INTERNATIONAL MONETARY FUND

IMF Country Report No. 17/1

SENEGAL

January 2017

STAFF REPORT FOR THE ARTICLE IV CONSULTATION AND THIRD REVIEW UNDER THE POLICY SUPPORT INSTRUMENT—PRESS RELEASE, AND STAFF REPORT

In the context of the Staff Report for the Article IV Consultation and Third Review Under the Policy Support Instrument, the following documents have been released and are included in this package:

A **Press Release** for the IMF Executive Board completion of the Third Review under the Policy Support Instrument for Senegal and conclusion of the 2016 Article IV Consultation.

- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse-of-time basis, following discussions that ended on August 30, 2016, 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 November 15, 2016.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- An **Informational Annex** prepared by the IMF staff.

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

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

Copies of this report are available to the public from

International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Fax: (202) 623-7201

E-mail: publications@imf.org Web: http://www.imf.org
Price: $18.00 per printed copy

International Monetary Fund
Washington, D.C.

© 2017 International Monetary Fund

INTERNATIONAL MONETARY FUND

COMMUNICATIONS DEPARTMENT

Press Release No. 16/537
FOR IMMEDIATE RELEASE
December 2, 2016

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Third Review under the Policy Support Instrument (PSI) for Senegal and Concludes 2016 Article IV Consultation

The Executive Board of the International Monetary Fund (IMF) completed the third 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 2016 Article IV Consultation[2] with Senegal. The Board's decision was taken on a lapse of time basis.[3]

Senegal's macroeconomic situation is stable. Growth is expected to exceed 6 percent in 2016, while inflation remains low. The fiscal deficit has been declining steadily from 5.5 percent of GDP in 2013 and is projected to reach 4.2 percent of GDP in 2016. The current account deficit has narrowed and is projected to reach 6.5 percent of GDP in 2016, driven by lower oil prices and improved export performance.

Program performance through September 2016 has been satisfactory. All end-June 2016 assessment criteria and indicative targets were met, except for the indicative target on tax revenue which was missed by a very narrow margin due to lower-than projected customs revenue. Of the five structural benchmarks (SBs) set for the period from June to October 2016, three were met. Of the other two SBs, one has been implemented and the other on the reorganization of the tax office will be postponed as part of a wider reform.

---

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

[2] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[3] The Executive Board takes decisions under its lapse of time procedure when it is agreed by the Board that a proposal can be considered without convening formal discussions.

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 non-concessional 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.

Senegal: Selected Economic and Financial Indicators, 2014–21

	2014	2015	2016		2017	2018	2019	2020	2021
	Actual		CR 16/3	Proj.	Projections				
	(Annual Percentage change)								
National income and prices									
GDP at constant prices	4.3	6.5	5.9	6.6	6.8	7.0	7.1	7.1	7.1
Of which: non-agriculture GDP	4.5	4.8	5.8	6.1	6.5	6.8	6.9	6.9	7.0
GDP deflator	-1.0	0.0	1.8	1.8	1.8	1.9	1.7	1.8	1.8
Consumer prices									
Annual average	-1.1	0.1	1.3	1.1	1.7	1.8	1.8	1.8	1.8
End of period	-0.8	0.4	1.3	1.5	1.8	1.8	1.8	1.8	1.8
External sector									
Exports, f.o.b. (CFA francs)	3.5	13.4	3.6	2.8	10.7	9.6	10.7	11.3	8.7
Imports, f.o.b. (CFA francs)	-1.1	3.3	5.8	2.4	8.9	9.2	9.8	7.6	7.5
Export volume	6.9	15.8	5.5	7.8	5.9	7.5	8.5	9.8	8.0
Import volume	4.1	13.8	6.4	8.6	8.6	8.1	7.4	7.5	6.1
Terms of trade ("–" = deterioration)	1.8	7.9	-1.3	1.2	4.3	0.9	-0.1	1.3	-0.6
Nominal effective exchange rate	2.5	-3.9	…	…	…	…	…	…	…
Real effective exchange rate	-0.8	-5.9	…	…	…	…	…	…	…
	(Changes in percent of beginning-of-year broad money, unless otherwise indicated)								
Broad money	11.4	13.4	7.1	8.5	8.7	…	…	…	…
Net domestic assets	6.1	13.0	8.4	10.7	11.9	…	…	…	…
Domestic credit	2.8	11.2	7.1	9.9	11.1	…	…	…	…
Credit to the government (net)	-2.6	3.7	-1.1	0.2	1.9	…	…	…	…
Credit to the economy (net) (Percentage growth)	6.4	6.5	8.7	10.3	9.2	…	…	…	…
	(Percent of GDP, unless otherwise indicated) [1]								
Government financial operations									
Revenue	24.8	25.1	24.3	26.4	25.0	24.7	24.6	24.5	24.6
Grants	3.3	2.9	3.0	2.7	2.6	2.7	2.7	2.6	2.5
Total expenditure	29.8	29.9	28.6	30.7	28.7	27.7	27.6	27.5	27.6
Net lending/borrowing (Overall Balance)									
Excluding grants	-8.5	-7.7	-7.2	-7.0	-6.3	-5.7	-5.8	-5.7	-5.5
Including grants	-5.0	-4.8	-4.2	-4.2	-3.7	-3.0	-3.0	-3.0	-3.0
Primary fiscal balance	-3.3	-2.8	-2.4	-2.4	-1.6	-0.8	-0.8	-0.8	-1.0
Savings and investment									
Current account balance (Official transfers included)	-8.9	-7.4	-8.7	-6.5	-6.9	-7.0	-7.2	-6.9	-6.8
Current account balance (Official transfers excluded)	-9.8	-8.2	-9.7	-7.3	-7.6	-7.8	-8.1	-7.7	-7.6
Gross domestic investment	25.1	24.0	27.0	27.2	27.4	27.3	26.6	27.6	27.8
Government [1]	6.8	6.8	7.1	7.7	7.6	7.2	7.2	7.3	7.3
Non-government	18.3	17.2	19.9	19.4	19.8	20.1	19.5	20.4	20.5
Gross national savings	16.1	16.6	18.3	20.7	20.5	20.3	19.5	20.7	21.0
Government	1.8	2.0	2.7	3.5	4.0	4.2	4.1	4.2	4.3
Non-government	14.4	14.6	15.5	17.2	16.5	16.1	15.4	16.5	16.7
Total public debt	54.2	56.9	55.1	59.3	57.3	56.0	54.9	53.3	52.5
Domestic public debt [2]	13.9	15.8	15.8	19.3	18.6	18.5	18.4	17.5	17.4
External public debt	40.3	41.1	39.3	39.9	38.7	37.5	36.5	35.8	35.1
External public debt service									
Percent of exports	7.4	11.0	10.0	8.9	8.8	9.4	9.4	9.2	16.1
Percent of government revenue	10.4	15.7	12.9	11.0	11.6	12.4	12.5	12.2	19.9
Memorandum item:									
Gross domestic product (CFAF billions)	7,583	8,078	8,792	8,763	9,528	10,392	11,319	12,335	13,451

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

[1] Reflects reclassification of public investment.

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

INTERNATIONAL MONETARY FUND

SENEGAL

November 15, 2016

STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION AND THIRD REVIEW UNDER THE POLICY SUPPORT INSTRUMENT

EXECUTIVE SUMMARY

Article IV issues. Implementation of the "*Plan Sénégal Emergent*" (PSE) is beginning to pay dividends, contributing to projected growth of over 6 percent for the second year in a row. However, for growth to be sustained, further reforms are needed to improve the business environment and create economic space for private domestic and foreign investment. The challenge of meeting infrastructure development objectives without undermining debt sustainability will require continuing efforts to improve the quality of investment while pursuing a prudent debt strategy that keeps the cost of borrowing at reasonable rates. Failure to strengthen debt management and master treasury operations may jeopardize the rating of low risk of debt distress.

Fiscal policy. Fiscal consolidation remains on track to achieve the 3 percent of GDP WAEMU target. Continued efforts to increase revenues and rationalize public consumption, including by containing the wage bill, will support consolidation while protecting public investment in human and physical capital. Reforms to improve public financial management such as the precautionary reserve envelope, investment project bank, debt anchor and medium-term fiscal framework will improve expenditure efficiency while supporting sustainability.

Structural reforms. Unlocking private investment through FDI and SMEs requires reforms to facilitate broad-based growth of credit to the private sector, reduce costs and improve service provision in the electricity sector, strengthen the business climate, including through the creation of a Special Economic Zone (SEZ), and improve public sector governance.

Program implementation. Performance under the PSI-supported program has been satisfactory, with all end-June 2016 assessment criteria and indicative targets met, except for the indicative target on tax revenues which was missed by a very narrow margin due to lower-than-projected customs revenues. Of the five structural benchmarks (SBs) set for the period from June to October 2016, three were met. Of the two unmet SBs, one was implemented with delay.

Staff recommends completion of the third PSI review.

Approved By
Roger Nord and Peter Allum

A staff team consisting of Messrs. Mansoor (head), Leichter and Issoufou (all AFR), Mr. Jalles (FAD), Mr. Presbitero (SPR), Mr. Loko (resident representative) and Mr. Ba (local economist) conducted the discussions in Dakar August 17–30, 2016. The team met with President Sall, Prime Minister Dionne, 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.

CONTENTS

TABLES

ANNEXES

APPENDIX

RECENT DEVELOPMENTS, OUTLOOK AND RISKS

Political and Economic Context

1. The authorities are looking to break from the status quo of the last three decades which saw relative stability accompanied by unambitious annual GDP per capita growth of ½ percent. Public investment and efforts to support agriculture have contributed to an increase in GDP growth. However, the PSE requires growth to be sustained in the 7-8 percent range over 20 years if Senegal is to achieve emerging market status by 2035.[1] This in turn requires decisive action to improve economic governance. Given that Presidential elections will take place in 2019 there is room to speed up required reforms. To overcome potential policy paralysis and push forward with reforms, efforts are needed to enable a coalition for change to tackle obstacles from vested interests.

2. For the growth uptick to be sustained, economic space has to be opened up for SMEs and foreign private investment. Senegal has experienced several episodes of increased growth over the past three decades, but none have been sustained because they were largely public sector driven. While the PSE calls for important public investment projects to crowd in private investment, it also calls for fundamental reforms that will enable Senegal to be a globally competitive hub. Progress is needed on reforms to strengthen fiscal institutions, including by making paying taxes easy to comply with and improving the quality of public investment. Continued public and private sector investment in the electricity sector to diversify sources, reduce costs and improve distribution and reliability will address an important impediment to doing business in Senegal. Further efforts are needed to facilitate credit to SMEs, including by creating an environment where credit bureaus have access to sufficient data and collateral can play its proper role in credit creation. Steadfast implementation of policies and reforms contained in the PSE would provide the structural change needed to sustain the current growth momentum over the medium term.

3. The authorities are using peer learning to develop and implement reforms. Implementing the PSE requires navigating the political economy of reform to overcome the rent seeking and patronage that has held back inclusive growth over the last few decades. Success is more likely if a reform strategy draws on international experience from peers and experts. In this spirit, over the last two years, the IMF has complemented traditional technical assistance (TA) by acting as a catalyst for Senegal to work with peers from African countries that have successfully negotiated the political economy of reforms to exit low-income status, namely Cabo Verde, Mauritius, Morocco and Seychelles. The focus of this dialogue has been on *how to implement* reform (Box 1). This peer learning is beginning to bear operational fruit that could facilitate implementation

[1] To reach upper-middle income status in 20 years, Senegal would need to quadruple its current US$1000 per capita. To achieve this goal, a 7 percent average annual GDP growth rate combined with no more than 3 percent in population growth would be needed. However, it should be noted that in the World Bank's income classification, the lower bound for upper-middle income countries increased by about 30 percent between 1995 and 2015. This means that Senegal's current US$1000 GNI per capita may need to reach about US$5320 in 2035 to reach upper-middle income status, implying that GDP growth rates higher than 7 percent may be required.

of key reforms, particularly by transforming the rules of the Special Economic Zones (SEZs) to make them appealing to SMEs and FDI.

Box 1. Peer Learning to Promote Reform

Brainstorming with Senegal on how best to support their reform effort

In December 2014, ahead of discussions on a new three-year PSI, the IMF Senegal team facilitated a brainstorming between Senegalese officials, peers from Cabo Verde, Mauritius, Morocco and Seychelles, and World Bank and Fund experts. The objective was to help develop a roadmap to implement reforms that the Senegalese had formulated prior to the conference. Fund staff acted as facilitators and note takers for a conversation between those who will need to implement reform, peers who have gone through similar challenges, and experts from the Fund and the World Bank who offered insights from international best practice. Key topics covered included how to (i) raise revenue and increase the efficiency of public expenditure and human capital; (ii) improve the business climate; and (iii) achieve the growth objectives, as envisaged in the PSE.

Book Sprint

In January 2016, Fund staff organized a "book sprint"[1] in Washington, DC, for Senegalese authorities, with support from the European Union and participation of peers from Mauritius, Morocco and Seychelles, and World Bank experts. The resulting book (expected to be published in early 2017) draws on policy lessons from successful countries that have managed to overcome some of the political economy constraints to reforms, on the path to graduating to middle-income emerging economy status. The areas covered by the book include (i) creating a sound, balanced and efficient fiscal framework through new revenue raising measures, expenditure rationalization and more efficient public investment; (ii) relieving constraints to doing business and promoting private investment, including FDI; (iii) promoting an inclusive and deeper financial sector; and (iv) achieving high, sustained, and inclusive growth. As many low-income countries in sub-Saharan Africa (SSA) face similar challenges in their aspiration to move to middle-income status, this book has broader relevance for the region. In finalizing the book additional input is being sought from academics at the London School of Economics (LSE) and from the *Centre d'Etudes et de Recherches sur le Développement International* (CERDI).

Operational Outcomes from the Peer Learning

In March 2016, the Prime Minister of Senegal chaired a seminar with key Ministers to build consensus on the reforms proposed in the book sprint (Annex 2). A working group has now been set up to develop proposals on how to tackle the political economy to facilitate eleven reforms. Assistance is being sought from the European Centre for Development Policy Management (ECDPM), LSE and CERDI to support the analysis of the working groups. Proposals are expected in mid-2017 for inclusion in the 2018 budget. This effort could increase the impact of budget support from development partners by deploying resources to explicitly build the necessary coalitions for reform to prevail.

South-South collaboration

Peer learning is also starting to bear fruit in South-South collaboration. Following the peer learning events, the Senegalese authorities visited Mauritius to learn about developing tourism and improving the governance of SEZs. The governments of the two countries subsequently signed a memorandum of understanding and further visits to both Senegal and Mauritius ensued. Recently, the Deputy Prime Minister

Box 1. Peer Learning to Promote Reform (concluded)

of Mauritius visited Dakar to take the collaboration to more practical action. Mauritius will assist Senegal in developing its tourism industry (Annex 1) and to jointly manage a SEZ as a space of good economic governance that will provide space to SMEs and FDI for globally competitive production. In counterpart, Senegal will assist Mauritius with culture-related projects, particularly the setting up of a Museum to remember slavery.

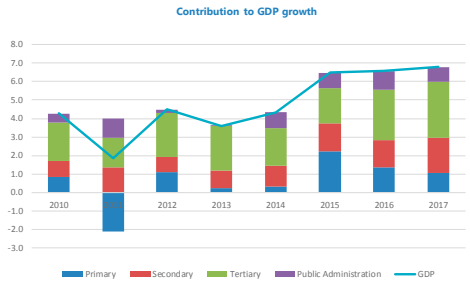
Going Forward

To continue supporting reform implementation in Senegal, the IMF will work with the Senegalese authorities to ensure that IMF TA, including peer learning, is aligned with their priorities. These include (i) ensuring the new rules for the SEZ include a tax system that has reasonable rates and is transparent and easy to comply; (ii) improving project management; (iii) better managing fiscal risks from public-private partnerships (PPPs); (iv) fully implementing the single treasury account; (v) enhancing tax administration; (vi) rebasing of national accounts; and (vii) adopting the special data dissemination standards (SDDS). In this context, Fund staff will continue working with authorities to seek guidance from peers and experts from the IMF and other institutions on how best to implement improvements within prevailing political economy constraints.

[1]A book sprint is a workshop that brings together authors, reviewers, and moderators to produce a first draft of a book in a short period of time.

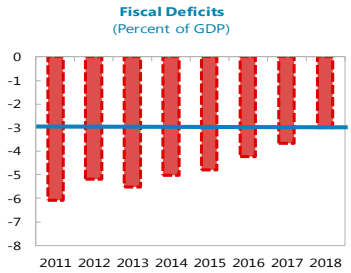
RECENT ECONOMIC DEVELOPMENTS

4. Growth continues to increase towards the PSE objective, while inflation remains low. Growth is projected to stay above 6 percent in 2016, with contributions from agriculture, natural resources, services and PSE project implementation. Growth will remain strong in the primary sector thanks to good weather, improved irrigation and government efforts to enhance the quality of seeds. Phosphate, oil refining and associated transportation services are also expected to support strong growth. In addition, continued PSE-related public investment to boost further agricultural productivity, improve infrastructure and lower energy costs is expected to allow growth to increase above 7 percent over the medium term, assuming it is accompanied by reforms to open space for SMEs and FDI geared to globally competitive production. Credit to the private sector has accelerated moderately at 8.1 percent over the past 12 months through August 2016.

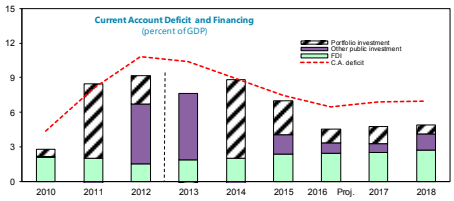


5. Fiscal consolidation is on track to meet the WAEMU target. The fiscal deficit has been declining steadily from a recent high of 5.5 percent of GDP in 2013 and is projected to reach 4.2 percent of GDP in 2016. This has been achieved by increasing revenues and rationalizing public consumption, while creating space for further investment in human capital and public

infrastructure. In the first half of 2016, tax revenues were just short of the indicative target, by 0.02 percent of GDP, due to lower-than-projected customs revenues. Nonetheless, the deficit target for the first half of 2016 was met, reflecting slower-than-expected implementation of capital spending. A combination of good performance of tax administration and efforts to improve customs tax collection in the second half of the year should allow end-year fiscal targets to be met. To ensure that recent consolidation gains are durable and that the 3 percent of GDP WAEMU target is met, the authorities will continue efforts to increase revenue collection and rationalize public consumption, including by controlling the wage bill.



6. Senegal's external sector remains stable, with comfortable WAEMU reserves at just under 4½ months of imports, providing a buffer against shocks. The current account deficit has narrowed and is projected to reach 6.5 percent of GDP in 2016, driven by lower oil prices and improved export performance. In the short run, agricultural and natural resource exports may be more than offset by higher investment-related imports, widening the trade deficit, but a stronger business environment should boost the competitiveness of export-focused firms. FDI levels remain low relative to peers, underscoring the need for reforms to improve the business environment and attract investors. The real effective exchange rate has depreciated about 4 percent over 2 years and remains broadly in line with fundamentals.



7. The outlook remains broadly positive and risks to Senegal's economy remain manageable. Growth is projected to remain robust at 7 percent over the medium term. The primary risks facing the economy are domestic. A failure to implement rapidly key reforms in the PSE would result in a loss in growth momentum, returning Senegal to anemic per capita GDP growth and putting pressure on debt sustainability. 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.

POLICY DISCUSSIONS

8. Discussions centered on policies to sustain high growth and meet development objectives without undermining stability. Accordingly, discussions focused on policies and reforms to: (i) create fiscal space and improve the quality of investment; (ii) strengthen budget implementation in the context of a medium-term framework; (iii) improve external competitiveness

and maintain debt sustainability; and (iv) open up space for SMEs and foreign investment. The authorities broadly implemented most staff recommendations from the 2014 Article IV[2] (Annex III).

A. Fiscal Policy: Promoting Growth and Preserving Stability

Fiscal policy for the near term

9. Discussions focused on economic policies and structural reforms needed to meet growth and development objectives, while making further progress on fiscal consolidation and preserving debt sustainability. As the PSE calls for more fiscal space to finance public investment in both physical and human capital and poverty-related spending, staff discussed with the authorities the need for steadfast action in the following areas: (a) curtailing public consumption and improving investment quality, while strengthening revenue collection and expanding the tax base; and (b) strengthening public financial management (PFM) and governance.

10. The authorities are committed to achieving the fiscal deficit of CFAF 372 billion (4.2 percent of GDP) as programmed under the PSI. Although the end-June tax revenue indicative target was narrowly missed by 0.02 percent of GDP, the fiscal deficit target was met. The weak performance of customs revenue was offset by strong performance in other revenue categories, including non-tax revenues.[3] The outturn for July and August shows improvement in Customs revenue collection, boding well for the end-year revenue indicative target. Slow execution of capital spending also contributed to an overall underspending of 0.2 percent of GDP relative to budget projections for the first half of the year. Further efforts on customs revenue collection will be essential to meet the end-December revenue and budget deficit targets. A new structural benchmark pertaining to the collection of 50 percent of the remaining stock of unpaid taxes (arrears) by the end of this year has been introduced as a revenue raising measure.

11. While public wage spending was in line with projections, the slow execution of capital spending raises concerns about PSE implementation. Both wages and salaries and other current spending were around the 50 percent execution rate, in line with the budget's mid-year objective. The under-execution of capital expenditures was mainly attributable to capital expenditure financed and executed by the state, as the execution rate of capital expenditures financed by external resources was also satisfactory at about 53 percent. Disbursements for projects under budgetary grants were executed as planned while those associated with capital grants remained one-third less than projected.

[2] IMF Country Report No. 15/2.

[3] The weak performance of customs in the first half of 2016 was offset by strong performance in domestic tax and non-tax revenues. The *Direction Générale des Douanes* (DGD) fell 27bn CFAF short of their 271bn CFAF objective. The difficulties experienced by customs administration have been offset by the *Direction Générale des Impôts et Domaines* (DGID) which collected 9 percent more than the end-June objective of 603bn CFAF (representing an over-performance of 55 billion). An additional offset came from the exceptional performance of non-tax revenues (+100bn CFAF from SONATEL 4G license and +40bn CFAF of swap-related revenues) which were included in the Supplementary Budget approved on July 5.

Fiscal policy for the medium term

12. The target for the 2017 budget deficit remains at CFAF 349 billion (3.7 percent of GDP, MEFP ¶9), with continued consolidation planned over the medium term to reach the WAEMU deficit convergence criteria of 3 percent. (Figure 1). The draft 2017 finance law envisages further improvements in revenue collection and streamlined public consumption. Public investment in both human and physical capital will increase in quality and quantity, consistent with PSE objectives. Improvements in PFM and governance will support these fiscal consolidation efforts in 2017 and beyond. Adhering to the 3 percent of GDP fiscal anchor called for by the WAEMU and the PSE over the medium term is essential for debt sustainability.

13. Revenue collection should continue to improve in 2017 and beyond (MEFP ¶10-15). The control of the tax base will be strengthened and overall revenue collection optimized. Staff welcomes the authorities' decision to review tax exemptions. Steps will be taken in 2017 to rationalize tax expenditures, based on the 2013 report on tax expenditures and the conclusions of the working group established for this purpose, an action plan was adopted by the government in October. The authorities will continue to modernize customs administration and operationalize procedures for recovery of arrears, while introducing case management units within each recovery unit. In addition, the operationalization of the single taxpayer identification number (NINEA) platform through the interconnection between the DGID and the DGD, will help broaden the tax base through better control over imports and better monitoring of the customs clearance of potentially revenue-yielding products. Specific revenue-raising measures in the 2017 budget will include finalizing the business tax reform, increasing the threshold on the Comprehensive Property Tax, reducing tax exemptions for large taxpayers, limiting the tax credit for dependents, increasing the tax on cement, introducing an export tax on peanuts and moving revenues collected for the *Fonds de Soutien à l'Energie* (FSE) to the budget. On land reform, the land register identification number (*numéro d'identification cadastrale*—NICAD) is operational and the management of state rental fees automated. The digitization of the land register is expected before the end of 2017.

14. Streamlining expenditure and curtailing public consumption are important for continued fiscal consolidation over the medium term (MEFP ¶16). The wage bill should continue to be contained and subsidies better targeted. On the wage bill, the authorities are committed to imposing budget constraints on hiring frontline staff in security and defense and ensuring that all current contractuals in the education, health, and vocational training (totaling 40,000) will be gradually integrated into the payroll. The authorities are committed to improving the management of subsidies based on the recommendations of the working group finalized in September of this year. Staff welcomes the authorities' plan to reduce subsidies to 0.5 percent of GDP in the 2017 budget. These subsidies will be limited to improving productivity in the agriculture sector through high quality seeds, better irrigation and increased mechanization, and the authorities committed to withhold subsidies to enterprises such as SENELEC (the state-owned electricity company), *Société Africaine de Raffinage* (SAR, the oil refinery), and SONACOS (cooking oil mill).

Box 2. Domestic Revenue Mobilization: Achievements and Next Steps

Pursuing ongoing efforts to further mobilize government revenue (which includes both improvements in tax policy and tax administration) is a critical objective, which falls within the spirit of the PSE, that has been supported by intensive TA by the Fund. Reforms in recent years have aimed to increase tax revenue in line with both WAEMU convergence criteria (20 percent of GDP) and the needs of the PSE, from about 18 percent of GDP in 2012 to 21 percent of GDP over the medium term. TA in the tax area to date has achieved an increase in revenues to about 20 percent of GDP. Efforts to reach the target have been also combined with support to make the system easier to comply with and fairer, by limiting exemptions and reducing tax expenditures, as well as minimizing the use of discretion.

