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THIRD REVIEW UNDER THE POLICY COORDINATION INSTRUMENT AND REQUEST FOR MODIFICATION OF QUANTITATIVE TARGETS, AND REQUESTS FOR A STAND-BY ARRANGEMENT AND AN ARRANGEMENT UNDER THE STANDBY CREDIT FACILITY—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR SENEGAL

In the context of the Third Review Under the Policy Coordination Instrument and Request for Modification of Quantitative Targets, and Requests for a Stand-By Arrangement and an Arrangement Under the Standby Credit Facility, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 7, 2021 following discussions that ended on April 27, 2021 with the officials of Senegal on economic developments and policies underpinning the IMF arrangement under the Policy Coordination Instrument and Request for Modification of Quantitative Targets, and Requests for a Stand-By Arrangement and an Arrangement Under the Standby Credit Facility. Based on information available at the time of these discussions, the staff report was completed on May 21, 2021.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- A **Statement by the Executive Director** for Senegal.

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

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IMF Executive Board Approves US$650 million Stand-by Arrangement and an Arrangement under the Standby Credit Facility and Completes the Third Review Under the Policy Coordination Instrument for Senegal

FOR IMMEDIATE RELEASE

- *IMF Board approves SDR 453 million (about US$650 million or CFAF 350 billion) Stand-by arrangement and arrangement under the Standby Credit Facility for Senegal and completes the third review under the Policy Coordination Instrument.*
- *The 18-month arrangements together with the Policy Coordination Instrument will provide a policy anchor for the next phase of the authorities' COVID-19 response and support a strong and job-rich recovery.*
- *While medium-term prospects remain promising, the macroeconomic outlook for 2021 is facing headwinds due to the protracted impact of the pandemic and higher commodity prices.*

Washington, DC – June 7, 2021: The Executive Board of the International Monetary Fund (IMF) today completed the third review under the Policy Coordination Instrument (PCI) and approved an 18-month Stand-by arrangement (SBA) and an arrangement under the Stand-By Credit Facility (SCF) for Senegal.

Approval of the SCF/SBA enables an immediate disbursement of SDR 129.4 million or about US$187 million. This follows previous Fund emergency support to Senegal in April 2020 in the amount of US$442 million at the time of approval (see Press Release No. 20/152).

The COVID-19 pandemic hit the Senegalese economy hard and caused hardship for many, particularly those active in the informal sector. Growth in 2020 is estimated at 1.5 percent, supported by a record harvest while the hospitality, tourism and transport sectors suffered severe contractions. The government's forceful implementation of an Economic and Social Resilience Program (PRES) helped strengthen the health sector and mitigate households' and firms' income losses. A subdued recovery is expected for 2021 with growth reaching about 3.7 percent.

To ensure transparency and accountability of pandemic-related spending, the authorities have published quarterly budget execution reports detailing the use of such resources. The report of the *Fonds Force COVID-19* monitoring committee has also been finalized. The annual audit of procurement procedures, including those related to COVID-19 spending, will be finalized end June and the audit court will publish its report on the 2020 budget law implementation in October.

Staff and the authorities agreed on a revised budget deficit trajectory for 2021-23 which incorporates the COVID-19 vaccine rollout and a new program to boost youth and women employment. A steadfast implementation of the Medium-Term Revenue Mobilization Strategy and spending reprioritization will provide fiscal space while the overall deficit is expected to return to the WAEMU deficit anchor of 3 percent of GDP by 2023.

Performance under the PCI has remained positive and program objectives of achieving strong and inclusive growth while maintaining macroeconomic stability remain relevant. Fund engagement with Senegal under the PCI will continue concurrently with the new SBA and arrangement under the SCF until end-2022.

At the conclusion of the Board discussion on the third review under the PCI and the requests for the SBA and arrangement under the SCF for Senegal, Mr. Mitsuhiro Furusawa, Deputy Managing Director and Acting Chair made the following statement:

"The COVID-19 pandemic has had a severe impact on the Senegalese economy which was mitigated by the authorities' forceful response. The publication of quarterly budget execution reports detailing the use of COVID-19 spending and of the report by the COVID-19 fund monitoring committee are important steps to ensure the transparency and accountability of such spending.

"The near-term macroeconomic outlook has deteriorated owing notably to the protracted COVID-19 pandemic, higher commodity prices, and higher financing needs for the vaccine rollout. A gradual recovery is expected in 2021, although it is subject to important downside risks, including a third wave of the COVID-19 pandemic.

