

**FOR
AGENDA**

EBS/84/37

CONFIDENTIAL

March 1, 1984

To: Members of the Executive Board
From: The Secretary
Subject: Senegal - Review Under Stand-By Arrangement

Attached for consideration by the Executive Directors is a paper on a review under the stand-by arrangement for Senegal. A draft decision appears on page 26.

This subject will be brought to the agenda for discussion on a date to be announced.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Calamitsis (ext. 76107) or Mr. Ugolini (ext. (5)8657).

Att: (1)

INTERNATIONAL MONETARY FUND

SENEGAL

Review Under Stand-By Arrangement

Prepared by the African Department
and the Exchange and Trade Relations Department

(In consultation with the Fiscal Affairs, Legal,
and Treasurer's Departments)

Approved by J.B. Zulu and S. Kanesa-Thasan

March 1, 1984

I. Introduction

On September 19, 1983 the Executive Board approved a one-year stand-by arrangement for Senegal in an amount equivalent to SDR 63 million (EBS/83/182 and Supplement 2), representing 100 percent of the then existing quota, or 74 percent of the new quota of SDR 85.1 million. ^{1/} Under this arrangement, which is in support of the authorities' adjustment program for the fiscal year 1983/84 (July/June), Senegal has so far made two purchases totaling SDR 31.5 million. The first purchase equivalent to SDR 15.75 million was effected on September 30, 1983 following Board approval of the arrangement, and the second, in the same amount, on December 15, 1983 upon observance of the performance criteria for end-September 1983. As of January 31, 1984 the Fund's holdings of Senegal's currency subject to repurchase were equivalent to 220.7 percent of quota; excluding holdings resulting from purchases under the compensatory financing facility, they amounted to 171.4 percent of quota. If the full amount of the current stand-by arrangement is purchased, such holdings would reach, after scheduled repurchases, the equivalent of 254.2 percent of quota; excluding the compensatory financing facility, they would amount to 204.9 percent of quota (Table 1).

The stand-by arrangement calls for a mid-term review with the Fund of progress in the implementation of the adjustment program, including the establishment of appropriate performance criteria for the second half of the program. Accordingly, a staff mission visited Dakar during

^{1/} Unless otherwise specified, henceforth all references are to Senegal's new quota, which became effective on December 30, 1983.

Table 1. Senegal: Fund Position During Period of Stand-By Arrangement

	Outstanding at beginning of arrangement August 31, 1983 <u>1/</u>	1983		1984	
		July- Sept.	Oct.- Dec.	Jan.- March	April- June
(In millions of SDRs)					
Transactions under tranche policies (net) <u>2/</u>	---	<u>15.75</u>	<u>15.75</u>	<u>14.68</u>	<u>13.88</u>
Purchases	---	15.75	15.75	15.75 <u>3/</u>	15.75 <u>4/</u>
Ordinary resources	---	(7.16)	(7.16)	(7.16)	(3.20)
Enlarged access resources	---	(8.59)	(8.59)	(8.59)	(12.55)
Repurchases	---	---	---	-1.07	-1.87
Ordinary resources	---	(--)	(--)	(--)	(-0.37)
Enlarged access resources	---	(--)	(--)	(-1.07)	(-1.50)
Transactions under special facilities (net) <u>5/</u>	---	<u>-2.61</u>	<u>-2.61</u>	---	---
Purchases	---	---	---	---	---
Repurchases	---	-2.61	-2.61	---	---
Total Fund credit outstanding (end of period)	<u>158.92</u>	<u>174.67</u>	<u>187.81</u>	<u>202.49</u>	<u>216.37</u>
Tranche policies <u>2/</u>	114.31	130.06	145.81	160.49	174.37
Special facilities <u>5/</u>	44.61	44.61	42.00	42.00	42.00
(In percent of quota)					
Total Fund credit outstanding (end of period)	<u>252.25</u> <u>6/</u>	<u>277.25</u> <u>6/</u>	<u>220.69</u>	<u>237.94</u>	<u>254.25</u>
Tranche policies <u>2/</u>	181.44	206.44	171.34	188.59	204.90
Special facilities <u>5/</u>	70.81	70.81	49.35	49.35	49.35

Source: IMF, Treasurer's Department.

1/ End of the calendar month in which the staff paper was issued.

2/ Ordinary and enlarged access resources.

3/ Purchase to be made upon observance of the end-December 1983 performance criteria and completion of the mid-term review.

4/ Purchase to be made upon observance of the end-March 1984 performance criteria.

5/ Compensatory financing facility.

6/ In percent of the old quota of SDR 63.0 million.

the period January 16-28, 1984. ^{1/} In the attached letter to the Managing Director dated February 7, 1984, the Minister of Economy and Finance reviews Senegal's performance during the first half of the program period, indicates the policies and measures to be pursued in the second half, and proposes performance criteria for end-March 1984 and end-June 1984.

In conducting the review, the Fund staff maintained close collaboration with the World Bank staff, especially regarding Senegal's medium-term agricultural policy and the rehabilitation programs of the major nonagricultural public enterprises. Summary statements on Senegal's relations with the Fund and the World Bank Group are presented in Attachments I and II, respectively.

II. Background

For a long time now, Senegal has been facing serious economic and financial difficulties. In the five-year period ended June 1983 the country experienced two successive severe droughts, in 1979/80 and 1980/81, which sharply reduced agricultural production both for export and domestic consumption. The groundnut crop, the mainstay of the economy, fell to a low of 523,000 tons in 1980/81, before recovering to 1,112,000 tons in 1982/83, about the same level as in 1978/79. Thus, despite some progress in other sectors of the economy, notably fishing and tourism, during the five-year period real gross domestic product (GDP) grew at an estimated average annual rate of 2 percent, well below the rate of population increase of 2.7 percent. Meanwhile, domestic demand continued to exceed GDP, owing mainly to a high level of public and private consumption, attributable in turn to generally expansionary fiscal and credit policies. The resulting external current account deficits were covered in part by foreign borrowing and debt relief from the Paris Club and commercial banks. Nevertheless, the balance of payments showed sizable overall deficits, involving a more than tenfold increase in the Central Bank's (BCEAO) net foreign liabilities, from the equivalent of CFAF 15.1 billion at end-June 1978 to CFAF 163.4 billion at end-June 1983.

In an effort to deal with the country's increasing difficulties, in recent years the Senegalese authorities have adopted a number of programs of economic and financial adjustment which have been supported by use of Fund resources in the upper credit tranches. The first program, covering the three years 1980/81-1982/83, in support of which the Fund approved

^{1/} The staff mission consisted of Mr. Calamitsis (head-AFR), Mr. Yucelik (FAD), Mr. Ugolini (AFR), Mr. El-Erian (EP-ETR), and Miss Earll (secretary-AFR). Mr. Goreux (AFR) joined the mission toward the end of its stay. Mr. Tshishimbi, Alternate Executive Director for Senegal, attended the concluding policy meetings.

an extended arrangement in an amount of SDR 184.8 million, ran into considerable difficulties soon after its inception, not only on account of the adverse impact of the drought but also because a number of measures envisaged in the program were not implemented. In the circumstances, at the request of the authorities, the extended arrangement was cancelled in September 1981 and replaced by a one-year stand-by arrangement for SDR 63 million. Under the new program for 1981/82, several important corrective actions were taken, including tax and price increases designed to slow the growth of consumption, structural improvements in agriculture, and administrative and accounting reforms in the public sector. As a result, given also a recovery in agricultural production and significant external assistance, both the external current account deficit and the overall fiscal deficit in relation to GDP were reduced significantly, and all the performance criteria of the program were observed.

To consolidate the gains achieved in 1981/82, the authorities undertook a program for 1982/83, in support of which the Fund approved another one-year stand-by arrangement for SDR 63 million. This program sought to reduce further the external current account deficit to an amount equivalent to 12.4 percent of GDP, mainly by containing the overall fiscal deficit to GDP ratio to 7.0 percent. However, although weather conditions remained favorable and a bumper groundnut crop was harvested, the program quickly went off-track, and the mid-term review was not completed. While this can be partly explained by the downturn in world market prices for groundnut oil, which reached their lowest level in more than a decade at the beginning of 1983, it mainly reflected a failure to implement the necessary policies in a timely and complete manner. According to revised estimates, in 1982/83 the overall fiscal deficit, on a commitment basis, was 29 percent higher than programmed, reaching the equivalent of 8.1 percent of GDP. The external current account target was thus also exceeded, with the actual deficit amounting to 13.2 percent of GDP, after debt rescheduling (Table 2).

III. Performance to Date and Likely Outcome Under the 1983/84 Program

In view of the seriousness of the situation in mid-1983, the authorities recognized that much stronger and more sustained adjustment efforts were needed to make progress toward a viable internal and external financial position over the medium term. Accordingly, they adopted a new program, which is being supported by the current stand-by arrangement, aimed primarily at reducing the external current account deficit, before debt rescheduling, from the equivalent of 15.6 percent of GDP in 1982/83 to 11.9 percent of GDP in 1983/84; after debt rescheduling, the reduction specified in the program was from 14.4 percent to 11.0 percent, respectively. ^{1/} In contrast to the previous program, the 1983/84 program

^{1/} These ratios are based on the original estimates used in the design of the program as presented in EBS/83/182.