Improving domestic revenue mobilization has been associated with strengthening local capacity. For example, building on the authorities' independent efforts to estimate tax expenditures, TA missions have teamed with tax officials to estimate the revenue losses from alternative policy options. This work led to the December 2012 tax reform. Pending issues from this reform - highlighted by two recent TA missions—are to be addressed in a forthcoming round of reforms in which the Fund's Fiscal Affairs Department (FAD) and the authorities have agreed to share the analytical burden. All non-implemented TA recommendations from past missions have been "re-activated" under a shared work plan (telecoms and financial sector taxation, *Droit de Timbre, Droit d'Enregistrement*). Some have already been studied by the authorities for inclusion in the 2017 budget, notably the taxation on rental income and the simplification of the business tax. Going forward, it is necessary to further expand the set of estimated tax expenditures and the revenue impact of removing them. Data gathering and analytical efforts also need to become more focused, systematic and routine. These analyses should be geared towards overcoming existing policy challenges: i) operationalization of the VAT credit refund system; ii) improvement of research capacity to feed the audit and risk processes; iii) development of capacity in the simulation of natural resource sector models.

In terms of tax administration, the Senegalese authorities have benefited from Fund TA to help them address core weaknesses. These included a weak headquarters function, counter-productive pay incentives for tax collectors, an outmoded and fragmented organizational structure, complex and paper-based core processes, insufficient automation, and ineffective audit and enforcement. The main emphasis has been to modernize the organizational structure, improve and simplify procedures, develop a compliance enforcement program, and ensure robust IT support. Thus far, reforms' major achievements include the effective organization of head offices and regional directorates; a full-fledged large taxpayer unit and medium-sized taxpayer office; the introduction of electronic return filing procedures; and the adoption of risk-based approaches to compliance management. That said, progress on a number of fronts has been slow, in particular: i) implementing the new organizational structure; ii) expanding e-filing and e-payment procedures; iii) strengthening the exchange of information between the tax and customs administrations; iv) deploying enforcement actions to collect assessed taxes; v) expanding the number and coverage of audit and intelligence activities; vi) transferring full collection responsibility from the Treasury to the tax department. Going forward attention should be given to (i) improving governance with a more transparent, fairer and effective system of remuneration and greater reliance on IT for taxes payments; (ii) decentralizing decision making; (iii) addressing procedural and management bottlenecks.

The area where results have been weakest is customs administration. TA has focused on strengthening the monitoring of exemptions, valuation and transit of goods. While Customs has made good progress with IT developments, their impact on customs operations has been limited because of insufficient re-engineering of business processes and internal resistance to change. The taxpayer identification number (NINEA) is now in use for customs operations and import/export data is provided to the tax administration, but there is scope for better exchange of information to further improve compliance. Going forward, the planned upgrade of the customs' IT system should be combined with the implementation of a streamlined and fully automated clearance procedure, removal of duplicate manual steps, and a revised structure of customs offices. Moreover, a deeper cooperation between the tax and customs administrations is necessary, which requires interfaced IT systems and a Memorandum of Understanding between the two.

15. The improvement of the quality and quantity of public investment projects should continue in 2017 and beyond (MEFP ¶17). Staff welcomes the authorities' commitment to develop a bank of projects which will include investment projects readily available for implementation that have undergone feasibility studies, and the use of technological advances to improve the overall planning, programming, budgeting, monitoring and evaluation of projects. This should speed up the implementation of public investment projects and improve their efficiency, while enhancing transparency

16. Treasury cash management should continue to be strengthened (MEFP ¶19-21). Work is progressing to modernize Treasury operations and the objective to introduce the Treasury Single Account (TSA) by end-2017 remains within reach. However, cash management challenges remain, exacerbated by the surfacing of legacy arrears and the financial difficulties faced by the postal system, which has resort to government financing through an overdraft with the Treasury. To address these issues, the authorities plan to conduct an audit of Treasury operations by end-March 2017 (structural benchmark) to comprehensively assess the situation before developing an appropriate action plan.

17. Staff raised concerns regarding the issuance by the Ministry of Finance of comfort letters. The letters are aimed at encouraging financial institutions to provide advances for projects for which a spending appropriation is expected in a future budget law. While not a de jure guarantee, there is a risk that they become de facto debt guarantees that pre-commit fiscal resources. The authorities agreed with the staff's view and committed to limit such letters to settlement of payments related to the agricultural sector (subsidy of agricultural inputs and equipment) and to defense and national security (MEFP ¶23).

18. The two-year old Precautionary Reserve Envelope (PRE) has provided budgetary flexibility (Box 3). The PRE will continue in 2017, with an envelope set at 0.7 percent of GDP (or CFAF 65.4 billion) in the 2017 budget. Of this, 0.4 percent of GDP (CFAF 42 billion) is for investment and 0.3 percent of GDP (CFAF 23.4 billion) for current operations.

B. Improving Competitiveness and Preserving External Stability

19. The current account narrowed by 1.5 percent of GDP in 2015, stabilizing at 7.4 percent of GDP, and is projected to improve further in 2016. Senegal's current account deficit as a percent of GDP has declined by 3.3 percentage points to 7.4 percent from its recent high of 10.8 percent in 2012; it is expected to decline further to 6.5 percent in 2016. The key reasons for the improvement in the external sector are strong export performance and lower oil prices. Export volumes increased in the last three years (2013-15) by an average of 11½ percent per year, a dramatic improvement relative to the annual average of 2.3 percent in the preceding decade. The recent acceleration in exports—which are projected to grow (in volume) at 8 percent per year over the next five years—has been driven by chemicals (especially phosphates), food (especially peanuts) and metals, which have benefitted from the export of new products, such as zircon. Lower oil prices also supported a declining deficit (Box 4).

Box 3. Two Years of the Precautionary Reserve Envelope

The "Precautionary Reserve Envelope" (PRE), introduced in 2015, is a tool to promote PSE-related sectoral reforms and provide incentives for ministries to improve efficiency, while implementing critical PSE projects. More specifically, the PRE has the dual objective of using the envelope to adjust budget plans to meet deficit targets and to improve the vetting and quality of (eligible) investment expenditure, by allowing the Ministry of Finance to withhold financing for projects until cost-benefit analyses are carried out.

In 2015, the PRE—reported in the investment part of the 2015 Initial Budget Law—amounted to 0.5 percent of GDP (or 53 billion CFAF) and focused solely on capital expenditure. At the end of 2015, 33 percent of the envelope (or CFAF 17bn) was mobilized to fund priority investments that were sufficiently mature (examples include, the *Route des Niayes*; supply of low-cost housing; integrated tourist zones; the Business Park; and the feasibility studies for the high-speed regional rail network Dakar-Aéroport International Blaise Diagne).

After a first year in operation, the authorities expanded the PRE in 2016 to include current expenditure by linking the disbursement of additional resources (in a competitive way) to progress with the implementation of key structural reforms. This was done to secure an envelope that would profit line Ministries operating in priority sectors (such as education, agriculture and foreign affairs) in return for the implementation of innovative and productive reforms. Some of the additional spending (relative to the previous year's budget) is allocated to the PRE instead of being released to Ministries, once appropriated by the National Assembly. The PRE in the 2016 budget amounts to 0.7 percent of GDP (or 63 billion CFAF), of which 0.2 percent of GDP is current expenditure (18.6 billion CFAF), including in wages and salaries, goods and services, transfers and other expenditure, and 0.5 percent of GDP is capital expenditure (44.4bn CFAF) including (8) projects defined in the budget for which financing will not be released until acceptable feasibility studies have been completed.

On current expenditures, the 18.6 billion CFAF was distributed as follows:

- The Ministry of Foreign Affairs was allocated an amount of 650 million CFAF subject to the preparation of a draft text to regulate the recruitment of local staff for embassies and consulates and conditioned on the development of a rationalization strategy for the diplomatic card;

- The Ministry of Agriculture and Rural Equipment has an amount of 1.05 billion CFAF provided it comes up with a strategy to rationalize farm inputs;

- The Ministry of Education was allocated an amount of 4.2 billion CFAF provided it conducts a census of the number of teachers assigned to administrative duties;

- Ministry of Training, Learning and Crafts has an amount of 1.025 billion CFAF provided they develop a strategy to limit teachers' travel expenses;

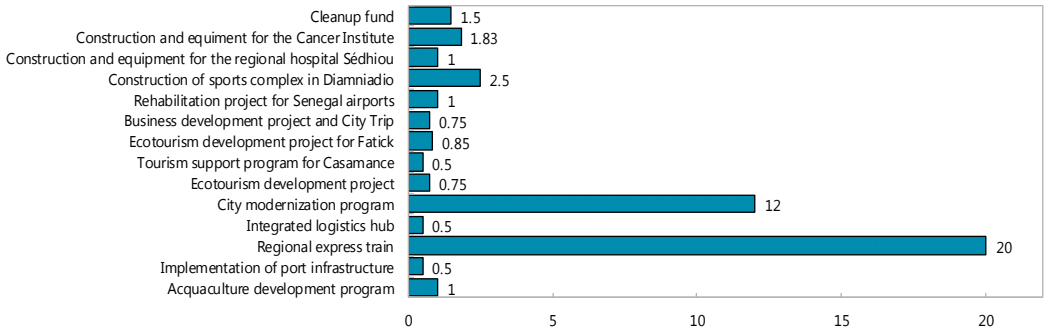
- The Ministry of Higher Education and Research has an amount 5.75 billion CFAF conditioned on development of an inventory of current state of teaching (including an inventory of both administrative and contractual personnel), capping of the amount of bursaries and capping of recruitment (both in terms of staffing and salaries).

- The Ministry of Local Governance, Development and Spatial Planning was allocated 6 billion CFAF if the Agreement CADAK CAR and UCG would result in a better management of invoices.

Box 3. Two Years of the Precautionary Reserve Envelope (concluded)

On capital expenditures, the 44.4 billion CFAF envelope is related to the following projects and programs:

Capital Expenditures Envelope
(billion FCFA)



For current expenditures in the PRE, as of end-June 2016, three Ministries (Foreign Affairs, Education and Higher Education) have not benefited from the entire initial allocation for not having respected fully the initial commitments. In terms of capital expenditure, at the end of June, only 11.4 percent of the corresponding PRE envelope had been disbursed. This is a concern since it either represents poor execution of approved projects in the first six months of the year or the fact that some of the investments listed in the bank of projects were not properly subjected to technical and financial studies or cost-benefit analyses.

20. Remittances remain a dependable and steady source of current account inflows, but are expected to decline as a share of GDP. In 2015 remittances accounted for 12.3 percent of GDP. Looking forward, remittances are projected to decrease to under 10 percent of GDP by 2021. While lower remittance inflows as a percent of GDP would be partially offset by lower imports, this trend could contribute to a widening of the current account deficit and create additional external financing needs in the medium/long term, if export growth does not keep up with the current projections. Thus, it will be critical for Senegal to further promote the development of a strong and diversified external sector, as part of the PSE.

21. Foreign direct investment is still low relative to Senegal's potential, but is expected to increase in line with PSE objectives. Foreign direct investment has been on a slight upward trend in the past few years, with a small further increase to 2.4 percent of GDP projected in 2016 thanks to new investment in the mining industry. Reforms to improve the business climate and implementation of a SEZ with strong governance rules are expected to bring FDI to 4.2 percent of GDP in 2021. While FDI-related imports will contribute to a slight deterioration of current account starting in 2017, higher FDI-related exports will drive an improvement in the external position over the medium term. The positive outlook for FDI could be further boosted by the recent offshore oil and gas discoveries in the Senegalese-Mauritanian waters.

Box 4. Export Performance and Competitiveness

Senegal is a relatively **diversified economy**, both in terms of export products and partners: exports are dominated by food products, gold, and some manufacturing (mostly cement and chemicals), and are largely destined to Africa (mostly neighboring countries) and Europe. Export volumes have grown by 10 percent per year, on average, over the period 2011-2015, a significant improvement compared to the first decade of the 2000s—during which export volumes were flat. Performance within the region has been strong with exports concentrated in non-oil commodity exporters and driven by buoyant demand and high prices in these countries. Recent years have also seen a change in export products in Senegal, with an increase of cement, minerals (the production of zircon started in 2014) and food products, and a decrease of animal products, consistent with a diversification involving more value addition.

Export market share increased especially rapidly in 2009 and 2011, but then partially contracted in 2013.[1] However, the quality of goods produced—which is another key element characterizing external competitiveness—is a source of concern, since export quality in Senegal is lower than in the average SSA country and has not grown significantly.[2] Therefore, there is room for quality upgrading, especially in agriculture and food products, and recent policies aimed at supporting the development of horticulture exports go in the right direction.

To further strengthen export performance, Senegal needs to address **structural factors** limiting investment in export-focused sectors, including by improving the business environment and reducing regulatory costs for exporters. For instance, the Global Competitiveness Index compiled by the World Economic Forum ranks Senegal at 110 out of 140 economies, with significant gaps in infrastructure, market size, and in the macroeconomic environment. Senegal ranks 147th (out of 190 economies) in the 2017 ease of doing business index compiled by the World Bank, with a score that is close to the SSA average and lower than all fast growing SSA countries (Mauritius and Rwanda are ranked, respectively, 49th and 56th). In particular, Senegal scores poorly on the ease of paying taxes and getting electricity, and on the quality of trade and transport infrastructure.

In terms of **policy actions**, the two priorities should be: 1) the improvement of the quality of the product mix; and 2) the strengthening of the business environment to attract investors, making Senegal a regional hub. The first target could be achieved through investment in human capital and improvement in institutional quality. Moreover, the promotion of the SEZ with an emphasis on good governance and on attracting FDI goes in this direction, and it will stimulate economic diversification. At the same time, there is substantial scope for quality upgrading in the primary sector, which represents an important share of the economy (14 percent of GDP). TO improve competitiveness and attract investors, reforms should be directed at tackling infrastructure gaps and bottlenecks in energy supply, regulation logistics infrastructure, and tax administration.

---

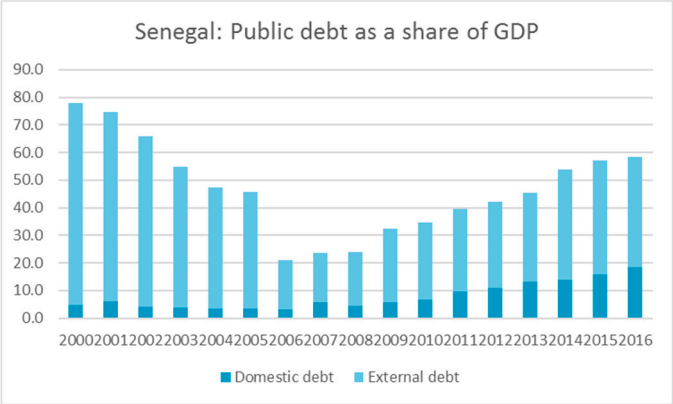
[1]The Selected Issues Paper "Export Diversification and Competitiveness in Senegal" provides a detailed description of the methodology to estimate the effects of the contribution of mix of products exported, sectoral specialization, distribution of trading partners and competitiveness.

[2]Export quality is measured by the export's unit value adjusted for differences in production costs, relative distance to the trade partner, and the development of a country.

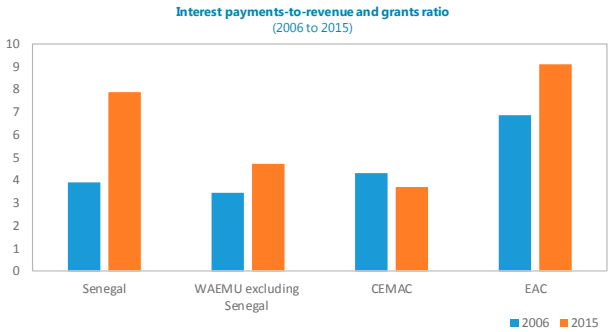
Box 5. Ten Years of Increasing Debt in Senegal

Senegal public debt has been increasing since 2006, after the HIPC and MDRI debt relief initiatives. As a share of GDP, debt increased from 20.9 percent in 2006 to 45.3 percent in 2013, to further increase to 59.3 percent in 2016, a level higher than the one in 2003, pre-HIPC completion point (see chart). Commercial debt (e.g. bank loans and Eurobonds) started in 2009 and reached 7.3 percent of GDP in 2015. While debt levels are still below the relevant DSA thresholds, the adverse debt dynamics could signal future risks for debt sustainability in the absence of corrective action.

Most of the recent increase of public debt is driven by domestic borrowing. Domestic debt almost doubled between 2011 and 2016, while the share of concessional borrowing has declined. This compositional shift implies an increase in the average cost of borrowing, since Treasury bills have been issued at around 5 percent in 2015 and bonds carried interest rates higher than 6 percent, higher that the average interest rate on foreign borrowing over 2010 to 2015. In addition, the government has been borrowing in domestic currencies from other lenders, such as the West African Development Bank (BOAD) at rates as high as 8.5 percent.



Plans to finance significant infrastructure projects relying on commercial external borrowing would put further pressure on debt sustainability, raising debt service in the medium term. Debt service on total public debt is expected to reach 25.4 percent of government revenues in 2016 and it is projected to be above 35 percent in 2017 and 2018, largely because of the additional relatively expensive domestic borrowing undertaken in 2016. For Senegal to maintain its low risk of debt distress under the IMF/WB DSA going forward, it will be essential to ensure that projects provide a sufficient growth dividend and that concessional and semi-concessional financing is used whenever possible.



22. To gain export market share and attract FDI, Senegal needs to make further progress on structural reforms and on the provision of key infrastructure. The real effective exchange rate has remained relatively steady the past few years, with some depreciation over the past two years due to low inflation in Senegal, and remains broadly in line with fundamentals. Indeed, Senegal's inability to increase competitiveness is due largely to non-price issues (Box 4).[4]

23. Public debt levels and borrowing costs are increasing, calling for a strengthening of debt management. The ratio of public debt over GDP is estimated to reach 59.3 percent in 2016

[4] The Selected Issues paper "Export Diversification and Competitiveness in Senegal" provides a more detailed discussion.

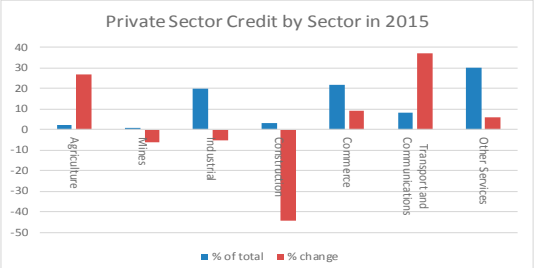
but on a sharp rising trend, from 34.7 of GDP in 2010 (Box 5). The government has been increasing their reliance on domestic borrowing, taking advantage of favorable conditions in the WAEMU market to extend average debt maturity and limit borrowing costs. However, average conditions in the regional markets are significantly more expensive than concessional and semi-concessional borrowing. Moreover, even though external borrowing is mostly concessional from multilateral and traditional bilateral donors, there has been an increasing reliance on other donors (i.e. China, India) and on more expensive sources of external borrowing to finance PSE-related investment projects. Given these trends, the authorities will need to ensure that the debt management strategy take into consideration the three main risks to debt sustainability, namely (i) financing mix; (ii) Treasury operations; and (iii) contingent liabilities. The authorities agreed that it was important to pursue a prudent debt policy and outlined several measures to strengthen debt management (MEFP ¶24).

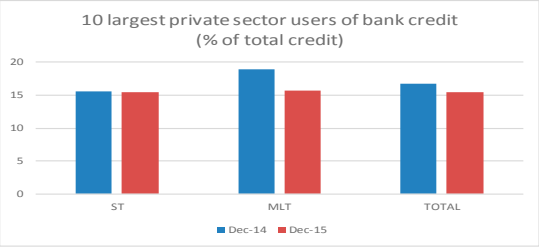
24. Senegal remains at low risk of debt distress, but debt indicators are rising. Under the baseline scenario, all debt burden indicators remain below their policy-dependent indicative thresholds. Under the stress tests, the debt service to revenue ratio shows two breaches of the threshold corresponding to the two Eurobond repayments (2021 and 2024). The temporary nature of the breaches signals a liquidity rather than a solvency problem. However, under the historical scenario debt ratios for debt stocks and flows are permanently above their respective thresholds, raising concerns about debt sustainability in case the dividends of the PSE fail to materialize and the authorities deviate from sound fiscal policies. Finally, public debt as a share of GDP is also below the threshold, but debt service is absorbing a large and growing share of revenues. To preserve the low risk of debt distress rating, the Senegalese authorities have committed to stabilize debt ratios, strengthen debt management practices and limit non-concessional borrowing.

C. Promoting the Private Sector and Preserving Financial Sector Stability

Financial Sector

25. The financial sector is broadly sound, but levels of non-performing loans and concentration remain potential vulnerabilities. The level of NPLs has declined to 18.9 percent of total loans in June 2016, from over 20 percent in 2014. Moreover, net NPLs—which take into account provisioning—are now only 9 percent of total loans and should decline further following actions by the regulator to tighten provisioning. In the past year, lending concentration has fallen slightly, both in terms of sectors and percent of medium- and long-term lending to large borrowers. The service, commercial and industrial activities sectors have the largest concentration of loans, but have experienced relatively slow growth, whereas agriculture and transport have experienced rapid growth, but from a low base. Nonetheless, the authorities should continue to monitor potential NPL-related risks, given that NPL





levels remain elevated and still high lending concentration could make the financial system vulnerable to firm and sector-specific shocks. The authorities agreed that this will require further progress in building operational capacity and enhancing banking supervision, including better enforcement of prudential limits.[5]

26. Senegal's banking sector could play a stronger role as a financial intermediary to spur private-sector led growth. Senegal's financial sector is relatively well capitalized and consists of 27 institutions which provide credit to the economy, 23 of which are banks. Many banks have significant foreign ownership, with only one bank having more than 25 percent government ownership. However, banks find it difficult to assess risk of borrowers and are uncertain about their ability to recover collateral in the event of default. To help promote lending to the private sector, and SMEs in particular, the authorities created in 2013 three institutions to guarantee or provide direct lending: *Fonds de Garantie des Investissements Prioritaires* (FONGIP), the *Fonds Souverain d'Investissements Stratégiques* (FONSIS) and *Banque Nationale pour le Développement Economique* (BNDE). While these institutions could support some growth in credit to SMEs, they will need to be monitored to ensure that lending and guarantee decisions are made with proper risk evaluation. More broadly, additional reforms will need to address the root factors which limit credit to the private sector. In particular, improvements in the quality of documentation submitted by loan applicants and more data on credit history would allow banks to convert more easily savings to loans, especially to SMEs. Staff noted that requiring banks to provide credit history of applicants, as was done in Côte d'Ivoire, and making it mandatory for applicants to register with the credit bureau would help disseminate the information necessary for banks to properly assess lending risks.[6]

Energy Sector

27. Electricity is an important impediment to private sector development. In the 2017 World Bank ease of doing business index, Senegal ranked 162 out of 190 countries on ease of getting electricity. Moreover, energy costs are high, raising production costs and making it more difficult for Senegalese firms to compete on international markets. The combination of lower global oil prices and some efficiency gains in SENELEC, the public electricity company, resulted in no public subsidies for 2016, which would remain the case for 2017 under current projections for oil prices.

28. The authorities have taken steps to improve electricity production and distribution and lower costs (MEFP ¶29-30). The government's comprehensive strategy aims to (i) increase production capacity, (ii) lower costs through diversifying sources of production and improving governance and the regulatory framework, (iii) strengthen the distribution network, including through rural electrification, and (iv) improve service provision and increase the use of renewable

[5] These issues are being followed up in the regional WAEMU consultations (2016 WAEMU Selected Issues, IMF Country Report No. 16/98).

[6] Côte d'Ivoire adopted legislation establishing a credit bureau in early 2014. Initially, collection and distribution of all credit information required prior consent of the borrower, creating obstacles to collecting data on credit history of borrowers. To overcome this obstacle, the basic law (Article 53) was amended in early 2016 to remove the prior consent requirement for loans before the law's initial adoption in 2014. This has given banks access to the credit history of a borrower and is expected to improve risk assessment of loan applicants.

sources. Progress has recently been made in all of these areas through both public and private investment. In 2016, electricity supply is projected to increase by 280 MW, 14 percent of which will be domestic solar energy production. Production will continue to increase in 2017, with renewable energy sources making up over one-third of new production, with the long-term goal of making 20 percent of all energy production renewable. Private sector investment has helped increase the household rate of electrification in rural areas to over 30 percent, although costs to consumers in difficult to reach, largely poor rural areas is higher than in the cities. There are moves to equalize electricity prices across the country through cross-subsidization.

29. Oil and gas discovery off the Senegalese coast presents opportunities and challenges. Initial estimates of the discovery suggest that oil and gas reserves could be significant, with production coming on line as early as 2020-21 for gas and two years later for oil. Pending a reputable international firm setting a date and production targets, however, production and earnings from gas and oil have not yet been integrated into the macro-framework. While the discovery has the potential to have a positive impact on the energy sector and the economy more generally, strategic decisions from whether to build refining capacity to design and implementation of the appropriate fiscal regime will be key to managing challenges associated with natural resource discovery. It will also be important to manage expectations about natural resource incomes, given that experience in a range of countries (e.g. Brazil, Ghana, São Tomé and Príncipe) shows that expectations can run ahead of reality, setting the budget up for unaffordable commitments to raise public wages and boost other spending programs. The authorities have requested TA from development partners to address policy issues related to natural resources.

Business Environment

30. Progress has been made in improving the business environment, but much work remains to be done. Senegal was in the top ten reformers for two years in a row in the World Bank Doing Business rankings for 2015 and 2016. Under the recent change in methodology introduced in the Doing Business 2017 report, the 2016 ranking was revised to improve Senegal's ranking from 153rd to 146th, with a loss of one place from this new base to 147th in 2017.[7] This reflects faster reform elsewhere as the index finds continued improvement in Senegal.[8] The first phase of the government's comprehensive structural reform plan to improve the business environment (*Programme de réforme de l'environnement des affaires et de la compétitivité* - PREAC I 2013-15) implemented around 90 percent of the 56 measures envisioned. The PREAC II 2016-18 includes land and judicial reform, legal measures to promote SMEs, revision of the investment code and simplified tax administration, among other things. Nonetheless, Senegal's business environment is still

[7] The Doing Business 2017 report notes that the three-year update in methodology adds postfiling processes to the paying taxes indicator and a gender component in three indicators, as well as a pilot indicator on selling to the government. Somalia is added to the list of countries for the first time, increasing the total countries to 190,

[8] The 2017 report notes that "Compared to previous years, there is a lower number of top improvers from Sub-Saharan Africa even though this region accounts for over a quarter of all reforms globally."

considered relatively poor and steadfast implementation of reforms is needed, especially as other countries are moving steadily to improve their business climate. Its low level of FDI relative to peers is evidence that, despite its stability and favorable geographical position in the region, it has been unable to attract investment in line with its potential.