"The authorities' reform agenda, supported by the Policy Coordination Instrument, remains appropriate to achieve the program's objective of strong and inclusive growth while maintaining macroeconomic stability. The fiscal strategy fully accommodates the costs for the vaccination campaign and will, together with new Fund financing under the SCF/SBA, additional donor support, and the extension of the G-20 Debt Suspension Initiative, help unwind the actual but short-term balance-of-payments need.

"Fiscal policy should remain anchored by a credible, revenue-based consolidation towards a fiscal deficit of 3 percent of GDP by 2023, in line with the WAEMU norm. The identification of strong revenue mobilization measures for the program period and the authorities' full commitment to the medium-term revenue mobilization strategy are essential in this regard. Additional spending for the new youth and women employment program should be well-targeted and efficient, and accompanied by reforms to support private sector job creation. Public debt has risen continuously in recent years and risks to debt sustainability need to be carefully monitored and concessional financing should be prioritized.

"The legal framework for the management of upcoming hydrocarbon revenue is being finalized reflecting best international practices. Ongoing reforms to improve public financial management will help strengthen spending efficiency and transparency."

Table 1. Senegal: Selected Economic and Financial Indicators, 2019–25[1]

	2019 Prel.	2020 Est.	2021 Proj.	2022 Proj.	2023 Proj.	2024 Proj.	2025 Proj.
			(Annual percentage change)				
National income and prices							
GDP at constant prices [1]	4.4	1.5	3.7	5.5	10.8	6.1	5.4
Of which: Non-hydrocarbon GDP	4.4	1.5	3.7	5.5	6.1	6.0	5.8
Of which: Hydrocarbon GDP	...	...	...	...	...	10.5	-7.6
Of which: Non-agriculture GDP	4.4	-0.8	3.8	5.6	11.4	6.2	5.3
GDP deflator	1.9	2.3	1.9	2.1	1.7	1.8	1.9
Consumer prices							
Annual average	1.0	2.5	2.0	2.0	1.5	1.5	1.5
End of period	0.6	2.4	2.2	1.7	1.3	1.7	1.4
External sector							
Exports, f.o.b. (CFA francs)	15.5	-10.5	6.4	16.2	67.6	24.5	6.1
Imports, f.o.b. (CFA francs)	6.2	-6.7	11.5	6.7	23.3	11.0	6.4
Export volume	18.7	-7.2	2.8	15.2	79.3	22.0	4.1
Import volume	3.9	3.9	3.5	13.0	24.0	12.0	5.4
Terms of trade ("–" = deterioration)	-4.7	7.4	-3.8	6.8	-6.0	3.0	0.9
Nominal effective exchange rate	-1.3	...	...	...	...	...	...
Real effective exchange rate	-2.1	...	...	...	...	...	...
			(Changes in percent of beginning-of-year broad money)				
Broad money	8.2	12.4	6.2	8.6	...	...	...
Net domestic assets	7.4	14.4	7.6	10.7	...	...	...
Credit to the government (net)	1.7	15.4	2.3	4.0	...	...	...
			(Percent of GDP, unless otherwise indicated)				
Government financial operations							
Revenue	20.4	20.0	20.2	21.0	22.0	23.0	23.9
Grants	1.6	2.3	1.9	2.1	1.9	1.7	1.5
Total expenditure	24.3	26.4	25.7	25.2	24.9	26.0	26.9
Net lending/borrowing (Overall Balance)							
excluding grants	-5.5	-8.7	-7.4	-6.3	-4.8	-4.7	-4.5
including grants	-3.9	-6.4	-5.4	-4.2	-3.0	-3.0	-3.0
Net lending/borrowing (excl. one-off operations)	-3.1	-6.3	-5.1	-4.0	-3.0	-3.0	-3.0
Primary fiscal balance	-1.9	-4.3	-3.3	-2.1	-0.9	-0.9	-0.8
Savings and investment							
Current account balance (official transfers included)	-8.1	-10.5	-11.3	-10.5	-5.5	-3.2	-3.9
Current account balance (official transfers excluded)	-8.4	-11.9	-11.8	-11.1	-6.0	-3.6	-4.1
Gross domestic investment	31.9	30.6	32.4	33.1	33.2	30.7	31.4
Government [2]	6.3	6.9	7.1	7.6	6.1	6.5	6.6
Nongovernment	25.7	23.8	25.3	25.6	27.1	24.2	24.8
Gross national savings	23.8	20.2	21.1	22.6	27.7	27.5	27.6
Government	6.7	5.7	5.7	6.2	9.2	11.0	11.9
Nongovernment	17.1	14.5	15.4	16.5	18.5	16.6	15.7
Total public debt [3]	63.8	68.7	70.9	69.9	64.9	62.8	61.1
Domestic public debt [4]	11.0	14.6	14.0	13.3	12.3	12.0	12.5
External public debt	52.8	54.1	56.9	56.6	52.6	50.8	48.6
Total public debt service [3]							
Percent of government revenue	22.1	25.4	20.4	23.8	25.0	26.6	26.1
Memorandum items:							
Gross domestic product (CFAF billions)	13,655	14,185	14,998	16,159	18,218	19,681	21,127
of which non-hydrocarbon (CFAF billions)	13,655	14,185	14,998	16,159	17,104	18,425	19,943
Gross domestic product (USD billions)	23.6	24.7	...	...	...	...	...
Share of hydrocarbon in total GDP (%)	...	...	...	...	6.1	6.4	5.6
National Currency per U.S. Dollar (Average)	586	575	...	...	...	...	...

