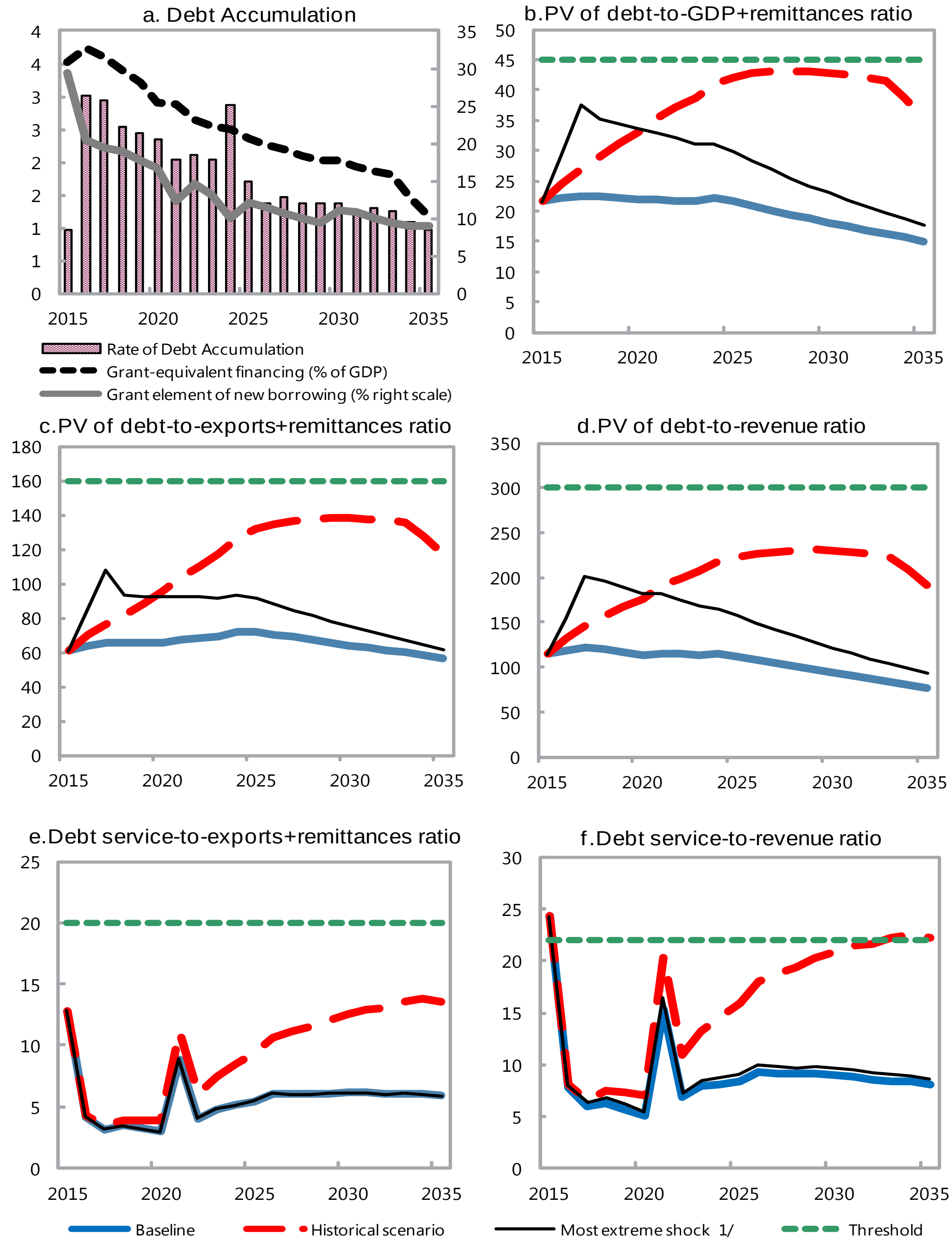
CONCLUSION

8. **In staff's view, Senegal continues to face a low risk of debt distress.** This assessment, however, hinges critically on (i) a continued reduction of the fiscal deficit; (ii) structural reforms that unlock growth and (iii) prudence in the shift towards less concessional financing. Fiscal reforms should continue and additional fiscal space for PSE-related and social spending should be secured through efforts to increase revenue—particularly collecting tax arrears, freezing public consumption in real terms, and improving the composition of spending. The authorities also need to focus spending on productive areas, working closely with development partners to strengthen project design, preparation and execution while ensuring the overall quality and efficiency of public investment. On the structural side, efforts supported by the World Bank to improve the investment climate need to be pursued.

