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SENEGAL

January 2019

STAFF REPORT FOR THE 2018 ARTICLE IV CONSULTATION AND SEVENTH REVIEW UNDER THE POLICY SUPPORT INSTRUMENT AND REQUEST FOR MODIFICATION OF ASSESSMENT CRITERIA—DEBT SUSTAINABILITY ANALYSIS—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR SENEGAL

In the context of the Staff Report for the 2018 Article IV Consultation and Seventh Review Under the Policy Support Instrument and Request for Modification of Assessment Criteria--Debt Sustainability Analysis, 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 January 15, 2019 consideration of the staff report on issues related to the Article IV Consultation and the IMF arrangement.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on January 15, 2019, following discussions that ended on October 31, 2018 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 December 27, 2018.
- An **Informational Annex** prepared by the IMF staff.
- 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 of Economic and Financial Policies by the authorities of Senegal*
Technical Memorandum of Understanding*
Selected Issues

*Also included in Staff Report

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COMMUNICATIONS DEPARTMENT

Press Release No. 19/05
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January 18, 2019

International Monetary Fund
Washington, D. C. 20431 USA

IMF Executive Board Completes Seventh Review under the Policy Support Instrument (PSI) for Senegal and Concludes 2018 Article IV Consultation

On January 15, 2019, the Executive Board of the International Monetary Fund (IMF) completed the seventh review of Senegal's economic performance under the program supported by the Policy Support Instrument (PSI)[1] approved on June 24, 2015 (see Press Release No. 15/297). The Board also concluded the 2018 Article IV Consultation with Senegal.

Senegal's macroeconomic situation is stable. Real GDP growth in 2017 was 7.2 percent and is projected to remain robust at 6.2 percent in 2018, while inflation remains low. The fiscal deficit is projected to reach 3.5 percent of GDP in 2018 and the 2019 budget is in line with the WAEMU fiscal deficit convergence criterion of 3 percent of GDP. The current account deficit widened significantly in 2017, partly driven by higher global commodity prices, and is projected to remain above 7 percent of GDP in 2018.

Program performance under the PSI remains broadly satisfactory with all but one of the end-June 2018 assessment criteria and indicative targets met. Progress was made on reforms with two prior actions met and four of the six structural benchmarks set for the PSI 7th review met.

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

Executive Board Assessment[2]

Senegal's economic performance has been positive, with strong growth and low inflation. Steadfast implementation of the comprehensive reform strategy in the Plan Senegal

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[1] The Policy Support Instrument (PSI) offers low-income countries that do not want—or need—Fund financial assistance a flexible tool that enables them to secure Fund advice and support without a borrowing arrangement.

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

Emergent (PSE) II will be important to sustain high growth rates over the medium term and make the private sector the main driver of growth. Policies to address gender and inequality issues will contribute to poverty reduction and well-distributed growth.

Performance under the PSI-supported program has been broadly satisfactory, with all but one of the end-June 2018 assessment criteria and indicative targets met. Progress was made on reforms with two prior actions met and four of the six structural benchmarks set for the PSI 7th review met.

The near-term macroeconomic outlook remains favorable, but downside risks include increases in global energy prices, adverse impact of drought, security threats, increases in the cost of public borrowing, and slowing implementation on reforms to boost revenues and private investment. The 2019 budget is aligned with the WAEMU fiscal deficit convergence criterion of 3 percent of GDP. Implementing revenue reforms, including a streamlining of tax expenditures, would help meet ambitious revenue projections and make continued progress over the next few years towards meeting the tax revenue WAEMU convergence criterion of 20 percent of GDP.

In 2018, large expenditure cuts were needed to offset lower than projected revenues. Going forward, it will be important to implement budgeted levels of public investment and social spending while maintaining fiscal discipline. Steadfast implementation of approved measures will be key to strengthening budget implementation. Creating a strong policy framework for managing oil and gas resources consistent with international best practice would ensure optimal and transparent use of these resources.

Senegal is at low risk of debt distress, but its debt dynamics will need to be closely monitored. In this context, adherence to the planned fiscal consolidation path, accelerated implementation of reforms to sustain high growth, and implementation of a prudent debt strategy which gives priority to concessional borrowing will be essential.

Table 1. Senegal: Selected Economic and Financial Indicators, 2015-23[1]

	2015	2016	2017	2018		2019	2020	2021	2022	2023
	Act.	Act.	Act.	EBS/ 18/57	Prel.	Projections				
				(Annual percentage change)						
National income and prices										
GDP at constant prices	6.4	6.2	7.2	7.0	6.2	6.9	7.5	7.1	11.6	10.4
Of which: nonagriculture GDP	5.5	6.5	6.3	6.7	6.0	6.7	7.1	6.6	12.0	10.4
Of which: Hydrocarbon GDP									…	50.2
Share of Hydrocarbon in total GDP (%)	0.0					0.0	0.0	0.0	4.6	6.4
GDP deflator	1.1	0.8	1.8	2.2	2.3	1.8	2.0	1.3	2.0	1.1
Consumer prices										
Annual average	0.1	0.8	1.3	1.4	0.3	0.1	1.5	1.5	1.5	1.5
End of period	0.4	2.1	-0.7	1.4	0.0	1.4	1.5	1.5	1.5	1.5
External sector										
Exports, f.o.b. (CFA francs)	11.7	3.6	12.0	12.2	11.7	11.9	11.5	10.5	46.6	15.7
Imports, f.o.b. (CFA francs)	2.7	-2.6	20.6	11.8	10.9	8.2	14.6	9.8	2.5	5.8
Export volume	12.7	8.9	9.4	4.6	4.9	11.9	11.3	10.1	53.3	16.2
Import volume	16.1	2.9	18.9	7.7	5.7	8.7	14.7	9.8	5.0	6.2
Terms of trade ("–" = deterioration)	12.0	0.4	0.8	3.4	1.4	0.5	0.3	0.4	-2.1	-0.1
Nominal effective exchange rate	-3.9	2.0	0.5	…	…	…	…	…	…	…
Real effective exchange rate	-5.9	1.3	-0.5	…	…	…	…	…	…	…
				(Changes in percent of beginning-of-year broad money)						
Broad money	19.3	13.8	9.2	10.7	5.8	12.6	9.6	…	…	…
Net domestic assets	10.6	13.6	6.6	8.3	-2.1	8.8	8.7	…	…	…
Credit to the government (net)	5.2	6.3	-0.8	-2.6	-5.2	5.7	1.1	…	…	…
Credit to the economy (net)	8.1	8.9	12.9	10.8	2.9	6.9	11.6	…	…	…
				(Percent of GDP, unless otherwise indicated)[1]						
Government financial operations										
Revenue	19.3	20.7	19.4	19.4	18.7	19.1	19.5	19.6	20.1	20.3
Grants	2.2	2.2	2.2	2.0	2.1	2.0	2.0	2.0	1.9	1.9
Total expenditure	23.0	24.0	22.3	22.9	22.1	22.0	22.4	22.6	23.0	23.3
Net lending/borrowing (Overall Balance)										
excluding grants	-5.9	-5.5	-5.1	-5.6	-5.4	-5.0	-4.9	-5.0	-4.9	-4.9
including grants	-3.7	-3.3	-2.9	-3.5	-3.4	-3.0	-3.0	-3.0	-3.0	-3.0
Primary fiscal balance	-2.2	-1.6	-1.0	-1.6	-1.4	-1.0	-1.1	-1.2	-1.2	-1.2
Savings and investment										
Current account balance (official transfers included)	-5.6	-4.0	-7.3	-8.0	-7.3	-7.5	-10.3	-10.8	-4.6	-4.4
Current account balance (official transfers excluded)	-6.2	-4.6	-0.4	-8.4	-7.7	-7.9	-10.7	-11.1	-4.9	-4.7
Gross domestic investment	26.1	25.3	27.5	25.9	26.3	27.7	28.7	30.7	29.5	33.2
Government [2]	6.3	7.0	7.6	6.5	9.6	10.1	10.2	10.4	10.1	10.3
Nongovernment	19.8	18.3	20.0	19.3	16.7	17.6	18.5	20.3	19.4	22.9
Gross national savings	20.4	21.3	20.3	17.9	19.0	20.2	18.4	20.0	24.9	28.9
Government	5.0	6.6	5.5	6.3	5.6	6.3	7.2	7.0	8.2	9.0
Nongovernment	15.5	14.7	14.7	11.6	13.4	13.9	11.2	13.0	16.8	19.9
Total public debt [3]	44.5	47.7	60.6	49.4	64.5	61.9	60.2	59.2	55.0	52.2
Domestic public debt [4]	12.2	14.1	20.2	6.6	16.9	14.7	15.3	16.2	16.3	16.5
External public debt	32.3	33.6	40.4	42.8	47.6	47.2	44.9	43.0	38.7	35.7
Total public debt service [3]										
Percent of government revenue	34.0	39.7	28.2	46.6	40.9	30.9	23.8	26.3	19.8	19.5
Memorandum item:										
Gross domestic product (CFAF bill.)	10,509	11,252	12,278	13,407	13,340	14,524	15,924	17,268	19,653	21,921
Gross domestic product (USD bill.)	17.8	19.0	21.1	…	…	…	…	…	…	…
National Currency per U.S. Dollar (Average)	591	593	581	…	…	…	…	…	…	…
WAEMU gross official reserves										
(billions of $US) [5]	12.5	10.5	13.0	…	15.1	…	…	…	…	…
(percent of broad money)	47.0	37.7	38.7	…	…	…	…	…	…	…
(months of WAEMU imports of GNFS)	5.0	3.8	3.8	…	…	…	…	…	…	…

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

1. Based on new national accounts rebased to 2014.

2 Reflects reclassification of public investment.

3. Starting in 2017 debt level, debt service and government revenue include preliminary data covering the broader public sector.

4. Domestic debt includes government securities issued in local currency and held by WAEMU residents.

5. Values for 2018 are for end-Sept 2018. All other years are end-December.

INTERNATIONAL MONETARY FUND

SENEGAL

December 27, 2018

STAFF REPORT FOR THE 2018 ARTICLE IV CONSULTATION AND SEVENTH REVIEW UNDER THE POLICY SUPPORT INSTRUMENT AND REQUEST FOR MODIFICATION OF ASSESSMENT CRITERIA

EXECUTIVE SUMMARY

Article IV issues. Senegal's main challenge is sustaining high GDP growth rates while maintaining fiscal sustainability and improving the business environment to create jobs for the fast-growing population. The second phase of the *Plan Sénégal Emergent* (PSE) covering 2019-23 sets out a comprehensive reform agenda to achieve these objectives. Fiscal reforms should aim to increase revenues, strengthen public financial management (PFM), and improve the composition and quality of spending. Structural reforms to facilitate private investment and competitiveness would provide durable sources of growth, while development of a fiscal framework for oil and gas aligned with international best practice would ensure that these natural resources provide high economic and social returns. Further progress on improving the business environment will require simplifying tax administration and reforms to facilitate SME access to finance, and further develop the Special Economic Zones (SEZs). Policies to address gender and inequality issues would contribute to poverty reduction and well-distributed growth.

Fiscal sustainability. Pre-election spending pressures are building, and energy subsidies continue to weigh on the budget, requiring strong measures in the last quarter of 2018 to stay within the annual fiscal financing envelope, in a context of weak revenue collection. The 2019 budget is in line with the WAEMU fiscal deficit convergence criterion of 3 percent of GDP, but efforts are needed to ensure ambitious revenue projections are met and energy subsidies reduced. Important progress has been made to strengthen budget implementation and to contain "below-the-line" financing, but continued progress on fiscal policy and revenue administration reforms is needed to ensure that borrowing is consistent with financing needs in the approved budget and that tax revenues are increased to the WAEMU 20 percent of GDP target over the medium term. Implementation of a debt management strategy that increases the proportion of domestic debt and prioritizes access to concessional debt whenever possible is essential to fiscal sustainability.

Program implementation. Performance under the PSI-supported program has been broadly satisfactory, with all end-June 2018 assessment criteria and indicative targets met, except for the indicative target on the share of public contracts subject to a single tender. Performance on reforms was mixed with two prior actions met and two of the six structural benchmarks (SBs) set for the PSI 7th review missed.

Staff recommends completion of the seventh PSI review.

Approved By
Dominique Desruelle and Maria Gonzalez

A staff team consisting of Messrs. Lazare (head), Leichter and Versailles (all AFR), Mr. Reynaud (FAD), Mr. Yehoue (SPR), Ms. Sancak (resident representative) and Messrs. Ba and Fame (local economists) conducted the discussions in Dakar October 18–31, 2018. Ms. Malta (SPR) joined part of the mission to present research on gender issues and lead a workshop on income inequality. The team met with President Sall, the ministers in charge of economy and finance, and energy, the National Director of the BCEAO, and other senior officials. The team also met with representatives of the private sector, civil society, and donor community. Ms. Devine and Ms. Mensah provided research support and Ms. Quartey (all AFR) provided assistance in the preparation of this report.

CONTENTS

BOXES

FIGURES

TABLES

ANNEXES

APPENDIX

RECENT DEVELOPMENTS, OUTLOOK AND RISKS

Political and Economic Context

1. **Sustaining strong growth in the medium term will depend on the effective implementation of fiscal consolidation and structural reforms.** Growth is projected to be over 6 percent for the fourth year in a row, despite low levels of rainfall in 2018. However, maintaining the high growth rates envisioned in the *Plan Sénégal Emergent* (PSE) and meeting development and social challenges in a sustainable manner over the medium term will require steadfast implementation of reforms. Further progress on improving the business environment would boost private investment, including foreign direct investment (FDI), and allow the private sector to drive growth over the medium term. Addressing weakness in public financial management (PFM) and revenue administration would ensure that public investment is implemented efficiently, while supporting fiscal sustainability. Implementation of a comprehensive reform agenda elaborated in the second phase of the PSE covering 2019-23, including management of oil and gas resources in line with international best practices, will be essential to meeting these challenges.

2. **The presidential election scheduled for February 2019 has delayed progress on reforms and created risks to meeting budget targets.** The looming elections have already impacted fiscal policy through maintenance of fixed domestic energy prices despite elevated global oil prices for most of 2018, a significant increase of the wages, and transfers to the education and health sectors committed over the next two years. This, combined with accelerated implementation of large infrastructure projects and poor revenue performance, has resulted in significant pressure on public finances and payment delays to the private sector. Meeting the fiscal deficit target will require substantial cuts in expenditure in the last quarter of the year. While the 2019 budget is consistent with the 3 percent of GDP WAEMU fiscal deficit criterion, strong efforts will be needed to meet ambitious revenue projections, reduce the energy subsidy, and meet the carryover of fiscal obligations from previous years.

RECENT ECONOMIC DEVELOPMENTS

3. **Growth is expected to stay strong in 2018, while inflation remains low.** Real GDP growth in 2017 was 7.2 percent and is projected to remain robust at 6.2 percent in 2018, driven by mining, construction and services (especially transportation and real estate services), which have helped offset reduced growth in agricultural production due to late rains (**MEFP ¶3**). On the demand side, growth is mainly driven by domestic demand, with an important contribution of public investment during the PSE I phase (2014-2018). As in past years, inflation is projected to remain low at under 2 percent, helped by the stark decrease in prices for telephone services.

4. **Fiscal pressures are creating significant policy challenges.** Weak revenue performance and pre-election pressures on expenditures are weighing on the implementation of the 2018 budget. In addition, an increase in global oil prices over the first 9 months of the year coupled with

fixed domestic energy prices since early 2017 resulted in a growing energy subsidy and lower energy revenues. While the end-June 2018 budget target was met, all these factors, combined with the financing of the post office group (*SN La Poste)* through "below-the-line" Treasury operations contributed to an accumulation of unmet obligations to the energy sector and payment delays to other private sector participants.[1] These fiscal slippages will require major efforts to cut expenditures (by 1.2 percentage point of GDP) in the last quarter of 2018 to stay within the agreed fiscal envelope.

5. The external situation remains stable, despite some deterioration over the past two years. The current account deficit widened significantly in 2017, reflecting higher global commodity prices and expansionary fiscal policies, and is projected to remain above 7 percent of GDP in 2018. The large Eurobond issuance in 2018 has provided sizable relief on the financing side. WAEMU pooled reserves were at $15.1 billion at end-September 2018 (4.3 months of imports), up from $13.0 billion at end-2017, with the increase largely driven by Eurobond issuances of Senegal and Cote d'Ivoire in the first half of the year. The real effective exchange rate (REER) has appreciated slightly over the past 2 years and remains broadly in line with fundamentals.

6. Credit growth has slowed substantially in 2018 as the banking sector negotiates the transition to new prudential norms. Year-on-year (y-o-y) growth of credit to the economy was only slightly positive at end September at 0.6 percent, and -4.1 percent since December 2017. The main reason was repayments of large loans to SOEs in 2018 that were contracted in the second half of 2017.[2] Growth of credit to the private sector (0.4 percent at end-September 2018 (y-o-y)) was also slow as banks conformed to Basel II/III and the new chart of accounts, along with its accompanying requirement of increased capital.

MEDIUM-TERM OUTLOOK AND RISKS

7. The medium-term outlook for Senegal's economy remains broadly positive, provided that fiscal consolidation and structural reforms are effectively implemented. Sustaining high growth rates over the medium term will require reforms to improve the business environment and boost private investment so that it can take the reins of growth. Aside from continuing with PSE-related public investment, efforts to lower energy costs, improve tax administration and address impediments to SME access to bank credit, will improve the business environment and sustain strong growth in private investment. These reforms are part of the PSE II and will now need to be steadfastly implemented. A failure to do so would result in a loss in growth momentum, returning Senegal to the low per capita GDP growth of the past, and put pressure on debt sustainability. The external sector is projected to remain stable. However, FDI is low relative to peers suggesting that reforms are needed to boost competitiveness and further attract export-oriented investment. In the next three years, large oil and gas investment-related imports in the pre-production period are

[1] Efforts are being made to recover CFAF 19.3 billion from SN La Poste (**MEFP ¶5**).

[2] Anecdotical evidence points toward a comparable situation in the case of relatively large private companies impacted by government payments delays in late 2017.

expected to widen the current account deficit further, with a sharp reversal of trend in 2022 as production boosts exports significantly.

8. Senegal faces both domestic and external risks. The primary sources of risk in the near term are: (i) increases in global energy prices and lack of progress in reducing the domestic energy subsidy; and (ii) larger than projected adverse growth and fiscal impact of drought. Over the longer term, risks include: (iii) adverse impact of slowing implementation on reforms to boost revenues and private investment; (iv) domestic and regional security threats; and (v) possible increases in the cost of public borrowing. On the upside, possible additional oil and gas discoveries (exploration is ongoing) could present potentially large macroeconomic benefits, underscoring the need for establishing a fiscal framework in line with international best practices.

POLICY DISCUSSIONS

9. Discussions centered on policies to sustain high growth and meet development objectives without undermining stability. The overall objective of the PSE strategy is *to achieve, through the structural transformation of the economy, a strong, inclusive and sustainable growth that improves the well-being of the people*. More concretely, between 2018 and 2023, the PSE II aims for growth rates above 9 percent, and a reorientation of economic activity towards industry. Also, substantial improvements in key education, health, poverty and inequality indicators are targeted. Accordingly, discussions focused on policies and reforms to: (i) strengthen PFM to contain financing needs and enhance efficiency of investment; (ii) increase domestic revenue mobilization; and (iii) improve the business environment to boost private investment and competitiveness. In the context of the Article IV Consultation, discussions also covered; (iv) the macroeconomic impact and fiscal framework related to the oil and gas sector, (v) issues related to gender and inequality, and (vi) reforms to promote financial sector development and stability. The authorities broadly implemented most staff recommendations from the 2016 Article IV[3] (Annex III).

A. Fiscal Policy: Strengthen Budget Implementation and Containing Financing Needs

10. Sizable spending cuts are needed to stay within the 2018 fiscal envelope. On tax revenues, corporate taxes have been trending below projections and the new measures introduced in the 2018 Budget and in the June 2018 Supplementary Budget have not yielded the expected results—although it may be to some extent too early to judge since implementation started in March 2018 and July 2018.[4] In addition, important measures to rationalize exemptions and to

[3] IMF Country Report No. 17/1.

[4] New tax measures included: increases in alcohol, cosmetics, tobacco, sodas, and fatty foods excise taxes, generalization of the tax on automobiles, new tax on fire arms, merging of the levy on telecom companies and the contribution to economic development, new tax on cargo ships' oil freight, and the introduction of a new levy on insurance companies.

improve tax collection have not been forcefully implemented. Overall, and before new policy measures, revenues are projected to be below the end-year target by about 0.9 percent of GDP. On the expenditure side, beyond the growing wages and transfers incorporated during the last PSI review, expenditures are expected to increase by another 0.2 percent of GDP, representing mainly higher transfers to the education sector. To contain the impact on the fiscal balance, and, given that there is only a small window for action before end-2018, the authorities have decided to take decisive action to cut substantially low priority domestically-financed capital expenditure and non-wage current spending as needed to stay within the agreed fiscal envelope, while to the best extent possible protecting social outlays. The authorities have also agreed to compensate above the line for "below-the-line" financing operations exceeding the program target, i.e., adding some 0.15 percent of GDP in spending cuts.

Fiscal Projections for End-2018

	% of GDP	*in CFAF bn*
PSI borrowing requirements target	**-4.1**	**-551**
Lower revenue	*-0.9*	*-115*
Higher expenditure	*-0.2*	*-30*
Higher below-the-line financing	*-0.2*	*-21*
Estimated borrowing requirements without measure	**-5.4**	**-717**
Needed effort to be in line with PSI target	***1.2***	***166***
of which revenue measures (tax collection)	*0.2*	*34*
of which current spending cuts	*0.4*	*51*
of which capital spending	*0.6*	*82*

11. **The 2019 budget is aligned with the 3 percent of GDP fiscal deficit convergence criterion.** It will require strong efforts to meet ambitious revenue objectives and reduce energy subsidies, while addressing the potential carryover of fiscal obligations from previous years.[5] The projected poor performance of revenues in 2018, including from new revenue measures, creates some uncertainty regarding the 2019 revenue projections. The authorities are committed to reinvigorate domestic revenue mobilization efforts in 2019 and to adjust budget spending as needed to achieve the 3 percent of GDP fiscal deficit target. The authorities will consider in due course whether a supplementary budget law is needed. While the drop in global oil prices in late 2018, if sustained, will contribute to lowering the amount of energy subsidies needed, the staff recommended that domestic energy prices be adjusted in steps and sufficiently aligned with global oil prices to eliminate the energy subsidy. It also recommended that previous payment delays to the energy sector and the broader private sector be addressed over time. Projected financing of the 2019 budget will include a full drawdown of the escrow account

Fiscal Financing, 2019 (CFAF billions)

Total financing	**979**
Escrow	236
Donor loans	618
WAEMU bond issuance	125
Gross financing need	**979**
Fiscal deficit	430
Additional Treasury borrowing	0
Amortization	548

[5] Staff estimates the overall subsidy to the energy sector to reach about 2 percent of GDP by end-2018. In 2018, the budget is expected to compensate the sector up to 0.6 percent of GDP, and the remaining will be settled by 2023. The authorities have issued a promissory note in an amount close to one percentage point of GDP. This note, acknowledges that the government owes this amount to SENELEC and may allow this SOE to borrow amounts needed to shore up its cash position in the near term.

corresponding to the overfinancing (1.6 percent of GDP) from the 2018 Eurobond, substantial concessional financing from development partners and a return to the WAEMU bond market.

12. Reforms to increase revenues are needed to finance development in a sustainable way. The rebasing of GDP implemented in early 2018 lowered tax revenues to GDP to about 15 percent, well below the 20 percent WAEMU convergence criterion. Implementing reforms to boost revenues will be essential to finance the ambitious PSE public investment program and increased social spending without increasing debt-related vulnerabilities (Box 1). While the authorities have made good progress on revenue reforms in recent years, reaching the WAEMU target will require substantial effort, including in areas where there has been slow progress such as tax collection and tax exemptions. Staff urged the authorities to consider both tax policy and revenue administration measures, including: (i) further streamlining tax exemptions, ensuring they are granted through a rules-based transparent process, and strengthening ex-post assessment in coordination with the tax expenditures evaluation process; (ii) enhancing the data exchange platform between tax and customs administrations; (iii) fully implementing the IT innovative solutions; and (iv) strengthening property taxes, notably by proposing a clear plan and timeline for a complete country-wide cadaster. The IT initiatives include (1) E-tax for e-filing and e-payment; (2) M-tax that allows taxpayers without Internet access to declare and pay taxes via cell phone; and (3) *Mon Espace Perso*, a personalized tax space allowing individuals and businesses to have easy access to their taxes. The authorities are committed to meet the WAEMU revenue target over the medium term and are working on a comprehensive strategy, drawing from ongoing technical assistance (TA) from the IMF. Implementing a fiscal framework for oil and gas in line with international best practice will also help boost revenues over the long term (see Section E below).

13. Efforts to contain current expenditures and improve the efficiency of investment should continue. The increase in current spending and energy subsidies in the pre-electoral period required capital expenditure to be delayed, suggesting that further efforts are needed to contain current expenditure and improve the efficiency of public investment. Implementation of the civil service employment ceilings in 2019 should help contain wage expenditures. A comprehensive civil service reform could provide a broader framework to ensure that development objectives can be financed within the existing prudent projected financing envelope. The recent creation of the so-called “project bank” (a list of investments projects which have been fully assessed) is welcome, but implementation of public investment could be improved further by implementing recommendations of the Public Investment Management Assessment (PIMA) (Box 2). These measures will be important to ensure that investment projects are aligned with the multi-year budget, investment decisions are driven by economic returns rather than availability of financing, and fiscal contingent liabilities from public-private partnerships (PPP) are properly managed.

14. Reforms to strengthen PFM and address potential sources of additional Treasury financing “below the line” are being implemented. Over the past few years, there has been an important disconnect between total financing needs and budget deficits. In particular, Treasury financing of the *SN La Poste*, *Fonds National de Retraites (FNR)*, and accumulated appropriations from past budget years in the *comptes de dépôt*, as well as the use of *lettres de confort* to pre-finance expenditure and implement expenditure outside the budget, resulted in an accumulation of debt exceeding the financing needs implied by the budget deficit. The authorities have made good progress in addressing these issues, including by implementing ***prior actions*** for the PSI 7th review:

- *SN La Poste* (**MEFP ¶5, ¶44**)—In October 2018, a new convention between the Post Office and the Treasury was signed to limit the Treasury guarantee for clearing the Post Office checks **(*prior action*)**. Furthermore, the authorities are working with development partners on a comprehensive restructuring plan to improve the efficiency of postal operations and separate *Poste Finance* from *La Poste.* The latter handles the more classic post office operations, while the former is a deposit-taking financial institution. The separation would allow for *Poste Finance* to receive a banking license and be supervised by the WAEMU banking commission.

- *Lettres de Confort* (**MEFP ¶30**)—In November 2018, a ministerial order was signed to cease the use of budgetary letters that commit central government to expenditures beyond the current budget year or to expenditures outside the budget **(*prior action*)**. Future use of these letters will be limited to letters which (i) do not imply any financial commitment; (ii) are formal guarantees for para-public entities; or (iii) support within-year execution of spending related to national defense and agriculture.

- *Comptes de Dépôt* (**MEFP ¶16**)—A decree has been signed which, starting end-December 2018, will remove the ability to carryover "current spending" balances in the *comptes de dépôt* from one year to the next and limit the amount of "capital spending" carryover to 5 percent of the remaining balance. The rest of the balances in the *comptes de dépôt* at end-December 2018 will be eliminated, except for the remaining balances of three para-public agencies, which will be converted to bonds to be issued in early 2019. Continued progress in implementing multi-year budgeting will help reduce the potential challenges created by large public investment projects, which have resulted in accumulation of past appropriations in the *comptes de dépôt* and pre-financing arrangements with banks in the form of *lettres de confort*.

- *FNR* (**MEFP ¶11**)—A complementary pension scheme has been implemented, which has returned civil service pension to a small positive balance. Further efforts are planned on parametric reforms, creating a defined contribution scheme and the creation of a separate institution governing civil service and military pensions.

Box 1. Proposed Revenue Reforms

In the short term, priority should be given to tax administration measures, which is where marginal revenue gains are the highest. Substantial efforts are needed to raise taxpayer compliance levels and help improve revenue performance. Following numerous TA missions, a reform roadmap—including a package of concrete measures to increase the tax-to-GDP ratio by four percentage points in four years—has been developed. Priority actions include: (1) improved collection enforcement and collecting recoverable tax arrears and tackling remaining defaulters; (2) redirecting tax audit towards taxpayers with the highest risks (such as unreported business income and over-claimed deductions and rebates) and improved crosschecking of amounts reported in tax declarations with information obtained from third party sources; (3) revising the "*acompte sur importations*" regime to contain widespread VAT evasion and fraud across all VAT segments (large enterprises and SMEs); and (4) de-registering VAT registered entities that have been inactive.

The implementation of the 20-point digitalization action plan is also critical to enhance the effectiveness of the internal revenue department (DGID). Progress is expected in implementing the November 2016 hackathon's recommendations such as expanding e-procedures, improving data quality and consistency and aligning IT organization, infrastructure, process to the DGID needs. More specifically, short-term outcomes should include: (1) expanding e-procedures to medium-size enterprises; (2) enhancing the personalized tax space—*Mon Espace Perso*—(one of the hackathon's winning solutions, which was officially launched on July 26, 2018); (3) enhancing the SMS and voice message reminder of tax obligations system; and (4) implementing the second hackathon's solution (M-tax) that allows taxpayers without internet access to declare and pay taxes via cell phone by April 2019.

On the tax policy side, the authorities need to prepare a strategy for new broad tax reform to be implemented after the Presidential elections. This strategy should focus on broadening the tax base, notably by bringing the informal sector into the tax net, so that rates can eventually be lowered. Such a strategy could envisage the following measures:

1. Increase corporate income tax (CIT) withholding on imports of small taxpayers, which are more likely not to file or to underreport;

2. Raise the ceiling of the minimum CIT (*Impôt minimum forfaitaire*) at least on the commercial sector—this could be partly offset by a lower CIT rate in a revenue-increasing reform if the higher ceiling is not limited to the commercial sector;

3. Initiate a systematic review of VAT exemptions on staple food and other basic goods to focus the exemptions on goods consumed mainly by the poorest segments of society;

4. Eliminate the lower VAT rate (on tourism) and replace it with the full rate; and

5. Adjust the personal income tax rates and brackets so that the tax system is more equitable across all ranges of income.

Box 2. Main Results and Recommendations from the Public Investment Management Assessment (PIMA)

The PIMA provides a comprehensive diagnostic of the strengths and weaknesses of a country's public investment management system, allowing comparisons with similar groupings.

A mission conducted a PIMA in Dakar in November 2018. It found that Senegal's institutions were broadly stronger than those in other already assessed West-African countries. Yet, some efficiency gaps (i.e. access to infrastructure and physical efficiency indicators) remain and should be addressed to ensure a sustainable increase in the country's capital stock.

The mission made four main recommendations, consistent with ongoing government reform plans: (1) review and streamline the three-year investment plan, which involves cancelling projects that yield no or little output; (2) bring the implementation of ad hoc investment projects (including so-called unsolicited offers) back under normal procedures and proper evaluation and oversight; (3) update the legal framework for PPPs to minimize risks and establish sound procedures to respond to the increasing needs for government capital spending; and (4) make operational a project management functionality in the information system, currently under-development, to ensure projects are financed and monitored from design to completion.

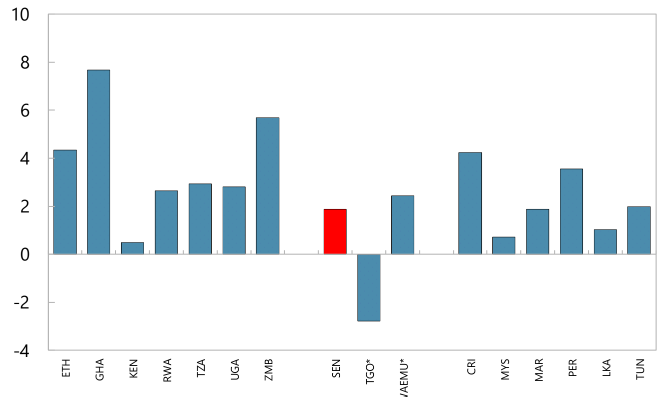
B. Strengthening Competitiveness and External Stability

15. The widening of the current account deficit over the past two years has been matched by substantial increases in external financing. Senegal's current account deficit as a percent of GDP has nearly doubled since 2016 to over 7 percent of GDP. While this increase was driven, in part, by rapid growth and investment-related imports, there was also a fiscal contribution through increases in current spending and additional Treasury extra-budgetary financing related to *SN La Poste* and civil service pensions, as well as rising oil import prices. The widening of the current account deficit was matched by substantial increases in external debt, including via $3.3 billion in Eurobonds being issued since 2016 on largely favorable terms. FDI did not show significant increases, averaging just over 2 percent of GDP.

16. Senegal's external position is broadly in line with medium-term fundamentals and desired policies (Annex I). The current account (CA) deficit is projected to widen over the next 3 years due to oil and gas-related investments in the pre-production phase—to be financed through a mix of increased FDI and debt. However, the CA trend will sharply reverse in 2022 when oil and gas production is expected to start, and related exports are projected to rise substantially. Remittances will continue to be a reliable source of CA inflows, although they are expected to fall as a percentage of GDP over the longer term, consistent with rapid GDP growth and Senegal's drive to reach middle income status. A debt strategy which aims to increase the proportion of domestic debt in total public-sector debt will also contribute to lower external vulnerabilities. The WAEMU regional pooled reserves stood at $15.1 billion at end-September 2018 (more than 4 months of regional imports), up from $13.1 billion at end-2017, with the increase largely driven by Eurobond issuances of Senegal and Cote d'Ivoire in the first half of 2018. Estimates using the IMF's external balance assessment methodology (EBA-lite) show the REER gap at around 5 percent and the CA gap at around -1 percent, suggesting that Senegal's REER is broadly consistent with fundamentals and desirable policy settings.[6] The authorities agreed that the external position is broadly in line with medium-term fundamentals.

17. Reforms are needed to boost external competitiveness and FDI. Senegal has made some progress on structural reforms as evidenced by the improved scores across several dimensions in global benchmarking exercises such as the World Bank Doing Business (DB) or the World Economic Forum (WEF) competitiveness report. Progress has, however, slowed recently, as climbing the rankings further implies tougher reforms, while peers are also making progress.[7] The level of FDI is low relative to peers (Text Figure 1), suggesting that more needs to be done to boost private investment. Increased private sector interest in the Special Economic Zones (SEZs) bodes well in this respect (see Section C below).

Text Figure 1. Foreign Direct Investment (net)
(2015-17 average, percent of GDP)



* WAEMU average excludes SEN and TGO. The latter because net FDI was negative during 2015-17)
Source: IMF World Economic Outlook database.

18. Senegal is at low risk of debt distress, but debt vulnerabilities need to be managed. Since the previous DSA (Country Report No. 18/8): (i) GDP has been rebased, resulting in a 30 percent increase in nominal levels; (ii) the macroeconomic impact of oil and gas discoveries has been incorporated in projections; and (iii) the authorities have made strong efforts to expand the perimeter of debt to cover the broader public sector and are committed to continue filling remaining data gaps. Staff's assessment is that Senegal continues to face a low risk of debt distress, but is a borderline case. The external debt-to-exports indicator has two marginal breaches of its threshold, while the external debt service-to-export ratio has a temporary spike that breaches the threshold more significantly under a stress scenario due to Eurobond rollover. This debt service breach reflects liquidity, rather than solvency issues. Overall, public debt and debt service have been rising in recent years, underscoring the need for prudent debt management. The low risk of debt distress is predicated on: (i) ongoing debt liability management, guarantees to address currency risk, access to liquid financial assets and a sound track record of market access; and (ii) adherence to the planned fiscal consolidation path, an acceleration of reforms, and prudent borrowing.

[6] Annex I provides details of the assessment.

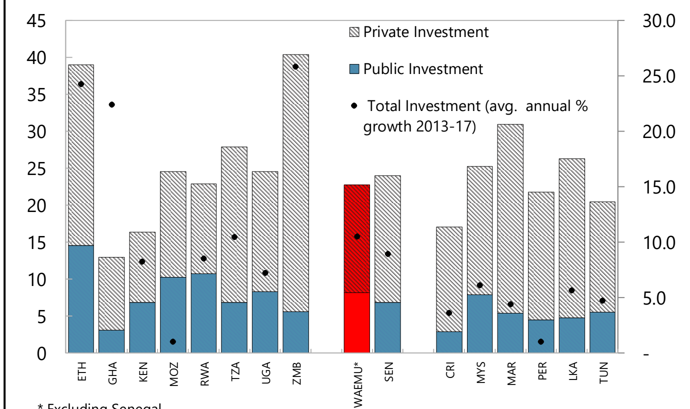
[7] The World Bank's Doing Business Indicators (DBI) and the World Economic Forum's Global Competitiveness Index (GCI) use methodologies for assessing relative performance across countries on a set of indicators. However, there are no internationally accepted statistical standards for these methodologies. Also, we should note that the country rankings are subject to uncertainties; DBI does not represent a comprehensive measure of the business environment in the whole economy; and caution must be exercised in interpreting the perception-based indices like the GCI. The DBI is currently under external review to assess the recent changes in methodology.

C. Making the Private Sector More Supportive of Growth

19. The private sector will need to become the engine of the economy for Senegal to reach the PSE II medium-term growth objective of 8 percent (**MEFP ¶16**). Senegal is developing PSE II (2019-23), the second phase of its strategy to become an emerging market by 2035. Progress made during PSE I (2014-18), which delivered growth rates above 6 percent, needs to be consolidated, notably by enabling a larger role for the private sector through structural reforms. The PSE I benefited from direct government support, notably through financing of "*projets structurants,*" which improved infrastructure and gave impetus to the construction sector, but also through indirect interventions, for example in the agricultural sector. During this period, investment increased, even though not much faster than Senegal's peers, while FDI continued to be relatively low (Text Figures 1 and 2), and productivity gains were relatively feeble. On the financing side, PPPs were used much less than expected, despite the law governing PPPs having been revised in 2014. PSE II aims to rectify this, with potential financing and technical assistance also coming under the Compact with Africa framework.

Text Figure 2. Investment

(percent of GDP, 2017)



* Excluding Senegal.
Sources: IMF World Economic Outlook database.

