FOR AGENDA

EBS/84/267

CONFIDENTIAL

December 21, 1984

To: Members of the Executive Board

From: The Secretary

Subject: Senegal - Staff Report for the 1984 Article IV Consultation and Request for Stand-By Arrangement

Attached for consideration by the Executive Directors is the staff report for the 1984 Article IV consultation with Senegal and its request for a stand-by arrangement equivalent to SDR 76.6 million. Draft decisions appear on page 40.

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. 576107) or Mr. Ugolini (ext. 573739).

Att: (1)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

SENEGAL

Staff Report for the 1984 Article IV Consultation and Request for 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 A.D. Ouattara and Eduard H. Brau

December 21, 1984

Contents

Contents

I. Introduction

The 1984 Article IV consultation discussions with Senegal were initiated in Dakar during the period June 4-20, 1984 and were completed in Washington during the period July 26-31, 1984. Concurrently, negotiations were started on a new program that could be supported by a stand-by arrangement. After further contacts in Washington at the time of the Annual Meetings and soon thereafter, the negotiations were concluded in Dakar during the period October 29-November 10, 1984. The Senegalese representatives included Mr. Mamoudou Touré, Minister of Economy and Finance, Mr. Bator Diop, Minister of Rural Development, Mr. Serigne Lamine Diop, Minister of Industrial Development and Handicrafts, Mr. Abdourahmane Touré, Minister of Commerce, and other senior officials concerned with economic and financial matters. Members of the staff missions also met with Mr. Jean Collin, Minister of State, Secretary General of the Presidency of the Republic. The staff representatives in the various stages of the discussions were Mr. Evangelos A. Calamitsis (head-AFR), Mr. Mustafa Z. Yucelik (FAD), Mr. Robert Franco (AFR), 1/ Mr. Jean Philippe Briffaux (AFR), Mr. Edouard B. Maciejewski (ETR), Mr. Piero C. Ugolini (AFR), and Mr. Mohamed A. El-Erian (EP-MED), with Ms. F.E. Straver-Postic (AFR) and Mrs. Christine S. Ursenbach (PAR) as secretaries. Mr. Alfidja, Executive Director for Senegal, attended some of the policy meetings.

In the attached letter dated December 3, 1984 (Appendix II), the Government of Senegal requests an 18-month stand-by arrangement, in support of an adjustment program covering the fiscal years 1984/85 (July/June) and 1985/86, in an amount equivalent to SDR 76.6 million, representing 90 percent of Senegal's quota (or 60 percent of quota on an annual basis). Of the amount requested, SDR 26.2 million would be from the Fund's ordinary resources and SDR 50.4 million from borrowed resources. Senegal purchased the full amount of SDR 63.0 million, equivalent to 74 percent of quota, available under the one-year stand-by arrangement which expired on September 18, 1984. As of November 30, 1984 the Fund's holdings of Senegal's currency 2/ subject to repurchase were equivalent to 250.8 percent of quota; excluding holdings resulting from purchases under the compensatory financing facility, they amounted to 201.5 percent of quota. As shown in Table 1, if the full amount of the requested stand-by arrangement is purchased, and after taking into account scheduled repurchases, the Fund's holdings of Senegal's currency subject to repurchase would amount by the end of June 1986 to the equivalent of 250.2 percent of quota, or 244.0 percent of quota apart from holdings

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1/ Since July 24, 1984 Mr. Franco has been assigned to the new post of Fund resident representative in Senegal.

2/ The currency of Senegal, the CFA franc, is pegged to the French franc at the rate of CFAF 1 = F 0.02. As of November 30, 1984 the rate in terms of the SDR was CFAF 469.40 = SDR 1.

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

	Outstanding at November 30, 1984	1984 Dec.	1985 Jan.-March	1985 April-June	1985 July-Sept.	1985 Oct.-Dec.	1986 Jan.-March	1986 April-June
			(In millions of SDRs)					
Transactions under tranche policies (net) 1/	--	-3.36	19.13	7.71	6.13	2.71	1.89	1.97
Purchases	--	--	22.60 2/	12.00	10.50	10.50	10.50	10.50
Ordinary resources	--	(--)	(11.30)	(6.00)	(5.25)	(3.63)	(--)	(--)
Enlarged access resources	--	(--)	(11.30)	(6.00)	(5.25)	(6.87)	(10.50)	(10.50)
Repurchases	--	-3.36	-3.47	-4.29	-4.37	-7.79	-8.61	-8.53
Ordinary resources	--	(-1.86)	(-1.70)	(-1.79)	(-2.59)	(-4.68)	(-4.96)	(-5.25)
Enlarged access resources	--	(-1.50)	(-1.77)	(-2.50)	(-1.78)	(-3.11)	(-3.65)	(-3.28)
Transactions under special facilities (net) 3/	--	-5.25	-5.25	-5.25	-5.25	-5.25	-5.25	-5.25
Purchases	--	--	--	--	--	--	--	--
Repurchases	--	-5.25	-5.25	-5.25	-5.25	-5.25	-5.25	-5.25
Total Fund credit outstanding (end of period)	213.46	204.84	218.72	221.18	222.06	219.52	216.16	212.88
Tranche policies 1/	171.46	168.09	187.22	194.93	201.06	203.77	205.66	207.63
Special facilities 3/	42.00	36.75	31.50	26.25	21.00	15.75	10.50	5.25
			(In per cent of quota)					
Total Fund credit outstanding (end of period)	250.83	240.70	257.02	259.91	260.94	257.96	254.01	250.15
Tranche policies 1/	201.48	197.52	220.00	229.06	236.26	239.45	241.67	243.98
Special facilities 3/	49.35	43.18	37.02	30.85	24.68	18.51	12.34	6.17

Source: IMF, Treasurer's Department.

1/ Ordinary and enlarged access resources.
2/ Consisting of two purchases: an initial purchase of SDR 10.6 million to be made after approval of the arrangement; and a second purchase of SDR 12.0 million to be made after March 14, 1985, upon observance of the performance criteria for end-December 1984 and completion of the first review of the program.
3/ Compensatory financing facility.

under the compensatory financing facility. A waiver of the limitation in Article V, Section 3(b)(iii) of the Articles of Agreement will be required.

According to the proposed phasing of purchases under the requested stand-by arrangement, an initial purchase of SDR 10.6 million would be available upon approval of the arrangement; a second purchase of SDR 12.0 million after March 14, 1985, upon observance of the performance criteria for end-December 1984 and completion of the first review of the program; a third purchase of SDR 12.0 million after June 14, 1985, upon observance of the performance criteria for end-March 1985, a fourth purchase of SDR 10.5 million after September 14, 1985, upon observance of the performance criteria for end-June 1985 and completion of the second review of the program; a fifth purchase of SDR 10.5 million after December 14, 1985, upon observance of the performance criteria for end-September 1985; a sixth purchase of SDR 10.5 million after March 14, 1986, upon observance of the performance criteria for end-December 1985 and completion of the third review of the program; and a final purchase of SDR 10.5 million after June 14, 1986, upon observance of the performance criteria for end-March 1986. This phasing is consistent with the expected requirements for the financing of the balance of payments which indicate a greater need for 1984/85.

In support of the program of adjustment, the Government of Senegal has informed the Paris Club and commercial banks of its intention to request a rescheduling of part of the debt service obligations falling due over the program period. Since the required debt relief is on terms broadly comparable to those obtained in 1983/84, involving current maturities not previously rescheduled, and in view of Senegal's satisfactory performance under the 1983/84 adjustment program, it seems reasonable to expect that such relief will be forthcoming. Therefore, the staff considers that the initial purchase under the requested stand-by arrangement should not be subject to the rescheduling arrangements. Any adjustments that may become necessary due to unexpected variations in the rescheduling arrangements would be dealt with in the context of the first review of the program, to be completed by March 14, 1985, which is also a performance criterion.

The last Article IV consultation discussions were held in Dakar concurrently with the stand-by negotiations during the periods April 11-23, June 4-19, and July 4-9, 1983. The staff report for the consultation and request for stand-by arrangement (EBS/83/182), together with the report on recent economic developments (SM/83/199), were considered by the Executive Board on September 19, 1983. The mid-term review discussions envisaged under the stand-by arrangement were carried out in Dakar during the period January 16-28, 1984, and the review paper (EBS/84/37) was considered by the Executive Board on March 26, 1984. Subsequently, a staff team visited Dakar during the period April 18-28, 1984 to prepare the groundwork for the negotiation of the new program.

In the course of the discussions on Senegal's new program, the Fund staff maintained close collaboration with the World Bank staff, especially regarding the medium-term agricultural policy, the need to improve fiscal performance, and the rehabilitation programs of the four major public utilities. A Fund staff representative took part in the first meeting of the Consultative Group for Senegal which was held under the auspices of the World Bank in Paris on December 13-14, 1984.

Senegal continues to avail itself of the transitional arrangements of Article XIV. Summary statements on Senegal's relations with the Fund and the World Bank Group are presented in Appendix III and IV, respectively. Basic economic and financial data are provided in Appendix V.

Senegal's statistics are compiled essentially along the lines of the Fund's methodologies. Unpublished data provided to staff missions are generally satisfactory and up to date. However, apart from the monetary and credit statistics, official data for publication in the Fund's International Financial Statistics are not current. On the basis of technical assistance provided by the Fund in the areas of government finance and balance of payments statistics, the authorities are taking steps to improve the data situation.

II. Background to the Discussions

Since the late 1970s Senegal has been facing serious economic and financial difficulties. On the whole, the economy has shown no sustained growth, large internal imbalances have persisted, and the external payments position has been under great pressure. These difficulties have been attributable in part to exogenous factors, especially recurring droughts and declining terms of trade. In the five-year period 1978/79-1982/83 Senegal experienced two consecutive and severe droughts, in 1979/80 and 1980/81, which sharply reduced agricultural production both for export and domestic consumption. Thus, despite some progress in the secondary and tertiary sectors, the real gross domestic product (GDP) grew at an average annual rate of about 3 percent, only fractionally above the rate of population increase of 2.9 percent per annum. However, this performance has also been due in large measure to inadequate production, investment, and pricing policies and, in particular, to the lack of a coherent agricultural strategy and an overextension of the public sector. In addition, until recently, fiscal and credit policies have been generally expansionary. As a result, domestic demand consistently exceeded supply, with the resource gap averaging some 15 percent of GDP. To finance this high level of domestic demand, notably of consumption, there was substantial recourse to external borrowing; but such borrowing overtaxed the country's debt servicing capacity, requiring in recent years several reschedulings of debt to official creditors of the Paris Club and to commercial banks. In

the five years ended in June 1983 the disbursed medium- and long-term public and publicly-guaranteed external debt rose almost fourfold, reaching about SDR 1.4 billion, equivalent to 61 percent of the estimated GDP. At the same time, Senegal incurred sizable overall balance of payments deficits, entailing a more than twelvefold increase in the net foreign liabilities of the Central Bank (BCEAO) to CFAF 163.4 billion, or SDR 0.4 billion at the prevailing exchange rate.

In an effort to deal with the country's increasing difficulties over this period, the Senegalese authorities adopted a number of programs of economic and financial adjustment, which were supported by use of Fund resources in the upper credit tranches, as well as by other external assistance. However, the authorities' adjustment efforts were not always sustained, and hence the results achieved were uneven. The first program, covering the three years 1980/81-1982/83, in support of which the Fund approved in August 1980 an extended arrangement for 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, after only two purchases totaling SDR 41.1 million, the extended arrangement was canceled in September 1981 and replaced by a one-year stand-by arrangement for SDR 63.0 million. Similarly, a medium-term program supported by a World Bank Structural Adjustment Loan (SAL) of about US$60 million, approved in December 1980, was not successful, mainly due to weaknesses in the implementation of agricultural reforms. As such, part of the SAL (about US$16 million) had to be withheld in April 1981 and canceled in June 1983.

By contrast, performance under the 1981/82 program was satisfactory, owing to a combination of adequate adjustment measures, good weather conditions, and sizable external assistance. In accordance with the program, 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, all the performance criteria of the program were met, and both the overall fiscal deficit and the external current account deficit in relation to GDP were reduced significantly.

To consolidate these gains, the 1982/83 program, in support of which the Fund approved in November 1982 another one-year stand-by arrangement for SDR 47.25 million, sought to reduce further the external current account deficit, before debt rescheduling, to an amount equivalent to 13.6 percent of GDP, mainly by containing the overall fiscal deficit, on a commitment basis, to 7.0 percent of GDP. However, although weather conditions remained favorable and a bumper groundnut crop was harvested, the program quickly went off-track. While this can be explained partly by the downturn in world market prices for groundnut oil, which fell to

their lowest level in more than a decade at the beginning of 1983, it reflected essentially a failure to implement the necessary policies in a timely and complete manner. A number of performance criteria for the first half of the program period were not observed, and understandings could not be reached with the authorities on measures that could have helped attain the basic objectives of the program. Consequently, the mid-term review of the program was not completed, and Senegal made only one purchase, equivalent to SDR 5.9 million, under the stand-by arrangement. In 1982/83 the overall fiscal deficit, on a commitment basis, was 29 percent higher than programmed, amounting to 8.2 percent of GDP. The external current account target was thus also exceeded, with the deficit amounting to 14.0 percent of GDP, before debt rescheduling; after debt rescheduling, it was equivalent to 12.3 percent of GDP (Table 2). 1/

III. Performance Under the 1983/84 Adjustment Program

In view of the seriousness of the situation in mid-1983, the Senegalese authorities recognized that strong and 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 a new program, which was supported by the recently expired one-year stand-by arrangement for SDR 63.0 million, aimed primarily at reducing the external current account deficit in 1983/84 to the equivalent of 11.9 percent of GDP. To this end, the 1983/84 program involved a large number of early and forceful adjustment measures, most of which were implemented before Executive Board approval of the stand-by arrangement. Moreover, these measures were placed in a broader framework of structural reform of key sectors of the economy, particularly agriculture.

To contain the growth of domestic demand, while attempting to improve supply conditions, the authorities took strong measures to reduce consumer subsidies, improve budgetary performance, and restrain credit expansion. In particular, in August 1983 the retail prices of rice, sugar, groundnut and vegetable oils, 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. A progressive increase in the retail price of rice has been required not only to avoid subsidizing consumption of imported rice through the Price Equalization and Stabilization Fund (CPSP) but also to improve the competitiveness of the rice producing public enterprise (SAED) and to encourage domestic production of rice

1/ These ratios reflect the most recent revisions of the financial aggregates and GDP data.