9. **A cautious approach to non-concessional borrowing will similarly be essential for safeguarding debt sustainability.** The efforts of the authorities to seek non-concessional financing from the African Development Bank and World Bank are welcome. In addition to being lower cost than Eurobonds, such borrowing could be accompanied by support to ensure that the financing goes to projects that are well prepared and deliver expected economic and social benefits. If these efforts do not yield sufficient financing for the PSE, borrowing from markets should be carefully weighed and proceeds only spent on projects with feasibility studies that indicate positive socio-economic outcomes.

10. The conclusion also hinges on achieving projected growth. The authorities are strongly committed to reforms required for the PSE to succeed. These could lift growth to 7 to 8 percent in the medium term, driven by FDI and SME generated exports. The PSE offers an achievable development strategy, including the right mix of private investment to be crowded in by public investment in both human capital and infrastructure. However, unlocking private investment, including FDI and from SMEs, requires speeding up reforms to the business climate and improving public sector governance. Frontloading public investment without implementing the necessary structural reforms may jeopardize fiscal targets and debt sustainability while failing to raise growth from its sub-par trend. The main risks relate to weak or slow implementation of the reforms, revenue shortfalls that would not allow sufficient mobilization of resources in support of the plan, failure to curb unproductive public consumption, and delays in raising expenditure efficiency, in particular of domestically-financed capital expenditure.

Figure 1. Senegal: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2015–35 1/