Table 2. Senegal: Selected Economic and Financial Indicators, 1981-84

	1981	1982	1983		1984		1982/83		1983/84	
		Rev.	Prog.	Rev.	Prog.	Rev.	Est. 1/	Rev.	Prog.	Rev.
(Annual percent changes, unless otherwise specified)										
National income and prices										
GDP at constant prices	0.3	11.0	3.0	5.9	3.0	-2.9	5.7	8.3	3.0	1.2
GDP deflator	7.0	13.5	9.9	9.1	7.6	8.8	9.8	10.9	8.7	8.9
External sector										
Exports, f.o.b. (in SDRs)	-2.7	26.6	3.5	—	12.1	9.7	1.0	3.5	12.6	14.7
Imports, f.o.b. (in SDRs)	2.1	0.4	-4.4	-1.3	—	-5.5	-2.8	-0.6	-3.6	-5.8
Non-oil imports, c.i.f. (in SDRs)	-3.9	0.5	2.5	1.9	-0.1	-4.7	...	...	...	...
Export volume	-14.1	49.8	19.9	8.6	4.7	—	...	...	...	...
Import volume	-2.6	1.3	-2.7	1.2	-5.2	-7.2	...	...	...	...
Terms of trade (deterioration -)	8.1	-14.6	-11.9	-5.7	1.2	8.0	...	...	...	...
Nominal effective exchange rate (end of period) (depreciation -)	-6.6	-6.5	...	-7.0	...	...	-5.7	-5.8	...	...
Government budget										
Revenue, excluding grants	...	...	...	...	...	...	15.5	15.7	13.0	9.5
Total expenditure (current and capital)	...	...	...	...	...	...	18.1	16.6	7.0	8.6
Money and credit										
Domestic credit	26.6	20.5	12.1	7.8	...	...	16.3	17.4	12.8	6.8
Government (net)	127.4	115.2	25.3	22.7	...	...	28.6	28.8	45.7	45.7
Private sector	20.0	8.8	8.8	4.2	...	...	13.6	15.0	4.8	-2.5
Money and quasi-money	21.9	21.0	3.6	5.0	...	...	9.4	12.1	6.8	1.5
Velocity (GDP relative to M2) 2/	3.5	3.4	3.4	3.6	...	...	3.4	3.4	3.5	3.7
Interest rate (end of period) 3/	8.5	10.5	9.5	4/ 9.5	...	...	9.5	4/ 9.5	9.5	9.5
(In percent of GDP)										
Overall fiscal deficit (-)										
Commitment basis	...	...	...	...	...	...	-9.0	-8.1	-4.8	-4.4
Cash basis	...	...	...	...	...	...	-6.9	-7.3	-7.3	-6.6
Gross domestic investment	18.8	17.1	17.7	...	17.7	...	...	...	...	...
Gross domestic savings	—	3.0	3.5	...	4.7	...	...	...	...	...
External current account deficit (-) 5/ 6/	-18.8	-11.2	-12.6	-12.8	-10.4	-9.3	-14.4	-13.2	-11.0	-9.8
External debt (inclusive of use of Fund credit)	55.7	60.0	68.4	66.6	73.6	74.1	...	...	...	...
Debt service ratio (in percent of exports of goods, services, and private transfers) 6/	18.4	12.6	17.1	14.3	17.8	19.0	...	...	...	...
Interest payments (in percent of exports of goods, services, and private transfers) 6/	9.3	6.9	12.3	9.8	13.1	11.2	...	...	...	...
(In millions of SDRs, unless otherwise specified)										
Gross domestic product (in billions of current CFA francs)	669.8	844.1	932.1	975.3	1,033.3	1,030.3	877.8	909.7	982.7	1,002.8
Overall balance of payments deficit (-)	-139.5	-103.6	-119.7	-96.0	-117.2	-75.9	-101.2	-111.1	-95.9	-73.3
Gross official reserves (weeks of imports)	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
External payments arrears	12.9	—	—	—	—	—	—	—	—	—

Sources: Data provided by the Senegalese authorities; and staff estimates and projections.

1/ Base figures for 1983/84 program.

2/ GDP relative to average of June and December broad money stocks.

3/ Minimum rate on time deposits in excess of 1 year and in amounts of more than CFAF 2 million.

4/ Since April 5, 1983.

5/ Including official transfers.

6/ After debt rescheduling.

involved a large number of early and strong adjustment measures, most of which were implemented before Executive Board approval of the stand-by arrangement. Furthermore, these measures were placed in a broader framework of structural reform of key sectors of the economy, particularly agriculture.

As originally designed, the program assumed that weather conditions would be normal and that export prices would remain firm. In the event, Senegal experienced another very severe drought, which seriously affected agricultural production, imposing great hardship on large segments of the population. According to the latest estimates, the 1983/84 groundnut crop amounted to 550,000 tons, some 40 percent lower than envisaged in the program and less than half that of the previous year. Cereal output also declined sharply, leading to a substantial widening of the gap between domestic production and consumption. Therefore, although value added in certain other sectors of the economy seems to have grown, real GDP is now expected to show only a slight increase in 1983/84, whereas it had been projected to rise by 3 percent. However, while the drought has reduced agricultural output both for export and domestic consumption, its adverse impact on the balance of payments is likely to be more than offset by a larger-than-anticipated rise in world market prices of groundnut products and, to a lesser extent, by emergency food aid from bilateral and multi-lateral donors.

Against this background, the adjustment effort has been maintained, the program has been kept on track, and the performance criteria of the program for end-September 1983 and end-December 1983 were fully observed.

1. Early adjustment measures

An important feature of the authorities' current program has been the implementation of a large number of strong adjustment measures almost at the outset of the program period, with a view to reducing consumer subsidies, improving budgetary performance, and restraining credit expansion, thereby curbing the growth of domestic demand. As shown in Table 3, effective August 19, 1983 the retail prices of rice, sugar, cooking oil, and petroleum products were all increased considerably. In the case of rice, most of which is imported, the retail price was raised by 24 percent to CFAF 130 per kg, bringing the cumulative increase to 63 percent since February 1982. This price adjustment will contribute to improving the financial position of the Price Equalization and Stabilization Fund (CPSP); at the same time, it should help moderate the growth of rice imports and encourage domestic production of rice substitutes. To further improve the CPSP's operations, several changes have been introduced in the groundnut sector. Since the start of the current crop season in November 1983, the two oil millers are not only fully responsible for the marketing and processing of groundnuts but have also become the employers of the weighers and transporters. As such, they will be liable for any losses between the weighing of the groundnuts purchased from the producers and the weighing at the mills, which were

Table 3. Senegal: Implementation Status of the 1983/84 Adjustment Program

Policies and measures	Status of implementation
1. Measures taken before Executive Board consideration of the program	
a. Rice: increase in consumer price from CFAF 105/kg to CFAF 130/kg	Implemented August 19, 1983
b. Sugar: increase in consumer price by an average of CFAF 50/kg	Implemented August 19, 1983
c. Cooking oil: increase in consumer price of groundnut oil from CFAF 339/liter to CFAF 400/liter, and of imported vegetable oil from CFAF 245/liter to CFAF 300/liter	Implemented August 19, 1983
d. Fertilizers: levy of CFAF 5/kg to be imposed on groundnut producers	Implemented August 19, 1983
e. Seeds: levy on groundnut producers to be increased from CFAF 10/kg to CFAF 15/kg	Implemented August 19, 1983
f. Groundnut sector: the two oil millers to be the employers of the weighers and transporters and responsible for any losses	Implemented
g. Petroleum products: increase in retail prices by an average of 8 percent	Implemented August 19, 1983
h. Current expenditure: savings on wages and salaries of CFAF 2.0 billion, and on materials, supplies, and transfers of CFAF 2.0 billion	Already in effect
i. Capital expenditure: cutback in non-priority projects of CFAF 5.0 billion	Already in effect
2. Measures to be taken and subject to mid-term review of the program	
a. Civil service: limit the growth of staff to under 2.5 percent in 1983/84 and to 1.3 percent in 1984/85	Being implemented
b. Public enterprises: develop rehabilitation programs for the major enterprises in cooperation with the World Bank	Being implemented
c. Petroleum products and SAR: further adjustment of petroleum product prices to wipe out SAR's cumulative deficit by the end of 1984	Some action to be taken before the end of the program

Table 3 (concluded). Senegal: Implementation Status of the 1983/84 Adjustment Program

Policies and measures	Status of implementation
d. Government leases: a package of measures for replacing direct rental payments by lump-sum allowances	Being implemented
e. Real estate tax: a study to identify how revenue from property taxes can be increased	Being implemented
f. Repayment of 1983/84 crop loans: establish a schedule for repayment each quarter	No longer necessary since no deficit is now expected
g. Agricultural policies: formulate proposals to improve the efficiency of the groundnut sector and to increase the production of cereals over the medium term	To be implemented by mid-March 1984
h. Debt rescheduling agreements with the Paris Club and the commercial banks for 1983/84	Implemented
3. Measures not originally envisaged in the program	
a. Current expenditure: further savings on materials, supplies, and transfers of CFAF 2.0 billion	Already in effect
b. Capital expenditure: further cutback in nonpriority projects of CFAF 2.0 billion	Already in effect
c. Reduction of CFAF 0.9 billion of domestic arrears of the Government and public agencies	Implemented
d. CPSP: transfer of its control from the Ministry of Commerce to the Ministry of Economy and Finance	Implemented
e. SONAR: progressive phasing-out of its operations	To commence in 1984/85

Sources: Letters of intent of the Minister of Economy and Finance of August 11, 1983 and February 7, 1984; and information provided by the Senegalese authorities.

previously absorbed by the Government, at a cost of about CFAF 4.0 billion in 1982/83. In addition, beginning in April-May 1984 the distribution of seeds to producers will be proportional to the amount of groundnuts marketed by them in the present season. Finally, in an effort to eliminate the subsidies in the seed and fertilizer distribution schemes that totaled CFAF 5 billion in 1982/83, the amount withheld for seeds from groundnut producers has been increased from CFAF 10 per kg to CFAF 15 per kg, while a levy of CFAF 5 per kg has been introduced for fertilizers.

While introducing measures to reduce consumer subsidies, the authorities also took steps to limit the growth in the number of civil servants, which had been a major factor behind the deterioration of the fiscal situation, and to contain other current government outlays through more rigorous controls. Furthermore, they effected substantial cutbacks in nonpriority investments that were to be financed from domestic resources. In this way, together with an intensified effort to collect tax arrears, the overall fiscal deficit, on a commitment basis, was to be reduced to the equivalent of 4.8 percent of GDP in 1983/84.

2. Operations of the Price Equalization and Stabilization Fund

The program had assumed that world market prices of groundnut oil, which had picked up from a low of US\$445 per ton in March 1983 to US\$635 per ton in July 1983, would remain firm in 1983/84. Instead, they spurted upward (Chart 1), averaging US\$980 per ton in August-December 1983, and it is expected that they will remain at around this level in January-June 1984. Therefore, it is projected that they will average about US\$930 per ton for the 1983/84 crop, as against US\$550 per ton assumed in the program.

In view of these developments and prospects, and the strengthening of the U.S. dollar, the average price at which groundnut exports are marketed is estimated to exceed the average cost to the oil mills by about CFAF 20,000 per ton, which should generate a surplus to the CPSP of the order of CFAF 5.0 billion in 1983/84, compared with a programmed deficit of CFAF 10.6 billion (Table 4). As a result of this turnaround, and in spite of a lower surplus on imported vegetable oils, ^{1/} it is now projected that in 1983/84 the CPSP will realize an overall surplus of CFAF 7.7 billion; this compares with an initially estimated deficit of CFAF 5.8 billion and a deficit of CFAF 3.9 billion (based on revised estimates) in 1982/83. The substantial improvement in the CPSP's financial operations would make it possible for the Government to cover the deficits of the public enterprises engaged in seed distribution (SONAR) and rice

^{1/} The lower surplus on imported vegetable oils is expected to result from higher-than-projected import prices due to the general spurt in world market prices of oilseeds.