31. Opening up economic space for domestic and private investment is necessary to sustain economic growth over the medium term (MEFP ¶26). For SMEs and FDI to play a larger role in the economy, obstacles created by entrenched interests which benefit from rent seeking and patronage will need to be addressed (Annex 2). Accordingly, progress has been slow on structural reforms to improve economic governance. In collaboration with the Government of Mauritius and in partnership with the US Corporate Council on Africa (CCA), the Council of French Investors in Africa (CIAN) and the China Africa Development Fund (CADF) the authorities are working on changing the rules of SEZs to move from offering extended tax holidays to instead emphasize good governance and ensure taxes are paid at a reasonable rate with ease of compliance (Box 6). These efforts, combined with improved infrastructure, should encourage FDI and facilitate growth of credit to the private sector.

Box 6. One Country, Two Systems: Towards an African Shenzhen

The Senegalese authorities are drawing on the ideas of Paul Romer and Paul Collier to change the rules for SEZs and develop the area near Dakar named Diamniado into an African Shenzhen. To achieve this, they have set up a joint venture with Mauritius which will contribute the "soft infrastructure" for a business friendly regulatory framework that will be designed with input from the CCA, CIAN and the CADF. They will also leverage on the Investment Promotion apparatus of Mauritius to market the SEZ. A joint appeal to US and French investors is being planned for late-2016, once the regulatory framework has begun to be clarified.

Currently, the authorities are giving high priority to pass legislation that would authorize a "High Authority" to set up the economic governance for the SEZ through regulations and with the Minister of Finance defining the appropriate fiscal framework. This work is being undertaken with input from the Government of Mauritius, the CCA, CIAN and CADF to ensure that the framework appeals to investors.

In parallel, a team is being set up to rapidly find the developer for the SEZ to make Diamniado into an African Shenzhen, which, as in China, would operate under different rules within the "One Country, Two Systems" concept. To minimize fiscal risks and maximize incentives to rapidly find appropriate international investors, the international developer would take all the commercial risk and, after 10 to 20 years, make a lump sum payment to the joint venture company responsible for making the SEZ work. This approach means that Senegal would not need to raise the funds to finance what would be the very expensive undertaking of building a modern city attractive to foreign investors, high income professionals, SMEs and workers.

PROGRAM ISSUES

32. Program performance under the PSI remains satisfactory. While three end-March indicative targets (ITs) were missed, all end-June assessment criteria (AC) were met. All end-June ITs were met except for the IT on tax revenues which was narrowly missed (by 0.02 percent of GDP) because of lower than projected customs revenue. Structural reforms progressed broadly as envisaged. Of the five structural benchmarks set for the period from June to October 2016, three were met. Of the two unmet SBs, one was implemented with delay. The end-June benchmark on extending the first-generation TSA to all bank accounts of the network of accounting agents of the agencies and public institutions, the end-September benchmark on establishing a platform (integrated projects bank) which describes the lifecycle of the projects and the end-October benchmark on announcing a debt anchor in the 2017 budget were met. The end-September benchmark on adopting an action plan for reducing tax expenditures was implemented with delay. The end-September benchmark which was not implemented relates to the creation of a structure (specialized office, division, etc.) responsible for recovering problem claims. The delay arises from internal debate on whether this change should be part of a broader reorganization planned for next year or could proceed earlier with the risk of further changes then being required. The authorities plan to have the new structure in place, in either case, in early 2017. Further, the structural benchmark on the development of a management strategy for government and public enterprise investment portfolios, which was not met as envisaged by March 2016, has now also been implemented with delay.

33. Safeguards Assessment. The 2013 assessment of the WAEMU regional central bank, BCEAO, found a continuing strong control environment. All recommendations from the assessment have been implemented. These include strengthening the external audit arrangements by appointment of an international firm with ISA experience for the audits of FY 2015—17, reinforcing the capacity of the audit committee with external expertise to oversee the audit and financial reporting processes, and adoption of IFRS starting with the financial year 2015.

34. Data provision is broadly adequate for surveillance and program monitoring. However, there are still weaknesses in data on national accounts, social indicators and government finance statistics. The authorities are working on addressing these issues, including by rebasing GDP from the existing 1999 base year to 2014. The move to GFSM 2001/14 is encouraging, but more work needs to be done to present the data in this format in the budget and to report fiscal data for the broader public sector. With the support of TA from development partners, including the IMF, the authorities are making good progress towards adhering to the Fund's Special Data Dissemination Standard (SDDS) which is expected to be achieved by end-June 2017 (Box 7).

Box 7. Senegal's Subscription to the Fund's Special Data Dissemination Standard (SDDS)

Senegal joined the General Data Dissemination System (GDDS) on September 10, 2001. Most of the GDDS metadata were updated in 2009. The Senegalese authorities intend to subscribe to the SDDS by end-June 2017. This would make Senegal the fourth SSA country to subscribe to the SDDS after South Africa, Mauritius, and Seychelles. A recent Fund TA mission concluded that the objective is feasible, given the current situation of the statistical system and the determination shown by the authorities.

In terms of data dissemination practices compared to SDDS requirements, out of the 22 data categories prescribed for the SDDS:

- Senegal disseminates 10 data categories according to the requirements of the SDDS (GDP, production index, CPI and PPI, central government operations, interest rates, stock market, merchandise trade, exchange rates, and population),
- Senegal produces nine data categories which are not yet disseminated in conformity with the SDDS (employment, unemployment, wages, central government debt, depository corporations survey, central bank survey, balance of payments, official reserve assets, and international investment position), and
- Three data categories are not produced (general government operations, reserve data template, and external debt).

Progress has been made toward reaching the objective of subscribing to the SDDS. On August 31st, 2016, the National Statistics Agency, ANSD, published the National Summary Data Page where about 19 out of the 22 data categories prescribed for the SDDS are currently published (2014-2015) some of which with limited coverage. More work is needed on the following data categories: General Government Operations, External Debt, Reserve template, quarterly nominal GDP, quarterly balance of payment, and quarterly employment and unemployment. The authorities are confident that most, if not all, of the data categories will be available for dissemination based on SDDS requirements by the end of 2016, in time for the process of subscription to begin.

STAFF APPRAISAL

35. 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.

36. 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.

37. 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.

38. Senegal remains at low risk of debt distress, but debt levels are rising. Increased non-concessional 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.

39. 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.

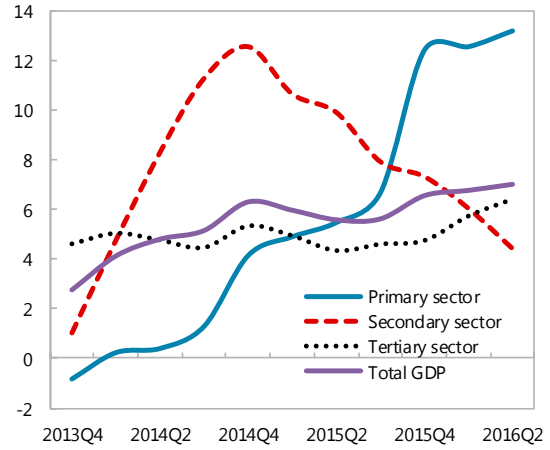
40. Staff recommends completion of the third PSI review. All end-June 2016 quantitative assessment criteria and end-June indicative targets were met, with the exception of the indicative target for tax revenue which was missed by a small margin.

41. 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.

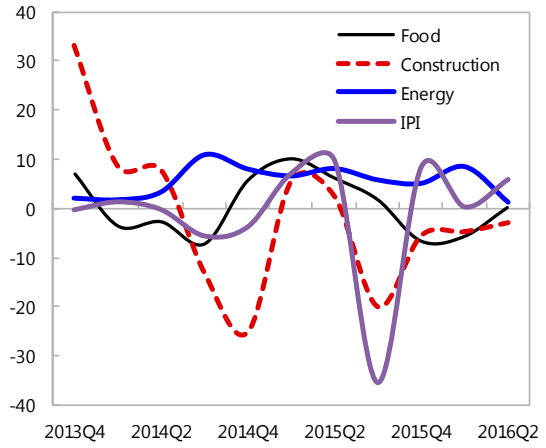
Figure 1. Senegal: High Frequency Indicators

While the tertiary sectors is the largest contributor to growth, the primary sector has been accelerating.

Real GDP Growth
(Annual percentage change, quarterly basis)



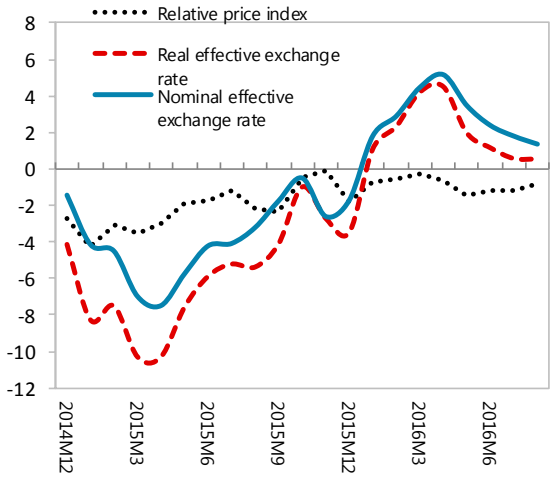
Industrial Production Index
(Annual percentage change, quarterly basis)



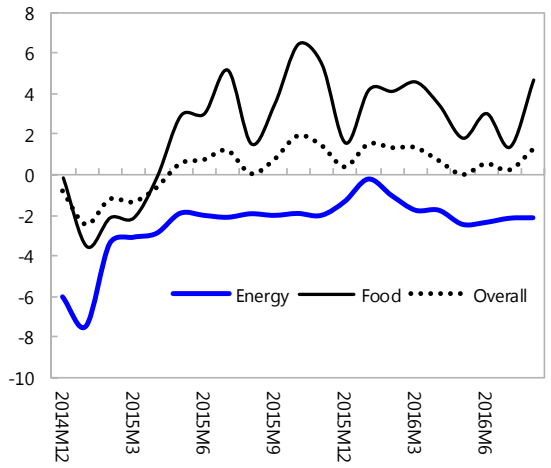
Recent gains in price competitiveness have been only partially reversed in the past few months

After being negative for more than a year, inflation became positive last year driven by food price increases

Effective Exchange Rate
(12-month percentage change)



CPI Inflation
(12-month inflation rate)

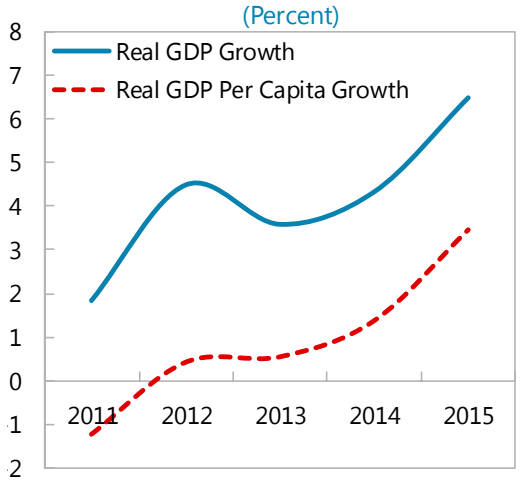


Sources: Senegal authorities; and IMF staff calculations.

Figure 2. Senegal: Recent Developments

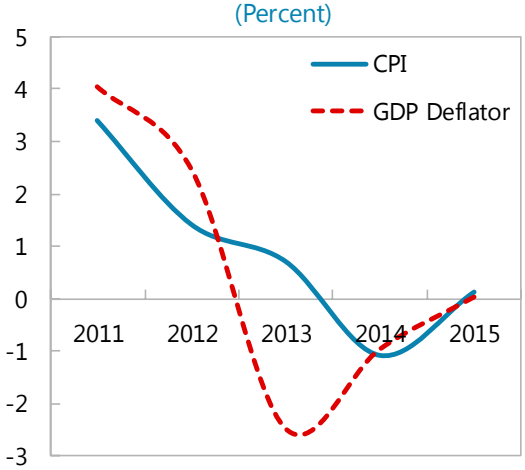
Growth increased recently with per capita growth

GDP Growth
(Percent)



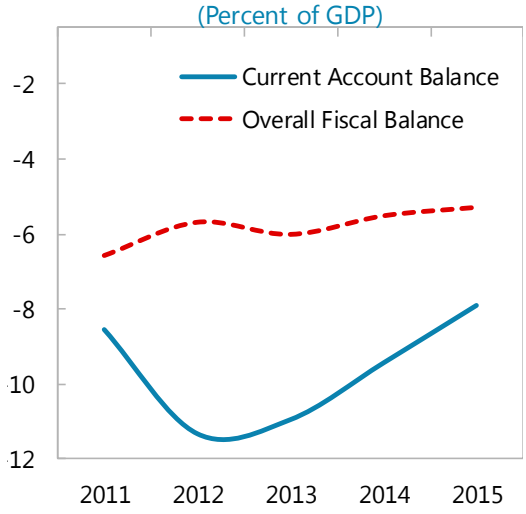
...while inflation turned positive, but remained contained.

Inflation
(Percent)



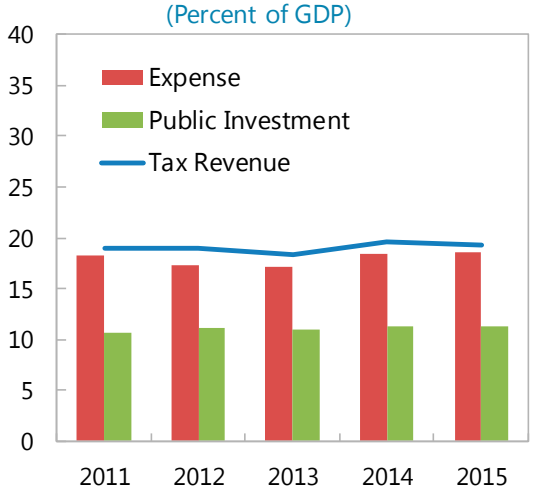
The fiscal and current account deficits continued to improve ...

Twin Deficits
(Percent of GDP)



...reflecting better expenditure rationalization.

Expense, Investment and Revenue
(Percent of GDP)

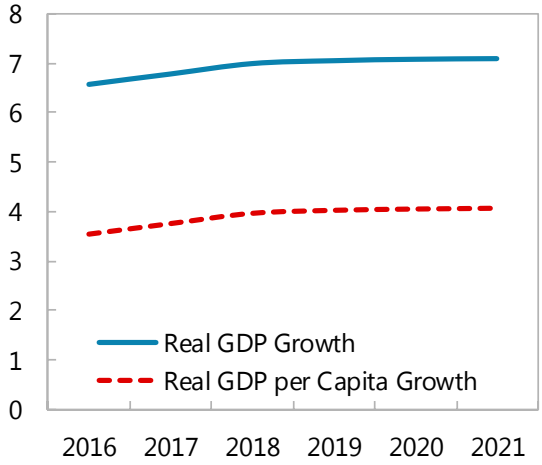


Sources: Senegal authorities; and IMF staff calculations.

Figure 3. Senegal: Medium-Term Projections

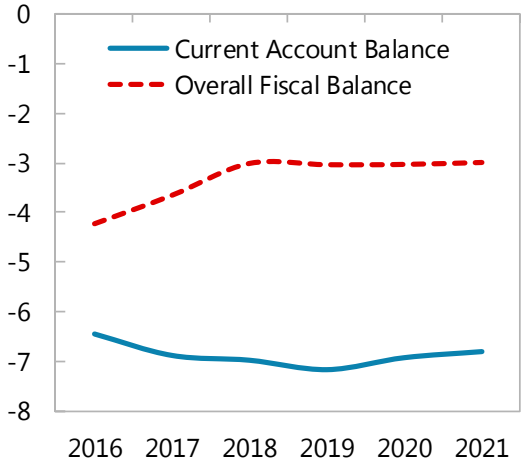
Growth is expected to continue to be strong while inflation would remain moderate.

GDP Growth
(Percent)



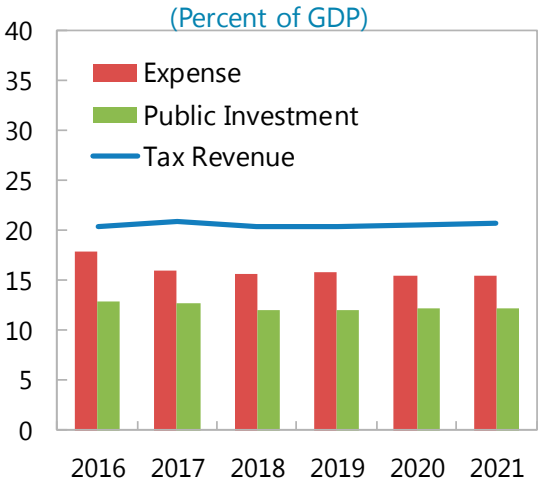
Fiscal consolidation is needed for external stability.

Twin Deficits
(Percent of GDP)



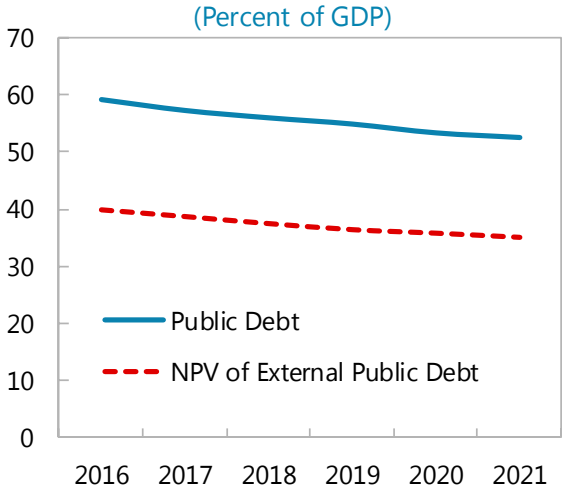
Fiscal consolidation is predicated on expenditure and revenue measures...

Expense, Investment and Revenue
(Percent of GDP)



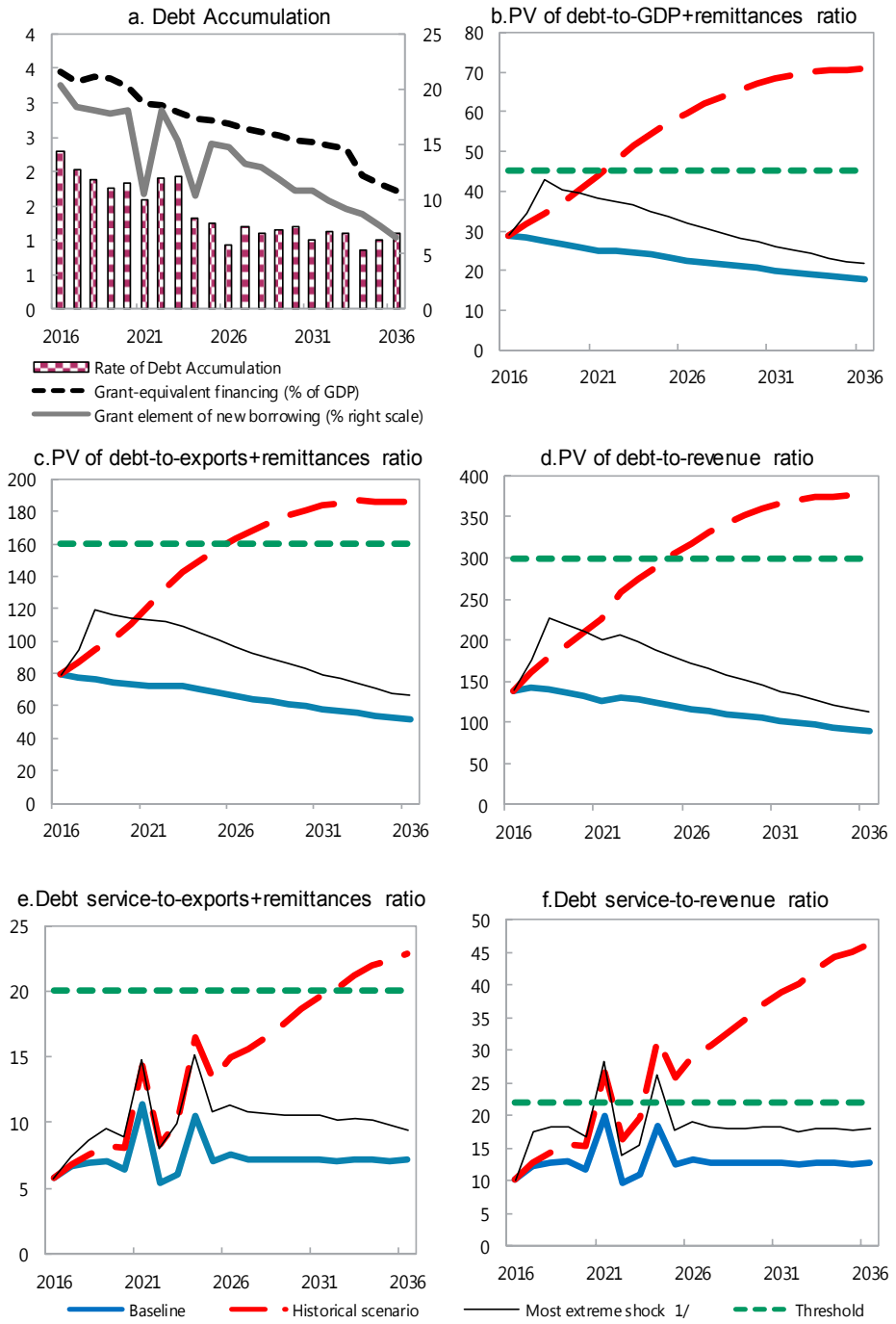
...which would keep Senegal at low risk of debt distress.

Debt
(Percent of GDP)



Sources: Senegal authorities; and IMF staff calculations.

Figure 4. Senegal: External Debt Sustainability



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2026. In figure b. it corresponds to a Combination shock; in c. to a Exports shock; in d. to a Combination shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

Table 1. Senegal: Selected Economic and Financial Indicators, 2014–21

	2014	2015	2016		2017	2018	2019	2020	2021
	Actual		CR 16/3	Proj.	Projections				
	(Annual percentage change)								
National income and prices									
GDP at constant prices	4.3	6.5	5.9	6.6	6.8	7.0	7.1	7.1	7.1
Of which: nonagriculture GDP	4.5	4.8	5.8	6.1	6.5	6.8	6.9	6.9	7.0
GDP deflator	-1.0	0.0	1.8	1.8	1.8	1.9	1.7	1.8	1.8
Consumer prices									
Annual average	-1.1	0.1	1.3	1.1	1.7	1.8	1.8	1.8	1.8
End of period	-0.8	0.4	1.3	1.5	1.8	1.8	1.8	1.8	1.8
External sector									
Exports, f.o.b. (CFA francs)	3.5	13.4	3.6	2.8	10.7	9.6	10.7	11.3	8.7
Imports, f.o.b. (CFA francs)	-1.1	3.3	5.8	2.4	8.9	9.2	9.8	7.6	7.5
Export volume	6.9	15.8	5.5	7.8	5.9	7.5	8.5	9.8	8.0
Import volume	4.1	13.8	6.4	8.6	8.6	8.1	7.4	7.5	6.1
Terms of trade ("–" = deterioration)	1.8	7.9	-1.3	1.2	4.3	0.9	-0.1	1.3	-0.6
Nominal effective exchange rate	2.5	-3.9	...	...	...	...	...	...	...
Real effective exchange rate	-0.8	-5.9	...	...	...	...	...	...	...
	(Changes in percent of beginning-of-year broad money, unless otherwise indicated)								
Broad money	11.4	13.4	7.1	8.5	8.7	...	...	...	...
Net domestic assets	6.1	13.0	8.4	10.7	11.9	...	...	...	...
Domestic credit	2.8	11.2	7.1	9.9	11.1	...	...	...	...
Credit to the government (net)	-2.6	3.7	-1.1	0.2	1.9	...	...	...	...
Credit to the economy (net) (percentage growth)	6.4	6.5	8.7	10.3	9.2	...	...	...	...
	(Percent of GDP, unless otherwise indicated)[1]								
Government financial operations									
Revenue	24.8	25.1	24.3	26.4	25.0	24.7	24.6	24.5	24.6
Grants	3.3	2.9	3.0	2.7	2.6	2.7	2.7	2.6	2.5
Total expenditure	29.8	29.9	28.6	30.7	28.7	27.7	27.6	27.5	27.6
Net lending/borrowing (Overall Balance)									
excluding grants	-8.5	-7.7	-7.2	-7.0	-6.3	-5.7	-5.8	-5.7	-5.5
including grants	-5.0	-4.8	-4.2	-4.2	-3.7	-3.0	-3.0	-3.0	-3.0
Primary fiscal balance	-3.3	-2.8	-2.4	-2.4	-1.6	-0.8	-0.8	-0.8	-1.0
Savings and investment									
Current account balance (official transfers included)	-8.9	-7.4	-8.7	-6.5	-6.9	-7.0	-7.2	-6.9	-6.8
Current account balance (official transfers excluded)	-9.8	-8.2	-9.7	-7.3	-7.6	-7.8	-8.1	-7.7	-7.6
Gross domestic investment	25.1	24.0	27.0	27.2	27.4	27.3	26.6	27.6	27.8
Government[1]	6.8	6.8	7.1	7.7	7.6	7.2	7.2	7.3	7.3
Nongovernment	18.3	17.2	19.9	19.4	19.8	20.1	19.5	20.4	20.5
Gross national savings	16.1	16.6	18.3	20.7	20.5	20.3	19.5	20.7	21.0
Government	1.8	2.0	2.7	3.5	4.0	4.2	4.1	4.2	4.3
Nongovernment	14.4	14.6	15.5	17.2	16.5	16.1	15.4	16.5	16.7
Total public debt	54.2	56.9	55.1	59.3	57.3	56.0	54.9	53.3	52.5
Domestic public debt[2]	13.9	15.8	15.8	19.3	18.6	18.5	18.4	17.5	17.4
External public debt	40.3	41.1	39.3	39.9	38.7	37.5	36.5	35.8	35.1
External public debt service									
Percent of exports	7.4	11.0	10.0	8.9	8.8	9.4	9.4	9.2	16.1
Percent of government revenue	10.4	15.7	12.9	11.0	11.6	12.4	12.5	12.2	19.9
Memorandum item:									
Gross domestic product (CFAF billions)	7,583	8,078	8,792	8,763	9,528	10,392	11,319	12,335	13,451

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

[1] Reflects reclassification of public investment.