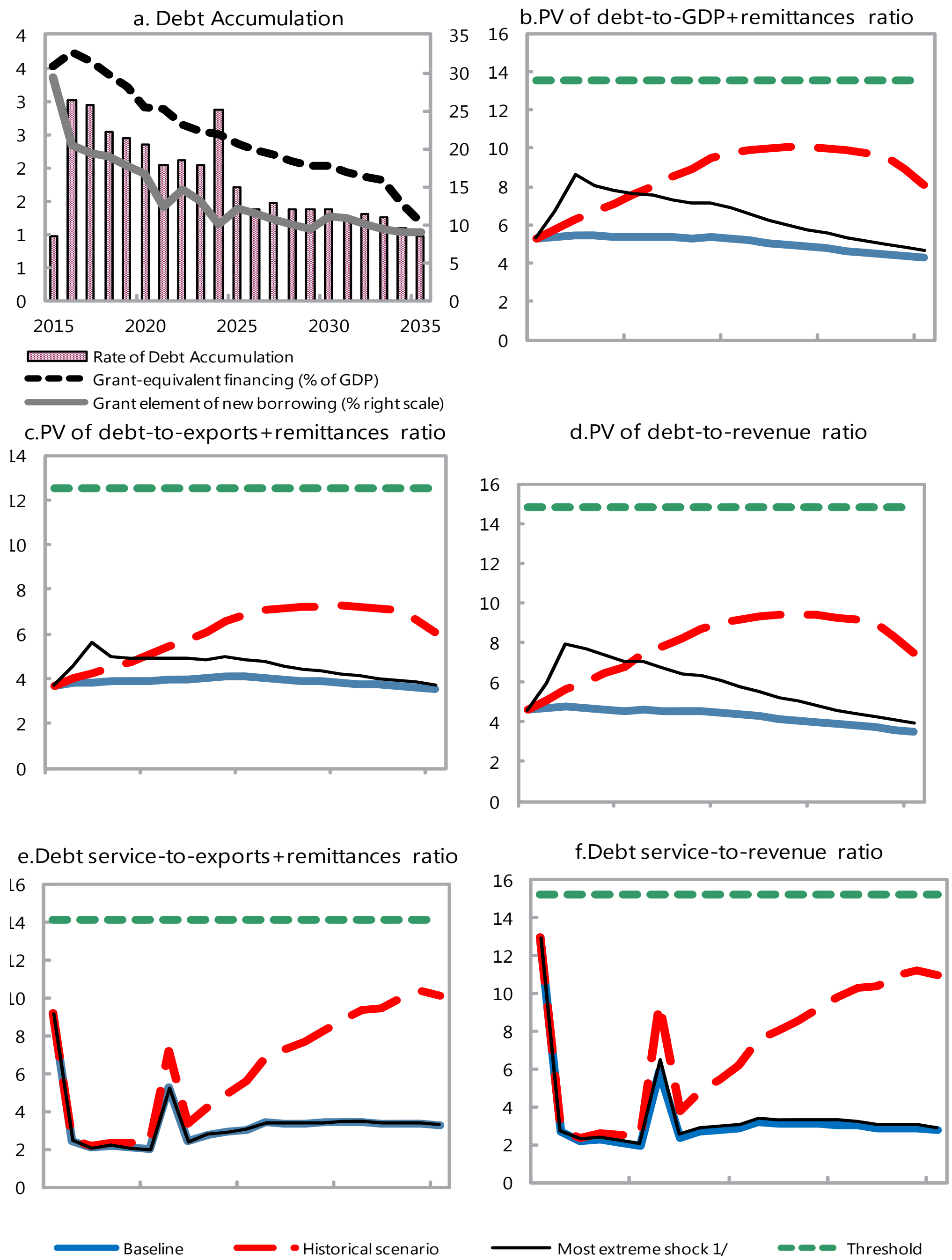


Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2025. In figure b. it corresponds to a Combination shock; in c. to a Combination shock; in d. to a Combination shock; in e. to a Growth shock and in figure f. to a Growth shock

Figure 2. Senegal: Probability of Debt Distress of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2015–35 1/

(In percent)



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2025. In figure b. it corresponds to a Combination shock; in c. to a Combination shock; in d. to a Combination shock; in e. to a Growth shock and in figure f. to a Growth shock

Table 1. Senegal: Public Sector Debt Sustainability Framework, Baseline Scenario, 2012–35 1/