Table 2. Senegal: Selected Economic and Financial Indicators, 1982-85 and 1981/82-1984/85

	1982	1983	1984 Est.	1985 Proj.	1981/82	1982/83	1983/84 Prog.	1983/84 Est.	1984/85 Prog.
	(Annual percent changes, unless otherwise specified)								
National income and prices									
GDP at constant prices	13.8	3.4	-4.1	12.6	6.5	8.3	3.0	-0.4	4.1
GDP deflator	10.8	8.1	12.2	5.7	9.6	9.1	8.7	10.1	9.0
External sector									
Exports, f.o.b. (in SDRs)	23.1	-0.4	2.3	10.9	...	3.5	12.6	8.2	4.5
Imports, f.o.b. (in SDRs)	0.5	-4.4	-4.7	2.0	...	0.1	-3.6	-5.3	-4.3
Non-oil imports, c.i.f. (in SDRs)	4.3	-0.7	-10.1	3.9	...	8.7	...	-10.9	-3.7
Export volume	39.4	4.1	-8.6	18.5	...	...	...	...	...
Import volume	-5.8	1.7	-8.9	-0.1	...	...	...	...	...
Terms of trade (in SDRs; deterioration -)	-14.7	-1.2	6.9	-8.3	...	...	...	...	...
Nominal effective exchange rate (end of period; depreciation -)	-6.5	-7.0	...	...	-5.2	-5.8	...	-2.7	...
Government budget									
Revenue	...	...	...	...	21.0	15.7	13.0	7.8	12.4
Total current and capital expenditure	...	...	...	...	—	12.9	7.7	10.7	9.7
Money and credit									
Domestic credit	20.5	7.6	...	...	22.8	17.4	12.8	4.6	7.6
Government (net)	115.2	22.0	...	...	134.8	28.8	45.7	33.2	15.9
Private sector	8.8	4.1	...	...	11.5	15.0	4.8	-2.2	4.9
Money and quasi-money	21.0	3.9	...	...	31.5	12.1	6.8	3.5	5.6
Velocity (GDP relative to M2) 1/	3.1	2.9	...	...	3.2	3.0	3.0	2.8	2.6
Interest rate (end of period) 2/	10.5	9.5 3/	9.5	...	10.5	9.5 3/	9.5	9.5	9.5
	(In percent of GDP, unless otherwise specified)								
Overall fiscal deficit (-)									
Commitment basis	...	...	...	...	-6.9	-8.2	-4.8	-4.7	-3.3
Cash basis	...	...	...	...	-9.6	-7.4	-7.3	-7.0	-4.2
Gross domestic investment	14.7	15.7	14.7	13.1	...	...	...	...	...
Gross domestic savings	2.5	1.5	1.3	7.8	...	...	...	...	...
External current account deficit (-) 4/									
Before debt rescheduling	-11.9	-12.2	-11.5	-8.9	...	-14.0	-11.9	-11.1	-9.2
After debt rescheduling	-11.3	-11.5	...	...	...	-12.3	-11.0	-9.8	...
External debt (inclusive of use of Fund credit)	74.6	87.5	97.4	83.9	...	...	...	...	...
Debt service ratio (in percent of exports of goods, services, and private transfers) 5/	21.5	20.3	20.9	29.9	...	...	...	20.9	28.1
	(In millions of SDRs, unless otherwise specified)								
GDP at current prices (in billions of CFA francs)	844.1	943.6	1,015.6	1,208.7	757.0	893.8	982.7	979.6	1,112.2
Overall balance of payments deficit (-) 6/	-103.6	-75.4	-59.7	-40.3	-115.1	-111.1	-95.9	-42.1	...
Gross official reserves (weeks of imports)	0.7	0.8	0.6	0.6	0.6	0.6	0.6	0.6	0.6

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

1/ GDP relative to average of end-June and end-December broad money stocks.
2/ Minimum rate on time deposits in excess of one year and in amounts of more than CFAF 2 million.
3/ Since April 5, 1983.
4/ Including official transfers.
5/ Before debt rescheduling.
6/ After debt rescheduling.

substitutes. In addition, in an effort to curb the subsidies in the groundnut seed and fertilizer distribution schemes, the amounts retained from groundnut producers for the financing of these schemes were increased substantially. At the same time, steps were taken to limit the growth of government outlays through more rigorous controls on current expenditure, as well as on investment financed from domestic resources. Thus, together with an intensified effort to collect tax arrears, the overall fiscal deficit, on a commitment basis, was programmed to be reduced to the equivalent of 4.8 percent of GDP in 1983/84.

In the event, and in sharp contrast with previous years, Senegal made considerable progress in 1983/84 toward reducing the large internal and external financial imbalances. Although the economy was hard hit by a very severe drought, the basic objectives of the 1983/84 program were achieved, and all the performance criteria were satisfied (Table 3). This improved performance was due largely to the strength of the initial adjustment measures, as well as to the policy adaptations made during the program period. Faced with a sizable shortfall in budgetary revenue and external loan assistance, which became apparent at the time of the mid-term review of the program, the authorities moved promptly to further contain government outlays, particularly on materials, supplies, and transfers. They also took additional steps to improve financial controls, including shifting supervision of the financial operations of the CPSP from the Ministry of Commerce to the Ministry of Economy and Finance. Moreover, higher-than-anticipated export prices of groundnut products, emergency food aid, and other external grants, contributed to the improvement of the overall financial situation.

The drought led to a sharp reduction in agricultural output, both for export and domestic consumption, placing great hardship on large segments of the population. According to revised estimates, the groundnut crop, only part of which is marketed and processed, amounted to 569,000 tons in 1983/84, some 37 percent lower than envisaged in the program and about half that of the previous year. Cereal output also declined markedly, leading to a substantial widening of the gap between domestic production and consumption. Therefore, despite the registered increases in value added in certain other sectors of the economy, real GDP is estimated to have fallen somewhat, whereas it had been projected to rise by 3 percent. The GDP deflator, which was projected to increase by slightly less than 9 percent, actually rose by 10 percent, reflecting the impact on prices of the much reduced supply of foodstuffs.

As a result of the large drop in groundnut production, the volume of unshelled groundnuts processed for export by the two oil milling companies (SONACOS and SEIB) declined sharply, from 718,000 tons in 1982/83 to about 217,000 tons in 1983/84, well below the normal level of 600,000 tons foreseen in the program. However, this shortfall, coupled with crop reductions in other major producing countries (notably the United States),

Table 3. Senegal: Quantitative Performance Criteria and Results Under the 1983/84 Adjustment Program

	1983		1984	
	Sept.	Dec.	March	June 1/
	(In billions of CFA francs; end of period)			
Domestic credit				
Ceiling	472.3	501.4	495.3 2/	495.0 2/
Actual	461.9	480.2	482.5	489.7
Claims on Government (net)				
Ceiling	106.2	115.1	118.4 2/	127.0 2/
Actual	98.2	106.9	110.9	120.4
Domestic arrears of the Government and public agencies				
Ceiling	n.a.	55.7	54.8	54.8
Actual	...	54.8	53.1	53.7
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	5.1
Actual	...	...	3.0	5.1
	(In millions of SDRs)			
New external borrowing on nonconcessional terms 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	2.1
2. 1-5 years' maturity				
Ceiling	2.0	2.0	2.0	2.0
Actual	2.0	2.0	2.0	2.0

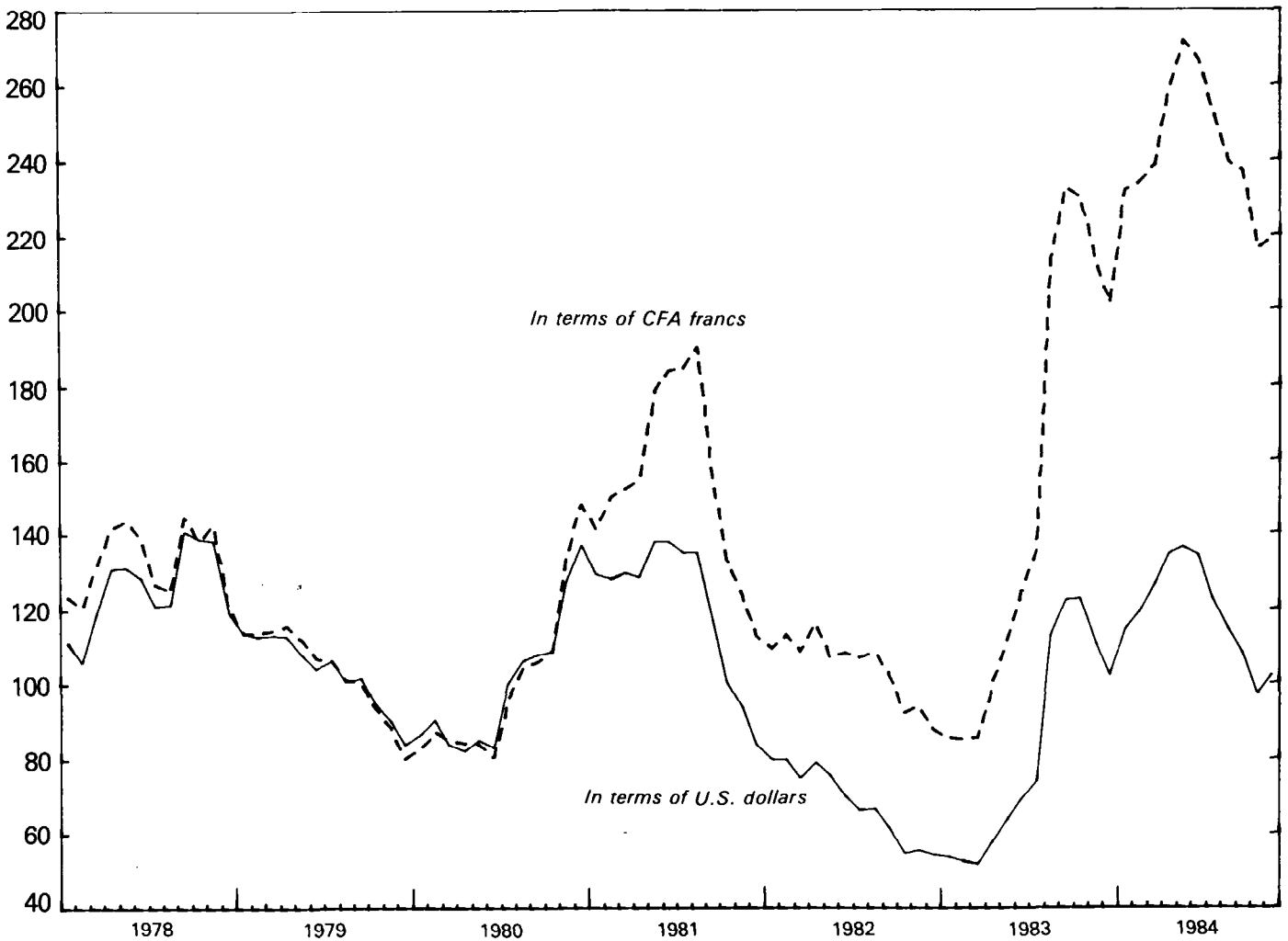
Sources: Letters of intent of the Minister of Economy and Finance of August 11, 1983 and February 7, 1984; and data provided by the Senegalese authorities.

1/ The end-June 1984 ceilings were indicative.
2/ After downward adjustments in accordance with the letter of intent.

triggered a marked increase in world market prices of groundnut products. Under the program, it had been assumed that world 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 the marketing season December 1983-November 1984. Instead, they spurted upward (Chart 1), averaging about US$1,010 per ton, c.i.f. Rotterdam. In view of these developments, and the concurrent strengthening of the U.S. dollar vis-à-vis the CFA franc, the average export price at which groundnut products were marketed is estimated to have exceeded the average cost to the oil millers by some CFAF 32,000 per ton, yielding a surplus on groundnut operations of the CPSP of about CFAF 6.9 billion in 1983/84, compared with a projected deficit of CFAF 10.6 billion (Table 4). Cotton operations also yielded a larger-than-anticipated surplus. Therefore, despite a sizable deficit on groundnut and imported vegetable oils due to the worldwide spurt in prices of oilseeds, it is estimated that in 1983/84 the CPSP realized an overall surplus of CFAF 5.6 billion, as against an overall deficit of CFAF 5.8 billion envisaged in the program. This helped cover the bulk of the deficit of the seed distribution scheme administered by the Société Nationale d'Approvisionnement du Monde Rural (SONAR); the latter was unusually large because the retainer (CFAF 15 per kg) collected from the much lower marketed output of groundnuts could not cover the cost of seed distribution.

Despite the sizable shortfall in budgetary revenue, the fiscal program was kept on track. According to provisional results, in 1983/84 total revenue rose by less than 8 percent to CFAF 189.4 billion, whereas it had been estimated to reach CFAF 198.3 billion (Table 5). The shortfall of CFAF 8.9 billion was attributable largely to lower than expected collections from customs duties due mainly to the nonpayment of about CFAF 2.6 billion of import duties on rice by the CPSP; it was also caused in part by the adverse impact of the decline in economic activity on revenue from taxes on goods and services. Despite the receipt of an unforeseen external grant, total revenue and grants together amounted to CFAF 201.6 billion, or CFAF 7.8 billion below the target. However, total expenditure and net lending, which was to be limited to CFAF 257.0 billion, was actually reduced to CFAF 247.6 billion, more than offsetting the revenue shortfall. Current expenditure, excluding interest due on the government debt, was kept below the programmed level, rising by only 5 percent, compared with 9 percent in the previous year. Expenditure on wages and salaries was practically on target, as cost of living increases were limited to CFAF 2,000 per month across-the-board and the growth in the number of civil servants, which had averaged 6 percent in the four years ended June 1983, was reduced to 2 percent in the year ended June 1984; the latter was the result of the application of more rigorous recruitment policies and controls by a special unit under the Secretary General of the

CHART 1
SENEGAL
WORLD GROUNDNUT OIL PRICES[1], 1978-84
(1980 = 100)



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

Table 4. Senegal: Financial Operations of the CPSP and the Seed Distribution Scheme, 1983/84-1984/85

(In billions of CFA francs)

	1983/84		1984/85
	Program	Estimated outcome	Program
I. CPSP			
Receipts	8.0	12.1	9.1
Export crops	0.6	9.2	6.7
Groundnut products	(--)	(6.9)	(5.5)
Cotton	(0.6)	(2.3)	(1.2)
Consumption goods	7.1	2.6	2.1
Rice	(2.6)	(2.6)	(--)
Flour	(0.3)	(--)	(--)
Groundnut and vegetable oils	(4.2)	(--)	(2.1)
Taxes and levies	0.3	0.3	0.3
Expenditures	13.8	6.5	2.8
Administrative and capital	1.3	1.5	1.0
Agricultural program	0.7	1.6	0.3
Export crops	10.9	0.3	0.6
Groundnut products	(10.6)	(--)	(--)
Cotton 1/	(0.3)	(0.3)	(0.6)
Consumption goods	0.9	3.1	0.9
Sugar	(0.8)	(--)	(--)
Wheat flour	(0.1)	(0.2)	(0.9)
Groundnut and vegetable oils	(--)	(2.9)	(--)
Surplus or deficit (-)	-5.8	5.6	6.3
II. Seed distribution scheme	-1.7	-6.9	-4.0
Total	-7.5	-1.3	2.3
(Excluding groundnut products) 2/	(4.8)	(-1.3)	(0.8)

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

1/ Subsidy to the local textile mills.
2/ A surplus or deficit on account of groundnut operations for a given fiscal year is known only at the end of the marketing season in December, and hence is reflected in the accounts of the following fiscal year.