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

Table 2. Senegal: Balance of Payments, 2014–21
(Billions of CFAF)

	2014	2015	2016	2017	2018	2019	2020	2021
	Actual		Projections					
	(Billions of CFAF, unless otherwise indicated)							
Current account	-678	-599	-567	-656	-725	-811	-855	-916
Balance on goods	-1,390	-1,287	-1,309	-1,394	-1,514	-1,642	-1,681	-1,775
Exports, f.o.b.	1,473	1,670	1,717	1,901	2,084	2,308	2,568	2,792
Imports, f.o.b.	-2,862	-2,956	-3,026	-3,295	-3,597	-3,950	-4,249	-4,567
Services and incomes (net)	-257	-355	-346	-389	-405	-438	-471	-505
Credits	817	836	862	902	942	984	1,027	1,071
Debits	-1,074	-1,191	-1,208	-1,291	-1,347	-1,421	-1,498	-1,576
Of which: interest on public debt	-89	-168	-129	-145	-156	-167	-178	-178
Unrequited current transfers (net)	969	1,042	1,088	1,127	1,193	1,269	1,297	1,364
Private (net)	917	993	1,035	1,086	1,139	1,195	1,230	1,291
Public (net)	53	49	53	41	54	74	67	73
Of which: budgetary grants	40	31	35	35	47	67	61	67
Capital and financial account	897	754	610	672	739	824	947	1,013
Capital account	218	207	210	222	234	247	259	273
Private capital transfers	10	10	10	10	10	11	11	11
Project grants	213	200	204	215	227	240	262	266
Debt cancellation and other transfers	-5	-2	-4	-3	-3	-3	-3	-3
Financial account	680	547	400	450	505	577	688	740
Direct investment	151	188	210	236	281	339	431	530
Portfolio investment (net)	519	237	110	140	78	152	24	104
Of which: Eurobond issuance	250	0	0	0	0	0	0	0
Other investment	10	122	80	75	146	87	233	106
Public sector (net)	97	181	201	201	202	210	241	228
Of which: disbursements	207	279	309	352	378	404	421	675
program loans	54	68	74	80	87	95	103	103
project loans	54	211	220	222	230	239	248	257
other	98	0	15	50	60	70	70	315
amortization	-109	-98	-107	-152	-176	-194	-179	-445
Private sector (net)	-153	-44	-122	-126	-56	-123	-8	-122
Errors and omissions	66	-16	0	0	0	0	0	0
Overall balance	220	155	44	16	13	14	93	97
Financing	-220	-155	-44	-16	-13	-14	-93	-97
Net foreign assets (BCEAO)	-100	-99	-44	-16	-13	-14	-93	-97
Net use of IMF resources	-9	-19	-27	-26	-26	-18	-3	0
Purchases/disbursements	0	0	0	0	0	0	0	0
Repurchases/repayments	-9	-19	-27	-26	-26	-18	-3	0
Other	-92	-80	-17	10	12	4	-90	-96
Deposit money banks	-119	-56	0	0	0	0	0	0
Residual financing gap	0	0	0	0	0	0	0	0
Memorandum items:								
Current account balance								
Including current official transfers (percent of GDP)	-8.9	-7.4	-6.5	-6.9	-7.0	-7.2	-6.9	-6.8
Excluding current official transfers (percent of GDP)	-9.8	-8.2	-7.3	-7.6	-7.8	-8.1	-7.7	-7.6
Gross official reserves (imputed reserves, billions of US$)	2.1	2.0	2.1	2.2	2.2	2.2	2.4	2.6
(percent of broad money)	31.8	30.7	29.3	27.3	24.7	22.6	22.1	21.6
(months of imports)	3.7	3.9	4.0	3.7	2.0	3.2	3.2	3.2
WAEMU gross official reserves (billions of US$)	13.2	12.4	...	...	...	...	...	...
(percent of broad money)	41.8	45.0	...	...	...	...	...	...
(months of WAEMU imports of GNFS)	4.7	5.0	4.8	4.8	4.9	4.9	4.7	4.9
Gross domestic product	7,583	8,078	8,763	9,528	10,392	11,319	12,335	13,451

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

Table 3. Senegal: Balance of Payments, 2014–21
(Percent of GDP)

	2014	2015	2016	2017	2018	2019	2020	2021
	Actual		Projections					
	(Percent of GDP, unless otherwise indicated)							
Current account	-8.9	-7.4	-6.5	-6.9	-7.0	-7.2	-6.9	-6.8
Balance on goods	-18.3	-15.9	-14.9	-14.6	-14.6	-14.5	-13.6	-13.2
Exports, f.o.b.	19.4	20.7	19.6	20.0	20.1	20.4	20.8	20.8
Imports, f.o.b.	-37.7	-36.6	-34.5	-34.6	-34.6	-34.9	-34.4	-34.0
Services and incomes (net)	-3.4	-4.4	-3.9	-4.1	-3.9	-3.9	-3.8	-3.8
Credits	10.8	10.3	9.8	9.5	9.1	8.7	8.3	8.0
Debits	-14.2	-14.7	-13.8	-13.5	-13.0	-12.6	-12.1	-11.7
Of which: interest on public debt	-1.2	-2.1	-1.5	-1.5	-1.5	-1.5	-1.4	-1.3
Unrequited current transfers (net)	12.8	12.9	12.4	11.8	11.5	11.2	10.5	10.1
Private (net)	12.1	12.3	11.8	11.4	11.0	10.6	10.0	9.6
Public (net)	0.7	0.6	0.6	0.4	0.5	0.7	0.5	0.5
Of which: budgetary grants	0.5	0.4	0.4	0.4	0.5	0.6	0.5	0.5
Capital and financial account	11.8	9.3	7.0	7.1	7.1	7.3	7.7	7.5
Capital account	2.9	2.6	2.4	2.3	2.3	2.2	2.1	2.0
Private capital transfers	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Project grants	2.8	2.5	2.3	2.3	2.2	2.1	2.1	2.0
Debt cancellation and other transfers	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	9.0	6.8	4.6	4.7	4.9	5.1	5.6	5.5
Direct investment	2.0	2.3	2.4	2.5	2.7	3.0	3.5	3.9
Portfolio investment (net)	6.8	2.9	1.3	1.5	0.7	1.3	0.2	0.8
Of which: Eurobond issuance	3.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment	0.1	1.5	0.9	0.8	1.4	0.8	1.9	0.8
Public sector (net)	1.3	2.2	2.3	2.1	1.9	1.9	2.0	1.7
Of which: disbursements	2.7	3.5	3.5	3.7	3.6	3.6	3.4	5.0
program loans	0.7	0.8	0.8	0.8	0.8	0.8	0.8	0.8
project loans	0.7	2.6	2.5	2.3	2.2	2.1	2.0	1.9
other	1.3	0.0	0.2	0.5	0.6	0.6	0.6	2.3
amortization	-1.4	-1.2	-1.2	-1.6	-1.7	-1.7	-1.5	-3.3
Private sector (net)	-2.0	-0.5	-1.4	-1.3	-0.5	-1.1	-0.1	-0.9
Errors and omissions	0.9	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	2.9	1.9	0.5	0.2	0.1	0.1	0.8	0.7
Financing	-2.9	-1.9	-0.5	-0.2	-0.1	-0.1	-0.8	-0.7
Net foreign assets (BCEAO)	-1.3	-1.2	-0.5	-0.2	-0.1	-0.1	-0.8	-0.7
Net use of IMF resources	-0.1	-0.2	-0.3	-0.3	-0.2	-0.2	0.0	0.0
Purchases/disbursements	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repurchases/repayments	-0.1	-0.2	-0.3	-0.3	-0.2	-0.2	0.0	0.0
Other	-1.2	-1.0	-0.2	0.1	0.1	0.0	-0.7	-0.7
Deposit money banks	-1.6	-0.7	0.0	0.0	0.0	0.0	0.0	0.0
Residual financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum item:								
Gross domestic product (CFAF billions)	7,583	8,078	8,763	9,528	10,392	11,319	12,335	13,451

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

Table 4. Senegal: Government and FSE Financial Operations,[1] 2014–21
(Billions of CFAF)

	2014	2015	2016	2017	2018	2019	2020	2021
	Actual		Projections					
	(In CFAF billions)							
Revenue	1,877	2,026	2,316	2,384	2,568	2,783	3,019	3,310
Taxes	1,483	1,597	1,779	1,986	2,116	2,310	2,535	2,787
Taxes on income, profits, and capital gains	402	435	488	556	613	693	752	824
Taxes on payroll and workforce	21	20	20	23	23	25	25	27
Taxes on property	27	31	25	32	33	36	37	50
Taxes on goods and services	786	855	895	978	1,075	1,154	1,279	1,418
Taxes on international trade and transactions	219	228	244	260	277	304	337	368
Other taxes	28	27	107	138	95	98	104	101
Grants	253	232	239	250	284	307	323	332
Budget	40	31.23	35	35	47	67	61	67
Projects	213	200	204	215	227	240	252	266
Other revenue	141	197	298	148	167	167	161	191
Expenditure	2,258	2,413	2,688	2,733	2,881	3,127	3,393	3,713
Expense	1,400	1,504	1,560	1,522	1,628	1,777	1,899	2,068
Compensation of employees	490	526	573	595	635	687	738	822
Use of goods and services	361	384	337	350	385	445	498	538
Interest	131	160	164	200	229	252	274	272
Foreign	63	126	86	99	108	117	127	127
Domestic	68	34	79	100	121	135	147	145
Subsidies [2]	60	51	48	45	45	38	42	48
of which: subsidies to SENELEC financed by FSE	22	0	20	0	0	0	0	0
of which: SENELEC from budget	0	0	0	0	0	0	0	0
of which: Fuel subsidies	12	0	14	0	0	0	0	0
Grants (current excl. FSE)	174	216	280	245	238	221	241	276
Social benefits	30	60	3	5	7	7	7	9
Other expense	154	108	156	82	90	127	100	104
Net acquisition of nonfinancial assets	858	909	1,128	1,211	1,252	1,350	1,494	1,645
Net lending/borrowing *(Overall balance)*	-381	-387	-372	-349	-313	-344	-374	-403
Transactions in financial assets and liabilities (Financing)	-381	-387	-372	-349	-313	-344	-374	-403
Net acquisition of financial assets	108	-44	14	10	9	10	10	10
Domestic	112	-89	14	10	9	10	10	10
Currency and deposits	96	-128	10	10	10	10	10	10
Debt securities	13	13	0	0	0	0	0	0
Loans	0	0	0	0	0	0	0	0
Other accounts receivable	3	27	4	0	-1	0	0	0
Net incurrence of liabilities	489	343	386	359	323	354	384	413
Domestic	-101	-43	38	-28	21	-51	92	57
FMI and SDRs	-12	-19	-32	-32	-31	-22	-4	0
Debt securities (net)	24	33	71	4	52	-29	96	57
Loans	46	-57	0	0	0	0	0	0
Other accounts payable	-159	0	0	0	0	0	0	0
Foreign	590	385	347	387	302	405	292	356
Debt securities (net)	338	204	146	186	100	195	50	126
T-bills and bonds issued in WAEMU	88	204	146	186	100	195	50	126
Eurobond	250	0	0	0	0	0	0	0
Loans	98	181	201	201	202	210	242	230
Program loans	54	68	74	80	87	95	103	103
Project loans	54	211	220	222	230	239	248	257
Nonconcessional loans	98	0	15	48	51	55	48	286
Other	-108	-98	-107	-150	-167	-179	-157	-416
Other accounts payable	153	0	0	0	0	0	0	0
Errors and omisions	0	0	0	0	0	0	0	0
Memorandum items:								
Change in net worth: Transactions	477	522	756	863	939	1,006	1,119	1,242
Net lending /borrowing *(excluding grants)*	477	522	756	863	939	1,006	1,119	1,242
Public consumption	941	1,018	1,013	1,021	1,078	1,182	1,109	1,321
Public investment[3]	1,186	1,235	1,371	1,486	1,581	1,683	1,999	2,042
Nominal GDP	7,583	8,078	8,763	9,528	10,392	11,319	12,335	13,451

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

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

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

[3] Public Investment differs from net acquisition of nonfinancial assets reported in the fiscal tables by including public spending in wages and salaries of frontline staff in education and health, both of which are considered as investment in human capital (in line with the spirit of the PSE).

Table 5. Senegal: Government and FSE Financial Operations, 2014–21
(Percent of GDP)

	2014	2015	2016	2017	2018	2019	2020	2021
	Actual		Projections					
	(Percent of GDP, unless otherwise indicated)							
Revenue	24.8	25.1	26.4	25.0	24.7	24.6	24.5	24.6
Taxes	19.6	19.8	20.3	20.8	20.4	20.4	20.5	20.7
Taxes on income, profits, and capital gains	5.3	5.4	5.6	5.8	5.9	6.1	6.1	6.1
Taxes on payroll and workforce	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2
Taxes on property	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.4
Taxes on goods and services	10.4	10.6	10.2	10.3	10.3	10.2	10.4	10.5
Taxes on international trade and transactions	2.9	2.8	2.8	2.7	2.7	2.7	2.7	2.7
Other taxes	0.4	0.3	1.2	1.4	0.9	0.9	0.8	0.7
Grants	3.3	2.9	2.7	2.6	2.7	2.7	2.6	2.5
Budget	0.5	0.4	0.4	0.4	0.5	0.6	0.5	0.5
Projects	2.8	2.5	2.3	2.3	2.2	2.1	2.0	2.0
Other revenue	1.9	2.4	3.4	1.6	1.6	1.5	1.3	1.4
Expenditure	29.8	29.9	30.7	28.7	27.7	27.6	27.5	27.6
Expense	18.5	18.6	17.8	16.0	15.7	15.7	15.4	15.4
Compensation of employees	6.5	6.5	6.5	6.2	6.1	6.1	6.0	6.1
Use of goods and services	4.8	4.8	3.8	3.7	3.7	3.9	4.0	4.0
Interest	1.7	2.0	1.9	2.1	2.2	2.2	2.2	2.0
Foreign	0.8	1.6	1.0	1.0	1.0	1.0	1.0	0.9
Domestic	0.9	0.4	0.9	1.1	1.2	1.2	1.2	1.1
Subsidies 2/	0.8	0.6	0.5	0.5	0.4	0.3	0.3	0.4
of which: subsidies to SENELEC financed by FSE	0.3	0.0	0.2	0.0	0.0	0.0	0.0	0.0
of which: SENELEC from budget	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
of which: Fuel subsidies	0.2	0.0	0.2	0.0	0.0	0.0	0.0	0.0
Grants (current excl. FSE)	2.3	2.7	3.2	2.6	2.3	2.0	2.0	2.1
Social benefits	0.4	0.7	0.0	0.1	0.1	0.1	0.1	0.1
Other expense	2.0	1.3	1.8	0.9	0.9	1.1	0.8	0.8
Net acquisition of nonfinancial assets	11.3	11.3	12.9	12.7	12.1	11.9	12.1	12.2
Domestically financed	1.3	1.5	1.3	2.1	2.2	2.4	2.5	2.6
Government's grants financed	4.9	4.8	6.6	5.9	5.3	5.3	5.4	5.5
Externally financed	5.2	5.0	5.0	4.7	4.6	4.2	4.2	4.1
Net lending/borrowing *(Overall balance)*	-5.0	-4.8	-4.2	-3.7	-3.0	-3.0	-3.0	-3.0
Transactions in financial assets and liabilities (Financing)	-5.0	-4.8	-4.2	-3.7	-3.0	-3.0	-3.0	-3.0
Net acquisition of financial assets	1.4	-0.5	0.2	0.1	0.1	0.1	0.1	0.1
Domestic	1.5	-1.1	0.2	0.1	0.1	0.1	0.1	0.1
Currency and deposits	1.3	-1.6	0.1	0.1	0.1	0.1	0.1	0.1
Debt securities	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts receivable	0.0	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	6.4	4.2	4.4	3.8	3.1	3.1	3.1	3.1
Domestic	-1.3	-0.5	0.4	-0.3	0.2	-0.4	0.7	0.4
FMI and SDRs	-0.2	-0.2	-0.4	-0.3	-0.3	-0.2	0.0	0.0
Debt securities (net)	0.3	0.4	0.8	0.0	0.5	-0.3	0.8	0.4
Loans	0.6	-0.7	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts payable	-2.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign	7.8	4.8	4.0	4.1	2.9	3.6	2.4	2.6
Debt securities (net)	4.5	2.5	1.7	2.0	1.0	1.7	0.4	0.9
T-bills and bonds issued in WAEMU	1.2	2.5	1.7	2.0	1.0	1.7	0.4	0.9
Eurobond	3.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	1.3	2.2	2.3	2.1	1.9	1.9	2.0	1.7
Program loans	0.7	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Project loans	0.7	2.6	2.5	2.3	2.2	2.1	2.0	1.9
Nonconcessional loans	1.3	0.0	0.2	0.5	0.5	0.5	0.4	2.1
Other	-1.4	-1.2	-1.2	-1.6	-1.6	-1.6	-1.3	-3.1
Other accounts payable	2.0	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
Memorandum items:								
Change in net worth: Transactions	6.3	6.5	8.6	9.1	9.0	8.9	9.1	9.2
Net lending /borrowing *(excluding grants)*	6.3	6.5	8.6	9.1	9.0	8.9	9.1	9.2
Public consumption	12.4	12.6	11.6	10.7	10.4	10.5	9.0	9.9
Public investment	15.6	15.3	15.6	15.6	15.3	14.9	16.2	15.3
Nominal GDP	7,583	8,078	8,763	9,528	10,392	11,319	12,335	13,451

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

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

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

Table 6. Senegal: Monetary Survey, 2013–17

	2013	2014	2015	2016	2017
	Act.		Est.	Proj.	
			(Billions of CFAF)		
Net foreign assets	858	1,078	1,233	1,276	1,293
BCEAO	764	865	963	1,007	1,023
Commercial banks	94	213	270	270	270
Net domestic assets	2,269	2,407	2,720	3,012	3,370
Net domestic credit	2,565	2,638	2,933	3,224	3,582
Net credit to the government[1]	151	70	198	207	287
Central bank	21	-75	46	4	-38
Commercial banks	124	142	149	203	325
Other institutions	5	13	26	26	26
Credit to the economy	2,414	2,568	2,735	3,018	3,295
Other items (net)	-297	-231	-213	-213	-213
Broad money	3,127	3,485	3,953	4,288	4,663
Currency outside banks	620	685	807	875	952
Total deposits	2,507	2,799	3,146	3,413	3,711
Demand deposits	1,358	1,430	1,737	1,885	2,049
Time deposits	1,150	1,370	1,409	1,528	1,662
	(Change in percentage of beginning-of-period broad money stock)				
Net foreign assets	-0.7	7.0	4.4	1.1	0.4
BCEAO	-0.4	3.2	2.8	1.1	0.4
Commercial banks	-0.3	3.8	1.6	0.0	0.0
Net domestic assets	8.8	4.4	9.0	7.4	8.3
Net credit to the government[1]	2.0	-2.6	3.7	0.2	1.9
Credit to the economy	9.3	4.9	4.8	7.1	6.5
Other items (net)	-2.5	2.1	0.5	0.0	0.0
Broad money	8.0	11.4	13.4	8.5	8.7
Memorandum items:			(Units indicated)		
Velocity (GDP/broad money; end of period)	2.3	2.2	2.0	2.0	2.0
Nominal GDP growth (percentage growth)	1.0	3.3	6.5	8.5	8.7
Credit to the economy (percentage growth)	12.6	6.4	6.5	10.3	9.2
Credit to the economy/GDP (percent)	32.9	33.9	36.1	37.4	34.6
Variation of net credit to the government (yoy; CFAF billions)	0.6	-81.3	127.8	9.2	80.3

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, 2008–15

	2008	2009	2010	2011	2012	2013	2014	2015
	December							
	(Percent, unless otherwise indicated)							
Capital Adequacy								
Capital to risk-weighted assets	13.8	16.3	18.0	16.0	16.7	16.4	16.4	16.7
Regulatory capital to risk-weighted assets	13.9	16.5	18.2	15.9	16.3	15.9	15.9	16.0
Capital to total assets	9.1	9.3	10.0	9.8	9.6	9.4	9.0	8.5
Asset Composition and Quality								
Total Loans to Total Assets	62.8	59.5	57.5	60.6	61.4	60.1	58.3	64.3
Concentration: loans to 5 largest borrowers to capital	100.9	71.7	70.6	69.8	196.7	137.4	166.0	159.8
Sectoral distribution of loans								
Industrial	19.5	27.5	26.4	22.2	23.8	25.5	23.1	19.8
Retail and wholesale trade	18.5	24.5	23.8	19.2	21.6	23.8	23.7	21.9
Services, transportation and communication	31.1	34.1	41.9	34.0	30.6	35.9	41.0	38.7
Ratio of non-performing loans (NPLs) to total loans	17.4	18.7	20.2	16.2	18.4	19.1	20.8	18.8
Of which: without ICS	14.2	15.8	15.8	13.2	15.1	14.8	17.6	18.3
Ratio of provisions for NPLs to total NPLs	51.5	53.1	54.9	54.0	56.1	55.8	58.1	57.9
Of which: without ICS	65.7	64.7	65.3	68.3	63.0	66.8	60.7	60.0
NPLs net of provisions to total loans	9.3	9.7	9.1	8.1	8.2	8.6	9.0	7.9
Of which: without ICS	5.4	6.2	6.1	4.6	6.3	5.6	7.7	8.2
NPLs net of provisions to capital	63.9	62.3	52.3	50.4	51.4	54.7	57.8	60.2
Of which: without ICS	35.3	38.4	41.5	35.7	38.8	43.3	53.8	58.1
Earnings and profitability								
Average cost of borrowed funds	2.8	3.4	2.2	2.0	2.1	1.9	2.0	1.0
Average interest rate on loans[1]	13.9	15.4	8.1	8.4	8.6	8.1	7.8	12.5
Average interest margin[2]	11.1	12.0	5.9	6.4	6.6	6.2	5.1	11.5
After-tax return on average assets	1.4	1.3	1.6	2.2	1.7	1.3	0.6	1.0
After-tax return on average equity	13.0	16.0	15.4	22.6	17.4	13.7	6.8	11.9
Noninterest expenses/net banking income	51.3	60.3	56.7	56.0	57.0	57.6	58.6	60.6
Salaries and wages/net banking income	21.1	23.0	24.8	23.8	24.4	25.2	25.0	26.1
Liquidity								
Liquid assets to total assets	...	31.7	39.8	36.1	37.0	42.1	40.8	54.7
Liquid assets to total deposits	...	49.8	52.4	76.7	52.3	62.9	61.2	80.6
Total deposits to total liabilities	70.3	74.9	76.0	62.8	70.7	67.0	66.7	75.7

Source: BCEAO.

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

[2]Excluding the tax on banking operations.

Annex I. Operationalizing Peer Learning in Tourism

1. As an outcome of the peer learning facilitated by the Fund, the Mauritius Government has proposed the following actions to tap the tourism potential of Senegal.

2. A joint team will be set up to implement a project to upgrade the main tourist resort areas of Saly and La Somone. The project would:

- Set up a mechanism to generate community and stakeholder support and involvement for the actions taken;
- Clean up the area and put in place arrangements to keep this up;
- Put in place public infrastructure to beautify the sites and make them accessible and attractive, inter alia by putting in place pavements for pedestrians, planting palm and coconut trees and improving access to key areas in the community which offer tourist facilities;
- Reviewing the arrangements to combat erosion to achieve functionality whilst emphasizing aesthetics;
- Working with operators to facilitate their efforts to improve their hotel infrastructure and décor;
- Upgrading training including the possibility of benefitting from scholarships from the Government of Mauritius for study in Mauritius;
- Exchange of expertise and close collaboration on technical matters; and
- Setting up financing mechanisms that could be supported both by the development partners of Senegal and also borne by tourists.

3. In parallel, Mauritius would also assist to develop Pointe-Sarène, another resort area which has huge potential if properly developed. Fully realizing the value of the site will require careful planning and preparation which may take some time. In this context, a Senegalese delegation is invited to visit Mauritius to see how Mauritius has handled similar developments. One of the lessons Mauritius learnt is that the road should be as far removed as possible from the beach to maximize the value of the area being developed. Moreover, there are large gains from integrating villa and hotel development.

Annex II. Improving Economic Governance

1. Growth in Senegal has been rising, but it has been driven largely by the public sector. For growth to be sustained over the medium term, SMEs and FDI that aims at globally competitive activity (as opposed to sharing rents) will have to take the reins. Reforms to improve the business environment are needed to create wealth and break with the status quo so that individual initiative can result in job and wealth creation and allow Senegal to achieve its full potential. Rent seeking and patronage is one of the major culprits for the inability of SMEs to thrive and for the low level of FDI in Senegal relative to its peers.

2. Senegal is committed to undertake reforms to improve economic governance and some progress has been made under the PSE. Governance reforms require consensus to overcome vested interests. Success can only be achieved if there is a political commitment coupled with the appropriate technical expertise. A reform program should be ambitious, but realistic. Accordingly, in March 2016, the Prime Minister and key Ministers agreed on 11 reforms that are needed to spur growth and stability in Senegal (see Box A1) and whose implementation is blocked by entrenched interests that have proved hard to overcome. Working groups are being set up with the mandate to explicit consider the political economy of these reforms and how to build coalitions that can overcome current resistance to change.