(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average 6/	Standard Deviation 6/	Projections									
	2012	2013	2014			2015	2016	2017	2018	2019	2020	2015-2020 Average	2025	2035	2021-2035 Average
External debt (nominal) 1/	**60.8**	**68.2**	**71.1**			**71.7**	**71.3**	**70.1**	**68.4**	**65.4**	**64.3**		**58.4**	**51.7**	
of which: public and publicly guaranteed (PPG)	30.6	32.4	39.4			35.7	37.7	37.5	36.6	35.6	34.6		30.8	20.1	
Change in external debt	6.3	7.4	2.9			0.6	-0.4	-1.2	-1.7	-3.0	-1.1		-1.7	2.1	
Identified net debt-creating flows	9.9	5.6	3.6			1.8	1.2	0.5	0.1	-0.2	0.0		0.1	0.6	
Non-interest current account deficit	**9.9**	**9.4**	**7.9**	**8.3**	**2.8**	**7.3**	**6.4**	**6.2**	**6.0**	**5.8**	**5.9**		**5.9**	**6.1**	5.9
Deficit in balance of goods and services	21.0	20.7	19.0			19.0	18.3	18.3	17.9	17.5	16.2		12.9	12.0	
Exports	27.9	28.1	27.4			26.4	25.5	25.5	25.5	25.2	25.2		22.7	20.3	
Imports	48.9	48.8	46.3			45.3	43.8	43.8	43.3	42.7	41.4		35.6	32.3	
Net current transfers (negative = inflow)	-12.3	-12.5	-12.4	-11.4	1.5	-13.0	-13.1	-12.9	-12.7	-12.3	-11.2		-7.4	-6.2	-7.4
of which: official	-1.0	-0.6	-0.7			-1.0	-1.2	-1.2	-1.2	-1.1	-0.9		-0.7	-0.5	
Other current account flows (negative = net inflow)	1.3	1.2	1.3			1.3	1.2	0.9	0.8	0.6	0.8		0.5	0.3	
Net FDI (negative = inflow)	**-1.5**	**-1.9**	**-2.0**	**-1.9**	**0.5**	**-2.1**	**-2.1**	**-2.2**	**-2.3**	**-2.3**	**-2.3**		**-2.3**	**-2.3**	-2.3
Endogenous debt dynamics 2/	**1.5**	**-2.0**	**-2.3**			**-3.4**	**-3.1**	**-3.5**	**-3.7**	**-3.7**	**-3.5**		**-3.4**	**-3.2**	
Contribution from nominal interest rate	1.0	0.9	0.9			0.8	0.7	0.7	0.8	0.8	0.8		0.7	0.5	
Contribution from real GDP growth	-2.4	-2.1	-3.1			-4.1	-3.8	-4.2	-4.4	-4.5	-4.3		-4.1	-3.7	
Contribution from price and exchange rate changes	3.0	-0.8	-0.1			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**-3.6**	**1.8**	**-0.7**			**-1.3**	**-1.6**	**-1.8**	**-1.7**	**-2.8**	**-1.1**		**-1.8**	**1.5**	
of which: exceptional financing	-1.4	-0.1	1.5			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	54.8			60.5	58.8	58.2	57.2	54.8	54.2		51.0	47.5	
In percent of exports	...	...	200.3			229.6	231.0	227.9	224.7	217.7	214.9		224.7	233.7	
PV of PPG external debt	**...**	**...**	**23.1**			**24.6**	**25.3**	**25.6**	**25.4**	**25.0**	**24.4**		**23.3**	**15.9**	
In percent of exports	**...**	**...**	**84.3**			**93.2**	**99.2**	**100.2**	**99.7**	**99.2**	**96.9**		**102.8**	**78.3**	
In percent of government revenues	**...**	**...**	**110.0**			**114.9**	**118.9**	**121.1**	**119.4**	**116.5**	**113.5**		**111.7**	**76.3**	
Total gross financing need (Billions of U.S. dollars)	1.6	1.5	1.5			1.6	1.1	1.0	1.1	1.2	1.3		2.3	5.4	
Non-interest current account deficit that stabilizes debt ratio	3.6	2.1	4.9			6.7	6.8	7.5	7.7	8.8	7.0		7.6	4.0	
Key macroeconomic assumptions															
Real GDP growth (in percent)	4.4	3.6	4.7	3.8	1.2	5.1	5.9	6.5	7.0	7.3	7.3	6.5	7.6	8.2	7.8
GDP deflator in US dollar terms (change in percent)	-5.2	1.4	0.2	3.3	7.7	-16.7	6.3	3.3	3.5	3.6	4.2	0.7	2.4	2.5	2.5
Effective interest rate (percent) 5/	1.7	1.6	1.4	1.8	0.4	1.0	1.1	1.2	1.2	1.3	1.3	1.2	1.3	1.1	1.2
Growth of exports of G&S (US dollar terms, in percent)	4.7	6.0	2.0	7.4	10.0	-15.7	8.8	10.4	10.3	9.9	11.9	5.9	9.0	10.5	8.9
Growth of imports of G&S (US dollar terms, in percent)	8.2	5.0	-0.5	9.9	17.3	-14.4	8.7	10.2	9.4	9.5	8.5	5.3	7.9	10.5	8.6
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	29.3	21.7	21.9	22.5	22.6	22.8	23.5	22.5	22.1	21.8
Government revenues (excluding grants, in percent of GDP)	20.5	19.9	21.0			21.4	21.2	21.1	21.3	21.4	21.5		20.9	20.8	20.8
Aid flows (in Billions of US dollars) 7/	1.0	0.8	0.7			0.4	0.5	0.5	0.6	0.6	0.6		0.9	1.3	
of which: Grants	0.4	0.4	0.5			0.4	0.5	0.5	0.5	0.6	0.6		0.8	1.0	
of which: Concessional loans	0.6	0.4	0.2			0.0	0.1	0.1	0.1	0.1	0.1		0.1	0.3	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			3.5	3.8	3.7	3.5	3.4	3.1		2.7	1.5	2.4
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			70.2	54.8	55.2	56.9	57.2	56.2		54.5	45.0	51.2
Memorandum items:															
Nominal GDP (Billions of US dollars)	14.2	15.0	15.7			13.7	15.5	17.0	18.8	20.9	23.4		37.8	103.6	
Nominal dollar GDP growth	-1.1	5.1	4.9			-12.5	12.6	10.1	10.7	11.1	11.7	7.3	10.2	10.9	10.4
PV of PPG external debt (in Billions of US dollars)			3.4			3.5	3.9	4.4	4.8	5.3	5.8		8.8	16.5	
(PVt-PVt-1)/GDPt-1 (in percent)						1.0	3.0	3.0	2.5	2.4	2.3	2.4	1.7	1.0	1.6
Gross workers' remittances (Billions of US dollars)	1.9	2.1	2.1			1.9	2.2	2.3	2.5	2.7	2.8		3.0	6.9	
PV of PPG external debt (in percent of GDP + remittances)	...	...	20.3			21.5	22.1	22.5	22.4	22.1	21.8		21.6	14.9	
PV of PPG external debt (in percent of exports + remittances)	...	...	56.3			60.8	64.0	65.1	65.2	65.2	65.5		76.4	59.0	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	5.4			12.8	4.2	3.2	3.5	3.2	2.9		5.8	6.2	