Table 5. Senegal: Government Financial Operations, 1981/82-1984/85

	1981/82	1982/83	1983/84 Program	1983/84 Prov. results	1984/85 Program
		(In billions of CFA francs)			
Total revenue and grants	160.6	180.9	209.4	201.6	224.7
Revenue	151.9	175.7	198.3	189.4	212.8
Of which: tax revenue	(139.7)	(164.5)	(188.3)	(177.4)	(199.7)
Grants	8.7	5.2	11.1	12.2	11.9
Of which: capital	(8.7)	(3.4)	(11.1)	(6.0)	(5.0)
Total expenditure and net lending	212.6	254.2	257.0	247.6	261.6
Current expenditure	165.4	186.6	203.1	205.3	226.2
Wages and salaries	83.3	92.7	100.0	100.4	109.0
Interest due on government debt	18.3	26.7	33.1	36.9	46.2
Of which: external	(17.0)	(26.2)	(31.5)	(36.4)	(45.2)
Other 1/	63.8	67.2	70.0	68.0	71.0
Capital expenditure	30.6	39.0	42.4	40.3	35.0
Budgetary	6.9	7.9	10.0	10.0	10.0
Extrabudgetary	23.7	31.1	32.4	30.3	25.0
Treasury special accounts (net) 2/	5.0	-12.3	-7.0	-6.9	-5.0
Treasury correspondents (net) 2/	-21.6	-16.3	-4.5	4.9	4.6
CPSP and seed distribution scheme	-11.2	-11.4	-7.5	-1.3	2.3
Other	-10.4	-4.9	3.0	6.2	2.3
Overall fiscal deficit (-) (commitment basis)	-52.0	-73.3	-47.6	-46.0	-36.9
Adjustments to cash basis	-20.7	6.8	-23.8	-22.6	-9.6
Payment arrears of the Government and public agencies (reduction -)	-11.1	5.6	--	-2.0	-7.0
Crop credit (repayment -) 3/	-9.6	1.2	-23.8	-20.6	-2.6
Overall fiscal deficit (-) (cash basis)	-72.7	-66.5	-71.4	-68.6	-46.5
Financing	72.7	66.5	71.4	68.6	46.5
External	28.6	48.5	44.7	36.7	35.3
Drawings	33.3	49.5	43.1	35.9	40.9
Treasury	(18.8)	(21.8)	(21.8)	(11.6)	(20.9)
Other	(15.0)	(27.7)	(21.3)	(24.3)	(20.0)
Amortization payments due	-29.9	-27.3	-24.8	-28.4	-32.1
External debt rescheduling	25.2	26.3	26.4	29.2	...
Gap	--	--	--	--	26.5
Domestic	44.1	18.0	26.7	31.9	11.2
Banking system 4/	38.7	20.2	41.3	34.7 5/	19.2
Repayment of ONCAD debt to banks	--	-2.0	-16.6	-8.8	-10.0
Nonbank borrowing	3.0	2.0	2.0	1.4	2.0
Other	2.4	-2.2	--	4.6	--
Memorandum items:					
Payment arrears of the Government and public agencies outstanding (end of period)	48.0	55.7	55.7	53.7	46.7
Nominal GDP	757.0	893.8	982.7	979.6	1,112.2
		(In percent of GDP)			
Total revenue and grants	21.2	20.2	21.3	20.6	20.2
Revenue	20.1	19.6	20.2	19.3	19.1
Of which: tax revenue	(18.4)	(18.4)	(19.2)	(18.1)	(18.0)
Total expenditure and net lending	28.1	28.4	26.2	25.3	23.5
Current expenditure	21.8	20.9	20.7	21.0	20.3
Capital expenditure	4.0	4.4	4.3	4.1	3.1
Overall fiscal deficit (-) (commitment basis)	-6.9	-8.2	-4.8	-4.7	-3.3
Overall fiscal deficit (-) (cash basis)	-9.6	-7.4	-7.3	-7.0	-4.2

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

1/ Consisting of outlays for materials, supplies, maintenance, subsidies and other current transfers, and unclassified expenditure.
2/ Deficits (-) are added to expenditure, while surpluses are deducted.
3/ Crop credit due by the CPSP and the seed distribution scheme.
4/ Including the counterparts of Fund purchases and repurchases.
5/ This figure is CFAF 4.7 billion higher than in the monetary survey (Table 6) because of an adjustment made for the amount of external assistance unutilized but deposited at the Central Bank in 1983/84.

Table 4. Senegal: Financial Operations of the CPSP and the Seed Distribution Scheme, 1983/84-1984/85

(In billions of CFA francs)

	1983/84		1984/85
	Program	Estimated outcome	Program
I. CPSP			
Receipts	8.0	12.1	9.1
Export crops	0.6	9.2	6.7
Groundnut products	(--)	(6.9)	(5.5)
Cotton	(0.6)	(2.3)	(1.2)
Consumption goods	7.1	2.6	2.1
Rice	(2.6)	(2.6)	(--)
Flour	(0.3)	(--)	(--)
Groundnut and vegetable oils	(4.2)	(--)	(2.1)
Taxes and levies	0.3	0.3	0.3
Expenditures	13.8	6.5	2.8
Administrative and capital	1.3	1.5	1.0
Agricultural program	0.7	1.6	0.3
Export crops	10.9	0.3	0.6
Groundnut products	(10.6)	(--)	(--)
Cotton 1/	(0.3)	(0.3)	(0.6)
Consumption goods	0.9	3.1	0.9
Sugar	(0.8)	(--)	(--)
Wheat flour	(0.1)	(0.2)	(0.9)
Groundnut and vegetable oils	(--)	(2.9)	(--)
Surplus or deficit (-)	-5.8	5.6	6.3
II. Seed distribution scheme	-1.7	-6.9	-4.0
Total	-7.5	-1.3	2.3
(Excluding groundnut products) 2/	(4.8)	(-1.3)	(0.8)

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

1/ Subsidy to the local textile mills.
2/ A surplus or deficit on account of groundnut operations for a given fiscal year is known only at the end of the marketing season in December, and hence is reflected in the accounts of the following fiscal year.

Table 5. Senegal: Government Financial Operations, 1981/82-1984/85

	1981/82	1982/83	1983/84 Program	1983/84 Prov. results	1984/85 Program
	(In billions of CFA francs)				
Total revenue and grants	160.6	180.9	209.4	201.6	224.7
Revenue	151.9	175.7	198.3	189.4	212.8
Of which: tax revenue	(139.7)	(164.5)	(188.3)	(177.4)	(199.7)
Grants	8.7	5.2	11.1	12.2	11.9
Of which: capital	(8.7)	(3.4)	(11.1)	(6.0)	(5.0)
Total expenditure and net lending	212.6	254.2	257.0	247.6	261.6
Current expenditure	165.4	186.6	203.1	205.3	226.2
Wages and salaries	83.3	92.7	100.0	100.4	109.0
Interest due on government debt	18.3	26.7	33.1	36.9	46.2
Of which: external	(17.0)	(26.2)	(31.5)	(36.4)	(45.2)
Other 1/	63.8	67.2	70.0	68.0	71.0
Capital expenditure	30.6	39.0	42.4	40.3	35.0
Budgetary	6.9	7.9	10.0	10.0	10.0
Extrabudgetary	23.7	31.1	32.4	30.3	25.0
Treasury special accounts (net) 2/	5.0	-12.3	-7.0	-6.9	-5.0
Treasury correspondents (net) 2/	-21.6	-16.3	-4.5	4.9	4.6
CPSP and seed distribution scheme	-11.2	-11.4	-7.5	-1.3	2.3
Other	-10.4	-4.9	3.0	6.2	2.3
Overall fiscal deficit (-) (commitment basis)	-52.0	-73.3	-47.6	-46.0	-36.9
Adjustments to cash basis	-20.7	6.8	-23.8	-22.6	-9.6
Payment arrears of the Government and public agencies (reduction -)	-11.1	5.6	--	-2.0	-7.0
Crop credit (repayment -) 3/	-9.6	1.2	-23.8	-20.6	-2.6
Overall fiscal deficit (-) (cash basis)	-72.7	-66.5	-71.4	-68.6	-46.5
Financing	72.7	66.5	71.4	68.6	46.5
External	28.6	48.5	44.7	36.7	35.3
Drawings	33.3	49.5	43.1	35.9	40.9
Treasury	(18.8)	(21.8)	(21.8)	(11.6)	(20.9)
Other	(15.0)	(27.7)	(21.3)	(24.3)	(20.0)
Amortization payments due	-29.9	-27.3	-24.8	-28.4	-32.1
External debt rescheduling	25.2	26.3	26.4	29.2	...
Gap	--	--	--	--	26.5
Domestic	44.1	18.0	26.7	31.9	11.2
Banking system 4/	38.7	20.2	41.3	34.7 5/	19.2
Repayment of ONCAD debt to banks	--	-2.0	-16.6	-8.8	-10.0
Nonbank borrowing	3.0	2.0	2.0	1.4	2.0
Other	2.4	-2.2	--	4.6	--
Memorandum items:					
Payment arrears of the Government and public agencies outstanding (end of period)	48.0	55.7	55.7	53.7	46.7
Nominal GDP	757.0	893.8	982.7	979.6	1,112.2
	(In percent of GDP)				
Total revenue and grants	21.2	20.2	21.3	20.6	20.2
Revenue	20.1	19.6	20.2	19.3	19.1
Of which: tax revenue	(18.4)	(18.4)	(19.2)	(18.1)	(18.0)
Total expenditure and net lending	28.1	28.4	26.2	25.3	23.5
Current expenditure	21.8	20.9	20.7	21.0	20.3
Capital expenditure	4.0	4.4	4.3	4.1	3.1
Overall fiscal deficit (-) (commitment basis)	-6.9	-8.2	-4.8	-4.7	-3.3
Overall fiscal deficit (-) (cash basis)	-9.6	-7.4	-7.3	-7.0	-4.2

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

1/ Consisting of outlays for materials, supplies, maintenance, subsidies and other current transfers, and unclassified expenditure.
2/ Deficits (-) are added to expenditure, while surpluses are deducted.
3/ Crop credit due by the CPSP and the seed distribution scheme.
4/ Including the counterparts of Fund purchases and repurchases.
5/ This figure is CFAF 4.7 billion higher than in the monetary survey (Table 6) because of an adjustment made for the amount of external assistance unutilized but deposited at the Central Bank in 1983/84.

Presidency of the Republic. At the same time, outlays on materials, supplies, and transfers were kept below their initially programmed level, reflecting the additional measures taken during the mid-term review of the program. Interest due on the government debt was higher than had been originally estimated, owing mainly to the depreciation of the CFA franc, but so was the debt relief obtained from official creditors. As to capital budgetary expenditure, the initial target was realized; the additional efforts initiated during the mid-term review to contain such expenditure below the program level were not successful, mainly because of the carry-over of some outlays from earlier years. The deficit on the special accounts held with the Treasury was fractionally lower than programmed. Moreover, the financial position of the Treasury correspondents improved markedly, not only on account of the sizable surplus realized by the CPSP, which largely offset the deficit of SONAR, but also because of the favorable results of other major correspondents.

Consequently, the overall fiscal deficit, on a commitment basis, which had reached CFAF 73.3 billion in 1982/83, was reduced to CFAF 46.0 billion in 1983/84, slightly below the level envisaged in the program. In relation to GDP, the deficit was brought down from 8.2 percent in 1982/83 to 4.7 percent in 1983/84, also below the programmed ratio. Concurrently, there was a reduction of CFAF 2.0 billion in domestic payment arrears of the Government and public agencies, though no change had been planned; even so, the stock of arrears remained substantial, amounting to CFAF 53.7 billion at end-June 1984. In addition, the Government made large repayments to banks of crop credits due by the CPSP and the seed distribution scheme. However, as the overall cash deficit was kept within the program limit, net government borrowing from the banking system was below the established ceiling.

The improvement in fiscal performance was reinforced by a substantial tightening of credit policy. In 1983/84 the increase in credit to the private sector, excluding crop credit, was limited to 7 percent (Table 6), only slightly more than the implicit target under the program and well below the 12 percent expansion recorded in the previous year. At the same time, outstanding crop credit fell sharply, owing mainly to the lower financing requirements of the much reduced marketed output of groundnuts. Since net government borrowing from the banking system was also lower than programmed, total domestic credit, which had increased by 17 percent in 1982/83, grew by only 5 percent in 1983/84, compared with 13 percent specified in the program. In relation to the money stock at the beginning of the period, total domestic credit expansion fell from 29 percent in the year ended June 1983 to 8 percent in the year ended June 1984. Therefore, in view of the external payments developments described below, the growth of money supply (broadly defined) slowed appreciably, from 12 percent in 1982/83 to 4 percent in 1983/84, well below the estimated increase in nominal GDP.

Table 6. Senegal: Monetary Survey, 1982-June 1985

(In billions of CFA francs; end of period)

	1982	1983		1984				1985	
	Dec.	June	Dec.	March	June	Sept. Prov.	Dec. Prog.	March Prog.	June Prog.
Foreign assets (net)	-159.3	-178.8	-182.5	-177.3	-198.4	-202.4	-207.3	-209.4	-210.4
Central bank	-139.6	-163.4	-170.3	-168.8	-181.5	-189.4	-197.0	-195.0	-194.5
Commercial banks	-19.7	-15.4	-12.2	-8.5	-16.9	-13.0	-10.3	-14.4	-15.9
Domestic credit	446.2	468.0	480.2	482.5	489.7	493.1	526.6 1/	536.9 1/	527.0 1/
Claims on Government (net)	87.6	90.4	106.9	110.9	120.4	128.1	131.6 1/	138.0 1/	139.6 1/
Claims on private sector	358.6	377.6	373.3	371.6	369.3	365.0	395.0	398.9	387.4
Of which: crop credit	(33.3)	(42.9)	(22.0)	(19.2)	(11.9)	(5.2)	(30.9)	(33.3)	(19.7)
Money and quasi-money	262.4	266.8	272.7	276.6	276.2	276.0	294.3	302.5	291.6
Other items (net)	24.5	22.4	25.0	28.6	15.1	14.7	25.0	25.0	25.0

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

1/ Performance criteria.

In 1983/84 there was also a considerable improvement in Senegal's external payments position, though the underlying imbalances remained large and there was need for further debt rescheduling. Based on the latest revised estimates, total export earnings in SDR terms were about 11 percent higher than foreseen in the program and 8 percent more than in 1982/83 (Table 7). This performance was due largely to a substantial growth of nontraditional exports, notably fish and phosphates, and to the favorable evolution of world prices of groundnut oil described above; moreover, whereas the 1983/84 groundnut crop was reduced markedly by the drought, the decline in export volume was cushioned somewhat by the marketing of groundnut stocks carried over from the previous year. Meanwhile, total import payments in SDR terms fell by 5 percent, as higher imports of cereals were more than offset by lower nonfood imports, reflecting the tightening of demand management policies, the slowdown in economic activity, and the completion of a number of major development projects. The services account continued to deteriorate, but the deterioration was less acute than had been initially projected. Net inflows of unrequited transfers rose significantly, mainly because of increased food grants. As a result, the current account deficit is estimated to have amounted to SDR 252 million in 1983/84, some SDR 33 million less than programmed and SDR 74 million better than in 1982/83. In terms of GDP, the current account deficit was reduced from 14.0 percent in 1982/83 to 11.1 percent in 1983/84, as against 11.9 percent envisaged in the program. Since net capital inflows were somewhat higher than programmed, in 1983/84 the overall balance of payments deficit, before debt rescheduling, declined to some SDR 122 million, compared with SDR 173 million in the program and SDR 202 million in the previous year; after the debt rescheduling noted below, it amounted to about SDR 42 million, as against SDR 96 million in the program and SDR 111 million in 1982/83.

