Statement by Mr. Sylla, Executive Director for Senegal and Mr. Diakite, Senior Advisor to the Executive Director
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I. Introduction

1. Our Senegalese authorities would like to thank Management and staff for the quality of the policy dialogue in the context of the sixth and last review under the Policy Coordination Instrument (PCI), and the third and last reviews under the Stand-By Arrangement (SBA) and the Standby Credit Facility (SCF). They wish to express their deep appreciation for the Fund's support to their determined reform efforts under the "Plan Sénégal Emergent" (PSE).

2. The Senegalese economy is hit by the negative spillovers of the war in Ukraine and the Covid-19 pandemic, as well as the global tightening of financial conditions and economic downswing. These shocks, aggravated by major floods and regional political and security tensions, have led to a slowdown in economic activity, pushed inflation upwards at unprecedented levels in decades, and weighed heavily on fiscal and external accounts. Given their negative impacts on the purchasing power of households, the authorities have made it a priority to contain the rise in food and energy prices, and maintain social stability.

3. Despite the difficult global and domestic environment, program performance at end-June 2022 has been broadly satisfactory, and the authorities have fulfilled the prior actions. The authorities are determined to preserve their hard-won reform gains and continue to strengthen the resilience of the economy to shocks. In this perspective, and given the risks weighing on the macroeconomic outlook, they intend to request a new IMF-supported reform program in 2023. In addition to help meet the country's potential balance of payments needs, the new program would support national efforts to bolster private sector-led sustainable and inclusive growth, preserve fiscal and debt sustainability, and ensure transparency and efficiency in the management of the hydrocarbon sector.

II. Recent Economic Developments and Outlook

4. The post-pandemic recovery slowed down in 2022 reflecting a new weakening of external and domestic demand. Real GDP growth projection was revised downwards from 5.1 percent to 4.8 percent on the back of weaker activity in the secondary and tertiary sectors. Inflationary pressures increased as a result of rising food prices and headline inflation hit 13 percent y-o-y in October 2022, a level not seen in many decades. In the fiscal area, strong revenue will help contain the fiscal deficit at 6.2 percent, in line with the program target, despite sustained spending pressures. Underpinning factors include increased interest payments on external debt due to strong appreciation of the US dollar, and higher public wages and petroleum products and electricity subsidies. Confronted by sharply

reduced fiscal space and increasing energy prices, the authorities intend to contain the impact on the cost of living for the population while preserving macroeconomic and fiscal stability. A difficult challenge and balancing act they intend to stick to.

5. In the external sector, the current account deficit has widened on account notably of deteriorating terms of trade. The deficit in the trade balance and that of the services account worsened over the first six months of 2022, driven by higher import prices and the continued development of oil and gas projects.

6. The banking sector remained resilient and supportive of the economy despite the multiple shocks. Indeed, credit activity was strong in the first nine months of 2022, with increased net bank loans to both the central administration and the private sector.

7. Senegal's economic prospects are favorable. Growth is forecasted to reach 10.1 percent in 2023 with large positive spillovers from the start of hydrocarbon production. Non-hydrocarbon growth should also rebound to 6.1 percent, thus returning to its medium-term trend. Inflationary pressures should gradually decline starting in 2023, reflecting a good food harvest in 2022-2023 and the anticipated drop in world commodity prices.

8. The authorities broadly share the assessment that the risks to the outlook are elevated. Growth projections in 2023 and 2024 depend significantly on the assumptions regarding the start date and pace of oil and gas production. Moreover, a greater slowdown in global growth, additional monetary policy tightening, and a deterioration of the regional security situation would further weaken external demand, put pressure on fiscal and external accounts, and negatively affect growth. On the positive side, the authorities are of the view that the positive spin-offs from a good agricultural season and the efficient management of hydrocarbon resources, backed by the implementation of their ambitious reform program, should help the country achieve the expected strong performance of the economy.

III. Program Performance

9. Program performance has been broadly satisfactory. All quantitative performance criteria were met, as well as two of three indicative targets. Among the positive results, the fiscal deficit target was observed notably on the back of tax revenue largely exceeding the target floor. Furthermore, no external arrears have been constituted; and social spending represented 40 percent of total spending, in line with the relevant program objective. However, the ceiling on the share of contracts awarded through single-source procurement was missed, and only three of the nine structural benchmarks/reform targets were implemented on time. The authorities have taken corrective actions to implement the remaining structural benchmarks, albeit with delays.

IV. Medium-Term Macroeconomic Policies and Structural Reforms

10. The authorities will pursue their ambitious development goals in the framework of the PSE, while sustaining their reform efforts to further enhance resilience to shocks, expand the fiscal space, and improve public financial management, the governance of hydrocarbon resources, and the business climate.