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

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

6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

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

8/ 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).

Table 2. Senegal: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2015–35

(In percent)

	Projections							
	2015	2016	2017	2018	2019	2020	**2025**	2035
PV of debt-to GDP ratio								
Baseline	25	25	26	25	25	24	**23**	16
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	25	28	31	33	35	37	**45**	34
A2. New public sector loans on less favorable terms in 2015-2035 2/	25	26	27	28	28	28	**29**	23
Authorities' PSE framework	26	31	33	36	38	41	**33**	22
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	25	26	28	27	27	26	**25**	17
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	25	27	32	31	31	30	**26**	16
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	25	28	31	31	30	30	**28**	19
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	25	29	32	31	31	30	**26**	16
B5. Combination of B1-B4 using one-half standard deviation shocks	25	33	43	42	41	39	**33**	19
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	25	35	36	36	35	34	**33**	22
PV of debt-to-exports ratio								
Baseline	93	99	100	100	99	97	**103**	78
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	93	110	120	130	141	148	**196**	168
A2. New public sector loans on less favorable terms in 2015-2035 2/	93	103	106	108	110	110	**126**	111
Authorities' PSE framework	95	115	124	135	143	151	**137**	82
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	93	100	101	100	100	98	**103**	78
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	93	121	159	156	155	150	**146**	101
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	93	100	101	100	100	98	**103**	78
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	93	112	124	123	121	117	**115**	80
B5. Combination of B1-B4 using one-half standard deviation shocks	93	124	162	159	157	151	**141**	93
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	93	100	101	100	100	98	**103**	78
PV of debt-to-revenue ratio								
Baseline	115	119	121	119	116	113	**112**	76
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	115	132	145	155	165	173	**213**	164
A2. New public sector loans on less favorable terms in 2015-2035 2/	115	123	129	130	129	128	**137**	109
Authorities' PSE framework	134	156	166	177	189	203	**164**	107
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	115	123	131	129	126	123	**120**	82
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	115	129	151	148	143	138	**125**	78
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	115	133	146	144	141	138	**134**	92
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	115	134	150	147	142	138	**125**	78
B5. Combination of B1-B4 using one-half standard deviation shocks	115	154	202	196	189	182	**158**	93
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	115	166	170	167	164	159	**156**	106

Table 3. Senegal: Public Sector Debt Sustainability Framework, Baseline Scenario, 2012–35

(In percent of GDP, unless otherwise indicated)