In December 1983 Senegal concluded an agreement with the Paris Club for the rescheduling of its external debt service obligations falling due between July 1, 1983 and June 30, 1984. 1/ In addition, in February 1984 Senegal concluded a rescheduling agreement with the commercial banks, which replaced an earlier one initiated in June 1982 and not signed, covering principal falling due between May 1, 1981 and June 30, 1984. The total debt relief obtained through these two agreements is now estimated at SDR 80.4 million for 1983/84.

Since the CFA franc is pegged to the French franc, variations in Senegal's nominal effective exchange rate reflect exchange rate developments between the French franc and the currencies of Senegal's trading partners outside the franc area. As a result, in the year ended June 1984 the nominal effective exchange rate (import-weighted) depreciated by 2.7 percent; this is explained largely by a 9.0 percent depreciation

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1/ For details, see SM/84/52.

Table 7. Senegal: Balance of Payments, 1982-85 and 1982/83-1985/86

(In millions of SDRs)

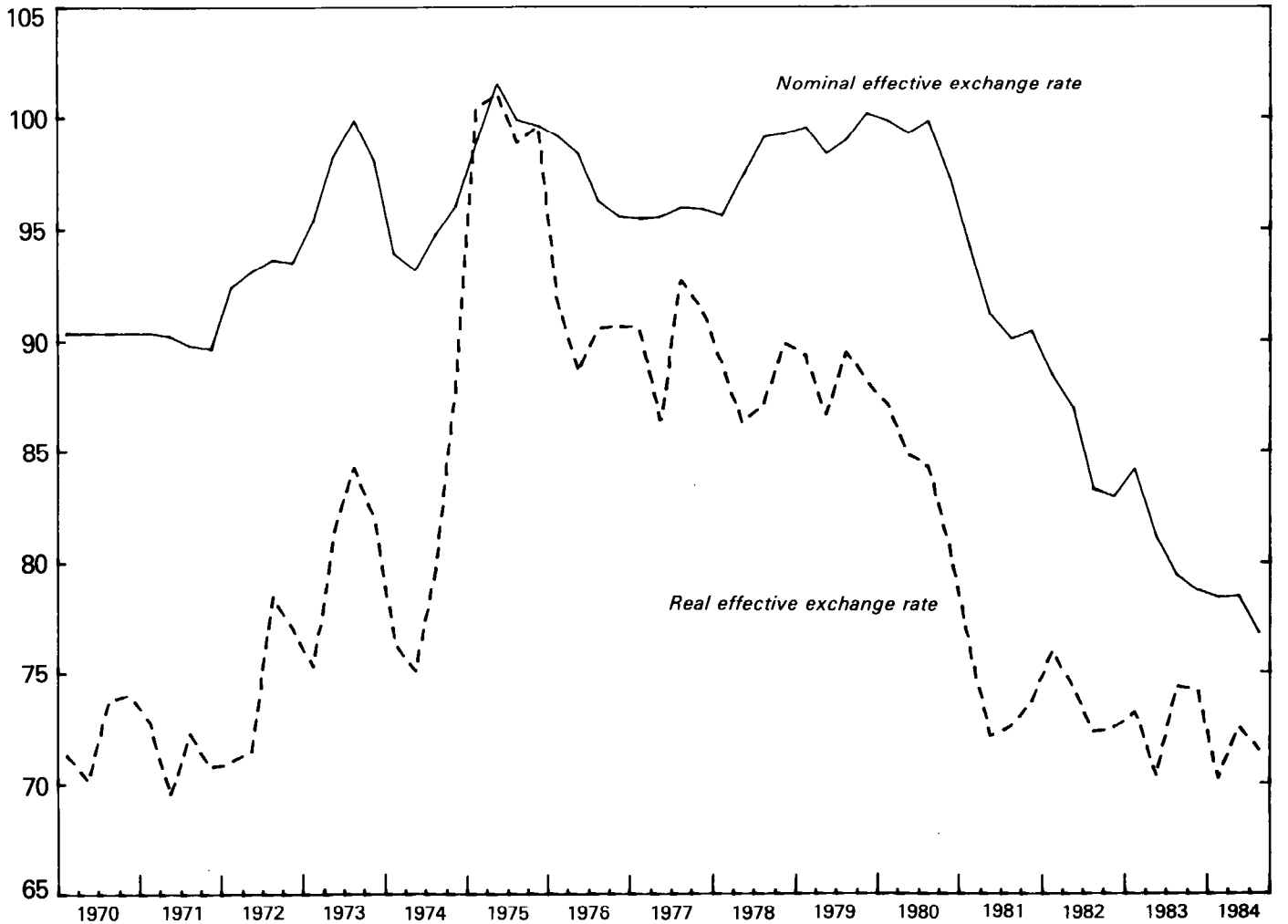
	1982	1983	1984 Est.	1985 Proj.	1982/83	1983/84 Prog.	1983/84 Est.	1984/85 Program	1985/86 Program
Trade balance	-326.3	-291.1	-239.9	-195.8	-334.3	-246.1	-249.4	-191.5	-165.9
Exports, f.o.b.	534.2	531.9	544.1	603.5	496.1	485.0	536.9	560.9	635.4
Of which: groundnut products	(122.1)	(133.2)	(127.4)	(138.3)	(103.5)	(141.3)	(155.1)	(131.9)	(137.4)
Imports, f.o.b.	-860.5	-823.0	-784.0	-799.3	-830.4	-731.1	-786.3	-752.4	-801.3
Services (net)	-74.8	-124.3	-178.2	-190.8	-119.4	-159.5	-142.8	-173.0	-179.8
Of which: interest due on public debt	(-64.9)	(-80.4)	(-123.2)	(-143.0)	(-108.7)	(-114.1)	(-94.2)	(-121.9)	(-138.5)
Unrequited transfers (net)	123.2	132.8	156.7	152.2	128.3	120.9	140.4	141.3	154.3
Private	26.7	27.2	30.4	32.6	26.8	27.9	29.0	35.0	40.0
Public	96.5	105.6	126.3	119.6	101.5	93.0	111.4	106.3	114.3
Current account deficit (-)	-277.9	-282.6	-261.4	-234.4	-325.4	-284.7	-251.8	-223.2	-191.4
Capital account	97.8	142.9	121.5	110.0	145.9	111.6	115.8	109.3	102.2
Public capital	57.6	94.8	55.5	55.7	104.3	61.8	64.4	60.0	55.7
Of which: amortization due on public debt	(-109.7)	(-78.8)	(-86.4)	(-93.9)	(-79.6)	(-72.8)	(-72.1)	(-90.0)	(-102.4)
Private capital	40.2	48.1	66.0	54.3	41.6	49.8	51.4	49.3	46.5
Errors and omissions	-9.6	-6.0	--	--	-22.9	--	13.5	--	--
Overall deficit (-)	-189.7	-145.7	-139.9	-124.4	-202.4	-173.1	-122.5	-113.9	-89.2
Debt rescheduling	86.1	70.3	80.2	84.1	91.3	77.2	80.4	...	...
Of which: interest	(15.8)	(15.6)	(30.5)	(34.1)	(39.5)	(23.3)	(29.1)	(...)	(...)
Overall deficit after debt rescheduling (-)	-103.6	-75.4	-59.7	-40.3	-111.1	-95.9	-42.1	...	...
Financing	103.6	75.4	59.7	40.3	111.1	95.9	42.1	28.2	4.4
Central Bank	114.1	75.4	59.7	40.3	111.1	95.9	42.1	28.2	4.4
IMF	(39.8)	(21.0)	(17.0)	(14.6)	(26.3)	(54.8)	(54.8)	(2.8)	(-8.3)
Exceptional financing	(88.2)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)
Other	(-13.9)	(54.4)	(42.7)	(25.7)	(84.8)	(41.1)	(-12.7)	(25.4)	(12.7)
Arrears (reduction -)	-10.5	--	--	--	--	--	--	--	--
Financing gap	--	--	--	--	--	--	--	85.7	84.8
Memorandum item:									
CFAF/SDR (period average)	362.8	407.4	446.8	460.0	384.4	412.0	430.1	460.0	460.0

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

CHART 2
SENEGAL

NOMINAL AND REAL EFFECTIVE EXCHANGE RATES[1], 1970-84

(1975 = 100)



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

of the CFA franc vis-à-vis the U.S. dollar. By contrast, the real effective exchange rate appreciated by 3.0 percent, owing to the higher rate of inflation in Senegal relative to its major trading partners. During the four months July-October 1984 the effective exchange rate depreciated by 2.2 percent in nominal terms and by 3.7 percent in real terms (Chart 2).

IV. The Adjustment Program for 1984/85-1985/86

Despite the turnaround achieved in 1983/84, Senegal continues to face major structural and financial problems. The economy, especially the agricultural sector, remains fundamentally weak and vulnerable, and the internal and external financial imbalances are still unsustainably large. Following the very severe drought last year, weather conditions improved in early June 1984; but as the rains were uneven, the 1984/85 groundnut crop, as well as output of millet and sorghum, are estimated to be significantly below normal levels. Conscious of the magnitude of the country's problems, the Senegalese representatives stated that the authorities were determined to pursue their adjustment efforts, with a view to achieving a satisfactory economic growth and a viable financial position over the medium term. Accordingly, they have recently adopted a new adjustment program, effectively covering the whole of 1984/85 and 1985/86, in support of which the Government of Senegal is requesting an 18-month stand-by arrangement in an amount equivalent to SDR 76.6 million. The basic objective of the program, which is summarized in Table 8, is to further reduce the external current account deficit in terms of GDP, from the estimated 11.1 percent in 1983/84 to about 9.2 percent in 1984/85 and to some 6.9 percent in 1985/86. These and other targets are to be realized through a combination of the supply and demand management policies set out below.

1. Agricultural policy

To expand and diversify domestic production, the authorities have begun implementing a new agricultural policy which has been developed in close consultation with representatives of the rural population and the country's principal creditors and donors. This policy has four key elements: first, a reorganization of the rural sector designed to transfer progressively responsibility for production, storage, and distribution to the farmers themselves or their organizations, and thereby to limit the role of the State to providing a minimum of supervision and extension services; second, a consequent reduction of the role of rural development agencies, whose operations now place a heavy burden on public finances; third, a reform of the supply system for agricultural inputs; and fourth, the pursuit of appropriate producer and consumer pricing policies, especially with a view to stimulating production of domestic cereals and hence reducing reliance on imports, notably of rice.

As part of this policy, the cooperative system is being restructured through the creation of smaller units at the village level, the so-called village sections. Already, 4,472 village sections have been created,

Table 8. Senegal: Summary of the Adjustment Program, 1984/85-1985/86

	1983/84 Prov.	1984/85 Prog.	1985/86 Prog. 1/
Basic assumptions			
Real GDP growth (percent)	-0.4	4.1	5.0
GDP deflator (percent change)	10.1	9.0	9.0
Terms of trade (percent change) 2/	-1.2	6.9	-8.3
Exchange rate (period average)			
CFAF/US$	409.6	460.0	460.0
CFAF/SDR	430.1	460.0	460.0
Groundnuts			
Processed for export (thousand tons)	217.0	400.0	400.0
Export volume (thousand tons)			
Groundnut crude oil	113.9 3/	108.0	120.0
Groundnut cake	188.2 3/	140.7	150.0
Export prices (CFAF/kg)			
Groundnut crude oil	360.8	436.8	395.0
Groundnut cake	73.9	78.2	82.5
Exports of fish products (CFAF billion)	45.6	51.6	59.3
Exports of phosphates and chemicals (CFAF billion)	30.2	50.2	59.6
Of which: Industries Chimiques du Sénégal	(5.4)	(22.5)	(29.0)
Official grants and gross capital inflows (CFAF billion)	106.8	119.8	127.7
Basic targets			
Balance of payments			
Current account deficit (-)			
In millions of SDRs	-251.8	-223.2	-191.4
In percent of GDP	-11.1	-9.2	-6.9
Overall deficit before debt rescheduling (-)			
In millions of SDRs	-122.5	-113.9	-89.2
Overall deficit after debt rescheduling (-)			
In millions of SDRs	-42.1	...	...
Overall fiscal deficit on a commitment basis (-)			
In billions of CFAF	-46.0	-36.9	...
In percent of GDP	-4.7	-3.3	-1.8 to -2.2
Total domestic credit expansion			
In billions of CFAF	21.7	37.3 4/	...
In percent of beginning money stock	8.1	13.5 4/	...

Principal elements of the program	Status and expected progress
1. Agricultural policy	
a. Restructuring of cooperative system through the creation of village sections.	4,472 village sections already created.
b. Promulgation of legislation governing groupings of economic interest, independent of the cooperative system.	Implemented May 11, 1984.
c. Liquidation, merger, or restructuring of rural development agencies.	To be completed within five years. In any event, agreement regarding rehabilitation program of SAED to be concluded by the end of December 1984.
d. Distribution of fertilizers: henceforth, no direct subsidy from the Treasury, study of the distribution system, to be followed by adoption of appropriate action plan.	Study completed in November 1984; action plan to be prepared by the end of May 1985.
e. Reconstitution and distribution of groundnut seeds: medium-term objective to transfer this responsibility to the farmers themselves or their organizations; meanwhile, functions to be turned over to the oil millers.	Understandings already reached transferring these functions to the oil millers; formal agreement to be signed by the end of December 1984. SONAR, which has already ceased operations, to be liquidated by the end of May 1985. Medium-term action plan to be prepared by the end of May 1985.
f. Producer prices of maize, millet/sorghum, paddy, and cowpeas to be raised by 20 percent, 9 percent, 10 percent, and 40 percent, respectively.	Implemented October 8, 1984.
g. Retail prices of foodstuffs to be adjusted periodically to stimulate production of domestic cereals.	To be implemented.

