IMF Country Reports 23/030

Senegal: Sixth Review Under the Policy Coordination Instrument and Third Reviews Under the Stand-By Arrangement and the Arrangement Under the Stand-By Credit Facility -Press Release; Staff Report; and Statement by the Executive Director for Senegal

INTERNATIONAL MONETARY FUND

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SENEGAL

January 2023

SIXTH REVIEW UNDER THE POLICY COORDINATION INSTRUMENT AND THIRD REVIEWS UNDER THE STAND-BY ARRANGEMENT AND THE ARRANGEMENT UNDER THE STANDBY CREDIT FACILITY—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR SENEGAL

In the context of the Sixth Review Under the Policy Coordination Instrument and Third Reviews Under the Stand-By Arrangement and the 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 January 9, 2022, following discussions that ended on November 15, 2022, with the officials of Senegal on economic developments and policies underpinning the IMF arrangement under the Stand-By Arrangement. Based on information available at the time of these discussions, the staff report was completed on December 2, 2022.
- 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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International Monetary Fund
Washington, D.C.

IMF Executive Board Completes the Sixth and Final Review Under the Policy Coordination Instrument, the Third and Final Reviews under the Stand-By Credit Facility and the Stand-By Arrangement, and Initiates Post Financing Assessment with Senegal

FOR IMMEDIATE RELEASE

- Weaker external demand, soaring food and energy prices, tightening financial conditions, and US dollar appreciation have negatively impacted the Senegalese economy.
- As a result, economic activity has slowed in the first nine months of 2022, leading to a modest downward revision of growth projection. Inflation, however, remained stubbornly high, mainly reflecting rising food prices, and is becoming more broad-based as the non-food and non-energy subcomponents of the CPI are also accelerating.
- Rebuilding fiscal buffers and putting public debt on a downward path remain a priority going forward, through an accelerated implementation of the domestic revenue mobilization strategy and the gradual phasing out of energy subsidies.

Washington DC – January 9, 2023: Today, the Executive Board of the International Monetary Fund (IMF) completed the Sixth and Final Review under the Policy Coordination Instrument (PCI) and the Third and Final Reviews under the Stand-by Arrangement (SBA) and the Arrangement under the Standby Credit Facility (SCF). The completion of the reviews enables the immediate release of about US$ 215.96 million (SDR 161.8 million, or about FCAF 133 bn) to Senegal. Weaker external demand, rising food and energy prices, tightening financial conditions, and the US dollar appreciation have negatively impacted the Senegalese economy. The country is facing multiple challenges, including heightened regional insecurity and growing social demands amid soaring cost of living. As a result, growth was further revised down to 4.7 percent and inflation up, while the fiscal accounts are under increasing strain.

Despite these challenges, the authorities are committed to keeping the fiscal deficit at 6.2 percent of GDP in 2022, in line with the previous program review, through additional revenue measures and savings to offset larger energy subsidies. The authorities have also committed to accelerate fiscal consolidation to contain the 2023 budget deficit below 5 percent of GDP, while strengthening their response to alleviate the burden of the cost-of-living crisis. To reduce energy subsidies in 2023, the authorities have decided to raise selected electricity and fuel prices, while cushioning the impact on vulnerable households. In addition, the government has published a roadmap to gradually phase out energy subsidies by 2025. Together with stronger revenue mobilization, these efforts should help rebuild fiscal buffers and put public debt on a firmly downward trajectory over the medium term. Significant progress was achieved in improving transparency and accountability. The audit report of the Court of Accounts on the use of the COVID-19 funds was published and the authorities are considering measures to address expenditure management weaknesses. The adoption of a new public procurement code will also favor more open and competitive tenders. Finally, the fiscal framework for

managing hydrocarbon revenues should be operationalized expeditiously to ensure that these windfalls will benefit Senegal's development.

Medium-term growth prospects appear more favorable with the oil and gas production set to start in late 2023, provided appropriate policies are implemented. However, risks to the outlook remain high and heavily tilted to the downside, including lower global growth, tighter financial conditions, inflationary pressures, more intense and prolonged war in Ukraine, and further US dollar appreciation. Further risks include natural disasters related to climate change and a deterioration of the regional security situation. In this challenging environment, the Fund stands ready to continue supporting Senegal.

Following the final reviews under the PCI, SBA, and SCF, the Executive Board of the International Monetary Fund has decided that Senegal is expected to engage in Post Financing Assessment with the Fund.[1]

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

Performance under the programs has been broadly satisfactory despite multiple shocks, and Senegal successfully completed all the reviews.