Sources: Senegal authorities; and IMF staff estimates and projections.
[1] Based on national accounts with base year 2014.
[2] Reflects reclassification of public investment.
[3] Starting in 2017 debt level, debt service and government revenue include preliminary data covering the broader public sector.
[4] Domestic debt includes government securities issued in local currency and held by WAEMU residents.

INTERNATIONAL MONETARY FUND

SENEGAL

May 21, 2021

THIRD REVIEW UNDER THE POLICY COORDINATION INSTRUMENT AND REQUEST FOR MODIFICATION OF QUANTITATIVE TARGETS, AND REQUESTS FOR A STAND-BY ARRANGEMENT AND AN ARRANGEMENT UNDER THE STANDBY CREDIT FACILITY

EXECUTIVE SUMMARY

Context. The macroeconomic outlook has worsened amid a second wave of the COVID-19 pandemic, higher commodity prices and social unrest, rooted in widening inequality and a lack of opportunities for the youth. The COVID-19 vaccination campaign was launched in February but has so far covered less than 5 percent of Senegal's population. The President announced in early April an emergency program for youth employment and economic insertion amounting to 3 percent of GDP, spread evenly over 2021–23.

Outlook and risks. Growth is expected to fall below 4 percent in 2021 (versus a projected 5.2 percent) and external imbalances are set to widen. Risks are tilted to the downside with a possible third COVID-19 wave in Senegal being the most important.

Program implementation. Program performance was satisfactory. All quantitative targets but one, the ceiling for the share of single-sourced procurement contracts, were met. Six out of nine reform targets were met. The external audit of the public debt database, the draft law on hydrocarbon revenue sharing and the prepayments for income taxes at customs for unregistered taxpayers will be implemented with delay.

Financing request. The authorities have requested Fund financing access of 140 percent of quota under the SCF/SBA to face an actual but short-term balance of payment need. A financial arrangement would help support the authorities' crisis response, promote a broad-based recovery, catalyze additional concessional financing, and strengthen the external position of the WAEMU.

Policy discussions. The authorities and staff agreed on a revised 2021–23 fiscal strategy that incorporates new spending needs for vaccines and the youth employment program. A steadfast implementation of the Medium-Term Revenue Mobilization Strategy and spending reprioritization would provide space for the youth program. The fiscal stance in 2021–22 accommodates the vaccination campaign, and the overall deficit is set to return to the WAEMU deficit anchor of 3 percent of GDP by 2023, to maintain public debt on a sustainable trajectory. Staff recommended to ensure the efficiency of initiatives to support youth employment and to enhance education, training, and private sector job creation. Other key PCI-supported reforms should continue to advance, including on public financial and debt management, as well as the finalization of a legal framework to manage forthcoming hydrocarbon revenue following best international practices.

Staff supports the requests for completion of the third PCI review, modification of quantitative targets, and for an arrangement under the stand-by credit facility and stand-by arrangement.

Approved By
Annalisa Fedelino (AFR) and Chad Steinberg (SPR)

Discussions were held remotely during April 6–27, 2021. The mission comprised Ms. Deléchat (AFR–head), Messrs. Stenzel, Versailles (AFR), Hamliri (FAD), and Hart (SPR). The mission was assisted by Mr. Koulet-Vickot (Resident Representative–RR) and Messrs. Ba and Fame (RR office). Mr. Diakite (OED) also attended mission meetings. S. Singh and J. Treilly (both AFR) contributed to this report.

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