2. <u>Price Equalization and Stabilization Fund</u>	
a. Diagnostic studies of its operations, by commodity, to be followed by action plan.	Audit of rice operations completed; other studies to be conducted shortly, with action plan to be adopted by the end of March 1985.
b. Management to be strengthened with external technical assistance.	Technical assistance, to be financed partly by the World Bank, expected to be in place by the end of March 1985.
c. Retail prices of groundnut oil and imported vegetable oil to be raised by 25 percent and 50 percent, respectively.	Implemented August 13, 1984.
3. <u>Petroleum pricing</u>	
Pursuit of a flexible petroleum pricing policy, in light of developments in the world market.	On July 26, 1984 ex-refinery and retail prices of petroleum products were raised by 5 percent and 3-8 percent, respectively; on December 1, 1984 they were increased again by 10 percent and 8-16 percent, respectively.
4. <u>Fiscal Policy</u>	
a. Increases in taxes, coupled with intensified efforts to strengthen tax administration and enforcement.	On September 15, 1984 customs duties for certain products were effectively increased; additional revenue proposals to be submitted to the National Assembly by the end of December 1984.
b. Establishment of fiscal cadaster.	To be completed by the end of December 1985.
c. Broad review of the tax system.	Being carried out by a special tax commission; review to be finalized by the end of December 1985.
d. Increase in current outlays, excluding interest on the public debt, to be limited to 7 percent in 1984/85. In particular, wage bill will not exceed CFAF 109 billion, and the growth of outlays on materials, supplies, and transfers will be limited to 4 percent.	Being implemented.

e. Capital budgetary expenditure in 1984/85 to be maintained at the 1983/84 level of CFAF 10 billion.	Being implemented.
f. Domestic arrears of the Government and public agencies will be reduced by CFAF 7 billion in 1984/85; also, repayment of ONCAD debt to amount to CFAF 10 billion in 1984/85.	Being implemented.
5. Public utilities	
Agreements on the rehabilitation programs of the four major public utilities, namely, SONEES, SOTRAC, SENELEC, and OPT, to be concluded by the end of December 1985.	With technical assistance from the World Bank, diagnostic studies of the problems of these entities nearly completed; agreement regarding SONEES to be signed by the end of December 1984.
6. Credit policy	
Monetary authorities will pursue prudent credit policy, with the increase in noncrop credit to the private sector to be limited to 3 percent in 1984/85.	Policy being implemented.
7. External debt management	
New external loans on nonconcessional terms contracted or guaranteed by the Government with a maturity of 1-12 years to be limited to SDR 20 million, of which no more than SDR 4 million will be in the maturity range of 1-5 years.	Policy being implemented.

1/ The 1985/86 program figures are indicative.
2/ The terms of trade changes are in SDRs and refer to the three calendar years 1983-85.
3/ Including sales of stocks carried over from the previous year.
4/ The increase relative to 1983/84 is due to the financing requirements of the larger groundnut and cotton crops.

covering virtually the entire country. Furthermore, a new law passed on May 11, 1984 makes it possible to set up groupings of economic interest, including farmers' associations independent of the cooperative system. These new associations, with financial autonomy and access to bank credit, are expected to help boost agricultural productivity.

To foster this liberalization process, over the next five years the interventions of the rural development agencies are to be reduced substantially, and extension services are to be made more flexible, simple, and less costly. Accordingly, the Government has decided to liquidate the Société Nationale d'Approvisionnement du Monde Rural (SONAR), as well as the Société des Terres Neuves (STN); to curb significantly the activities of the Société d'Aménagement et d'Exploitation des Terres du Delta (SAED) and of the Société de Développement et de Vulgarisation Agricole (SODEVA); to merge the Société de Développement Agricole et Industrielle (SODAGRI) with the Société de la Mise en Valeur de la Casamance (SOMIVAC); and to further improve the operations and financial performance of the Société de Développement des Fibres Textiles (SODEFITEX). The Government will conclude, where necessary, an agreement (contrat-plan) with each of these agencies spelling out the specific objectives to be achieved and the programs of action to be implemented, including the steps for reducing and retraining staff. The necessary agreements are to be signed during the program period and, in any event, no later than the end of December 1984 in the case of SAED.

As regards agricultural inputs, the objective is to expand supply to farmers at cost. In the case of fertilizers, the Government has already ceased providing direct subsidies through the Treasury. Farmers' needs will henceforth be met only by the proceeds from the retainer levied on groundnut producers (CFAF 5 per kg), cash sales, bank credit, and, where appropriate, external assistance. On the basis of a study completed in November 1984, an improved plan for the distribution of fertilizers in the coming season is to be adopted no later than the end of March 1985. To help increase agricultural output, it is hoped that the use of fertilizers will rise significantly during the next five years to at least 120,000 tons per annum. As to the reconstitution and distribution of groundnut seeds, the Government has decided to transfer this responsibility to the farmers themselves or their organizations over a five-year period, in accordance with a program to be established by the end of May 1985. Meanwhile, beginning with the current marketing season, these functions, until recently carried out by SONAR, were turned over to the oil millers; the formal agreement between the Government and the oil millers making them responsible for collecting and distributing the seeds is to be signed no later than the end of December 1984. Thus, SONAR, which has effectively ceased operations, is to be liquidated by the end of May 1985 at the latest.

As regards the strategy for the development of the major crops, the new agricultural policy places primary emphasis on stimulating production

of cereals, particularly maize, millet, sorghum, and paddy, without compromising the expansion of output of groundnuts and other export crops which yield high returns. This will entail increasing cultivated areas, both rainfed and irrigated; improving farmers' access to inputs, storage, marketing, and financing facilities; creating a market for local cereals through the processing of these crops; and strengthening production incentives through appropriate pricing policies. To foster domestic production of cereals and reduce reliance on imports, especially of rice, effective October 8, 1984 the producer prices of maize, millet/sorghum, paddy, and cowpeas were raised by 20 percent, 9 percent, 10 percent, and 40 percent, respectively. Furthermore, to reinforce this import substitution strategy, it will be essential to shift relative consumer prices in favor of locally produced cereals. Although the retail price of rice has been raised significantly in recent years, it is still well below that of locally produced and processed cereals. Therefore, as indicated in the letter of intent, the Government intends to pursue a flexible consumer pricing policy, involving further periodic increases in the retail price of rice during the program period and beyond; this policy will also aim at avoiding any subsidization of imported rice by the CPSP.

2. The Price Equalization and Stabilization Fund

In view of the critically important role of the Price Equalization and Stabilization Fund (CPSP) not only in the agricultural sector but also in public finances, strong efforts are to be made to improve its operations. As a first step, an audit of the CPSP's rice operations has been completed recently by an international accounting firm; and a diagnostic study of its interventions in other areas will be conducted shortly. On this basis, an action plan is to be adopted no later than the end of March 1985 specifying the necessary improvements, including those activities which may have to be turned over to other public entities or privatized. Equally important, the functioning of the CPSP is to be strengthened with external technical assistance in the areas of accounting, financial management, and relations with the oil millers and the sugar company; this assistance, which is to be financed partly by the World Bank, is now expected to be in place by the end of March 1985. Moreover, external audits of the CPSP's accounts will henceforth be conducted annually.

As shown in Table 4, in 1984/85 the CPSP's overall financial position is expected to improve. Although total receipts are projected to decline from CFAF 12.1 billion in 1983/84 to CFAF 9.1 billion in 1984/85, owing partly to lower surpluses on groundnut and cotton operations, total expenditures are expected to fall even more so, from CFAF 6.5 bilion to CFAF 2.8 billion, respectively. In view of a prospective increase in the deficit on groundnut and imported vegetable oil operations, due to the spurt in world prices of oilseeds, on August 13, 1984 the retail price of groundnut oil was raised by 25 percent to CFAF 500 per liter, while that of imported vegetable oil was increased by 50 percent to CFAF 450 per liter. As a result, a surplus of CFAF 2.1 billion is now estimated to be realized on this account in 1984/85, as against a deficit of CFAF 2.9 billion last year.

In sum, therefore, it is projected that the CPSP will register an overall surplus of CFAF 6.3 billion in 1984/85, some CFAF 0.7 billion larger than in 1983/84. This would more than cover the deficit of the seed distribution scheme, estimated at CFAF 4.0 billion, to be administered for the first time by the oil millers.

3. Petroleum pricing

Although retail prices of petroleum products were increased significantly in August 1983, the increases proved inadequate, owing mostly to the continued strengthening of the U.S. dollar, and hence the financial situation of the oil refinery (SAR) and the stabilization fund for hydrocarbons remained difficult. In the circumstances, the authorities made two further adjustments in petroleum prices: on July 26, 1984 they were raised by an average of 5 percent at the refinery level and by 3-8 percent at the retail level; and on December 1, 1984 they were increased again by an average of 10 percent and by 8-16 percent, respectively. As in the case of other products, the Government has undertaken to pursue a flexible petroleum pricing policy, consistent with the evolution of the world oil market and exchange rate developments. Accordingly, it will take such further action as may be needed to ensure the elimination of any remaining deficit of the oil refinery and the stabilization fund for hydrocarbons by the end of June 1985. To lower per unit costs of production of the refinery, steps are being taken to obtain imported crude oil on better credit terms and to increase capacity utilization through an expansion of sales of refined products to neighboring countries.

4. Fiscal policy

As in 1983/84, fiscal adjustment will continue to be the key element of the program for 1984/85 and 1985/86. To help restrain aggregate demand to a level compatible with available resources, a number of measures have been taken, and others will be introduced shortly, to reduce the overall fiscal deficit, on a commitment basis, by 20 percent to CFAF 36.9 billion in 1984/85; in relation to GDP, the deficit would thus be brought down from 4.7 percent in 1983/84 to some 3.3 percent in 1984/85 (Table 5). Although detailed budgetary estimates for the year ahead have not yet been prepared, the authorities' objective will be to reduce the overall fiscal deficit, on a commitment basis, even further in 1985/86 to around 2 percent of the projected GDP. As indicated in the letter of intent, the Government will reach understandings with the Fund in the context of the second review of the program on the policies and measures to be implemented in 1985/86 so as to achieve the above fiscal target.

In 1984/85 domestic payment arrears of the Government and public agencies will be reduced by CFAF 7.0 billion, or by CFAF 5.0 billion more than in the previous year; this target, a performance criterion under the proposed stand-by arrangement, excludes any reduction in arrears that may be achieved through reciprocal debt settlements. In view of the repayment

in 1983/84 of most of the outstanding crop credit due by the CPSP and the seed distribution scheme, there is only a small amount to be settled by the Government in 1984/85. Therefore, the overall cash deficit will also be reduced substantially, from CFAF 68.6 billion (7.0 percent of GDP) in 1983/84 to CFAF 46.5 billion (4.2 percent of GDP) in 1984/85. Since net external financing is expected to be of about the same order of magnitude as in the previous year, net domestic financing of the deficit is programmed to decline sharply. In particular, net government borrowing from the banking system, which includes the counterparts of Fund purchases and repurchases, is programmed to be reduced by almost one half, from CFAF 34.7 billion in 1983/84 to CFAF 19.2 billion in 1984/85, notwithstanding the repayment of CFAF 10.0 billion of debt to banks resulting from the liquidation of the Office National de Coopération et d'Assistance pour le Développement (ONCAD).

To attain the 1984/85 fiscal targets, as of September 15, 1984 a number of imported products were placed on a higher customs duty category, thus effectively increasing duties on these products. Moreover, the Government will submit to the National Assembly before the end of December 1984 some revenue proposals, comprising an increase in the tax on vehicles and an extension of the service tax to cover telecommunication services, with a view to raising a total of CFAF 2.0 billion by the end of the fiscal year. Revenue performance will also benefit from the increases in prices of petroleum products indicated above, which are estimated to yield an additional CFAF 3.0 billion from the value added tax on these products. Finally, the authorities will make further efforts to strengthen tax administration and enforcement, particularly at the customs level, so as to reduce the sizable lags between assessments and collections. As a result, and in view of the favorable revenue impact of the recent economic recovery, government revenue is expected to increase by 12 percent in 1984/85, compared with 8 percent in 1983/84. Given the anticipated level of external grants of CFAF 11.9 billion, total revenue and grants are estimated to reach CFAF 224.7 billion in 1984/85, 11 percent higher than their 1983/84 level. In the period ahead, continued efforts will be made to mobilize additional revenue. To this end, a comprehensive survey will be conducted to identify potential taxpayers and taxable activities; a fiscal cadaster (i.e., a register of land titles for fiscal purposes) will be completed by the end of December 1985; and a broad review of the tax system, which is being carried out by a special commission, will also be finalized by the end of December 1985.

With respect to government outlays, rigorous controls will be applied under the program. In 1984/85 the growth of current expenditure, excluding interest due on the government debt, will be limited to 7 percent, implying a substantial decline in real terms. 1/ To this end, the increase of the

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1/ According to the consumer price index for the average Senegalese family in Dakar, the rate of inflation was 11 percent in 1983; in view of the impact of the recent measures and exchange rate developments, it is estimated that the inflation rate will accelerate to some 13 percent in 1984.

wage bill will be kept at 8.5 percent, about the same rate as in 1983/84, mainly by containing the wage drift and reducing the growth in the number of civil servants to 1 percent. To stabilize, if not reduce, government employment in future years, admissions to civil service training schools are being reduced further and new recruitment continues to be strictly controlled by the special unit under the Secretary General of the Presidency of the Republic. Moreover, outlays on materials, supplies, and transfers are programmed to increase by only 4 percent. As regards housing allowances, following a recently completed survey, the provision of housing for those found to be ineligible is being terminated; direct rental payments for those entitled to housing have been reduced; and such payments will be progressively replaced by lump-sum allowances. Capital budgetary expenditure is to be maintained at the 1983/84 level, and extrabudgetary outlays for development purposes that are financed directly through external loans and grants are estimated to decline. The deficit on the special accounts held with the Treasury is expected to be reduced, while the net financial results of the Treasury correspondents are estimated to generate about the same surplus as in 1983/84. Consequently, total expenditure and net lending are programmed to rise by less than 6 percent in 1984/85 to CFAF 261.6 billion.

5. Reform of the parapublic sector

As in the case of agriculture, steps will be taken to reduce the role of public entities and hence the costs of state intervention in other sectors of the economy. To this end, a comprehensive review of government participations is being carried out; on the basis of this review, to be completed shortly, a determination will be made on the nonagricultural public enterprises to be liquidated, merged, rehabilitated, or privatized.

In the course of the discussions, the Senegalese representatives emphasized that the Government remained committed to the rehabilitation of the four major public utilities, namely, the Société Nationale d'Exploitation des Eaux du Sénégal (SONEES) (water supply), the Société de Transport en Commun du Cap Vert (SOTRAC) (transportation), the Société d'Exploitation de l'Energie Electrique du Sénégal (SENELEC) (electricity), and the Office des Postes et Télécommunications (OPT) (post office and telecommunications). Although progress in this regard has so far been much slower than had been envisaged, it is expected that more significant strides will be made under the 1984/85-1985/86 program.

With World Bank technical and financial assistance, diagnostic studies identifying the problems facing these public utilities have been nearly completed, and the necessary agreements with the Government on their rehabilitation programs are to be concluded by the end of December 1985. In the case of SONEES, a draft agreement was finalized in October 1984 in connection with negotiations on a water supply project to be financed by an IDA credit; the formal agreement is to be signed by the end of December

1984. The agreement will include measures designed to improve the company's management and enhance the productivity of its personnel, as well as to raise revenue through selective tariff increases, with a view to generating sufficient internal resources to cover part of its investment outlays and all of its debt servicing obligations. In addition, the agreement will provide for a reciprocal settlement of arrears between the central and local governments on the one hand and SONEES on the other, resulting in an estimated net payment of CFAF 0.7 billion to the company; it will also stipulate that the central and local governments will henceforth allocate adequate budgetary resources to cover their water consumption.