Table 4. Senegal: Financial Operations of the CPSP, 1982/83-1983/84

(In billions of CFA francs)

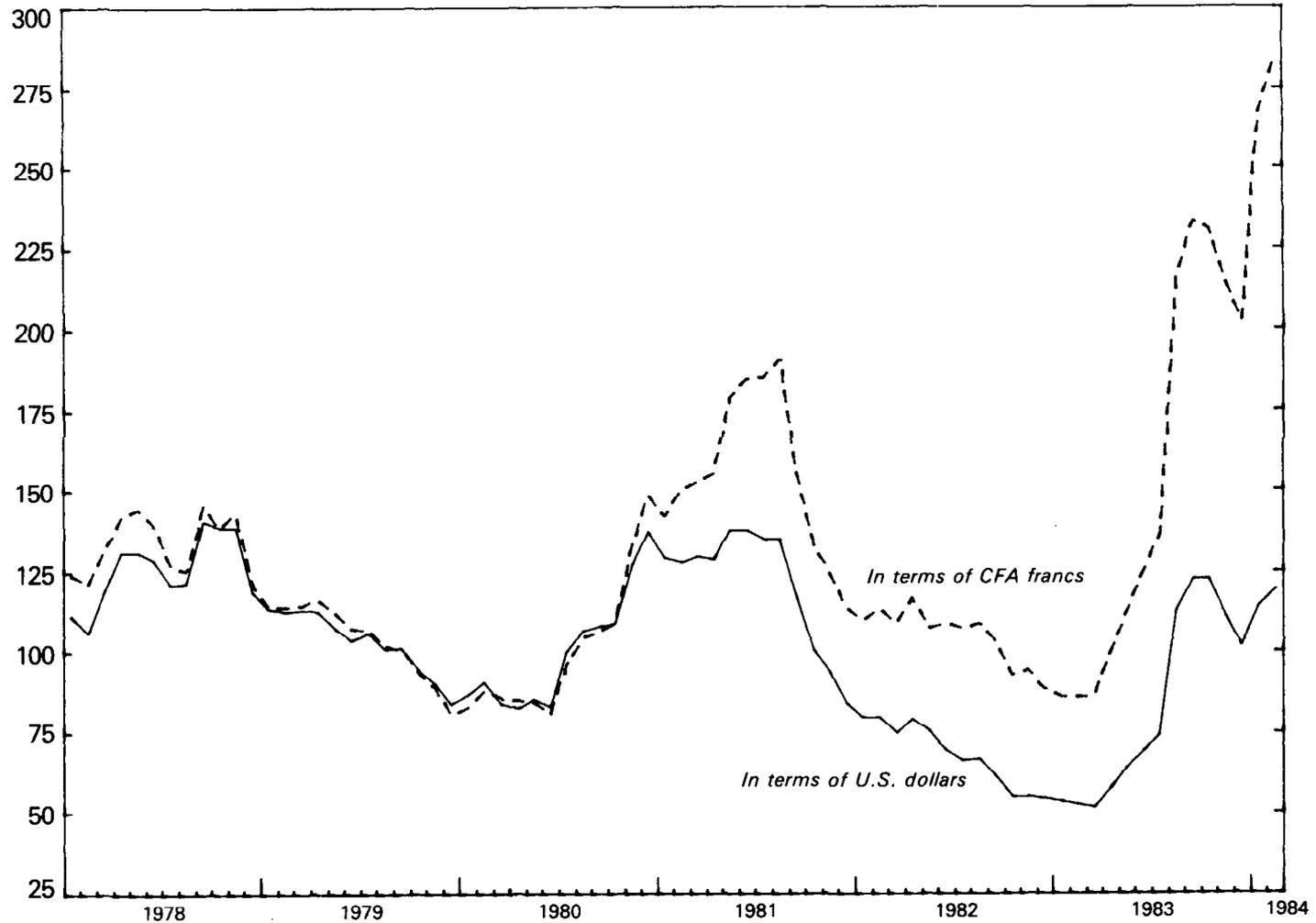
	1982/83		1983/84	
	Estimate	Revised	Program	Revised
Receipts	2.9	5.5	8.0	10.8
Export crops	0.3	0.3	0.6	6.1
Cotton	(0.3)	(0.3)	(0.6)	(1.1)
Groundnuts	(--)	(--)	(--)	(5.0)
Consumption goods	2.3	4.9	7.1	4.4
Rice	(2.0)	(1.6)	(2.6) <u>1/</u>	(2.6) <u>1/</u>
Flour	(0.3)	(0.7)	(0.3)	(--)
Groundnut and vegetable oils	(--)	(2.6)	(4.2)	(1.8)
Taxes and levies	0.3	0.3	0.3	0.3
Expenditures	18.8	9.4	13.8	3.1
Administrative and capital	1.0	1.0	1.3	1.5
Agricultural program	0.9	0.7	0.7	0.4
Export crops	13.9	6.2	10.9	0.3
Groundnuts <u>2/</u>	(13.6)	(6.0)	(10.6)	(--)
Cotton	(0.3)	(0.2)	(0.3)	(0.3)
Consumption goods	3.0	1.5	0.9	0.9
Sugar	(2.8)	(1.5)	(0.8)	(0.8)
Wheat flour	(0.1)	(--)	(0.1)	(0.1)
Groundnut and vegetable oils	(0.1)	(--)	(--)	(--)
Surplus or deficit (-)	-15.9	-3.9	-5.8	7.7

Sources: Data provided by the Senegalese authorities; and staff estimates and projections.

1/ After payment of import duties.

2/ Including financial charges.

CHART 1
SENEGAL
WORLD GROUNDNUT OIL PRICES¹, 1978-1984
(1980=100)



Source: IMF, *International Financial Statistics*.
¹Groundnut oil, West Africa, c.i.f. Rotterdam.



production (SAED), which are estimated to amount to CFAF 6.0 billion and CFAF 1.7 billion, respectively, in 1983/84. 1/

3. Fiscal performance and policies

Fiscal adjustment is the key element of the program. As indicated earlier, at the outset of the program the authorities took steps to contain the growth of both current and nonpriority capital expenditure. The rise in current expenditure, excluding interest payments on the public debt, which amounted to 9 percent in 1982/83, was to be limited to 6 percent in 1983/84, with the wage bill increasing by less than 8 percent to CFAF 100 billion, and outlays on materials, supplies, and transfers by 4 percent to CFAF 70 billion. At the same time, capital expenditure through the budget was to rise by only CFAF 2 billion to CFAF 10 billion. Although no new tax measures were introduced, budgetary revenue was expected to benefit from an intensified effort to collect tax arrears, as well as from the full-year impact of a general increase in import duties and in excises on alcoholic beverages introduced toward the end of 1982/83. Altogether, and after accounting for the reduction in consumer subsidies, the overall fiscal deficit, on a commitment basis, was to be reduced to CFAF 47.6 billion in 1983/84, compared with a revised deficit of CFAF 73.3 billion in the previous year (Table 5).

In the first half of the fiscal year current expenditure was in line with the level envisaged in the program, while capital expenditure lagged substantially behind. However, owing to the slowdown in economic activity, there was a significant shortfall in budgetary revenue, especially from customs duties and taxes on goods and services. Based on revenue collections through the end of December 1983 and the likely prospects, it is now estimated that for 1983/84 as a whole total revenue and grants will amount to CFAF 204.6 billion, representing a shortfall of CFAF 4.8 billion in comparison with the program target; excluding grants, the shortfall would be CFAF 5.9 billion. Furthermore, while the Government has received some unforeseen budgetary grants, total external financial assistance will be lower than initially envisaged.

In view of these adverse developments, the authorities have moved promptly to further contain expenditure and, as indicated in the attached letter from the Minister of Economy and Finance, they will take any additional measures that may be needed to keep the fiscal program on track. As shown in Table 5, the measures already taken and to be pursued in the months ahead aim at achieving economies in budgetary outlays totaling CFAF 4.0 billion—CFAF 2.0 billion on account of materials, supplies, and transfers, and an equivalent amount in nonpriority investments. The

1/ Although SONAR's operations were expected to be in equilibrium in 1983/84, a sizable deficit is now estimated because the retainer collected from the much lower groundnut crop will not be sufficient to cover the cost of seed distribution.

Table 5. Senegal: Government Financial Operations, 1981/82-1983/84

	1981/82	1982/83 Revised	Program	1983/84 Revised	Difference
(In billions of CFA francs)					
Total revenue and grants	160.6	180.9	209.4	204.6	-4.8
Revenue	(151.9)	(175.7)	(198.3)	(192.4)	(-5.9)
Of which: tax revenue	135.4	160.5	188.3	182.4	-5.9
Grants	(8.7)	(5.2)	(11.1)	(12.2)	(1.1)
Of which: capital	8.7	3.4	11.1	6.0	-5.1
Current expenditure	165.4	186.6	203.1	206.6	3.5
Wages and salaries	(83.3)	(92.7)	(100.0)	(100.0)	(--)
Interest on public debt	(18.3)	(26.7)	(33.1)	(38.6)	(5.5)
External	17.0	26.2	31.5	37.0	5.5
Domestic	1.3	0.5	1.6	1.6	--
Materials, supplies, trans- fers, and other	(63.8)	(67.2)	(70.0)	(68.0)	(-2.0)
Special accounts other than CAA (net)	5.0	-12.3	-7.0	-7.0	--
Correspondents (net)	-21.6	-16.3	-4.5	3.0	7.5
CPSP, SONAR, and SAED	(-11.2)	(-11.4)	(-7.5)	(--)	(7.5)
Other	(-10.4)	(-4.9)	(3.0)	(3.0)	(--)
Capital expenditure	28.0	39.0	42.4	38.3	-4.1
Budget	(4.3)	(7.9)	(10.0)	(8.0)	(-2.0)
Other	(23.7)	(31.1)	(32.4)	(30.3)	(-2.1)
Total expenditure and net lending	210.0	254.2	257.0	248.9	-8.1
Overall fiscal deficit (-) (commitment basis)	-49.4	-73.3	-47.6	-44.3	3.3
Changes in payments arrears (reduction -)	-20.7	6.8	-23.8	-21.5	2.3
Government and public agencies	(-11.1)	(5.6)	(--)	(-0.9)	(-0.9)
CPSP and SONAR 1/	(-9.6)	(1.2)	(-23.8)	(-20.6)	(3.2)
Overall fiscal deficit (-) (cash basis)	-70.1	-66.5	-71.4	-65.8	5.6
Financing	70.1	66.5	71.4	65.8	-5.6
External	28.6	48.5	44.7	39.1	-5.6
Drawings	(33.3)	(49.5)	(43.1)	(36.6)	(-6.5)
Treasury	18.3	21.8	21.8	12.3	-9.5
Other	15.0	27.7	21.3	24.3	3.0
Amortization	(-29.9)	(-27.3)	(-24.8)	(-26.7)	(-1.9)
External debt relief	(25.2)	(26.3)	(26.4)	(29.2)	(2.8)
Domestic	41.5	18.0	26.7	26.7	--
Banking system	(38.7)	(20.2)	(41.3)	(41.3)	(--)
Repayment of ONCAD debt to banks	(--)	(-2.0)	(-16.6)	(-16.6)	(--)
Nonbank borrowing	(3.0)	(2.0)	(2.0)	(2.0)	(--)
Other	(-0.2)	(-2.2)	(--)	(--)	(--)
(In percent of GDP)					
<u>Memorandum items:</u>					
Revenue and grants	21.2	19.9	21.3	20.4	-0.9
Of which: tax revenue	(17.9)	(17.6)	(19.2)	(18.2)	(-1.0)
Total expenditure and net lending	27.7	28.0	26.1	24.8	1.3
Overall fiscal deficit (-) (commitment basis)	-6.5	-8.1	-4.8	-4.4	0.4
Overall fiscal deficit (-) (cash basis)	-9.3	-7.3	-7.3	-6.6	0.7

Sources: Data provided by the Senegalese authorities; and staff estimates and projections.