Maintaining macroeconomic stability and debt sustainability

11. Looking ahead, the authorities aim to put public debt on a downward path by accelerating their fiscal consolidation efforts while preserving priority spending needed to maintain social stability. They are committed to reduce the fiscal deficit to 4.9 percent of GDP in 2023, and to remain on course for reaching the regional deficit norm of 3 percent in 2025. To this end, domestic revenue mobilization is being enhanced, and the authorities are improving the efficiency of public spending and addressing underlying vulnerabilities and risks to public finances.

12. On the revenue side, the authorities are committed to steadfast implementation of their Medium-Term Revenue Mobilization Strategy (SRMT), aiming to achieve a tax-to-GDP ratio of 20 percent by 2024. The focus in on adapting the tax and customs system to the changes in the economic, social, environmental, and digital fields; improving the productivity of revenue agencies; and reducing compliance costs for taxpayers.

13. Regarding public spending, the authorities are determined to continue easing the cost of living for the majority of the Senegalese population. In this connection, the 2023 budget steps up support notably for household consumer goods (such as wheat, oil, sugar, rice, and maize) and energy products, which have seen their costs rise due to tensions on international markets and the appreciation of the U.S. dollar. These measures, while costly, are warranted in the current juncture to address food insecurity concerns and support the purchasing power of vulnerable households.

14. Despite the lingering impact of the pandemic, and the spillovers from the war in Ukraine, the authorities are mindful that energy subsidies are not a sustainable policy option over the medium term. In this regard, they have taken steps to increase energy prices and better target the beneficiaries and have adopted a roadmap for the phasing out of energy subsidies by 2025 to avoid slippages likely to affect fiscal sustainability.

15. The on-going progress with public financial reforms will continue, notably through the implementation of the national budget and financial reform management strategy. Key components of the strategy include strengthening the identification, monitoring, and management of fiscal risks; improving budget execution and control; and establishing sound legal and institutional frameworks for public finance management.

16. The authorities are committed to strictly adhere to their prudent debt policy and management with a slower but consistent consolidation path that ensures the sustainability of public finances, while continuing to meet their economic and social development needs. They are mindful that public debt has increased in recent years due

notably to the Covid-19 pandemic and the impact of the war in Ukraine, and that debt vulnerabilities need to be addressed. To preserve Senegal's moderate risk of debt distress status, the Government will continue to strengthen debt management, and closely pursue a debt policy that favors concessional loans. In this perspective, the government does not plan to issue short-term Eurobonds given the rise in global interest rates, and will limit and exclusively allocate other commercial borrowing to highly profitable projects.

Promoting inclusive growth and private sector development

17. Private sector development remains a key pillar of Senegal's development agenda (PSE). Under the Business Environment and Competitiveness Reform Program (PREAC), significant progress was made in its two previous phases with the emergence of innovative small and medium enterprises (SMEs) and an increase of nearly 275 percent in foreign direct investment. The on-going phase III of the program (PREAC III) builds on these advances with key reforms to improve labor legislation and the investment code, strengthen the commercial justice system, and facilitate access to property. Furthermore, the adoption of the law on public-private partnerships, and the establishment of investment platforms represent important program milestones.

18. The authorities have finalized a national private sector development strategy (SNDSP) for the long haul, 2023- 2035, which represents the reference framework for private sector development policy. The ambitious agenda seeks to densify the country's economic fabric and create up to 150 businesses per 100,000 inhabitants, compared to nine today. It will also accelerate the formalization of 300,000 businesses in comparison to 12,000 to 14,000 presently. The strategy also puts a strong emphasis on the economic integration and employment of young people, including women.

19. Achieving strong and inclusive economic growth hinges also on enhancing financial inclusion. In this regard, the reforms and projects undertaken under the financial inclusion strategy for 2021-2025 aim to achieve a financial inclusion rate of 65 percent for adults and 90 percent for small and medium enterprises (SMEs), and cover all municipalities in the country. The authorities will also ensure that financial stability is preserved by completing the restructuring process of the three non-systemic banks in close collaboration with the regional Central Bank (BCEAO) and Banking Commission. Likewise, the institutional transformation of "Postefinances" into a postal bank is progressing well.

20. On AML/CFT, the government remains determined to exit from the enhanced oversight of the Financial Action Task Force (FATF). The joint group that oversees related developments is scheduled for January 2023. The authorities are working with all concerned actors with a view to ensuring full implementation of the 30 residual actions before the meeting takes place.

V. Conclusion

21. The authorities value the constructive policy dialogue with the Fund which has helped Senegal maintain macroeconomic stability, and implement policies and reforms aimed at achieving the goals of the PSE. The Government remains strongly committed to continue building on this progress, and, in this perspective, intends to request Fund's support for a new program in 2023.

22. In view of the broadly satisfactory program performance, and the authorities' commitment to preserve macroeconomic stability, pursue reforms to improve public financial management and the business environment, and achieve strong and inclusive economic growth, the authorities seek Executive Directors' support for the completion of the final reviews under the PCI, SBA, and SCF.