20. Constraints to private sector development persist, even though important progress was made on several fronts during PSE I. Constraints include: (i) access and cost of energy; (ii) heavy procedures in the tax system and the judiciary; (iii) labor regulations; (iv) access and cost of credit; (v) efficiency of public investment; and (vi) weak human capital, with a business environment that is generally difficult to operate in. Improvements were made during PSE I, helped by the *Programme de Réforme de l'Environnement des Affaires et de la Competitivité* (PREAC) which is now being updated for the period 2019-21 (**MEFP ¶46**). During PSE I, reliability and access to electricity improved (e.g., rural electrification rates increased from 33 percent to 40 percent over 2014-2017 and power outages in cities were significantly reduced). The energy sector is an important driver of PSE II, and its development is expected to benefit from the recently concluded investments by the Millennium Challenge Account (grants worth $600 million over 5 years), and the domestic production of gas (from 2022) for use in new electricity generating projects or conversion to gas of existing thermal projects. The legal system governing commerce is expected to improve through the recently created Dakar commercial tribunal ("*Tribunal de commerce*"), with next steps involving development of the appeals chamber and—potentially—a second tribunal outside Dakar (**MEFP ¶47**). Progress was also made in developing programs to improve credit access (see Section D below), and in PFM (see Section A above). PSE II acknowledges that high labor costs and labor market rigidities hinder private sector activity. A review of the labor laws is ongoing.

21. The PSE II growth strategy aims to develop clusters of economic activity, with SEZs now up and running. Planned investments in the three established SEZs: *Diamniadio*, *Diass*, and *Sandiara* amount to about 3.7 percent of GDP (see text table on Special Economic Zones), with companies coming from several countries, including China and Tunisia, and representing different sectors like plastics, food processing, bank cards, medical services and research (**MEFP ¶48**). It will be important for the SEZ rules regarding both imports and exports to be simple and consistent (e.g., at the moment, the three SEZs have slightly different rules regarding the percentage of exports in total sales that are required to benefit from incentives). More generally, staff emphasized that SEZs should be governed by transparent rules, with no granting of ad hoc tax exemptions and all companies paying a reasonable corporate tax rate. In the agricultural sector, three integrated *agropoles* are being launched to help the sector develop high value-added in agrobusiness and reduce reliance on imported foodstuffs. A somewhat similar approach is planned for the tourism sector. All these initiatives play a role in advancing economic activity outside Dakar. The development of the *plateformes d'investissement,* which aims to give enterprises and households access to administrative services outside of Dakar, is also consistent with this strategy.

Special Economic Zones

	Diass	Diamniadio	Sandiara
Investments (FCFA bn)			
made	2.2	25.0	1.0
planned	261.3	92.8	111.6
Jobs			
created	135	635	0
planned	1159	5180	5340

Source: Senegalese authorities.

22. Senegal has made progress on governance, but further reforms are needed. Senegal compares relatively well to SSA and WAEMU averages on governance and transparency indicators (Figure I.2 in Annex I). Adherence to the IMF's Special Data Dissemination Standard (SDDS) and GFSM2001/14 and efforts to move towards reporting fiscal data beyond central government is improving fiscal data and providing a more comprehensive picture of contingent liabilities and debt-related vulnerabilities. The establishment of a "project bank" that will contain assessed *ex ante* domestically-financed public investment projects is welcome, but now needs to be carefully implemented. The inability to regularly meet the PSI ceiling (indicative target) on the share of public procurement using sole source suggests that the procurement process could be strengthened, including bringing unsolicited (spontaneous) investment offers into the normal public investment vetting process (see also Box 2 above). The accumulation of unmet liabilities towards SENELEC and the private sector is also a sign of challenges in meeting revenue projections and weakness in budget implementation. The continuation of Treasury financing of the Post Office outside of the budget is a concern and, beyond the recently adopted measures, requires reforms to restructure the Post Office and proper estimates of needed transfers in budget formulation. Further, it will be important that the governance structure of institutions managing oil and gas wealth be in line with international best practice (see Section E below). All these issues are part of the wider agenda of opening up economic space for all Senegalese economic actors, and combatting rent seeking and entrenched interests.

23. The authorities' participation in various international benchmarking exercises shows willingness to improve transparency and governance of public policy. A Fiscal Transparency Evaluation (FTE) conducted in early 2018 is contributing to greater fiscal transparency, while the ongoing PIMA should help identify measures to improve public investment efficiency (Box 2 and Box 3). The Public Expenditure Financial Accountability (PEFA) exercise that is underway will help benchmark Senegal's PFM system vis-à-vis its peers and identify areas where progress can be made (**MEFP ¶39, ¶40**).

Box 3. Main Results and Recommendations from the Fiscal Transparency Evaluation (FTE)[1]

The FTE exercise is the IMF's fiscal transparency diagnostic. FTEs provide countries with a comprehensive assessment of their fiscal transparency practices against the differentiated standards set by the IMF's Fiscal Transparency Code. This is done through rigorous analysis of the scale and sources of fiscal vulnerability based on a set of fiscal transparency indicators and provides a more complete picture of public sector activities by estimating the financial position of the entire public sector.

A mission conducted an FTE in Dakar in May 2018. It found that Senegal has achieved remarkable progress in strengthening its nascent fiscal transparency practices. The 2017 Open Budget Index (OBI) gave Senegal a score of 51 out of 100, above the world average score, recognizing the efforts in terms of budget documentation dissemination, as well as an enhanced role of the Parliament and the supreme audit institution in budget oversight. Furthermore, the PFM legal framework has been substantially modernized with the implementation of the regional WAEMU directives which are a key driver for reforms and enhanced transparency in PFM. Senegal joined the Special Data Dissemination Standards (SDDS) in 2017 which also helped strengthen the quality and comprehensiveness of fiscal data.

The main recommendations of the report focus on five objectives: (1) strengthening coverage and credibility of budget and financial information; (2) ensuring harmonization and compliance of budget and accounting classifications; (3) enhancing the evaluation of fiscal risks and anticipating their impacts; (4) strengthening the analysis of macro-fiscal projections; and (5) involving civil society in the discussion over budget preparation and follow-up.

[1]The IMF's Fiscal Transparency Code can be found here: http://blog-pfm.imf.org/files/ft-code.pdf

D. Promoting Financial Sector Development and Stability[8]

24. Credit markets need to improve their functioning to be able to finance a fast-growing economy. While the introduction of Basel II/III is likely a temporary factor in current credit developments, there are also important structural impediments holding back credit to the private sector. The Basel II/III system is expected to make the banking system more resilient and help improve credit quality. Surveys point to access to finance as an important constraint to private sector growth as the formal financial sector finds it difficult to serve certain segments of the market that are important for growth, such as SMEs. One indication of this is that deposit growth has outpaced credit growth in recent years. Senegal has taken numerous initiatives to address this

[8] Annex II gives a more in-depth overview of recent financial sector developments.

constraint, notably by reforming credit bureaus (with a recent law improving data flow from banks to such bureaus) (**MEFP ¶49**) and launching programs to help SMEs gain access to credit (**MEFP ¶50, 51**). The challenge is now to have all these initiatives work efficiently, supported by proper risk assessment, avoid duplication of efforts, and monitor progress adequately. Costs and benefits need to be carefully assessed in subsidized loan programs such as those administered through CNCAS (agricultural sector) and the newly minted *Délégation générale à l'Entreprenariat Rapide* (DER), which has extended loans to women and youth in a very rapid manner in the first half of 2018 (with a budget of CFAF 30 billion or 0.2 percent of GDP for the whole of 2018). Specific care is needed for institutions that do not fall under the WAEMU banking regulations (e.g. DER activities) and non-traditional banking instruments (e.g. microfinance institutions or mobile banking).

25. The financial system remains stable with pockets of vulnerability. A new definition of non-performing loans (NPLs) is being introduced through the new chart of accounts, which should lower the ratio of NPLs to total loans below 15.5 percent at end-2017. When accounting for provisioning, this number drops to 6.3 percent. The newly formed Dakar commercial tribunal, once fully functioning, could help bring down the still high NPLs, as would sound enforcement of prudential norms. There are, nevertheless, some pockets of vulnerability in the banking system, with one financial institution reporting negative equity. The institution that is the majority shareholder of this bank is now being restructured, which is having knock-on effects on this bank. Further, the government agreed to inject CFAF 50 billion in the form of tradable government securities in a state-owned bank in need of liquidity. In return, difficult-to-recover loans of this bank have been transferred to the *Société Nationale de Recouvrement (SNR),* with any recovered funds accruing to the government. While this bank is currently meeting all prudential norms, the issuance of securities still needs to happen, with the government planning to issue paper in the near future.

26. Senegal's recent AML/CFT assessment found important strategic deficiencies that need to be addressed. Senegal has been assessed against the 2012 FATF standards during an onsite visit carried out in September 2017. The findings of the assessment report adopted by the Inter-Governmental Action Group Against Money Laundering in West Africa (GIABA), which is still under FATF review, found a number of strategic deficiencies, which could lead to close monitoring by the FATF and potential public listing. While the transposition of the WAEMU AML/CFT uniform law into the national legislation in February 2018 is a welcome step in addressing the legislative shortcomings, further steps should be swiftly taken to ensure compliance with the FATF standard and its effective implementation and prevent pressure on correspondent banking relationships, which could increase financial intermediation costs, including for trade and remittances.

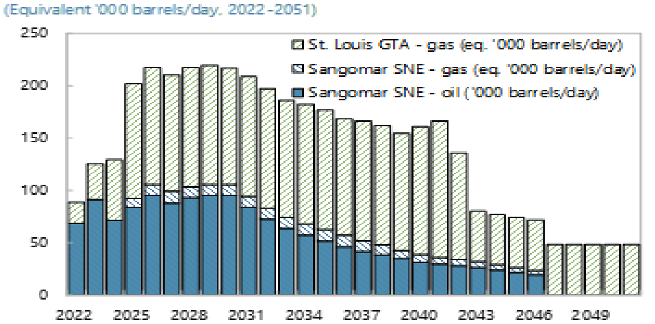
Authorities' Views

27. The authorities generally agreed with staff views on the broad macroeconomic policy mix. The authorities acknowledge the importance of containing fiscal financing needs in support of debt sustainability. In this context, they are committed to meeting 2018 fiscal targets, largely through expenditure cuts, and ensuring that the 2019 budget is aligned with the 3 percent of GDP WAEMU fiscal deficit convergence criterion. In addition. they recognize the importance of undertaking revenue reforms over the next few years to meet the 20 percent of GDP WAEMU tax revenue to GDP criterion and PFM reforms to contain financing needs. To sustain growth over the medium term, the authorities concur with staff on the need for structural reforms to boost competitiveness and private investment, including by supporting SMEs, and plan to continue with efforts to facilitate access to credit while strengthening financial stability. The authorities underscored their commitment to implement a broad reform agenda as outlined in the PSE II covering 2019-23.

E. Oil and Gas[9]

28. Recent oil and gas discoveries are substantial but would not result in a seismic shift in Senegal's productive landscape. Important oil and gas discoveries were made in the Sangomar blocs in 2014 and Saint-Louis blocs in 2016. Both are located offshore and are in deep-water territory. Regarding Sangomar, two viable fields have been identified—SNE and FAN—with proven reserves for the former amounting to around 530 million barrels of oil and 1.3 trillion cubic feet (TCF) of gas. For Saint-Louis, gas reserves worth 15 TCF were discovered at the Grand Tortue Ahmeyin (GTA) field, situated near the Mauritanian border. A major international oil company is leading the development of this field in close cooperation with both Mauritania and Senegal. The current inter-governmental agreement stipulates that gas production is evenly split between the two countries. Final investment decisions are expected at the end of 2018 (GTA) and by mid-2019 (SNE), with first oil and gas expected in 2022 in both cases. Senegal's national oil company PETROSEN owns 10 percent of equity in these fields but could increase its participation up to 18-20 percent. The timeframe of production is estimated to be about 30 years (see Text Figure 3 for production profiles). While this oil and gas activity is expected to positively impact Senegal's economy and help diversify it, Senegal would not be considered a "resource-rich

Text Figure 3. Projected hydrocarbon production in Senegal
(Equivalent '000 barrels/day, 2022-2051)



Sources: Senegalese authorities, IMF staff estimates.

Integrating oil and gas in the Macro-framework

	2019	2020	2021	2022	2023	2024-40 (avg)
National Accounts				0.138		
Nominal GDP (FCFA billion)	14,524	15,924	17,268	19,653	21,921	
of which: hydrocarbon sector	-	-	-	*914*	*1,402*	
share of hydrocarbon in GDP (%)	-	-	-	*4.6%*	*6.4%*	*5.1%*
Real GDP growth (%)	6.9%	7.5%	7.1%	11.6%	10.4%	5.2%
of which: hydrocarbon sector (%)	-	-	-	-	*50.2%*	*-0.7%*
Balance of Payments (% of GDP) - selected items						
Exports of goods and services	22.3%	22.4%	22.6%	27.1%	27.7%	
of which: hydrocarbon	-	-	-	*5.8%*	*7.3%*	*6.2%*
Imports of goods and services	-36.6%	-39.2%	-39.9%	-35.4%	-33.5%	
of which: hydrocarbon-related	*-2.4%*	*-5.2%*	*-6.1%*	*-5.2%*	*-5.0%*	*-1.7%*
Income	-3.4%	-3.6%	-3.5%	-5.5%	-7.7%	
of which: hydrocarbon (repatriated dividends + interest payments)	*-0.2%*	*-0.3%*	*-0.3%*	*-2.1%*	*-4.4%*	*-1.8%*
Current Account	**-7.5%**	**-10.3%**	**-10.8%**	**-4.6%**	**-4.4%**	
Financial Account	7.1%	8.9%	9.8%	7.3%	6.2%	
of which: hydrocarbon (FDI + net borrowing)	*3.2%*	*4.5%*	*5.0%*	*3.2%*	*2.0%*	*0.3%*
Fiscal Accounts (% of GDP)						
Total revenues including grants	19.1%	19.5%	19.6%	20.1%	20.3%	
of which: hydrocarbon	-	-	-	*0.5%*	*0.9%*	*1.6%*

Source: IMF Staff calculations.

[9] See accompanying Selected Issues Paper "Natural Resources in Senegal Before and After the Recent Oil and Gas Discoveries."

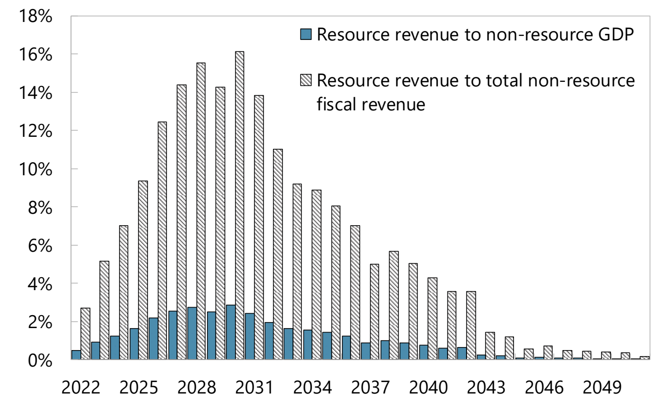
(continued)

country" under IMF terminology based on current discoveries.[10] However, off-shore exploration of new fields is ongoing and commercially viable discoveries of oil or gas could be made and result in a significantly larger share of the hydrocarbon sector in the economy over the longer term.

29. The share of hydrocarbons in nominal GDP is expected to reach about 5 percent on average between 2022 and 2040. When incorporating the SNE and GTA fields, the share of hydrocarbons in nominal GDP would reach 4.5 and 6.5 percent in 2022 and 2023 respectively, and average 5 percent between 2024 and 2040 (see text table). Real GDP growth would show an acceleration from a baseline without hydrocarbon production from 7.7 percent to 11.5 percent in 2022 but would then quickly level off with a negative contribution on average over the 2024-40 period.[11] Investment in the hydrocarbon sector is expected to increase substantially in the period 2019-21. Most of this activity will have a high import content, but an increase in economic activity in some domestic sectors can still be expected, for example, in transportation and other services.

30. Other macroeconomic aggregates such as the fiscal accounts and the balance of payments will also be impacted. Fiscal revenues would be 0.5 percent of GDP higher in 2022, and about 1 percent of GDP higher in 2023. The increase would reach a maximum of about 3 percent of GDP at peak production in 2030, and an average of 1.5 percent between 2023 and 2040 (Text Figure 4). The current account is projected to deteriorate in the pre-production period, as investments in the hydrocarbon sector typically have high import content. From the production years onwards, however, exports increase substantially and reduce the current account deficit substantially. For the time being, the assumption is made that all oil and gas production is exported.[12]

Text Figure 4. Projected resources revenues
(Percent of non-resource GDP and of total fiscal revenues)



Sources: Senegalese authorities and IMF staff calculations.

31. Fiscal management of oil and gas sectors should be consistent with international best practices to ensure optimal use of the resources. The authorities are committed to ensure that all hydrocarbon revenues transit through the central government budget and that a share of resource revenues should be allocated for stabilization and intergenerational purposes. However, they should also ensure that there is a clear link between hydrocarbon revenues and the existing WAEMU deficit

[10] "Resource-rich country" refers to a country whose exhaustible natural resources comprise at least 20 percent of total exports or 20 percent of non-natural resource revenues (see the IMF paper "Macroeconomic Policy Frameworks for Resource-Rich Countries (2012)).

[11] While hydrocarbon production would taper off in the outer years, it is important to note that the level of GDP would still be higher throughout the period compared to an alternative scenario without oil and gas.

[12] This is a hypothetical scenario that would be updated when details of the national strategy for the hydrocarbon sector are finalized.

rule. For this purpose, fiscal policy could be anchored to a non-resource primary balance rule (NRPB) (IMF, 2012). The level of the NRPB can be used as a benchmark for a sustainable level of spending that considers the finiteness of the resource wealth (see accompanying Selected Issues Paper). More generally, the authorities should put in place a new fiscal framework which will ensure consistency between objectives and is designed to support countercyclical fiscal policy, transparency, good governance, and sound PFM.

Authorities' Views

32. The authorities welcomed the incorporation of macroeconomic effects of hydrocarbons into the macroeconomic framework and assured the mission of their commitment to a transparent governance framework for the sector. Teams from the Ministry of Finance and national statistics agency (ANSD) worked with IMF staff on incorporating oil and gas effects into the countries' macro-framework. The authorities also welcomed the support of the IMF and the World Bank in providing TA on the petroleum code that was expected to be finalized by end-2018. Work on the institutional set-up that is to govern the management of future resource revenues is ongoing with IMF assistance, and the authorities stressed the importance of key aspects of this, such as all hydrocarbon revenues transiting through the central government budget.

F. Inequality and Gender

33. Further reduction of large gender gaps in Senegal would have potential macroeconomic benefits.[13] The economic literature shows that gender gaps in education can have negative consequences for economic growth, development, and diversification, and that gender inequality is associated with lower economic growth, higher income inequality and lower economic diversification.[14] Over the past two decades, Senegal has made progress in addressing inequality between men and women. For instance, gender gaps in primary education have closed in both enrollment and completion rates (and have actually started reversing) and female labor force participation increased from 34 percent of the total labor force in 2000 to 41 percent in 2016. However, large gaps persist in secondary education and are more

Recent Evolution of Gender Gaps in Education

		Year	Females	Males
Primary Education	Gross enrollment	1999	59	71
		2016	88	78
	Completion Rate	2000	33	43
		2016	64	54
Secondary Education	Gross enrollment	1999	12	18
		2016	48	48
	Completion Rate	2005	10	14
		2012	14	26
Tertiary Education	Gross enrollment	2008	5	10
		2016	8	13
	Completion Rate	2006	4	8
		2016	8	13

Sources: DHS, Unesco, World Development Indicators.

[13] See accompanying Selected Issues Paper "Gender Gaps in Senegal: From Education to Labor Market."

[14] See Gonzales, C., S. Jain-Chandra, K. Kochhar, and M. Newiak. 2015, "Fair Play: More Equal Laws Boost Female Labor Force Participation." Staff Discussion Note, SDN/15/02, Hakura, M.D.S., Hussain, M.M., Newiak, M.M., Thakoor, V. and Yang, M.F. 2016, "Inequality, Gender Gaps and Economic Growth: Comparative Evidence for Sub-Saharan Africa." IMF Working Paper, WP/16/111 and Kazandjian, R., Kolovich, M.L., Kochhar, M.K. and Newiak, M.M. 2016, "Gender Equality and Economic Diversification." IMF Working Paper, WP/16/140.

pronounced in tertiary education. In 2012, for every 10 boys completing their secondary education, only 6 girls got their diploma. Furthermore, sizable wage gender gaps persist, as women face larger barriers to enter and advance in the labor market and entrepreneurial activities. Estimations using the 2011 Household Survey point to a wage gap of 47 percent in Senegal, even after controlling for other variables such as education, experience, sector, localization, type of contract and type of job.

34. **Social barriers and funding issues create obstacles, requiring stronger efforts to address the gaps.** The authorities understand that there are many social barriers preventing a broader and more effective discussion of gender inequality in the country. For instance, even though the fertility rate is at 4.8, family planning discussion is not common. Furthermore, there are other challenges, including: (i) difficulties in enforcing civil laws in areas where customary laws are the norm; (ii) women have less access to assets, especially land; and (iii) girls' secondary education dropout rates are higher due to factors like child pregnancy and child marriage. The fact that overall levels of education in Senegal are low—according to UNDP it was 3 years in 2015 (and about 5 years for the population under 20 years of age), compared to an average of 7 years in Sub-Saharan Africa—deepens the problem.

35. **Simulations show there are large economic and social gains from reducing gaps in education and in labor markets.** To study the issue, simulations are performed using a general equilibrium model with heterogeneous agents calibrated to the Senegalese economy.[15] The model starts from a benchmark where girls receive, on average, 75 percent of the years of education received by boys (and 50 percent when only the bottom 10 percent of the income distribution is taken into account). Increasing years of education so that every percentile of the income distribution receives at least 5 years of education promotes GDP gains in a single generation on the order of 8 percent, improves female labor force participation by 11 percentage points and reduces inequality (as measured by the Gini coefficient) by 3 percentage points. The measure would generate an extra 1.1 percent of GDP in tax collections and would cost 1.7 percent of GDP,[16] thus having a net cost of 0.6 percent of GDP. However, if this measure was accompanied by an increase in the formal sector of the magnitude of 10 percent of GDP (from 55 percent to 65 percent of GDP), then total government revenue collection gains would be 3.2 percent of GDP and the policy would generate a net budget surplus of 1.5 percent of GDP. If the policy was instead to increase the years of education to 10, consistent with the existing law which makes education compulsory until 16 years of age, the potential gains in a single generation would be substantial, amounting to 26 percent of GDP. Reducing discrimination in labor markets is also crucial, and for instance, a 5-percentage point drop in the earning gap due to discrimination could elevate female labor force participation by 8.6 percentage points.

[15] See "A General Equilibrium Model for Gender and Income Inequality", by Vivian Malta, Marina Mendes Tavares, Angelica Martinez and Lisa Kolovich, IMF Working Paper, forthcoming.

[16] For simplicity we assume that costs of increasing years of education are linear in years of schooling.

(continued)

36. Addressing the inequality gap is also germane for Senegal and tax reform could play a crucial role. Lower inequality is correlated with faster and more robust growth (Ostry, Berg, and Tsangarides, 2014[17]) and Senegal could further reduce its inequality gap. At the same time, the country is committed to meet the WAEMU tax revenue target over the medium term. A quantitative assessment of the macroeconomic and distributional impacts of a fiscal consolidation through value added tax (VAT), personal income tax (PIT), and corporate income tax (CIT) are explored with a heterogenous agents general equilibrium model.[18] Calibrated to represent the Senegalese economy, the model is used to simulate policy scenarios—raising additional tax revenue of 4 percent of GDP, in accordance with the need to reach the WAEMU target, through a combination of VAT, PIT, and CIT—that balance equity and efficiency. Results show that proper usage of savings from the consolidation, combined with a framework to ensure efficiency of public investment expenditures, could boost growth and reduce the rural-urban inequality gap.

Authorities' Views

37. The authorities reaffirmed their commitment to reduce gender and inequality gaps. They welcomed the findings from the gender and inequality analyses and expressed interest in the model toolkit.[19] Regarding the recommendations to diminish gender gaps, the authorities noted that a document with guidelines to reduce gender inequality has been published ("National Strategy for Equity and Gender Equality in Senegal: 2016 – 2026"), but that more effort is needed to address issues in many areas such as education (including high dropout rates for girls in secondary school due to early marriage and pregnancy), access to assets, discrimination in the labor market, and health outcomes. In terms of income inequality, the authorities concurred with staff that there is room to improve tax revenue mobilization, which can help strengthen public investment in support of growth and reduce the rural-urban inequality gap. They stressed that improving the living conditions of the population is a key element of the PSE and that social cohesion is important for macroeconomic stability. They expressed their commitment to continue their efforts to make growth more inclusive and reduce the gender gaps.

PROGRAM AND OTHER ISSUES

38. Program performance under the PSI remains broadly satisfactory. All end-June 2018 assessment criteria (AC) and indicative targets (ITs) were met, with the exception of the quarterly ceiling on the share of the value of public sector contracts signed by single tender in part because of

[17] Ostry, J., Berg, A. and Tsangarides, C. (2014): "Redistribution, Inequality and Growth," IMF Staff Discussion Note, SDN/14/02.

[18] See "The Macroeconomic and Distributional Implications of Fiscal Consolidation in Low-income countries," by Adrian Peralta-Alva, Marina Mendes Tavares, Xuan S. Tam and Xi Tang, 2018, IMF Working Paper No. 18/146. Also, please see accompanying Selected Issues Paper "Revenue Mobilization and Inequality in Senegal". During the mission, staff conducted a one-day workshop for the authorities on income inequality.

[19] During the October mission, staff conducted a one-day workshop for government officials on using the model for policy analysis.

the use of "unsolicited offers" for some projects. This IT has not been met since December 2017 and the single tender issue is being discussed in the context of the PIMA review. All end-September 2018 ITs were met, with the exception of the ceiling on the share of the value of public sector contracts signed by a single tender, floor on net lending/borrowing, and floor on tax revenues, the last representing a key weakness in program performance through the first nine months of 2018.[20] Performance on structural reforms was mixed. Two prior actions were met and two of the six structural benchmarks for the PSI seventh review were missed due to: (i) delays in the operationalization of the payment of taxes via mobile phones; and (ii) limited progress in implementing the action plan for reducing tax expenditures. Adjustors are being introduced to the end-December 2018 ACs on the floor on net lending/borrowing and the ceiling on the central government's overall net financing requirement as set forth in the TMU.

39. Safeguards Assessment. An updated safeguards assessment of the BCEAO, completed in April 2018, found that the central bank has maintained a strong control environment since the last assessment in 2013 and its governance arrangements are broadly appropriate. In addition, audit arrangements have been strengthened, International Financial Reporting Standards (IFRS) were adopted as the accounting framework beginning with the 2015 financial statements, and a 2016 external quality review of the internal audit function found broad conformity with international standards. The BCEAO's risk management framework established in 2014 is also progressing well with implementation of its work across the bank.

40. Data provision is broadly adequate for surveillance and program monitoring. In late-2017, Senegal became the fourth country in sub-Saharan Africa to subscribe to the IMF's Special Data Dissemination Standard (SDDS), which sets high standards for the timing and periodicity of dissemination of economic and financial data. In 2018, the base year for the calculation of national accounts was changed from 1999 to 2014, a process which updated data sources and broadened the coverage of economic activity to better capture, for example, informal sector activities. Senegal reports fiscal data under GFSM 2001/14. Progress has been made on broadening the perimeter of fiscal data from central government to the public sector, but further efforts are necessary before fiscal accounts of the full public sector can be reported. In addition, there are still weaknesses in data on national accounts and social indicators.

41. Capacity development by the IMF and other development partners is supporting PSI implementation, while contributing to meeting PSE objectives. IMF TA in Senegal currently reflects the importance attached to fiscal developments, and focuses on tax policy, revenue administration, public investment efficiency and PFM. Recent IMF missions have conducted a FTE and a PIMA, with attached action plans to improve Senegal's performance in these areas. Technical assistance has also been delivered to expand fiscal data beyond central government, which has helped expand the perimeter of debt data. Finally, close cooperation between the IMF and Senegal

[20] Please see discussion in ¶10 for details of fiscal performance through the first nine months of 2018.

on macro-critical issues related to oil and gas discoveries has developed in the past year, notably on statistical and fiscal aspects.

STAFF APPRAISAL

42. Sustaining high growth rates over the medium term requires effective implementation of fiscal consolidation and structural reforms. Growth in 2018 is projected to be above 6 percent for the fourth year in a row and inflation remains below 2 percent. However, for Senegal to reach its goal of reaching emerging market status by 2035, reforms should address development challenges in a sustainable way. Fiscal policy will need to deliver infrastructure and increased social spending without undermining fiscal sustainability, while steadfast implementation of structural reforms will need to facilitate private investment and growth. Policies to address gender and inequality issues would contribute to poverty reduction and well-distributed growth. The formulation and implementation of a comprehensive and effective reform strategy in the PSE II covering 2019-23 is essential to achieve these objectives. In the staff's view, the post-election period presents an opportunity to reinvigorate reform momentum and decisively implement key reforms to further strengthen fiscal sustainability and promote private sector-led growth.

43. In response to large tensions on budget execution, sizable spending cuts are needed to meet the 2018 fiscal targets. Fiscal challenges have been building in 2018, with weak revenue performance and pre-election pressure to increase spending, as well as a growing energy subsidy and higher than programmed "below-the-line" Treasury financing of the Post Office. This has led to an accumulation of unmet obligations to the energy sector and payment delays to other private sector participants. The staff is reassured by the authorities' firm commitment to implement substantial expenditure cuts in the last quarter of 2018 to meet fiscal targets.

44. Looking ahead, further fiscal reforms to increase revenues and strengthen PFM are needed to support fiscal sustainability and growth. The 2019 budget is aligned with the WAEMU 3 percent of GDP convergence criterion, but strong efforts are needed to meet ambitious revenue projections, reduce energy subsidies and address the potential spillover of fiscal obligations from past years. Over the medium term, revenue measures are needed to reach the WAEMU tax revenue to GDP 20 percent criterion. On the expenditure side, it will be important to contain current expenditures and improve the efficiency of investment, while ensuring that expenditures and financing needs are consistent with the annual budget.

45. The external sector is stable, with oil and gas discoveries providing an opportunity to boost exports and diversification. The widening of the current account since 2016 has been matched by increases in external financing, including access to the Eurobond market. The WAEMU pooled reserves stood at over 4 months of imports through end-September 2018 and staff analysis finds Senegal's REER to be broadly consistent with fundamentals and desirable policy settings. A further widening of the external deficit is projected through 2021 due to the high import content of pre-production investment in the oil and gas sector, but this will be followed by a sharp reversal as production and export of hydrocarbons come online in 2022. The staff urges the authorities to develop a fiscal framework for oil and gas which is aligned with international best practices and ensures that these natural resources provide high economic and social returns. Senegal remains at low risk of debt distress, but is a borderline case.

46. The outlook for the Senegalese economy is broadly positive, but risks remain. Growth is projected to remain strong over the next few years and accelerate with the start of oil and gas production. The external position is broadly in line with medium-term fundamentals and desired policies. The financial sector is stable and good progress is being made toward implementing Basel II/III. However, Senegal will need to implement an ambitious structural reform agenda to ensure the private sector takes the lead role in sustaining high growth over the medium term. Potential domestic and regional security threats, adverse economic consequences of drought and possible increases in the cost of borrowing present additional sources of risks. On the upside, the potential macroeconomic benefits of oil and gas discoveries are significant.

47. Staff recommends completion of the seventh PSI review and approval of the modification of assessment criteria. All end-June 2018 quantitative assessment criteria and indicative targets were met, with the exception of the indicative target for the quarterly ceiling on the share of the value of public sector contracts signed by single tender. All end-September ITs have been met except for the ITs on the floor on net lending/borrowing, the floor on tax revenues and ceiling on the share of the value of public sector contracts signed by a single tender. Staff supports the authorities request for the modification of the end-December 2018 ACs on the floor on net lending/borrowing and the ceiling on central government overall net financing requirement.

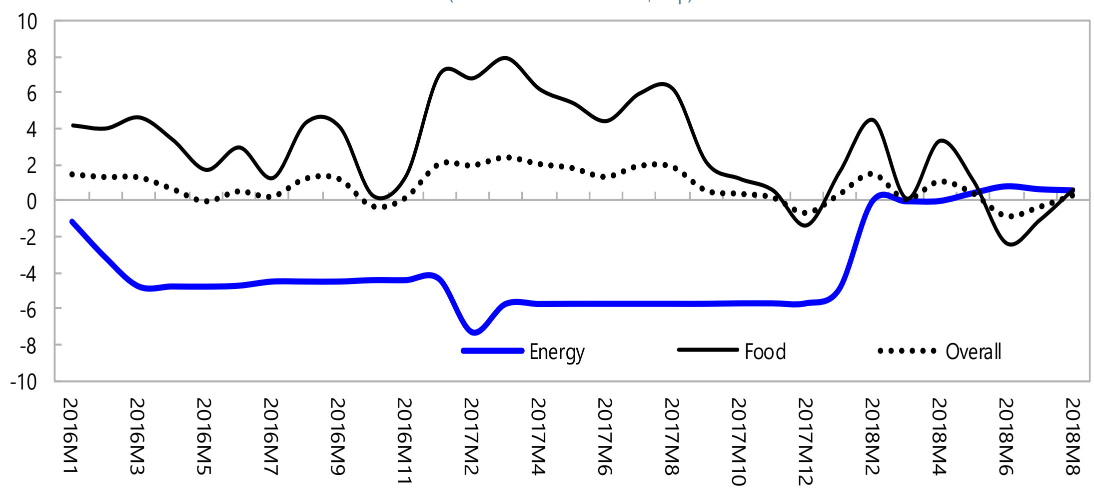
48. It is proposed that the next Article IV consultation take place within 24 months in accordance with the Decision on Article IV Consultation Cycles Decision No. 14747-10/96.

Figure 1. Senegal: High Frequency Indicators, 2015-18

At the end Oct-18, y-o-y inflation turned positive, driven by increasing food prices, while energy prices remained flat.

CPI Inflation

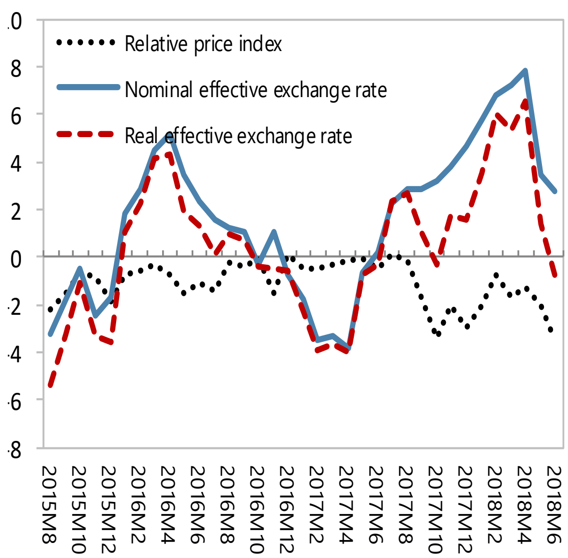
(12-month inflation rate, eop)



Real exchange rate appreciation that took place between mid-2017 and 2018Q1 has been partly reversed in recent months as the dollar strengthened vis-à-vis the euro.

Effective Exchange Rate

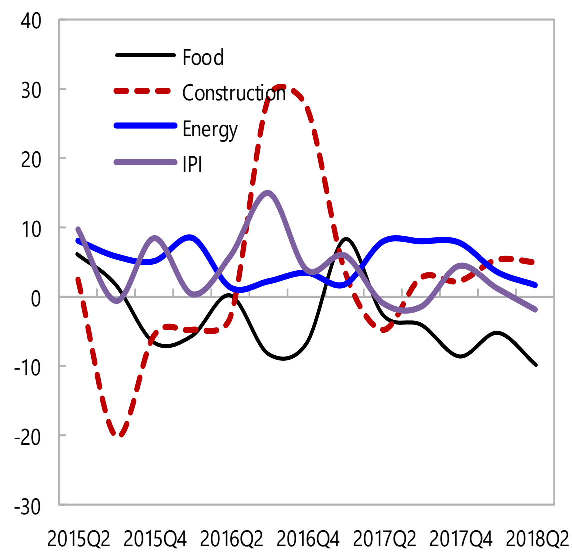
(12-month percentage change)



Food production performed poorly, which contributed to the overall index posting negative growth in 2018Q2. Activity in construction sector picked up.