The authorities expect to sign similar agreements with SOTRAC and SENELEC by the end of February 1985 and September 1985, respectively. These agreements are viewed as a necessary step not only for the rehabilitation of these companies but also for the mobilization of external resources in support of their adjustment efforts. As regards the OPT, a number of complex issues have to be resolved before an agreement can be concluded. These issues include a change of legal status so as to transform the Office into an autonomous corporation fully owned by the Government. The corporate status would provide more flexibility in the management of postal and telecommunication services, which are profitable and could be expanded to bring additional revenue while gaining in economies of scale. However, a major problem facing the OPT is that a sizable part of its assets is illiquid due to uncollected telephone bills and international postal money orders issued in other African countries but so far uncleared by these countries.

In an effort to reduce subsidies and transfers, the Government has been increasing its supervision and control of the financial operations of public enterprises. For a number of deficit enterprises, approval of their balance sheets has been made contingent on the implementation of cost saving measures. Moreover, a special budgetary committee has been set up to review all subsidies to deficit enterprises so as to assess their continued justification. To accelerate the preparation of rehabilitation programs for the above-mentioned public utilities, as well as to formulate similar programs for a number of other public enterprises, the units set up for this purpose at the Secretariat of the Presidency and the Ministry of Economy and Finance will be strengthened. At the same time, the economic and financial data on the public sector as a whole will be improved further so as to establish a better basis for policy decisions.

6. Credit policy

To reinforce the above measures, the monetary authorities will continue to pursue a tight credit policy, without compromising the financing needs for the marketing of the groundnut and cotton crops. In 1984/85 the increase in private sector credit, excluding crop credit, is to be limited to 3 percent, less than half that registered in 1983/84

(Table 6); this limit takes into account the larger programmed reduction in domestic payment arrears of the Government and public agencies to the private sector. However, crop financing requirements are estimated to be significantly higher because of the expected volume of marketed output. Therefore, despite the sizable reduction in net government borrowing from the banking system, total domestic credit is programmed to rise by about 8 percent in 1984/85, compared with an actual increase of 5 percent last year. In view of the expected evolution of the balance of payments, the growth of money supply (broadly defined) is likely to be of the order of 6 percent, substantially lower than the envisaged increase in nominal GDP.

Since April 1984 the monetary authorities have been making intensified efforts to regularize and improve the financial position of a number of banks, as well as that of some of their principal clients, with a view to ensuring an orderly repayment of outstanding credits. The monetary authorities have also been taking steps to improve the allocation of credit to the economy. Moreover, the Government has undertaken to ensure repayment of the large debt to banks, particularly to the BNDS, resulting from the liquidation of ONCAD.

7. Balance of payments and external debt management

On the basis of the policies and measures described above, and the basic assumptions set out in Table 8, the program envisages a further improvement in Senegal's external payments position. In 1984/85 total import payments are expected to rise by only 2 percent in terms of local currency and to decline by some 4 percent in SDR terms, reflecting the containment of aggregate demand and an anticipated decline in food imports. Meanwhile, total export earnings are projected to increase by 4.5 percent in SDR terms, owing largely to a major expansion in exports of chemicals resulting from the coming-on-stream in March 1984 of the Industries Chimiques du Sénégal. As indicated in Table 7, the trade deficit will thus narrow substantially, more than offsetting the deterioration in the services account associated with an almost 30 percent increase in interest due on the public debt. Net inflows of unrequited transfers are projected to remain at around their 1983/84 level. Therefore, the current account deficit, which was brought down to SDR 252 million in 1983/84, is programmed to be reduced to some SDR 223 million in 1984/85; in relation to GDP, the reduction would be from 11.1 percent in 1983/84 to about 9.2 percent in 1984/85. As these trends are expected to continue, the current account deficit is to be reduced further in 1985/86 to some SDR 191 million, equivalent to 6.9 percent of the projected GDP.

In both 1984/85 and 1985/86 gross capital inflows are projected to increase significantly, reflecting mainly an anticipated rise in development assistance. However, owing to a more pronounced increase in repayments due on the medium- and long-term public and publicly guaranteed

debt, net capital inflows are expected to continue to decline. Altogether, interest and amortization due on this debt is estimated at SDR 212 million in 1984/85 and SDR 241 million in 1985/86, equivalent to 24 percent of the projected exports of goods, services, and private transfers in each of these years; if Fund repurchases are added, the debt service ratio would rise to 28 percent in 1984/85 and 30 percent in 1985/86. In the circumstances, notwithstanding the programmed improvement in the current account, Senegal's balance of payments will remain under considerable strain.

In view of the prospective external payments pressures, the Government is seeking not only Fund support but also appropriate debt relief. As mentioned in the letter of intent, the Government has informed the Paris Club and commercial bank creditors of its intention to request a rescheduling of the debt service obligations falling due over the program period. Assuming debt rescheduling on terms broadly comparable to those obtained in 1983/84, the overall balance of payments deficit could be limited to some SDR 28 million in 1984/85 and SDR 4 million in 1985/86.

To avoid aggravating the already serious external debt situation, the authorities will keep new nonconcessional borrowing to a strict minimum. Specifically, in 1984/85 new external loans on nonconcessional terms contracted or guaranteed by the Government with an initial maturity of 1-12 years will be limited to SDR 20 million; within this ceiling, a subceiling of SDR 4 million will apply to loans with an initial maturity of 1-5 years. The corresponding limits for 1985/86 will be established in the context of the second review of the program. The above limits do not include borrowings by the multinational companies Air Afrique and Agence pour la Sécurité de la Navigation Aérienne, or new borrowing for refinancing existing debts under debt-rescheduling arrangements. Conscious of the financial difficulties facing Air Afrique, whose outstanding external loans are guaranteed by the Government of Senegal (as well as that of the Ivory Coast), the Senegalese authorities have informed the Board of Directors of the company of the urgent need to take appropriate measures to improve its operations and ensure the servicing of its debt. Meanwhile, until an audit of the company is completed in early 1985, they will not guarantee any further external borrowing by Air Afrique.

8. Performance criteria and reviews

The proposed stand-by arrangement includes the following performance criteria: (a) ceilings on the cumulative change of total domestic credit of the banking system; (b) ceilings on the cumulative change of net bank claims on the Government; (c) a cumulative reduction of domestic payment arrears of the Government and public agencies; (d) a cumulative repayment of ONCAD debt; (e) ceilings on new external loans on nonconcessional terms contracted or guaranteed by the Government in the maturity ranges of 1-5 years and 1-12 years; and (f) the standard clauses regarding the

exchange and payments system and overdue financial obligations to the Fund. The proposed quantitative performance criteria for the period through end-June 1985 are specified in Table 9; in this regard, it should be noted that certain asymmetrical adjustments to the credit ceilings will be made should external financial assistance and crop credit deviate from the targeted levels.

Furthermore, there will be three reviews of the program with the Fund, each of which will constitute a performance criterion. The first review, to be completed by March 14, 1985, will be confined to the adequacy of the external debt rescheduling arrangements being sought by the authorities; in the event that the scale of debt relief forthcoming proves to be less than envisaged in the program, the Government will reach understandings with the Fund on the adoption of additional measures to attain the targets of the program. The second review, which will be broader in scope and is to be completed by September 14, 1985, will involve reaching detailed understandings on the fiscal, credit, pricing, and external borrowing policies for 1985/86, including establishing the performance criteria for end-September 1985 and end-December 1985. Finally, the third review, to be completed by March 14, 1986, will focus on progress in the implementation of the policies for 1985/86; it will also include the establishment of the performance criteria for the remainder of the program period.

V. Medium-Term Economic Outlook

Although Senegal made considerable progress in 1983/84 toward reducing the large internal and external financial imbalances, and additional corrective measures have already been taken under the current program, the authorities recognize that sustained adjustment efforts will be required to achieve a satisfactory economic growth and a viable financial position over the medium term. In the course of the consultation discussions, as well as in their formal statement to the first meeting of the Consultative Group for Senegal, which was held in Paris on December 13-14, 1984, they emphasized that in the second half of the 1980s the three basic objectives of economic policy would be: to achieve an annual rate of growth of real GDP of 3.2 percent; to improve further public finances; and to restore balance of payments equilibrium. Accordingly, the major thrust of the Government's policy would be on substantially reducing the growth of consumption, particularly of the public sector, and increasing the efficiency of investment.

To slow the growth of public consumption, the authorities intend to continue to reduce the overall fiscal deficit by improving tax administration and enforcement, containing the growth of the government wage bill, and reducing subsidies and transfers to public enterprises and agencies. In addition, they intend to reduce the scope of state intervention in the economy, notably in agriculture, by liquidating, merging,

Table 9. Senegal: Proposed Quantitative Performance Criteria for December 1984-June 1985

Change from July 1, 1984 to end	1984 Dec.	1985 March	1985 June
	(In billions of CFA francs)		
Domestic credit 1/ 2/ 3/	36.9	47.2	37.3
Claims on Government (net) 1/ 2/	11.2	17.6	19.2
Domestic arrears of the Government and public agencies 4/	-2.6	-4.0	-7.0
Repayment of ONCAD debt	--	5.0	10.0
	(In millions of SDRs) 5/		
New external borrowing on nonconcessional terms by the Government or with government guarantee			
1. 1-12 years' maturity	10.0	20.0	20.0
2. 1-5 years' maturity	2.0	4.0	4.0

Source: Letter of intent of the Minister of Economy and Finance of December 3, 1984.

1/ In the event that external budgetary assistance (excluding grants) falls below CFAF 10.0 billion during the period July 1-December 30, 1984, below CFAF 11.0 billion during the period July 1, 1984-March 31, 1985, and below CFAF 20.9 billion during the period July 1, 1984-June 30, 1985, the increase will be adjusted upward by the amount of the shortfall, subject to a maximum increase of CFAF 2.0 billion. Should external budgetary assistance exceed the above amounts, the increase will be adjusted downward pro tanto.

2/ The program does not envisage the receipt by Senegal of any exceptional external financial assistance (excluding grants) during the period July 1, 1984-June 30, 1985 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 increases will be reduced pro tanto, net of any expenditure tied to such assistance. In the event that drawings are made against the structural adjustment loans of the CCCE deposited at the BCEAO on June 30, 1984 to finance public sector expenditures not reflected "above the line" in the table of the financial operations of the Government, the increases will be adjusted upward pro tanto up to CFAF 1.6 billion at end-June 1985.

3/ The program assumes that the outstanding crop credit for 1984/85 will not exceed CFAF 30.9 billion at end-December 1984, CFAF 33.3 billion at end-March 1985, and CFAF 19.7 billion at end-June 1985. In the event that the outstanding crop credit falls below these amounts, the increase will be adjusted downward pro tanto; no adjustment will be made in the event that the outstanding crop credit exceeds these amounts.

4/ Excluding any reduction of arrears resulting from reciprocal compensations.

5/ The exchange rate applicable to these borrowings will be the rate of the SDR vis-à-vis the contract currency on June 30, 1984.

or privatizing a number of enterprises and agencies, while rehabilitating others in the context of appropriate action plans. At the same time, to increase the efficiency of investment, the entire process of investment programming and budgeting is to be rationalized, with priority being given to the rehabilitation of the productive base and of the existing economic and social infrastructure; this priority is expected to be reflected in the Seventh Development Plan for the period 1985/86-1988/89.

As regards the sectoral strategies to be followed over the medium term, major emphasis is to be placed on agriculture, fishing, industry, and tourism. In agriculture, where a new policy has already been adopted, as described above, the focus will be on expanding and diversifying domestic cereal production, with a view to reducing reliance on food imports, especially of rice, which weigh heavily on the balance of payments. In this respect, while providing farmers with increased incentives through higher producer prices, the authorities recognize that it will also be important to continue to adjust retail prices of cereals periodically, not only in the interest of stimulating demand for local cereals but also of making new investments in irrigated rice production financially viable. Meanwhile, continued attention will be given to production of groundnuts and cotton, so as not to jeopardize export growth. In fishing, where a substantial potential exists for increased production and exports, emphasis is to be placed on the modernization of equipment and on improving product quality and marketing. As to the industrial sector, the Government will seek to encourage greater private initiative, including the promotion of small- and medium-scale enterprises, through increased incentives and a liberalization of labor legislation. Finally, continued efforts will be made to foster the development of the tourism sector, which has been a growing source of employment and foreign exchange earnings.

To reduce reliance on oil imports, which account for about one fourth of the total import bill, the authorities envisage exploiting domestic sources of energy, such as peat and lignite, as well as hydroelectric power from the Manantali dam. Furthermore, to encourage energy conservation, they intend to pursue a flexible pricing policy for petroleum products.

It is to be noted that the Consultative Group for Senegal endorsed the Government's medium-term program as providing a sound basis for restoring satisfactory economic growth and financial viability. However, the Group stressed the need for further efforts by the authorities to translate their objectives into specific actions, including adequately reflecting the investment priorities in the Seventh Plan, to be launched in 1985/86. The Government's decision to set up a high-level committee, headed by the President of the Republic, to periodically review progress in the implementation of the medium-term program was welcomed, and the World Bank agreed to provide assistance to Senegal in coordinating the necessary external financial support.

Assuming that appropriate policies continue to be pursued, Senegal could reach a viable external payments position toward the end of this decade. As shown in the Fund staff scenario presented in Table 10, the external current account deficit is projected to decline steadily from the equivalent of 6.9 percent of GDP in 1985/86 to 0.8 percent of GDP in 1989/90. This could make it possible to reduce the overall balance of payments deficit, before debt rescheduling, from SDR 89 million in 1985/86 to SDR 9 million in 1988/89, and turn into a surplus of SDR 40 million in 1989/90. This scenario relies on a steady reduction in the trade deficit, a reversal in the deterioration of the services account starting in 1987/88, and a moderate increase in net inflows of unrequited transfers. By contrast, owing to the growing amortization payments due on the public debt, reflecting the impact of previous reschedulings and those anticipated during the current program period, net capital inflows are projected to decline over the medium term. Total external debt service obligations, including those to the Fund, in relation to exports of goods, services, and private transfers are projected to increase to 31 percent in 1986/87, before declining gradually to 25 percent in 1989/90 (Table 11). Thus, under this scenario, it seems likely that Senegal would still need rescheduling of part of its external debt service obligations for several years.

A basic assumption underlying the balance of payments projections is that Senegal's total export earnings will increase at an average annual rate of some 8 percent during 1986/87-1989/90. This increase is based on a successful expansion and diversification effort, including a continued strong performance of fish and chemical exports, as well as of some other nontraditional exports. In this scenario, world groundnut oil prices are projected to increase at an average annual rate of 4 percent beginning in 1987, while annual export volumes of groundnut crude oil and cake are assumed to amount to 150,000 tons and 190,000 tons, respectively, based on normal weather conditions.

Another major assumption is that imports will increase at an average annual rate of 6 percent in nominal terms, with non-oil import volume growing at an average rate of 2.5 percent per annum. These import projections are critically dependent on the implementation of the structural adjustments indicated above, as well as the pursuit of cautious demand management and incomes policies. The projected growth of non-oil imports is consistent with the desired growth in real GDP and the currently foreseeable external resource availabilities.

