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IMF Executive Board Completes Second Review Under the Policy Support Instrument (PSI) for Senegal

The Executive Board of the International Monetary Fund (IMF) completed the second review of Senegal's economic performance under a program supported by the Policy Support Instrument (PSI)[1].

The PSI for Senegal was approved on June 24, 2015 (see Press Release No. 15/297).

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

"The Policy Support Instrument has buttressed strong macroeconomic performance, with growth increasing from 4.3 percent in 2014 to 6.5 percent in 2015 and 2016. Inflation remains low, and maintaining the 2016 fiscal deficit target of 4.2 percent of GDP will support reaching the West African Economic and Monetary Union's convergence criteria of 3 percent of GDP one year earlier than the mandated 2019.

"The authorities recognize that raising growth rates to 7 to 8 percent over the 20-year period of the *Plan Sénégal Emergent* requires steadfast action to reduce patronage and rent-seeking so as to open economic space to small and medium enterprises (SMEs) and foreign direct investment (FDI). Accordingly, they have cancelled Senegal Airlines' flying rights, closed five public agencies with no formal existence, taken steps to improve the business environment, promoted agricultural development, and reformed university scholarships. The elimination of energy subsidies in the 2016 budget should become the norm as reforms to boost electricity generation and lower costs accelerate. These reforms signal improving economic governance while positively impacting public finances.

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

"The authorities are also rebalancing public expenditure towards investment in human capital and public infrastructure, accelerating efforts to curtail tax expenditures, and strengthening the efficiency of public expenditure, including by controlling subsidies and the wage bill.

"The authorities are establishing a special economic zone to promote good economic governance where SMEs and FDI could thrive. They are exploring the appropriate governance structure to ensure the required business-friendly regulatory framework and a tax regime that is easy to comply with and has reasonable tax rates as well as limited and rules-based tax expenditures.

"Risks remain to the planned fiscal consolidation, together with external risks of slow growth in partner countries, continued volatility in oil prices, and potential spillovers from regional shocks. These risks are mitigated with a planned strengthening of fiscal anchors and expansion of the precautionary reserve envelope."