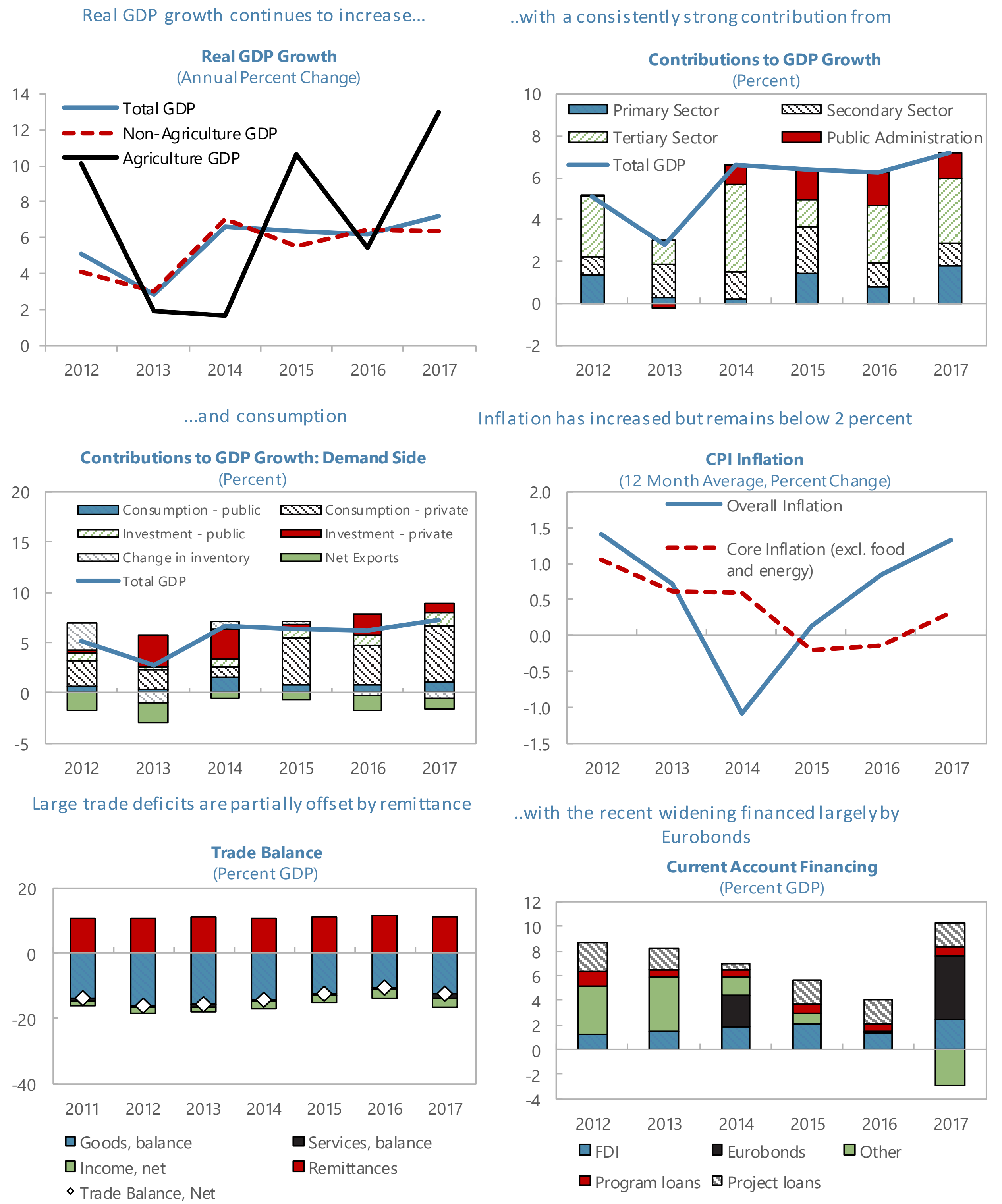
Industrial Production Index

(Annual percentage change, quarterly basis)



Sources: Senegal Authorities; and IMF Staff Calculations

Figure 2. Senegal: Real and External Sectors, 2012-17

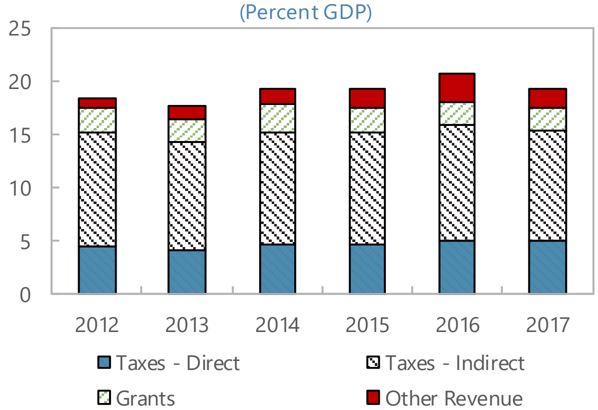


Source: Senegal Authorities; and IMF Staff Calculations

Figure 3. Senegal: Fiscal and Financial Indicators, 2012-18

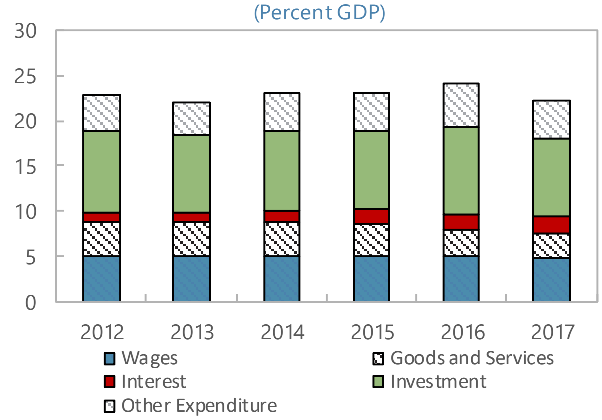
Tax revenues to GDP are below the 20 percent WAEMU target following rebasing

Revenue
(Percent GDP)



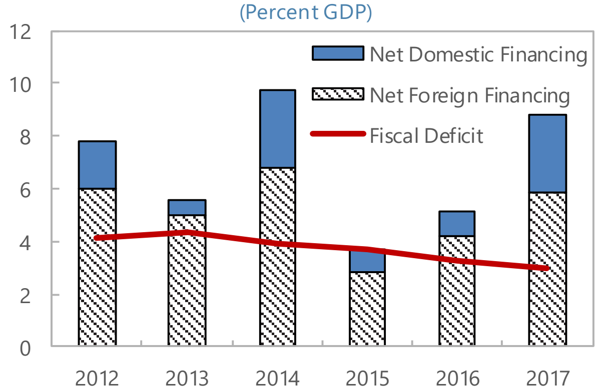
...with a recent cut in investment contributing to containment of expenditures

Expenditure
(Percent GDP)



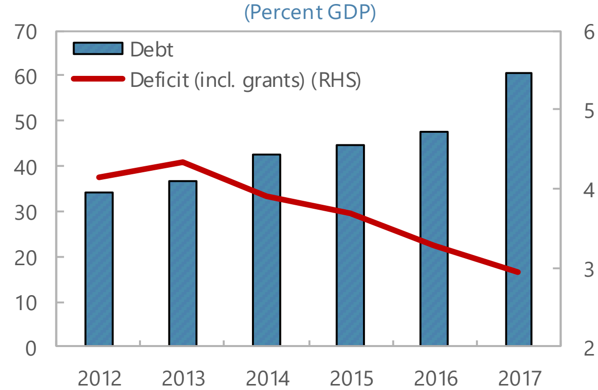
Financing is increasingly relying on external source

Financing
(Percent GDP)



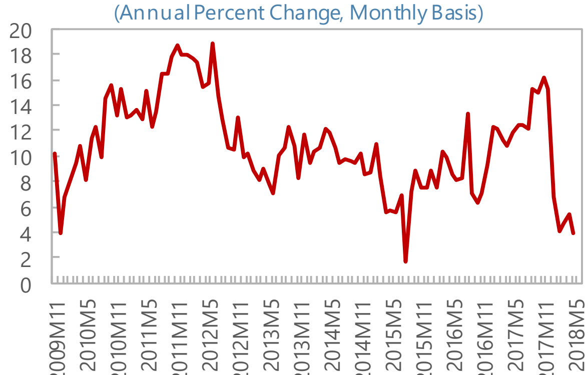
Debt has increased despite improving deficit

Debt and Deficit
(Percent GDP)



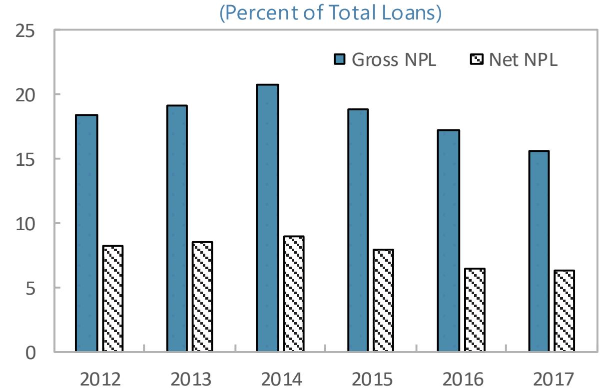
Growth in credit to private sector slowed in early

Credit to the Private Sector
(Annual Percent Change, Monthly Basis)



The level of NPLs are falling and in single digits net of provisioning

Non Performing Loans
(Percent of Total Loans)

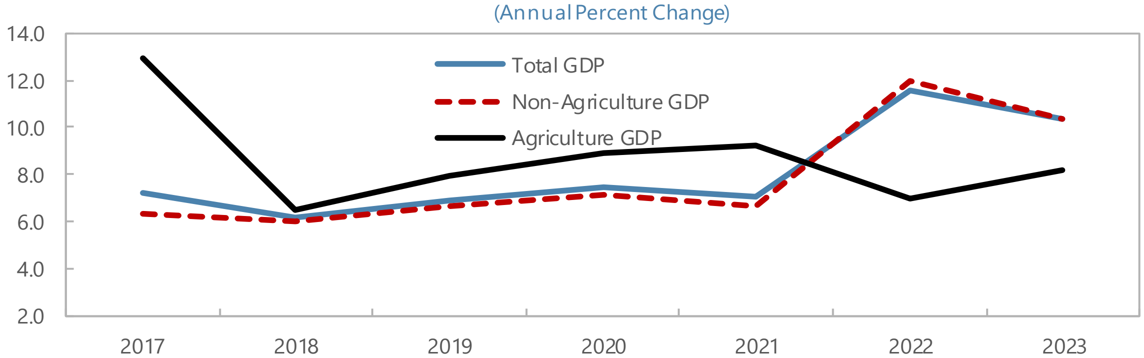


Source: Senegal Authorities; and IMF Staff Caluations.

Figure 4. Senegal: Outlook, 2017-23

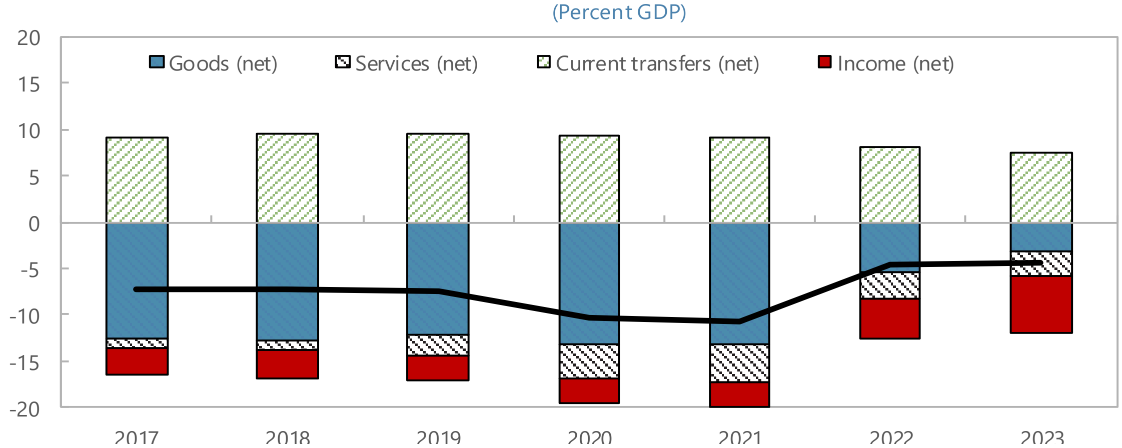
Under the PSE, implementation of structural reforms are meant to support high growth over the medium term, with an acceleration in 2022 due to oil and gas product

Real GDP Growth
(Annual Percent Change)



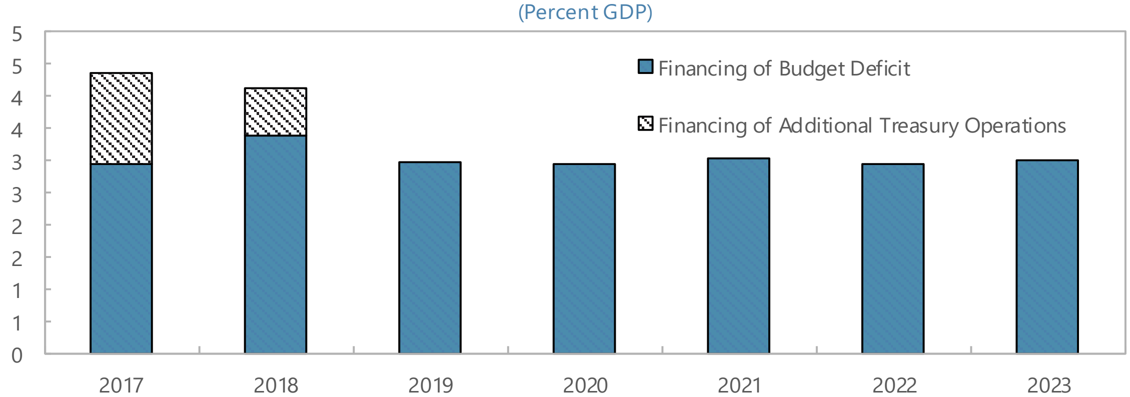
Oil and gas production leads to an initial increase in the current account balance during the investment period followed by a decrease as hydrocarbon exports start in 2022

Current Account Balance
(Percent GDP)



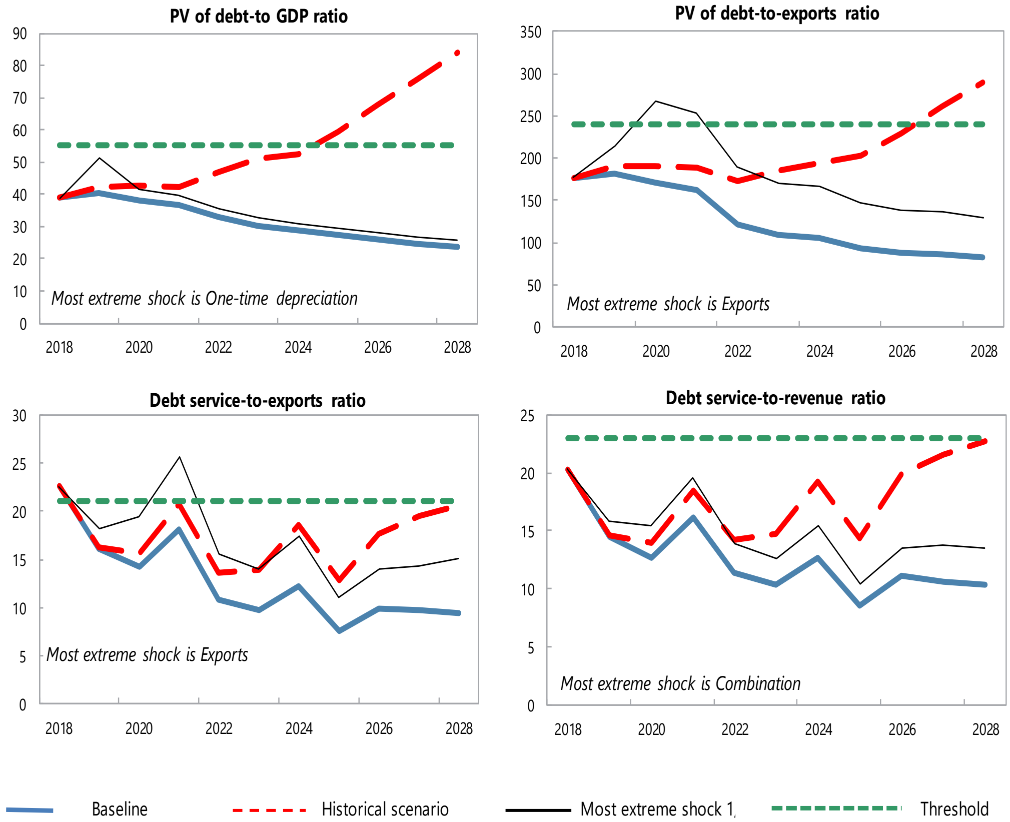
The reduction of additional Treasury operations contributes to lower government financing needs

Central Government Overall Financing Needs
(Percent GDP)



Source: Senegal authorities; and IMF Staff Calculations.

Figure 5. Indicators of Public and Publicly Guaranteed External Debt Under Alternatives Scenarios, 2018-28



Customization of Default Settings	Size	Interactions
Tailored Tests		
Combined CLs	Yes	
Natural Disasters	n.a.	n.a.
Commodity Prices [2/]	n.a.	n.a.
Market Financing	No	No

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

Borrowing Assumptions for Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	4.0%	4.0%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	17	17
Avg. grace period	7	7

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

Sources: Senegal authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2028. Stress tests with one-off breaches are also presented (if any), while these one-off breaches are deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

2/ The magnitude of shocks used for the commodity price shock stress test are based on the commodity prices outlook prepared by the IMF research department.

Figure 6. Senegal: Indicators of Public Debt Under Alternative Scenarios, 2018-28

Borrowing Assumptions for Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	49%	49%
Domestic medium and long-term	45%	45%
Domestic short-term	5%	6%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	4.0%	4.0%
Avg. maturity (incl. grace period)	17	17
Avg. grace period	7	7
Domestic MLT debt		
Avg. real interest rate on new borrowing	1.4%	1.4%
Avg. maturity (incl. grace period)	3	3
Avg. grace period	1	1
Domestic short-term debt		
Avg. real interest rate	4%	4%

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

Sources: Senegal authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2028. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Table 1. Senegal: Selected Economic and Financial Indicators, 2015–23

	2015	2016	2017	2018		2019	2020	2021	2022	2023
	Act.	Act.	Act.	EBS/18/57	Prel.	Projections				
				(Annual percentage change)						
National income and prices										
GDP at constant prices	6.4	6.2	7.2	7.0	6.2	6.9	7.5	7.1	11.6	10.4
Of which: nonagriculture GDP	5.5	6.5	6.3	6.7	6.0	6.7	7.1	6.6	12.0	10.4
Of which: Hydrocarbon GDP									...	50.2
Share of Hydrocarbon in total GDP (%)	0.0					0.0	0.0	0.0	4.6	6.4
GDP deflator	1.1	0.8	1.8	2.2	2.3	1.8	2.0	1.3	2.0	1.1
Consumer prices										
Annual average	0.1	0.8	1.3	1.4	0.7	1.3	1.5	1.5	1.5	1.5
End of period	0.4	2.1	-0.7	1.4	1.5	1.9	1.5	1.5	1.5	1.5
External sector										
Exports, f.o.b. (CFA francs)	11.7	3.6	12.0	12.2	11.7	11.9	11.5	10.5	46.6	15.7
Imports, f.o.b. (CFA francs)	2.7	-2.6	20.6	11.8	10.9	8.2	14.6	9.8	2.5	5.8
Export volume	12.7	8.9	9.4	4.6	4.9	11.9	11.3	10.1	53.3	16.2
Import volume	16.1	2.9	18.9	7.7	5.7	8.7	14.7	9.8	5.0	6.2
Terms of trade ("–" = deterioration)	12.0	0.4	0.8	3.4	1.4	0.5	0.3	0.4	-2.1	-0.1
Nominal effective exchange rate	-3.9	2.0	0.5	...	...	...	...	...	...	...
Real effective exchange rate	-5.9	1.3	-0.5	...	...	...	...	...	...	...
				(Changes in percent of beginning-of-year broad money)						
Broad money	19.3	13.8	9.2	10.7	5.8	12.6	9.6	...	...	...
Net domestic assets	10.6	13.6	6.6	8.3	-2.1	8.8	8.7	...	...	...
Credit to the government (net)	5.2	6.3	-0.8	-2.6	-5.2	5.7	1.1	...	...	...
Credit to the economy (net)	8.1	8.9	12.9	10.8	2.9	6.9	11.6	...	...	...
				(Percent of GDP, unless otherwise indicated)[1]						
Government financial operations										
Revenue	19.3	20.7	19.4	19.4	18.7	19.1	19.5	19.6	20.1	20.3
Grants	2.2	2.2	2.2	2.0	2.1	2.0	2.0	2.0	1.9	1.9
Total expenditure	23.0	24.0	22.3	22.9	22.1	22.0	22.4	22.6	23.0	23.3
Net lending/borrowing (Overall Balance)										
excluding grants	-5.9	-5.5	-5.1	-5.6	-5.4	-5.0	-4.9	-5.0	-4.9	-4.9
including grants	-3.7	-3.3	-2.9	-3.5	-3.4	-3.0	-3.0	-3.0	-3.0	-3.0
Primary fiscal balance	-2.2	-1.6	-1.0	-1.6	-1.4	-1.0	-1.1	-1.2	-1.2	-1.2
Savings and investment										
Current account balance (official transfers included)	-5.6	-4.0	-7.3	-8.0	-7.3	-7.5	-10.3	-10.8	-4.6	-4.4
Current account balance (official transfers excluded)	-6.2	-4.6	-0.4	-8.4	-7.7	-7.9	-10.7	-11.1	-4.9	-4.7
Gross domestic investment	26.1	25.3	27.5	25.9	26.3	27.7	28.7	30.7	29.5	33.2
Government[2]	6.3	7.0	7.6	6.5	9.6	10.1	10.2	10.4	10.1	10.3
Nongovernment	19.8	18.3	20.0	19.3	16.7	17.6	18.5	20.3	19.4	22.9
Gross national savings	20.4	21.3	20.3	17.9	19.0	20.2	18.4	20.0	24.9	28.9
Government	5.0	6.6	5.5	6.3	5.6	6.3	7.2	7.0	8.2	9.0
Nongovernment	15.5	14.7	14.7	11.6	13.4	13.9	11.2	13.0	16.8	19.9
Total public debt[3]	44.5	47.7	60.6	49.4	64.5	61.8	60.2	59.2	55.0	52.2
Domestic public debt[4]	12.2	14.1	20.2	6.6	16.9	14.7	15.2	16.2	16.2	16.5
External public debt	32.3	33.6	40.4	42.8	47.6	47.2	44.9	43.0	38.7	35.7
Total public debt service[3]										
Percent of government revenue	34.0	39.7	28.2	46.6	40.9	30.9	23.8	26.3	19.8	19.5
Memorandum item:										
Gross domestic product (CFAF billions)	10,509	11,252	12,278	13,407	13,340	14,524	15,924	17,268	19,653	21,921
Gross domestic product (USD billions)	17.8	19.0	21.1	...	...	...	...	...	...	...
National Currency per U.S. Dollar (Average)	591	593	581	...	...	...	...	...	...	...
WAEMU gross official reserves (billions of $US)[5]	12.5	10.5	13.0	...	15.1	...	...	...	...	...
(percent of broad money)	47.0	37.7	38.7	...	...	...	...	...	...	...
(months of WAEMU imports of GNFS)	5.0	3.8	3.8	...	...	...	...	...	...	...

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

[1] Based on new national accounts rebased to 2014.

[2] Reflects reclassification of public investment.

[3] Starting in 2017 debt level, debt service and government revenue include preliminary data covering the broader public sector.

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

[5] Values for 2018 are for end-Sept 2018. All other years are end-December.

Table 2. Senegal: Balance of Payments, 2015–23
(Billions of CFAF)

	2015	2016	2017	2018	2019	2020	2021	2022	2023
		Act.				Projections			
				(Billions of CFAF, unless otherwise indicated)					
Current account	-593	-456	-892	-973	-1,088	-1,641	-1,858	-899	-956
Balance on goods	-1,299	-1,165	-1,552	-1,706	-1,767	-2,097	-2,282	-1,045	-683
Exports, f.o.b.	1,644	1,703	1,908	2,131	2,384	2,659	2,938	4,306	4,981
Imports, f.o.b.	-2,944	-2,868	-3,460	-3,837	-4,151	-4,756	-5,221	-5,351	-5,664
Services and incomes (net)	-310	-368	-460	-532	-712	-1,021	-1,158	-1,443	-1,917
Credits	800	902	953	995	1,056	1,119	1,182	1,255	1,337
Debits	-1,110	-1,270	-1,413	-1,527	-1,768	-2,140	-2,339	-2,698	-3,254
Of which: interest on public debt	-176	-198	-234	-286	-310	-372	-401	-516	-573
Unrequited current transfers (net)	1,016	1,077	1,120	1,264	1,391	1,476	1,582	1,589	1,644
Private (net)	964	1,029	1,075	1,216	1,342	1,426	1,529	1,534	1,586
Public (net)	52	48	45	49	50	51	54	55	57
Of which: budgetary grants	31	33	49	37	40	42	44	46	49
Capital and financial account	875	502	1,036	1,349	1,271	1,692	1,979	1,753	1,691
Capital account	206	213	224	245	246	268	289	312	335
Private capital transfers	8	9	10	10	10	10	10	10	9
Project grants	200	215	215	237	256	261	282	305	329
Debt cancellation and other transfers	-2	-3	-1	-2	-3	-3	-3	-3	-3
Financial account	669	289	812	1,103	1,025	1,424	1,690	1,441	1,355
Direct investment	223	147	294	260	456	649	742	760	799
Portfolio investment (net)	156	-76	525	1,045	-50	89	339	177	213
Of which: Eurobond issuance	0	0	641	1,185	0	0	131	0	0
Other investment	290	218	-7	-202	619	687	608	504	344
Public sector (net)	181	251	315	-23	614	390	227	280	306
Of which: disbursements	279	308	409	343	830	557	572	474	491
program loans	68	73	80	63	68	74	73	73	73
project loans	211	220	241	280	551	309	324	340	357
other	0	15	88	0	212	175	175	60	60
amortization	-98	-147	-150	-366	-216	-167	-345	-194	-184
Private sector (net)	-42	-18	-123	-179	4	297	381	224	38
Errors and omissions	151	-15	-198	0	0	0	0	0	0
Overall balance	282	46	144	375	183	51	121	854	735
Financing	-282	-46	-144	-375	-183	-51	-121	-854	-735
Net foreign assets [1]	-100	215	-69	-375	-183	-51	-121	-854	-735
Net use of IMF resources	-19	-21	-20	-19	-13	-3	0	0	0
Purchases/disbursements	0	0	0	0	0	0	0	0	0
Repurchases/repayments	-19	-21	-20	-19	-13	-3	0	0	0
Other	-82	236	-50	-356	-171	-49	-121	-854	-735
Deposit money banks	-181	-261	-75	0	0	0	0	0	0
Residual financing gap	0	0	0	0	0	0	0	0	0
Memorandum items:									
Current account balance									
Including current official transfers (percent of GDP)	-5.6	-4.0	-7.3	-7.3	-7.5	-10.3	-10.8	-4.6	-4.4
Excluding current official transfers (percent of GDP)	-6.2	-4.6	-0.4	-7.7	-7.9	-10.7	-11.1	-4.9	-4.7
WAEMU gross official reserves (billions of US$) [2]	12.5	10.5	15.1	...	...	...	...	...	...
(percent of broad money)	47.0	37.7	...	...	...	...	...	...	...
(months of WAEMU imports of GNFS)	5.0	3.8	...	...	...	...	...	...	...
Gross domestic product	10,509	11,252	12,278	13,340	14,524	15,924	17,268	19,653	21,921

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

[1] This is not indicative of the country's impact on WAEMU's aggregate external position or the pooled WAEMU reserves since the data contains intra-WAEMU flows from the current, capital and financial account.

[2] Values for 2018 are for end-September 2018. All other years are end-December.

Table 3. Senegal: Balance of Payments, 2015–23
(Percent of GDP)

	2015	2016	2017	2018	2019	2020	2021	2022	2023
		Act.				Projections			
	(Percent of GDP, unless otherwise indicated)								
Current account	-5.6	-4.0	-7.3	-7.3	-7.5	-10.3	-10.8	-4.6	-4.4
Balance on goods	-12.4	-10.4	-12.6	-12.8	-12.2	-13.2	-13.2	-5.3	-3.1
Exports, f.o.b.	15.6	15.1	15.5	16.0	16.4	16.7	17.0	21.9	22.7
Imports, f.o.b.	-28.0	-25.5	-28.2	-28.8	-28.6	-29.9	-30.2	-27.2	-25.8
Services and incomes (net)	-2.9	-3.3	-3.8	-4.0	-4.9	-6.4	-6.7	-7.3	-8.7
Credits	7.6	8.0	7.8	7.5	7.3	7.0	6.8	6.4	6.1
Debits	-10.6	-11.3	-11.5	-11.4	-12.2	-13.4	-13.5	-13.7	-14.8
Of which: interest on public debt	-1.7	-1.8	-1.9	-2.1	-2.1	-2.3	-2.3	-2.6	-2.6
Unrequited current transfers (net)	9.7	9.6	9.1	9.5	9.6	9.3	9.2	8.1	7.5
Private (net)	9.2	9.1	8.8	9.1	9.2	9.0	8.9	7.8	7.2
Public (net)	0.5	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.3
Of which: budgetary grants	0.3	0.3	0.4	0.3	0.3	0.3	0.3	0.2	0.2
Capital and financial account	8.3	4.5	8.4	10.1	8.8	10.6	11.5	8.9	7.7
Capital account	2.0	1.9	1.8	1.8	1.7	1.7	1.7	1.6	1.5
Private capital transfers	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0
Project grants	1.9	1.9	1.8	1.8	1.8	1.6	1.6	1.6	1.5
Debt cancellation and other transfers	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	6.4	2.6	6.6	8.3	7.1	8.9	9.8	7.3	6.2
Direct investment	2.1	1.3	2.4	2.0	3.1	4.1	4.3	3.9	3.6
Portfolio investment (net)	1.5	-0.7	4.3	7.8	-0.3	0.6	2.0	0.9	1.0
Of which: Eurobond issuance	0.0	0.0	5.2	8.9	0.0	0.0	0.8	0.0	0.0
Other investment	2.8	1.9	-0.1	-1.5	4.3	4.3	3.5	2.6	1.6
Public sector (net)	1.7	2.2	2.6	-0.2	4.2	2.4	1.3	1.4	1.4
Of which: disbursements	2.7	2.7	3.3	2.6	5.7	3.5	3.3	2.4	2.2
program loans	0.6	0.6	0.6	0.5	0.5	0.5	0.4	0.4	0.3
project loans	2.0	2.0	2.0	2.1	3.8	1.9	1.9	1.7	1.6
other	0.0	0.1	0.7	0.0	1.5	1.1	1.0	0.3	0.3
amortization	-0.9	-1.3	-1.2	-2.7	-1.5	-1.0	-2.0	-1.0	-0.8
Private sector (net)	-0.4	-0.2	-1.0	-1.3	0.0	1.9	2.2	1.1	0.2
Errors and omissions	1.4	-0.1	-1.6	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	2.7	0.4	1.2	2.8	1.3	0.3	0.7	4.3	3.4
Financing	-2.7	-0.4	-1.2	-2.8	-1.3	-0.3	-0.7	-4.3	-3.4
Net foreign assets [1]	-1.0	1.9	-0.6	-2.8	-1.3	-0.3	-0.7	-4.3	-3.4
Net use of IMF resources	-0.2	-0.2	-0.2	-0.1	-0.1	0.0	0.0	0.0	0.0
Purchases/disbursements	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repurchases/repayments	-0.2	-0.2	-0.2	-0.1	-0.1	0.0	0.0	0.0	0.0
Other	-0.8	2.1	-0.4	-2.7	-1.2	-0.3	-0.7	-4.3	-3.4
Deposit money banks	-1.7	-2.3	-0.6	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	0.0
Memorandum item:									
Gross domestic product (CFAF billions)	10,509	11,252	12,278	13,340	14,524	15,924	17,268	19,653	21,921

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

[1] This is not indicative of the country's impact on WAEMU's aggregate external position or the pooled WAEMU reserves since the data contains intra-WAEMU flows from the current, capital and financial account.

Table 4. Senegal: Government and FSE Financial Operations, 2015–23[1]
(Billions of CFAF)

	2015	2016	2017	2018	2019	2020	2021	2022	2023
	Act.		Prel.	Projections					
				(CFAF billions)					
Revenue	2,026	2,335	2,377	2,494	2,767	3,103	3,383	3,945	4,453
Taxes	1,597	1,789	1,876	2,016	2,268	2,557	2,792	3,213	3,584
Taxes on income, profits, and capital gains	435	513	559	579	685	760	824	937	1,046
Taxes on payroll and workforce	20	17	14	10	32	32	35	39	44
Taxes on property	31	30	34	52	44	48	52	57	64
Taxes on goods and services	855	960	904	980	1,109	1,273	1,400	1,630	1,818
Taxes on international trade and transactions	228	235	266	298	304	334	362	412	460
Other taxes	27	34	99	97	94	111	121	138	153
Grants	232	244	264	274	291	318	343	374	407
Budget	31	38	49	37	51	56	61	69	77
Projects	201	206	215	237	240	261	282	305	329
Other revenue	197	302	236	203	208	228	247	357	463
Expenditure	2,413	2,704	2,739	2,946	3,197	3,573	3,907	4,525	5,113
Expense	1,504	1,613	1,679	1,923	1,973	2,170	2,356	2,691	3,053
Compensation of employees	526	572	600	680	741	828	898	1,022	1,140
Use of goods and services	384	322	326	314	334	398	449	511	570
Interest	160	188	234	266	283	295	316	345	390
Foreign	126	140	178	227	249	267	280	308	347
Domestic	34	48	56	39	34	28	36	37	44
Subsidies	51	52	43	129	122	79	73	85	92
of which: subsidies to SENELEC financed by FSE	0	20	0	18	12	0	0	0	0
of which: SENELEC from budget	0	0	0	52	50	33	25	25	25
of which: Fuel subsidies	0	14	0	14	16	0	0	0	0
Grants (current excl. FSE)	216	284	190	248	261	286	311	337	375
Social benefits	60	6	7	7	15	31	50	97	113
Other expense	108	189	280 .	279	218	254	259	295	373
Net acquisition of nonfinancial assets	909	1,091	1,059	1,023	1,224	1,403	1,551	1,834	2,060
Net lending/borrowing *(Overall balance)*	-387	-369	-362	-453	-430	-471	-524	-581	-660
Transactions in financial assets and liabilities (Financing)	-387	-369	-362	-453	-430	-471	-524	-581	-660
Net acquisition of financial assets	-100	-58	24	236	-236	0	0	0	0
Domestic	-145	-58	24	236	-236	0	0	0	0
Currency and deposits	-128	-89	24	236	-236	0	0	0	0
Debt securities	13	0	0	0	0	0	0	0	0
Loans	0	0	0	0	0	0	0	0	0
Other accounts receivable	-29	31	0	0	0	0	0	0	0
Foreign	45	0	0	0	0	0	0	0	0
Net incurrence of liabilities	287	311	386	689	194	471	524	581	660
Domestic	-56	-162	-334	-361	-131	80	50	101	119
IMF and SDRs	-19	-21	-20	-31	-22	-4	0	0	0
Debt securities (net)	33	125	-88	-183	-61	134	89	126	144
Loans	-14	-50	-55	-48	-49	-50	-38	-25	-25
Other accounts payable[2]	-56	-216	-172	-98	0	0	0	0	0
Foreign	343	473	720	1,050	326	390	474	480	541
Debt securities (net)	161	312	461	1,073	-77	115	361	200	235
T-bills and bonds issued in WAEMU	161	312	-181	-112	-77	115	230	200	235
Eurobond	0	0	641	1,185	0	0	131	0	0
Loans	181	162	259	-23	402	276	112	280	306
Program loans	68	73	80	63	68	74	73	73	73
Project loans	211	220	241	280	551	309	324	340	357
Nonconcessional loans	0	15	88	0	0	60	60	60	60
Other	-98	-147	-150	-366	-216	-167	-345	-194	-184
Other accounts payable	0	0	0	0	0	0	0	0	0
Errors and omisions	0	0	0	0	0	0	0	0	0
Memorandum items:									
Total Financing (deficit +nonbudgetary additional borrowing)	…	585	534	551	430	471	524	581	660
Net lending /borrowing *(excluding grants)*	522	722	697	571	794	932	1,027	1,254	1,400
Nominal GDP	10,509	11,252	12,265	13,340	14,524	15,924	17,268	19,653	21,921

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] Starting in 2016, Treasury operations to finance (i) Post office operations (Poste and Poste Finance), (ii) pensions (Fonds National de Retraites), and (iii) reduction of stock of comptes de depots.

Table 5. Senegal: Government and FSE Financial Operations, 2015–23[1]

(Percent of GDP)

	2015	2016	2017	2018	2019	2020	2021	2022	2023
	Act.		Prel.	Projections					
	(Percent of GDP, unless otherwise indicated)								
Revenue	19.3	20.7	19.4	18.7	19.1	19.5	19.6	20.1	20.3
Taxes	15.2	15.9	15.3	15.1	15.6	16.1	16.2	16.3	16.3
Taxes on income, profits, and capital gains	4.1	4.6	4.6	4.3	4.7	4.8	4.8	4.8	4.8
Taxes on payroll and workforce	0.2	0.2	0.1	0.1	0.2	0.2	0.2	0.2	0.2
Taxes on property	0.3	0.3	0.3	0.4	0.3	0.3	0.3	0.3	0.3
Taxes on goods and services	8.1	8.5	7.4	7.3	7.6	8.0	8.1	8.3	8.3
Taxes on international trade and transactions	2.2	2.1	2.2	2.2	2.1	2.1	2.1	2.1	2.1
Other taxes	0.3	0.3	0.8	0.7	0.7	0.7	0.7	0.7	0.7
Grants	2.2	2.2	2.2	2.1	2.0	2.0	2.0	1.9	1.9
Budget	0.3	0.3	0.4	0.3	0.4	0.4	0.4	0.4	0.4
Projects	1.9	1.8	1.8	1.8	1.7	1.6	1.6	1.6	1.5
Other revenue	1.9	2.7	1.9	1.5	1.4	1.4	1.4	1.8	2.1
Expenditure	23.0	24.0	22.3	22.1	22.0	22.4	22.6	23.0	23.3
Expense	14.3	14.3	13.7	14.4	13.6	13.6	13.6	13.7	13.9
Compensation of employees	5.0	5.1	4.9	5.1	5.1	5.2	5.2	5.2	5.2
Use of goods and services	3.7	2.9	2.7	2.4	2.3	2.5	2.6	2.6	2.6
Interest	1.5	1.7	1.9	2.0	1.9	1.9	1.8	1.8	1.8
Foreign	1.2	1.2	1.5	1.7	1.7	1.7	1.6	1.6	1.6
Domestic	0.3	0.4	0.5	0.3	0.2	0.2	0.2	0.2	0.2
Subsidies	0.5	0.5	0.3	1.0	0.8	0.5	0.4	0.4	0.4
of which: subsidies to SENELEC financed by FSE	0.0	0.2	0.0	0.1	0.1	0.0	0.0	0.0	0.0
of which: SENELEC from budget	0.0	0.0	0.0	0.4	0.3	0.2	0.1	0.1	0.1
of which: Fuel subsidies	0.0	0.1	0.0	0.1	0.1	0.0	0.0	0.0	0.0
Grants (current excl. FSE)	2.1	2.5	1.6	1.9	1.8	1.8	1.8	1.7	1.7
Social benefits	0.6	0.1	0.1	0.1	0.1	0.2	0.3	0.5	0.5
Other expense	1.0	1.7	2.3	2.1	1.5	1.6	1.5	1.5	1.7
Net acquisition of nonfinancial assets	8.7	9.7	8.6	7.7	8.4	8.8	9.0	9.3	9.4
Net lending/borrowing *(Overall balance)*	-3.7	-3.3	-3.0	-3.4	-3.0	-3.0	-3.0	-3.0	-3.0
Transactions in financial assets and liabilities (Financing)	-3.7	-3.3	-3.0	-3.4	-3.0	-3.0	-3.0	-3.0	-3.0
Net acquisition of financial assets	-1.0	-0.5	0.2	1.8	-1.6	0.0	0.0	0.0	0.0
Domestic	-1.4	-0.5	0.2	1.8	-1.6	0.0	0.0	0.0	0.0
Currency and deposits	-1.2	-0.8	0.2	1.8	-1.6	0.0	0.0	0.0	0.0
Debt securities	0.1	0.0	0.0	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	0.0
Other accounts receivable	-0.3	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	2.7	2.8	3.1	5.2	1.3	3.0	3.0	3.0	3.0
Domestic	-0.5	-1.4	-2.7	-2.7	-0.9	0.5	0.3	0.5	0.5
IMF and SDRs	-0.2	-0.2	-0.2	-0.2	-0.1	0.0	0.0	0.0	0.0
Debt securities (net)	0.3	1.1	-0.7	-1.4	-0.4	0.8	0.5	0.6	0.7
Loans	-0.1	-0.4	-0.4	-0.4	-0.3	-0.3	-0.2	-0.1	-0.1
Other accounts payable[2]	-0.5	-1.9	-1.4	-0.7	0.0	0.0	0.0	0.0	0.0
Foreign	3.3	4.2	5.9	7.9	2.2	2.5	2.7	2.4	2.5
Debt securities (net)	1.5	2.8	3.8	8.0	-0.5	0.7	2.1	1.0	1.1
T-bills and bonds issued in WAEMU	1.5	2.8	-1.5	-0.8	-0.5	0.7	1.3	1.0	1.1
Eurobond	0.0	0.0	5.2	8.9	0.0	0.0	0.8	0.0	0.0
Loans	1.7	1.4	2.1	-0.2	2.8	1.7	0.7	1.4	1.4
Program loans	0.6	0.6	0.6	0.5	0.5	0.5	0.4	0.4	0.3
Project loans	2.0	2.0	2.0	2.1	3.8	1.9	1.9	1.7	1.6
Nonconcessional loans	0.0	0.1	0.7	0.0	0.0	0.5	0.5	0.5	0.5
Other	-0.9	-1.3	-1.2	-2.7	-1.5	-1.0	-2.0	-1.0	-0.8
Other accounts payable	0.0	0.0	0.0	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	0.0
Memorandum items:									
Total Financing (deficit +nonbudgetary additional borrowing)	…	5.2	4.4	4.1	3.0	3.0	3.0	3.0	3.0
Change in net worth: Transactions	5.0	6.4	5.7	4.3	5.5	5.9	5.9	6.4	6.4
Net lending /borrowing *(excluding grants)*	5.0	6.4	5.7	4.3	5.5	5.9	5.9	6.4	6.4
Nominal GDP	10,509	11,252	12,265	13,340	14,524	15,924	17,268	19,653	21,921

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] Starting in 2016, Treasury operations to finance (i) Post office operations (Poste and Poste Finance), (ii) pensions (Fonds National de Retraites), and (iii) reduction of stock of comptes de depots.