A third major assumption is that investment financing will grow roughly in line with the projections regarding official development assistance envisaged in the Fund's latest World Economic Outlook. Gross drawings on medium- and long-term loans contracted or guaranteed by the Government are projected to increase at an average annual rate of 3 percent, from SDR 165 million in 1985 to some SDR 190 million in 1990. Moreover, reflecting the continuation of an overall environment conducive to

Table 10. Senegal: Medium-Term Outlook of the Balance of Payments, 1983/84-1989/90

(In millions of SDRs)

	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90
	Est.	Program		Projections			
Trade balance	-249.4	-191.5	-165.9	-145.7	-124.8	-110.2	-86.9
Exports, f.o.b.	536.9	560.9	635.4	724.1	791.3	853.7	928.8
Imports, f.o.b.	-786.3	-752.4	-801.3	-869.8	-916.1	-963.9	-1,015.7
Services (net)	-142.8	-173.0	-179.8	-180.9	-157.4	-133.3	-108.7
Of which: interest due on public debt	(-94.2)	(-121.9)	(-138.5)	(-153.0)	(-145.6)	(-133.0)	(-119.8)
Unrequited transfers (net)	140.4	141.3	154.3	165.2	171.7	174.1	176.2
Current account deficit (-)	-251.8	-223.2	-191.4	-161.4	-110.5	-69.4	-19.4
Capital account	115.8	109.3	102.2	79.3	69.8	60.2	59.0
Of which: amortization due on public debt	(-72.1)	(-90.0)	(-102.4)	(-151.1)	(-175.4)	(-191.9)	(-196.9)
Overall balance (deficit -)	-122.5 1/	-113.9	-89.2	-82.1	-40.7	-9.2	39.6
Debt rescheduling	80.4	...	...	...	...	...	...
Financing	42.1	28.2	4.4	...	...	...	...
Of which: IMF credit	(54.8)	(2.8)	(-8.3)	(-44.6)	(-41.0)	(-45.0)	(-39.6)
Financing gap	--	85.7	84.8	126.7	81.7	54.2	--
Memorandum items:							
Current account deficit/GDP 2/	11.1	9.2	6.9	5.3	3.3	1.9	0.8
IMF credit	54.8	2.8	-8.3	...	...	...	...
Purchases	(63.0)	(34.6)	(42.0)	(...)	(...)	(...)	(...)
Repurchases	(8.2)	(31.8)	(50.3)	(44.6)	(41.0)	(45.0)	(39.6)

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

1/ Including a positive net errors and omissions figure of SDR 13.5 million.
2/ In percent.

Table 11. Senegal: External Public Debt Service, 1983/84-1989/90

(In millions of SDRs)

	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90
	Est.	Program		Projections			
Principal							
Medium- and long-term	72.1	90.0	102.4	145.7	170.6	183.6	186.7
IMF repurchases	8.2	31.8	50.3	44.6	41.0	45.0	39.6
Other	--	--	--	5.4	4.8	8.3	10.2
Interest							
Medium- and long-term	70.4	93.2	108.2	123.3	119.2	110.7	101.6
IMF charges	15.7	20.2	22.0	21.4	18.4	14.3	10.2
Other	8.0	8.5	8.3	8.3	8.0	8.0	8.0
Total	174.4	243.7	291.2	348.7	362.0	369.9	356.3
Debt rescheduling	-80.4						
Total (after debt rescheduling)	94.0						
Memorandum items:							
Exports of goods, services, and private transfers	834.7	866.8	984.1	1,117.5	1,225.9	1,329.5	1,441.9
Ratios (in percent)							
Debt service/exports of goods, services, and private transfers (before debt rescheduling)	20.9	28.1	29.6	31.2	29.5	27.8	24.7
Debt service/exports of goods, services, and private transfers (after debt rescheduling)	11.2						

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

foreign direct investment, gross private capital inflows are projected to increase from SDR 90 million in 1985 to about SDR 130 million in 1990. Budgetary assistance is estimated to remain constant at around SDR 45 million each year.

Senegal's medium-term balance of payments scenario, as described above, is sensitive to changes in the underlying conditions, notably groundnut production and prices, domestic demand for imports, and developments in the terms of trade. Assuming no other changes in the basic scenario, should the projected export volumes of groundnut products be reduced to their 1985/86 levels (i.e., 120,000 tons for crude oil and 150,000 tons for cake), the projected annual export earnings would be lower by some SDR 35 million each year. As a result, the external current account deficit in terms of GDP would be higher by around one percentage point each year and in 1989/90 would amount to 1.7 percent, as against the 0.8 percent shown in Table 10. Moreover, the achievement of an overall balance of payments surplus would be delayed beyond 1989/90. A similar situation would develop should total import volume increase by an average annual rate of 4 percent, instead of the assumed 2 percent, because of a failure to implement the import-substituting food strategy outlined above and to check domestic consumption of petroleum products. A broadly similar situation would arise should the terms of trade deteriorate each year by two percentage points as a result, for instance, of non-oil import prices increasing at an average annual rate of 6 percent, instead of the assumed 4.0 percent, or should prices of groundnut products remain at their anticipated 1985/86 levels. However, the deterioration in the external current account deficit in terms of GDP would be less marked than under the previous changes in assumptions, amounting to 1.2 percent and 1.4 percent, respectively, in 1989/90.

By contrast, assuming no other changes in the basic scenario, should non-oil export prices increase at an average annual rate of 8 percent, instead of the assumed 4 percent, the overall external position would improve significantly. The external current account deficit in terms of GDP would be reduced each year by around one percentage point beginning in 1987/88, and a current account balance could be achieved in 1989/90. Furthermore, an overall balance of payments surplus could be realized in 1988/89, one year earlier than in the scenario depicted in Table 10. A somewhat similar situation would develop if, beginning in 1986/87, world groundnut oil prices increase at an average annual rate of 10 percent, as against the assumed 4 percent.

VI. 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, as well as by other external assistance. Until recently,

however, the results achieved were rarely satisfactory, not only because of the adverse impact of recurring droughts and other exogenous factors but also due to weaknesses in policy implementation. By contrast, under the adjustment program for 1983/84, considerable progress was made toward reducing the large internal and external financial imbalances.

Although the economy was hard hit by one of the most severe droughts in recent years, the 1983/84 program was fully implemented; hence its financial objectives were achieved or exceeded, and all the performance criteria were satisfied. In particular, the overall fiscal deficit, on a commitment basis, was reduced sharply, and so was the rate of domestic credit expansion. Thus, as nontraditional exports grew markedly and export prices of groundnut products turned out to be higher than had been anticipated, the external current account deficit was brought down from the equivalent of 14.0 percent of GDP in 1982/83 to an estimated 11.1 percent of GDP in 1983/84, somewhat below the level envisaged in the program. Since net capital inflows were also higher than had been projected, and Senegal obtained debt relief from the Paris Club and commercial banks, the overall balance of payments deficit was more than halved.

Despite this turnaround in 1983/84, Senegal continues to face major structural and financial problems. The economy, especially the agricultural sector, remains fundamentally weak, public finances are precarious, there are substantial domestic arrears, and the external current account deficit is still unsustainably large. Therefore, strong adjustment efforts will have to be pursued if a satisfactory economic growth and a viable internal and external financial position is to be achieved over the medium term. In this regard, the authorities' new adjustment program, whose basic objective is to reduce the external current account deficit in terms of GDP to 9.2 percent in 1984/85 and to 6.9 percent in 1985/86, represents a further step in the right direction. These and other targets are to be realized through a combination of appropriate supply measures, including flexible pricing, and of prudent fiscal, credit, incomes, and external debt management policies.

A major element of the program is the implementation of the new agricultural policy aimed at expanding and diversifying domestic production and reducing the costs of state intervention in the rural sector. As part of this policy, a number of institutional reforms, including a restructuring of the cooperative system, have been initiated, and producer prices for certain food crops have been raised significantly. These efforts will need to be intensified and broadened, particularly with a view to reducing the role of rural development agencies, whose operations place a heavy burden on public finances, to reforming the supply system for agricultural inputs, and to stimulating domestic production of cereals through appropriate pricing policies. While the recent producer price increases are to be welcomed, it will also be important to shift progressively relative consumer prices in favor of locally produced cereals so as to stimulate production and reduce reliance on imports, notably of rice.

In view of the critical role of the Price Equalization and Stabilization Fund (CPSP) not only in the agricultural sector but also in public finances, the measures taken in August 1984 to eliminate the subsidies on consumption of groundnut and vegetable oils have been both necessary and courageous. Equally important, however, will be the full implementation of the planned measures to improve and streamline the CPSP's operations, financial management, and accounting procedures.

While taking steps to revive domestic production, the authorities have undertaken to pursue a tight fiscal policy, with a view to curbing further the overall fiscal deficit. At the same time, domestic arrears of the Government and public agencies, as well as the debt resulting from the liquidation of ONCAD, are to be reduced steadily. To these ends, customs duties for certain products were effectively increased in September 1984, and additional revenue measures are envisaged. The upward adjustments in prices of petroleum products, which were effected in July and again in early December 1984, should also help increase budgetary revenue. Moreover, intensified efforts will need to be made to strengthen tax administration and enforcement so as to recover tax arrears and reduce the sizable lags between assessments and collections, notably at the customs level. Meanwhile, rigorous controls should continue to be applied on both current and capital budgetary outlays. In this respect, it will be particularly important for the authorities to strictly limit the growth of the government wage bill by containing any general wage increases to a minimum, constraining the wage drift, and reducing the growth of the civil service; outlays on materials, supplies, and transfers, as well as on housing allowances, should also be strictly limited.

The Senegalese authorities have rightly placed their current policies and measures in the context of a medium- and long-term adjustment effort, whose broad outline has been endorsed at the first meeting of the Consultative Group for Senegal held under the auspices of the World Bank. As indicated by the Group, this outline will have to be translated into specific actions for the period ahead, including adequately reflecting the investment priorities in the Seventh Development Plan, to be launched in 1985/86. If fully implemented, the new agricultural policy augurs well for the future; but it should be coupled with policies to develop other growth generating sectors, notably fishing, industry, and tourism, so as to diversify the economy and hence reduce its vulnerability to adverse weather conditions and desertification. As the World Bank staff has emphasized, there is also a need to institute more effective planning and investment budgeting, with a view to improving the efficiency of investment and increasing output of tradable goods and services. Finally, while continued progress is being made on the side of government finances, much more will need to be done over the medium term to restructure and rehabilitate the parapublic sector and to liquidate the large outstanding domestic arrears.

The staff believes that the adjustment policies and measures set forth in the authorities' letter of intent of December 3, 1984 represent further substantial efforts toward resolving Senegal's economic and financial problems and achieving a viable external payments position over the medium term. Accordingly, and in view of Senegal's balance of payments need, the authorities' request for an 18-month stand-by arrangement in an amount equivalent to SDR 76.6 million merits Fund support. The staff considers that access under the arrangement, at 60 percent of quota on an annual basis, compared with 74 percent under the last stand-by arrangement, is consistent with the access policy, especially since Senegal is likely to continue to require Fund support for a number of years. Clearly, the authorities' adjustment efforts will have to be pursued with determination over a period of several years and, to be successful, will also need to be supported by creditors and donors through concessional assistance and appropriate debt relief.

It is recommended that the next Article IV consultation with Senegal continue to be held on a standard 12-month cycle.

VII. Proposed Decisions

In view of the foregoing, the following draft decisions are proposed for adoption by the Executive Board:

(i) 1984 Article IV Consultation

1. The Fund takes this decision in concluding the 1984 Article XIV consultation with Senegal, in the light of the 1984 Article IV consultation with Senegal conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. The Fund notes with satisfaction that Senegal continues to maintain an exchange system which is free of restrictions on payments and transfers for current international transactions.

(ii) Stand-By Arrangement

1. The Government of Senegal has requested a stand-by arrangement in an amount equivalent to SDR 76.6 million for a period of 18 months from , 1985 through , 1986.

2. The Fund approves the stand-by arrangement attached to EBS/84/267.

3. The Fund waives the limitation in Article V, Section 3(b)(iii).

Senegal - Stand-By Arrangement

Attached hereto is a letter dated December 3, 1984 from the Minister of Economy and Finance of Senegal requesting a stand-by arrangement and setting forth the objectives, policies, and measures that the authorities of Senegal will pursue for the period of this stand-by arrangement and understandings of Senegal with the Fund regarding reviews that will be made of progress in realizing the objectives of the program and of the policies and measures that the authorities of Senegal will pursue for the remaining period of this stand-by arrangement.

To support these objectives and policies, the International Monetary Fund grants this stand-by arrangement in accordance with the following provisions:

1. For a period of 18 months from 1985, Senegal will have the right to make purchases from the Fund in an amount equivalent to SDR 76.6 million, subject to paragraphs 2, 3, 4, and 5 below, without further review by the Fund.

2. (a) Purchases under this arrangement shall not, without the consent of the Fund, exceed the equivalent of:

SDR 10.6 million until March 15, 1985;
SDR 22.6 million until June 15, 1985;
SDR 34.6 million until September 15, 1985;
SDR 45.1 million until December 15, 1985;
SDR 55.6 million until March 15, 1986; and
SDR 66.1 million until June 15, 1986.

(b) None of the limits in (a) above shall apply to a purchase under this stand-by arrangement that would not increase the Fund's holdings of Senegal's currency in the credit tranches beyond 25 per cent of quota or increase the Fund's holdings of that currency resulting from purchases of borrowed resources beyond 12.5 percent of quota.

3. Purchases under this stand-by arrangement shall be made from ordinary and borrowed resources in the ratio of 1 to 1 up to SDR 52,352,260 and thereafter with borrowed resources only, provided that any modification by the Fund of the proportions of ordinary and borrowed resources shall apply to amounts that may be purchased after the date of modification.

4. Senegal will not make purchases under this stand-by arrangement, other than the initial purchase equivalent to SDR 10.6 million that it may request within 15 days of the effective date of this arrangement, that would increase the Fund's holdings of Senegal's currency in the credit tranches beyond 25 per cent of quota or increase the Fund's holdings of that currency resulting from purchases of borrowed resources beyond 12.5 percent of quota:

(a) during any period in which the data at the end of the preceding period indicate that

(i) the limit on total domestic credit of the banking system referred to in paragraph 18 of the attached letter and specified in the table annexed to that letter, or

(ii) the limit on net bank claims on the Government referred to in paragraph 18 of the attached letter and specified in the table annexed to that letter, or

(iii) the target for the reduction of domestic arrears of the Government and public agencies referred to in paragraph 13 of the attached letter and specified in the table annexed to that letter, or

(iv) the target for the repayment of debts relating to the Office National de Coopération et d'Assistance pour le Développement (ONCAD) referred to in paragraph 18 of the attached letter and specified in the table annexed to that letter, or

(v) the limit on contracting of government and government-guaranteed external debt specified in paragraph 20 of the attached letter and in the table annexed to that letter,

is not observed; or

(b) after March 14, 1985, until understandings have been reached on the adequacy of arrangements for rescheduling Senegal's external debt in consultation with the Fund pursuant to the first review contemplated in paragraph 21 of the attached letter; or

(c) after September 14, 1985, until suitable performance criteria have been established for end-September 1985 and end-December 1985 in consultation with the Fund pursuant to the second review contemplated in paragraph 21 of the attached letter, or after such performance criteria have been established, while they are not being observed; or

(d) after March 14, 1986, until understandings have been reached on the progress made by Senegal in the implementation of the program, and suitable performance criteria have been established for end-March 1986 in consultation with the Fund pursuant to the third review contemplated in paragraph 21 of the attached letter, or after such performance criteria have been established, while they are not being observed.