	Actual					Estimate	Projections								
	2012	2013	2014	Average 5/	Standard Deviation 5/	2015	2016	2017	2018	2019	2020	2015-20 Average	2025	2035	2021-35 Average
Public sector debt 1/	42.8	46.6	53.1			55.0	55.9	55.6	53.0	49.8	48.5		43.0	30.6	
of which: foreign-currency denominated	30.6	32.4	39.4			35.7	37.7	37.5	36.6	35.6	34.6		30.8	20.1	
Change in public sector debt	2.1	3.8	6.5			1.9	0.9	-0.4	-2.6	-3.1	-1.3		0.3	-1.6	
Identified debt-creating flows	2.1	3.5	6.3			4.6	-0.1	-1.4	-2.2	-2.4	-2.4		-1.1	-0.6	
Primary deficit	3.7	4.0	3.2	3.3	1.4	3.2	2.7	2.1	1.4	1.3	1.3	2.0	1.3	1.4	1.3
Revenue and grants	23.3	22.5	24.2			24.3	24.2	24.0	24.0	24.1	23.9		22.9	21.8	
of which: grants	2.8	2.5	3.3			2.9	2.9	2.8	2.7	2.6	2.4		2.0	1.0	
Primary (noninterest) expenditure	27.0	26.4	27.5			27.5	26.9	26.0	25.4	25.3	25.2		24.2	23.2	
Automatic debt dynamics	-1.1	-0.5	3.1			1.4	-2.8	-3.4	-3.6	-3.7	-3.7		-2.5	-2.0	
Contribution from interest rate/growth differential	-1.2	0.8	-0.5			-1.8	-2.7	-3.1	-3.2	-3.2	-3.1		-2.5	-2.0	
of which: contribution from average real interest rate	0.5	2.3	1.6			0.8	0.3	0.4	0.4	0.4	0.2		0.5	0.4	
of which: contribution from real GDP growth	-1.7	-1.5	-2.1			-2.6	-3.1	-3.4	-3.6	-3.6	-3.4		-3.0	-2.4	
Contribution from real exchange rate depreciation	0.1	-1.3	3.5			3.2	-0.1	-0.4	-0.4	-0.5	-0.6		...	...	
Other identified debt-creating flows	-0.5	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	-0.5	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	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 (specify, 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	
Residual, including asset changes	0.1	0.4	0.2			-2.7	1.1	1.0	-0.4	-0.7	1.1		1.4	-0.9	
Other Sustainability Indicators															
PV of public sector debt	...	...	36.8			43.8	43.4	43.7	41.7	39.2	38.3		35.6	26.4	
of which: foreign-currency denominated	...	...	23.1			24.6	25.3	25.6	25.4	25.0	24.4		23.3	15.9	
of which: external	...	...	23.1			24.6	25.3	25.6	25.4	25.0	24.4		23.3	15.9	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	11.5	12.1	12.9			14.5	8.3	7.0	7.2	5.8	4.7		5.3	4.3	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	151.9			180.4	179.8	182.3	173.8	162.7	160.4		155.5	121.2	
PV of public sector debt-to-revenue ratio (in percent)	...	...	175.6			204.9	204.5	206.8	196.3	182.8	178.1		170.5	126.8	
of which: external 3/	...	...	110.0			114.9	118.9	121.1	119.4	116.5	113.5		111.7	76.3	
Primary deficit that stabilizes the debt-to-GDP ratio	1.6	0.1	-3.3			1.3	1.8	2.4	4.0	4.4	2.6		1.0	2.9	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	4.4	3.6	4.7	3.8	1.2	5.1	5.9	6.5	7.0	7.3	7.3	6.5	7.6	8.2	7.8
Average nominal interest rate on forex debt (in percent)	2.5	2.5	2.5	2.5	0.6	1.6	2.0	2.0	2.1	2.1	2.2	2.0	2.2	2.4	2.3
Average real interest rate on domestic debt (in percent)	4.5	8.5	6.4	3.6	3.9	5.5	2.6	2.9	2.9	3.0	2.2	3.2	6.2	4.5	4.8
Real exchange rate depreciation (in percent, + indicates depreciation)	0.5	-4.3	11.2	1.2	8.8	8.6	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	2.6	-1.9	0.1	2.4	2.9	1.4	2.3	2.3	2.3	2.3	2.3	2.2	2.4	2.5	2.5
Growth of real primary spending (deflated by GDP deflator, in percent)	3.5	1.2	8.9	1.4	2.9	5.0	3.8	3.2	4.4	7.0	6.7	5.0	6.8	7.3	7.2
Grant element of new external borrowing (in percent)	...	...	...	...	...	29.3	21.7	21.9	22.5	22.6	22.8	23.5	22.5	22.1	...