Table 6. Senegal: Monetary Survey, 2015–20

	2015	2016	2017	2018	2019	2020
	Act.	Act.	Act.	Proj.	Proj.	Proj.
			(Billions of CFAF)			
Net foreign assets	1,119	1,165	1,309	1,684	1,868	1,919
BCEAO	947	732	801	1,177	1,360	1,411
Commercial banks	172	433	508	508	508	508
Net domestic assets	2,769	3,271	3,551	3,452	3,881	4,358
Net domestic credit	3,538	4,100	4,611	4,506	5,116	5,811
Net credit to the government[1]	203	434	402	161	437	498
Central bank	47	28	-6	-273	-58	-62
Commercial banks	156	406	408	434	496	560
Other institutions	2	2	2	2	2	2
Credit to the economy	3,336	3,666	4,209	4,344	4,679	5,313
Shares and other equity	-531	-589	-677	-677	-677	-677
Other items (net)	-238	-240	-383	-376	-557	-775
Broad money	3,703	4,214	4,603	4,869	5,481	6,009
Currency outside banks	809	924	1,032	1,201	1,352	1,482
Total deposits	2,894	3,289	3,571	3,668	4,129	4,527
Demand deposits	1,683	1,990	2,091	2,212	2,490	2,730
Time deposits	1,211	1,299	1,480	1,455	1,638	1,796
Non-liquid Liabilities	184	222	257	268	268	268
			(Change in percentage of beginning-of-period broad money stock)			
Net foreign assets	9.1	1.2	3.4	8.2	3.8	0.9
BCEAO	3.2	-5.8	1.6	8.2	3.8	0.9
Commercial banks	5.8	7.0	1.8	0.0	0.0	0.0
Net domestic assets	10.6	13.6	6.6	-2.1	8.8	8.7
Net credit to the government[1]	5.2	6.3	-0.8	-5.2	5.7	1.1
Credit to the economy (net)	8.1	8.9	12.9	2.9	6.9	11.6
Other items (net)	-1.3	-0.1	-3.4	0.2	3.7	4.0
Broad money	19.3	13.8	9.2	5.8	12.6	9.6
Memorandum items:			(Units indicated)			
Velocity (GDP/broad money; end of period)	2.8	2.7	2.7	2.7	2.7	2.7
Nominal GDP growth (percentage growth)	7.5	7.1	9.1	8.6	8.9	9.6
Credit to the economy (percentage growth)	8.2	9.9	14.8	3.2	7.7	13.5
Credit to the economy/GDP (percent)	31.7	32.6	34.3	32.6	32.2	33.4
Variation of net credit to the government (yoy; CFAF billi	161.4	231.6	-32.0	-240.6	234.6	498.3

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 for the Banking Sector, 2010–17

	2010	2011	2012	2013	2014	2015	2016	2017
	December							
	(Percent, unless otherwise indicated)							
Capital Adequacy								
Regulatory capital to risk-weighted assets	18.2	16.0	16.8	16.3	16.4	17.7	14.8	14.2
Regulatory Tier I capital to risk-weighted assets	17.9	15.9	16.4	15.9	15.9	17.3	14.1	13.7
Capital to total assets	10.1	9.7	9.8	9.4	9.1	8.5	7.2	7.8
Asset Composition and Quality								
Total loans to total assets	66.3	69.4	69.9	68.4	67.9	64.3	63.2	70.4
Large Exposures to Capital	70.8	62.4	57.6	54.2	48.4	40.2	66.2	55.4
Sectoral distribution of loans								
Industrial	26.4	22.2	23.8	25.5	23.1	19.8	21.2	...
Retail and wholesale trade	23.8	19.2	21.6	23.8	23.7	21.9	25.3	...
Services, transportation and communication	41.9	34.0	30.6	35.9	41.0	38.7	46.3	...
Ratio of non-performing loans (NPLs) to total loans	20.2	16.2	18.4	19.1	20.8	18.8	17.3	15.5
Of which: without ICS	15.8	13.2	15.1	14.8	17.6	18.0	17.1	15.4
Ratio of provisions for NPLs to total NPLs	54.9	54.0	56.1	55.8	58.1	57.9	62.3	59.3
Of which: without ICS	65.3	68.3	63.0	66.8	60.7	60.4	63.0	59.9
NPLs net of provisions to total loans	9.1	8.1	8.2	8.6	9.0	7.9	6.5	6.3
Of which: without ICS	6.1	4.6	6.3	5.6	7.7	7.1	6.3	6.2
NPLs net of provisions to capital	52.3	50.4	51.4	54.7	60.6	60.0	56.7	57.4
Of which: without ICS	41.5	35.7	38.8	43.3	58.2	54.0	55.1	56.0
Earnings and profitability								
Average cost of borrowed funds	2.2	2.0	2.1	1.9	2.0	1.0	2.0	2.7
Average interest rate on loans[1]	8.1	8.4	8.6	8.1	7.8	12.5	10.5	...
Average interest margin[2]	5.9	6.4	6.6	6.2	5.8	11.5	8.5	...
After-tax return on average assets	1.6	2.2	1.7	1.3	0.6	0.9	0.9	1.7
After-tax return on average equity	15.4	22.6	17.4	13.7	6.8	9.3	9.6	17.4
Noninterest expenses/gross banking income	68.4	71.7	70.3	66.5	69.3	69.7	70.3	67.4
Personnel expenses/non-interest expenses	34.3	29.2	32.4	36.3	32.9	33.2	33.0	33.7
Liquidity								
Liquid assets to total assets	39.8	36.1	37.0	42.1	40.8	51.0	53.4	50.0
Liquid assets to short-term liabilities	79.4	77.7	78.3	80.1	76.1	75.3	75.2	73.1
Total deposits to total liabilities	76.0	62.8	70.7	67.0	66.7	75.6	71.6	73.7

Source: BCEAO.

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

[2]Excluding the tax on banking operations.

Annex I. External Sector Assessment

The external position of Senegal in 2017 is broadly consistent with fundamentals and desirable policy settings. After widening in 2017, the current account remains stable in 2018, pointing to a sustainable external position in 2018. Survey-based indictors of external competitiveness show that Senegal has outperformed regional peers in the past. However, in light of improvements in these countries in recent years, Senegal will need to do better to address the bottlenecks to private sector development in order to maintain or improve its standing.

Assessment of the External Position

The current account deficit widened sharply in 2017. After a steady decline from 8.7 percent of GDP in 2012 to 4 percent in 2016, the current account widened to 7.3 percent in 2017. This trend reversal in the current account reflects higher global commodity prices and expansionary fiscal policies. The current account deficit is projected to remain stable at 7.3 percent of GDP in 2018, also reflecting the fiscal deficit, as well as structural factors. It is expected to remain elevated in subsequent years and is projected to further deteriorate in 2020-2021, owing to high investment in oil and gas pre-production period. The current account is projected to improve from 2022 onward, as the oil and gas sector enter in production (Table 1 of the Staff Report).

Foreign direct investment (FDI) has modestly increased, and portfolio investment inflows have surged recently. Net FDI inflows remain modest but have increased from 1.3 percent of GDP in 2016 to 2.4 percent in 2017 and are expected to stand at 2 percent in 2018. Portfolio debt inflows have surged owing to the successful Eurobond issuance in 2017 and 2018 and reflecting investor confidence in Senegal (Figure I.1). The net IIP position remains negative at 51 percent of GDP in 2017, mostly reflecting persistent current account deficits. A narrowing of the current account deficit and fiscal consolidation are required to stabilize it.

After a fall in 2016, WAEMU pooled reserve accumulation has picked up again. WAEMU pooled international reserves dropped by CFAF 933 billion ($1.7 billion) in 2016. However, international reserves have picked up since 2017, mainly on the back of capital account surpluses and portfolio inflows. The regional pooled reserves stood at $15.1 billion at end-September 2018 (more than 4 months of imports), up from $13.1 billion at end-2017, with the increase largely driven by Eurobond issuances of Senegal and Cote d'Ivoire in the first half of the year.

EBA-lite estimates using the latest available outturn data (2017) indicate that Senegal's external position is broadly consistent with fundamentals and desirable policy settings.

- The external sustainability approach of EBA-lite, points to: (i) a small undervaluation of -0.1 percent when targeting a net international investment position (NIIP) of -40 percent for the next 10 years; and (ii) an overvaluation of 4 percent when stabilizing the NIIP at the current level of -51 percent of GDP.

- While the unadjusted current account (CA) model points to a cyclically adjusted CA of -7.3 percent of GDP, it does not capture country-specific factors underpinning Senegal's CA developments. Specifically, in staff's view, the CA is boosted by temporary factors, notably an increase in investment and strong imports growth largely owing to the buoyancy of the economy, which is growing above potential. Owing to these reasons, staff estimates the cyclically adjusted CA, removing all temporary factors, to be about -5.8 percent of GDP. The CA gap is estimated at -1.2 percent of GDP after the adjustment and the REER would be overvalued by 4.9 percent.

EBA-Lite Results, 2017(percent of GDP)

EBA-Lite External Sustainability Approach			
IIP stabilization at -51 percent of GDP		IIP stabilization at -40 percent of GDP within 10 years	
Underlying CA	-6.3	Underlying CA	-6.3
CA norm	-6.4	CA norm	-5.3
CA gap	0.0	CA gap	-1.0
REER gap	-0.1	REER gap	4.0
EBA-Lite REER Approach			
REER gap	-15.0		
EBA-Lite CA Approach			
Standard version		Adjusted version	
Actual CA	-7.3	Actual CA	-7.3
Cyclically-adjusted CA	-7.3	Cyclically-adjusted CA (removing all temporary factors)	-5.8
CA norm	-4.6	CA norm	-4.6
Cyclically-adjusted CA norm	-4.6	Cyclically-adjusted CA norm	-4.6
CA gap	-2.7	CA gap	-1.2
Elasticity	-0.3	Elasticity	-0.3
REER gap	10.8	REER gap	4.9

- The equilibrium real effective exchange rate (REER) approach appears as an outlier showing an undervaluation of 15 percent.

Both the external sustainability approach and the current account approach yield misalignments which are within the range considered in line with fundamentals based on both the CA gap and the REER gap. The REER index model has limitations for a country such as Senegal with: (i) no sustained price pressure (inflation below 2 percent); (ii) large structural changes; and (iii) short data spans. As the current account model takes full advantage of cross-country information it appears more reliable for Senegal.[1]

The external position is expected to remain sustainable in 2018. Current account developments in 2018 are similar to those in 2017 and the deficit is projected to remain stable at 7.3 percent of GDP. This points to a sustainable external position, expected to be broadly in line with fundamentals and desirable policy settings in 2018. [2]

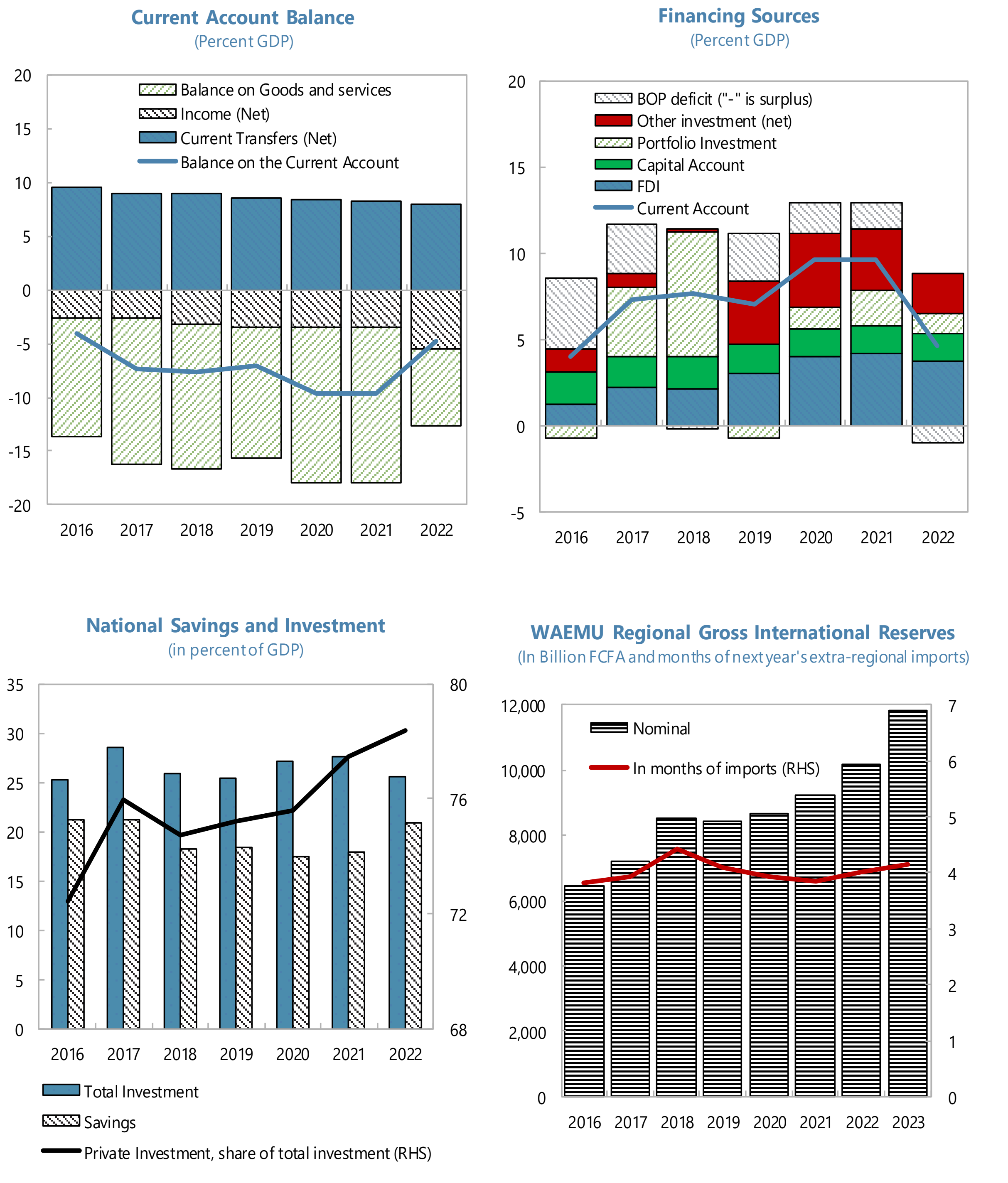
[1] The policy gaps are relatively small, with the fiscal deficit close to the long-term desired policy stance of 3 percent of GDP.

[2] It is noteworthy mentioning that the EBA-lite framework has recently been revamped and upgraded into EBA-lite 2.0. However, this assessment was conducted before the cut-off date of October 15, 2018 and was based on EBA-lite 1.0. The results were discussed with the authorities in October 2018. The application of EBA-lite 2.0 to 2018 outturn data (once available) could have some implications for the CA norm.

Structural Competitiveness

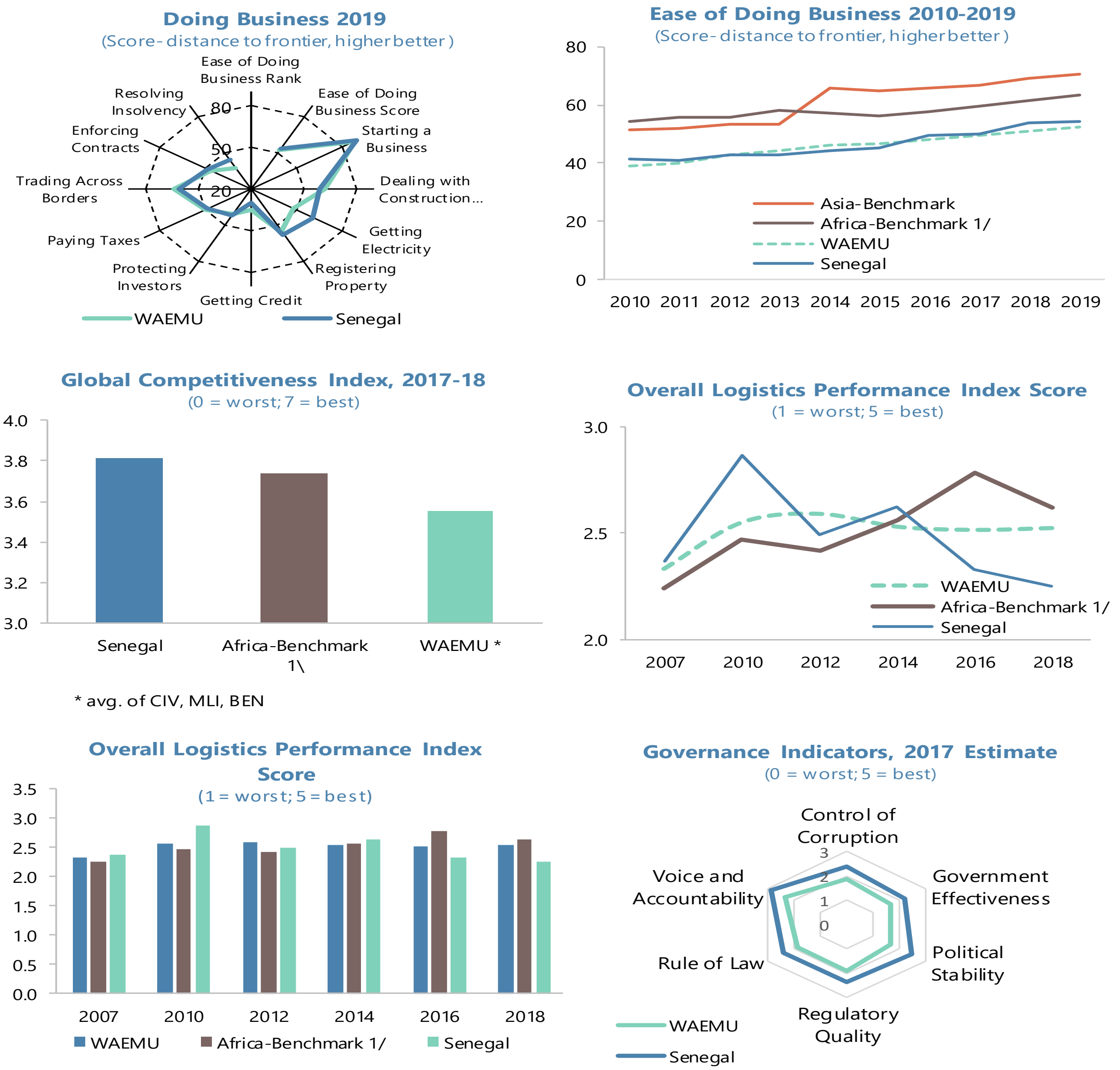
While the level of the real exchange rate is not an issue, competitiveness could be strengthened through structural reforms to improve the business environment. Senegal has in the past outperformed regional peers with regard to governance in general and its attractiveness for doing business in particular. This can be confirmed across different indicators and sources such as the World Bank's Doing Business and World Governance indicators or the World Economic Forum's competitiveness scores (Figure I.2). As other countries have started improving their standing in these indicators (Figure I.2), it is crucial for Senegal to accelerate structural reforms to maintain or even improve its position. Similarly, while Senegal has been able to increase export diversification in products as well as across trading partners (IMF Country Report No. 17/2), it needs to step up efforts to fully operationalize its Special Economic Zone (SEZ) through the "Triangle of Prosperity" project. The completion of this project will be a key driving force to attract further FDI and help expand the country's export-oriented productive capacity. Improving access to credit and creating a transparent, rules-based tax system that will make it simpler and more predictable would also boost private investment and help unlock Senegal's export potential.

Figure I.1. Senegal: Current Account Balance and Financing Sources, 2016-22



Sources: BCEAO, IMF staff calculations

Figure I.2. Senegal: Doing Business, Competitiveness, Logistics, and Governance Indicators



1/ African Benchmark countriess includs Ghana, Kenya, Lesotho, Rwanda, Tanzania, Uganda and Zambia.
Note: The World Bank's Doing Business Indicators (DBI) and the World Economic Forum's Global Competitiveness Index (GCI) use methodologies for assessing relative performance across countries on a set of indicators. However, there are no internationally accepted statistical standards for these methodologies. Also, we should note that the country rankings are subject to uncertainties; DBI does not represent a comprehensive measure of the business environment in the whole economy; and caution must be exercised in interpreting the perception-based indices like the GCI. The DBI is currently under external review to assess the recent changes in methodology.
Sources: World Bank Doing Business; Global Competitiveness Report; Logistics Performance Index Dataset; World Governance Indicators; and IMF staff calculations.

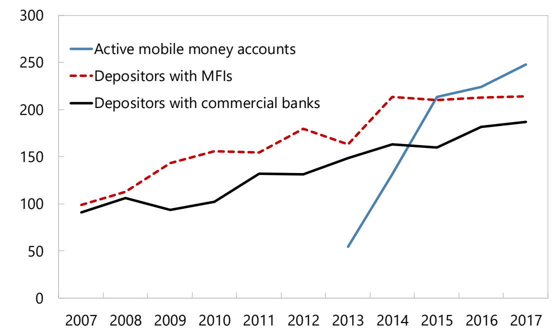
Annex II. Financial Sector Developments in Senegal[1]

Overview of Senegal's Financial Sector

Banks are the cornerstone of the financial system. The banking sector, as regulated by the WAEMU banking commission, is composed of 24 banks and 3 non-bank financial institutions. Banks account for more than 80 percent of total assets in the financial sector (CFAF 6,336 billion or 66 percent of GDP at end-2017). Foreign banks make up 69 percent of the banking system, of which four-fifths come from four international banking groups and the rest from WAEMU banks. The public sector's share is relatively small at 5 percent, which comes mainly through the State's large stakes in CNCAS (*Caisse Nationale de Crédit Agricole du Sénégal*) and BNDE (*Banque Nationale pour le Développement Economique*). Most banks (19) are universal banks, but five banks are specialized and cater to specific sectors like agriculture or housing.

Other parts of the financial sector are small, but some are growing fast. There are 36 registered microfinance institutions (MFIs), with assets totaling 3.3 percent of GDP at end-2017, while mobile money products are growing fast as well (see Figure II.1). The rest of the financial sector is made up of insurance companies, pension funds, the *Caisse des Dépôts et Consignation* (CDC), and institutions created for specific purposes like guarantees (FONGIP), or equity participations (FONSIS)—see Box II.1 below for a description of these institutions.

Figure II. 1. Financial Sector Development in Senegal
(Per 1,000 adults)

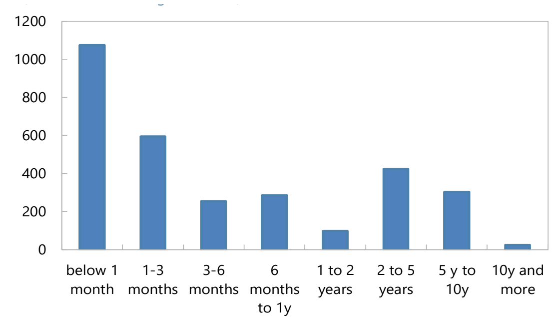


Sources: IMF Financial Access Survey

Recent Credit Market Developments

Credit growth slowed in the first half of 2018. In the first 9 months of 2018, growth of credit to the economy was negative (-4 percent). Part of this is due to a base effect linked to very fast credit growth in the second half of 2017 (+10 percent) which can, in part, be explained by the build-up of arrears of the public sector, and its unwinding in early 2018. Another factor is the introduction of new prudential norms aligned with Basel II/III in early 2018 for which banks have put aside capital.

Figure II.2. Loan Maturities in Senegal's Banking Sector
(CFAF bn outstanding end-2017)

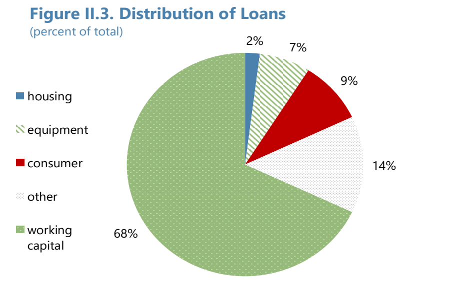


Sources: BCEAO and IMF staff estimates.

[1] Prepared by Abdoulaye Tall and Bruno Versailles.

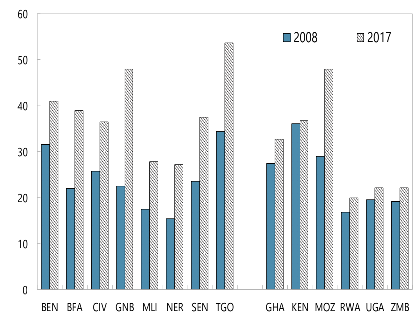
Senegal's financial sector is still relatively shallow, but some financial deepening has taken place in recent years. The shallowness of the financial system can be gauged from a disaggregation of loans which shows that most loans are short term (Figure II.2) and serve to finance working capital needs (Figure II.3). This indicates a lack of financial intermediation products to serve segments like longer-term investment projects. There has been some improvement over the past decade. For example, broad money as a percent of GDP stood at 37.5 percent at end-2017 (a ratio comparable to other WAEMU countries) (Figure II.4), up from 23.5 percent ten years earlier. Credit to the economy has also grown fast and stood at 35 almost percent of GDP at end-2017, which is high relative to other sub-Saharan African countries. Credit to the private sector grew faster than nominal GDP in the first part of the past decade (Figure II.5), as the credit stock grew to more than 30 percent of GDP. This rapid growth was helped by favorable global conditions and accommodative regional monetary policy. As the BCEAO tightened monetary policy at the end of 2016, the liquidity situation of the banking system deteriorated (Figure II.6) and deposit growth outpaced credit growth (Figure II.5). In recent months, excess liquidity grew more robustly again, which is a positive indicator for the availability of credit on the supply side.

Figure II.3. Distribution of Loans
(Percent of total)



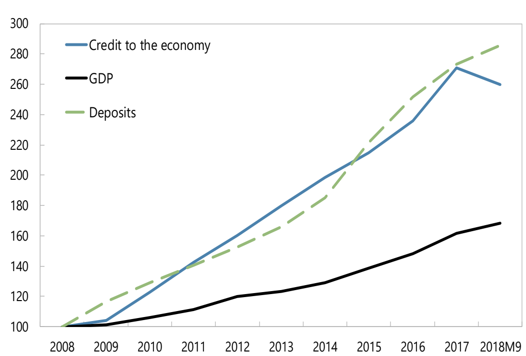
Sources: BCEAO.

Figure II.4. Broad Money Developments in SSA
(M2/GDP)



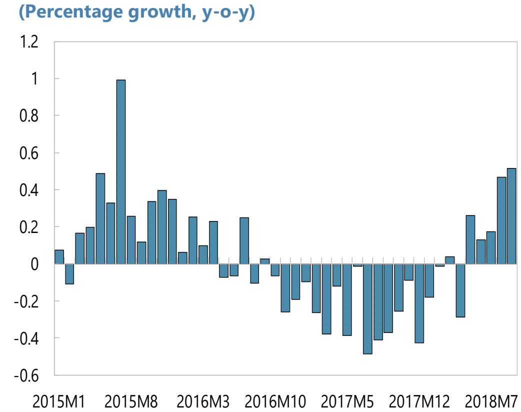
Sources: BCEAO and IMF staff estimates

Figure II.5. Credit, Deposits and Economic Activity in Senegal
(2008-2018M9, 2008=100)



* 2018Q3 GDP extrapolated from 2018Q1 and 2018Q2 quarterly GDP.
Sources: BCEAO and IMF staff calculations

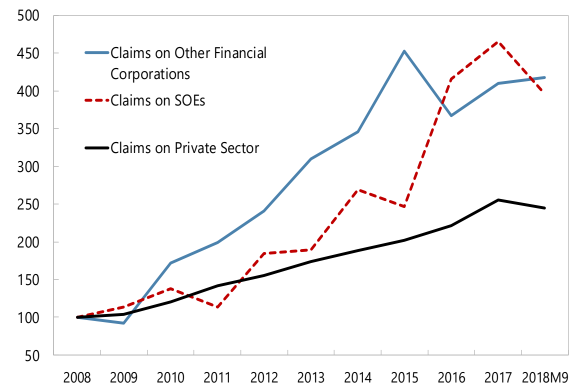
Figure II.6. Excess Liquidity in the Banking System
(Percentage growth, y-o-y)



Sources: BCEAO

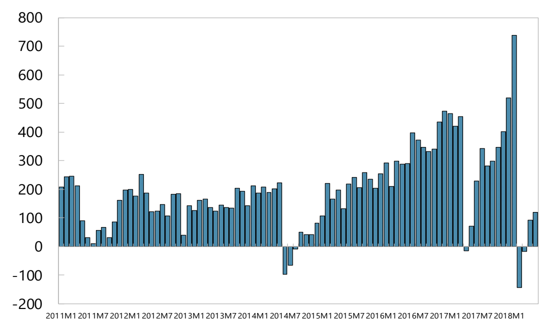
Lending to SOEs has grown fast in recent years. An analysis of the components of credit to the economy shows that, in recent years, lending to SOEs has been growing the fastest, as some SOEs were implementing PSE-related infrastructure projects (Figure II.7). As a ratio to GDP, SOE lending increased from 1 percent in 2011 to 2.7 percent at end-2017, the highest in WAEMU. When comparing to SSA frontier markets, only Ghana showed a similar increase. Part of these loans have been repaid in the first half of 2018 (Figure II.5), reversing the trend and reducing exposure of the financial system to SOEs. Risks in the banking system would increase if banks would have large exposure to a small number of SOEs.

Figure II.7. Components of Credit to the Economy
(Index, 2008=100)



Sources: BCEAO and IMF staff estimates.

Figure II.8. Credit to Central Government)
(FCFA billion)



Sources: BCEAO.

Banking credit to the central government is heavily influenced by the timing of Eurobond issuances. Recent Eurobonds imply less opportunities for local banks to lend to government, and potentially more liquidity to "crowd in" lending to the private sector. The former effect can be clearly seen in 2011, 2014, 2017, 2018 – the years Eurobonds were issued, but the latter effect is less evident (Figure II.8).

Financial Stability

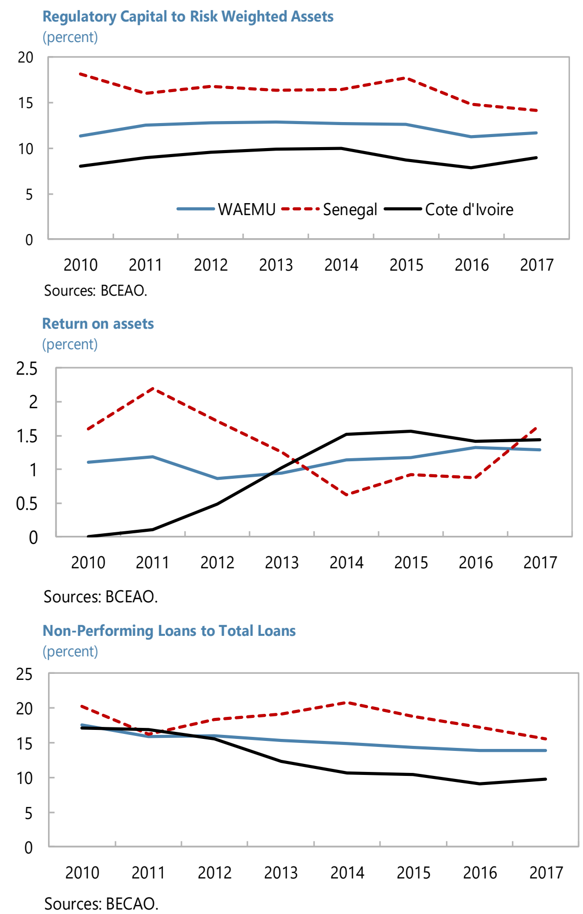
The financial system remains stable and will be helped by the introduction of the Basel II/III system. The Basel II/III system is expected to make the banking system more resilient and help improve credit quality. A new definition of NPLs is being introduced through the new chart of accounts, which should lower the ratio of NPLs to total loans. The NPL ratio has already come down in anticipation of the new rules to below 15.5 percent at end 2017, with NPL write-offs increasing[2] (Figure II.9—bottom panel), while recovery rates have also improved. When accounting for provisioning, this number drops to 6.3 percent. The newly formed Dakar commercial tribunal, once

[2] The new WAEMU chart of accounts entails a change in the treatment and definition of NPLs. Changes include the introduction of a new concept of debt restructuring, the alignment of the NPL definition with the Basel II/III treatment, the possibility of reclassifying restructured, doubtful or litigious claims and the recognition of NPLs as unrecovered losses at the end of the fifth financial year from their transfer into the non-performing category. Further, with regard to small- and medium-sized client Small and Medium Industries (SMEs/SMIs) and public sector entities, the NPL threshold of 90 days is extended to 180 days, to take into account the particular characteristics of these counterparties.

fully functioning, could help bring down the still high NPLs, as would sound enforcement of prudential norms. In terms of capital requirements, all banks are now in compliance with the CFAF 10 billion regional capital requirements. Capital adequacy ratios have deteriorated in recent years, even though they are still at a comfortable level and above the regional average (Figure II.9—top panel). This is a consequence of (weighted) assets growing faster than capital, which is especially noticeable in the larger Senegalese banks.

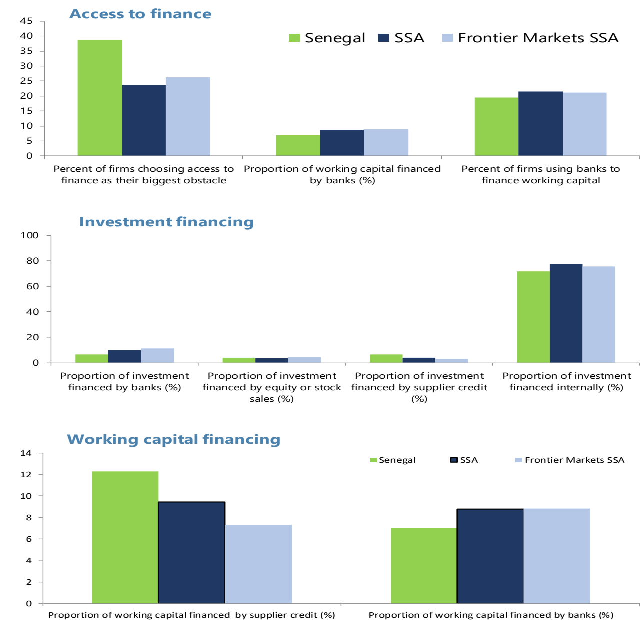
Pockets of vulnerability remain in the banking system. One financial institutions did not meet capital requirements at end-2017. The institution that is the majority shareholder is now being restructured, which is having knock-on effects on this bank. The government agreed to inject CFAF 50 billion in the form of tradable government securities in a state-owned bank in need of liquidity. In return, difficult-to-recover loans of this bank have been transferred to the *Société Nationale de Recouvrement (SNR),* with any recovered funds accruing to the government. While this bank is currently meeting all prudential norms, the issuance of securities still needs to happen, with the government planning to issue paper in the near future. Specific care is needed for institutions that do not fall under the WAEMU banking regulation (e.g. DER activities—see Box II.1) and non-traditional banking instruments (e.g. microfinance institutions or mobile banking). The challenge will be to maintain good credit standards, while improving access to finance for segments of the market that are currently underserved.

Figure II.9. Financial Soundness Indicators in WAEMU



Access to Credit

Figure II.10. Senegal Small and Medium Size Enterprise Access to Credit (Percent)



Source: IMF Financial Access Survey.

Senegal's credit markets are subject to structural problems and credit access is a major constraint to private sector development. The World Bank's Doing business surveys identify informational asymmetries, and difficulties in enforcing credit covenants as the main obstacles to accessing credit (Figure II.10). Another key factor is the large informal sector, a credit market segment in which banks lack the documentation to properly assess risks. While creditors rights are well protected in Senegal, information on borrowers is limited. Credit bureaus cover only a limited number of individuals and corporations, but this is improving fast, partly because of the recent change in the law that made exchange of information for credit bureaus easier (**MEFP ¶49**).

Enforcing contracts is time consuming even though the recovery rate in insolvency is higher in Senegal than in peer countries. To address this issue, the authorities had undertaken a 10-year plan to improve the infrastructure and resources for the judicial system, including by training judges. A dedicated commercial tribunal was set up in Dakar, with potentially more in the pipeline across Senegal (**MEFP ¶47**).

The government has introduced several new initiatives to help underserved segments of credit markets get better access. Small and Medium Enterprises in particular face special difficulties securing financing for creditworthy long-term projects due to a lack of collateral, credit history, high transaction and agency costs of small-scale lending, and shallow long-term credit supply (see overview of initiatives in Box II.1). More recently, complementary efforts from the traditional banking sector could provide a further boost to SME access to credit.

Box II.1: Initiatives to Improve Credit Access for Underserved Segments of Credit market

- ***Banque Nationale de Développement Economique* (BNDE),** is a bank dedicated to financing SMEs, with a balance sheet of FCFA 141 billion at end-2017.