3. The 11 reforms and others under the PSE cover fiscal policy and public finance, agriculture, oil and gas, electricity, the regulatory framework for business and the financial sector. The reforms are needed to facilitate the emergence of SMEs while attracting productive FDI and protecting fiscal revenues, strengthen PFM, preserve Senegal's low risk of debt distress, improve wage bill management while creating additional fiscal space, improve project management, accelerate the development of private and financial sectors while safeguarding the stability of the financial system, reduce poverty while promoting social inclusion, and facilitate PSE implementation by strengthening public sector governance. **Civil service reform** is also needed to address incentive problems which are incompatible with good governance and to allow an integration of agencies back into the central administration whilst ensuring pay can be modulated to attracting and keeping talent and scarce skills.

4. In all these areas, greater transparency through improving the quality of data, more frequent reporting and greater use of audits could be core elements of a broad strategy. Moreover, it is important to move to a rules based approach with a minimum of discretion and transition to a regime of ex-post verification rather than ex-ante authorization. In addition, **judicial reform** is needed to ensure that contractual agreements are respected, ex-post verification is fair and that cases are handled in an efficient and expeditious manner.

Box A1. The 11 Reforms

In March 2016, the Prime Minister and key Ministers agreed on 11 reforms to spur growth and stability in Senegal and their implementation is blocked by entrenched interests that have proved hard to overcome. They cover Special Economic Zones and industrial platforms, PFM, project management, financial sector, agriculture, social inclusion and poverty reduction, and governance.

1. Encourage the emergence of economic spaces with their own governance and with a tax regime that preserves the integrity of tax revenue;

2. Bring together the different structures responsible for planning, programming and financing of public investments;

3. Strengthen and empower the Public Debt Directorate and the National Council for Public Debt to improve debt management;

4. Implement a public sector remuneration medium-term strategy;

5. Strengthen the capacity of the line ministries' units in charge of studying; planning; and defining sectoral strategies, project / program preparation and ex-ante evaluation;

6. Rehabilitate the function of selection of projects or investment programs and the compliance with the validation process of projects lifecycle;

7. Establish commercial courts for a rapid resolution of disputes between economic actors;

8. Strengthen competition in the market for goods and services, particularly with regard to import of sugar;

9. Diversify social protection programs;

10. Adopt the Law designed to promote SMEs;

11. Enhance the predictability of decision-making

5. Fiscal policy reform is required because tax expenditures are large and make the system inequitable and uncompetitive. In the 2017 Doing Business Index WB report, Senegal ranked 174 out of 190 in **"paying taxes"** which measures the administrative burden of paying taxes and how much firms pay in taxes. The current system is particularly unattractive to SMEs and foreign investors and does not provide the appropriate incentives for the informal sector to join the formal sector, making it difficult for firms that wish to comply without favors to compete. While Senegal recently facilitated tax payments by supplying tax forms and VAT declarations online and created a Center for Medium Sized Enterprises, it has yet to activate or require that taxes be filed and paid through e-filing and e-payment. This would not only improve efficiency, but would increase transparency in tax collection. Restructuring pay incentives would also contribute to more effective **tax collection**. The current incentive structure rewards tax collectors for collecting fines from taxpayers for violations which introduces distortions. Restructuring salaries to increase base pay in line with recent average total wages for tax collectors, while continuing some well-designed pay incentives, could increase overall revenues.

6. In addition, the 6 to 7 percent of GDP of tax expenditures should be curtailed, given that they are not well-targeted and undermine the revenue base necessary to finance the PSE. This reform would reduce compliance costs, consistent with the objective of the 2013 tax reform to simplify the tax system. This would be particularly beneficial for SMEs, especially if combined with online filing and payment. Moreover, ensuring that everyone pays their fair share of taxes at a reasonable rate would set the stage for SMEs to emerge from the informal sector and create jobs as they expand.

7. Public Finance reform is needed to ensure value for money and improvement of service delivery. The move to program based budgeting and the Precautionary Reserve Envelope offer an opportunity to link additional spending to improved service delivery and meet demanding (and increasing) social needs. At the same time the EU is supporting efforts to improve the quality of management in the Ministry of Finance and this could be replicated more widely if successful. These reforms should complement the move to **strengthen PFM** and improve control of the project cycle and a better mastery of risk allocation in PPPs. **Efficient selection, implementation and monitoring of public investment projects** is essential to crowd in private investment and boost long-term growth, but the process needs to be transparent to ensure that there is no deadweight loss and that (presently discounted) fiscal risks are being properly accounted for. Continued implantation of the PRE and the creation of the investment project bank will be important steps, but all procurement should be subject to a competitive and transparent bidding process, including through the use of **e-procurement. Public Private Partnerships (PPPs)** should be well managed to ensure that they yield maximum value for the country without carrying fiscal contingent liabilities. The move to GFSM 2001/14 has been encouraging, but public investment has not been properly reported in the budget and may require some expenditures to be shifted to "transfers" of "goods and services". Greater use of auditing of SOEs and compilation and publication of consolidated general government fiscal data could reduce fiscal risks and lay the foundations of SOE reform.

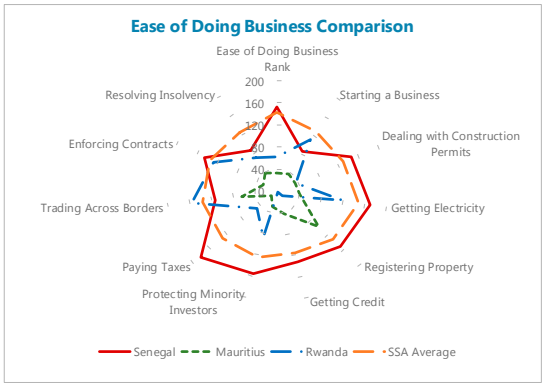
8. Reforms in agriculture have begun, but need to be broadened and accelerated, particularly in the groundnut sector which is the dominant activity. The **proliferation of subsidies** creates opportunities for patronage and rent seeking and decreases resources needed for infrastructure and development spending. Established rent seeking in the sale and distribution of seeds and collection and processing of groundnuts are holding up moves to better targeted and transparent subsidies. This is an area where work on the political economy of reform would be particularly useful. Similar considerations apply to rolling back the quasi-monopoly on sugar. The authorities recognize the need for progress on reducing subsidies and have formed a working group which is expected to make policy recommendations in late 2016.

9. Land reform is also held back by established clientelism and privileged access by elites. The challenge is to find a tradeoff between the protection of small family farms and the promotion of investment including in horticulture. Whilst this has been tackled on an ad hoc basis to allow horticulture to become an emerging sector, realizing the full potential of Senegal needs more

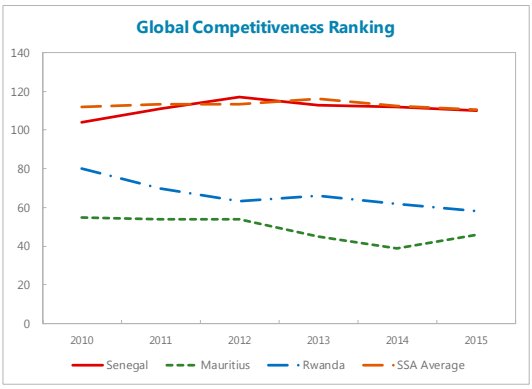
decisive action around the work of the land reform commission. In addition to promoting investment in modern agriculture, land reform could allow collateral to play its proper role in bank lending.

Figure A1. Senegal: Governance Indicators

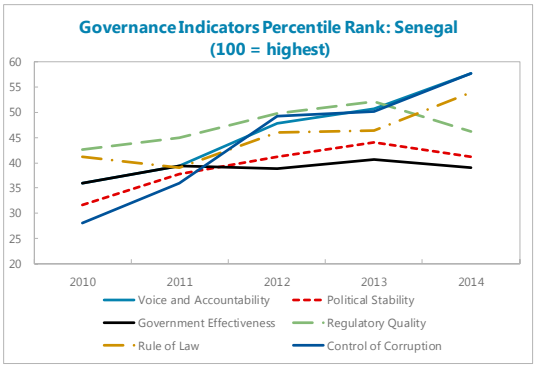
Senegal's doing business ranking has been rising, but it remains low at 153 out of 189...



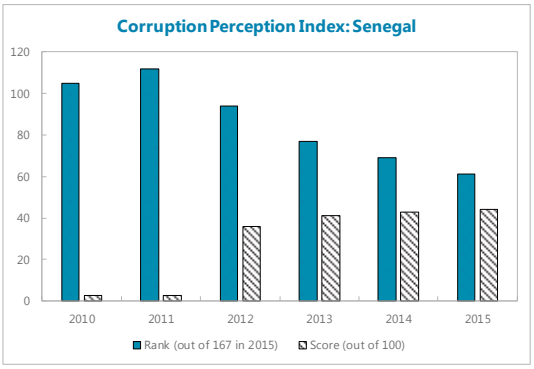
...further reforms are needed to boost competitiveness and achieve growth rates necessary to reduce poverty.



Governance and transparency indicators show some improvement....



....but reforms are needed to open up space for FDI and SMEs and support sustainable private sector-led growth.



10. Recent oil and gas discoveries off the coast of Senegal could boost energy supply and provide positive benefits for public finances and GDP growth, but the tax regime will need to be carefully designed to avoid potential pitfalls often seen with natural resource discoveries. In particular, the fiscal regime for exploration and for taxation of the sector need to be repatriated to the Ministry of Finance to ensure an effective accounting of income.

11. The importance of tackling electricity availability and costs is highlighted by Senegal's rank of 162 out of 190 in "getting electricity" in the Doing Business Index. Some progress has been made in increasing supply through greater private sector involvement in production and distribution and accessing lower cost sources of energy, including the creation of two new generation facilities. There has been a streamlining of the application review process for new

electricity connections and excavation permits and a reduction of the amount needed for a security deposit. However, electricity generation remains extremely costly and the rural electrification plan has been implemented slowly. Moreover, the lack of transparency in the energy sector, including the chain from oil imports to final pump distribution, makes it very difficult to estimate the government budget implications of movements in oil prices. Reforms of SENELEC could provide greater efficiency in distribution and reduce future government subsidies.

12. Senegal ranks 133 in "getting credit" which is below the SSA average (this is the ranking for all WAEMU countries). On a scale of 0-8 (8 being best), Senegal has a score of zero on the sharing of credit information. Some action has been taken in this area through the creation of a credit bureau in 2015 (operative since February 2016), but its effectiveness is likely to be impaired for two reasons: 1) the disclosure is not compulsory (borrowers can refuse to sign a disclaimer to allow its credit request to be shared), and 2) banks are not required to share information from lending that is not recent. The lack of a comprehensive (and) historical information on the universe of borrowers makes the credit bureau ineffective and makes it difficult for banks to assess credit risk. The creation of public institutions to provide guarantees and direct **lending to SMEs** and others (FONGIP, FONSIS and BNDE) suggests that progress on reforms is needed to facilitate credit to SMEs. In addition, transparency of the balance sheet of these institutions is needed to ensure financial sector stability.

Annex III. Authorities' Response to the 2014 Article IV Policy Recommendations

Article IV Recommendations	Authorities' Response
Fiscal policies to address development needs while maintaining debt sustainability	
1. Bring the fiscal deficit in line with the WAEMU target of 3 percent of GDP in the medium-term.	1. Positive response. Fiscal consolidation is proceeding ahead of schedule, with the authorities expected to reach the 3 percent deficit WAEMU criteria by 2018, one year earlier than planned.
2. Contain public consumption and increase quantity and quality of public investment.	2. Positive response. There has been a good start which needs to be sustained. The wage bill is monitored carefully to avoid overruns and a system to control supplementary pay is being implemented. Some progress has been made on ex ante evaluation of projects and mechanisms to track the cycle of an investment project have been put in place, including through the use of the Precautionary Reserve Envelope. The mechanisms, some of which are on a pilot basis, need to be expanded. There has been a shift from public consumption to public investment, but this shift needs to continue.
3. Reforms to increase revenues.	3. Positive response. Results are positive, but efforts need to be continued and expanded. Revenues as a percent of GDP are rising. The taxpayer identification number (NINEA) is playing a greater role in tax collection and efforts have been made to collect tax arrears. The tax services have been reorganized and cash payment of taxes eliminated. However, NINEA needs to be used to coordinate between revenue collecting agencies and action is needed to reduce high tax expenditures (6 percent of GDP). Greater efficiency and transparency in tax collection is needed.
4. Implement medium-term budget framework and strengthen debt management.	4. Positive response. Significant progress has been made which needs to be used to generate momentum for further reform. A first generation Treasury Single Account (TSA) has been created. Program budgeting is being prepared for implementation with the next budget and the authorities are working towards a MTBF for the 2018 budget. A debt anchor with commitment to take measures when deviating from a sustainable debt path is expected with the supplementary budget this fall. However, debt continues to increase, with debt service taking one third of revenues and the TSA needs to capture all budget transactions to increase transparency and improve budget management.
Policies to rekindle growth and enable the private sector	
5. Steadfast implementation of the PSE to boost growth to 7 percent by 2019 and accelerate poverty reduction.	5. Positive response. Growth increased to 6.5 percent in 2015 (3.5 percent per capita growth) and is projected to reach 7 percent by 2018. Many elements of the PSE have been incorporated in the PSI as structural benchmarks and implementation has been good. The authorities have assigned responsibility of implementation of specific elements of the PSE with timelines to individuals in the government. However, action to open space to SMEs and the broader private sector needs to be given urgency if the higher growth is to be sustained.
6. Energy sector reforms.	6. Mixed response. Some progress has been made on accessing low cost energy and improvements in energy infrastructure are underway. The authorities are working with development partners to increase the role of the private sector in generation and distribution. Subsidies from the budget to SENELEC have been eliminated, partly due to lower oil prices. However, final electricity prices remain very high, reducing private sector competitiveness and SENELEC needs to pursue its reform plan to deal with inefficiencies and reduce the contingent fiscal liability it generates.
7. Reforms to improve the business environment.	7. Positive response. Senegal has made good progress in this area, but is so far behind that efforts need to be broadened and accelerated. Senegal's World Bank Doing Business ranking has improved and it has been in the top ten reformers in the last two years. However, it was so far back that its ranking remains low at 153 out of 189 countries. There has not been

Annex III. Authorities' Response to the 2014 Article IV Policy Recommendations (concluded)

Article IV Recommendations	Authorities' Response
Strengthening the financial sector and external stability	
	significant progress on energy, land and judicial reforms. Further progress on reducing rent seeking and patronage is urgently required. SMEs continue to have difficulty doing business and FDI levels remain low. There has been no progress on labor market reforms.
8. Improve private sector access to credit, while maintaining financial sector stability .	8. Mixed response. Credit bureaus were created, but lack the historical data needed to be effective. Judicial reforms are needed to allow collateral to support lending. The creation of three institutions to guarantee and provide direct lending to firms, including SMEs, has supported some credit creation to the private sector, but there are potential balance sheet risks which need to be evaluated. In the banking sector, lending guarantees still play an important role. The financial sector is relatively stable, with concentration risks and high levels of NPLs being monitored by the National Financial Stability Commission.
9. Promote competitiveness and export diversification and implement measures to unlock FDI.	9. Poor response. While the current account deficit has been reduced, this has been driven largely by lower oil prices. Non-price competitiveness and the business environment remain weak, hindering export growth and diversification, with FDI remaining well below levels seen in comparator countries. The authorities should rapidly reform the Special Economic Zone regime to emphasize paying reasonable taxes within a business friendly framework and move away from over 50 year tax holidays in a poor business environment.

Source: IMF staff.

Appendix I. Letter of Intent

Dakar, November 14, 2016

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

Madame Managing Director,

1. The government of Senegal requests completion of the third review of its macroeconomic program supported by the Policy Support Instrument (PSI) for the period 2015–17. Details of this program were described in the initial Memorandum of Economic and Financial Policies (MEFP) of June 8, 2015. In support of this request, the attached MEFP reviews program implementation and updates the government's short- and medium-term objectives and policies under the program.

2. Program implementation has remained satisfactory. All end-June assessment criteria were met. All end-June ITs were met except for the IT on tax revenues which was narrowly missed (by 0.02 percent of GDP) because of lower than projected customs revenue. Structural reforms progressed broadly as envisaged as only one structural benchmark of those set for the period June–October 2016, namely the one on the creation of a structure (specialized office, division, etc.) responsible for recovering problem tax claims, was not implemented. We preferred to wait for a comprehensive reform in preparation.

3. As part of the continuation of the program, four (4) new structural benchmarks have been added. These are: (i) Recovery of at least 50 percent of the CFAF 89.15 billion of tax claims deemed recoverable (December 2016); (ii) finalization of the draft decree on the creation, empowerment and organization of the national public debt committee (December 2016); (iii) the audit of the 2016 financing and identification of liquidity gaps (March 2017); and (iv) the operationalization of the DGD-DGID platform and production of a report on basic data cross-checking between the two entities (June 2017).

4. The government believes that the policies and measures set forth in the attached MEFP are appropriate for achieving the objectives of the PSI-supported program. Given its commitment to macroeconomic stability, the government will continue to take any additional measures needed to safeguard growth momentum and diversify its sources, to strengthen the economy's resilience in a difficult international environment and a sub-regional context vulnerable to security hazards, and to ensure the stability of the macroeconomic framework, consistent with program objectives. The government will consult with the IMF—at its own initiative, or whenever the IMF Managing Director requests such consultation—before adopting any such measures or in advance of revisions to the policies contained in the attached MEFP. Moreover, the government will provide the IMF with such information as the IMF may request in connection with the progress made in implementing the economic and financial policies and achieving the program objectives.

5. The government authorizes the IMF to publish this letter, the attached MEFP and TMU, and the related Staff Report.

Very truly yours,

/s/

Amadou Ba

Minister of Economy, Finance and Planning

Attachments:

I. Memorandum of Economic and Financial Policies
II. Technical Memorandum of Understanding

Attachment I. Memorandum of Economic and Financial Policies, 2015–17

1. This Memorandum updates the Memorandum of June 8, 2015 on our economic and financial program supported by the Policy Support Instrument for the period 2015–17. It reviews recent economic developments and describes the policies that the government plans to implement for the remainder of 2016 and in the short term to build on the good macroeconomic results achieved.

RECENT ECONOMIC DEVELOPMENTS

2. On the domestic front, implementation of the Emerging Senegal Plan (PSE) continues, with appreciable effects on the economy. At the end of the first six (6) months of 2016, nonagricultural economic activity measured by the General Activity Index (GAI) grew 5.7 percent, reflecting the healthy pace of activity in the secondary sector together with the renewal of growth in the tertiary sector. The secondary sector benefited from the positive orientation of the mining, chemical manufacturing, construction materials, construction, and energy subsectors. The revival of service activities is attributable to the strength observed, in particular, in the fields of transport, post and telecommunications, financial services, and real estate. In view of this especially favorable trend and the outlook for the rest of the year, and taking into account the continuing efforts in the agriculture subsector, the projected real GDP growth rate remains at 6.6 percent. In terms of inflation, the level of consumer prices would remain low (+0.9 percent over the first six (6) months of 2016, year-on-year), reflecting the easing of world prices. As for foreign trade, the current account deficit is projected at 6.5 percent, owing, on the one hand, to the increase in exports following the plentiful groundnuts crop and the recovery of the export industries, and, on the other, to control of the oil bill together with the positive results of the policy of replacing imports of certain products with local production.

3. Program implementation remains satisfactory. All end-June quantitative assessment criteria were met. All end-June indicative targets were met with the exception of one. The quarterly ceilings on treasury float (CFAF 50 billion) and direct contracting (15 percent), and the floor on social expenditure (35 percent), were all observed. However, the floor on tax revenue (CFAF 900.8 billion) was missed by a slight margin (less than CFAF 2 billion), mostly because of a decline in customs revenue. Nevertheless, the budget deficit target of CFAF 202 billion was largely achieved as a result of the government pursuing its policy of rationalizing public consumption expenditure.

4. Significant progress was also made in meeting structural benchmarks. Of the five structural benchmarks set for the period from June to October 2016, three were met and one was implemented with delay (Table 2). The only structural benchmark that has not been implemented is the creation of a structure (specialize office, division, etc.) responsible for recovering problem tax claims. We preferred to wait for the comprehensive reform of the *Direction Générale des Impôts et des Domaines* (DGID) currently underway.

5. Progress on other structural reforms was also observed. Two (2) of the five (5) working groups organized to discuss clearly defined topics produced a report that was subsequently approved. These two groups are responsible, respectively, for enterprises in difficulty and government subsidies to enterprises. Memorandums on the three (3) other topics, namely, the inclusion of parafiscal taxes in the budget, tax expenditures, and the establishment of an independent accountants' network within the DGID, were submitted to the Minister of Economy, Finance, and Planning. Decisions concerning the recommendations are expected before the end of this year.

6. Satisfactory implementation of WAEMU directives. Progress was noted in the implementation of WAEMU directives. A budget orientation discussion is now held every year and a detailed report on budget execution is forwarded to the Finance Committee of the National Assembly each quarter, which is simultaneously published on the Directorate General of Finance (DGF) website. In all, of the eight (8) directives making up the WAEMU harmonized public finance framework, only two have yet to be transposed: the directive on materials accounting and the one on the fiscal regime of local governments.

MACROECONOMIC POLICY AND STRUCTURAL REFORMS FOR 2017

7. The implementation of PSE reforms and priority projects will be a determining factor in the acceleration of growth. The real GDP growth rate is projected at 6.8 percent in 2017, most likely as a result of improved agricultural performance, the revitalization of industry, and the continued vibrancy of service activities. To remove the constraints slowing private sector development, the government will step up the pace of implementation of projects and reforms. Inflation will remain modest in 2017, in a context of stability in the global commodities markets. The current account deficit as a percentage of GDP is expected to improve, particularly as a result of the growth of merchandise exports.

8. In order to keep growth buoyant, to make it more inclusive and to fortify the economy's resilience to internal shocks as well as those inherent in the international setting and the context of insecurity within the subregion, the IMF-supported program will, as before, revolve around the following three aims: (i) rebuild the government's fiscal space, (ii) strengthen public financial management and governance; and (iii) improve the business environment.

A. Restore the Government's Fiscal Space

9. The budget deficit target is set at CFAF 349 billion, or 3.7 percent of GDP in 2017. This target is based essentially on satisfactory revenue collection, effective control of current expenditure, and increased investment expenditure to support growth.

10. The DGID will mobilize revenue essentially by expanding the tax base and effectively monitoring taxpayers. Cooperation between the DGID and the *Direction Générale des Douanes* (DGD) will continue, particularly as a result of the increased information exchanges made possible by the creation of an information exchange platform based on the NINEA (National Registration Number for Enterprises and Associations), in use since February 11, 2016. A Committee established within the Ministry of Economy, Finance, and Planning is responsible for the initiation of automatic tax data sharing. Moreover, following the DGID audit of what remains

to be recovered at end-April 2016, the government is committed to collecting at least 50 percent of the CFAF 89.15 billion in tax claims considered recoverable by end-December 2016 (**structural benchmark**) and boosting that figure to 60 percent by end-March 2017.

11. The modernization of the DGID continues. In this connection, the following measures will be implemented: (i) place the databank in service; (ii) expand e-filing and e-payment options for CGE (Large Enterprises Center) taxpayers on January 1, 2017, and in 2018 for other taxpayers; (iii) finalize preparation of the procedures manual; (iv) increase the rate of tax audit coverage through a program of hiring tax inspectors and auditors. The reorganization of the DGID is expected to be completed by January 31, 2017.

12. On the subject of land, the NICAD (cadastral identification number) is now in use, the management of state fees is automated, and the digitization of the land register is set for completion by end-2017.

13. The 2017 budget law is expected to include the following tax-related measures: (i) finalize the overhaul of the business license tax to complete the 2012 reform, (ii) raise the threshold of the Comprehensive Property Tax (*Contribution Globale Foncière - CGF*), (iii) raise the ceiling on tax payments as a share of current revenue (*bouclier fiscal*), now set at 40 percent, to increase the share of gross revenue, (iv) limit the tax credit for dependents in order to increase tax revenue, (v) introduce a cement tax, (vi) introduce an export tax on peanuts, and (vii) introduce tax to be used by the budget for the purposes of economic development which replaces the CODETE (i.e. a parafiscal tax which was collected for the *Fonds de Soutien londs de* (FSE)).

14. Increasing the Customs Administration's contribution to the mobilization of fiscal revenue will be based on: (i) modernization of the Customs Administration (Annex 1); (ii) expansion of the tax base through stricter control of informal sector imports; (iii) reconfiguration and improved tracking of the clearance of revenue-generating products; and (iv) redoubled efforts to combat the unfair competition that enterprises face.

15. The rationalization of tax expenditures will continue. The government adopted an action plan based on the 2013 report on tax expenditures and the conclusions of the related working group. The aim of this action plan is to reduce tax expenditures.

16. The rationalization of public consumption expenditure will continue. To that end, the government will ensure strict control of wage bill increases by revamping recruitment practices in the civil service. The majority of positions in the civil service are administrative, whereas in order to promote the development described in the PSE, priority should be given to technical positions. Consequently, in replacing retiring employees, the number of administrative hires will be reduced in favor of technical hires. The government also intends to gradually integrate currently active contractuals into the civil service and will avoid hiring new contractuals. In addition, the government will limit subsidies in the 2017 budget to CFAF 45 billion, to be granted solely for the purpose of supporting agricultural sector development. As a result, companies such as SENELEC (national electric company), SAR (oil refinery), and SUNEOR (groundnuts processing company) will not receive subsidies in the 2017 budget.

17. The emphasis on social expenditure and quality investment will continue. Social and investment expenditure will continue growing, to 979.23 billion and 1225.2 billion, respectively, in 2017, compared to 918.63 billion and 1045 billion in 2016. With a view to improving expenditure quality, the government is far along in the process of preparing a databank of carefully researched projects ready for prompt implementation. The government also intends to take advantage of technological advances to improve the process of planning, programming, budgeting, monitoring/assessing, and supervising projects. To that end, the public project management system will be automated in order to accelerate project execution, boost efficiency, and enhance the transparency of public investment. With the help of technical and financial partners, the government will also explore the possibility of adopting e-procurement to expedite the public procurement process.