1/ Mainly crop credit arrears.

deficit on the special accounts (other than those of the Autonomous Amortization Fund--CAA) held with the Treasury is estimated to be in line with the program. By contrast, the net position of the Treasury correspondents is likely to improve even more than programmed, as the CPSP's surplus is expected to offset the deficits of SONAR and SAED. Total expenditure and net lending is to be limited to CFAF 248.9 billion in 1983/84, or CFAF 8.1 billion below the program level. Therefore, on a commitment basis, the overall fiscal deficit is to be reduced to CFAF 44.3 billion, as against CFAF 47.6 billion in the program; in terms of the revised GDP estimates, the deficit would be down from 8.1 percent in 1982/83 to 4.4 percent in 1983/84 (Chart 2), practically the same reduction in percentage points indicated in the program. Given the envisaged reduction in arrears, on a cash basis, the overall fiscal deficit is to be limited to CFAF 65.8 billion, or CFAF 5.6 billion less than programmed. This improvement would offset the expected shortfall in net external financing, thereby keeping net government borrowing from the banking system at the same level as in the program.

It may be recalled that a target of the 1983/84 program was to avoid any increase in the domestic arrears of the Government and public agencies. Actually, these arrears were slightly reduced during the first half of the fiscal year, from CFAF 55.7 billion at end-June 1983 to CFAF 54.8 billion at end-December 1983. As indicated in the attached letter of intent, the target for the second half of the year is not to exceed the end-December level.

The Government intends to continue its efforts to reduce the structural deficit in public finances. As regards the civil service, the target of lowering its annual rate of growth from about 6 percent in recent years to under 2.5 percent in 1983/84 is expected to be attained, and measures are already in place to reduce it further to 1.3 percent in 1984/85. In fact, in the first half of the current fiscal year the number of civil servants grew by less than 1 percent to some 70,640. This has been the result of a rigorous recruitment policy; admissions to civil service training schools have been reduced considerably, vacancies caused by retirement are not being filled, and new recruitment or announcement of competitive examinations can take place only with the authorization of the Secretary General at the Presidency. The Government has also taken steps to revise the system of housing entitlements and allowances, which should yield significant savings beginning in 1984/85; a survey of government-owned and -rented housing units will be completed shortly, the provision of housing for those found to be ineligible will be terminated, and direct rental payments for those entitled to housing will be replaced by lump-sum allowances.

As to tax reform, a study is underway to identify ways and means of increasing the yield of the real estate tax, as envisaged in the program; it is not likely, however, to result in any additional revenue

during this year. A broader review of the tax system has been entrusted to a special commission which is expected to recommend appropriate measures for mobilizing additional resources.

The Government remains committed to improving the financial position of public agencies and enterprises. With technical assistance from the World Bank, ^{1/} rehabilitation programs are being developed for the electricity company (SENELEC), the water supply company (SONEES), the transport company (SOTRAC), and the post and telecommunications office (OPT), while consideration is being given to restructuring certain rural development agencies. At the same time, the Ministry of Economy and Finance has been entrusted with monitoring closely the performance of the parastatal sector. To this end, control of the CPSP has recently been shifted from the Ministry of Commerce to the Ministry of Economy and Finance.

4. Credit policy

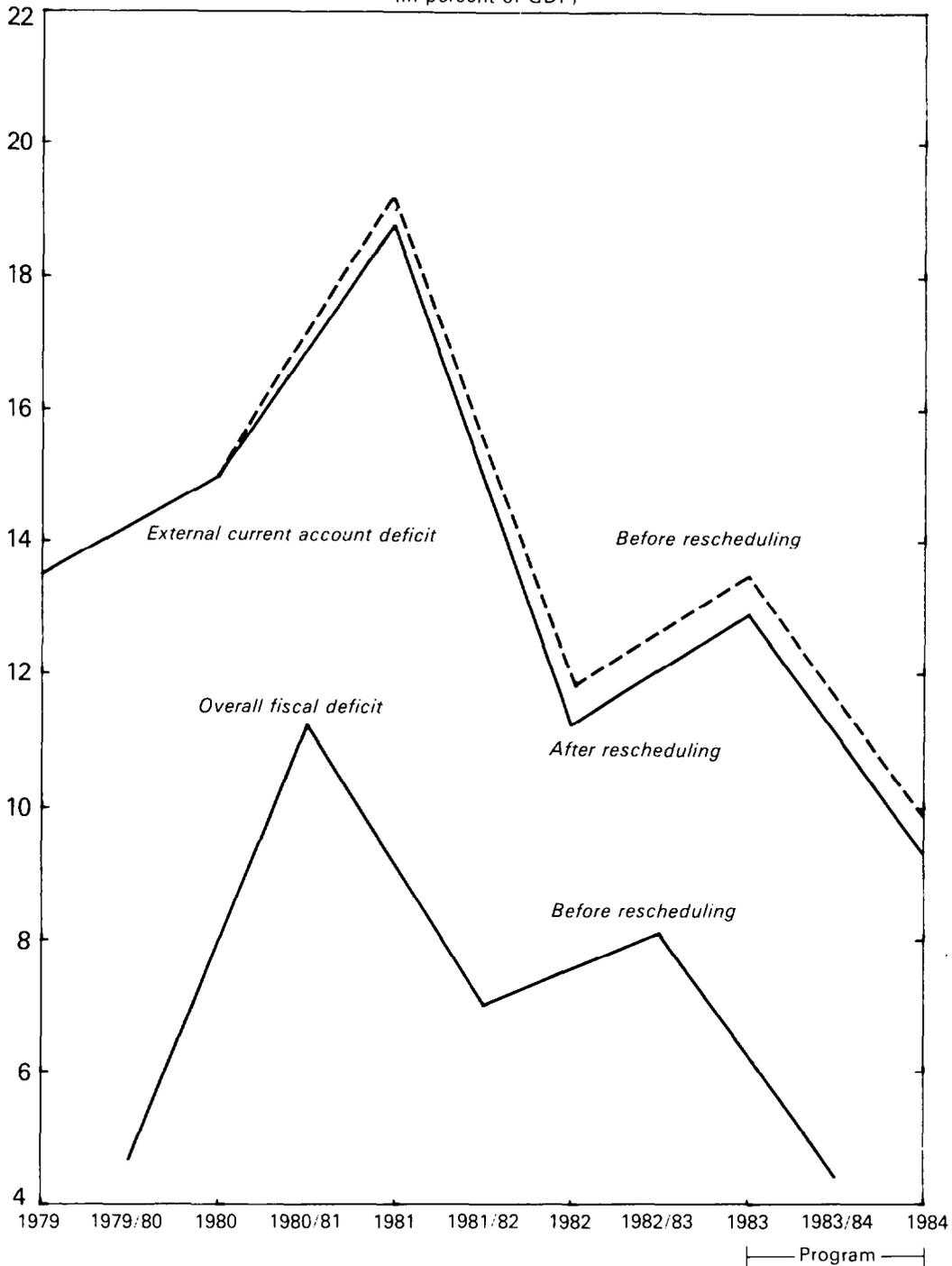
To reinforce the fiscal program, the monetary authorities have pursued a prudent credit policy. For the first half of the program period, credit to the private sector, excluding crop credit, was kept very close to the implicit ceiling (Table 6). In addition, owing to the large shortfall in groundnut production, crop credit requirements were substantially lower than the seasonal levels envisaged in the program. Since government recourse to the banking system was also lower than programmed, during July-December 1983 total domestic credit expansion amounted to less than 3 percent, compared with 8 percent in the program and 12 percent in the corresponding period of 1982. In view of developments in the external sector, money supply, broadly defined, rose by 3 percent in July-December 1983, as against 7 percent in the program and 10 percent in July-December 1982. In the first half of the program period the Government repaid CFAF 15.3 billion of outstanding crop credit; at end-December 1983, CFAF 5.1 billion of the outstanding 1982/83 crop credit was reclassified as ordinary credit, compared with a ceiling of CFAF 7.8 billion, a performance criterion under the program.

For the second half of the program period, these trends are expected to continue. Credit to the private sector other than for crop financing is to be kept within the indicative limits set out in the program. Net credit to the Government will also be kept within the initially established ceilings. Thus, in light of the reduced requirements for crop financing, total domestic credit will be maintained well below the indicative limits. In relation to the beginning money stock, total domestic credit expansion is to be limited to 12 percent in the year ending June 1984, compared with 23 percent in the program and 29 percent in the previous year. As to the outstanding amount of 1982/83 reclassified crop

^{1/} An IDA loan of SDR 10.2 million was approved on July 11, 1983 to finance a project aimed at rehabilitating the key public enterprises in Senegal.

CHART 2
SENEGAL
OVERALL FISCAL AND EXTERNAL CURRENT
ACCOUNT DEFICITS, 1979-1984

(In percent of GDP)



Sources: Data provided by the Senegalese authorities, and staff estimates and projections.



Table 6. Senegal: Monetary Survey, 1981-June 1984

	1981	1982		March	June	1983		Dec.	1984	June	1983		1984		
		June	Dec.			Sept.	Dec.				March	June	June	Dec.	Mar.	June
						Prog.	Act.	Prog.	Act.	Prog. Rev.		Annual change as percent of beginning money stock			
	(In billions of CFA francs)											(In percent)			
Net foreign assets	-121.6	-133.2	-159.3	-169.8	-178.8	-191.1	-189.5	-201.1	-180.4	-203.0	-208.0				
Central bank	-98.2	-120.7	-139.6	-148.1	-163.4	-169.4	-169.5	-187.6	...	-186.0	-194.9				
Commercial banks	-23.4	-12.5	-19.7	-21.7	-15.4	-21.7	-20.0	-13.5	...	-17.0	-13.1				
Domestic credit	370.3	398.5	446.2	465.0	468.0	472.3 ^{1/}	461.9	501.4 ^{1/}	481.0	505.7 ^{1/}	499.7 ^{1/}	29.2	13.3	14.9	11.9
Claims on Government (net)	40.7	70.2	87.6	86.7	90.4	106.2 ^{1/}	98.2	115.1 ^{1/}	107.5	123.7 ^{1/}	131.7 ^{1/}	8.5	7.6	13.5	15.5
Claims on private sector	329.6	328.3	358.6	378.3	377.6	366.1	363.7	386.3	373.5	382.0	368.0	20.7	5.7	1.4	-3.6
Of which:															
crop credit	(33.3)	(28.3)	(33.3)	(55.6)	(42.9)	(30.5)	(27.8)	(35.0)	(22.0)	(30.0)	(12.0)				
Money and quasi-money	216.9	238.1	262.4	273.3	266.8	259.4	258.4	278.5	275.4	281.7	270.7	12.1	5.0	3.1	1.5
Other items (net)	31.8	27.2	24.5	21.9	22.4	21.8	14.0	21.8	25.2	21.0	21.0				

Sources: Data provided by the Senegalese authorities; and staff estimates and projections.