- ***Fonds souverain d'investissement stratégiques* (FONSIS**) is a CFAF 500 billion strategic sovereign fund set up to incubate national champions and attract institutional investors and FDI, as well as optimize state assets. It will receive a share of mining and oil and gas revenues, which could be transferred eventually to an intergenerational fund that is being developed as part of a broader discussion on the fiscal framework for these sectors. Projects in the fund are expected to be financed 50 percent equity and 50 percent debt which would leverage CFAF 2000 billion in investments. In 2016, FONSIS invested CFA 14 billion of its own capital in 12 projects. Other partners contributed as well in these projects, resulting in total financing of CFAF 248 billion.

- ***Fonds de Garantie des Investissements Prioritaires* (FONGIP)** is a guarantee fund aiming at catalyzing financing for SMEs, in liaison with BNDE and FONSIS. In addition to guarantees, FONGIP can "top up" or refinance loans extended to SMEs, provide technical assistance and manage escrow accounts. Since its creation, FONGIP has used CFAF 11.6 billion to leverage CFAF 34.7 billion in financing.

- ***Caisse des Dépôts et Consignation* (CDC)** is a special public entity that serves as a bank for the judicial system and manages escrow accounts for pension funds, insurance companies and private entities. The CDC law has recently been overhauled and includes a mandate to promote long-term financing for priority areas such as social housing, infrastructure, and SMEs.

- ***Delegation general à l'Entrepreunariat Rapide des Femmes et des Jeunes* (DER**) is a CFAF 30 billion presidential initiative from 2018 aimed at fostering female and youth entrepreneurship. The initiative involves both funding and technical assistance and has a mandate to simplify procedures and accelerate the pace of execution of projects. Five priority areas are targeted: agriculture, tourism, transportation, art and craftmanship startups, and services. It was announced that the size of the program would be reduced after 2018.

- **BCEAO,** the regional Central Bank, unveiled a new initiative geared towards helping SMEs access credit. Under this initiative, banks provide credit to SMEs, and these loans can then be used as collateral at the BCEAO refinancing window (**MEFP ¶50**).

- ***Bourse Régionale des Valeurs Mobilières* (BRVM),** the regional stock exchange, created a new section to help SME's raise long-term funds through capital markets.

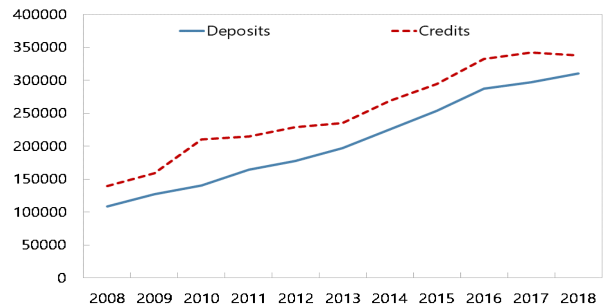
- ***Agence de Développement et d'Encadrement des Petites et Moyennes Entreprises* (ADEPME)** launched its '*Envol*' program at the end of 2018, which aims to give SMEs CFAF 160 billion over 5 years, jointly with a private bank. *Envol* will help SME projects become bankable, including through the use of ADEPME's e-rating tool (**MEFP ¶51**).

Financial Inclusion

Microfinance has continued to grow rapidly. The share of the adult population using microfinance services more than doubled over the last decade to reach 28 percent in 2016 (see Figure II.1). Unlike more traditional credit channels, microfinance credit growth outpaced even rapidly growing deposits in recent years (Figure II.11), but this trend has also been accompanied by higher NPLs in this category of lending (for example between June 2017 and June 2018 NPLs in MFIs increased from 4.3 percent to 5.7 percent of total loans).

Figure II. 11. Credit and Deposits in MFIs

(CFAF billion)



Source: IMF Financial Access Survey.

The gains in financial inclusion were driven by electronic money, which has outpaced the banking sector in number of accounts open. The share of adults with an account with a financial institution increased significantly from 6 percent in 2011, to reach 42 percent in 2017.[3] About 5.2 million mobile money accounts were open as of December 2017, compared to about 1.6 million open bank accounts. Thirty-two percent of adults had a mobile money account in 2017, compared to 6 percent in 2014.[4]

However, large gender, geographic and income disparities remain. Overall, financial inclusion has gone up substantially. For example, the share of Senegalese with an account at a financial institution went up from 6 percent in 2011 to 42 percent in 2017. However, certain segments of the population are not progressing at the same pace, and in total, six million people still do not have access to financial services.[5] The financial inclusion gap, as measured by the difference between two population groups in their access to an account at a financial institution, stood at about 10 percentage points for both wealth and gender disparities (Figure II.12 bottom panels). The financial inclusion gap between the rural and urban population is smaller (Figure II.12 top panel). Access has improved across all groups however. For example, women's access to an account increased from 5 percent in 2011 to 16 percent in 2017, while for men the equivalent numbers are 6 percent and 26 percent.

The main obstacles to financial inclusion are poverty and the high costs of services. According to surveys, 65 percent of adults without access to financial services say that their revenues are insufficient relative to the costs, 27 percent find fees charged prohibitively expensive, 22 percent

[3] World Bank (2018). "2017 Global Findex database."

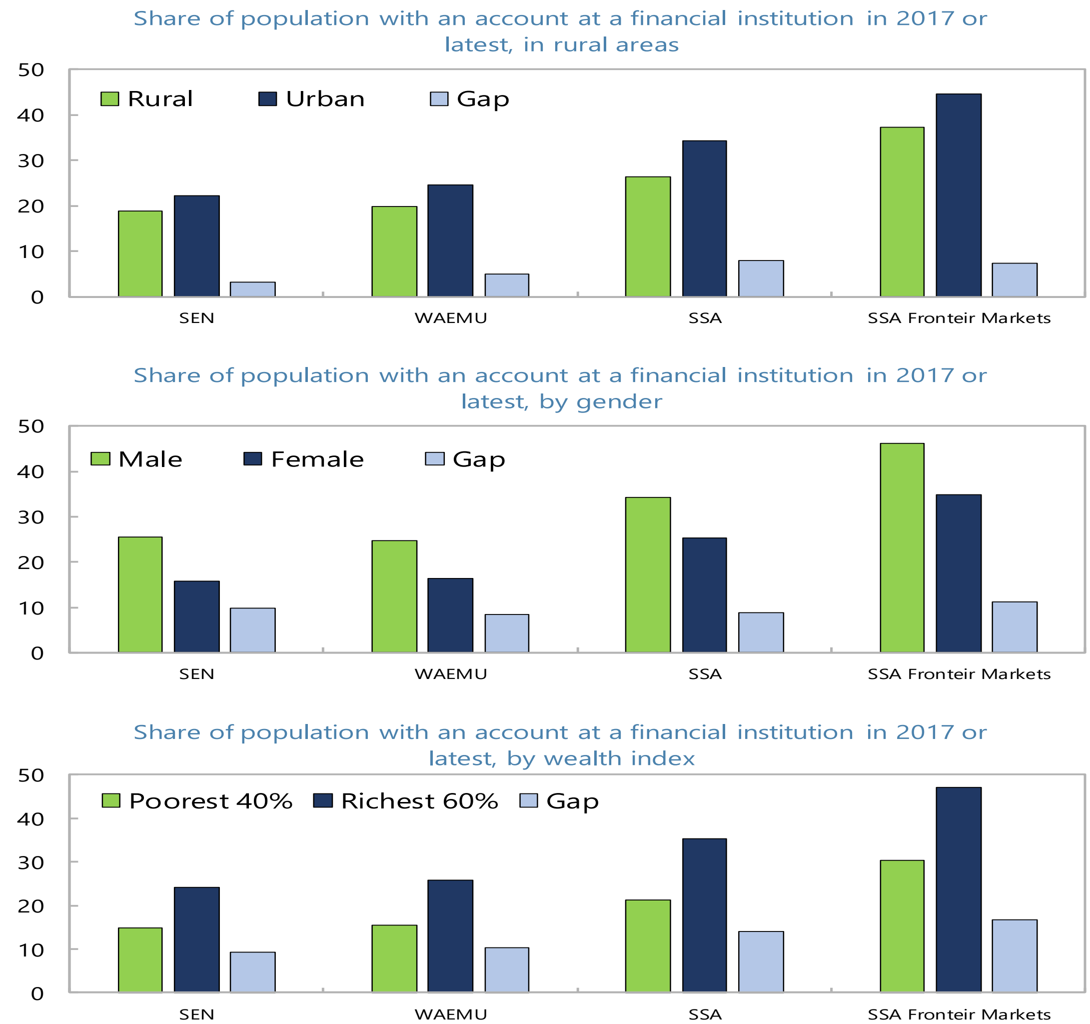
[4] WAEMU Banking Commission (2018). "2017 annual report."

[5] World Bank (2018). "2017 Global Findex database."

state that financial institutions are too far away, and 16 percent do not have adequate documentation to open an account.[6]

Progress is being made on policies to enhance financial inclusion. A regional financial inclusion strategy was adopted, and the authorities are finalizing the national component of the strategy. This strategy includes lowering costs for setting up basic financial accounts by making basic banking services free of charge, and promoting diversified financial solutions for the poor, as well as addressing inadequate property and land registry, low levels of financial literacy, and lack of information on credit worthiness of borrowers.

Figure II.12. Financial Inclusion Indicators



Source: World Bank 2017 Global Findex database.

[6] World Bank (2018). "2017 Global Findex database".

Annex III. Authorities' Response to the 2016 Article IV Policy Recommendations

Article IV Recommendations	Authorities' Response
Fiscal policies to promote growth while preserving stability	
1. Bring the fiscal deficit in line with the WAEMU target of 3 percent of GDP in the medium-term.	1. Positive response. The 2019 draft budget is aligned with the 3 percent deficit WAEMU criteria—in line with the WAEMU target date.
2. Curtail public consumption and improve investment quality.	2. Mixed response. Efforts have been made to contain public consumption, as evidenced by a fall in current expenditures to GDP in 2017. However, street protests by students and workers in the health and education sectors in early 2018 and failure to increase domestic energy prices in the face of rising global oil prices has led to higher wages and transfers in 2018. A project bank has been established which reviews all public investment projects over CFAF 1 billion.
3. Reforms to increase revenues.	3. Mixed response. The IMF has provided substantial technical assistance on both tax policy and revenue administration. While there has been some progress on implementation of revenue reforms, including e-filing and e-payment and *mon espace perso*, other reforms such as the DGD-DGID data platform for exchange of information have only been partially implemented and have not reached fruition. Progress on reforms to reduce tax expenditures, which could translate to substantial revenue gains, has been weak.
4. Strengthen Treasury cash management.	4. Mixed response. The Post Office, Civil Service Pension and *comptes de dépôt* has complicated Treasury cash management by requiring additional borrowing above and beyond the financing of the budget deficit. This additional borrowing is projected to be reduced from CFAF 216 billion in 2016 to 75 billion in 2018 and to zero by 2019. While progress to address some sources of additional financing need has been promising, the Post Office continues to run substantial deficits which the Treasury is required to finance, while the *comptes de dépôt* continue to require substantial financing from previous budgetary years in 2018.
5. Improve debt management.	5. Mixed response. Additional Treasury borrowing to finance operations beyond the budget have contributed to rapidly rising debt. The authorities have increased their reliance on non-concessional external debt, in part, due to a shortage of liquidity in regional WAEMU bond market. Issuance of Eurobonds since 2011 has created bullet repayment spikes to already elevated levels of debt servicing, which remains an ongoing source of vulnerability. However, the authorities have proven able to actively manage these spikes through debt repurchase. The debt management strategy remains focused on re-balancing the composition of debt to increase the proportion of domestic debt and accessing non-concessional debt whenever possible.

Article IV Recommendations	Authorities' Response
Improving competitiveness and promoting the private sector	
6. Steadfast implementation of the PSE to boost growth to 7 percent by 2019 and accelerate poverty reduction.	6. Positive response. Growth has been over 6 percent for the past four years, with implementation of PSE public investment projects, including in the agricultural sector, making a strong contribution. Further progress on structural reforms, combined with future oil and gas production would help sustain high growth rates over the medium term.
7. Reforms to improve the business environment and stimulate private investment.	7. Positive response. While FDI remains relatively low, Senegal has made some progress on reforms as indicated by an improvement in some closely watched international rankings, including the World Bank doing business index. The Special Economic Zone (SEZ) is beginning to take shape and some foreign firms have begun to move in. However, the governance structure has not been finalized yet and private investment has not been rising quickly enough to make a significant contribution to sustaining high GDP growth.
8. Reforms to address impediments to bank lending to the private sector.	8. Positive response. Senegal has made good progress in this area, but further efforts are needed to increase lending to SMEs significantly. A law making it easier for the credit bureau to have access to data and the opening of the Dakar commercial tribunal in early 2018 are important developments.

Annex IV. Risk Assessment Matrix[1]

Source of Risks	Relative Likelihood	Potential impact	Policy Response
		Spillover Risks	
Rising protectionism and retreat from multilateralism.	**High**	**Low**. Senegal is unlikely to be substantially affected by global protectionist trends given the trading partner mix.	Structural reforms to improve external competitiveness.
Sharp tightening of global financial conditions.	**High**	**High.** A surge in interest rates would increase costs of financing and could reduce access for the Senegalese government in international markets.	Continue with fiscal consolidation, efforts to contain Treasury financing needs, and a strengthening of debt management.
Weaker-than-expected global growth.	**Medium**	**Medium**. Lower global growth could have a limited impact on Senegal's external sector and growth.	Structural reforms to improve external competitiveness.
Sizeable deviations from baseline energy prices.	**Medium**	**High**. Increases in energy prices could in the short-run complicate fiscal policy making, and undermine Senegal achieving the 3 percent of GDP fiscal deficit target by 2019.	Contain energy subsidies, including by raising domestic energy prices
		Domestic/Regional Risks	
Delayed implementation of structural reforms to boost fiscal revenues and attract private investment.	**High**	**High**. Lack of progress on structural reforms would risk returning to lower growth of the past with potential implications for fiscal sustainability.	Steadfast implementation of Phase II of the PSE.
Adverse growth and fiscal impact of drought.	**Medium**	**Low**. Senegal recently experienced drought. This could affect agricultural output negatively, with some potential impact on public finances.	Provide assistance as needed to agriculture sector.
Domestic and regional security threats.	**Medium**	**Medium**. An increase in security concerns for Senegal would require higher security expenditures and could affect private investment.	Ensure that multi-year budget framework allows room to address fiscal contingencies.

Source: IMF.

[1]The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of the IMF staff). The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline ("low" is mean to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability of 30 percent or more). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

Appendix I. Letter of Intent

Dakar, Senegal

December 20, 2018

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

Dear Madame Lagarde,

1. The Government of Senegal hereby requests the completion of the seventh review of its economic and financial program supported by the Policy Support Instrument (PSI). Details of this program were presented in the initial Memorandum of Economic and Financial Policies (MEFP) of June 8, 2015 and in the MEFPs pertaining to subsequent program reviews. The attached MEFP reviews the results of the program at end-June and the structural benchmarks at end-September 2018, and outlines the macroeconomic policies that the government plans to implement for the remainder of 2018 and in the short term within the framework of the program.

2. Program implementation remains satisfactory overall. The quantitative assessment criteria for the program at end-June 2018 were met. The quarterly ceiling on treasury float (CFAF 50 billion), the target for the fiscal deficit (CFAF 304 billion), the target for tax revenues, and the floor for social spending (35 percent) were all met. That said, the IT on single tender contracts was not met, with the overrun being due primarily to unsolicited bids. In terms of structural reforms, four of the six structural benchmarks have been met and substantial progress has been made on the other two. Two prior actions have been implemented.

3. The fiscal policy aims to meet the convergence criterion for the WAEMU fiscal deficit ceiling. With respect to fiscal revenues, at the end of the first half of 2018, collections amounted to 1065.3 billion and increased by 61.8 billion, or 6.2 percent in relative value, compared with the same period of the previous year. On the expenditure side, the various categories were handled with prudence. The fiscal deficit should continue to trend downward, declining from 3.5 percent of GDP in 2018 to 3.0 percent in 2019, and stabilize at 3 percent for the medium term based on increased revenue mobilization and greater efficiency in public spending.

4. In 2018, the reforms also focused on (i) a new agreement between La Poste and the Treasury limiting the Treasury's guarantee for clearing postal checks; (ii) a ministerial order prohibiting the use of budget letters committing the central government to expenditure for future fiscal years or for

off-budget expenditure; and (iii) the establishment of special economic zones to stimulate exports of goods and services and to foster job creation.

5. In the short term, other reforms will be implemented, particularly in the areas of taxation, energy supply and the upgrading of the education system, but above all within the scope of the government's capacity to provide impetus. The entry into production of oil and gas should be beneficial to growth while at the same time increasing fiscal revenues and sources of financing for the economy.

6. The attached memorandum proposes the modification of the two end-December 2018 ACs on the floor on net lending/borrowing and the ceiling on central government overall net financing requirement. End-March 2019 ITs are also being proposed.

7. The government believes that the policies and measures set out in the attached MEFP are appropriate for achieving the objectives of the PSI-supported program. Given its commitment to macroeconomic stability and debt sustainability, as well as to improving the business environment for strong private sector-led growth, the government will take early action on any additional measures that may be necessary to achieve the program objectives. It will consult with IMF staff, on its own initiative or whenever requested to do so by the Managing Director, before adopting new measures and reviewing the measures included in the attached MEFP, in accordance with the IMF's policy in this regard. In addition, it will provide the IMF with any information it may request on the progress made with regard to the implementation of the economic and financial policies and the achievement of the program's objectives.

8. The government hereby authorizes the IMF to publish this letter, the attached MEFP and the staff report on this review.

Sincerely yours,

Attachments: - I. Memorandum of Economic and Financial Policies (MEFP)

- II. Technical Memorandum of Understanding (TMU)

/s/

Amadou Ba

Minister of Economy, Finance and Planning

Attachment I. Memorandum of Economic and Financial Policies, 2015–19

1. This memorandum updates the memorandum of June 8, 2015 of our economic and financial program supported by the Policy Support Instrument (PSI) for the period 2015-2019. It reviews recent economic developments and describes the policies that the government plans to implement for the remainder of 2018 and in the short term to build on the strong economic performance achieved.

Recent Economic Developments

2. On the domestic front, the first phase of the Emerging Senegal Plan (PSE, 2014-2018) was completed in 2018. Over this period, significant, tangible results were achieved owing to the implementation of programs, projects and reforms. Beyond the substantial increase in economic growth and gradual reduction in the fiscal deficit, there was a steady effort to improve the living conditions of the people, particularly the most vulnerable, through programs such as the Emergency Community Development Program (PUDC), family allowances, and the Universal Health Coverage (CMU). The average annual rate of growth was 6.2 percent, compared to 3.3 percent during the period 2009-2013. This growth was led primarily by very strong domestic demand, driven by public expenditure and household revenues, including remittances. Investment trended upward, growing 7.6 percent on average over the period 2014-2018, compared to 5.4 percent during the previous period, primarily owing to the strength of the private sector. Exports grew sharply at an average rate of around 9 percent over the period 2014-2018, compared to 7 percent during the period 2009-2013.

3. Eight months into 2018, nonagricultural economic growth, as measured by the General Activity Index (IGA), stands at 5.9 percent, reflecting the impressive performance of mining (+18.4 percent), edible fats (+49.8 percent), construction (+14.4 percent), transportation (+13.6 percent), real estate (+9.7 percent), financial services (+5.7 percent) and telecommunications (+3.7 percent). In contrast, economic activities such as the processing of grains (-6.2 percent), cereal food processing (-35.0 percent), oil refining (-13.4 percent) and the manufacture of transportation equipment (-10.4 percent) performed poorly. In light of this trend—and given the outlook for the rest of the year regarding the situation in the agricultural sector and the weak mobilization of revenues—real GDP growth rate has been revised downward to 6.8 percent, against an initial projection of 7 percent. Inflation has remained low, with consumer prices increasing 0.3 percent over the first eight months of 2018 compared to the same period in 2017, reflecting an increase in the prices of local products (+0.9 percent) that was offset, however, by a decline in the prices of imported products (-1.0 percent).

4. At end-September 2018, a provisional shortfall in fiscal revenues of CFAF 102.7 billion was observed. This is explained primarily by: (i) the difficulties encountered in implementing some new measures (including "price measure effects") or the delay in their implementation; (ii) the effects of tax exemption certificates (*cértificats de détaxe*—CDD), including significant refunds to SENELEC based on cross debt agreements, which, to date, have not generated any revenues for the tax administration (at end-September, 52 percent of the CDDs applied to revenues related to SENELEC); (iii) the decline in the corporate income tax (IS) paid by some subsectors, particularly telecommunications and mining; and (iv) the difficulties in implementing the taxation of nonmonetary gold owing to the fiscal stability clauses evoked by some taxpayers.

5. The ceiling of CFAF 75 billion authorized for cash flow operations was slightly exceeded. However, this overrun should be limited to CFAF 21.4 billion. This is explained in part by the clearance of prior credit balances on deposit accounts (*comptes de dépôts*) in the amount of CFAF 80.8 billion at end-June 2018 and illiquid revenues (*recettes d'ordre*) of around CFAF 15.6 billion at end-September 2018. The following measures have been taken in response: (i) the CFAF 19.3 billion cash flow deficit on the clearance of postal checks at end-September 2018 will be reduced using garnishment orders against La Poste, while a new agreement to cover postal checks has been put in place (**prior action**); and (ii) the elimination of acceptance of checks against prior credit balances on deposit accounts to settle with suppliers or pay taxes or levies.

6. The clearance of credit balances on deposit accounts is continuing. An application is used to distinguish between balances related to current operations, investments, and those linked to current operations on existing stocks. The initial stock of credit balances of CFAF 387.4 billion (CFAF 326.7 billion when excluding IPRES, CDC and CSS) was reduced significantly to CFAF 331.2 billion (CFAF 268.1 billion excluding IPRES, CDC and CSS) at end-June 2018. Also, part of the stock of credit balances related to the Pension Retirement Institute (IPRES), the Social Security Fund (CSS) and the *Caisse des Dépôts et Consignation* (CDC) are being securitized, with the work well under way for IPRES and the CDC.

7. At end-September 2018, **net foreign assets of deposit institutions** were up CFAF 366.2 billion or 26.7 percent at end-September 2018, compared to one year earlier, owing to the bond issue by the government on the international financial markets, while the money supply rose 10.9 percent, reflecting the changes in its counterparts.

8. Overall, program implementation was broadly satisfactory. The quantitative assessment criteria for the program at end-June 2018 were met. The quarterly ceiling on the budgetary float (CFAF 50 billion), the target for the fiscal deficit (CFAF 304 billion), the target for tax revenues, and the floor for social spending (35 percent) were all met. However, the IT on single tender contracts was not met, with the overrun caused primarily by unsolicited bids.

9. Significant progress was also made in the implementation of structural benchmarks. Of the six structural benchmarks, four were met. All fully domestically financed projects of more than CFAF 1 billion included in the 2019 budget were submitted to the investment selection committee and taken from the integrated project database, with the exception of sovereignty projects. It remains understood that as these new projects have not yet started, the physical and financial execution reports are not yet due. The ministerial order rendering obligatory e-declaration and e-payment for medium-sized enterprises was signed and has been implemented since July 2018. As of October 15, 2018, 629 taxpayers had signed up for E-TAX (13 percent of the tax population of the Medium-Sized Taxpayers Directorate (DME)), including 562 domiciled with the Dakar I Medium-Sized Business Center (i.e., 80 percent of its list of taxpayers). In addition, progress was made in the implementation of the other benchmarks: (i) data on financial debts and financial statements of a part of parastatals and public corporations was compiled and transmitted to the IMF in the context of updating the debt sustainability analysis; and (ii) discussions on the securitization of the Treasury deposit accounts related to the *Caisse de Dépôts et Consignation* and IPRES are well under way. However, the action plan to reduce tax expenditures has not been fully implemented, which partly accounts for the significant revenue shortfall in 2018.

10. The modernization of the Treasury is ongoing, with confirmation of ISO certification for the General Treasury Revenue Agency (RGT) for the second consecutive year and certification of the Public Debt Directorate (DDP) now effective. The cash flow management reforms are being consolidated, with the commitment to incorporate ten additional public agencies in SICA-STAR by March 2019 at the latest. A first batch of 10 entities was already incorporated by end-June 2018. Moreover, after the closing of all bank accounts on the network of direct accountants of the Treasury, the efforts to optimize cash flow have continued introducing an application to limit cash balances held by accounting units, which has, moreover, been revised by a new decree.

11. Efforts to improve the administrative and financial management of the National Retirement Fund (FNR) have started. The FNR posted a surplus at end-September 2018, despite the Tabaski Festival advances to pensioners, which amount to 100 percent of their pensions. This surplus is caused in particular by the entry into effect on July 1, 2018 of Law No. 2018-12 of March 30, 2018 creating a supplementary pension scheme for military and civilian civil servants. Progress was also made with the design of the parametric reforms (change in the pension award base, renewal of the contributing population, etc.), systemic reforms (a supplementary pension scheme and a voluntary retirement savings scheme), and institutional reforms (creation of an independent retirement fund for FNR civil servants) to restore the financial viability of the civil service pension system, improve pension levels, and make the governance of the FNR more effective.

12. In order to enhance the mobilization of domestic resources, the government made changes to some aspects of the tax regime introduced by Law No. 2012-31 of December 31, 2012 on the General Tax Code. These changes involve the reform of the business license tax, simplification of the tax on income from real property, promotion of agriculture and renewable energies, correction of negative externalities related to health issues and the environment, international taxation, the business environment, and tax forgiveness. However, provisional collection at end-September 2018 from the application of the tax changes (expansion of the tax base or increase in the rate) and from newly created taxes totaled CFAF 23.1 billion and CFAF 7.1 billion, respectively, equivalent to execution rates of 12 percent and 19 percent vis-à-vis the initial targets. This low level of execution is explained in particular by the delay in the application of these measures (between three and six months).

13. Significant progress was made in the implementation of all three Hackathon projects. The official launch of the "**Mon Espace Perso**" took place on July 26, 2018. The **M-Tax Project** is at the call for tender stage; this procedure is supposed to be finalized by early December 2018, but owing to delays in the mobilization of funds, the DGID is now expecting the M-Tax application to be effectively available by June 30, 2019. The **Batch Scanning Project** is expected to be effectively available by December 31, 2019, as time is needed to mobilize the funds and to manage the gradual ownership of the first two applications by the operational and technical employees of the DGID.

14. The electronic exchange of information between the Directorate General of Taxation (DGID) and the Directorate General of Customs (DGD) is ongoing and should be better harnessed to improve the mobilization of revenues. Starting this year (2018), information on imports and exports is reported to the DGID every six months, and this exchange of information has been used to enrich the tax database. The installation of new servers to facilitate the exchange of data is expected in the first quarter of 2019. In addition, two new reports have been created to crosscheck the data from SIGTAS with the information received to identify taxpayers who are importing or exporting without being registered in SIGTAS.

15. Considerable progress has also been made on other measures. Measures in the 2018 supplementary budget included the merging of the Economic Development Contribution (CODETE) with the special levy on the telecommunications sector (PST) to create a single tax called the "Telecommunications Sector Special Contribution" (CST). The CODETE and the PST, which were levied at 3 percent and 1 percent, respectively, applied to the same taxpayers and their tax base and filing and payment requirements were identical. The CST rate has been set at 5 percent, or one percentage point more than the rates of the previous taxes, while the taxpayers and tax base remain unchanged. Further, levies that were previously considered quasi-fiscal taxes have been included in the 2019 budget. They include the levy in support of the energy sector (PSE), the Road Use Tax (TUR), the levy to benefit the Senegalese Council of Shippers, and royalties for the assignment of radio frequencies.

Macroeconomic Policy and Structural Reforms for the Remainder of 2018 and the Medium Term

16. The government remains resolutely committed to building on the achievements of the first phase of the PSE, and a Priority Action Plan (PAP) covering the period 2019-2023 has been prepared to this end. The identification of major constraints to development inhibiting the desired transformation, has guided the strategic choices that are to lead to the structural transformation of the economy through increased productivity, which is to lead in turn to strong, inclusive and sustainable growth. This change requires high-quality human capital and infrastructure as well as good economic governance to enable Senegal to rise to the many challenges. The objective of the second phase is to raise average annual growth above 8 percent, with a privileged role for the private sector in attaining this.

17. The discovery of oil and gas adds a new dimension to the growth of the Senegalese economy. The contribution of mineral and natural resources to the economy is modest today but could increase with the exploitation by 2022-2023 of the offshore oil and gas fields recently discovered. This discovery could change the balance between the various economic sectors if the connection of this new production sector to the rest of the economy is handled appropriately. It could also have an impact on the energy strategy and constitute an opportunity to finance the economy. Moreover, oil and gas production should lead to a substantial increase in fiscal revenues.

18. Maintaining macroeconomic stability is the basis for the strategic options to be implemented to strengthen and maintain strong and inclusive economic growth in the long term. From a macro-fiscal standpoint, major projects and key reforms to be implemented should further stimulate domestic and foreign private investment, diversify the drivers of growth, and enhance the resilience of the economy. These reforms relate to taxation, energy, education, and the government's ability to provide the necessary impetus. The fiscal deficit should continue to trend downward, declining from 3.5 percent of GDP in 2018 to 3.0 percent in 2019, and then stabilizing at 3 percent over the medium term based on increased revenue mobilization and improving public spending efficiency.

19. The program supported by the IMF will continue to reinforce the implementation of the PSE to maintain the growth momentum and its inclusivity and strengthen the economy's resilience to domestic and external shocks. It will focus on the following three pillars: (i) fiscal consolidation; (ii) strengthening public financial management and governance; and (iii) improvement of the business environment.

A. Fiscal Consolidation

20. The government intends to respect the fiscal deficit target of CFAF 476 billion at end-December 2018.

21. The modernization of tax and customs administration, the strengthening of tax policy and the streamlining of tax expenditures will continue. The 2018 budget already contains the following measures: (i) the merging of the CODETE and PST into a single tax called the CST, simplifying taxation of the telecommunications sector; (ii) increase in the tax rate on tobacco from 50 percent to 65 percent; (iii) increase in the tax rate on alcoholic beverages from 40 percent to 50 percent; (iv) increase in the tax on cosmetics products from 10 percent to 15 percent; and (v) introduction of a levy on insurance companies (PCA). However, these measures have not yet led to greater mobilization of revenues in 2018.

22. Innovative measures being considered for the tax system include: (i) the possibility and potential for taxing internet communication networks; (ii) a study on the mechanism for monitoring and taxing the very wealthy; (iii) consideration of the tax treatment of midstream oil and gas activities; and (iv) piloting of a task force responsible for auditing all DGID information system (SIGTAS) accounts.

23. The collection of tax arrears will be stepped up. In this context, the DGID projects collections of pending payments (*prises en charge*—PECs) in the amount of CFAF 110 billion in 2018, compared to CFAF 74.9 billion in 2017, an expected annual increase of CFAF 35.1 billion. A PEC recovery rate of 65.5 percent, or about CFAF 72 billion, is expected from the clearance of the stock of PECs deemed recoverable and currently held by collection agencies. The balance is expected to be covered by actions related to the stock of PECs deemed difficult to recover and new PECs expected from the tax audit program currently under way. To provide guidance to struggling enterprises and help clear accounts as well as improve PEC collection, the DGID is planning to launch an extensive program, based on a legislative framework, under which taxes that are over two years in arrears will be substantially reduced. In return, the debtor would undertake to pay the balance within six months. A special committee consisting of private sector and parliamentary representatives would ensure the arrangement's transparency. In addition to the tax forgiveness, personal or corporate income tax could be waived. A special program for the collection of government fees will also be established and will be applicable to fees on time-bound usage rights (other than usage for residential purposes) not eligible under the law for the free conversion of time-bound usage rights into land titles. An inventory of leases managed by land offices in the Dakar and Mbour regions was carried out using a software application (SENSOUF). Its extension to all other land offices will help strengthen collection of state fees (*recettes domaniales*).

24. To support the modernization of the DGID, other measures to enhance tax administration have been implemented with technical assistance from the IMF. These have helped to improve the filing rate, so that 95 percent of large businesses and 90 percent of medium-sized businesses now declare their VAT by the legal deadline. The collection rate for tax arrears in the first half of the year was 25 percent (with a target of 40 percent).

25. To ensure better mobilization of fiscal revenues, Customs will ensure coverage of the customs territory through clearance operations by local customs offices. Without prejudice to the bold actions already taken to maximize the revenues from imports coming in by sea, the reform involves converting major inland customs offices into full customs offices and authorizing customs clearance at some customs posts. Such an approach would have the advantage of deterring smuggling and would capture incoming goods not entering via ports through: (i) closer surveillance of merchandise; (ii) better securing revenues from this traffic through the connection of the main offices concerned to GAINDE; and (iii) promotion of a local public service that will provide a significant boost to regional perceptions in a context of the territorialisation of public policies.

26. Better handling of suspended duty arrangements through the full GAINDE system will help to reinforce customs revenues. Effective operationalization of the full GAINDE system through the digitization of procedures linked with targeted surveillance of operations under customs control should minimize revenue losses resulting from illegal dumping. An assessment of revenue trends shows that a refocusing on transit and re-export operations would have a positive impact on fiscal revenues. A related action plan has been developed.

27. Broad use of the new application for automated management of customs transport permits for vehicles imported by land should also bring in additional revenues by: (i) ensuring close management of vehicles from the moment they enter the customs territory; (ii) clearance of these vehicles at the border posts; and (iii) monitoring of associated payments.

28. Cooperation between the DGD and DGCPT is continuing. A new platform will be installed by the Treasury to improve the consistency between customs payments and collections, while connection with the GAINDE system would ensure better management of collection credits (*crédits d'enlèvement*). This platform will be operational in the second half of 2019.

29. Expenditure management will be improved through consolidation of the use of the multi-year budget framework. Significant progress has been made toward the transition to program budgeting scheduled for January 2020. Ministries and constitutional institutions have fully taken performance budgeting on board by improving their fiscal resource allocation strategy to focus on priority actions. The structure of fiscal programs stabilized during the work on the 2019-21 budget framework and on this basis the draft Prime Ministerial decree establishing the list of ministerial fiscal programs and the appropriations of constitutional institutions has been finalized. To ensure the usefulness of all the proposed testing, the decree establishing the programs is to be signed by end-December 2018 to allow the ministries to include program managers, which are newly established posts, in their proposals.

30. To control fiscal and financial risks, the government undertakes to limit budget letters to: (1) comfort letters not involving a financial commitment, (2) formal letters of guarantee for parastatals; and (3) domicilation letters for settlement (*lettres de domiciliations de règlement*) for the agriculture sector and for defense and national security projects. In this respect, a decree establishing the conditions for the issuance of letters of guarantee, domiciliation letters for settlement and comfort letters has been signed (**prior action**).

31. On the current expenditure side, ceilings on authorizations of government positions (Article 12 of the 2011-2015 LOLF of July 8, 2011, as amended) could be implemented in 2019 in the context of the preparation of the draft 2020 budget. Everything is in place so that the quantification of positions and staffing levels and related budgetary costs can be readily introduced into the Annual Performance Proposals and the Annual Performance Reports (monitoring and management of budgetary flows and implications). Technical ministries, supported by West AFRITAC/IMF, will use tools facilitating the assessment of the ceilings related to the authorization of positions during the preparation of the draft 2020 budget.

32. The test runs of the decentralization of payment authorization in five pilot ministries (Finance, Education, Health, Justice and Environment) with the help of the General Administration and Supplies Directors (DAGE), General Administration and Supplies Secretaries (SAGE) and appropriations managers, have not been entirely successful. Several options will be put forward to control the financial risks of ministers and presidents of constitutional institutions exercising the power to authorize payments before submission for a final decision.

33. Following the entry into effect of the compulsory supplementary pension plan by Law No. 2018-12 of March 30, 2018, the government is planning three other areas of reform. The first is a parametric reform with the aim of restoring the financial equilibrium of the FNR. This reform foresees: (i) amendment of the pension award base from the average annual salary over the final three years to the final five years; (ii) renewal of the contributing population through annual recruitment (2.5 percent for civilians and 2 percent for military); (iii) increase in the contribution rate from 35 percent to 40 percent (15 percent from employee and 25 percent from government); and (iv) investment of the reserves at a target return rate of 3.5 percent. In addition, a 10 percent increase in pension levels is planned. The second area concerns the elimination of capping and widening of the tax base related to contributions regarding the research/training special allowance (ISRF). The law on this partial parametric reform has been adopted and was enacted as Law No. 2018-23 on July 6, 2018. Capping is a rule whereby a ceiling is placed on the pension award base to eliminate pension gaps between retirees. Widening of the tax base related to ISRF contributions, common to all teachers/researchers, is likely to increase the pensions of retired higher-education teaching personnel. The government has also initiated discussions on the institutional reform to change the FNR's status from a Special Treasury Account to an independent fund with legal personality and financial autonomy. This status has the advantage of providing opportunities to invest reserve and ensure inclusive and effective management. Finally, the financial and technical feasibility of transferring pension rights of local government civil servants and government officials without civil service status to the FNR will be studied.

34. The government is continuing to expand the oversight of public sector financial operations to enhance the analysis of contingent liabilities and debt sustainability. In this context, Senegal received technical assistance on contingent liabilities from the World Bank in October 2018. Further, debt coverage has been expanded significantly in the debt sustainability analysis (DSA). This new approach provides an overview of all commitments of the government and its agencies in the framework of the overall debt strategy. Although the debt coverage has been expanded, the impact on the debt indicators has been limited owing to the recent change in the GDP base. Senegal remains a serious player in the international financial markets as evidenced by the success of its most recent Eurobond issue. Senegal has a medium-term debt strategy and will continue prudent management of its debt to ensure its sustainability.

B. Strengthen Public Finance Management and Governance

35. The process of transposing the WAEMU directives on public finances into national law is continuing. The government has adopted a draft law on the Code of Ethics for Public Officials, However, it has not yet ratified the draft law on the financing of political parties, which requires a consensus on the rationalization of political currents. Measures will also be taken such that commitment authorizations and payment appropriations (AE/CP), ceilings regarding the authorization of civil servant positions, decentralization of payment authorization and accrual accounting will be ready by the time of the transition to the new fiscal and accounting management system in January 2020.

36. The directive on inventory accounting was transposed into national law in May 2018. The implementing regulations (instruction, decrees, interpretive circular, etc.) still need to be issued and training provided to the new principal authorizing officers (ministers and presidents of constitutional institutions) and delegated authorizing officers (program managers), who are also responsible for inventory management (training for the actors involved). To ensure proper inventory accounting, which supplements the government's general and patrimonial accounting, a computerized system is being developed. Its interface with SIGIF should facilitate detailed monitoring of real estate property, movable property and inventories.