However, the economy has slowed and external imbalances widened amidst negative spillovers on global growth and commodity prices from Russia's war in Ukraine. Inflation has accelerated, fueled by soaring food prices, and food insecurity has increased. While the challenging external and domestic environments will continue to weigh on the economy in the near term, medium-term macroeconomic prospects appear more favorable with oil and gas production set to start in late 2023 and provided appropriate policies are pursued.

The authorities have provided extensive support to households and firms to mitigate the impact of these shocks, including through untargeted and costly energy subsidies. The recent increase in electricity and fuel prices is well targeted and will help contain the regressive nature of these subsidies. Over the medium-term, the authorities should steadfastly implement their roadmap to gradually eliminate energy subsidies by 2025 while adopting measures to protect vulnerable households.

A strong commitment to revenue mobilization will be critical to reduce the budget deficit to 3 percent of GDP by 2025, rebuild depleted buffers, and set public debt on a downward trajectory. Strengthening debt management and monitoring state-owned enterprises' borrowing are equally important.

While the adoption of a new procurement code will help reduce recourse to noncompetitive tenders, reforms to improve fiscal transparency and accountability should continue, including to address expenditure management weaknesses identified in the recent audit report on the use of COVID-19 funds. Finally, deficiencies in the AML/CFT framework need to be tackled with greater urgency to minimize risks to the financial sector and thus the economy.

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[1] The central objective of PFA is to provide for closer monitoring of the policies of members that have substantial Fund credit outstanding following the expiration of their arrangements. Under PFA, members undertake more frequent formal consultation with the Fund than is the case under surveillance, with a particular focus on macroeconomic and structural policies that have a bearing on external viability.

INTERNATIONAL MONETARY FUND

SENEGAL

December 2, 2022

SIXTH REVIEW UNDER THE POLICY COORDINATION INSTRUMENT AND THIRD REVIEWS UNDER THE STAND-BY ARRANGEMENT AND THE ARRANGEMENT UNDER THE STANDBY CREDIT FACILITY

EXECUTIVE SUMMARY

Context and outlook. Weaker external demand, rising food and energy prices, tightening financial conditions, and the US dollar appreciation have negatively impacted the Senegalese economy. Add to that, multiple challenges facing the country, including heightened regional insecurity and growing social demands amid soaring cost of living. As a result, growth was further revised down to 4.7 percent and inflation up to 8.5 percent in 2022, while the fiscal accounts are under increasing strain. The challenging external and domestic environment will continue to weigh on the economy in the near term and risks are titled to the downside. Medium-term growth prospects appear more favorable with the temporary boost from oil and gas production set to start in late 2023.

Program performance. Program performance was broadly satisfactory. All end-June 2022 performance criteria and two out of three indicative targets were met. Three out of nine structural benchmarks were implemented on time. Revenue collection through end-September was stronger than expected but soaring energy subsidies led the government to delay some investment projects. Spending pressures are mounting in 2023, making the much-needed fiscal consolidation more difficult.

Policy discussions. The authorities and staff agreed on a revised 2022 budget that maintains the fiscal deficit at 6.2 percent of GDP, in line with the previous program review, through additional revenue measures and savings to offset larger energy subsidies. The 2023 budget targets a higher deficit (-5.5 percent of GDP) than previously agreed upon to cope with external and domestic challenges. The authorities committed to limit the deficit to 4.9 percent of GDP by leaving most of the budget reserves (0.8 percent of GDP) untapped and by increasing tax revenue collection. These efforts will help achieve a large fiscal adjustment toward meeting the 3 percent of GDP deficit target by 2025. To contain the energy subsidy bill in 2023, the authorities will raise energy prices effective January 1, 2023, while cushioning the impact on vulnerable households through subsidies to mass transportation and increased cash transfers to the poorest households.

Staff supports the request for completion of the sixth PCI review and the third SBA/SCF reviews.

Approved By	
Montfort Mlachila (AFR) and Boileau Loko (SPR)	Discussions were held in Dakar (November 4-15, 2022). The mission comprised Mr. Gemayel (head), Messrs. Mbohou Mama, Queyranne, Rosa (all AFR), Ms. Caselli (FAD), and Mr. Hart (SPR). The mission was assisted by Mr. Koulet-Vickot (Resident Representative), Messrs. Ba and Fame (local economists), and Ms. Wane (local administrative assistant). Mr. Diakite (OED) attended some meetings. The mission met with Prime Minister Amadou Ba, Minister of Finance and Budget, Mamadou Moustapha Ba, Deputy Governor of the BCEAO, Mamadou Diop, National Director of the BCEAO Ahmadou Al Aminou Lo, other senior officials, and development partners. Ms. Singh and Ms. Pilouzoue (both AFR) contributed to this report.

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