^{1/} Performance criteria.

credit of CFAF 5.1 billion, this amount will be reduced by CFAF 3 billion by end-March 1984 and will be fully repaid by end-June 1984. Since operations in respect of the groundnut sector for 1983/84 are expected to be in equilibrium, it is no longer necessary to establish a repayment schedule for outstanding crop loans for this season.

5. External sector

Despite the shortfall in agricultural output, the pressures on Senegal's external payments position have been less acute than envisaged in the program. This is explained largely by the favorable evolution of groundnut oil prices, which, as explained earlier, increased sharply in the second half of 1983 and have remained firm since then. Moreover, although the 1983/84 groundnut crop was reduced markedly by the drought, the decline in export volume has been cushioned by the marketing of groundnut stocks carried over from the previous year, and hence groundnut export receipts are now expected to be significantly larger than had been initially projected. In addition, certain other exports, notably fish products, have increased more rapidly than had been foreseen. Thus, according to revised projections, total export earnings in SDR terms are expected to be 4 percent higher than envisaged in the program and 15 percent above the revised 1982/83 level (Table 7). ^{1/} Meanwhile, although food imports have risen because of the drought, the increased requirements have been offset by lower nonfood imports due to the tightening of demand management policies and the slowdown in economic activity. Moreover, the services account, after debt rescheduling, is now estimated to show a deficit somewhat lower than in the program, because the rescheduling of interest payments due on the Operations Account, not previously envisaged, is likely to more than compensate for a deterioration in certain other items. As a result, as net inflows of unrequited transfers are expected to show a slight improvement, reflecting essentially increased food grants, the current account deficit, after debt rescheduling, is projected to amount to about SDR 230 million in 1983/84, some SDR 30 million less than programmed; ^{2/} in relation to GDP, the deficit would decline to 9.8 percent, compared with 11 percent in the program and a revised 13.2 percent in 1982/83. Since net capital inflows are likely to be only moderately below the program level, the overall balance of payments deficit is also projected to be lower, amounting to about SDR 73 million, as against SDR 96 million in the program and SDR 111 million in 1982/83.

As envisaged in the program, Senegal concluded in December 1983 an agreement with the Paris Club for the rescheduling of its external debt

^{1/} In terms of CFA francs, total export earnings are projected to be 9 percent higher than in the program and 28 percent above the 1982/83 level.

^{2/} In terms of CFA francs, the current account deficit is projected to amount to about CFAF 100 billion in 1983/84, some CFAF 8 billion less than programmed.

Table 7. Senegal: Balance of Payments, 1981-84 and 1982/83-1983/84 ^{1/}

(In millions of SDRs)

	1981	1982	1983		1984		1982/83	1983/84	
	Preliminary		Program	Rev.	Program	Rev.	Rev.	Program	Rev.
Trade balance	-407.3	-312.6	-282.6	-301.9	-227.7	-214.5	-334.0	-246.1	-224.2
Exports, f.o.b.	367.3	465.0	457.7	465.5	512.9	510.6	441.2	485.0	506.0
Of which: groundnuts	(28.7)	(122.1)	(133.2)	(136.9)	(143.7)	(126.0)	(105.4)	(141.3)	(161.4)
Imports, f.o.b.	-774.6	-777.6	-740.3	-767.4	-740.6	-725.1	-775.2	-731.1	-730.2
Services (net)	-116.1	-72.2	-131.6	-128.6	-160.0	-137.5	-102.2	-136.2	-130.5
Of which: interest on public debt	(-56.8)	(-51.8)	(-87.1)	(-70.2)	(-113.6)	(-85.8)	(-66.6)	(-90.8)	(-63.3)
Unrequited transfers (net)	130.1	123.2	121.9	123.2	126.0	131.5	123.5	120.9	124.9
Private	26.5	26.7	27.7	27.2	29.6	28.0	27.3	27.9	27.0
Public	103.6	96.5	94.2	96.0	96.4	103.5	96.2	93.0	97.9
Current account deficit (-)	-393.3	-261.6	-292.3	-307.3	-261.7	-220.5	-312.7	-261.4	-229.8
Capital account	240.7	140.9	172.6	197.5	144.5	144.6	214.1	165.5	156.5
Public capital	172.3	112.8	120.2	140.3	93.4	101.2	166.5	115.7	121.6
Of which: amortization on public debt	(-49.0)	(-27.9)	(-24.0)	(-21.1)	(-22.3)	(-45.1)	(-14.8)	(-18.9)	(-31.4)
Private capital	68.4	28.1	52.4	57.2	51.1	43.4	47.6	49.8	34.9
SDR allocation	4.3	--	--	--	--	--	--	--	--
Errors and omissions	8.8	17.1	--	13.8	--	--	-12.5	--	--
Overall deficit (-)	-139.5	-103.6	-119.7	-96.0	-117.2	-75.9	-111.1	-95.9	-73.3
Financing	139.5	103.6	119.7	96.0	117.2	75.9	111.1	95.9	73.3
Central Bank	134.2	114.1	119.7	96.0	117.2	75.9	111.1	95.9	73.3
IMF	(51.4)	(39.1)	(21.0)	(21.0)	(48.6)	(17.0)	(26.3)	(54.8)	(54.8)
Exceptional financing	(--)	(88.2)	(--)	(--)	(--)	(--)	(--)	(--)	(--)
Other	(82.8)	(-13.2)	(98.7)	(75.0)	(68.6)	(58.9)	(84.8)	(41.1)	(18.5)
Arrears	5.3	-10.5	--	--	--	--	--	--	--
<u>Memorandum item:</u>									
CFAF/SDR	320.4	362.8	400.9	407.5	412.0	435.0	384.4	412.0	430.0

Sources: Data provided by the Senegalese authorities; and staff estimates and projections.

^{1/} After debt rescheduling in 1981/82-1983/84. Debt relief in 1981 and 1982 is estimated to have amounted to SDR 8.2 million and SDR 15.8 million, respectively, on account of interest, and SDR 45.9 million and SDR 70.3 million, respectively, on account of amortization. The corresponding figures for 1982/83 and 1983/84 are given in Table 9.

service obligations; a rescheduling agreement with the commercial banks was signed in February 1984. The Paris Club agreement covers debt service payments on official and officially guaranteed loans of over one year's maturity contracted before January 1, 1983 and falling due between July 1, 1983 and June 30, 1984. Ninety percent of the amount rescheduled is to be repaid in ten equal and successive semiannual payments starting June 30, 1988, with the remaining 10 percent to be paid in five equal and successive semiannual payments beginning on July 31, 1984. ^{1/} The agreement with the commercial banks replaces an earlier one initiated in June 1982 and not signed. It covers principal falling due between May 1, 1981 and June 30, 1982 (tranche A) and July 1, 1982 and June 30, 1984 (tranche B). The total debt service payments for 1983/84 to be rescheduled according to the provisions applying to the Paris Club and the commercial bank agreements is estimated at CFAF 36.5 billion, which is consistent with the assumptions made in the program.

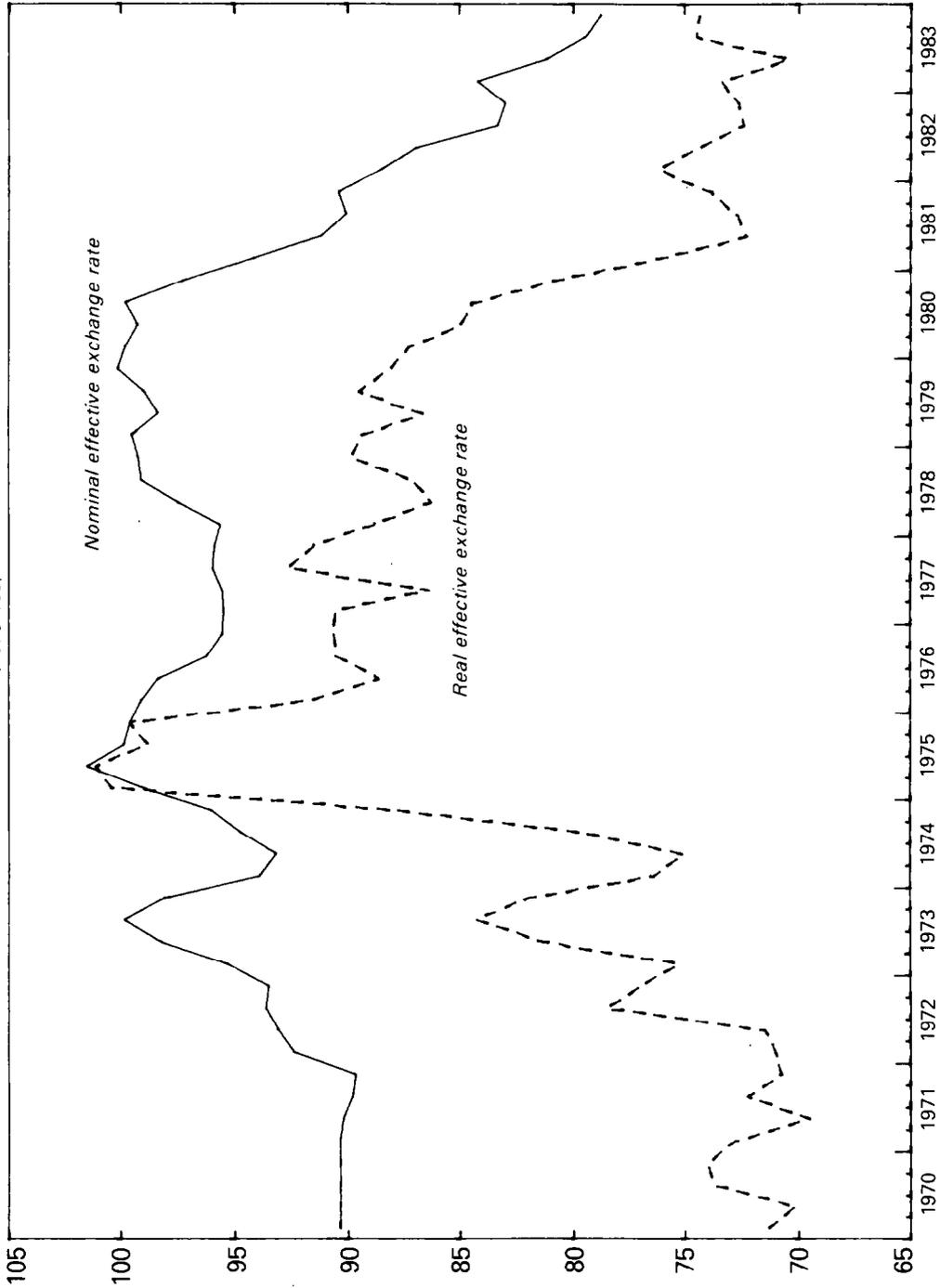
The appreciation of the U.S. dollar vis-à-vis the CFA franc (from CFAF 383.2 per dollar in June 1983 to CFAF 419.1 per dollar in December 1983) has had some impact on Senegal's effective exchange rate movements. For the six-month period ended December 1983, the nominal effective exchange rate depreciated by 3.0 percent (Chart 3). By contrast, the real effective exchange rate appreciated by 5.6 percent over the same period, reflecting the higher rate of price increases in Senegal relative to its major trading partners. For 1983 as a whole, Senegal's nominal effective exchange rate depreciated by 5.1 percent and the real effective exchange rate appreciated by 2.4 percent.