37. Changes introduced in the new budget management approach point to the need to develop a budget nomenclature (NBE) amending Decree No. 2012-673 of July 4, 2012 to ensure harmonization with the accounting nomenclature of the new government chart of accounts. The draft 2019 budget has therefore been prepared on the basis of both the 2012 and 2019 NBE and will allow SIGIF to operate better, with linked frameworks. The draft law should be signed by end-December 2018.

38. In the area of fiscal transparency, the results of the 2017 Senegal Open Budget Survey published in March 2018 by the Secretariat of the International Budget Partnership (IBP) showed an improvement in the score on fiscal transparency, public participation in the preparation of the budget and budgetary oversight from 43/100 to 51/100. The IBP survey recommends in particular that the Senegalese government take measures to improve public participation in the preparation of the government budget, produce and publish a mid-year review, and provide additional data on expenditures, non-financial performance and how the government's overall budget is linked to public policy.

39. The government is continuing its efforts to improve fiscal transparency. The preliminary results of the Fiscal Transparency Evaluation (FTE) carried out in April 2018 are encouraging. The financial/fiscal reports paint a reliable picture of the government position and achievements. However, areas for improvement include: (i) a better understanding of the fiscal and financial risks and their impact; (ii) greater public involvement in discussions on fiscal policy and oversight; (iii) strengthening of analysis of macro-fiscal forecasts to give documents more credibility; (iv) timely publication of budgetary documents; and (v) completion of some aspects of fiscal and financial reforms. An action plan will be prepared on these areas for improvement, with implementation starting in 2019, bearing in mind the FTE recommendations.

40. The new Public Expenditure and Financial Accountability (PEFA) framework (February 2016 version) will be field tested after the PEFA self-assessment conducted in October 2017. The process has officially been under way since April 2018 with the validation of the concept note by the group of reviewers, including the PEFA Secretariat in Washington, and the results are expected in June 2019. In addition, a Public Investment Management Assessment (PIMA) specifically focusing on public investment management was conducted in November 2018.

41. The work on the legal and regulatory framework for the new government accounting system is well under way. The Government Chart of Accounts (PCE) established by Decree No. 2012-92 of January 11, 2012 is being thoroughly reviewed to harmonize the content of some regulatory provisions with accounting standards and instructions. The accounting standards have all been produced and disseminated and the books making up the accounting instructions have been drafted and are being validated at various levels. The annex to the PCE must also be amended to adjust the codification of the accounts from 3 digits to 4 digits. As the new General Tax Code (CGI) was adopted by Parliament in December 2012 after the signing of the PCE in January 2012, it is necessary to incorporate the changes it introduced as well. Also, the terms of reference for the preparation of the entire accounting macro process are being finalized.

42. The work on the opening balance of the inventory and valuation of government assets, specifically for reference buildings (*bâtiments types*), administrative buildings, land and property titles, is continuing. As funding is assured, thanks to the contribution from the government budget, the process of developing the inventory of fixed assets (tangible and intangible) and drafting the accounting macro process has begun. The recording of debts and equity participations that began in 2015 is consolidated each year, as the inventory and valuation methodology is now well established. Further, the final report on the assessment of the equivalent value of government equity participations is expected.

43. The new WAEMU-TOFE fiscal reporting system, which uses the nomenclature of the 2001 and 2014 editions of the IMF's *Government Financial Statistics Manual*, has been completed. The minimum analysis framework has been established. All of the analytical tables are ready, with the exception of the table detailing the financial position based on accrual accounting. The related LOLF provisions (accrual basis recording of revenues and expenditures), which will facilitate its preparation, will not be applicable until 2020, when the transition to the new budget and accounting management system is scheduled to take place.

44. Steps have been taken to control the clearance of postal checks. A convention was signed in October by the Minister of Finance and the Minister in charge of the Groupe SN La Poste to restrict clearance through Public Treasury accounts opened on the books of the BCEAO for checks drawn on third parties, individuals and legal entities, with the exception of banks, oil companies and entities that are part of the Groupe SN La Poste (**prior action**). Structural measures that have been implemented include an audit report on the financial flows of Poste Finances, which was completed by the BCEAO in December 2017. A mission to rectify the accounts of the Groupe SN La Poste will start before the end of 2018 and serve as a point of departure for the restructuring of the group in 2019. The restructuring plan for La Poste prepared in 2014 and updated in 2018 includes seven measures: (i) reform of the procedure for guaranteeing the clearance of postal checks by the Public Treasury which is now effective owing to the signing of a new guarantee agreement and opening of a guarantee account at the BCEAO provisioned by La Poste; (ii) rectification of the accounts of the Groupe SN La Poste and its subsidiaries: preparation of reliable financial and accounting statements for the group and its subsidiaries; (iii) completion of the recapitalization of the Groupe SN La Poste through consolidation of capital of all or part of the balance from the 2017 agreement on cross debts; (iv) reconstitution of the deposits of third parties with Poste Finances (CNE and CPP accounts); (v) assessment in 2019 of La Poste's cost accounting module by the Regulatory Authority for Telecommunications and Post (ARTP); (vi) preparation and implementation of a recovery plan, specifically by rationalizing expenditures related to personnel and increasing sales; and (vii) institutional conversion of Poste Finances into a Postal Bank. La Poste has introduced cost accounting, and a pilot phase has been under way since December 2016. The cost accounting approach is to be assessed by an external consultant recruited by the regulatory authority ARTP, with the consultant's conclusions are expected by March 2019.

C. Improve the Business Environment and Promote the Private Sector

45. Efforts to improve the financial position of SENELEC continue. The SENELEC arrears, assessed at August 31, 2018 at CFAF 223 billion, are covered as follows: CFAF 70 billion already included in the 2018 budget, CFAF 28 billion in the form of budgetary support from the World Bank, and a letter of guarantee allowing SENELEC to raise CFAF 125 billion on the market, which will be covered by a repayment plan to banks over 5 years starting in 2019. As of 2019, to avoid future arrears, two key measures will be taken by the Ministry of Economy, Finance and Planning (MEFP): (i) the amount of the subsidy will be included in all future budget laws (initial or supplementary budgets); and (ii) for entities such as public establishments with financial autonomy (EPAFs), the precise measure involves effective inclusion (by decree) of an expenditure item for electricity in their budgets making payment of the electricity bills mandatory. In addition, the government will study what other measures might be necessary in 2019 to limit the need for energy subsidies (electricity and refined petroleum products).

46. The momentum of key PSE projects should be supported by an improved business environment and the development of private investment. The 13th session of the Presidential Investment Council (CPI) that took place on November 20, 2017 validated the updated action plan of the second phase of the Business Environment and Competitiveness Reform Program (PREAC II) through 2020. This action plan, which includes 23 recommendations, aims to complete the structural reforms (land, digitization, simplification of pricing systems and schedules, labor legislation, information on credit, and commercial justice) to reduce transaction costs and improve the quality of government services in order to promote innovative SMEs and attract more FDI to Senegal. For 2018, simplification of the application to register a labor contract has begun and digitization of this process is planned by end-2020. At the same time, the study to evaluate labor legislation, with a draft report expected to be ready by the end of 2018, and the creation of investment platforms in the regions are priorities, in addition to the operationalization of economic zones. For 2019, the establishment of a collateral registry requires harmonization of the registry of chattel loans (clerk) with the registry of mortgages (registrar) as these two registries have not yet been merged into a central registry. The practical implications should be studied to ensure better management of this registry, with the necessary legal oversight in cooperation with the BCEAO.

47. In the area of commercial justice, the Dakar commercial court began operations on February 23, 2018. As of July 5, 2018 a total of 1,369 cases had been heard and 928 judgments handed down. The challenge is to make judicial procedures paperless, which would make the settlement of economic and financial disputes more efficient owing to the establishment of a sound and effective legal and judicial environment, as reflected in the computerization of the procedures of the Commercial Court.

48. Specific efforts have been made to develop special economic zones. Three zones have been established in Senegal by decree: the Diamniadio Integrated Industrial Park and the Diass and

Sandiara Special Economic Zones (ZES*)*. The general objective of the zones is to increase exports of goods and services and promote job creation. In the Diamniadio industrial park, only 13 of the 53 hectares have been used so far to build four buildings (three 10 hectare buildings and one 5 hectare building) and a 4-storey administrative building. Businesses of various kinds are beginning to move in: PVC piping, magnetic cards, textiles, services, etc.

49. The activity of the Credit Information Bureau (BIC) is expanding. At end-September 2018, contracts reported on the platform by relevant individuals and entities totaled 1,693,312 against 464,272 at end-March 2018, an increase of 1,229,040 contracts for 602,562 customers surveyed, including13,886 business and 588,676 individuals. In addition, 160,065 new loans were recorded during the period January to September 2018 and the number of credit reports consulted represented 69 percent of new loans over this period. Since January 1, 2018, the new Basel II and Basel III provisions and the revised WAEMU Chart of Accounts for the banking sector have entered into effect and are now being applied by the banking system. These reforms aim to increase the soundness of banks through improved capital holdings, better risk assessment and enhanced transparency of financial activities. The innovations have been integrated by the banks through the updating of their information systems, diversification of customer segments, and adaptation of internal procedures.

50. To encourage the banks to grant loans to SMEs, a facility to support SME financing with assistance from the BCEAO was launched in August 2018. Moreover, new regulations on Islamic financing were adopted for banks and microfinance institutions. These advances, which help to promote and diversify new financing instruments, have been reflected in the opening of new alternative financing institutions. Upcoming work includes: (i) development of a national financial inclusion strategy; (ii) setting up of a single platform for the exchange of information between microfinance institutions (SFDs); (iii) continuation of the financial education program; and (iv) promotion of the digitization of financial sector payments.

51. The information system of the SME quality certification unit and the e-rating tool of the SME Development Agency (ADEPME) have played a significant role in the financial eligibility of the SMEs. Helped by this, SMEs received close to CFAF 3 billion in financing in 2017, as against CFAF 1.3 billion in 2015. In addition, ADEPME has signed a new agreement with some banks, and its e-rating tool has been accepted as a tool for prior analysis for SMEs that were awarded public contracts and that are seeking bank financing. Further, the establishment of an information system on female entrepreneurship, which is to be linked to the e-rating tool, is one of the keys to implementing the strategy for the development of female entrepreneurship to allow for greater participation of the banking system in the quality certification process. To offer SMEs alternative financial products adapted to their needs, completion of the public procurement fund, implementation of which has begun, remains a necessity.

New program monitoring indicators

52. The modification of end-December 2018 assessment criteria and new end-March 2019 ITs are proposed. The modification of the two end-December 2018 ACs on the floor on net lending/borrowing and the ceiling on central government overall net financing requirement is proposed as well as new end-March 2019 ITs to monitor program implementation into 2019 (see Table 1 of the MEFP). The government and IMF staff have also agreed on the measures and structural benchmark set out in Table 2 of the MEFP. Reviews will occur at six-month intervals. The eighth and final review is expected to be completed by June 23, 2019.

Table 1. Senegal: Quantitative Assessment Criteria and Indicative Targets for 2017-19

	2017											2018													2019
	Jun.				Sep.			Dec.				Mar.				Jun.				Sep.				Dec.	Mar.
	AC				IT			AC				IT				AC				IT				AC	IT
	Prog.	Adj.	Act.	Status	Prog.	Act.	Status	Prog.	Adj.	Act.	Status	Prog.	Adj.	Act.	Status	Prog.	Adj.	Act.	Status	Prog.	Adj.	Prel.	Status	Prog.	Prog.
Assessment criteria[1]																									
Floor on net lending/borrowing[2]	-189	-192	-187	met	-259	-519	not met	-349	-364	-360	met	-154		-153	met	-304		-303	met	-391	-397	-618	not met	-453	-145
Ceiling on spending undertaken outside normal and simplified procedures[3]	0		0	met	0	0	met	0		0	met	0		0	met	0		0	met	0		0	met	0	0
Ceiling on public sector external payment arrears (stock)[3]	0		0	met	0	0	met	0		0	met	0		0	met	0		0	met	0		0	met	0	0
Ceiling on central government's overall net financing requirement	...				...	...	...	499	514	534	not met	...		...	...	...		...	...	...		...	...	551	...
Ceiling on the amount of the budgetary float	50		25	met	50	46	met	50		49	met	50		12	met	50		24	met	50		44	met	50	50
Floor on tax revenue [4]	...		...		...	...		...		...		...		...		979		1,011	met	1,483		1,397	not met	2,146	476
Indicative targets																									
Quarterly ceiling on the share of the value of public sector contracts signed by single tender (percent)	15		1	met	15	10	met	15		25	not met	15		67	not met	15		32	not met	15		20	not met	15	15
Floor on social expenditures (percent of total spending)	35		39	met	35	37	met	35		38	met	35		39	met	35		36	met	35		46	met	35	35
Floor on tax revenue [4]	1,006		939	not met	1,464	1,367	not met	1,977		1,876	not met	471		451	not met	...		...		...		...		...	...
Maximum upward adjustment of the overall deficit ceiling owing to																									
Shortfall in program grants relative to program projections	15		3		15			15		15		15				15				15		7		15	
Memorandum items:																									
DPO disbursements over $100mn in 2018																								29	
Program grants	13		10		24			35		18		4		15		15		15		22		15		37	15

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 2001 definition. Cumulative since the beginning of the year.

[3] Monitored on a continuous basis.

[4] This was changed from an Indicative Target to an Assessment Criterion starting from end-June 2018.

Table 2. Structural Benchmarks for 2018-19

	Review	Status	Comments from authorities
2018			
Starting with 2018 budget, all new projects exceeding 1 billion CFAF financed entirely with domestic resources will be taken from the integrated project bank. Quarterly and annual physical and financial execution reports will be transmitted for all these projects.	6th review	Not met	A draft circular letter is being prepared with the DGPPE (Directorate of Planning) to bring to the attention of the various ministerial departments the criteria for the Investment Committee to use when choosing which of the evaluated investment projects will be retained in the 2019 Finance Law. In addition, during the notification of 2019 Parliamentary authorizations, emphasis should be placed on the requirement to submit quarterly reports for monitoring and evaluation purposes.
The restructuring plan of the Poste will be prepared before the sixth review. Compensating transactions between the Post Office and the Treasury will cease as of December 31, 2017, apart from those for checks relating to Poste Finances depositors, which will cease as of March 31, 2018.	6th review	Not met	The plan has been developed with a Committee chaired by the MDB's Director of Cabinet responsible for implementation.
Prior Actions for 7th review			
Sign a new convention between the Post Office and the Treasury to limit the Treasury's guarantee for clearing the Post Office's checks.	7th review	Met	
Sign a ministerial order to cease the use of budgetary letters that commit central government to expenditures beyond the current budget year or to expenditures outside the budget.	7th review	Met	
The decree on the conditions of opening, operation and closing of deposit accounts, as amended, is approved. The decree stipulates that balances of the 'current spending' part of the transfers made in year N on deposit accounts will be removed at the end of the year, while the investment part of the transfers made in N on deposit accounts can be carried forward up to a 5 per cent limit (of the deposit account credit balance resulting from the difference between the capital expenditure transferred during the budget year and the related payments).	7th review	Met	
Establish the basic infrastructure for the platform for the M-Tax application, which will allow taxpayers to file and pay their taxes via their mobile phones without internet access.	7th review	Not met	The infrastructure is being put in place, with two recent positive developments: (a) the signature (by the MEFP) of a letter approving budgetary means to establish M-Tax; and (b) the finalization of the DAO to launch the selection process of providers for implementing M-Tax.
Starting with the 2019 budget law, no project in excess of CFAF 1 billion will be included in the government capital budget if it has not been reviewed by the committee responsible for the selection of public investment projects.	7th review	Met	
Formal guarantees, signature commitments serving as guarantees, the financial debts of state-owned enterprises, as well as comfort letters servings as irrevocable guarantees of settlement and those involving debt obligations will be integrated into debt sustainability databases and analysis.	7th review	Met	
Implement the action plan for reducing tax expenditures: specifically limit discretionary measures in favor of a comprehensive approach based on rules published on the internet that are applicable to all.	7th review	Not met	Awaiting action by the Cabinet of the MEFP.
Carry out a securitization of part of the Treasury deposit accounts, for the following entities: the Pension Retirement Institute (IPRES), the Social Security Fund (CSS), and the Caisse des Dépôts et Consignations (CDC). For past credit balances resulting from budget transfers, the government undertakes to cancel them (and if necessary to re-commit them under an upcoming LFI / LFR).	7th review	Met	
2019			
Measures			
The decree relating to the opening, operating and closing conditions of the deposit accounts, as amended, is applied. Thus, on December 31, 2018, balances of the 'current spending' part of the transfers made in 2018 on deposit accounts will be removed, while the investment part of transfers made in 2018 on deposit accounts can be postponed up to a 5 percent limit (of the deposit account credit balance resulting from the difference between the capital expenditure transferred during the budget year and the related payments).	8th review		

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 2015-2018. 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-December 2018, and the indicative targets for end-September 2018, 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 (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. A cancellation of credits antérieurs in the comptes de dépôt will have no effect on the computation of net/lending borrowing in the budget year it was cancelled. In particular, for program purposes, this type of cancellation will not be recorded as a negative expenditure or other revenue in the budget year it was cancelled.

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 (MEFP Table 1).

8. The floor including grants shall be adjusted downward by the equivalent in CFAF (at current exchange rates) of the DPO amount above $100 million that the World Bank approves in 2018, as long as such amount is used by the central government to settle obligations owed to SENELEC beyond the CFAF 70 billion programmed in the 2018 supplementary budget (MEFP Table 1). The amount of this adjustment is not to exceed $50 million. The financing of the additional settlement of obligations owed to SENELEC described above should come either from (i) a disbursement in 2018 from the DPO approved in 2018 or (ii) a drawdown of the escrow account at the BCEAO containing overfinancing from the 2018 Eurobond defined in the TMU.

Reporting Requirements

9. 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

10. 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

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

D. Budgetary Float

Definition

12. 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

13. 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 engagées*), all certified expenditures that have not yet been cleared for payment (*dépenses liquidées non encore ordonnancées*), all payment orders (*dépenses ordonnancées*), all payment orders accepted by the Treasury (*dépenses prises en charge par le Trésor*), and all payments made by the Treasury (*dépenses 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

14. 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.

15. The authorities will report any such procedure immediately to Fund staff.

F. Public Sector External Payments Arrears

Definition

16. 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

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

Definition

18. Debt. The definition of debt is set out in paragraph 8(a) of the Guidelines on Public Debt Conditionality in Fund Arrangements attached to Executive Board Decision No. 15688-(14/107), adopted December 5, 2014.

(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.

19. Debt guarantees. The guarantee of a debt arises from any explicit legal obligation of the public sector to service a debt in the event of nonpayment by the debtor (involving payments in cash or in kind.)

20. External debt. External debt is defined as debt borrowed or serviced in a currency other than the CFA franc, regardless of the residency of the creditor.

G. Annual Central Government Net Financing Requirement

Definition

21. The central government's net financing requirement is defined as the sum of the following two components: i) the overall fiscal balance, as defined above in the assessment criterion on net lending/borrowing; and ii) the additional borrowing by the Treasury to finance accounts payable, comprising (a) the operations of the post office (*Poste and Poste Finance*), (b) the pension system (*Fonds National de Retraites*), (c) spending by ministries out of unutilized appropriations from past budgets (drawdown of the "*comptes de dépôt*"), and (d) offsets for illiquid revenues (*"recettes d'ordre"*). For end-December 2017 this assessment criterion must be less than or equal to the amount indicated in Table 1 attached to the Memorandum of Economic and Financial Policies.

Sample Calculation

22. The government's overall net financing requirement for fiscal year 2017 is CFAF 499 billion. It is calculated as the sum of the overall fiscal deficit (CFAF 349 billion), and additional borrowing to finance accounts payable, as defined above (CFAF 150 billion).

Adjustment

23. The ceiling is adjusted upward by the amount that budget grants fall short of program projections up to a maximum of CFAF 15 billion at current exchange rates (MEFP Table 1).

24. The ceiling shall be adjusted upward by the equivalent in CFAF (at current exchange rates) of the DPO amount above $100 million that the World Bank approves in 2018, as long as such amount is used by the central government to settle obligations owed to SENELEC beyond the CFAF 70 billion programmed in the 2018 supplementary budget (MEFP Table 1). The amount of this adjustment is not to exceed $50 million. The financing of the additional settlement of obligations owed to SENELEC described above should come either from (i) a disbursement in 2018 from the DPO approved in 2018 or (ii) a drawdown of the escrow account at the BCEAO containing overfinancing from the 2018 Eurobond defined in the TMU.

Reporting Requirements

25. Data related to the additional borrowing by the Treasury to finance accounts payable will be sent annually within a period of one month from the end of the month of December. This comprises: (a) the operations of the post office (*Poste and Poste Finance*), (b) the pension system (*Fonds National de Retraites*), (c) spending by ministries out of unutilized appropriations from past budgets (drawdown of the "*comptes de dépôt*"), and (d) offsets for illiquid revenues (*"recettes d'ordre"*).

26. Data related to the overall financing requirement will be sent annually within a period of one month from the end of the month of December. These data must include: (i) total gross government debt; (ii) total debt principal repaid by the government; and (iii) all guarantees granted by the government for domestic or external loans to its suppliers and contractors and any other public or

private entity. The details regarding any government borrowing (including amounts on-lent and any guarantee granted by the government for domestic or external loans to its suppliers and contractors and any other public or private entity) will be reported monthly within six weeks of the end of the month. The data on borrowings will be grouped together as short-term (less than one year) or long-term (one year or more). This rule will also apply to amounts on-lent and guarantees granted by the government for domestic or external loans to its suppliers and contractors and any other public or private entity.

H. Public Sector Contracts Signed by Single Tender

Definitions

27. 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 buy fuel from SAR on the basis of the current price structure.

Reporting Requirements

28. 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

29. 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.

30. 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

31. 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.

32. 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.

33. 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.

34. 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;

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

J. Escrow Account

Definition

35. The escrow account is a special account in the general treasury (DGCPT) opened at the Central Bank (BCEAO) or in a private bank. This account is credited with the balance of the amount raised through the issuance in March 2018 of a Eurobond in the amount of 2.2 billion dollars, after deducting the amounts corresponding to the financing of the 2018 supplementary finance law, in line with the macroeconomic framework, and net of debt repurchases made in conjunction with the 2011 Eurobond issue and related expenses. This balance of 236 billion CFAF will be used only for debt reprofiling operations to repay outstanding external debt early, for replacing World Bank financing in 2018 in the event the World Bank's DPO is disbursed in 2019, and for the financing of the 2019 budget.

Reporting Requirements

36. From June 30, 2018, onwards, the authorities commit to provide the IMF with a monthly statement of the escrow account with a maximum delay of one week after the end of the month.

SENEGAL

STAFF REPORT FOR THE 2018 ARTICLE IV CONSULTATION AND SEVENTH REVIEW UNDER THE POLICY SUPPORT INSTRUMENT AND REQUEST FOR MODIFICATION OF ASSESSMENT CRITERIA—DEBT SUSTAINABILITY ANALYSIS[1]

December 27, 2018

Approved By
Dominique Desruelle and Maria Gonzalez (IMF), and Paloma Anos-Casero (IDA)

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

Senegal Joint Bank-Fund Debt Sustainability Analysis	
Risk of external debt distress	*Low*
Overall risk of debt distress	*Low*
Granularity in the risk rating	*N/A*
Application of judgment	Yes, incorporating ongoing debt operation and availability of guarantees

Senegal has expanded its debt perimeter to include para-public entities and state-owned enterprises (SOEs) and remains at low risk of debt distress despite short-term breaches of two external debt indicators under the most extreme scenarios. The low risk of debt distress is predicated on: (i) ongoing debt liability management, guarantees to address currency risk, access to liquid financial assets and a sound track record of market access; and (ii) adherence to the planned fiscal consolidation path, an acceleration of reforms, and a prudent borrowing strategy. Looking ahead, it will be important to contain fiscal pressures from Treasury operations and address fiscal risks from the broader public sector, including the energy sector.

[1]This DSA has been prepared following the revised LIC-DSA framework. It updates the previous Joint DSA (IMF Country Report No. 18/8). Senegal's debt carrying capacity, calculated based on the April 2018 WEO and the October 2018 WEO and the 2017 CPIA is classified as strong. The applicable thresholds to public and publicly guaranteed external debt are: 55 percent for the PV of debt- to-GDP ratio, 240 percent for the PV of debt-to-exports ratio, 21 percent for the debt service-to-exports ratio, and 23 percent for the debt service-to-revenue ratio. The applicable benchmark for the PV of total public for strong debt carrying capacity is 70 percent of GDP.

BACKGROUND

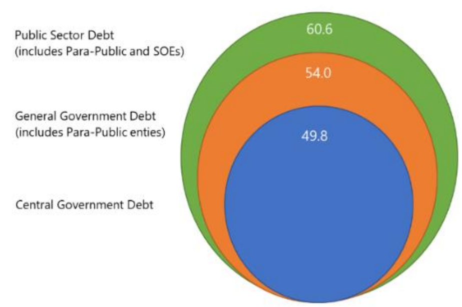
1. **In this DSA, the debt perimeter has been expanded to include para-public entities and state-owned enterprises (SOEs) (Box 1).** Because of the expanded coverage starting in 2017, the end-2017 debt stock has increased by 10.8 percentage points of GDP to 60.6 percent of GDP, compared to central government debt of 49.8 percent of GDP. The structural break in 2017, combined with the GDP rebasing which resulted in an increase in the level of GDP of about 30 percent, makes comparison with the last published DSA (Country Report No. 18/8)—based only on central government data and the "older GDP base" DSA—somewhat difficult.

Box 1. Coverage of Public Sector Data in the DSA

The DSA presented in this document is based on a broader coverage of the public sector, both for the debt stock and government guarantees, and the fiscal deficit. The public sector includes the (i) central government, (ii) para-public entities which are part of the general government, and (iii) SOEs.

Total public debt data, including debt of para-public entities and SOEs, are provided by the authorities. Revenue and expenditure data on para-public entities and SOEs are derived from technical assistance (TA) reports from the Statistics and Fiscal Affairs Departments of the IMF. Combining the realized deficit of 3.3 percent of GDP for the central government in 2016 with the rest of the public-sector data derived from the TA reports and the authorities, puts the end-2016 overall public-sector deficit at 1.4 percent of GDP. Over the medium term, the implementation of an ambitious public-sector investment program under the *Plan Senegal Emergent* (PSE), including from the national electricity company SENELEC (the largest SOE), PETROSEN (the state-owned hydrocarbon company), and the startup costs from the newly created Air Senegal state-owned airline company, widen the overall public-sector deficit to 2.8 percent of GDP. The expanded coverage of debt data increases the end-2017 debt stock by 10.8 percentage points of GDP pushing the total debt stock to 60.6 percent of GDP compared to central government debt of 49.8 percent of GDP.

Senegal: Total Domestic Public Debt, year end 2017
(Percent GDP)



The authorities remain committed to tackling public debt data gaps and improve debt transparency. The expanded coverage of public sector data in this DSA starting in 2017 creates a structural break with historical data, making comparison to the previous DSA more difficult.

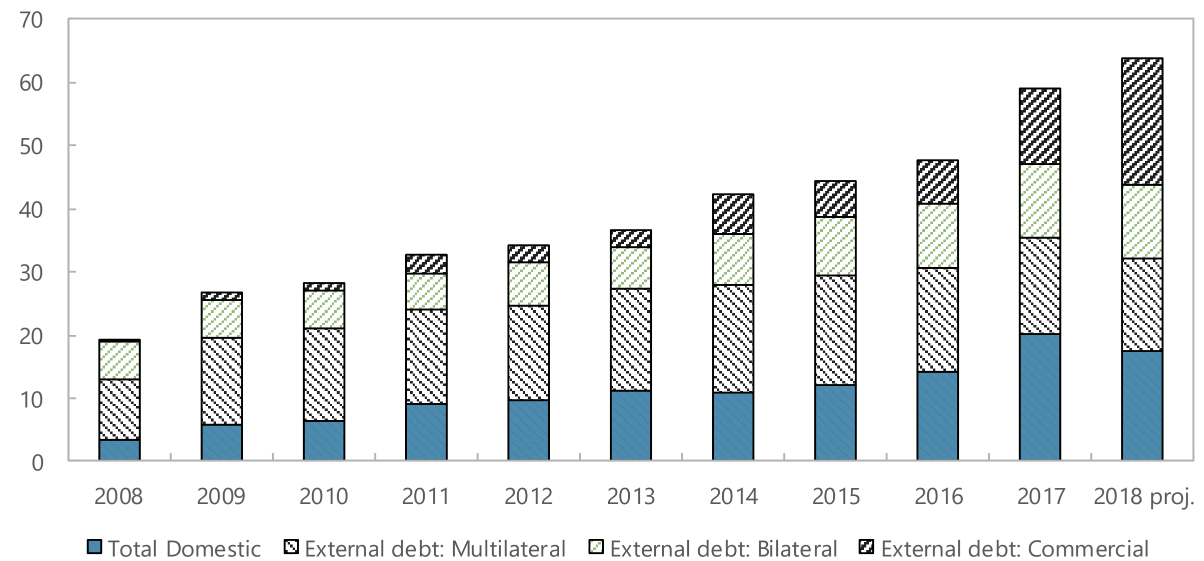
2. **External debt vulnerability indicators have somewhat deteriorated over the past year, reflecting an increase in external non-concessional borrowing and the coverage of para-public entities and SOEs' debt and guarantees.**[2] For 2018, external public debt in Senegal is projected at 47.6 percent of GDP, compared to 45.2 percent projected in the previous DSA. The expansion of the debt

[2] In this DSA, external debt is defined based on currency rather than residency. External debt includes borrowing from the IMF.

perimeter represents one of the key factors in this increase. Also, in 2018, Senegal issued a $2.2 billion Eurobond, its largest ever and twice the previous issuance of $1.1 billion in 2017. Both the 2017 and 2018 issuance substituted, to a large extent, for borrowing on the regional market. Senegal's Eurobond issuance had the benefit of creating space in the regional bond market for WAEMU countries without access to international markets, and, combined with substantial Eurobond issuance by Cote d'Ivoire, helped in the short run to further build up WAEMU pooled reserves, which had fallen in 2016. Nevertheless, the increase in the debt to GDP ratio was held back by the GDP rebasing.

Figure 1. Senegal: Public Sector Debt

(Percent GDP)



Source: Staff estimates

3. The new Eurobond shifted borrowing from the domestic to the external market. Domestic debt is projected to decrease from 20.2 percent of GDP at end-2017 to 16.9 percent of GDP at end-2018. Total public debt, including the expanded perimeter coverage (Box 1), is projected to reach 64.5 percent of GDP in 2018, although this includes accumulation of 2018 budget overfinancing (1.6 percent of GDP) in an escrow account which will be unwound to meet 2019 financing needs. Despite the expanded coverage, the increase in the 2018 debt-to-GDP ratio remains somewhat moderate compared to the previous DSA estimation because of GDP rebasing, as well as a decline in domestic debt given that Senegal has not accessed the regional market in 2018. The higher debt also reflects higher financing requirement owing to the need for the Treasury to finance deficits of the Post Office and the Civil Service Pension, as well as the tapping of unutilized appropriations of past budgets through the *comptes de dépôt*. The high public debt service, which is projected to reach 40.9 percent of revenue in 2018, reflects an increased recourse to non-concessional borrowing in the last two years and the partial repurchase of the 2011 Eurobond.[3]

[3] The repurchase on the market of 40 percent of the bullet repayment due in 2021 was made using the proceeds of the 2018 Eurobond issuance. The difference between the market price and the at par price,is accounted for as increased debt service in 2018.

Table 1.: Evolution Debt Indicators DSA
(Percent GDP)

	2018	
	December 2017 DSA	Current DSA 2018
Public and Publicly Guaranteed Debt		
(Previous GDP)	58.7	
(Rebased GDP)	45.7	64.5
Increase in Debt		18.8
Expansion to include Public Sector Debt		11.7
2018 Eurobond Issuance		7.3
Reduction in domestic debt from external		-0.2

Source: Staff estimates.

Table 2. Senegal: Coverage of Public Sector Debt and Design of the Contingent Liability Stress Test

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

1	The country's coverage of public debt	The central, state, and local governments plus extra budgetary funds, central bank, government-guaranteed debt, non-guaranteed SOE debt			
		Default		Used for the analysis	Reasons for deviations from the default settings
2	Other elements of the general government not captured in 1.	0	percent of GDP	0.0	
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2	percent of GDP	0.0	
4	PPP	35	percent of PPP stoc	2.1	
5	Financial market (the default value of 5 percent of GDP is the minimum value)	5	percent of GDP	5.0	
	Total (2+3+4+5) (in percent of GDP)			7.1	

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

UNDERLYING ASSUMPTIONS AND BORROWING PLAN

4. **The authorities remain committed to a debt management strategy that will rely predominantly on concessional and semi-concessional borrowing.** They aim to borrow largely from traditional bilateral and multilateral lenders, and resort to non-concessional borrowing only in exceptional cases and for specific high-return projects. Eurobond issuances and, more generally, borrowing on commercial terms, will be considered if financing terms are favorable and if it is not possible to obtain concessional financing from development partners, particularly the African Development Bank and the World Bank.

5. **The DSA is consistent with the macroeconomic framework outlined in the Staff Report and updates the previous DSA produced in Country Report No. 18/8, for the Fifth Review of the Policy Support Instrument (PSI).** In line with the previous DSA, the baseline scenario assumes the implementation of sound macroeconomic policies, structural reforms, and an ambitious investment plan, as outlined in the *Plan Senegal Emergent* (PSE). It is also assumed that Senegal's fiscal deficit remains at 3 percent of GDP over the long term, consistent with WAEMU targets. This scenario is expected to deliver strong and sustained economic growth and a narrowing fiscal deficit over the medium term. In the current framework, growth, imports, investment, exports and other macroeconomic variables include the implementation of two significantly large off-shore oil and gas projects (the so-called GTA and SNE projects), including pre-production investment and borrowing, with first production and export of oil and gas expected in 2022. As a result, medium-term projections for variables like real GDP growth are more optimistic than historical averages, but aligned with recent outcomes in 2016-17, implying that the take-off is assumed to persist, conditional on reforms being implemented. The main assumptions are as follows:

- **Real GDP growth** is projected to be 6.2 percent in 2018. The growth momentum is maintained in the medium term capturing the effects of infrastructure investment, export growth, and reforms under the PSE. The growth rate peaks at 11.6 percent in 2022, with a slight deceleration to 10.4 percent in 2023, reflecting the incorporation of oil and gas production. Over the long run, real GDP growth is projected at 5.1 percent over the period 2020-34, slightly lower than in the last DSA. This is in line with international experience that suggests that over a long period, as economies converge to middle income status, the real growth rate slows down.
- **Fiscal deficit**. The public sector deficit is projected at 5.1 percent of GDP in 2018 and 3.7 percent over the medium term. In the long run, the deficit is set at 2.8 percent of GDP, incorporating some efforts to increase revenues, mainly through improved revenue administration and lower tax exemptions, in support of investment needs and other development challenges.
- **Current account deficit**. The current account deficit is projected to stay above 7 percent of GDP in 2018, due to an increase in imports of capital goods and oil, and to lower export growth. The current account deficit is projected to widen through 2021 due to oil and gas investment in the pre-production period. Over the long term, the average current account deficit is projected to decrease to 1.2 percent of GDP due to improved export growth, including from the oil and gas sector and the ongoing export-oriented investment in the special economic zones (SEZs). Remittances remain a significant component of the current account, but are expected to decline as a percent of GDP over the medium term.

Table 3. Senegal: Evolution of Selected Macroeconomic Indicators, 2015-18

	2015	2016	2017	2018	Med. Term[1]	Long Term[2]
Real GDP growth						
Current DSA	6.4	6.2	7.2	6.2	8.3	5.1
Previous DSA	6.5	6.7	6.8	7.0	7.0	5.4
Overall fiscal deficit (percent of GDP)						
Current DSA[3]	3.7	3.3	2.8	5.1	3.7	2.8
Previous DSA[4]	4.8	4.2	3.7	3.5	3.1	3.0
Current account deficit (percent of GDP)						
Current DSA	5.6	4.0	7.3	7.3	7.5	1.2
Previous DSA	7.0	5.6	7.8	7.2	6.8	5.3

[1] Defined as the first 5 years of the projection period. For the current DSA update, the medium term covers the years 2018-23.
[2] Defined as the last 15 years of the projection period. For the current DSA update, the long term covers the years 2024-38.
[3] Overall fiscal deficit of General Government and Public Sector.
[4] Overall fiscal deficit of Central Government.

- **Inflation**. Inflation is projected to remain contained at under 2 percent in 2018. The GDP deflator is projected at 2.2 percent in 2018 and is expected to remain around 2 percent until 2023.
- **External financing mix and terms**. The DSA assumes that the financing mix will be consistent with a prudent borrowing strategy. Even though recent borrowing has seen an increased reliance in non-concessional borrowing, the average maturity of new debt is close to 18 years, with 7-year grace period.
- **Domestic borrowing.** Domestic debt is assumed to account for 16.4 percent of total public debt on average over 2018-23, 6.2 percent of which has maturity below one year. New short-term domestic debt is assumed to be issued at an average real interest rate of 4.0 percent, while medium- and long-term domestic debt is assumed to carry a real interest rate of 4.7 percent with average maturity of 6.0 years, consistent with the current structure of domestic debt.
- **Discount rate**. The discount rate for this DSA is set at 5 percent.

Table 4. Senegal: Debt Carrying Capacity

Debt Carrying Capacity and Thresholds

Country	Senegal
Country Code	722

Debt Carrying Capacity	Strong

Final	Classification based on current vintage	Classification based on the previous vintage	Classification based on the two previous vintages
Strong	Strong	Strong	Strong
	3.32	3.35	3.80

Note: Until the October 2018 WEO vintage is released, the previous vintage classification and corresponding score are based solely on the CPIA per the previous framework.

Applicable thresholds

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

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

Calculation of the CI Index

Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.385	3.818	1.47	44%
Real growth rate (in percent)	2.719	6.364	0.17	5%
Import coverage of reserves (in percent)	4.052	40.208	1.63	49%
Import coverage of reserves^2 (in percent)	-3.990	16.167	-0.65	-19%
Remittances (in percent)	2.022	10.380	0.21	6%
World economic growth (in percent)	13.520	3.579	0.48	15%
CI Score			3.32	100%
CI rating			Strong	

New framework	Cut-off values			
Weak	CI ≤	2.69		
Medium	2.69	< CI ≤	3.05	
Strong	CI >	3.05		

Reference: Thresholds by Classiciation

EXTERNAL debt burden thresholds	Weak	Medium	Strong
PV of debt in % of			
Exports	140	180	240
GDP	30	40	55
Debt service in % of			
Exports	10	15	21
Revenue	14	18	23

TOTAL public debt benchmark	Weak	Medium	Strong
PV of total public debt in percent of GDP	35	55	70

Source: Staff estimates.