B. Strengthen Public Financial Management

18. The modernization of the Treasury will continue. More specifically, the payment systems and the process of digital transformation and automation of Treasury administration procedures will be modernized in accordance with the 2016-2018 performance contract and the Strategic Development Plan (Annex 2).

19. Implementation of the single Treasury account (STA) will be completed. The STA will be finalized in December 2017 and the criteria for assessing accounts pending "repatriation" will be defined. Thus, all accounts held by the government and its various organs (agencies, high authorities, public enterprises) in commercial banks will be inventoried by end-June 2017 and the balances transferred to the Treasury no later than end-December 2017.

20. The transition from a cash administration system to the cash management system initiated in 2015 allowed for identification of the sources of dispersion of current cash flows: (i) budgetary transactions initiated in previous fiscal years (deposit account credit balances), (ii) budgetary or cash transactions in the current fiscal year that negatively affect free cash flow potential (difference between revenue balancing operations and expenditure and clearing balancing operations net of the payment of postal finance checks). The position of prior deposit account credit balances was calculated at December 31, 2015 as CFAF 311.5 billion, excluding checks outstanding on that date in the amount of CFAF 74.9 billion. Estimates of revenue balancing operations, net of expenditure balancing operations, which do not constitute cash flow, amounted at end-June 2016 to CFAF 36 billion. Moreover, since the start of 2016, the public Treasury cleared CCP (postal) checks totaling CFAF 86.240 billion, compared to CFAF 63.183 billion in payments received, for a current cash outflow of CFAF 23.057 billion that year.

21. The handling of the cash flow issue becomes crucial in order for the Treasury to deal more effectively with treasury float. In this context, all operations that negatively affect the Treasury will need to be studied in order to estimate better the government's financing needs. In particular, the issues include: (i) the balances of the *comptes de depots* from previous fiscal years, (ii) the timing expenditures and reimbursements of the foreign operations of the military, police and *gendarmerie*, (iii) illiquidity of revenues, and (iv) financial operations related to the *Poste*. To mitigate the current problems of the Treasury, an audit should be conducted no later than March 2017 (structural benchmark) to thoroughly assess the situation and develop a plan for covering

the gap, as well as formulate strong recommendations for the future, including for overcoming the structural problems linked to postal financing.

22. To improve fiscal transparency, necessary steps will be taken by the Directorate General of Finance (DGF), in cooperation with the Directorate of Public Accounting and the Treasury, to put in place an application dedicated to monitoring the budgetary execution of titles 4 (current transfers) and 6 (capital transfer), which account for more than 60 percent of internally financed operating and investment expenses. Moreover, with regard to observance of the one-year budget rule, the amounts of transfers drawn on the deposit accounts of unincorporated government agencies and Funds and not used by the end of the fiscal year will be returned to the government budget by recognizing the deposit account credit balance as fiscal revenue. However, certain capital transfers held in the above-mentioned deposit accounts and representing a counterpart of an investment project could be studied on a case-by-case basis, given their economic significance and/or the commitment of the government to technical and financial partners, by a committee made up of representatives of the DGF and the DGCPT during the complementary period. As for external financing, appropriate steps will be taken to ensure that its use is monitored in SIGFIP (expenditure tracking system).

23. Comfort letters. With the government having regained the financial capacity to honor its commitments, banks are no longer apprehensive about the observance of payment deadlines for services and work performed by economic agents in a contractual context. Consequently, the government will limit the comfort letters sent to financial institutions to commitments regarding the irrevocable domiciliation of payments in favor of the agricultural sector (subsidization of agricultural inputs and equipment) and the defense and national security sector, as well as incorporated government agencies.

C. Strengthen Public Debt Management

24. The government is committed to pursuing a reasonable debt policy. For several years now Senegal has enjoyed a good reputation for macroeconomic management, particularly as concerns debt. This has resulted in good ratings from rating agencies and better access to regional and international financial markets. To protect this reputation and continue benefiting from the resources needed for development, the government intends to implement a reasonable debt policy. To that end, the unit responsible for public debt will be strengthened with a view to obtaining loans at the best possible costs for the national economy. The composition and mandates of the National Debt Committee will be reviewed to enable it to play an effective advisory role in selecting loans and monitoring the level of debt. The finalization of the draft decree on the establishment, function and organization of the National Public Debt Committee will be done by end-December 2016. Financing will be sought and guaranteed solely by the Ministry of Economy, Finance, and Planning, based on the recommendations of the National Debt Committee. In this context, the government will give preference to concessional and semi-concessional loans from traditional donors, such as the AfDB and the WB, and will ensure that the average interest rate of new external loans does not exceed 4 percent.

D. Promote the Private Sector

Local private sector

25. The government plans to revitalize the framework for concerted action with the private sector, in particular through the Presidential Investment Council, which is expected to serve as an effective framework for ongoing dialogue between the government and the private sector. Measures continue to be implemented to improve the business environment (Annex 4). In particular, the government recognizes the preponderant role of small and medium-sized enterprises in job creation, economic growth, and poverty reduction. Accordingly, the government will forward the law on the development of SMEs to Parliament as quickly as possible, while ensuring that the relevant tax legislation is based solely the General Tax Code. The government is also committed to (i) exploring the option of creating a one-stop shop (*Maison de l'entrepreneur*) which would require streamlining as well as better coordinating the various agencies supporting SMEs; and (ii) conducting a study on the tax treatment of SMEs with a view to encouraging and facilitating their entry into the formal sector.

26. Economic Zones. In this context, an economic zone to facilitate the development of SMEs and attract more FDI is being established in partnership with the Mauritian government and private sector, the U.S. Corporate Council for Africa, The French Board of Investors in Africa, and the China Africa Development Fund. The business climate in this zone will be on a par with that of the top 10 countries in the World Bank's Doing Business rankings and will be managed by a board of directors, the members of which include the above-mentioned partners. The tax system applied to the zone will be simple, with reasonable rates and few exemptions. This zone is expected to be operational by the end of the year.

27. The government plans to increase support for entrepreneurship with the help of BNDE, FONGIP, and FONSIS. In three years of existence, **FONSIS** (Sovereign Strategic Investment Fund) secured CFAF 84.2 billion for the financing of productive projects. This support was made possible through innovative financial arrangements. **FONGIP** (Priority Investment Guarantee Fund) invested CFAF 17 billion to guarantee financing for SMEs and individuals to support production, particularly in the agriculture and agroindustry, livestock, fishing, and handicrafts sectors. Since its inception, the **BNDE** (National Economic Development Bank) has mobilized CFAF 71 billion in financial assistance for SMEs. These funds essentially benefited 492 SMEs. The government will conduct an initial assessment of the economic and social impact, with a view to making needed adjustments and ensuring the financial viability of these institutions. At this stage, the objective is to develop synergies, complementarities, and convergence bands to ensure effective fulfillment of the responsibilities assigned those entities.

28. The government will continue its efforts to restructure public enterprises in difficulty. In the groundnuts sector, for example, it plans to finalize the process of privatizing the groundnuts marketing and processing company SONACOS SA (formerly SUNEOR) by 2018.

Energy

29. The government will continue reforming the electricity sector. Development of the electricity sector is accelerating, with particular emphasis on the diversification of sources in order to reduce production costs and, eventually, rates charged to households and firms. In this context, a major effort is being made to develop solar energy (Annex 3).

30. The government reaffirms its determination to continue the reform of SENELEC. Two major studies on revising the legislative, regulatory, and institutional framework of the energy sector and the task of completing the accounting segregation and separation of SENELEC activities, financed by PASE (Electricity Sector Support Project), are under way. The SENELEC Strategic Plan for the period 2016-2020, currently pending approval, is founded on the following strategic pillars; (i) reform of human resources management to motivate and guarantee the security of personnel; upgrade industrial infrastructures to comply with relevant standards; (ii) modernization through development and innovation; (iii) restoration of financial profitability; (iv) optimal development of supply and control of demand; diversification of activities and deployment abroad. The study on the harmonization of the electricity rates of rural concession holders and SENELEC has begun. The reorganization of ASER (Senegalese Agency for Rural Electrification) is awaiting approval by its Board.

Financial Sector

31. The credit information offices (BIC) opened on February 1, 2016. The difficulties involved in obtaining access to records threaten to limit the hoped-for impact of the BICs in this launch phase. Discussions will be held to find ways and means of overcoming these difficulties.

32. To extend to the private sector the capability of paying wages in excess of CFAF 100,000 by direct deposit to bank accounts or by any other means of electronic payment, the following actions are planned: (i) referral to the BCEAO of an application for amendment by the WAMU Council of Ministers of Law 2004-15 of June 4, 2004, which incorporated the directive on measures to promote the expansion of banking services and the use of non-cash means of payment; (ii) submission of the amended draft law for approval upon receipt of the Council of Ministers' response; and (iii) continuation of dialogue with banks and SFDs (decentralized financial systems) in the context of monitoring implementation of the law.

33. The government is aware that the improvement and viability of the economic activities of the various populations, especially the low-income segment, require access to a range of basic financial services. Consequently, the government has agreed, with support from the World Bank, to adopt a national financial inclusion strategy. To that end, it conducted a household financial capability survey to obtain basic data for the diagnostic phase. The work continues, including in particular finalization of the diagnostic assessment and the definition of the governance framework and guidance of the strategy. The document on the national financial inclusion strategy is expected to be made available in the final quarter of 2017.

New program monitoring indicators

34. Assessment criteria for end-June 2017 and indicative targets for end-March and end-June 2017 are proposed (Table 1 of the MEFP). The government and IMF staff also agreed on the measures and structural benchmarks shown in Table 2 of the MEFP. Reviews will occur at six-month intervals. The fourth review is scheduled to be completed by end-June 2017, the fifth review by end-December 2017, and the sixth review by the end of the term of the PSI.

Table 1. Senegal: Assessment Criteria and Indicative Targets, 2015–17

	2015								2016									2017			
	Sep.				Dec.				Mar.			Jun.				Sep.	Dec.	Mar.	Jun.	Sep.	Dec.
	IT				AC				Indicative Target (IT)			AC				IT	AC	IT	AC	IT	AC
	Prog.	Adj.	Act.	Status	Prog.	Adj.	Act.	Status	Prog.	Act.	Status	Prog.	Adj.	Act.	Status	Prog.	Prog.	Prog.	Prog.	Proj.	Proj.
	(CFAF billions, unless otherwise specified)																				
Assessment criteria[1]																					
Floor on net lending/borrowing[2]	-255	-264	-271	not met	-389	-398	-387	met	-52	-99	not met	-202	-195	-145	met	-276	-372	-49	-189	-259	-349
Ceiling on spending undertaken outside normal and simplified procedures[3]	0	...	0	met	0	...	0	met	0	0	met	0	...	0	met	0	0	0	0	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	0	0	0	0
Ceiling on the amount of the budgetary float	50	...	65	not met	50	...	45	met	50	50	met	50	...	46	met	50	50	50	50	50	50
Indicative targets																					
Quarterly ceiling on the share of the value of public sector contracts signed by single tender (percent)	15	...	22	not met	15	...	31	not met	15	63	not met	15	...	5	met	15	15	15	15	15	15
Floor on social expenditures (percent of total spending)	35	...	40	met	35	...	40	met	35	35	met	35	...	37	met	35	35	35	35	35	35
Floor on tax revenue	1,181	...	1,146	not met	1,583	...	1,597	met	398	393	not met	901	...	899	not met	1,312	1,779	445	1,006	1,464	1,986
Maximum upward adjustment of the overall deficit ceiling owing to																					
Shortfall in program grants relative to program projections	15	...	9	...	15	...	9	...	15	0	...	15	...	0	...	15	15	15	15	15	15
Memorandum items:																					
Program grants	28	...	19	...	40	...	31	...	3	17	...	13	...	20	...	24	35	3	13	24	35

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.

Table 2. Senegal: Structural Benchmarks 2015-17

Measures	Target date	Status	Observations
2015			
Sign performance contracts for eight agencies	December 2015	Not met	Implemented with delay
Eliminate cash tax payments above CFAF 100,000	June 2015	Met	
Institutionalize the precautionary management reserve	September 2015	Met	
Expand the precautionary reserve envelope for the 2016 budget	December 2015	Met	
Launch the connection between the DGD and the DGID to facilitate data exchanges with the NINEA unique ID	December 2015	Met	
Submit at least ten investment projects listed in the 2016 budget for cost–benefit analysis	October 2015	Met	
For the 2016 budget, announce the debt ratio sustainable over five years with a commitment in case thresholds are exceeded; corrective measures (over four years) would be taken in the budget that follows	December 2015	Not met	The measure was implemented in the 2017 budget law
Recover at least fifty percent of taxes left unpaid in 2014	December 2015	Not met	47 percent has been recovered; the remaining 3 percent was recovered by the end of April 2016
Implement the agency reform plan by limiting allocated budget resources solely to the payment of wages for the 16 agencies whose dissolution is pending	December 2015	Not met	Five agencies with no formal existence were eliminated
Finalize the government flow-of-funds table according to Government Finance Statistics Manual 2001/14	December 2015	Met	
2016			
Establish a platform (integrated projects bank) which describes the lifecycle of the projects	September 2016	Met	
Develop a management strategy for government and public enterprise investment portfolios	March 2016	Not met	Implemented with delay. The strategy was approved by the Minister of Finance in early November.
Extend the first-generation TSA to all bank accounts of the network of accounting agents of the agencies and public institutions	June 2016	Met	
For the next budget, announce the debt ratio sustainable over five years with the commitment that, in case thresholds are exceeded, corrective measures (over four years) would be taken in the budget that follows	October 2016	Met	
Create a structure (specialized office, division, etc.) responsible for recovering problem tax claims	September 2016	Not met	The authorities are considering whether this should be part of a broader restructuring to be implemented in early 2017
Adopt an action plan for reducing tax expenditures	September 2016	Not met	Implemented with delay. The action plan was approved by the Minister of Finance in late October.
Collection of at least 50% of the CFAF 89.15 billion in tax claims considered recoverable, by 2016	December 2016		
Finalization of the draft decree on the establishment, function, and organization of the National Public Debt Committee	December 2016		
2017			
Establish accrual basis accounting with the initiation of the government's opening balance	January 2017		
Introduce a medium-term budget framework	March 2017		
2016 financial audit identifying the Treasury cash flow gaps	March 2017		
Operationalize the DGD-DGID platform. Production of a report based on data cross-checks between the DGD and the DGID.	June 2017		

Attachment I. Annex 1—Modernization of the Customs Administration

The rollout of the new comprehensive version of GAINDE (computerized customs system) in November 2016 will represent a new level of technological development with the elimination of paper and the widespread adoption of electronic signatures. The receipt confirming payment in full will be introduced sometime around February 2017, in order to keep track of all payments made (exclusive of duties and taxes) at ports and airports. Finally, the customs escort system is being streamlined through a series of measures, including: (i) revision of the unloading regulations; (ii) consultation with the Autonomous Port of Dakar and port stakeholders following the prohibition of unloading in the port precinct and in unauthorized areas; (iii) obligation to unload only on authorized platforms; (iv) definition of a list of products that cannot be unloaded; (v) meeting with the customs authorities of the countries most concerned with transit, namely, Mali and the Gambia; and (vi) better organization of customs escorts. In addition, the implementation of an integrated transit management platform is planned with Mali to minimize customs revenue losses related to the fraudulent transfer of in bond goods.

Attachment I. Annex 2—Modernization of Payment Systems and the Process of Digital Transformation and Automation of Treasury Administration Procedures

1. Enormous investments have already been made in the information system. A unified communications system is also being put in place, including the ongoing development of a software program for computerized mail management, the interconnection of the Trésorerie Paierie pour l'Etranger (TPE – foreign payment office) with its stations abroad using the e-TPE software program currently being developed with the help of a service provider, and the installation of IP telephony. Regarding the quality approach, a process of ISO certification of revenue and public debt management procedures is under way at the General Revenue Office of the Treasury (RGT) and the Directorate of Public Debt (DDP). The first performance and satisfaction audits will be started by the end of the year, with the help of the service provider recently chosen to assist the DGCPT with this quality approach.

2. The Treasury acquired software for the computerized management of outgoing and incoming checks (CIC NG) and the real-time processing of transfers (Virtek), enabling it for the first time to participate directly in the central bank's SICA-STAR automated payment and clearing system. These applications, as well as check scanners and I.T. equipment, have already been distributed to all Treasury accounting offices in the Dakar and Thiès regions, which account for most of the financial operations in the DGCPT network. The DGID and the DGD, through Perception de Dakar-port, actively participated in the test phases, which led to approval of the system by the BCEAO.

3. **Interoperability with other systems in use at the department level is ongoing.** The checks of the Large Enterprises Center (CGE) and the Medium-Sized Enterprises Center (CME) as well as other collection units at the DGID are now processed directly by the RGT. For Customs, a committee including the CORUS (electronic payment of customs duties and similar levies) project and the Treasury I.T. Directorate was formed to integrate e-payment transactions, at this level, directly into the Treasury system. Eventually, all government e-payments will have to be made directly via the Treasury system to ensure the effectiveness of the Treasury single account system. With the DGF, tests of the transfer of the central payroll file directly through the Treasury system were conclusive, as were the test transactions carried out with partner banks.

4. **The interconnection with the payment systems** also figured in the modernization of the Treasury accounting system. The Aster software program was migrated to a web architecture with the elimination of the regional bases. The automation of procedures was expanded with the automatic generation of accounting entries at the time of receipt of revenue or the payment of expenditures, with interfacing between Aster and the payment system applications and the generation of return entries based on information related to the payment in SIGFIP.

Attachment I. Annex 3—The Electricity Sector

In 2016, the dual fuel oil-fired power plants of Taiba Ndiaye (87 MW) and Cap des Biches (50 MW) began supplying 137 MW of power, with an additional 50 MW of power imported from Mauritania. For the remainder of the year, it is expected that the Taiba Ndiaye and Cap des Biches extensions will be brought online, which will increase their total power to 105 MW and 85 MW, respectively. Similarly, the solar energy plants of Bokhole (20 MW) and Malicounda (20 MW) are expected to begin operating in October and November 2016. For 2017, the following startups are expected: (i) Méouane solar power plant (30 MW), (ii) Merina Dakhar power plant (20 MW), (iii) Sakal solar power plant (20 MW), (iv) Kahone solar power plant (20 MW), (v) Diass solar power plant (15 MW), and (vi) Sendou coal-fired power plant (125 MW), for a total power output of 230 MW, not counting energy imports from Mauritania. The Scaling Solar program will make a combined total of 100 MW available to three sites (Touba, Kahone, and Niakhar). The most recent version of the production plan is currently in process of approval, and the most significant option included in the plan is that the system will be further developed with gas-fired power plants.

Attachment I. Annex 4: Other Factors for Improvement of the Business Environment

1. The government plans to continue its efforts to build investor confidence. The priority of the roadmap of the 2016-2018 Program of Reforms of the Business Environment and Competitiveness (PREAC) for the first twelve (12) months will be to complete the structural reforms that Senegal has been slowly working on since 2004. These reforms pertain to property, tax collection and payment procedures, systematization and professionalization of the amicable settlement of commercial litigation, establishment of the commercial court, comprehensibility of fees for administrative and intermediary acts, regulation of the informal sector and labor legislation, in addition to upgrading to computerized investment and trade procedures. Sectoral projects and reforms aimed at controlling and lowering the costs of production factors and intermediation (logistics, irrigation, electricity, vocational training, financing, interconnection and connectivity with neighboring countries, investment platforms) will be undertaken and finalized by mid-2018 with a view to building and strengthening the competitiveness and position of the Senegalese Hub in the West African subregion. Finally, dedicated international reference zones will be set up, based on the models of Morocco, Mauritius, Singapore, and China, for the establishment of competitive areas in the form of economic zones, core growth regions, and agricultural centers (*agropoles*).

2. The National Land Reform Commission (CNRF), established by Decree 2012-1419 of December 6, 2012, prepared a draft land policy paper. The process of approving the paper is under way and will inaugurate a new phase, via the drafting of legislative and regulatory instruments, some of which, incorporating major innovations, would require testing to ensure strengthening and ownership prior to their implementation.

Attachment II. Technical Memorandum of Understanding

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

Program conditionality

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

Definitions, adjusters, and data reporting

A. The Government and Public Sector

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

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

B. Net lending/Borrowing (Program Definition)

Definition

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

Sample calculation

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

Adjustment

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

Reporting requirements

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

C. Social Expenditure

Definition

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

Reporting requirements

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

D. Budgetary Float

Definition

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

Reporting requirements

12. The authorities will transmit to Fund staff on a weekly basis (i.e., at the end of each week), and at the end of each month, a table from the expenditure tracking system (SIGFIP) showing all committed expenditure (*dépenses engages*), all certified expenditures that have not yet been cleared for payment (*dépenses liquidées non encore ordonnancées*), all payment orders (*dépenses ordonnancées*), all payment orders accepted by the Treasury (*dépenses prises en charge par le Trésor*), and all payments made by the Treasury (*dépenses payees*). The SIGFIP table will exclude delegations

for regions and embassies. The SIGFIP table will also list any payments that do not have a cash impact on the Treasury accounts.

E. Spending Undertaken Outside Simplified and Normal Procedures

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

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

F. Public Sector External Payments Arrears

Definition

15. External payment arrears are defined as the sum of payments owed and not paid when due (in accordance with the terms of the contract) on the external debt contracted or guaranteed by the public sector. The definition of external debt given in paragraph 19 is applicable here. The assessment criterion on external payments arrears will be monitored on a continuous basis.

Reporting requirements

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

Definition

17. 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.

18. 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).

19. 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. Public Sector Contracts Signed by Single Tender

Definitions

20. 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

21. 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.

H. Tax Revenues

Definition

22. 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.

23. 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

24. 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.

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

26. 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.

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

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

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

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

INTERNATIONAL MONETARY FUND

SENEGAL

November 15, 2016

STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION AND THIRD REVIEW UNDER THE POLICY SUPPORT INSTRUMENT—DEBT SUSTAINABILITY ANALYSIS

Approved By
Roger Nord and Peter Allum (IMF), and Paloma Anos-Casero (IDA)

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

Risk of external debt distress	Low
Augmented by significant risks stemming from domestic public and/or private external debt?	No

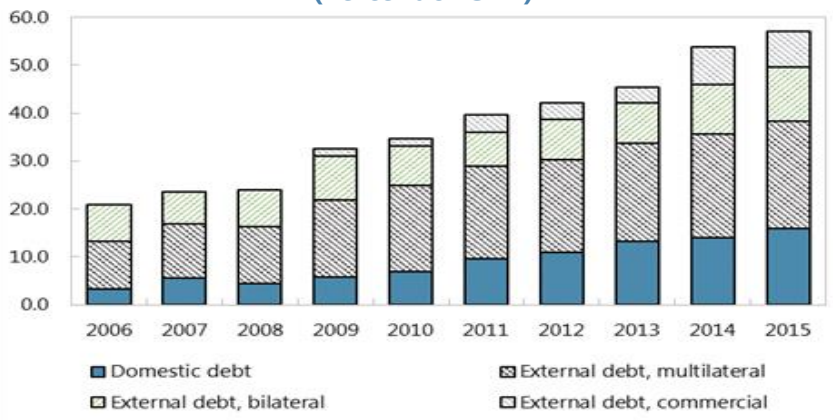
Senegal remains at low risk of debt distress, consistent with the Staff Report of January 2016 (EBS/16/03).[1] All debt burden indicators are below their respective thresholds, with only the debt service-to-revenue ratio showing two spikes that breach the threshold under stress scenarios due to Eurobond rollover. These breaches are small and temporary reflecting liquidity rather than solvency issues. However, public debt and debt service have been rising in recent years. The low risk of debt distress is predicated on adherence to the planned fiscal consolidation path, an acceleration of reforms under the Plan Sénégal Emergent (PSE), and limited non-concessional borrowing. The public DSA does not find significant weaknesses, but the persistent high debt service as a share of revenue calls for strengthening debt management and prudent borrowing strategies.

[1] Senegal's public debt statistics cover external and domestic debt issued by the central government (including debt guaranteed by the government). External debt is defined as debt borrowed or serviced in a currency other than the CFA franc, regardless of the residency of the creditor. The baseline DSA incorporates remittances, as they represent a significant share of GDP (12.1 percent over 2013-2015) and exports of goods (61 percent over 2013-2015). Senegal's policy performance is ranked "strong" by the CPIA with a score of 3.8.

BACKGROUND

1. Public debt ratios have been revised upwards in 2016, but they remain on a declining path over the medium term. Historical figures on the composition of the stock of external debt have not been revised with respect to the ones published in the last DSA update (EBS/16/03). For 2016, external public debt in Senegal is projected at 39.9 percent of GDP, compared to 39.3 percent projected in the previous DSA. The reasons for this difference are changes in nominal GDP and a small increase in external borrowing. Commercial debt stood at 20 percent of the stock of total external public debt in 2014 and declined to 17.8 percent in June 2016. Domestic debt is projected to increase from 15.8 percent of GDP (CFAF 1,280 billion) at end-2015 to 19.2 percent of GDP (CFAF 1,681 billion) at end-2016, reflecting the accumulation of additional domestic debt, related to Treasury operations (see also Staff Report). This projection of domestic debt for 2016 is significantly higher than 15.8 percent projected in the latest DSA. As a result, total public debt is projected to reach 59.1 percent of GDP (CFAF 5,152 billion), 4 percent of GDP more than what was estimated in the previous DSA (EBS/16/03). Moreover, debt service on total public debt reached 25.4 percent of revenue in 2016 and is projected to increase significantly to 36 percent of revenue in 2018.