6. Performance criteria

As indicated earlier, all the performance criteria for end-September 1983 and end-December 1983 were met. The following quantitative performance criteria, which are specified in Table 8, will apply for the remaining period of the stand-by arrangement: (a) quarterly limits on total domestic credit; (b) quarterly limits on net bank credit to the Government; (c) quarterly limits on domestic arrears of the Government and public agencies; (d) quarterly minimum repayments of the 1982/83 crop credit reclassified as ordinary credit; and (e) cumulative limits on new external borrowing on nonconcessional terms by the Government or with government guarantee in the maturity ranges of 1-12 years and 1-5 years. The external borrowing limits will not include borrowings by the multinational companies Air Afrique and Agence pour la Sécurité de la Navigation Aérienne, or new borrowings for refinancing existing debts in the context of debt reschedulings. The performance criteria have been based on assumed levels of external financial assistance. As indicated in the footnotes to Table 8, certain asymmetrical adjustments to the performance criteria will be made should external financial assistance deviate from the targeted levels. The standard performance criteria regarding the exchange and trade system will continue to apply.

^{1/} For further details, see SM/84/52.

CHART 3
SENEGAL
NOMINAL AND REAL EFFECTIVE EXCHANGE RATES, 1970-1983¹
(1975=100)



Source: IMF, *International Financial Statistics*
¹Based on the following average import weights (in per cent): France (46);
U.S. (24), U.K. (7), Thailand (6); Germany (5); Italy (4); Ivory Coast (4); and the Netherlands (4).



Table A. Senegal: Quantitative Performance Criteria Under the 1983/84 Adjustment Program

	1983		1984	
	Sept.	Dec.	March	June
(In billions of CFA francs)				
Domestic credit				
Ceiling	472.3	501.4	505.7 ^{1/} _{2/}	499.7 ^{1/} _{2/}
Actual	461.9	481.0	...	...
Claims on Government (net)				
Ceiling	106.2	115.1	123.7 ^{2/}	131.7 ^{2/}
Actual	98.2	107.5	...	...
Domestic arrears of the Government and public agencies				
Ceiling	n.a.	55.7	54.8	54.8
Actual	...	54.8	...	...
Reclassified 1982/83 crop credit				
Ceiling	n.a.	7.8	n.a.	n.a.
Actual	...	5.1	...	...
Repayment of reclassified 1982/83 crop credit				
Minimum	n.a.	n.a.	3.0 ^{3/}	5.1
Actual	...	...	...	...
(In millions of SDRs) ^{4/}				
New external borrowing by the Government or with government guarantee (cumulative)				
1. 1-12 years' maturity				
Ceiling	20.0	20.0	20.0	20.0
Actual	2.1	2.1	...	...
2. 1-5 years' maturity				
Ceiling	2.0	2.0	2.0	2.0
Actual	2.0	2.0	...	...

Sources: Letters of intent of the Minister of Economy and Finance of August 11, 1983 and February 7, 1984; and data provided by the Senegalese authorities.

^{1/} In the event that external budgetary assistance (excluding grants) falls below CFAF 2 billion during the period January 1-March 31, 1984 and CFAF 3.3 billion during the period January 1-June 30, 1984, the ceiling could be adjusted upward by the amount of the shortfall, subject to a maximum increase of CFAF 1 billion. Should external budgetary assistance exceed the above amounts, the ceilings would be adjusted downward pro tanto. The additional assistance would be used for the following purposes: (1) to repay the 1982/83 crop credit; (2) to accelerate payments overdue on ONCAD debt; and (3) to settle quarterly installments due on ONCAD debt for 1982/83. In the event that the CFAF 5.1 billion of crop credit given to SONACOS is repaid, the ceiling for end-March 1984 will be adjusted downward pro tanto; in any event, this crop credit will have to be repaid before end-June 1984.

^{2/} The program does not envisage the receipt by Senegal of any exceptional external financial assistance (excluding grants) during the period January 1-June 30, 1984 that would have the effect of improving the net position of the Government vis-à-vis the banking system. Should such assistance be received, however, the ceilings and subceilings will be reduced pro tanto, net of any expenditure undertaken with such assistance. In the event that drawings are made against the structural adjustment loans of the CCCE deposited at the BCEAO on December 31, 1983 to finance public sector expenditures not reflected "above the line" in the table on the financial operations of the Government, the ceilings and subceilings will be adjusted upward pro tanto up to CFAF 1.2 billion at end-March 1984 and CFAF 1.6 billion at end-June 1984.

^{3/} In the event that external budgetary assistance (excluding grants) falls below CFAF 2 billion during the period January 1-March 31, 1984, the amount of reclassified crop credit to be repaid could be adjusted downward pro tanto, subject to a maximum adjustment of CFAF 1 billion.

^{4/} The exchange rate applicable to these borrowings will be the rate of the SDR vis-à-vis the contract currency on June 30, 1983.

IV. Medium-Term Prospects

Although Senegal has made considerable progress under the current program, the authorities recognize that sustained adjustment efforts will be required to achieve a viable economic and financial situation over the medium term. To be successful, however, the authorities consider that their domestic efforts will need to be supported by appropriate technical and financial assistance. In view of the critical importance of substantially reducing the country's large trade deficit, government policies are being geared toward expanding exports while containing imports. To this end, the authorities intend to provide the necessary incentives to boost nonagricultural exports, particularly fish products, phosphates, textiles, and chemicals from the new promising industry (ICS). This should also help reduce dependence on the vagaries of weather and world price conditions for groundnut products, which still represent more than a quarter of total export earnings. To contain imports, apart from pursuing prudent demand management policies, they envisage taking steps to correct the existing structural imbalances. Since about half of Senegal's imports consist of foodstuffs and petroleum products, there is scope for reducing the growth of imports significantly. With regard to imports of foodstuffs, mostly rice, the Government is in the process of adopting a medium-term agricultural policy aimed at gradually substituting imported rice with domestically produced cereals, mainly millet. This is to be achieved in the context of a broad restructuring of the agricultural sector by shifting relative consumer prices of foodstuffs in favor of domestic cereals, improving the marketing system for inputs and outputs, and rationalizing the institutions engaged in supporting the rural population. An important step in this direction has been the creation of village groupings, which are expected, inter alia, to assume an increasingly important role in the distribution of seeds and other inputs; thus, *pari passu*, the role of SONAR will be progressively reduced. These and related issues were reviewed at a meeting, chaired by the Head of State, on February 23, 1984 with representatives of the principal bilateral and multilateral institutions, including the Fund. As to petroleum products, the Government intends to pursue a flexible domestic pricing policy that would encourage a more efficient allocation of resources, while eliminating the cumulative deficit of the oil refinery. At the same time, the possible exploitation of sources of energy like peat and hydroelectric power from the Manantali dam should help in the efforts to curb oil imports.

On the basis of the above, and assuming cautious investment and external borrowing policies, a revised medium-term scenario has been prepared for the balance of payments and the external public debt service for the period through 1988/89 (Tables 9 and 10). Under this scenario, the current account deficit, before rescheduling, declines from the equivalent of 14.4 percent of GDP in 1982/83 to 3.6 percent of GDP in 1988/89. This would result largely from a reduction in the trade deficit, as exports are projected to grow at an average annual

Table 9. Senegal: Balance of Payments, Medium-Term Scenario, 1982/83-1988/89

(In millions of SDRs)

	1982/83 Rev.	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89
		Projections					
Trade balance	-334.0	-224.2	-206.5	-174.0	-157.7	-142.5	-127.8
Exports, f.o.b.	441.2	506.0	540.2	612.9	670.8	731.5	793.8
Imports, f.o.b.	-775.2	-730.2	-746.7	-786.9	-828.5	-874.0	-921.6
Services (net)	-129.5	-161.0	-169.4	-168.0	-166.4	-170.4	-181.8
Of which:							
interest on public debt <u>1/</u>	(-93.9)	(-93.8)	(-98.5)	(-93.1)	(-85.9)	(-95.4)	(-107.4)
Unrequited transfers (net)	123.5	124.9	131.2	140.6	150.4	160.9	173.4
Current account deficit (-) (before debt rescheduling)	-340.0	-260.3	-244.7	-201.4	-173.7	-152.0	-136.2
Capital account	149.3	103.5	100.0	98.4	100.0	101.6	101.5
Of which:							
new drawings on investment loans	(127.7)	(128.3)	(89.9)	(117.9)	(123.7)	(129.7)	(136.1)
amortization on public debt <u>1/</u>	(-79.6)	(-84.4)	(-78.3)	(-86.0)	(-100.7)	(-106.4)	(-113.8)
Overall deficit (-) (before rescheduling)	-203.2 <u>2/</u>	-156.8	-144.7	-103.0	-73.7	-50.4	-34.7
Current account deficit (-) (after rescheduling)	-312.7	-229.8	-220.1 <u>3/</u>	-180.0 <u>3/</u>	-156.5 <u>3/</u>	-135.7 <u>3/</u>	-120.8 <u>3/</u>
Overall balance (after rescheduling)	-111.1 <u>2/</u>	-73.3	-82.4 <u>3/</u>	-47.6 <u>3/</u>	-16.5 <u>3/</u>	8.9 <u>3/</u>	26.9 <u>3/</u>
Memorandum items:							
Net savings due to debt reschedulings	92.1	83.5	62.3 <u>3/</u>	55.4 <u>3/</u>	57.2 <u>3/</u>	59.3 <u>3/</u>	61.6 <u>3/</u>
Interest	(27.3)	(30.5)	(24.6)	(21.4)	(17.2)	(16.3)	(15.4)
Amortization	(64.8)	(53.0)	(37.7)	(34.0)	(40.0)	(43.0)	(46.2)
IMF repurchases	11.0	8.1	29.8	50.3	44.6	39.5	30.3
Current account deficit/GDP (before rescheduling)	14.4	11.2	9.7	7.1	5.6	4.4	3.6
Current account deficit/GDP (after rescheduling)	13.2	9.8	8.7	6.4	5.0	4.0	3.2
CFAF/SDR	384.4	430.0	435.0	435.0	435.0	435.0	435.0

Sources: Data provided by the Senegalese authorities; and staff estimates and projections.

1/ Before debt rescheduling.

2/ Including errors and omissions of -SDR 12.5 million.

3/ These projections assume reschedulings in each year of debt service obligations (not previously rescheduled) to members of the Paris Club according to standard terms; they exclude reschedulings of obligations in respect of loans contracted after January 1, 1983.