EXTERNAL DSA

6. **Similar to the last DSA, external debt indicators breach their thresholds for a short period of time under most stress tests (Figure 2).** The external debt to export ratio breaches its threshold only under the most extreme shock. The debt service to exports ratio breaches the threshold twice, each short-lived, lasting one year: (i) in 2018 due to an operation in the first half of 2018 to reduce the Eurobond repayment spike in 2021 by 40 percent, and (ii) a more significant breach in 2021 due to the same Eurobond bullet repayment which occurs under a shock to exports.[4] Triggered tailored stress tests and the market financing risk indicators show no breach of the benchmarks or thresholds (Figure 6). A number of factors have helped counter the mechanical deterioration in indicators caused by the expanded debt coverage, including: (i) GDP rebasing, (ii) repurchase of 40 percent of the 2011 Eurobond and the resulting reduction in the 2021 bullet repayment spike, and (iii) introduction of oil and gas-related production and revenues starting in 2022 and the resulting higher exports and GDP growth.

7. **Public external debt is projected to be on a downward path.** Public and publicly guaranteed (PPG) external debt is estimated at 47.6 percent of GDP in 2018 and is projected to decline to 35.7 percent

[4] The start of oil and gas exports, projected in 2022 in this scenario, contributes to a significant improvement in the debt to export and debt service to export ratios.

of GDP in 2023 and below 30 percent in the long term. This baseline scenario assumes good progress on reforms, where the government takes measures to contain Treasury financing, improve revenue mobilization, and sustain growth. However, the historical scenario in the DSA provides an illustration of how lack of progress on reforms and a return to the low growth of the past would put debt on an upward and unsustainable path (Figure 2). Under this scenario, Senegal would grow at 4.5 percent and most indicators would breach their respective thresholds over the medium to long term. The historical scenario highlights the importance of steadfast implementation of structural reforms to sustain high growth.

8. **Senegal remains at a low external risk of debt distress, but it is a borderline case.** There are two export-related breaches for external debt and debt service indicators under the most extreme shock. Yet, mitigating factors favor maintaining the low external risk of debt distress.[5] These include:

- Authorities' ongoing exploration of debt liability management options to reduce the Eurobond bullet repayment in 2021 by 50 percent. Simulation of the debt operation under consideration would reduce the 2021 debt service spike by close to 11 percent, making the new breach less than 10 percent of the threshold, without causing new breaches over the projection period;
- Partial credit guarantee for currency risk hedging made available to Senegal by the African Development Bank and further supplementary partial guarantees for currency risk being negotiated with commercial banks;
- Unrestricted access to a pool of liquid financial assets (e.g. WAEMU international reserves currently over $15 billion or more than 4 months of regional imports);
- A sound track record of market access as evidenced by sustained and successful Eurobond issuances in 2011, 2014, 2017, and 2018, with the 2018 issuance doubling the 2017 amount and five times oversubscribed. On the regional WAEMU bond market, except for 2017 and 2018 when Senegal raised substantial financing through Eurobonds, it has also been an active market participant, with bond issuance surpassing 5 percent of GDP annually prior to 2017; and
- Authorities' ongoing structural reforms to boost private investment, especially the establishment of SEZs through the "Prosperity Triangle" project with export-oriented investment, are expected to boost exports, thus further minimizing the significance of the export-related breaches.

PUBLIC DSA

9. **Indicators of overall public debt and debt service do not point to significant vulnerabilities.** Total public debt increases from 60.6 percent in 2017 to 64.5 percent in 2018, and then is projected to

[5] For all public debt vulnerability indicators, the most extreme shock is the one that yields the highest ratio in or before 2028.

decline to 40.5 percent of GDP by 2038 (Figure 3 and Table 6).[6] Overall, these ratios are higher than the ones estimated in the last DSA, reflecting the broader coverage of public sector debt, increased borrowing to finance below the line Treasury operations, and greater reliance on non-concessional debt. Under the most extreme stress test, a shock to GDP growth results in a prolonged breach of the threshold, but the stress test may overstate the magnitude of the debt vulnerability in the case of Senegal because the sizable permanent increase in the primary deficit created by the standardized simulation is not consistent with Senegal's stated fiscal policy or historical data.[7] Under the historical scenario, the PV of total public debt is on an upward trend and only breaches the threshold in the last year of the projection period. Like the external DSA, the historical scenario illustrates the risk that insufficient reforms accompanied by low growth represent for public debt dynamics. Overall, risks to public debt sustainability remain low, but stress tests underline the importance of making continuous efforts to reduce the fiscal deficit, increase revenue, sustain strong economic private sector-led growth and strictly control the volumes and terms of non-concessional borrowing.

10. The public DSA highlights vulnerabilities related to debt service which are also presented in the external DSA. Debt service reaches 40.9 percent in 2018 of revenues, but falls over the medium term to 30.5 percent with some spikes due to Eurobond bullet repayments.[8] Under the current trajectory, debt service will absorb a sizable portion of fiscal revenues, thus limiting room for other expenditures in critical areas such as infrastructure investment, health, and education. As in the external DSA, this illustrates the importance of implementing key policies and reforms both to control spending and mobilize additional revenue to finance economic development in a sustainable manner.

CONCLUSION

11. According to staff's assessment, Senegal remains at low risk of debt distress, but it is a borderline case. The breach of the debt service-to-export threshold in 2021, which is due a Eurobond bullet repayment, is the most significant. Breaches of other thresholds are short-lived and do not raise significant concerns owing to the mitigating factors highlighted above, including ongoing debt liability management, guarantees to address currency risk, access to liquid financial assets, and a sound track record of market access. However, the evolution of debt ratios under the historical scenario indicates that debt sustainability hinges on continuing fiscal consolidation and on steadfastly implementing reforms to achieve high and sustained growth, as envisaged in the PSE. Senegal remains a borderline case and slippage on structural reforms or fiscal consolidation could place it at moderate risk of debt distress. Also, while progress has been made on expanding debt perimeter, the debt coverage could be improved

[6] Public debt covers central government debt and preliminary data on para-public entities and on SOEs, contrary to the last DSA which just focused on central government data.

[7] The public sector debt to GDP breach of the threshold under a shock to GDP has a large and sustained effect throughout the projection period by creating a large permanent increase in the primary deficit—about 4 percentage points of GDP higher than the baseline in 2021 and beyond. The historical scenario is well below the most extreme shock scenario, providing further evidence that the risks associated with the most extreme scenario may be overstated in the case of Senegal.

[8] As noted earlier, debt service in 2018 includes a one-off operation to reduce by 40 percent the Eurobond bullet repayment in 2021.

further. The authorities remain committed to expanding the coverage of public sector deficits and debt which will contribute to strengthening further the analysis of debt vulnerabilities.

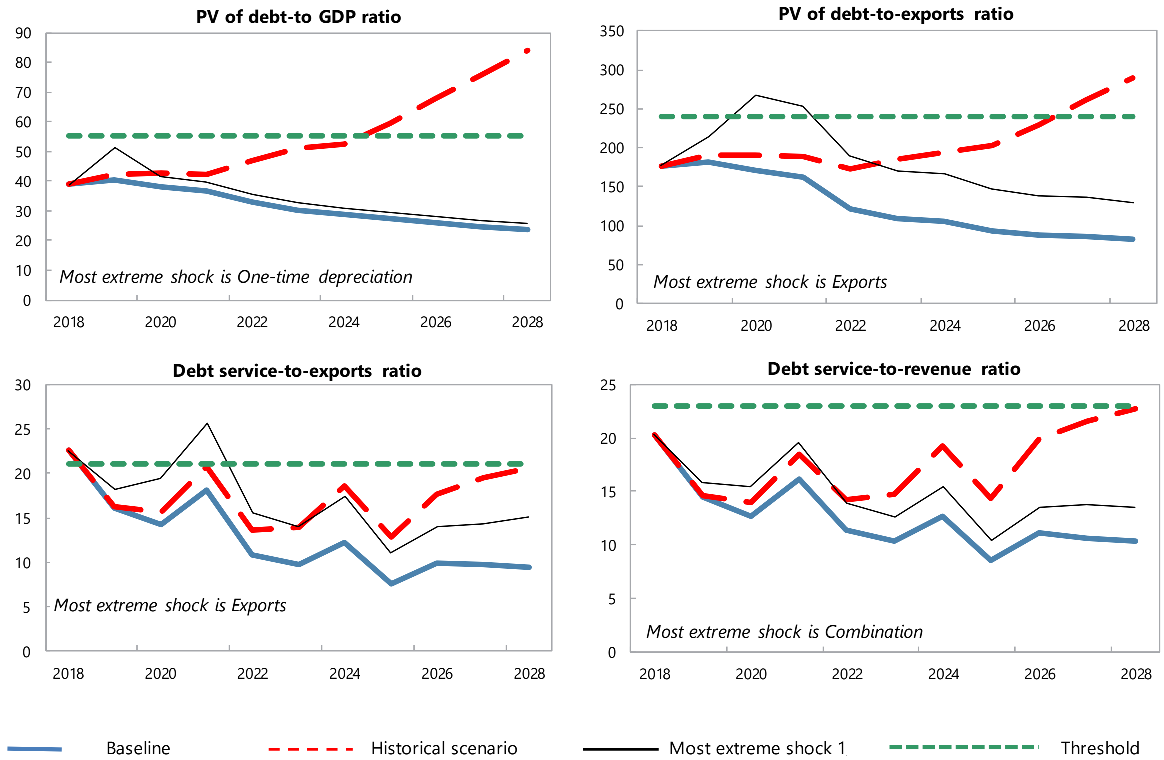
12. The current projections highlight that rising levels of debt and debt service require a cautious approach to commercial borrowing. Debt service ratios are projected to remain high despite their decline over the medium term, signaling that a further deterioration of borrowing terms could increase debt-related vulnerabilities. In this context, staff recommends a careful and continuous monitoring of financing needs and of borrowing plans, the development of a transparent pipeline of bankable projects, and a strengthening of debt management.

13. The authorities are committed to reduce debt ratios over the medium term. They aim to achieve this through further fiscal consolidation, improvement in the current account and a strengthening of debt management policies—including more attention to the terms and volume of non-concessional external financing. While progress has been made, further reforms that will effectively reduce the structural deficits of the Post Office and civil service pensions are needed, as well as addressing the current stock of appropriations from past budgets in the *comptes de dépôt*. It will be important to contain fiscal pressures from Treasury operations and address fiscal risks from the broader public sector, including the energy sector. The successful Eurobond issuance in 2018, following that of the 2017, on reasonable terms[9] indicates continued market confidence in the economy, but recent trends in bond prices suggest that future issuances could be at higher interest rates.

14. The authorities agree with the assessment in this DSA. The findings of this DSA were shared with the authorities, who broadly concurred with the staff's assessment and maintaining the low risk of debt distress rating. They plan to continue efforts to expand the coverage of public sector debt. Accordingly, they concurred with staff on the need for a prudent debt management strategy and expressed their commitment to limit non-concessional borrowing, while ensuring that borrowing decisions consider their impact on growth.

[9] The 2018 issuance was five times oversubscribed and consisted of two bonds: (i) a 30-year bond of US$1 billion, 6.75 percent interest rate, principal repayment in the last 3 years; and (ii) a 10-year bond of € 1 billion, 4.75 percent interest rate, principal repayment in the last 3 years.

Figure 2. Senegal: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2018-28



Customization of Default Settings	Size	Interactions
Tailored Tests		
Combined CLs	Yes	
Natural Disasters	n.a.	n.a.
Commodity Prices [2/]	n.a.	n.a.
Market Financing	No	No

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

Borrowing Assumptions for Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	4.0%	4.0%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	17	17
Avg. grace period	7	7

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

Sources: Senegal authorities; and staff estimates and projections.

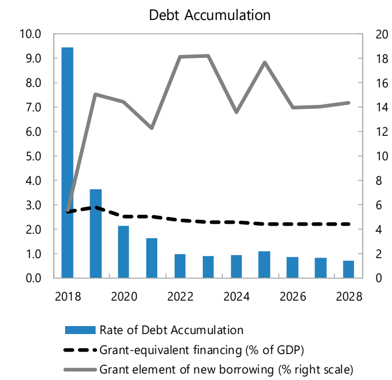
1/ The most extreme stress test is the test that yields the highest ratio in or before 2028. Stress tests with one-off breaches are also presented (if any), while these one-off breaches are deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.
2/ The magnitude of shocks used for the commodity price shock stress test are based on the commodity prices outlook prepared by the IMF research department.

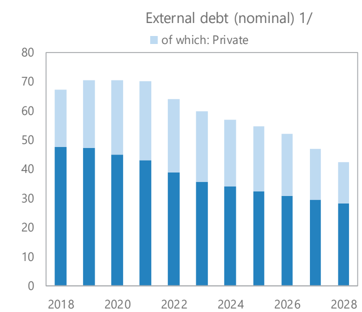
Table 5. Senegal: External Debt Sustainability Framework, Baseline Scenario, 2015-38

(Percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/	
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028	2038	Historical	Projections
External debt (nominal) 1/	57.2	57.3	65.6	67.3	70.5	70.4	70.0	64.0	59.9	42.3	22.0	49.8	59.5
of which: public and publicly guaranteed (PPG)	32.3	33.6	40.4	47.6	47.2	44.9	43.0	38.7	35.7	28.3	20.0	27.0	37.4
Change in external debt	1.7	0.1	8.3	1.7	3.3	-0.1	-0.4	-6.0	-4.1	-4.6	-1.0		
Identified net debt-creating flows	9.8	-0.9	-1.0	1.8	-0.1	1.5	1.9	-6.3	-5.2	-4.8	-1.5	3.5	-2.5
Non-interest current account deficit	4.4	2.6	6.1	5.2	5.4	7.9	8.4	2.3	2.2	-1.5	0.2	5.8	2.6
Deficit in balance of goods and services	13.0	11.0	13.6	13.8	14.3	16.8	17.3	8.3	5.7	3.0	5.0	14.7	8.4
Exports	22.4	21.5	21.7	22.0	22.3	22.4	22.6	27.1	27.7	29.0	27.8		
Imports	35.4	32.5	35.3	35.8	36.6	39.2	39.9	35.4	33.5	31.9	32.7		
Net current transfers (negative = inflow)	-9.7	-9.6	-9.1	-9.5	-9.6	-9.3	-9.2	-8.1	-7.5	-7.0	-7.0	-9.6	-8.1
of which: official	-0.5	-0.4	-0.4	-0.4	-0.3	-0.3	-0.3	-0.3	-0.3	-0.4	-0.5		
Other current account flows (negative = net inflow)	1.1	1.2	1.6	0.9	0.7	0.4	0.3	2.1	4.0	2.5	2.3	0.8	2.4
Net FDI (negative = inflow)	-2.1	-1.3	-2.4	-2.0	-3.1	-4.1	-4.3	-3.9	-3.6	-2.4	-1.6	-1.7	-3.0
Endogenous debt dynamics 2/	7.5	-2.2	-4.7	-1.4	-2.3	-2.4	-2.2	-4.8	-3.7	-0.9	-0.1		
Contribution from nominal interest rate	1.2	1.5	1.2	2.1	2.1	2.4	2.4	2.2	2.2	1.4	0.9		
Contribution from real GDP growth	-3.9	-3.3	-3.7	-3.6	-4.4	-4.8	-4.6	-7.1	-5.9	-2.2	-1.0		
Contribution from price and exchange rate changes	10.3	-0.3	-2.1	...	...	...	...	...	...	...	...		
Residual 3/	-8.1	1.0	9.2	-0.1	3.3	-1.6	-2.3	0.3	1.1	0.1	0.5	-0.2	0.4
of which: exceptional financing	1.7	2.3	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	...	...	34.7	38.8	40.2	38.2	36.5	32.7	30.0	23.9	17.1		
PV of PPG external debt-to-exports ratio	...	...	159.7	176.6	180.7	170.5	161.5	120.5	108.1	82.4	61.6		
PPG debt service-to-exports ratio	7.5	10.4	8.9	22.6	16.1	14.3	18.1	10.9	9.7	9.4	6.8		
PPG debt service-to-revenue ratio	9.8	12.0	7.8	20.3	14.5	12.6	16.2	11.4	10.3	10.4	7.3		
Gross external financing need (Billion of U.S. dollars)	0.9	0.9	1.4	2.3	1.7	2.3	2.9	0.9	0.9	0.3	1.3		
Key macroeconomic assumptions													
Real GDP growth (in percent)	6.4	6.2	7.2	6.2	6.9	7.5	7.1	11.6	10.4	5.1	4.5	4.6	7.2
GDP deflator in US dollar terms (change in percent)	-15.6	0.5	3.9	7.1	-1.3	3.3	1.9	2.8	1.6	1.7	2.0	-0.2	2.3
Effective interest rate (percent) 4/	2.0	2.7	2.3	3.7	3.3	3.8	3.7	3.7	3.8	3.1	4.0	1.9	3.5
Growth of exports of G&S (US dollar terms, in percent)	-7.6	2.9	12.2	15.1	6.9	11.6	10.1	37.7	14.6	7.4	7.4	5.2	12.9
Growth of imports of G&S (US dollar terms, in percent)	-13.4	-1.8	20.9	15.2	7.9	18.9	11.0	1.9	5.8	10.5	6.8	4.6	8.7
Grant element of new public sector borrowing (in percent)	...	...	...	5.6	15.1	14.4	12.3	18.1	18.2	14.3	14.9	...	14.3
Government revenues (excluding grants, in percent of GDP)	17.1	18.6	25.0	24.4	24.8	25.3	25.4	25.9	26.2	26.2	26.1	17.2	25.7
Aid flows (in Billion of US dollars) 5/	0.9	0.9	1.0	0.5	0.5	0.6	0.7	0.7	0.8	1.1	2.2		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	2.7	2.9	2.5	2.5	2.4	2.3	2.2	2.3	...	2.4
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	19.7	36.6	44.6	40.4	53.3	54.4	50.9	58.8	...	45.4
Nominal GDP (Billion of US dollars)	18	19	21	24	25	28	31	35	39	58	111		
Nominal dollar GDP growth	-10.2	6.8	11.3	13.7	5.5	11.1	9.1	14.6	12.1	6.9	6.7	4.3	9.7
Memorandum items:													
PV of external debt 7/	...	...	59.8	58.5	63.6	63.6	63.5	57.9	54.1	37.9	19.0		
In percent of exports	...	...	275.4	266.1	285.6	284.3	280.9	213.5	195.2	130.8	68.6		
Total external debt service-to-exports ratio	12.2	14.6	12.7	27.9	19.7	19.5	23.3	14.9	13.6	14.8	9.1		
PV of PPG external debt (in Billion of US dollars)			7.3	9.3	10.2	10.7	11.2	11.5	11.8	13.9	18.9		
(PVt-PVt-1)/GDPt-1 (in percent)				9.5	3.7	2.1	1.7	1.0	0.9	0.7	0.6		
Non-interest current account deficit that stabilizes debt ratio	2.7	2.5	-2.2	3.5	2.1	8.0	8.8	8.3	6.3	3.1	1.3		

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





Sources: Senegal authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

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

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

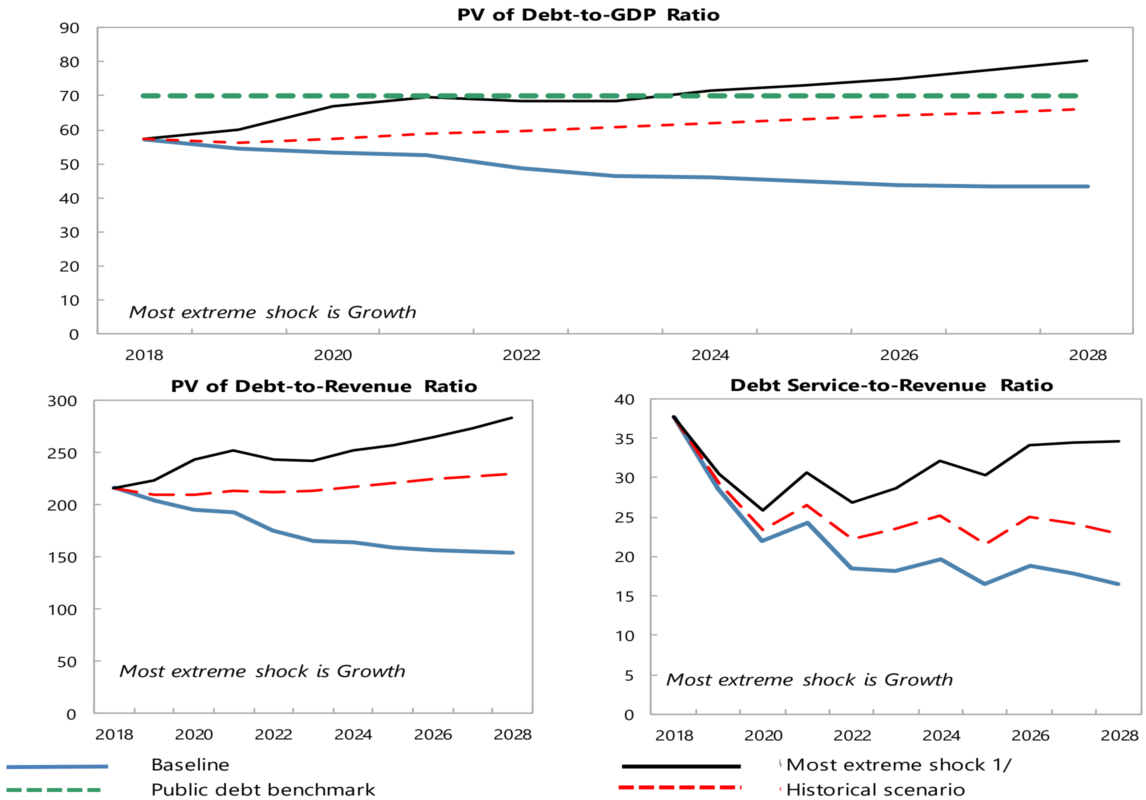
5/ Defined as grants, concessional loans, and debt relief.

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

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

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

Figure 3. Senegal: Indicators of Public Debt Under Alternative Scenarios, 2018-28



Borrowing Assumptions for Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	49%	49%
Domestic medium and long-term	45%	45%
Domestic short-term	5%	6%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	4.0%	4.0%
Avg. maturity (incl. grace period)	17	17
Avg. grace period	7	7
Domestic MLT debt		
Avg. real interest rate on new borrowing	1.4%	1.4%
Avg. maturity (incl. grace period)	3	3
Avg. grace period	1	1
Domestic short-term debt		
Avg. real interest rate	4%	4%

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

Sources: Senegal authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2028. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

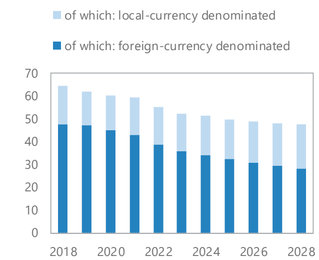
Table 6. Senegal: Public Sector Debt Sustainability Framework, Baseline Scenario, 2015-38

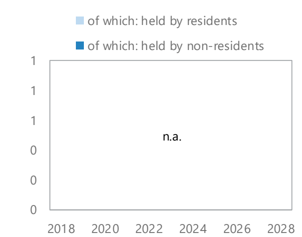
(Percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028	2038	Historical	Projections
Public sector debt 1/	44.5	47.7	60.6	64.5	61.9	60.2	59.2	55.0	52.2	47.6	40.5	37.3	54.4
of which: external debt	32.3	33.6	40.4	47.6	47.2	44.9	43.0	38.7	35.7	28.3	20.0	27.0	37.4
Change in public sector debt	2.1	3.2	13.0	3.9	-2.6	-1.7	-1.0	-4.2	-2.8	-0.5	-0.9		
Identified debt-creating flows	3.9	-0.6	-6.5	1.8	-1.0	-1.7	-0.9	-4.2	-2.8	-0.5	-0.9	2.0	-1.2
Primary deficit	2.2	1.6	0.9	3.1	2.3	1.7	1.7	1.0	1.1	1.2	0.7	2.6	1.6
Revenue and grants	19.3	20.7	27.1	26.5	26.8	27.2	27.4	27.8	28.1	28.1	28.1	19.3	27.7
of which: grants	2.2	2.2	2.2	2.1	2.0	2.0	2.0	1.9	1.9	1.9	2.0		
Primary (noninterest) expenditure	21.4	22.4	28.0	29.6	29.2	28.9	29.0	28.9	29.1	29.2	28.8	21.9	29.2
Automatic debt dynamics	2.2	-0.3	-6.0	-0.6	-3.3	-3.4	-2.6	-5.3	-3.8	-1.7	-1.6		
Contribution from interest rate/growth differential	-1.8	-1.4	-2.5	-2.1	-2.8	-2.9	-2.6	-5.0	-3.9	-1.2	-1.2		
of which: contribution from average real interest rate	0.8	1.2	0.7	1.4	1.3	1.4	1.4	1.2	1.2	1.2	0.6		
of which: contribution from real GDP growth	-2.5	-2.6	-3.2	-3.5	-4.2	-4.3	-4.0	-6.1	-5.2	-2.3	-1.8		
Contribution from real exchange rate depreciation	4.0	1.1	-3.4	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	-0.5	-1.9	-1.4	-0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.3	-0.1
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	-0.5	-1.9	-1.4	-0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	-1.7	3.8	19.5	3.6	-2.1	-0.4	-0.1	-0.3	0.1	-0.5	-0.4	2.3	-0.2
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	...	...	53.3	57.2	54.7	53.3	52.6	48.9	46.4	43.2	37.6		
PV of public debt-to-revenue and grants ratio	...	...	196.5	216.3	203.9	195.7	192.3	175.7	165.3	153.8	133.8		
Debt service-to-revenue and grants ratio 3/	30.1	35.6	25.9	37.7	28.6	22.0	24.4	18.4	18.2	16.5	11.9		
Gross financing need 4/	6.8	7.4	8.0	12.3	10.0	7.7	8.4	6.1	6.2	5.8	4.0		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	6.4	6.2	7.2	6.2	6.9	7.5	7.1	11.6	10.4	5.1	4.5	4.6	7.2
Average nominal interest rate on external debt (in percent)	2.3	3.2	2.5	4.5	3.8	4.1	4.1	4.1	4.3	3.6	3.5	2.2	3.9
Average real interest rate on domestic debt (in percent)	3.9	5.3	3.6	3.1	3.8	3.2	3.4	2.1	2.7	0.9	-0.4	3.5	2.1
Real exchange rate depreciation (in percent, + indicates depreciation)	13.4	3.5	-10.8	...	...	...	...	...	...	...	...	2.6	...
Inflation rate (GDP deflator, in percent)	1.1	0.8	1.8	2.3	1.8	2.0	1.3	2.0	1.1	1.7	2.0	1.4	1.8
Growth of real primary spending (deflated by GDP deflator, in percent)	4.8	10.8	34.2	12.1	5.5	6.7	7.5	10.8	11.4	4.8	4.4	7.9	7.7
Primary deficit that stabilizes the debt-to-GDP ratio 5/	0.0	-1.5	-12.1	-0.7	5.0	3.4	2.6	5.3	3.8	1.7	1.6	-4.5	2.7
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

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

Public sector debt 1/





Sources: Senegal authorities; and staff estimates and projections.

1/ Coverage of debt: The central, state, and local governments plus extra budgetary funds, central bank, government-guaranteed debt, non-guaranteed SOE debt. Definition of external debt is Currency-based.

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

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

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

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

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

Table 7. Senegal: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2018-28

(Percent)

	Projections 1/										
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
PV of debt-to GDP ratio											
Baseline	39	40	38	36	33	30	29	27	26	25	24
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2018-2038 2/	39	42	43	42	47	51	53	**59**	**68**	**76**	**84**
B. Bound Tests											
B1. Real GDP growth	39	43	44	42	38	35	33	31	30	29	28
B2. Primary balance	39	41	40	38	35	32	31	29	28	27	26
B3. Exports	39	43	46	44	40	36	35	33	31	30	29
B4. Other flows 3/	39	42	43	41	37	34	32	31	29	28	27
B5. Depreciation	39	51	42	40	36	33	31	29	28	27	26
B6. Combination of B1-B5	39	48	49	47	42	39	37	35	33	32	31
C. Tailored Tests											
C1. Combined contingent liabilities	39	43	41	40	37	34	33	31	30	29	28
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	39	45	43	41	37	34	32	30	29	27	26
Threshold	55	55	55	55	55	55	55	55	55	55	55
PV of debt-to-exports ratio											
Baseline	177	181	170	161	120	108	106	92	87	86	82
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2018-2038 2/	177	190	191	188	172	184	194	202	229	**262**	**289**
B. Bound Tests											
B1. Real GDP growth	177	181	170	161	120	108	106	92	87	86	82
B2. Primary balance	177	183	178	170	127	115	113	99	94	92	89
B3. Exports	177	215	**267**	**253**	190	170	167	146	139	136	129
B4. Other flows 3/	177	189	191	181	135	122	119	104	99	97	92
B5. Depreciation	177	181	147	139	103	92	90	79	74	73	71
B6. Combination of B1-B5	177	211	187	212	158	142	139	122	116	113	108
C. Tailored Tests											
C1. Combined contingent liabilities	177	195	184	177	135	122	120	105	100	99	95
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	177	181	171	162	121	108	106	92	87	85	81
Threshold	240	240	240	240	240	240	240	240	240	240	240
Debt service-to-exports ratio											
Baseline	**23**	16	14	18	11	10	12	8	10	10	9
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2018-2038 2/	**23**	16	16	21	14	14	19	13	18	20	21
B. Bound Tests											
B1. Real GDP growth	**23**	16	14	18	11	10	12	8	10	10	9
B2. Primary balance	**23**	16	14	19	11	10	13	8	10	10	10
B3. Exports	**23**	18	19	**26**	16	14	17	11	14	14	15
B4. Other flows 3/	**23**	16	15	19	11	10	13	8	10	11	11
B5. Depreciation	**23**	16	14	17	10	9	12	7	9	9	8
B6. Combination of B1-B5	**23**	17	18	**23**	14	12	15	10	12	13	12
C. Tailored Tests											
C1. Combined contingent liabilities	**23**	16	15	19	11	10	13	8	10	10	10
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	**23**	16	15	20	13	11	14	10	11	9	9
Threshold	21	21	21	21	21	21	21	21	21	21	21
Debt service-to-revenue ratio											
Baseline	20	14	13	16	11	10	13	8	11	11	10
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2018-2038 2/	20	15	14	18	14	15	19	14	20	22	23
B. Bound Tests											
B1. Real GDP growth	20	16	15	19	13	12	15	10	13	12	12
B2. Primary balance	20	14	13	17	12	11	13	9	11	11	11
B3. Exports	20	15	13	18	13	11	14	9	12	12	13
B4. Other flows 3/	20	14	13	17	12	11	13	9	12	12	12
B5. Depreciation	20	18	16	19	13	12	15	10	13	13	11
B6. Combination of B1-B5	20	16	15	20	14	13	15	10	13	14	13
C. Tailored Tests											
C1. Combined contingent liabilities	20	14	13	17	12	11	13	9	12	11	11
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	20	14	13	17	13	12	15	11	12	10	9
Threshold	23	23	23	23	23	23	23	23	23	23	23

Sources: Senegal authorities; and staff estimates and projections.

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

2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

3/ Includes official and private transfers and FDI.

Table 8. Senegal: Sensitivity Analysis for Key Indicators of Public Debt, 2018-28
(Percent of GDP, unless otherwise indicated)

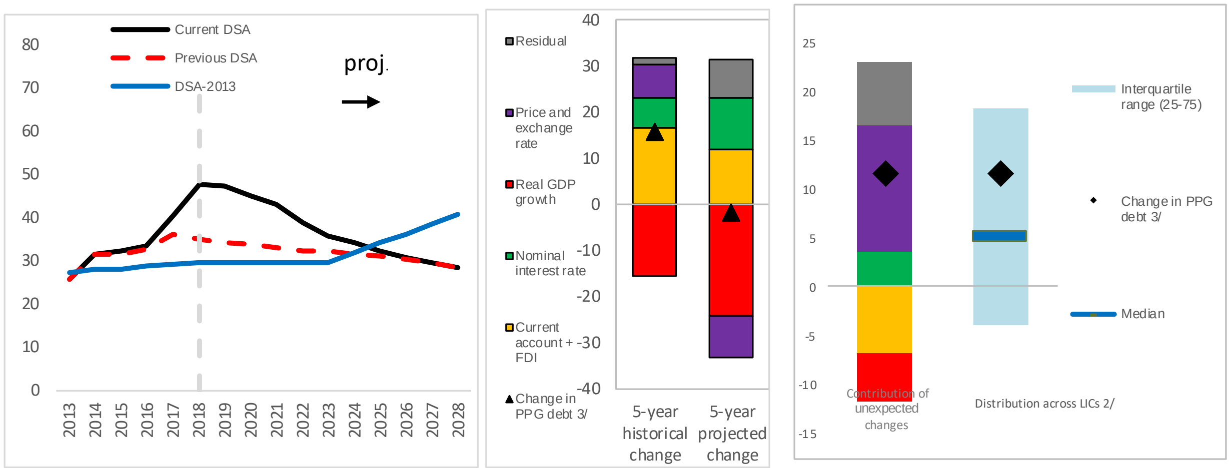
	Projections 1/										
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
PV of Debt-to-GDP Ratio											
Baseline	57	55	53	53	49	46	46	45	44	43	43
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2018-2038 2/	57	56	58	59	60	61	62	63	64	65	66
B. Bound Tests											
B1. Real GDP growth	57	60	67	70	69	69	71	73	75	78	80
B2. Primary balance	57	56	56	56	52	49	48	47	46	46	45
B3. Exports	57	57	60	59	55	52	52	50	49	48	48
B4. Other flows 3/	57	57	58	57	53	50	50	48	47	47	46
B5. Depreciation	57	64	60	57	51	46	44	41	38	36	34
B6. Combination of B1-B5	57	55	57	57	53	51	52	51	51	51	51
C. Tailored Tests											
C1. Combined contingent liabilities	57	61	60	59	54	51	51	49	48	48	47
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	57	55	53	53	49	46	46	45	44	43	43
Public debt benchmark	70	70	70	70	70	70	70	70	70	70	70
PV of Debt-to-Revenue Ratio											
Baseline	216	204	196	192	176	165	164	159	156	155	154
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2018-2038 2/	216	209	210	213	212	213	218	221	224	227	230
B. Bound Tests											
B1. Real GDP growth	216	223	244	252	244	242	252	257	264	274	283
B2. Primary balance	216	208	207	203	185	174	172	168	164	163	161
B3. Exports	216	212	221	217	198	186	183	178	175	172	169
B4. Other flows 3/	216	211	212	208	190	179	176	172	168	166	164
B5. Depreciation	216	241	222	210	184	166	157	146	137	129	121
B6. Combination of B1-B5	216	204	208	207	192	183	183	181	180	180	181
C. Tailored Tests											
C1. Combined contingent liabilities	216	229	219	214	195	183	181	176	172	170	169
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	216	204	196	193	176	166	163	159	155	154	153
Debt Service-to-Revenue Ratio											
Baseline	38	29	22	24	18	18	20	17	19	18	16
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2018-2038 2/	38	29	23	27	22	23	25	22	25	24	23
B. Bound Tests											
B1. Real GDP growth	38	30	26	31	27	29	32	30	34	34	35
B2. Primary balance	38	29	22	26	21	20	21	18	20	19	18
B3. Exports	38	29	22	25	19	19	20	17	19	19	19
B4. Other flows 3/	38	29	22	25	19	19	20	17	19	19	18
B5. Depreciation	38	29	25	28	21	20	22	18	21	19	17
B6. Combination of B1-B5	38	28	23	26	21	21	23	20	23	22	21
C. Tailored Tests											
C1. Combined contingent liabilities	38	29	24	30	24	21	22	19	20	19	18
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	38	29	23	25	20	20	21	19	20	17	16

Sources: Senegal authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the benchmark.
2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.
3/ Includes official and private transfers and FDI.

Figure 4. Senegal: Driver of Debt Dynamics—Baseline Scenario, 2013-28

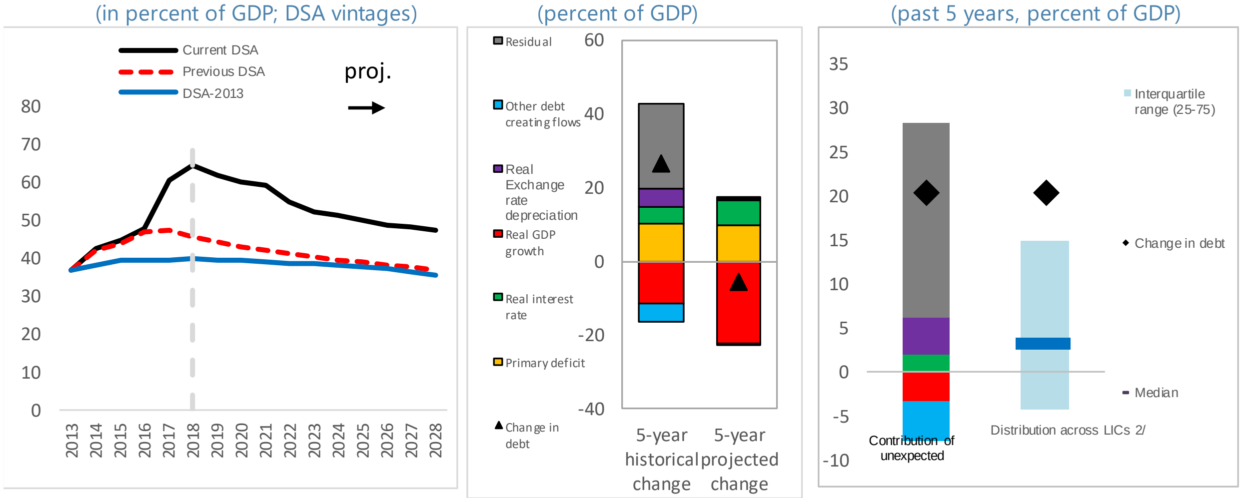
External debt

Gross Nominal PPG External Debt (in percent of GDP; DSA vintages) | **Debt-creating flows** (percent of GDP) | **Unexpected Changes in Debt 1/** (past 5 years, percent of GDP)



Public debt

Gross Nominal Public Debt (in percent of GDP; DSA vintages) | **Debt-creating flows** (percent of GDP) | **Unexpected Changes in Debt 1/** (past 5 years, percent of GDP)



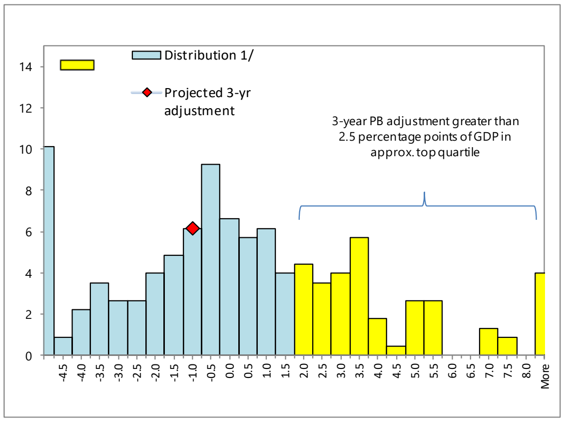
1/ Difference between anticipated and actual contributions on debt ratios.