Text Figure 1. Senegal: Public Debt, 2006-15
(Percent of GDP)



2. The authorities are committed to reduce debt ratios over the medium term, thanks to a continuous effort of fiscal consolidation, improvements in the current account and a strengthening of debt management policies—including more attention to the terms and volume of non-concessional financing. The authorities are increasingly financing government needs on the internal and regional markets. On the one hand, this strategy is welcome given that it mitigates exchange rate risks and the vulnerability to the volatility of external capital flows. In addition, Senegal has been able to lengthen the maturities and reduce borrowing costs on domestic debt. The average maturity on domestic debt increased from 22 months in 2011 to 57 months in 2015, thanks to issuances of 10-year bonds in 2013 and 2015. Interest rates on one-year Treasury Bills declined from 6.2 percent in 2011 to 4.9 in 2015, while rates on five-year T-Bonds moved from 9.1 to 5.9 percent between 2012 and 2015. On the other

hand, domestic borrowing is still more expensive than semi-concessional and concessional lending and some recent loans carry interest rates as high as 8.5 percent, undermining future debt sustainability. As a result, the authorities are committed to a debt management strategy that will rely predominantly on concessional and semi-concessional borrowing, 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 non-concessional financing from development partners, particularly the African Development Bank and the World Bank.

UNDERLYING ASSUMPTIONS AND BORROWING PLAN

3. The DSA is consistent with the macroeconomic framework outlined in the Staff Report and updates the previous DSA produced in EBS/16/03, for the first review of the three-year 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 PSE. This scenario is expected to deliver strong and sustained economic growth and a narrowing fiscal deficit over the medium term. As a result, medium-term projections are significantly better than historical averages—especially for real GDP growth and the primary balance—but aligned with recent outcomes in 2014-15, implying that the take-off is assumed to persist, conditional on reforms being implemented. The main assumptions are as follows:

- **Real GDP growth** is estimated at 6.6 percent in 2016 and will increase to 7.1 percent in 2021 to reflect the effects of infrastructure investment, export growth, and reforms under the PSE. Over the long run, real GDP growth is projected at 5.5 percent over the period 2022-36, slightly lower than in the previous DSA. This is in line with the 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 overall fiscal deficit is projected at 4.2 percent of GDP in 2016, 3.7 percent in 2017, and 3.0 percent in 2018. In the long run, the deficit is set at 3.0 percent of GDP, revised slightly upwards compared to the previous DSA to reflect the presence of investment needs to meet development challenges.

- **Current account deficit**. The current account deficit is projected to continue its recent downward trend in 2016, reaching 6.5 percent of GDP. Starting in 2017, the current account is projected to slightly worsen because of increasing FDI-related imports, but in the medium term higher FDI-related exports will drive an improvement in the external position. Over the long-term, the average current account deficit should stabilize at 6.7 percent of GDP, about one percentage point less than what was expected in the previous DSA, mostly because of more favorable terms of trade. Remittances remain a significant component of the current account—estimated at 11.8 of GDP in 2016—but are expected to decline as a percent of GDP over the medium term, reaching 9.2 percent of GDP in 2021.

Evolution of Selected Macroeconomic Indicators

	2013	2014	2015	2016	Long term [1/]
Real GDP growth					
Current DSA	3.6	4.3	6.5	6.6	5.5
Previous DSA	3.6	4.7	5.1	5.9	5.8
Overall fiscal deficit (percent of GDP)					
Current DSA	5.5	5.0	4.8	4.2	3.0
Previous DSA	5.5	4.9	4.7	4.2	2.6
Current account deficit (percent of GDP)					
Current DSA	10.4	8.9	7.4	6.5	6.7
Previous DSA	10.4	8.8	8.2	8.7	7.4

[1/] Defined as the last 15 years of the projection period. For the current DSA update, the long term covers the years 2022-2036.

- **Inflation**. Inflation has increased in 2016, consistent with changes in commodity prices. The GDP deflator is projected at 1.8 percent in 2016 and is expected to remain at that level until 2021, a small upward revision compared to the previous DSA.
- **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 increase in semi-concessional and non-concessional borrowing, including on commercial terms in the WAEMU market, the authorities are engaged in pursuing a borrowing strategy that prioritizes concessional and semi-concessional over non-concessional financing to reduce borrowing costs and extend maturities. Consistent with this strategy, the DSA projects a moderate substitution between concessional and commercial borrowing—with two exceptions in 2021 and 2024 to rollover the outstanding 10-year Eurobonds issued in 2011 and 2014 with semi-concessional borrowing. With respect to the previous DSA, there has been a small revision upwards in the assumption on commercial borrowing, to reflect the recent greater willingness to contract non-concessional borrowing and the fact that traditional multilateral and bilateral concessional financing are unlikely to fund substantial investment planned under the PSE. As a result, the decline in the grant element of new disbursements is steeper and more in line with a country growing to middle-income status (Figure 1, first panel). The average maturity of new debt is close to 17.2 years, with 4.2 years of grace period (down from 19 and 4.7, respectively). Finally, the average cost of new borrowing is assumed to be 4 percent, consistent with the commitment in the MEFP.

- **Domestic borrowing.** Domestic debt is assumed to account for 30 percent of total public debt, 7.5 percent of which has maturity below one year. New short-term domestic debt is assumed to be issued at an average interest rate of 5 percent, while medium- and long-term domestic debt is assumed to carry a real interest rate of 6 percent with average maturity of 4.7 years, consistent with the current structure of domestic debt.

- **Discount rate**. The discount rate for this DSA is set at 5 percent.

EXTERNAL DSA

4. External debt indicators are below the thresholds under the baseline scenario and even under most stress tests (Figure 1). Public and publicly guaranteed (PPG) external debt is projected at 39.9 percent of GDP in 2016 and is estimated to decline to 35.1 percent of GDP in 2021 and below 30 percent in the long term. The ratios of the Present Value (PV) of PPG external debt—projected at 32.9 percent of GDP in 2016—show a declining trend under the baseline scenario and are comfortably below the thresholds, which take remittances into account, even under the most extreme scenarios. However, the PV debt-to-GDP ratio in 2018, under the worst case stress test, gets closer to the threshold, indicating that the authorities should carefully monitor the terms of new borrowing. Debt service ratios show two spikes in corresponding bullet repayment of the 2011 and 2014 Eurobonds, which are due, respectively, in 2021 and 2024. The financing plan assumed in the DSA already incorporates higher than usual semi-concessional borrowing in those years to rollover the Eurobonds. These two spikes do not—breach the thresholds under the baseline scenario, but they do under the stress scenarios when considering the ratio of debt service over revenue, as already shown in the previous DSA. In particular, the breaches are temporary and in the long term the debt service-to-revenue ratio remains below the thresholds under all bound tests. Under the historical scenario, all debt ratios are increasing in the long run, persistently breaching the respective thresholds. However, under this scenario, real GDP growth, the current account and net FDI flows are set at their historical averages, which are very different from recent economic trends and the current economic projections.

5. Notwithstanding the breaches of debt ratios under the historical scenario and of the debt service-to-revenue ratio under bound scenarios, Senegal remains at a low risk of debt distress. While the DSA shows some increasing concerns regarding debt sustainability, there are several factors which suggest a low risk of debt distress. First, the breaches in the debt service-to-revenue thresholds are very small and temporary, as they are due exclusively to the bullet repayment of the Eurobonds. The rollover is assumed to be financed through semi-concessional borrowing and the re-financing plan does not point out any additional vulnerability, given that debt service ratios remain under the respective threshold in the long term. Second, relative to the previous DSA, this analysis assumes a more realistic borrowing plan—with a steeper decline in the grant element of new financing—and this assumption does not translate into an adverse debt dynamics or an additional breach of debt thresholds. Third, the temporary breaches are observed under a currency depreciation scenario which may overstate the risk of debt distress in Senegal where external debt is denominated mostly in euro (45 percent of external public debt in 2015)—the pegged currency—and only 28 percent in U.S. dollars. However, the depreciation of the CFA franc remains a factor to be carefully taken into account going forward for debt management purposes. In addition, the

breaches under the historical scenario should warn about the risks of deviating from the current path of structural reforms and economic transformation envisaged under the PSE. Nonetheless, assuming that authorities will continue their reform effort, the historical scenario cannot be taken as a good benchmark to assess debt sustainability. Senegal, in fact, is already experiencing a growth trajectory which is significantly different from the recent history—real GDP is projected to average over 6.5 percent in 2015-16, compared to the historical average of 3.9. Moreover, the current account substantially improved, declining from a deficit of 10.8 percent in 2012 to 6.5 percent in 2016, and FDI inflows are expected to increase in the coming years, thanks to reforms to improve the business climate and the implementation of the Special Economic Zone (SEZ) with strong governance rules. To sustain growth in the long term it will be important to strengthen reforms and good governance.[2]

PUBLIC DSA

6. Indicators of overall public debt and debt service do not point to significant vulnerabilities stemming from domestic debt. Under the baseline scenario, the PV of total public debt increases from 50 percent in 2015 to 52.1 percent in 2016, but then is projected to moderately decline to 45.3 percent of GDP in 2021 (Figure 2 and Table 3). Over time, the ratio is projected to further decrease, reaching 41.5 percent in 2036. Overall, these ratios are higher than the ones estimated in the previous DSA, reflecting higher initial public debt and differences in financing assumptions and in the macroeconomic framework (notably slightly higher fiscal deficit and lower growth). Under the most extreme scenario of a 30 percent depreciation of the currency in 2016, debt ratios increase more than under the other scenarios in the short term, but in the long term the evolution of total public debt is similar to what is projected under the baseline scenario. On the other hand, the public debt outlook deteriorated slightly—but is still well below the public debt benchmark of 74 percent of GDP for strong performers—in the absence of further fiscal consolidation. The debt outlook when keeping real GDP growth and the primary deficit constant at their historical levels highlights the importance of fiscal consolidation and structural reforms to support strong growth and preserve debt sustainability. Under the historical scenario, the PV of total public debt is on a growing path and in 2025 is projected to be above the benchmark of 74 percent of GDP. As noted in the external DSA section, in the case of Senegal, historical averages are very different from the current baseline scenario, and they may be too pessimistic, given Senegal's improved economic performance. Overall, risks to public debt sustainability remain low, but stress tests underline the importance of making continuous efforts to reduce the fiscal deficit, strengthen economic growth and strictly control the volumes and terms of non-concessional borrowing.

[2] For a more detailed discussion, see the Staff Report and the Selected Issues paper entitled "Enabling Private Sector-Led Growth."

7. The evolution of debt service is more volatile and debt service is above 30 percent of revenues in the medium term. The public DSA exposes vulnerabilities related to debt service which are not clearly visible in the external DSA. In 2016, debt service absorbs 25.4 percent of government revenues, but this ratio is projected to be above 35 percent in 2017 and 2018. In addition, there are two other spikes in the debt service-to-revenue ratio in 2021 (39.4 percent) and 2024 (34 percent) when the two Eurobonds are due. More generally, average debt service is projected to be above 30 percent of revenue over 2016-36 under the baseline scenario and at 40 percent under the most extreme shock scenario. As in the external DSA, this illustrates the importance of implementing the planned fiscal consolidation. In addition, the authorities should continue the work done so far to extend the average maturities on domestic debt.

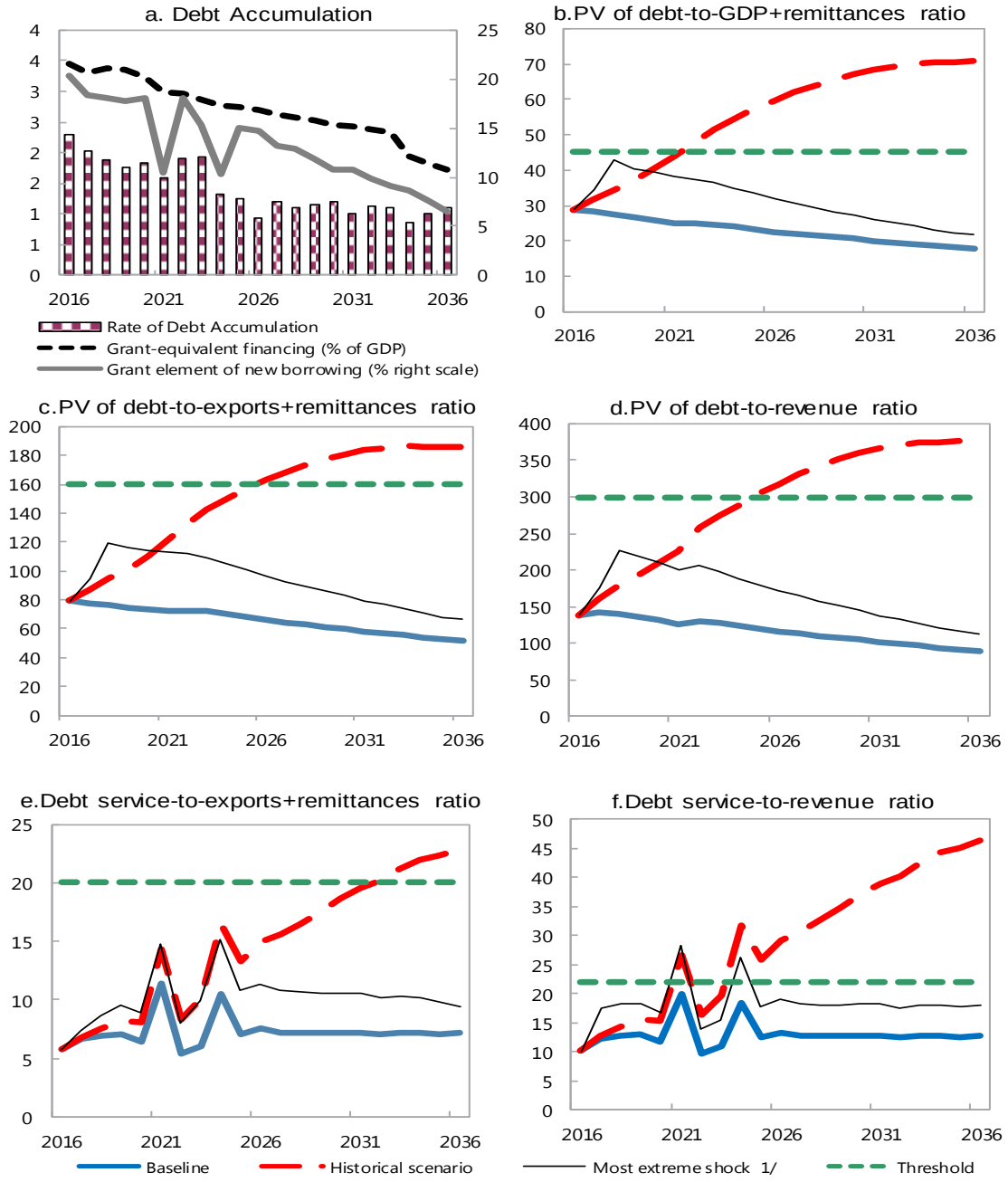
CONCLUSION

8. According to staff's assessment, Senegal continues to face a low risk of debt distress. The minor and temporary breaches of the debt service-to-revenue thresholds signal a liquidity, rather than a solvency, problem, and overall debt dynamics do not raise concerns under both the baseline and stress scenarios. However, the bound tests conducted under the external and public debt sustainability analysis—and especially the evolution of debt ratios under the historical scenario—indicate that debt sustainability hinges on continuing fiscal consolidation and on steadfastly implementing reforms to achieve high and sustained growth, as envisaged in the PSE.

9. Relative to the previous DSA, the current projections highlight that rising level of debt and debt service require a cautious approach to semi-concessional and commercial borrowing. Debt service on public debt is already high and is expected to increase in the near term, and a further deterioration of borrowing terms could put debt sustainability at risk. 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.

10. The authorities agree with the analysis in this DSA. The conclusions of the DSA were shared with the authorities who broadly concurred with the assessment and with maintaining a "low" debt risk rating. They agreed with staff that Senegal needs to reinforce its debt management capacity, especially in view of the country's gradual transition to market sources. They also expressed a strong commitment to limit non-concessional borrowing and postpone projects for which there is not adequate concessional or semi-concessional financing available.

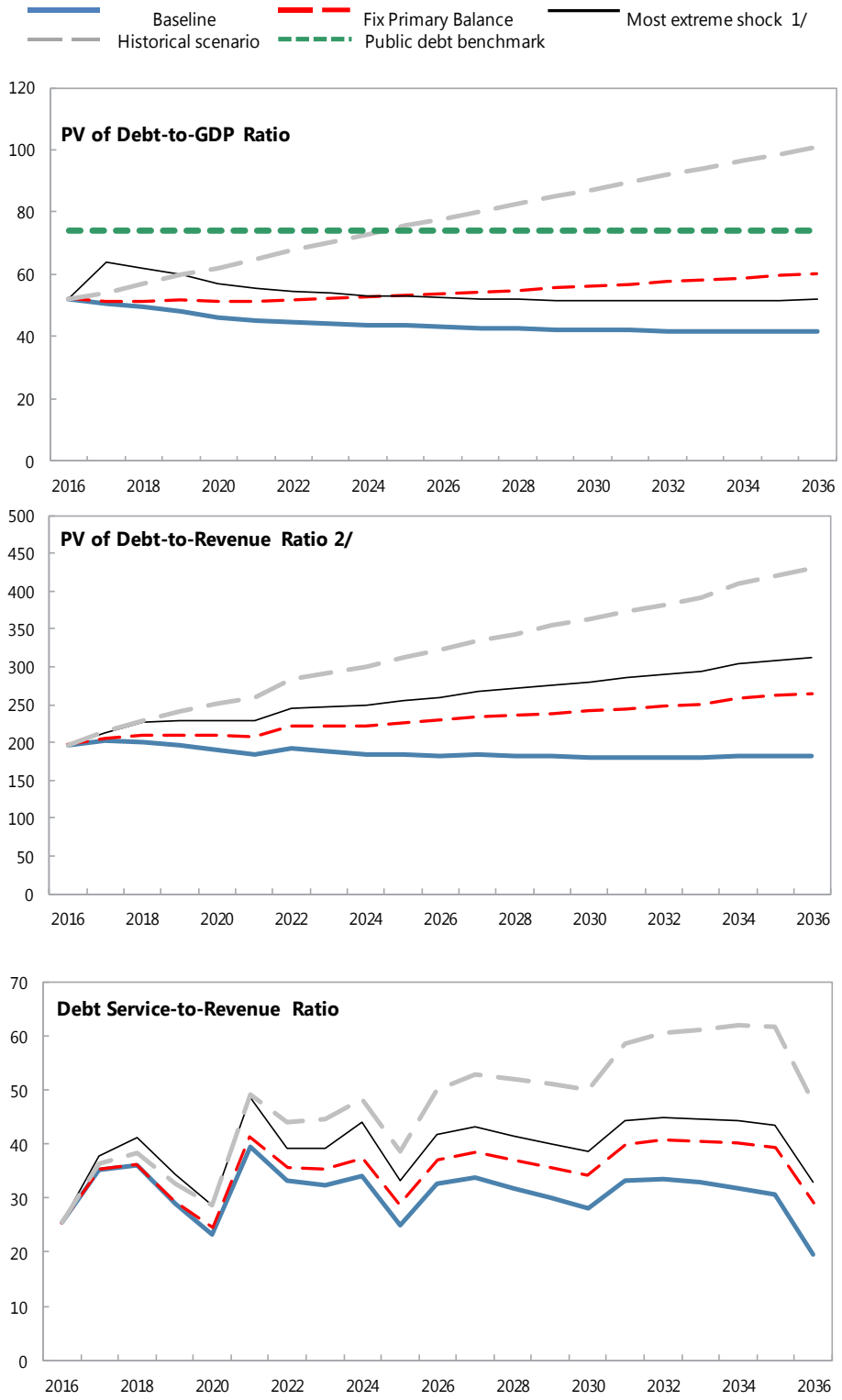
Figure 1. Senegal: Indicators of Public- and Publicly-Guaranteed External Debt Under Alternatives Scenarios, 2016-36[1]



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2026. In figure b. it corresponds to a Combination shock; in c. to a Exports shock; in d. to a Combination shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

Figure 2. Senegal: Indicators of Public Debt Under Alternative Scenario, 2016-36[1]



Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio on or before 2026.
2/ Revenues are defined inclusive of grants.

Table 1. Senegal: External Sustainability Framework, Baseline Scenario, 2013-36[1/]
(Percent of GDP, unless otherwise indicated)

	Actual			Historical[6/] Average	Standard[6/] Deviation	Projections									
	2013	2014	2015			2016	2017	2018	2019	2020	2021	2016-2021 Average	2026	2036	2022-2036 Average
External debt (nominal) 1/	**69.0**	**71.2**	**73.8**			**71.3**	**68.2**	**65.9**	**63.1**	**61.9**	**59.8**		**48.7**	**33.6**	
of which: public and publicly guaranteed (PPG)	32.6	40.3	41.1			39.9	38.7	37.5	36.5	35.8	35.1		30.4	22.6	
Change in external debt	7.9	2.2	2.5			-2.5	-3.2	-2.3	-2.8	-1.2	-2.2		-2.5	-0.8	
Identified net debt-creating flows	6.0	4.7	14.0			-0.4	0.0	-0.1	-0.1	-0.6	-1.2		0.0	1.2	
Non-interest current account deficit	**9.5**	**7.8**	**5.3**	**8.1**	**3.0**	**4.9**	**5.3**	**5.4**	**5.6**	**5.4**	**5.4**		**5.4**	**5.8**	5.5
Deficit in balance of goods and services	20.8	19.2	16.8			15.7	15.4	15.3	15.2	14.4	13.9		12.9	11.8	
Exports	28.3	28.3	29.1			27.7	27.7	27.5	27.6	27.7	27.4		27.9	30.1	
Imports	49.1	47.5	45.9			43.4	43.1	42.8	42.8	42.1	41.3		40.8	41.9	
Net current transfers (negative = inflow)	-12.5	-12.8	-12.9	-12.1	0.8	-12.4	-11.8	-11.5	-11.2	-10.5	-10.1		-8.8	-6.8	-8.2
of which: official	-0.6	-0.7	-0.6			-0.6	-0.4	-0.5	-0.7	-0.5	-0.5		-0.5	-0.7	
Other current account flows (negative = net inflow)	1.2	1.4	1.4			1.6	1.7	1.6	1.6	1.6	1.6		1.3	0.8	
Net FDI (negative = inflow)	**-1.9**	**-2.0**	**-2.3**	**-2.0**	**0.2**	**-2.4**	**-2.5**	**-2.7**	**-3.0**	**-3.5**	**-3.9**		**-3.9**	**-3.9**	-3.9
Endogenous debt dynamics 2/	**-1.6**	**-1.1**	**11.0**			**-2.9**	**-2.9**	**-2.8**	**-2.7**	**-2.6**	**-2.6**		**-1.4**	**-0.6**	
Contribution from nominal interest rate	0.9	1.2	2.2			1.6	1.6	1.6	1.5	1.5	1.4		1.2	1.0	
Contribution from real GDP growth	-2.1	-2.9	-5.2			-4.5	-4.5	-4.4	-4.2	-4.1	-4.0		-2.6	-1.7	
Contribution from price and exchange rate changes	-0.5	0.6	14.0			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**1.9**	**-2.5**	**-11.5**			**-2.1**	**-3.1**	**-2.2**	**-2.7**	**-0.5**	**-1.0**		**-2.6**	**-2.0**	
of which: exceptional financing	-0.1	1.6	0.7			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	66.8			64.3	61.5	59.4	56.4	55.1	52.7		43.1	30.1	
In percent of exports	...	...	229.4			232.5	221.6	215.6	204.6	198.5	192.3		154.2	99.8	
PV of PPG external debt	**...**	**...**	**34.1**			**32.9**	**32.0**	**31.0**	**29.8**	**28.9**	**28.0**		**24.8**	**19.1**	
In percent of exports	**...**	**...**	**117.2**			**119.0**	**115.5**	**112.5**	**108.0**	**104.4**	**102.2**		**88.8**	**63.4**	
In percent of government revenues	**...**	**...**	**153.7**			**138.9**	**143.1**	**140.9**	**136.2**	**132.4**	**126.4**		**116.7**	**89.8**	
Debt service-to-exports ratio (in percent)	**7.9**	**11.1**	**14.0**			**12.6**	**15.5**	**15.2**	**15.2**	**12.9**	**19.9**		**13.4**	**11.3**	
PPG debt service-to-exports ratio (in percent)	**6.5**	**8.0**	**9.5**			**8.7**	**10.0**	**10.2**	**10.2**	**9.2**	**16.1**		**10.1**	**8.9**	
PPG debt service-to-revenue ratio (in percent)	**9.2**	**10.6**	**12.5**			**10.1**	**12.3**	**12.8**	**12.9**	**11.7**	**19.9**		**13.3**	**12.6**	
Total gross financing need (Billions of U.S. dollars)	1.5	1.4	1.0			0.9	1.2	1.2	1.3	1.2	1.6		1.8	3.8	
Non-interest current account deficit that stabilizes debt ratio	1.6	5.6	2.8			7.3	8.4	7.7	8.4	6.6	7.5		7.9	6.6	
Key macroeconomic assumptions															
Real GDP growth (in percent)	3.6	4.3	6.5	3.9	1.4	6.6	6.8	7.0	7.1	7.1	7.1	6.9	5.5	5.2	5.5
GDP deflator in US dollar terms (change in percent)	0.8	-0.9	-16.5	1.2	9.9	2.1	1.9	2.2	2.4	2.6	1.8	2.1	2.0	2.4	2.2
Effective interest rate (percent) 5/	1.6	1.7	2.7	1.9	0.5	2.4	2.4	2.5	2.6	2.6	2.5	2.5	2.6	3.2	2.8
Growth of exports of G&S (US dollar terms, in percent)	6.0	3.2	-8.3	5.9	11.2	3.3	9.1	8.5	9.8	10.4	7.7	8.1	8.4	8.6	8.5
Growth of imports of G&S (US dollar terms, in percent)	5.0	-0.1	-13.9	6.9	18.7	2.8	8.1	8.6	9.6	8.0	7.0	7.3	7.8	8.1	7.9
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	20.4	18.3	18.0	17.8	18.1	10.5	17.2	14.8	6.4	11.6
Government revenues (excluding grants, in percent of GDP)	20.1	21.4	22.2			23.7	22.4	22.0	21.9	21.9	22.1		21.3	21.3	21.2
Aid flows (in Billions of US dollars) 7/	0.8	0.7	0.9			0.5	0.5	0.5	0.6	0.6	0.6		0.8	1.2	
of which: Grants	0.4	0.5	0.4			0.4	0.4	0.5	0.5	0.6	0.6		0.8	1.1	
of which: Concessional loans	0.4	0.2	0.5			0.1	0.1	0.1	0.1	0.1	0.1		0.1	0.1	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			3.4	3.3	3.4	3.3	3.2	3.0		2.7	1.7	2.5
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			55.1	52.2	53.2	53.3	53.6	40.1		52.2	38.2	47.5
Memorandum items:															
Nominal GDP (Billions of US dollars)	14.9	15.4	13.7			14.9	16.2	17.7	19.4	21.3	23.2		34.0	71.6	
Nominal dollar GDP growth	4.4	3.4	-11.0			8.8	8.8	9.3	9.6	9.8	9.1	9.2	7.7	7.7	7.8
PV of PPG external debt (in Billions of US dollars)			4.6			4.9	5.2	5.5	5.8	6.2	6.5		8.4	13.7	
(PVt-PVt-1)/GDPt-1 (in percent)						2.3	2.0	1.9	1.8	1.8	1.6	1.9	0.9	1.1	1.2
Gross workers' remittances (Billions of US dollars)	2.1	2.2	2.0			2.1	2.2	2.3	2.4	2.5	2.6		3.3	5.1	
PV of PPG external debt (in percent of GDP + remittances)	...	...	29.8			28.9	28.3	27.4	26.5	25.9	25.2		22.6	17.8	
PV of PPG external debt (in percent of exports + remittances)	...	...	78.2			79.1	77.9	76.7	74.6	73.4	72.5		65.9	51.2	
Debt service of PPG external debt (in percent of exports + remittance	...	...	6.3			5.8	6.7	7.0	7.1	6.5	11.4		7.5	7.2	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