Sources: Country authorities; and staff estimates and projections.

1/ [Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.]

2/ 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.

3/ Revenues excluding grants.

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

5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 4. Senegal: Sensitivity Analysis for Key Indicators of Public Debt, 2015–35

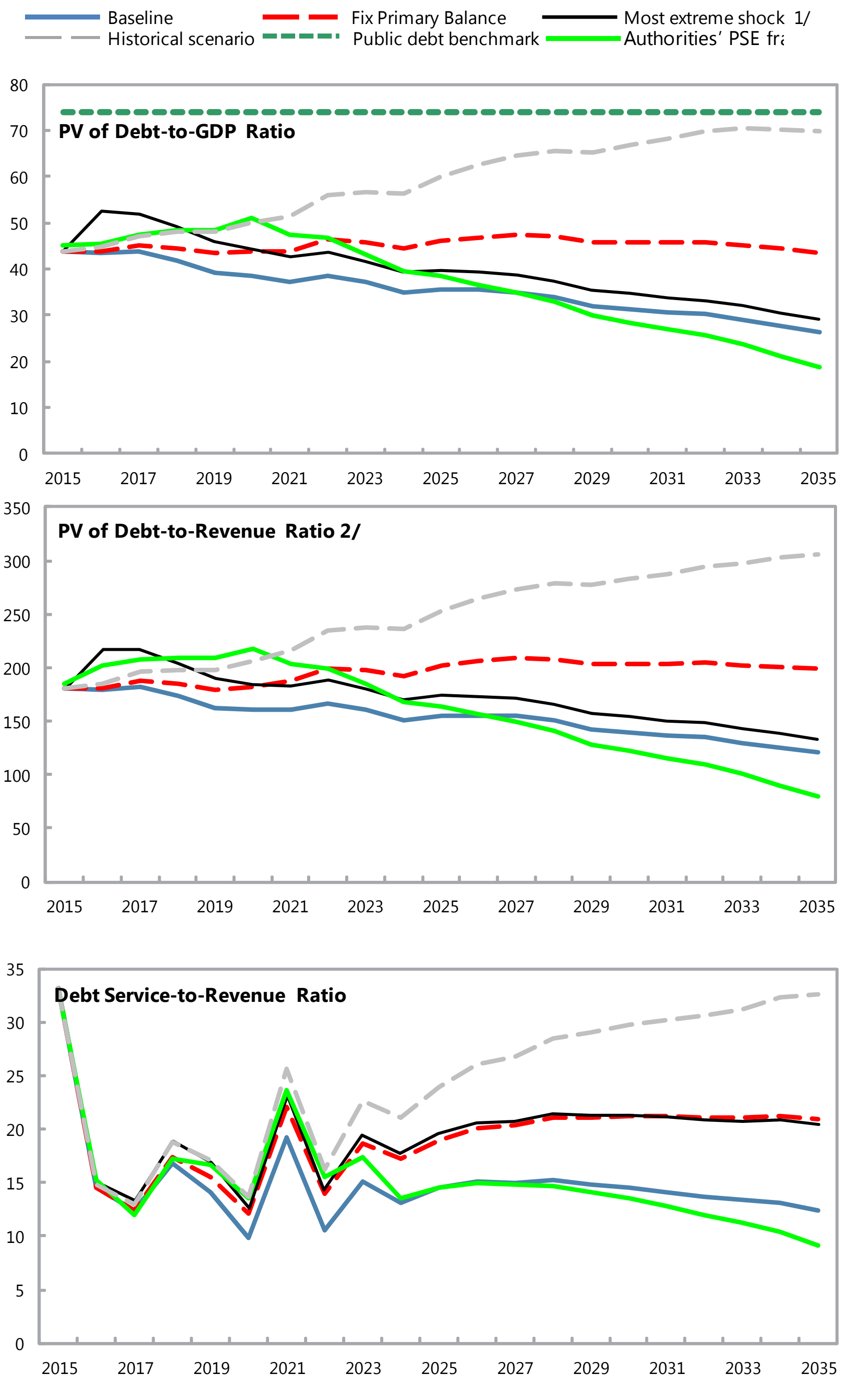
	Projections							
	2015	2016	2017	2018	2019	2020	2025	2035
PV of Debt-to-GDP Ratio								
Baseline	44	43	44	42	39	38	36	26
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	44	45	47	48	48	50	60	70
A2. Primary balance is unchanged from 2015	44	44	45	44	43	44	46	43
A3. Permanently lower GDP growth 1/	44	44	44	42	40	39	39	34
Authorities' PSE framework	45	45	48	48	49	51	38	19
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2016-2017	44	45	49	48	46	46	48	43
B2. Primary balance is at historical average minus one standard deviations in 2016-2017	44	45	48	45	42	41	38	27
B3. Combination of B1-B2 using one half standard deviation shocks	44	46	49	48	46	46	46	40
B4. One-time 30 percent real depreciation in 2016	44	53	52	49	46	44	40	29
B5. 10 percent of GDP increase in other debt-creating flows in 2016	44	52	52	49	46	45	40	29
PV of Debt-to-Revenue Ratio 2/								
Baseline	180	180	182	174	163	160	155	121
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	180	185	196	198	197	206	254	307
A2. Primary balance is unchanged from 2015	180	181	188	185	180	183	202	199
A3. Permanently lower GDP growth 1/	180	180	184	176	166	165	168	157
Authorities' PSE framework	185	203	207	209	209	217	164	79
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2016-2017	180	187	202	198	191	192	207	195
B2. Primary balance is at historical average minus one standard deviations in 2016-2017	180	187	198	189	176	173	165	126
B3. Combination of B1-B2 using one half standard deviation shocks	180	188	202	197	189	190	201	183
B4. One-time 30 percent real depreciation in 2016	180	217	217	205	190	185	174	134
B5. 10 percent of GDP increase in other debt-creating flows in 2016	180	215	216	204	191	187	176	131