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

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

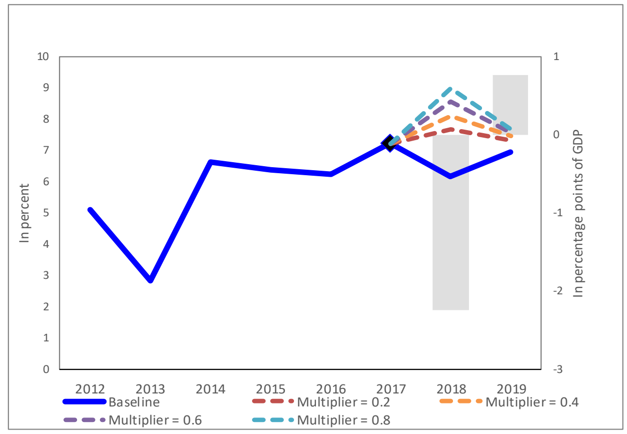
Figure 5. Senegal: Realism Tools, 2012-2023

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



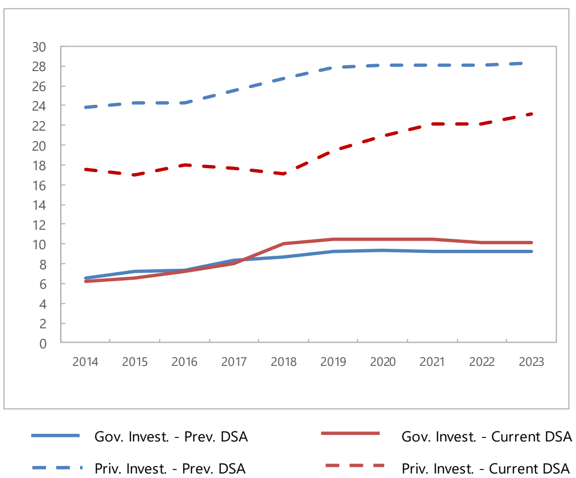
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/

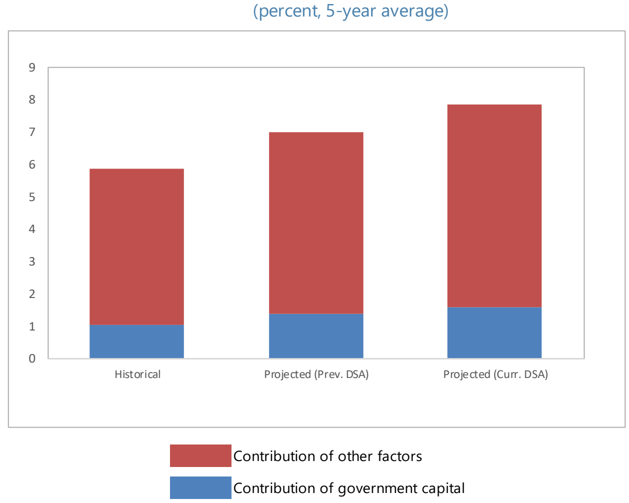


1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates
(% of GDP)



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

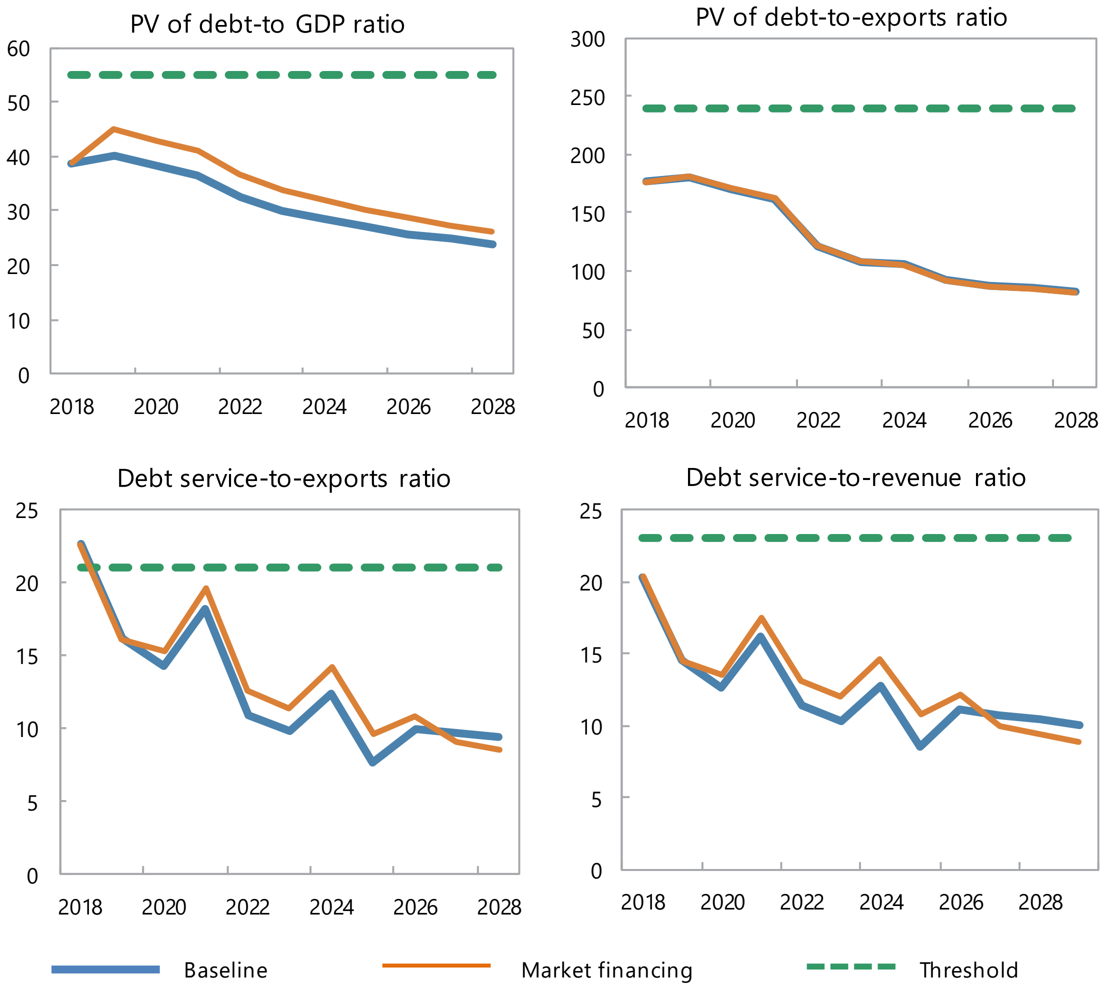


Source: Staff estimates.

Figure 6. Senegal: Market-Financing Risk Indicators, 2018-28

	GFN 1/	EMBI 2/
Benchmarks	14	570
Values	12	470
Breach of benchmark	No	No
Potential heightened liquidity needs	Low	

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



Sources: Senegal authorities; and staff estimates and projections.

INTERNATIONAL MONETARY FUND

SENEGAL

December 27, 2018

STAFF REPORT FOR THE 2018 ARTICLE IV CONSULTATION AND SEVENTH REVIEW UNDER THE POLICY SUPPORT INSTRUMENT AND REQUEST FOR MODIFICATION OF ASSESSMENT CRITERIA—INFORMATIONAL ANNEX

Prepared By	The Staff of the International Monetary Fund (In consultation with other departments)

CONTENTS

RELATIONS WITH THE FUND

(As of October 31, 2018)

Membership Status: Joined: August 31, 1962; Article VIII

General Resources Account:	**SDR Million**	**%Quota**
Quota	323.60	100.00
IMF's holdings of currency (Holdings rate)	281.28	86.92
Reserve Tranche Position	42.33	13.08
SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	154.80	100.00
Holdings	16.11	10.41
Outstanding Purchases and Loans:	**SDR Million**	**%Quota**
ESF Arrangements	31.55	9.75

Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ESF	Dec 19, 2008	Jun 10, 2010	121.35	121.35
ECF [1]	Apr 28, 2003	Apr 27, 2006	24.27	24.27
ECF [1]	Apr 20, 1998	Apr 19, 2002	107.01	96.47

[1]Formerly PRGF.

Projected Payments to Fund[2]

	Forthcoming				
	2018	**2019**	**2020**	**2021**	**2022**
Principal	12.14	16.18	3.24		
Charges/Interest	0.37	1.47	1.44	1.43	1.43
Total	12.50	17.65	4.67	1.43	1.43

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

Implementation of HIPC Initiative:

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

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

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

Implementation of Multilateral Debt Relief Initiative (MDRI):

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

	Eligible Debt		
Delivery Date	**GRA**	**PRGT**	**Total**
January 2006	N/A	100.32	100.32

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

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

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

Exchange System:

Senegal, a member of the West African Economic and Monetary Union (WAEMU), accepted the obligations under Article VIII, Sections 2(a), 3 and 4 of the Fund's Articles of Agreement, and maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions. The WAEMU's exchange regime is a conventional peg to the euro.

The union's common currency, the CFA franc, had been pegged to the French franc at the rate of CFAF 1 = F 0.02. Effective January 12, 1994, the CFA franc was devalued and the new parity set at CFAF 1 = F 0.01. Effective December 31, 1998, the parity was switched to the euro at a rate of CFAF 655.96 = €1.

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

Aspects of the exchange system were also discussed in the report "WAEMU: Common Policies for Member Countries" (Country Report No. 18/106).

Article IV Consultations:

The previous consultation discussions were held during August 17–30, 2016. The Article IV consultation was completed by the Executive Board on December 2, 2016 and the staff report was published on January 4, 2017 (Country Report No. 17/1).

In completing the third review of Senegal's economic performance under the program supported by the PSI and concluding the 2016 Article IV consultation with Senegal, Executive Directors endorsed staff's appraisal, as follows: Implementation of the first set of PSE projects has helped move Senegal to a higher growth path, but sustaining this growth over the medium term requires steadfast implementation of reforms that would enable SMEs to thrive and attract FDI for globally competitive production. Continued efforts to increase the competitiveness of the private sector, including through making tax collection more transparent, lowering electricity costs and improving service distribution, and creating an environment where SMEs and FDI can contribute to broad-based growth, will allow the private sector to take the reins of growth over the medium term. Staff welcomes efforts to revamp the rules for the SEZ, drawing on the experience of China and Mauritius, and with input from organizations representing the investors from China, Europe and the US. It will be important, however, for the SEZ to move away from tax holidays and to have a transparent, rules-based tax regime that is easy to comply with and has reasonable rates.

The authorities are committed to preserving macroeconomic stability. Efforts to increase revenue collection and rationalize public consumption have helped control budget deficits. However, these efforts need to be pursued with further vigilance, particularly with respect to the wage bill, a more transparent and fairer public sector wage remuneration system and a more equitable and efficient collection of taxes, where tax expenditures are significantly reduced. Reforms to ensure everyone pays their fair share of taxes in a transparent system, should make it possible to raise more revenue, whilst removing tax disincentives facing SMEs and FDI in globally competitive activities. The use of comfort letters to encourage bank financing of projects in advance of budget appropriations can undercut fiscal discipline and create contingent liabilities, and should be kept to the absolute minimum.

The financial sector should play a stronger role in supporting private-sector led growth. Financial indicators are improving, but from a low level. Regional supervision should be strengthened, including with a view to further reducing non-performing loans. Domestic reforms are needed to improve incentives for extending credit.

Senegal remains at low risk of debt distress, but debt levels are rising. Increased nonconcessional borrowing, including on the regional market, has raised the debt service burden on the budget. Maintaining its low risk of debt distress is predicated on sustaining the high levels of growth envisaged under the PSE while adhering to the planned fiscal consolidation path, which will require rapid progress in fostering private investment. Better selection, evaluation and monitoring of investment projects to ensure a strong economic return and accessing concessional and semi-concessional borrowing whenever possible as part of a comprehensive debt management strategy will contribute to keeping debt on a sustainable path while ensuring efficient implementation of the public investment program envisaged under the PSE. Moreover, there is an urgent need to strengthen Treasury operations that are under pressure from legacy arrears and financial difficulties of the postal system. Staff welcomes the authorities' intention to take stock of the pressures on the Treasury by conducting an audit by end-March 2017 and formulate an action plan as soon as possible.

The outlook for the Senegalese economy is positive and risks are manageable, provided there is a concerted effort to continue improving economic governance. PSE success depends on rapidly implementing the critical mass of reforms which have been identified, including from the peer learning catalyzed by the Fund. An explicit review of the political economy of reforms should facilitate implementation of these reforms. However, risks, mainly domestic, relate to the entrenched rent seeking and patronage that may hinder opening up economic space and ensuring that everyone pays their fair share of taxes in a transparent system.

Failure to overcome these lobbies for the status quo would, as has happened four times since 1990, result in the current growth momentum being lost. External risks include possible increases in the cost of public borrowing and slow growth in key partner countries. Security risks in the region could also adversely affect investment and, hence, growth and exports.

Financial Sector Assessment Program (FSAP) and Report on the Observance of Standards and Codes (ROSC) Participation:

A joint team of the World Bank and the IMF conducted a mission under the FSAP program in 2000 and 2001. The Financial System Stability Assessment (FSSA) was issued in 2001 (IMF Country Report No. 01/189). An FSAP update was undertaken in 2004, focusing on development issues (in particular nationwide supply of basic financial services and access of SMEs to credit, in line with the priorities defined in the PRSP (IMF Country Report No. 05/126). A regional FSAP for the WAEMU was undertaken in 2007 and the FSSA was issued in May 2008 (SM/08/139). A ROSC on the data module was published in 2002. An FAD mission conducted a ROSC on the fiscal transparency module in 2005.

Technical Assistance (2010–18):

A. AFRITAC West

Year	Area	Focus
2010	Debt management National accounts Customs administration Tax administration Customs administration	Strengthening public debt management Quarterly national accounts (QNA); institutional sector accounts Risk analysis and audit Tax administration modernization Follow-up mission
2011	National accounts Customs administration Public financial management Debt management Tax administration	QNA; institutional sector accounts Risk analysis and audit Strengthening of financial management information systems: IT master plan and interconnections (3 AFW visits) Strengthening public debt management Establishment of medium-sized enterprise tax center
2012	Government Finance Statistics National accounts Tax administration National accounts Customs administration Public financial management	Annual Government Finance Statistics Annual and quarterly national accounts Identification and registration of tax payers Annual and Quarterly national accounts Risk analysis and audit Budget preparation; WAEMU compliant budget classification, Medium-Term Planning and budgeting and payroll management (5 visits: 2011-12)
2013	Public financial management	Assistance to the Treasury function; organization and process, WAEMU compliant standard, and central government balance sheet (4 visits: 2014-15)

Year	Area	Focus
	Public debt analysis Public debt management	Financial regime of autonomous agencies DSA workshop Help the authorities produce a national borrowing policy document
2014	Tax administration Customs administration Government Finance Statistics Bank Supervision and Regulations Public Debt Public financial management	Identification and registration of tax payers Risk analysis and audit Annual and Quarterly Government Finance Statistics BCEAO mission on Basel II & III Implementation Public Debt Management, Government securities policy issuance Payroll management: methods and model MTBF: articulation with the macroeconomic frame
2015	Tax administration Public financial management Bank Supervision and Regulations Public Debt Management National Accounts Government Finance Statistics	Identification and registration of tax payers Budget execution; streamlining the chain of expenditure and decentralizing budget management (2 visits) BCEAO mission on Basel II & III Implementation Public Debt Management, Government securities policy issuance, Diversification of debt market instruments Updating National Accounting system GFS Workshop (International and Regional Methodology training)
2016	Bank Supervision and Regulations Public Debt management National Accounts Government Finance Statistics Transfer pricing Public Expenditure Management Revenue administration	BCEAO mission on Basel II & III Implementation Public Debt Management, support to Government securities issuing policies Updating National Accounting system (SCN 2008); ONA TOFE implementation/GFS update A workshop on transfer pricing with a focus on telecommunication sector General Balance of Government accounts, support to implementing decentralization of PFM functions Strengthening customs and tax center for medium-sized enterprises
2017	National accounts Revenue administration	Support to rebasing GDP using 2008 SNA Support to customs (risk management) and tax institutions

Year	Area	Focus
	Public Debt management Government Finance Statistics Public Financial Management	Development of Medium-term debt strategy Support to implementation of GFS2001 Support to financial management in line ministries (AE/CP)
2018	Bank supervision Revenue Administration Public Financial Management Public Debt management Macro-fiscal National Accounts Government Finance Statistics	Workshop on international standards regarding credit risk supervision Strengthening research activities of tax institutions, customs: control of value at douane Implementation of accrual accounting; Support to improving documentation related to budget; Support to implementation of AE/CP Training on the use of the revised debt sustainability framework; Training on debt portfolio risk management Strengthening technical capacity related to macro-framework Strengthening quarterly national accounts systems GFS: Consolidation of statistics (notably related to increasing statistics beyond central government

B. Headquarters

Department	Date	Form	Purpose
Fiscal Affairs	Jan. 2010	FAD expert	Review of the expenditure chain
	Feb. 2010	Staff/AFRITAC	Public financial management
	Jul. 10	FAD expert	PFM (Treasury Single Account and cash forecasts)
	Oct. 2010	Staff/Expert/ AFRITAC	Revenue administration
	Nov. 2010	Staff/Expert	Review of tax policy and tax expenditures
	Dec. 2010	Staff	Public financial management and accounting (state, PEs, agencies)
	May 11	FAD expert	Public financial management
	Sep. 2011	Staff/Expert	Revenue administration
	Nov. 2011	FAD expert	Decentralization of budget authority
	Dec. 2011	FAD expert	Consolidation of accounts

Department	Date	Form	Purpose
Fiscal Affairs	Jan. 2012	FAD experts	VAT Credit Reimbursement System, Tax Exemptions and Reform Process
	May & Sep. 2012, and Feb.	FAD staff/Experts	TPA multi-Module Missions on tax reform and revenue administration
	Mar. 2012	FAD experts	PIT and Taxation of the Banking and Telecoms Sectors
	Jul. 2012	FAD experts	Budget Execution, Fiscal Reporting, and Cash Management
	Jan. 2013	FAD expert	Strengthening Cash Management and Treasury Single Account
	Feb. 2013	FAD expert	Decentralization of budget authority
	Feb. 2013	FAD expert	VAT Credit Reimbursement System, Tax Exemptions and Reform Process
	Mar. 2013	FAD experts	Wage Bill Budgeting and Execution Capital expenditure forecasting
	Mar. 2013	FAD experts	Mining and tax exemptions VAT documents and exemptions
	Apr. 2013	FAD experts	Customs diagnostics and administration
	Jun. 2013	FAD experts	External grants budgeting
	Jul. 2013	FAD experts	Government accounting, cash management
	Aug. 2013	FAD experts	Tax policy administration
	Sep. 2013	FAD staff/Experts	Tax policy administration
	Oct. 2013	FAD experts	Public financial management
	Nov. 2013	FAD experts	Customs administration
	Dec. 2013	FAD experts	Government accounting, cash
	Feb. 2014	FAD experts	Implementing WAEMU directives
	Feb. 2014	FAD experts	Expenditure rationalization
	Mar. 2014	FAD experts	Tax administration
	Mar. 2014	FAD experts	Public financial management
	Apr. 2014	FAD experts	Tax administration, develop IT system to improve tax administration

Department	Date	Form	Purpose
Fiscal Affairs	Apr. 2014	FAD experts	Tax administration, tax arrears management
	Apr. 2014	FAD experts	Module 1 Regional Workshop (WAEMU Regional Workshop)
	Oct. 2013	FAD experts	Fiscal Reform
	Apr. 2014	FAD experts	Public expenditure and public investment management
	Apr. 2014	FAD experts	Budget management
	Mar. 2015	FAD experts	Growth strategy development
	Jan. 2015	FAD experts	Tax administration reform
	Sep. 2015	FAD experts	Public expenditure and public investment management
	Nov. 2015	FAD experts	Tax reforms and Directorate General
	Feb. 2016	FAD experts	Tax reforms
	Mar. 2016	FAD experts	Budget framework
	Jun. 2016	FAD experts	Tax assessment
	Jul. 2016	FAD experts	Customs administration
	Jul.2016	FAD experts	Review of the TPA-TTF program and the design of a draft project under the RMTF
	Aug.2016	FAD experts	Assessment of the IT system to identify its strengths and weaknesses and advise on the preparation of the hackathon
	Sep. 2016		Senegal technical delegation visit to French Ministry of Finance in the area of Information Management and Public Financial Management
	Nov. 2016	FAD experts	Hackaton meeting: trying to identify projects with new technology to help improve Tax and PFM functions
	Apr. 2017	FAD experts	Public-Private Partnership (PPP) peer learning event
	Apr. 2018	FAD experts	Support to the revision of the Code Petrolier
	Nov. 2018	FAD experts	Public Investment Management Assessment (PIMA) mission
Statistics	Jul. 2015	Staff	Public debt management
	Jan. 2016	Staff	Bank supervision
	Mar. 2016	Staff	Public debt management
	Mar. 2012	Staff	Monetary and financial statistics

Department	Date	Form	Purpose
Statistics	Sep. 2013	Staff	Financial monetary statistics
	Dec. 2013	Staff	Government finance statistics
	Oct. 2014	Staff	Monetary and financial statistics
	2015	STA Expert	National Accounts (multiple visits)
	Jul. 2016	STA expert	National accounts (rebasing)
	Aug. 2016	Staff	Monetary and financial statistics
	Nov. 2016	STA expert	National accounts (rebasing)
	Dec. 2016	STA experts	Government Finance Statistics
	Apr. 2017	Staff	Support to review mission on Government Finance Statistics
	Nov. 2017	Staff	National accounts
	Mar. 2018	Staff	Financial Soundness Indicators
Legal	Jan.-Feb. 2012	LEG staff/Expert	Tax law (general, VAT)
	Jan.-Feb. 2012	LEG expert	VAT
	May 2012	LEG staff/Expert	Tax law (general, tax procedures)
	Jun. 2012	LEG expert	Tax procedures
Monetary and Capital Markets	Sep. 2010	Staff	Needs assessment
	Jan.-Feb. 2011	Staff/World Bank	Medium-Term Debt Strategy (MDTS)
	Jan. 2013	Staff	Regional bank supervision
	Apr. 2013	Staff	Public debt
	Nov. 2013	Staff	Public debt management
	Nov. 2013	Staff	Bank restructuring
	Jan. 2014	Staff	Bank Supervision
	Feb. 2014	Staff	BCEAO mission on Basel II implementation
	Apr. 2014	Staff	Government securities policy issuance
	Jul. 2014	Staff	Public debt management
	Sep. 2014-Feb 2015	Staff	BCEAO mission on Basel II implementation
	Jul. 2015	Staff	Public debt management
	Jan. 2016	Staff	Bank supervision
	Mar. 2016	Staff	Public debt management

C. Resident Representative

Stationed in Dakar since July 24, 1984; the position has been held by Ms. Cemile Sancak since September 2017.

D. Anti-Money Laundering/Combating the Financing of Terrorism

Senegal has been assessed against the 2012 Financial Action Task Force (FATF) standards during an onsite visit carried out in September 2017 by the Inter-Governmental Action Group Against Money Laundering in West Africa (GIABA). The assessment report was adopted by the GIABA plenary in November 2018 and will be published following a quality and consistency review by the FATF. The preliminary results of the assessment indicate that Senegal's AML/CFT regime has strategic deficiencies both in terms of the strength of the framework and its effective implementation. Based on the results of its evaluation, Senegal is likely to be referred to the Financial Action Task Force for monitoring by its International Cooperation Review Group and is at risk of being publicly listed, following a one-year observation period. Since its evaluation, Senegal has adopted a new AML/CFT law, transposing into the national legislation the WAEMU uniform law.

RELATIONS WITH OTHER FINANCIAL INSTITUTIONS

A. World Bank

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

B. African Development Bank

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

C. West African Development Bank (BOAD)

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

D. Islamic Development Bank

https://www.isdb.org/country/senegal

STATISTICAL ISSUES

(As of October 31, 2018)

I. Assessment of Data Adequacy for Surveillance
General: Data provision has some shortcomings but is broadly adequate for surveillance and program monitoring. There are weaknesses in data on national accounts, production, and social indicators. The authorities are committed to improving the quality and availability of economic, financial, and social indicators, partially relying on technical assistance from the Fund and other international organizations and donors.
National accounts: Since the rebasing in 2018 that changed the base year from 1999 to 2014, the compilation of the national accounts generally follows the *System of National Accounts, 2008*. Rebased series are now available from 2007 to 2016, with quarterly series also available up to 2018Q2 except for the demand side. Nevertheless, because of financial constraints, surveys of businesses and households are not conducted regularly. While there are no regular (annual or quarterly) surveys for household consumption and gross fixed capital, Senegal is actually implementing a turnover index that will provide information on household consumption (with some assumptions). In terms of production, ANSD has also implemented new standards to compile an Industrial Production Index with the producer price indices. The producer prices indices for services are released. For the primary sector, sector prices for agriculture are released on a monthly basis (but with concerns about the concept for producer prices), as is the case for the fishing industries. For other sectors like forestry and farming, coverage needs to be improved (e.g. production, prices). Efforts continue to be made to improve data collection procedures, strengthen the coordination among statistical agencies, and reduce delays in data dissemination. The Regional Technical Assistance Center for West Africa (West AFRITAC) has been assisting Senegal with the rebasing exercise and with the improvement of real sector statistics more generally. With help from IMF TA, Senegal is also starting to capture better activities related to natural resources, which will be important in the context of recent substantial oil and gas discoveries.
Government finance statistics (GFS): GFS are compiled by the Ministry of Economy and Finance from customs, tax, and treasury directorate sources, and disseminated quarterly as government financial operations tables (TOFE) in the ministry's publications. Afritac West has been conducting technical assistance missions aimed at improving the consistency of fiscal reporting and migrating to the methodology of the *Government Finance Statistics Manual 2001/2014,* in accordance with the WAEMU TOFE Directive. The authorities resumed reporting of annual data for *GFS Yearbook* and report higher frequency data for budgetary central government for publication in *International Financial Statistics (IFS)*. More recently, the authorities, with assistance from the IMF, have improved coverage of the fiscal accounts from central government to general government. However, data for this coverage have only been reported for 2015. Currently, data gathering happens in an ad hoc way (mostly depending on the immediate need, e.g. extending the DSA perimeter), so structures will need to be put in place to make sure that the necessary information is captured regularly.

External sector statistics: As one of the eight WAEMU member states, the National Directorate of BCEAO for Senegal has been collecting data following *BPM6* since 2013. Since Senegal's subscription to the SDDS in November 2017, the BCEAO has been disseminating quarterly BOP and IIP statistics on the National Summary Data Page of Senegal (http://nso.senegal.opendataforafrica.org/rarkwmf/national-summary-data-page-nsdp); the latest available reference periods are the first and second quarters of 2018, respectively. Under the three-year JSA-AFR project (May 2016-April 2019), aimed at improving adequacy, timeliness and frequency of ESS in 17 Francophone countries in West and Central Africa, Senegal has benefited from three TA missions, the latest one in June 2018. That mission found that the coverage of quarterly transactions is already satisfactory since the main sources of data are available on a quarterly basis (foreign trade data, tourism data, migrant remittances, external borrowing, monetary and banking statistics, estimates of trade credits). The other coverage issues (especially on services and revenues) should be solved for the most part by the ongoing overhaul of the international transactions reporting system currently conducted by the BCEAO Headquarters, which will be implemented in member countries in 2020. Several participants from the National Directorate of BCEAO for Senegal as well as from BCEAO Headquarters, and the ANSD attended a JSA-AFR regional workshop on Goods Services and Secondary Income in Dakar, during October 12-16, 2018. This should contribute to the improvement of the coverage of informal cross-border transactions.
II. Data Standards and Quality
In late-2017, Senegal became the fourth country in sub-Saharan Africa to subscribe to the Fund's Special Data Dissemination Standard (SDDS), which sets high standards for the timeliness and periodicity of dissemination of economic and financial data. A Data ROSC was published on the IMF website in 2002.
Monetary and financial statistics: Monetary and financial statistics (MFS) are compiled and disseminated on a monthly basis by the Central Bank of West African States (BCEAO). In August 2016, BCEAO completed the migration of Senegal's MFS to the standardized report forms (SRFs) for the central bank and other depository corporations. Since November 2016, BCEAO has continuously transmitted Senegal's SRF-based MFS to the IMF's Statistics Department for publication in **Financial sector surveillance:** The BCEAO recently finalized the development of FSIs for deposit takers for Senegal. Regular reporting to the IMF's Statistics Department is expected to begin by end-December 2018.*International Financial Statistics* (*IFS*).

Senegal: Table of Common Indicators Required for Surveillance
(As of December 11, 2018)

	Date of Latest Observation	Date Received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]
Exchange Rates	Current	Current	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	11/2018	12/2018	M	M	M
Reserve/Base Money	09/2018	11/2018	M	M	M
Broad Money	09/2018	11/2018	M	M	M
Central Bank Balance Sheet	09/2018	11/2018	M	M	M
Consolidated Balance Sheet of the Banking System	09/2018	11/2018	M	M	M
Interest Rates[2]	08/2018	08/2018	M	M	M
Consumer Price Index	09/2018	10/2018	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	2017	10/2018	A		
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	10/2018	11/2018	Q	Q	Q
Stocks of Central Government and Central Government-Guaranteed Debt[5]	2018	10/2018			
External Current Account Balance[8/9]	2017	10/2018	A	A	A
Exports and Imports of Goods and Services[8/9]	2017	10/2018	A	A	A
GDP/GNP[8/9]	2017	10/2018	A	I	A
Gross External Debt[9]	2017	10/2018	A	I	A
International Investment Position[6]	2014	10/2016	A	A	A

[1]Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[2]Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3]Foreign, domestic bank, and domestic nonbank financing.
[4]The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5]Including currency and maturity composition.
[6]Includes external gross financial asset and liability positions vis-à-vis nonresidents.
[7]*Daily* (D); Weekly (W); Monthly (M); Quarterly (Q); Annually (A); Irregular (I); Not Available (NA).
[8]Estimate.
[9]Reported to staff during mission.

Statement by Mr. Mohamed-Lemine Raghani, Executive Director and Mr. Oumar Diakite on Senegal
January 15, 2019

On behalf of our Senegalese authorities, we would like to thank the Executive Board, Management and staff for their continued support to Senegal's efforts to successfully implement the PSI and preserve macroeconomic stability and foster high, sustainable, and inclusive growth. Our authorities value the constructive dialogue held with staff during the recent 2018 Article IV consultation and the seventh review under the Policy Support Instrument (PSI).

Policy discussions focused on strengthening budget implementation, increasing the competitiveness of the economy and the role of the private sector, and fostering financial stability and inclusion. Medium and long term structural challenges of the impact of oil and gas discoveries on the macroeconomic framework, as well as the macroeconomic implications of income and gender inequality in Senegal were also addressed. In this regard, the authorities broadly concur with staff's assessment and main recommendations contained in the report which are in line with their strategy for equity and gender equality within the Plan Senegal Emergent (PSE). They also find relevant the recommendations for optimizing the management of oil and gas revenue which will bring a new dimension to economic growth with potentially significant positive spillovers to other economic sectors.

With 2018 marking the end of the first phase of the PSE (2014-18), significant progress has been made in improving the standards of living of the population, while putting Senegal on a trajectory of sustainable growth. Implementation of the PSI-supported program remains satisfactory. The program has helped strengthen the macroeconomic framework, and key infrastructure investments have been made to increase economic productivity. For the medium term, the authorities have developed a Priority Action Plan (PAP) under phase 2 of the PSE to address the structural challenges to sustain the recent strong growth performance.

For the financing of phase 2 of the PSE, the authorities have organized a Consultative Group meeting in Paris, France, on December 17-18, 2018, facilitated by the World Bank, the IFC and UNDP. The authorities are grateful to all the bilateral and multilateral partners and private investors which have pledged important resources for the implementation of the PAP.

Economic Developments in 2018 and Performance Under the PSI

In 2018, real GDP growth is estimated to have reached 6.8 percent and inflation has remained below 2 percent. Senegal's growth rate has remained above 6 percent for the fourth consecutive year with non-agricultural growth estimated at 5.9 percent. The strong domestic demand stemming notably from public investments during phase I of the PSE, and private consumption contributed to the buoyancy of the economy in 2018.

In the fiscal area, the authorities experienced a revenue shortfall, as implementation of some new tax measures and levying corporate income taxes in certain subsectors such as telecommunications and mining underperformed. However, they remain committed to meeting their fiscal targets including by stepping up the collection of tax arrears, strengthening tax policy and streamlining tax expenditures, and cutting non-priority spending.

Performance under the PSI-supported program continues to be satisfactory. The authorities have implemented the two prior actions for the completion of the review which will substantially strengthen the management of public finances and contain fiscal pressures from the post office going forward. All quantitative assessment criteria (AC) and indicative targets (ITs) at end-June 2018 were observed except the quarterly ceiling on the share of the value of public sector contracts signed by single tender, with the overrun caused primarily by unsolicited bids. Regarding structural reforms, good progress has been made with four structural benchmarks achieved out of the six expected under the seventh review. Corrective measures have been taken to implement the remaining structural benchmarks. The operationalization of payment of taxes through mobile banking by taxpayers which do not have access to internet is advancing with the approval of budgetary resources by the Ministry of Finance. In this regard, the process of selecting providers is being finalized. The authorities will also step up their efforts to implement the action plan for reducing tax expenditures to enhance revenue performance.

Significant strides have also been made in implementing reforms related to the modernization of the Treasury, and improvement in the administrative and financial management of the National Retirement Fund. The implementation of the three projects launched in the framework of the "Hackhathon" is also advancing to enable the tax administration to take full advantage of technological innovations.

Medium-Term Macroeconomic Policies and Structural Reforms

The PAP of phase 2 of the PSE (2019-23) is intended to sustain the strong reform momentum of recent years and accelerate the average annual growth to reach 8 percent or more. The authorities are focusing on measures that will strengthen the structural transformation and diversification of the Senegalese economy, ensure the adequate provision of basic public services and accelerate poverty reduction.

Strengthening fiscal consolidation and improving public financial management and governance

Looking ahead, the authorities will continue their fiscal consolidation efforts in accordance with their commitment under the West African Economic and Monetary Union (WAEMU). To this end, they will increase their efforts to enhance domestic revenue mobilization, improve the efficiency of public spending, and address underlying vulnerabilities and risks to public finances.

On the revenue side, the focus will remain on strengthening the tax policy framework, modernizing the tax and customs administrations, and streamlining tax expenditures. To this end, the authorities took steps to implement the fiscal policy measures envisaged in the 2018 budget to simplify taxes, notably in the telecommunication sector, and increase tax rates for products such as tobacco, alcoholic beverages, and cosmetics. These measures are expected to lead to greater revenue mobilization. Steps will also be taken to enhance the collection of tax arrears. With respect to the impact of energy subsidies on the budget related to the evolution of international oil prices, the authorities are determined to address this issue going forward.

Regarding public spending, the authorities will continue their efforts to enhance its efficiency by implementing the multi-year budget framework, improving the quality of public investment through better project selection and execution, and streamlining current expenditures, while protecting social sectors. In this regard, the authorities are keen to continue building on the tangible social results achieved during the first phase of the PSE by focusing on the most vulnerable segments of the population through social programs aimed at increasing poor households' incomes and providing universal health coverage.

To better control and manage risks to public finances, the authorities have circumscribed the conditions for issuing letters of guarantees and will continue to expand the coverage of public sector operations to strengthen the evaluation of contingent liabilities and the risks they pose for fiscal and debt sustainability.

On debt sustainability, the authorities welcome the staff's assessment that Senegal remains at low risk of debt distress. They are mindful of the need to further improve debt ratios over the medium term. In this regard, they will pursue their fiscal consolidation efforts and implement a prudent borrowing policy consistent with the preservation of debt sustainability.

The authorities appreciate staff's support in the analysis of the impact of future oil and gas production on the Senegalese economy. The selected issues paper provides relevant recommendations which will help devise an appropriate framework for assessing fiscal revenue and the choice of an optimal rule for revenue allocation.

Improving the business environment and promoting private sector development

In implementing the triennial program for reforming the business environment and competitiveness (PREAC), Senegal has made substantial inroads into improving the business climate. Special economic zones have been established to increase economic opportunities for the private sector which is relied upon for increasing investments in priority sectors such as agriculture, horticulture, agrobusiness, infrastructure, oil, gas and mining, digital economy, tourism and finance.

By the end of phase 2 of the PSE, the authorities expect the oil and gas discoveries to accelerate the growth of the Senegalese economy towards emergence by catalyzing the industrial transformation of the country towards new job-creating sectors and promoting social inclusion. However, they recognize the need to address the constraints to building a strong emerging economy. In this regard, they will continue to tackle structural challenges including in the areas of energy, real estate and the judicial environment, while rationalizing administrative procedures, labor legislation, and improving credit information.

Given its crucial role for the economy and public finances, the electricity sector is at the top of the authorities' agenda. The strategy "*gas to power*" which benefits from the support of the Millennium Challenge Account is intended to ensure access to modern, clean and affordable energy by all Senegalese, including in rural areas. The authorities will also continue their efforts to improve the financial situation of the public electricity company (SENELEC) with the assistance of the World Bank.

Regarding financial inclusion, the activities of the credit information bureau are expanding with an increased number of contracts and loans declared and the authorities have launched in August 2018 a mechanism to finance small and medium-sized enterprises (SMEs) under the supportive mechanism put in place by the regional central bank (BCEAO). Furthermore, they have adapted the new legal and regulatory provisions of Islamic finance to the Senegalese banking and microfinance sectors.

The PSE also tackles other structural barriers to growth such as income inequality and women labor market participation. As highlighted in the Selected Issues Paper, Senegal has made significant progress in enhancing access of women to education, reducing gender disparities and increasing women labor market participation. However, the authorities are keen to continue addressing persistent income and gender inequalities notably by increasing further access to education and the average number of schooling years for girls.

Conclusion

Our Senegalese authorities remain committed to the PSI. They will continue to implement sound policies and reforms aimed at achieving strong and sustainable economic growth, preserving macroeconomic stability, and improving public financial management and the business environment to firmly establish the country on the path of emergence.

Based on the satisfactory progress achieved in program implementation and the authorities’ strong commitment to pursue needed reforms to meet the PSI objectives, we seek Directors’ support for the completion of the seventh review under the PSI and approval of the request for modification of assessment criteria.