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

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

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

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

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

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

Table 2. Senegal: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2016-36
(Percent)

	Projections							
	2016	2017	2018	2019	2020	2021	**2026**	2036
PV of debt-to GDP ratio								
Baseline	33	32	31	30	29	28	**25**	19
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	33	36	39	42	46	50	**68**	80
A2. New public sector loans on less favorable terms in 2016-2036 2	33	33	33	32	32	32	**31**	30
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	33	33	34	33	31	30	**27**	21
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	33	35	40	39	37	36	**30**	20
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	33	36	39	37	36	35	**31**	24
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	33	33	33	32	31	30	**26**	19
B5. Combination of B1-B4 using one-half standard deviation shocks	33	39	50	48	46	44	**36**	24
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	33	45	44	42	41	40	**35**	27
PV of debt-to-exports ratio								
Baseline	119	116	113	108	104	102	**89**	63
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	119	130	142	153	166	182	**242**	265
A2. New public sector loans on less favorable terms in 2016-2036 2	119	118	118	117	115	116	**112**	100
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	119	116	113	109	104	102	**89**	63
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	119	147	193	186	178	174	**141**	87
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	119	116	113	109	104	102	**89**	63
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	119	120	120	116	111	109	**93**	64
B5. Combination of B1-B4 using one-half standard deviation shocks	119	141	176	169	162	158	**127**	78
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	119	116	113	109	104	102	**89**	63
PV of debt-to-revenue ratio								
Baseline	139	143	141	136	132	126	**117**	90
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	139	161	178	193	210	226	**318**	376
A2. New public sector loans on less favorable terms in 2016-2036 2	139	147	148	147	146	143	**148**	141
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	139	149	154	149	144	138	**127**	98
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	139	158	184	178	171	163	**140**	94
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	139	160	177	171	166	158	**146**	112
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	139	148	151	146	141	135	**122**	91
B5. Combination of B1-B4 using one-half standard deviation shocks	139	175	226	219	211	201	**172**	113
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	139	203	200	194	188	179	**165**	127

Table 2. Senegal: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2016-36 (concluded)
(Percent)

Debt service-to-exports ratio								
Baseline	9	10	10	10	9	16	**10**	9
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	9	10	11	12	12	21	**22**	33
A2. New public sector loans on less favorable terms in 2016-2036 2	9	10	10	10	9	16	**10**	13
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	9	10	10	10	9	16	**10**	9
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	9	11	14	15	14	23	**17**	12
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	9	10	10	10	9	16	**10**	9
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	9	10	10	11	10	16	**11**	9
B5. Combination of B1-B4 using one-half standard deviation shocks	9	11	13	14	12	21	**15**	11
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	9	10	10	10	9	16	**10**	9
Debt service-to-revenue ratio								
Baseline	10	12	13	13	12	20	**13**	13
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	10	13	14	16	15	27	**29**	46
A2. New public sector loans on less favorable terms in 2016-2036 2	10	12	12	13	11	19	**14**	18
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	10	13	14	14	13	22	**15**	14
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	10	12	13	15	13	21	**16**	13
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	10	14	16	16	15	25	**17**	16
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	10	12	13	13	12	20	**14**	13
B5. Combination of B1-B4 using one-half standard deviation shocks	10	14	16	18	16	26	**20**	16
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	10	18	18	18	17	28	**19**	18
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	8	8	8	8	8	8	**8**	8

Sources: Country authorities; and staff estimates and projections.

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

2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline. assuming

an offsetting adjustment in import levels).

4/ Includes official and private transfers and FDI.

5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.

6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Table 3. Senegal: Public Sector Debt Sustainability Framework, Baseline Scenario, 2013-36
(Percent of GDP, unless otherwise indicated)

	Actual					Estimate					Projections				
	2013	2014	2015	Average 5/	Standard Deviation 5/	2016	2017	2018	2019	2020	2021	2016-21 Average	2026	2036	2022-36 Average
Public sector debt 1/	46.9	54.4	56.9			59.1	57.2	55.9	54.8	53.3	52.4		48.6	45.1	
of which: foreign-currency denominated	32.6	40.3	41.1			39.9	38.7	37.5	36.5	35.8	35.1		30.4	22.6	
Change in public sector debt	4.1	7.4	2.6			2.2	-1.9	-1.3	-1.1	-1.6	-0.8		-0.7	-0.1	
Identified debt-creating flows	3.8	7.1	6.6			-1.0	-1.2	-1.9	-1.8	-1.6	-1.4		-0.6	-0.2	
Primary deficit	4.0	3.3	2.8	3.7	0.5	2.3	1.5	0.7	0.7	0.8	0.9	1.1	1.0	1.0	1.0
Revenue and grants	22.6	24.8	25.1			26.4	25.0	24.7	24.6	24.5	24.6		23.5	22.8	
of which: grants	2.6	3.3	2.9			2.7	2.6	2.7	2.7	2.6	2.5		2.3	1.5	
Primary (noninterest) expenditure	26.6	28.0	27.9			28.7	26.5	25.5	25.3	25.2	25.5		24.5	23.8	
Automatic debt dynamics	-0.2	3.8	3.7			-3.3	-2.7	-2.6	-2.6	-2.3	-2.3		-1.6	-1.3	
Contribution from interest rate/growth differential	1.1	0.2	-1.5			-2.4	-2.6	-2.5	-2.3	-2.2	-2.3		-1.6	-1.3	
of which: contribution from average real interest rate	2.6	2.1	1.8			1.1	1.2	1.3	1.4	1.4	1.2		1.0	1.0	
of which: contribution from real GDP growth	-1.5	-2.0	-3.3			-3.5	-3.8	-3.7	-3.7	-3.6	-3.5		-2.6	-2.2	
Contribution from real exchange rate depreciation	-1.3	3.6	5.2			-0.8	-0.1	-0.2	-0.3	-0.1	0.0		...	...	
Other identified debt-creating flows	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	0.4	0.3	-4.0			3.2	-0.7	0.6	0.7	0.0	0.6		-0.1	0.1	
Other Sustainability Indicators															
PV of public sector debt	...	...	50.0			52.1	50.5	49.4	48.2	46.4	45.3		43.0	41.5	
of which: foreign-currency denominated	...	...	34.1			32.9	32.0	31.0	29.8	28.9	28.0		24.8	19.1	
of which: external	...	...	34.1			32.9	32.0	31.0	29.8	28.9	28.0		24.8	19.1	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	12.3	11.7	12.0			13.0	12.8	11.1	8.7	7.2	11.3		9.2	5.7	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	199.2			197.1	201.9	199.8	195.9	189.5	184.2		182.8	182.1	
PV of public sector debt-to-revenue ratio (in percent)	...	...	225.0			219.8	225.6	224.7	220.1	212.2	204.8		202.3	195.2	
of which: external 3/	...	...	153.7			138.9	143.1	140.9	136.2	132.4	126.4		116.7	89.8	
Debt service-to-revenue and grants ratio (in percent) 4/	17.4	20.6	27.1			25.4	35.3	36.0	28.8	23.2	39.4		32.7	19.6	
Debt service-to-revenue ratio (in percent) 4/	19.6	23.8	30.6			28.3	39.4	40.5	32.4	26.0	43.8		36.2	21.1	
Primary deficit that stabilizes the debt-to-GDP ratio	-0.1	-4.1	0.3			0.0	3.4	2.0	1.9	2.3	1.7		1.7	1.1	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	3.6	4.3	6.5	3.9	1.4	6.6	6.8	7.0	7.1	7.1	7.1	6.9	5.5	5.2	5.5
Average nominal interest rate on forex debt (in percent)	2.5	2.5	3.7	2.6	0.6	2.9	3.0	3.1	3.2	3.3	3.2	3.1	3.1	3.8	3.3
Average real interest rate on domestic debt (in percent)	9.2	7.5	3.1	4.0	4.0	4.3	4.1	4.9	5.2	5.2	4.8	4.8	4.3	3.2	4.1
Real exchange rate depreciation (in percent, + indicates depreciation	-4.3	11.1	13.4	1.2	8.8	-2.1	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	-2.5	-1.0	0.0	1.9	3.1	1.8	1.8	1.9	1.7	1.8	1.8	1.8	2.0	2.4	2.2
Growth of real primary spending (deflated by GDP deflator, in percer	1.9	10.1	5.9	1.8	3.4	9.6	-1.3	2.7	6.6	6.6	8.2	5.4	5.5	5.7	5.0
Grant element of new external borrowing (in percent)	...	...	...	...	...	20.4	18.3	18.0	17.8	18.1	10.5	17.2	14.8	6.4	...

Sources: Country authorities; and staff estimates and projections.

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

2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

3/ Revenues excluding grants.

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

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

Table 4. Senegal: Sensitivity Analysis for Key Indicators of Public Debt, 2016-36

	Projections							
	2016	2017	2018	2019	2020	2021	2026	2036
PV of Debt-to-GDP Ratio								
Baseline	52	51	49	48	46	45	43	42
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	52	54	57	60	62	65	78	101
A2. Primary balance is unchanged from 2016	52	51	51	52	51	51	54	60
A3. Permanently lower GDP growth 1/	52	51	50	49	47	47	47	54
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2017-20	52	54	56	57	56	57	62	72
B2. Primary balance is at historical average minus one standard deviations in 2017-201	52	53	55	54	52	50	47	45
B3. Combination of B1-B2 using one half standard deviation shocks	52	55	58	58	57	58	61	68
B4. One-time 30 percent real depreciation in 2017	52	64	62	60	57	55	52	52
B5. 10 percent of GDP increase in other debt-creating flows in 2017	52	60	58	57	55	53	50	46
PV of Debt-to-Revenue Ratio 2/								
Baseline	197	202	200	196	189	184	183	182
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	197	215	229	241	250	259	323	429
A2. Primary balance is unchanged from 2016	197	205	208	210	209	208	229	265
A3. Permanently lower GDP growth 1/	197	203	202	199	194	190	200	237
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2017-20	197	213	226	229	229	229	260	313
B2. Primary balance is at historical average minus one standard deviations in 2017-201	197	212	223	218	211	205	201	196
B3. Combination of B1-B2 using one half standard deviation shocks	197	217	233	235	233	232	257	298
B4. One-time 30 percent real depreciation in 2017	197	256	251	243	234	225	223	228
B5. 10 percent of GDP increase in other debt-creating flows in 2017	197	239	236	231	223	216	211	204
Debt Service-to-Revenue Ratio 2/								
Baseline	25	35	36	29	23	39	33	20
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	25	36	38	33	29	49	50	48
A2. Primary balance is unchanged from 2016	25	35	36	29	24	41	37	29
A3. Permanently lower GDP growth 1/	25	35	36	29	24	40	35	25
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2017-20	25	37	39	32	27	45	41	34
B2. Primary balance is at historical average minus one standard deviations in 2017-201	25	35	37	31	26	42	35	22
B3. Combination of B1-B2 using one half standard deviation shocks	25	36	39	32	27	45	41	33
B4. One-time 30 percent real depreciation in 2017	25	38	41	34	29	49	42	33
B5. 10 percent of GDP increase in other debt-creating flows in 2017	25	35	38	33	27	44	36	22

Sources: Country authorities; and staff estimates and projections.
1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.
2/ Revenues are defined inclusive of grants.

INTERNATIONAL MONETARY FUND

SENEGAL

November 15, 2016

STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION AND THIRD REVIEW UNDER THE POLICY SUPPORT INSTRUMENT—INFORMATIONAL ANNEX

Prepared By The Staff of the International Monetary Fund in consultation with the World Bank

CONTENTS

RELATIONS WITH THE FUND

(As of September 30, 2016)

Membership Status: Joined: August 31, 1962;		Article VIII
General Resources Account:	**SDR Million**	**%Quota**
Quota	323.60	100.00
Fund holdings of currency (Exchange 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	53.70	34.69
Outstanding Purchases and Loans:	**SDR Million**	**%Quota**
ESF Arrangements	80.09	24.75

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				
	2016	**2017**	**2018**	**2019**	**2020**
Principal	12.14	24.27	24.27	16.18	3.24
Charges/Interest	0.01	0.21	0.15	0.09	0.06
Total	12.15	24.48	24.42	16.27	3.30

[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**	**PRGF**	**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. 14/84).

Article IV Consultations:

The previous consultation discussions were held during September 16–26, 2014. The Article IV consultation was completed by the Executive Board on December 15, 2014 and the staff report was published on January 14, 2015 (Country Report No. 15/2). In concluding the 2014 Article IV consultation, Executive Directors noted that satisfactory program implementation has helped Senegal preserve macroeconomic stability. However, due to internal and external factors, the economy has continued to underperform and unemployment and poverty remain high. The large current account deficit and increasing exposure of the external position to shifting market sentiment pose additional risks to the outlook. Directors stressed that prudent policies and ambitious structural reforms are critical to boosting growth and reducing poverty. In this regard, they welcomed the authorities' new development strategy as outlined in "Plan Sénégal Emergent" (PSE) and looked forward to its steadfast and timely implementation.

Directors emphasized that accelerating the pace of structural reforms will be key to achieving the PSE objectives. They agreed that reform efforts should be aimed at improving governance and the business climate in order to promote private sector development and to attract foreign direct investment. Priority should also be given to making delivery of public services more efficient, improving the impact of public spending through PFM reforms, containing public consumption to generate the fiscal space for investment in human capital and public infrastructure, and strengthening social safety nets. A comprehensive restructuring of the energy sector and increasing

export competitiveness will also be important. Directors welcomed the authorities' plans to engage with a few comparator countries to develop an active peer learning effort to roll out the required reforms.

Directors encouraged the authorities to anchor fiscal policy on long-term debt sustainability within a medium-term budget framework and reach the WAEMU convergence criteria on the fiscal deficit of 3 percent of GDP by 2019. They noted that attaining this goal will require further strengthening of tax and expenditure policy measures. While supporting the PSE priorities, Directors emphasized that all related investment should be consistent with the authorities' earlier fiscal consolidation plans and Senegal's absorptive capacity. In addition, decisions to contract nonconcessional financing should be carefully weighed.

Directors welcomed the initiative to improve the quality of public investment by establishing a precautionary reserve envelope from which funding would only be released for projects with proper feasibility studies. Directors encouraged the authorities to extend this in the 2016 budget.

Directors stressed that continued efforts will be needed to improve public financial management, budget institutions, and economic governance. They underscored that reforms should focus on key areas such as macro-fiscal policy design, development of a medium-term expenditure framework and improved fiscal discipline in budget execution.

Directors highlighted the importance of addressing financial sector vulnerabilities, especially the quality of bank assets. They encouraged continued vigilance of the high level of non-performing loans in close cooperation with the BCEAO and WAEMU Banking Commission. Directors supported the strategy to improve access to financial services.

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 (2010–16):

A. AFRITAC West

Year	Area	Focus
2010	Debt management	Strengthening public debt management
	National accounts	Quarterly national accounts (QNA); institutional sector accounts
	Customs administration	Risk analysis and audit
	Tax administration	Tax administration modernization
	Customs administration	Follow-up mission
2011	National accounts	QNA; institutional sector accounts
	Customs administration	Risk analysis and audit
	Public financial management	Strengthening of financial management information systems: IT master plan and interconnections (3 AFW visits)
	Debt management	Strengthening public debt management
	Tax administration	Establishment of medium-sized enterprise tax center
2012	Government Finance Statistics	Annual Government Finance Statistics
	National accounts	Annual and quarterly national accounts
	Tax administration	Identification and registration of tax payers
	National accounts	Annual and Quarterly national accounts
	Customs administration	Risk analysis and audit
	Public financial management	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)
	Public debt analysis	Financial regime of autonomous agencies DSA workshop
	Public debt management	Help the authorities produce a national borrowing policy document

Year	Area	Focus
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	BCEAO mission on Basel II & III Implementation Public Debt Management, Government securities policy issuance Updating National Accounting system; ONA TOFE implementation/GFS update A workshop on transfer prices with a focus on telecommunication sector General Balance of Government accounts

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

Department	Date	Form	Purpose
Fiscal Affairs	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
	Jan. 2012	FAD experts	VAT Credit Reimbursement System, Tax Exemptions and Reform Process
	May & Sep. 2012, and Feb. 2013	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

Department	Date	Form	Purpose
Fiscal Affairs	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
	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
	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
	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
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
	Sep. 2013	Staff	Financial monetary statistics
	Dec. 2013	Staff	Government finance statistics
	Oct. 2014	Staff	Monetary and financial statistics
	2015-16	STA Expert	National Accounts (multiple visits)

Department	Date	Form	Purpose
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 Mr. Boileau Loko since September 2013.

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

The onsite visit for Senegal's AML/CFT evaluation took place in July/August 2007 in the context of ECOWAS's Inter-Governmental Action Group Against Money Laundering in West Africa (GIABA). The report was adopted in early May 2008 by the GIABA Plenary held in Accra, Ghana. The report highlighted several areas of weaknesses in the AML/CFT system, confirmed by a score of 12 non-compliant and 16 partially compliant ratings out of the 40+9 FATF AML/CFT recommendations. In May 2009 Senegal joined the Egmont Group of Financial Intelligence Units (FIUs). The FIU publishes on its website statistics on suspicious transaction reports received, the number of cases transmitted to the judiciary, and the number of convictions. Senegal's eighth follow-up report was discussed at GIABA's May 2016 Plenary. It acknowledged the progress achieved in its legal, regulatory and institutional framework, including the efforts to revise the AML/CFT legal framework in line with the 2012 FATF standard, and encouraged Senegal to continue making improvements. Senegal was removed from the follow-up process and will be assessed under the 2012 FATF standard in early 2017.

JOINT MANAGEMENT ACTION PLAN IMPLEMENTATION WORLD BANK AND IMF COLLABORATION

Title	Products	Topic	Expected delivery date
A. Mutual information on relevant work programs			
World Bank	Public financial management strengthening technical assistance project	Budget management information systems, internal and external audit, debt management, agency and SOE supervision	On-going with additional financing approved in July 2014
	Energy sector dialogue	Financial and operational management of Senelec, investment planning	Ongoing
	Mining sector TA	EITI and regulatory framework	Ongoing
	Higher education project	Includes performance contracts for universities and scholarship reforms	Ongoing
	Social protection project	Support social safety nets system and access to targeted cash transfer programs	Approved, April 2014
	Health project	Support to universal health coverage	Signed, April 2014
	Statistics for Results project	Labor market, services, construction data and capacity building	Approved, May 2014
	Tobacco tax technical assistance	Impact of the 2013 increase of tobacco taxes on fiscal revenues and health	Approved, October 2015
	Structural Reform Development Policy Operation	Enhance coverage, quality and governance in energy and ICT sectors	CN approved, July 2016
	Skills for jobs and competitiveness project	Strengthen technical and vocational education to improve youth employability in priority sectors	Ongoing, approved December 2014

IMF	**IMF-supported program**		
	Third PSI Review and 2016 Article IV Consultations		December 1, 2016 (Board)
	Peer learning on political economy of reform		January 2016 Washington
B. Requests for work program inputs			
Fund request to Bank	World Bank Assessment Letter on Senegal's Medium-Term Development	Note	2016
	WB programs in the social sector and education	Information sharing	Continuous
	Energy sector reforms	Information sharing, estimation of the tariff gap, expertise of the investment plan	Continuous
Bank request to Fund	Set of macro tables	Updates on macro developments	Continuous
C. Agreement on joint products and missions			
Joint products	Debt sustainability	Debt management	2016

STATISTICAL ISSUES

Statistical Issues Appendix

As of October 31, 2016

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: The compilation of the national accounts generally follows the *System of National Accounts, 1993*. The lack of adequate financial resources has constrained efforts to collect and process data. Because of financial constraints, surveys of businesses and households are not conducted regularly. However, 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 improvement of their real sector statistics, in particular annual and quarterly national accounts (QNA). Senegal started releasing the QNA in 2012 and integrated economic accounts (IEA) in 2014. Senegal has also put in place a plan for rebasing its national accounts to 2014; the plan includes the implementation of the 2008 SNA. The rebased series will be available in June 2017.

Government finance statistics (GFS): GFS are compiled by the Ministry of Economy and Finance from customs, tax, and treasury directorate sources, and quarterly disseminated as government financial operations tables (TOFE) in the ministry's publications. Following Fund's TA, TOFE presentations were improved and aligned with the extended WAEMU TOFE. Remaining step is to implement the recent WAEMU fiscal directives. A regional advisor in GFS has been conducting technical assistance missions aimed at improving the consistency of fiscal reporting and migrating to the methodologies of the *Government Finance Statistics Manual 2001*. The regional advisor also supported efforts to resume reporting of annual and higher frequency data for publication in *International Financial Statistics (IFS)* and electronic dissemination of the *GFS Yearbook*.

Monetary and financial statistics: Monetary and financial statistics are compiled and disseminated 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. These SRF-based data are being processed by the IMF Statistics Department for publication in the November 2016 issue of *International Financial Statistics* (*IFS*). framework.

Financial sector surveillance: Senegal does not report financial soundness indicators (FSIs) to the IMF. A technical assistance mission on FSIs is scheduled to visit the BCEAO headquarters in Dakar, Senegal in 2017. This mission will assist the authorities in their efforts to develop a set of core and encouraged FSIs for deposit taking institutions for WAEMU member countries, including Senegal.

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. The BCEAO compiles quarterly BOP statistics for internal purposes but reports only annual data to STA (latest data reported–2014). Senegal equally report annual IIP to STA. Since Senegal has committed to subscribe to the SDDS, ESS compilation needs improvements, including the compilation of the monthly international reserves and foreign currency liquidity data template. The three-year JSA-AFR project, recently launched and which goes through 2019, is aimed at improving adequacy, timeliness and frequency of ESS in Senegal; a TA mission is considered for January 2017. With STA support, steps will be undertaken to address certain shortcomings, including: (i) better estimation of general merchandise trade to include uncontrolled cross-border trade with neighboring countries.

II. Data Standards and Quality

The country participates in the enhanced General Data Dissemination System (e-GDDS), and its metadata were posted on the Fund's Dissemination Standards Bulletin Board in 2001. The authorities have appointed a national e-GDDS coordinator. In 2016, an STA mission visited Senegal to help the authorities set up a National Summary Data Page where e-GDDS data are regularly disseminated to the public.

A Data ROSC was published on the IMF website in 2002.

Senegal: Table of Common Indicators Required for Surveillance
(As of October 31, 2016)

	Date of latest observation	Date received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]	Memo Items	
						Data Quality	Data Quality
Exchange Rates	Current	Current	D	D	D	Methodological Soundness[8]	Accuracy and Reliability[9]
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	05/2016	09/2016	M	M	M		
Reserve/Base Money	08/2016	11/2016	M	M	M		
Broad Money	07/2016	11/2016	M	M	M		
Central Bank Balance Sheet	08/2016	11/2016	M	M	M	LO, LO, O, O	LO, O, O, LO
Consolidated Balance Sheet of the Banking System	07/2016	11/2016	M	M	M		
Interest Rates[2]	08/2016	8/2016	M	M	M		
Consumer Price Index	09/2016	10/2016	M	M	M	O, LO, O, O	LO, O, O, NA
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	N/A	N/A					
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	06/2014	09/2014	Q	Q	Q	O, LNO, LO, O	LO, LO, O, LO
Stocks of Central Government and Central Government-Guaranteed Debt[5/11]	2013	10/2014					
External Current Account Balance[10/11]	2015	10/2016	A	A	A		
Exports and Imports of Goods and Services[10/11]	2015	10/2015	A	A	A	O, O, O, O	O, O, O, O
GDP/GNP[10/11]	2014	09/2016	A	I	A	LO, LO, LO, LNO	LNO, LNO, LNO, LNO
Gross External Debt[11]	2013	04/2014	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]*Da*ily (D); Weekly (W); Monthly (M); Quarterly (Q); Annually (A); Irregular (I); Not Available (NA).
[8]Reflects the assessment provided in the data ROSC published in 2002 and based on the findings of the mission that took place in 2001 for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning (respectively) concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O), largely observed (LO), largely not observed (LNO), not observed (NO), or not available (NA).
[9]Same as footnote 8, except referring to international standards concerning (respectively) source data, statistical techniques, assessment and validation of source data, and revision studies.
[10]Estimate.
[11]Reported to staff during mission.