Table 10. Senegal: External Public Debt Service, 1982/83-1988/89

(In millions of SDRs)

	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89
	Rev.			Projections			
Principal	25.8	39.5	70.4	102.3	105.3	102.9	97.9
Medium and long-term ^{1/}	14.8	31.4	40.6	52.0	60.7	63.4	67.6
IMF repurchases	11.0	8.1	29.8	50.3	44.6	39.5	30.3
Interest	66.6	63.3	73.9	71.7	68.7	79.1	92.0
Medium and long-term ^{1/}	47.4	40.1	47.8	48.3	48.3	41.8	42.2
IMF charges	12.8	15.2	18.1	15.4	12.4	10.9	9.6
Other	6.4	8.0	8.0	8.0	8.0	26.4	40.2
Total (after rescheduling)	92.4	102.8	144.3	174.0	174.0	182.0	189.9
Total (before rescheduling)	184.5	186.3	206.6	229.4	231.2	241.3	251.5
Exports of goods, services, and private transfers	693.6	751.1	805.4	900.5	985.2	1,076.7	1,173.1
Ratios (in percent)							
Debt service/exports of goods, services, and private transfers (after rescheduling)	13.3	13.7	17.9	19.3	17.7	16.9	16.2
Debt service/exports of goods, services, and private transfers (before rescheduling)	26.6	24.8	25.7	25.5	23.5	22.4	21.4

Sources: Data provided by the Senegalese authorities; and staff estimates and projections.

^{1/} These projections assume reschedulings in each year of debt service obligations (not previously rescheduled) to members of the Paris Club according to standard terms; they exclude reschedulings of obligations in respect of loans contracted after January 1, 1983.

rate of 10 percent beginning in 1984/85 while the increase in imports is to be limited to 5 percent. The export projections are based on normal weather conditions and take account, inter alia, of the expected large increase in exports of chemical products by the ICS. The import projections assume a successful implementation of the structural adjustments indicated above and the pursuit of cautious demand management policies.

In the projections it is conservatively assumed that net capital inflows will show no growth from the 1983/84 level. However, even if such inflows were significantly higher, Senegal's external payments position would remain under pressure over the next three to five years, and hence Senegal would require balance of payments support, including appropriate debt relief. It is estimated that savings from external debt rescheduling could amount to about SDR 60 million a year, or 2 percent of GDP, over the next five years. Such rescheduling would have the effect of reducing Senegal's debt service ratio to an average of 18 percent, compared with 24 percent in the absence of rescheduling.

V. Staff Appraisal

Since early 1980 the Senegalese authorities have been making efforts to deal with the country's serious economic and financial difficulties in the context of adjustment programs which have been supported by use of Fund resources. Until recently, however, these efforts have not always been sustained, and hence the results achieved have been uneven. Following the successful implementation of the 1981/82 program, it was hoped that further gains would be made in 1982/83. In the event, although weather conditions were favorable and a bumper groundnut crop was harvested, the 1982/83 program went off track soon after its adoption, and corrective measures that could have enabled the authorities to attain their original objectives were not taken in a timely manner. Thus, as world market prices of groundnut oil also weakened sharply, the internal and external financial imbalances widened substantially.

In view of the seriousness of the situation in mid-1983, the authorities recognized that much stronger and more sustained adjustment efforts were needed to arrest the deterioration and begin to make progress toward a viable internal and external financial position over the medium term. Accordingly, they adopted the current program, mainly with a view to reducing the large overall fiscal deficit, and thereby curbing the current account deficit of the balance of payments. An important feature of the program has been the implementation of a large number of strong measures almost at the outset of the program period. In particular, the measures taken in August 1983 to reduce consumer subsidies, contain the growth of current and capital budgetary outlays, and restrain credit expansion have been both forceful and courageous. Moreover, they have been vigorously pursued in a broader framework of structural reform of key sectors of the economy.

As such, although Senegal has been hard-hit by another severe drought, one of the worst in recent years, the program has been kept on track, and all the performance criteria for end-September 1983 and end-December 1983 were met. Senegal's satisfactory performance through the first half of the program period was, of course, assisted by the larger-than-anticipated rise in groundnut oil prices and, to a lesser extent, by the receipt of some unforeseen budgetary grants. However, without the determined efforts of the authorities to implement the program, these positive results could not have been attained.

Faced with a shortfall in government revenue, due to the unexpected slowdown in economic activity, the authorities have moved promptly to further contain expenditure, notably in the areas of materials, supplies, and transfers, as well as of nonpriority investments. Although painful, these additional cuts are necessary to keep the fiscal program on target. Nevertheless, should the revenue situation deteriorate more than currently estimated, the authorities should be prepared to take even stronger action to achieve the warranted reduction of the overall fiscal deficit, and to keep net government borrowing from the banking system to a level consistent with the program.

While making efforts to come to grips with Senegal's immediate economic and financial problems, the authorities have started a process of structural reform with a view to further improving public finances and the allocation of resources. In accordance with the program, civil service recruitment policy has been tightened substantially, and there are reasonably good prospects that the target of reducing the growth rate of the civil service to 2.5 percent in 1983/84 will be achieved. However, greater progress would still be needed in this area in the period ahead, and efforts should also be directed to stabilizing, if not reducing, employment in the public enterprise sector. Moreover, the rehabilitation programs being developed for the major nonagricultural public enterprises will need to be translated into action without delay. In this regard, increased attention will have to be given to improving the financial operations and accounting of the Price Equalization and Stabilization Fund; this should be facilitated by the recent decision to bring this institution under the control of the Ministry of Economy and Finance.

Despite the recent progress, Senegal's overall economic and financial position remains vulnerable to various factors, especially weather and world price conditions for groundnut products. For this reason, it seems essential for the authorities to make every effort to expand and diversify the export sector over the medium and long term, while promoting import substitution, particularly through an increase in domestic cereal production. The latter will require shifting relative consumer prices of foodstuffs in favor of domestic cereals, improving the marketing system for inputs and outputs, and rationalizing existing institutions in support of the rural population. The discussions initiated with the major donors and creditors regarding these issues are a welcome

development, and should be followed by the adoption of a meaningful medium-term economic development strategy at an early date. Otherwise, progress toward the achievement of a viable internal and external financial position would be delayed.

VI. Proposed Decision

The following draft decision is proposed for adoption by the Executive Board:

1. Senegal has consulted with the Fund in accordance with paragraph 4(b) of the stand-by arrangement for Senegal (EBS/83/182, Supplement 2, September 20, 1983) in order to establish performance criteria subject to which purchases may be made by Senegal during the remaining period of the stand-by arrangement.

2. The letter from the Minister of Economy and Finance dated February 7, 1984 shall be annexed to the stand-by arrangement for Senegal, and the letter of August 11, 1983 attached thereto shall be read as modified and supplemented by the letter dated February 7, 1984.

3. Accordingly, the references in paragraph 4(a) of the stand-by arrangement to paragraph 7 of the memorandum annexed to the letter of August 11, 1983 (relating to the limits on total domestic credit, net bank credit to the Government, the contracting of government and government guaranteed external debt, arrears of the Government and public agencies, and the minimum repayment of reclassified crop credit) shall be read as references to paragraphs 4, 5, and 7 of the letter dated February 7, 1984.

Senegal - Relations with the Fund
(As of January 31, 1984)

Date of membership	August 31, 1962
Quota	SDR 85.1 million
Exchange system	Senegal's currency, the CFA franc, is pegged to the French franc, which is the intervention currency, at the rate of CFAF 1 = F 0.02.
Fund holdings of Senegal's currency	SDR 271.98 million, equivalent to 319.60 percent of quota, of which SDR 42.00 million (49.35 percent of quota) under the CFF, SDR 20.52 million (24.11 percent of quota) under the EFF, SDR 54.12 million (63.59 percent of quota) under the SFF, and SDR 18.54 million (21.79 percent of quota) under the EAR.
SDR position	Holdings amounted to SDR 2.72 million, or 11.12 percent of the net cumulative allocation of SDR 24.46 million.
Gold distribution (four distributions)	29,024.482 troy ounces of fine gold
Direct distribution of profits from gold sales (July 1, 1976-July 31, 1980)	US\$5.39 million
Subsidy Account payments	SDR 2.40 million
Trust Fund loan disbursements	SDR 33.23 million in the first and second periods
Last Article IV consultation	Discussions were held in Dakar during the periods April 11-23, June 4-19, and July 4-9, 1983, and the staff report (EBS/83/182) was discussed by the Executive Board on September 19, 1983.

Senegal - Relations with the World Bank Group
(As of September 30, 1983)

Lending operations <u>1/</u>	(In millions of U.S. dollars)				
	<u>IBRD and IDA</u>		<u>IFC Loans and Equity Participations</u>		<u>Grand Total</u>
	<u>Total commitments</u>	<u>Of which: undischursed</u>	<u>Total commitments</u>	<u>Of which: undischursed</u>	
Ten loans and 17 credits <u>2/</u> fully disbursed	159.5	(--)	--	(--)	159.5
Structural adjustment <u>2/</u> and technical assistance	35.9	(15.9)	--	(--)	35.9
(includes recently cancelled SAL loan portion)	(13.8)	(0.1)	--	(--)	(13.8)
Agriculture, livestock, and forestry	80.1	(51.4)	0.8	(--)	80.9
Power, industry, and tourism	39.8	(26.9)	31.7	(24.0)	71.5
Transport and telecommunications	81.3	(40.8)	--	(--)	81.3
Urban development, education, and health	<u>52.0</u>	<u>(27.4)</u>	<u>0.5</u>	<u>(--)</u>	<u>52.5</u>
Total	448.6	(162.4)	33.0	(24.0)	481.6
Less repaid or sold					22.8
Total outstanding					458.8
Held by IBRD					122.1
IDA					308.0
IFC					28.7

Source: World Bank.

1/ Less cancellations.

2/ Ln. 1931 - SE/Cr. 1084 - SE; Structural Adjustment Loan (US\$30 million) and IDA Development Credit (SDR 22.9 million). Only US\$13.35 million of the loan portion was disbursed to the Senegalese Government in support of a medium-term economic stabilization and rehabilitation program; the IDA credit equivalent to US\$26.81 million was fully disbursed.

Dakar, February 7, 1984

Dear Mr. de Larosière,

1. In accordance with my letter to you dated August 11, 1983, the Senegalese authorities have recently carried out with the Fund staff a review of progress in the implementation of Senegal's adjustment program for 1983/84 (July/June). Although the structural and financial problems of Senegal have been compounded by a severe drought, the review showed that positive results have been achieved. In particular, the strong adjustment measures taken by the Government of Senegal in August 1983, notably the actions to reduce consumer subsidies, curb the growth of the civil service and of the payroll, and restrain credit expansion, have helped contain domestic demand pressures and thereby improve the current account of the balance of payments. Furthermore, the performance criteria of the program for end-September 1983 were observed, and provisional data indicate that the criteria for end-December 1983 were also satisfied.