Sources: Country authorities; and staff estimates and projections.

1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.

2/ Revenues are defined inclusive of grants.

Figure 3. Senegal: Indicators of Public Debt under Alternative Scenarios, 2015–35 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2025.

2/ Revenues are defined inclusive of grants.

Statement by Ngueto Tiraina Yambaye, Executive Director for Senegal and Daouda Sembene, Senior Advisor to the Executive Director
June 24, 2015

The new Policy Support Instrument (PSI) supports a three-year program of macroeconomic reforms embedded in a development strategy for inclusive growth and poverty reduction (Plan Senegal Emergent—PSE). The growth goals of above 7 percent enshrined in the PSE are achievable provided reforms are accelerated, broadened and deepened. Early signs indicate positive momentum owing to progress in reform implementation and favorable external factors. However, more remains to be done to solidify this momentum.

The authorities are committed to meeting the target of the West African Economic and Monetary Union of a fiscal deficit of 3 percent of GDP by 2018 and implementing structural reforms to boost economic growth, with the 2015 budget targeting a deficit of 4.7 percent of GDP. The authorities plan to strengthen tax and customs administration, and rationalize taxation of the financial sector and telecommunications. On expenditure, they will reorient lower priority spending, particularly public consumption, to provide room for higher public investment.

Risks to the program are significant but manageable. The political calendar may pose some risks to the planned fiscal consolidation. Reforms to curb unproductive public consumption and raise expenditure efficiency may slow down and there could be revenue shortfalls. External downside risks include slower growth in partner countries, continued volatility in oil prices—which may affect revenue targets and subsidies—and spillovers from regional shocks including extremism and natural disasters. To mitigate these risks, the authorities plan to supplement the fiscal deficit targets with a debt anchor and will expand use of the precautionary reserve envelope to link project financing to reform progress.