2. The drought has reduced agricultural production both for export and domestic consumption, placing great hardship on large segments of the population. According to the latest estimates, the 1983/84 groundnut crop amounted to only 550,000 tons, less than half that of last year. Cereal output also declined sharply, leading to a substantial widening of the gap between domestic production and consumption. Therefore, despite progress in certain other sectors, the increase in real gross domestic product (GDP) is now projected to be much lower than the rate of 3 percent that had been foreseen. Fortunately, the adverse impact of these developments on public finances and the balance of payments is likely to be offset by a larger-than-anticipated rise in world market prices of groundnut products and, to a lesser extent, by emergency food aid. In particular, given the increase in groundnut export prices and the reduction in consumer subsidies, the CPSP will probably realize a substantial surplus this year.

3. The slowdown in economic activity has constrained the growth of budgetary revenue, especially from customs duties, as well as from taxes on goods and services. Based on developments during the first six months, it is now estimated that for the year as a whole total revenue, including grants, will amount to CFAF 204.6 billion, representing a shortfall of CFAF 4.8 billion in relation to the programmed target; excluding grants, the shortfall would be CFAF 5.9 billion. Meanwhile, scheduled interest payments on the external debt have been revised upward by CFAF 5.5 billion, partly due to the depreciation of the CFA franc vis-à-vis the U.S. dollar. In addition, although Senegal has received some untied external grants, total external financial assistance is expected to be lower than programmed. In view of these factors, the Government has cut expenditure and will take any further measures that may be needed to keep the fiscal program on track. The measures already taken and those to be pursued in the months ahead are designed to achieve economies in budgetary outlays of CFAF 4.0 billion--CFAF 2.0 billion on account of materials, supplies and transfers, and an

equivalent amount in nonpriority investments. The deficit on the special accounts held with the Treasury (other than those of the CAA) is expected to be in line with the program. By contrast, the position of the Treasury correspondents could well improve more than programmed, as the CPSP's surplus should offset the deficits of SONAR and SAED. Total expenditure and net lending will be limited to CFAF 248.9 billion in 1983/84, or CFAF 8.1 billion below the program level. Thus, on a commitment basis, the overall fiscal deficit, which amounted to CFAF 73.3 billion in 1982/83, will be reduced by about 40 percent to CFAF 44.3 billion in 1983/84; in terms of the revised GDP estimates, this would lower the deficit from 8.1 percent in 1982/83 to 4.4 percent in 1983/84. This improvement would offset the expected shortfall in net external financing, thereby keeping net domestic borrowing to a level consistent with the program.

4. One target of the 1983/84 program was to avoid any increase in the domestic arrears of the Government and public agencies. Actually, these arrears were slightly reduced during the first half of the year, from CFAF 55.7 billion at end-June 1983 to CFAF 54.8 billion at end-December 1983. As indicated in the annexed table, the target for the second half of the year is not to exceed the end-December level of CFAF 54.8 billion.

5. The Senegalese authorities are committed to pursuing a prudent credit policy. In light of the reduced requirements for crop financing, total domestic credit, which amounted to CFAF 461.9 billion at end-September 1983, will not exceed CFAF 505.7 billion at end-March 1984 and CFAF 499.7 billion at end-June 1984. Within these overall limits, and consistent with the fiscal target, net credit to the Government, which amounted to CFAF 98.2 billion at end-September 1983, will not exceed CFAF 123.7 billion at end-March 1984 and CFAF 131.7 billion at end-June 1984. The above-mentioned credit limits may be adjusted in accordance with the provisions set forth in the annexed table. As to the outstanding amount of 1982/83 crop credit of CFAF 5.1 billion which had to be reclassified as ordinary credit at end-December 1983, this amount will be reduced by CFAF 3 billion by end-March 1984 and will be fully repaid by end-June 1984. Since operations in respect of the groundnut sector for crop year 1983/84 are expected to be in equilibrium because of the favorable export prices, it did not appear necessary to establish a repayment schedule for this crop year.

6. The decline in groundnut export volume is likely to be more than offset by the increase in world market prices. Furthermore, the bulk of the additional import requirements for foodstuffs because of the drought is expected to be covered by food grants. Consequently, given the measures taken under the program, the external current account deficit is now projected to be reduced to about CFAF 100 billion in 1983/84, compared with a deficit of CFAF 108 billion in the program and of CFAF 120 billion in 1982/83. Since net capital inflows are not expected to be significantly lower than initially envisaged, the overall balance of payments deficit is also projected to be lower than initially programmed.

7. As expected, the Government has concluded an agreement with the Paris Club for the rescheduling of its external debt service obligations falling due in 1983/84; the terms obtained are in line with the assumptions included in the program. Moreover, a rescheduling agreement with commercial banks is to be signed by end-February. To avoid increasing the already heavy external debt service burden on the budget and the balance of payments, new external borrowing by the Government or with government guarantee in the maturity range of 1-12 years will be limited to the equivalent of SDR 20 million during the 12-month period ending June 1984; within this overall ceiling, such new borrowing in the maturity range of 1-5 years will be limited to SDR 2 million.

8. The Government will continue its efforts with a view to reducing the structural deficit in public finances. As regards civil service employment, the initial target--to lower its rate of growth to 2.5 percent in 1983/84--will be attained, and measures are already in place to reduce the rate to 1.3 percent in 1984/85. The attainment of this objective has been made possible by a rigorous recruitment policy; vacancies due to retirement are not being filled, while admissions to civil service training schools have been considerably reduced. The Government has also taken steps to improve the system of housing entitlements and allowances which should yield significant savings. In this regard, a survey of government-owned and -rented housing units will be completed shortly, housing for those found to be ineligible will be terminated, and direct rental payments for those entitled to housing will be replaced by lump-sum allowances. As to tax reform, a study has been undertaken to identify ways and means of increasing the yield of the real estate tax. A broader review of the tax system has been entrusted to a special commission which is expected to recommend appropriate measures for mobilizing additional resources.

9. The Government is committed to improving the financial position of public agencies and enterprises. With technical assistance from the World Bank, rehabilitation programs are being developed for SENELEC, SONEES, SOTRAC, and the OPT, while consideration is being given to restructuring certain rural development agencies. At the same time, the Ministry of Economy and Finance has been entrusted with monitoring closely the financial performance of the parastatal sector. The authorities are determined to strengthen the financial management of the CPSP in order to follow without delay its operations with related institutions. This will be facilitated by bringing the CPSP under the control of the Ministry of Economy and Finance by the end of February.

10. Although the increases in petroleum product prices and electricity tariffs last August helped improve the financial position of the SAR and SENELEC, these enterprises still face difficulties, owing partly to the strengthening of the U.S. dollar. The Government therefore intends to adjust prices of petroleum products before the end of the current program.

11. The Government is resolved to develop a medium-term agricultural policy in close consultation with donors and creditors. This policy will be geared primarily to promoting cereal production by shifting relative consumer prices of foodstuffs in favor of cereals, by improving the marketing system for inputs and outputs, and by rationalizing existing institutions to support the rural population. As regards the groundnut sector, the authorities are determined to reduce its operating costs. The costs of treating, conserving, and distributing seeds will be cut by giving an increasingly important role to the village groupings and progressively reducing the role of SONAR, which was established in December 1980 for a transitional period of no more than three years. Senegal's overall agricultural policies will be examined in the context of a medium-term economic development strategy during a meeting to be chaired by the Head of State in mid-February; representatives of the principal bilateral and multilateral institutions concerned will be invited to participate in the discussions, which will be followed before mid-March by a decision of an interministerial council on Senegal's agricultural policy.

12. The Government believes that the policies described above are adequate to achieve the objectives of the 1983/84 program, but will take any further measures that may become necessary for this purpose. Senegal will consult with the Fund on the adoption of any measures that may be appropriate in accordance with the policies of the Fund on such consultations. The Government is convinced of the need to pursue its adjustment efforts over a number of years and wishes to be able to continue to benefit from Fund assistance after completion of the current program.

Sincerely yours,

/s/

Mamoudou Touré
Minister of Economy and Finance

Mr. J. de Larosière
Managing Director
International Monetary Fund
Washington, D.C. 20431

Senegal: Proposed Limits on Bank Credit, Domestic Arrears,
and New External Borrowing, 1983/84

	1983			1984	
	June	Sept.	Dec.	March	June
(In billions of CFA francs)					
Domestic credit					
Ceiling	...	472.3	501.4	505.7 <u>2/3/</u>	499.7 <u>2/3/</u>
Actual	468.0	461.9	486.8 <u>1/</u>	...	...
Claims on Government (net)					
Ceiling	...	106.2	115.1	123.7 <u>3/</u>	131.7 <u>3/</u>
Actual	90.4	98.2	111.3 <u>1/</u>	...	...
Domestic arrears of the Government and public enterprises					
Ceiling	...	...	55.7	54.8	54.8
Actual	55.7	54.8	54.8	...	...
Reclassified 1982/83 crop credit					
Ceiling	...	...	7.8	...	...
Actual	...	...	5.1	...	...
Repayment of 1982/83 crop credit					
Minimum	...	...	...	3.0 <u>4/</u>	5.1
Actual	...	...	...	...	...
(In millions of SDRs)					
New external borrowing by the Govern- ment or with government guarantee (cumulative) <u>5/</u>					
1-12 years' maturity					
Ceiling	...	20.0	20.0	20.0	20.0
Actual	...	2.1	2.1	...	...
Of which: 1-5 years' maturity					
Ceiling	...	2.0	2.0	2.0	2.0
Actual	...	2.0	2.0	...	...

1/ Provisional figure.

2/ In the event that external budgetary assistance (excluding grants) falls below CFAF 2 billion during the period January 1-March 31, 1984 and CFAF 3.3 billion during the period January 1-June 30, 1984, the ceiling could be adjusted upward by the amount of the shortfall, subject to a maximum increase of CFAF 1 billion. Should external budgetary assistance exceed the above amounts, the ceilings would be adjusted downward pro tanto. The additional assistance would be used for the following purposes: (1) to repay the 1982/83 crop credit; (2) to accelerate payments overdue on ONCAD debt; and (3) to settle quarterly installments due on ONCAD debt for 1982/83. In the event that the CFAF 5.1 billion of crop credit given to SONACOS is repaid, the ceiling for end-March 1984 will be adjusted downward pro tanto; in any event, this crop credit will have to be repaid before end-June 1984.

3/ The program does not envisage the receipt by Senegal of any exceptional external financial assistance (excluding grants) during the period January 1-June 30, 1984 that would have the effect of improving the net position of the Government vis-à-vis the banking system. Should such assistance be received, however, the ceilings and subceilings will be reduced pro tanto, net of any expenditure undertaken with such assistance. In the event that drawings are made against the structural adjustment loans of the CCCE deposited at the BCEAO on December 31, 1983 to finance public sector expenditures not reflected "above the line" in the table on the financial operations of the Government, the ceilings and subceilings will be adjusted upward pro tanto up to CFAF 1.2 billion at end-March 1984 and CFAF 1.6 billion at end-June 1984.

4/ In the event that external budgetary assistance (excluding grants) falls below CFAF 2 billion during the period January 1-March 31, 1984, the amount of reclassified crop credit to be repaid could be adjusted downward pro tanto, subject to a maximum adjustment of CFAF 1 billion.

5/ The exchange rate applicable to these borrowings will be the rate of the SDR vis-à-vis the contract currency on June 30, 1983.