(e) throughout the duration of this stand-by arrangement, while Senegal has any overdue financial obligation to the Fund, or if Senegal

(i) imposes restrictions on payments and transfers for current international transactions, or

(ii) introduces or modifies multiple currency practices, or

(iii) concludes bilateral payments agreements which are inconsistent with Article VIII, or

(iv) imposes or intensifies restrictions on imports for balance of payments reasons.

When Senegal is prevented from purchasing under this stand-by arrangement because of this paragraph 4, purchases will be resumed only after consultation has taken place between the Fund and Senegal and understandings have been reached regarding the circumstances in which such purchases can be resumed.

5. Senegal's right to engage in the transactions covered by this stand-by arrangement can be suspended only with respect to requests received by the Fund after (a) a formal ineligibility, or (b) a decision of the Executive Board to suspend transactions, either generally or in order to consider a proposal, made by an Executive Director or the Managing Director, formally to suppress or to limit the eligibility of Senegal. When notice of a decision of formal ineligibility or of a decision to consider a proposal is given pursuant to this paragraph 5, purchases under this arrangement will be resumed only after consultation has taken place between the Fund and Senegal and understandings have been reached regarding the circumstances in which such purchases can be resumed.

6. Purchases under this stand-by arrangement shall be made in the currencies of other members selected in accordance with the policies and procedures of the Fund, and may be made in SDRs if, on the request of Senegal, the Fund agrees to provide them at the time of the purchase.

7. The value dates for purchases under this stand-by arrangement involving borrowed resources will be determined in accordance with Rule G-4(b) of the Fund's rules and regulations. Senegal will consult the Fund on the timing of purchases involving borrowed resources in accordance with Rule G-4(d).

8. Senegal shall pay a charge for this arrangement in accordance with the decisions of the Fund.

9. (a) Senegal shall repurchase the outstanding amount of its currency that results from a purchase under this stand-by arrangement in accordance with the provisions of the Articles of Agreement and decisions of the Fund, including those relating to repurchase as Senegal's balance of payments and reserve position improves.

(b) Any reductions in Senegal's currency held by the Fund shall reduce the amounts subject to repurchase under (a) above in accordance with the principles applied by the Fund for this purpose at the time of the reduction.

(c) The value date of a repurchase in respect of a purchase financed with borrowed resources under this stand-by arrangement will be normally either the 6th day or the 22nd day of the month, or the next business day if the selected day is not a business day, provided that the repurchase will be completed not later than seven years from the date of purchase.

10. During the period of the stand-by arrangement Senegal shall remain in close consultation with the Fund. These consultations may include correspondence and visits of officials of the Fund to Senegal or of representatives of Senegal to the Fund. Senegal shall provide the Fund, through reports at intervals or dates requested by the Fund, with such information as the Fund requests in connection with the progress of Senegal in achieving the objectives and policies set forth in the attached letter.

11. In accordance with paragraph 21 of the attached letter Senegal will consult the Fund on the adoption of any measures that may be appropriate at the initiative of the Government or whenever the Managing Director requests consultation because any of the performance criteria in paragraph 4 above have not been observed or because he considers that consultation on the program is desirable. In addition, after the period of the arrangement and while Senegal has outstanding purchases in the upper credit tranches, the Government will consult with the Fund from time to time, at the initiative of the Government or at the request of the Managing Director, concerning Senegal's balance of payments policies.

Dakar, December 3, 1984

Dear Mr. de Larosière:

1. In the context of the adjustment program for 1983/84 (July/June), which was supported by a one-year stand-by arrangement for SDR 63.0 million from the International Monetary Fund, Senegal made considerable progress toward reducing the internal and external financial imbalances. Although the economy was hard hit by one of the most severe droughts in recent years, the basic objectives of the 1983/84 program were met, and all the performance criteria were satisfied. This was due not only to the strong adjustment measures introduced in August 1983, particularly those designed to curb subsidies, improve budgetary performance, and restrain credit expansion, but also to the further policy adaptations on which I had occasion to write to you on February 7, 1984.

2. The impact of the drought turned out to be even more severe than had been feared, placing great hardship on large segments of the population. In 1983/84 the groundnut crop amounted to only 569,000 tons, about half that of the previous year, while production of millet fell by 40 percent to some 352,000 tons. Therefore, despite some gains in certain other sectors, there was a decline in real GDP, and market prices of foodstuffs rose appreciably. However, the adverse effects of these developments on the external position were more than offset by the larger-than-anticipated rise in world market prices of groundnut products, emergency food aid and other external grants, and the additional demand management measures taken in early 1984. As a result, the external current account deficit, before debt rescheduling, was reduced from the equivalent of 14.0 percent of GDP in 1982/83 to an estimated 11.1 percent of GDP in 1983/84, or by practically the same extent as that envisaged in the program; after the debt relief obtained from the Paris Club, the current account deficit was brought down from 12.3 percent to 9.8 percent of GDP, respectively. Since net capital inflows were higher than programmed, the overall balance of payments deficit was reduced markedly.

3. The tightening of demand management policies contributed importantly to the improvement of the external position. Despite a sizable shortfall in total government revenue, notably from customs duties and taxes on goods and services, a substantial fiscal adjustment was realized. According to provisional results, in 1983/84 current expenditure, excluding interest on the public debt, was kept below the programmed level, rising by only 5 percent, compared with 9 percent in the previous year. Expenditure on wages and salaries was on target, as cost of living increases were limited to 2 percent and the growth in the number of civil servants, which averaged 6 percent in the four years ended June 1983, was reduced to 2 percent in the year ended June 1984; this reduction was the result of the application of more rigorous recruitment policies and controls. At the same time, outlays on materials, supplies, and transfers were kept below the initially programmed level, while capital budgetary expenditure was maintained at the targeted level. The deficit on the special accounts

held with the Treasury was somewhat lower than programmed. Moreover, the financial position of the CPSP and a number of other Treasury correspondents improved considerably, more than compensating for the substantial losses incurred by SONAR. The strengthening of the CPSP's financial position was due not only to the larger-than-anticipated rise in groundnut export prices but also to the consumer price increases introduced in August 1983; the improvement would have been even greater if it were not for the concurrent rise in import prices of vegetable oils. Thus, on a commitment basis, the overall fiscal deficit, which amounted to CFAF 73.3 billion in 1982/83, was reduced to CFAF 46.0 billion in 1983/84, slightly below the level envisaged in the program; in terms of GDP, the deficit was lowered from 8.2 percent in 1982/83 to 4.7 percent in 1983/84. The programmed reduction in domestic arrears of the Government and public agencies was exceeded, while the Government made large repayments of outstanding crop credit. As the cash deficit of the Government was also kept below the programmed level, the quarterly ceilings on net government borrowing from the banking system were observed.

4. The improvement in fiscal performance was reinforced by a prudent credit policy. In 1983/84 the increase in credit to the private sector, excluding crop credit, was limited to 7 percent, as against 12 percent in 1982/83. In addition, as the requirements of crop financing were lower because of the drought, outstanding crop credit declined markedly. Given the Government's net recourse to bank credit, total domestic credit expansion fell from 17 percent in the year ended June 1983 to 5 percent in the year ended June 1984. Therefore, in view of the evolution of the balance of payments, the growth of money supply slowed appreciably, from 12 percent in 1982/83 to 4 percent in 1983/84, well below the estimated increase in nominal GDP.

5. Although considerable progress was made under the 1983/84 program, Senegal continues to face serious structural and financial problems. The economy, especially the agricultural sector, remains fundamentally weak and vulnerable, and the internal and external financial imbalances are still unsustainably large. Conscious of the magnitude of these problems, the Government of Senegal is determined to pursue its adjustment efforts, with a view to achieving a satisfactory economic growth and a viable internal and external financial position over the medium term. Accordingly, the Government has adopted a new adjustment program, covering the fiscal years 1984/85 and 1985/86. The basic objective of the program is to further reduce the external current account deficit in terms of GDP, before debt rescheduling, from the estimated 11.1 percent in 1983/84 to about 9.2 percent in 1984/85 and to some 6.9 percent in 1985/86. In support of this program, which is described below, the Government of Senegal hereby requests from the International Monetary Fund an 18-month stand-by arrangement in an amount equivalent to SDR 76.6 million. In view of Senegal's additional resource needs during the program period, the Government has also requested and received assurances of continued financial support from its major creditors.

6. A key element of our adjustment efforts is the implementation of a new agricultural policy aimed at expanding and diversifying domestic production, particularly of cereals, and reducing the costs of state intervention in the rural sector. This policy, which has been developed in close consultation with representatives of the rural population and Senegal's principal creditors and donors, has been adopted after two interministerial meetings chaired by the President of the Republic in March and April 1984. The fundamental orientations of this policy are fourfold: first, a reform of the cooperative system designed to leave most decisions regarding production, storage, and distribution to the farmers themselves or their organizations, thus strictly limiting the role of the State to providing an appropriate legal framework and the necessary extension services; second, a consequent comprehensive revision of extension services and a reorganization of rural development agencies with a view to reducing their role; third, a reform of the supply system for agricultural inputs; and fourth, the pursuit of appropriate pricing policies, especially with a view to shifting relative consumer prices in favor of domestic cereal production.

7. In application of these fundamental orientations, the cooperative system is being restructured through the creation of smaller units at the village level, the so-called village sections; 4,472 village sections have already been created. Furthermore, effective May 11, 1984, a new law has been promulgated governing the organization and activities of groupings of economic interest, independent of the cooperative system.

8. To increase the autonomy of farmers, the role of rural development agencies will be reduced, and extension services will be made more flexible, simple, and less costly. Over the next five years at the latest, a number of these agencies will be liquidated, while others will be merged or restructured. In particular, it is the Government's intention to liquidate SONAR and STN, to substantially reduce the activities of SAED and SODEVA, to merge SODAGRI with SOMIVAC, and to further improve the operations and financial performance of SODEFITEX. Altogether, these initiatives should result in a substantial reduction of public sector employment and costs. The Government will conclude the necessary agreements with each of these agencies at the earliest possible date and, in any event, no later than the end of December 1984 in the case of SAED; the agreements will spell out the programs of action to be undertaken with external assistance, including the retraining and reduction of staff. To reduce the operating deficit of SAED, henceforth farmers will absorb a larger part of the costs involved in land preparation and maintenance; to make this possible, the producer price of paddy was raised as indicated below.

9. The Government intends to continue to promote the expansion of supply of agricultural inputs to farmers at cost. In the case of fertilizers, no direct subsidy from the Treasury will be granted henceforth. Farmers' needs will be met by the retainer levied on groundnut producers,

cash purchases, short-term bank credit, and, where appropriate, external support. A study of the distribution system for fertilizers was completed in November 1984, and an appropriate action plan for the distribution of fertilizers in the next season will be adopted no later than the end of March 1985. As to the reconstitution and distribution of groundnut seeds, the medium-term objective is to transfer responsibility to the farmers themselves or their organizations in accordance with an action plan to be prepared by the end of May 1985. In the meantime, beginning with the 1984/85 crop season, these functions have been turned over to the oil millers. The Government has reached the necessary understandings with the oil millers, and the formal agreement making them responsible for collecting and distributing the seeds will be signed no later than the end of December 1984. Thus, SONAR, which has already ceased operations, will be liquidated by the end of May 1985.

10. As regards the strategy for the development of the principal agricultural commodities, major emphasis will be placed on stimulating production of domestic cereals and their derivatives. This will involve simultaneous action on two fronts: expanding cultivated areas, reviewing the role of existing institutions, and improving producers' access to inputs, storage, marketing, and financing facilities; and strengthening incentives through appropriate pricing policies. To foster domestic production of cereals and reduce reliance on imports, especially of rice, effective October 8, 1984 the producer prices of maize, millet/sorghum, paddy, and cowpeas were raised by 20 percent, 9 percent, 10 percent, and 40 percent, respectively. Furthermore, to reinforce this import-substitution strategy, it will be essential to shift relative consumer prices, which are still heavily tilted in favor of imported rice, in favor of locally-produced cereals. To this end, the Government will pursue a flexible consumer pricing policy, involving appropriate periodic increases in the retail price of rice during the program period and beyond; this policy will also aim at avoiding any subsidization of imported rice by the CPSP.

11. In view of the critical role of the CPSP not only in the agricultural sector but also in public finances, strong efforts will be made to improve and streamline its operations, financial management, and accounting. As an initial step, an audit of the CPSP's rice operations has been completed recently by an international accounting firm; and a diagnosis of its interventions in other areas will be conducted shortly. On this basis, an action plan will be adopted no later than the end of March 1985 on the necessary improvements, including those activities which may be turned over to other public entities or privatized. Meanwhile, the management of the CPSP will continue to be strengthened with external technical assistance in three areas, namely, accounting, financial management, and relations with the oil millers and the sugar company; this assistance, to be financed partly by the World Bank, is expected to be in place by the end of March 1985. Furthermore, henceforth comprehensive external audits of the CPSP's accounts will be conducted annually. After

the increases in retail prices of groundnut oil and imported vegetable oil in August 1983, it was expected that the CPSP would make a profit on account of these products in 1983/84. However, in view of the spurt in world prices of oilseeds, the CPSP actually incurred a loss on this account, which was projected to more than double in 1984/85. In the circumstances, effective August 13, 1984, the retail price of groundnut oil was raised by 25 percent to CFAF 500 per liter, while that of imported vegetable oil was increased by 50 percent to CFAF 450 per liter.

12. While taking steps to improve supply conditions, particularly in agriculture, the Government intends to pursue a tight fiscal policy so as to help restrain aggregate demand to a level compatible with available resources. Accordingly, a number of measures have been taken, and others will be introduced shortly, to limit the overall fiscal deficit, on a commitment basis, in 1984/85 to CFAF 36.9 billion, representing a reduction of 20 percent from the 1983/84 level; in relation to GDP, the deficit will be down to some 3.3 percent. For 1985/86, our objective is to reduce the overall fiscal deficit, on a commitment basis, even further to an indicative level equivalent to around 2 percent of the projected GDP. The Government will reach understandings with the Fund in the context of the second review of the program on the policies and measures to be implemented in 1985/86 so as to achieve the above fiscal target.

13. In 1984/85 domestic arrears of the Government and public agencies will be reduced by CFAF 7.0 billion, in accordance with the schedule set out in the attached table on the proposed performance criteria. In view of the settlement in 1983/84 of most of the outstanding crop credit, there is little left to repay in 1984/85. Therefore, the overall cash deficit will also be reduced substantially, from CFAF 68.6 billion (7.0 percent of GDP) in 1983/84 to CFAF 46.5 billion (4.2 percent of GDP) in 1984/85, which will help curb government recourse to the banking system.

14. To attain the 1984/85 fiscal targets, customs duties for certain products were effectively increased as of September 15, 1984, following a modification of the customs tariff. In addition, the Government will submit to the National Assembly before the end of December 1984 some revenue proposals, comprising an increase in the tax on vehicles, as well as an extension of the service tax to cover telecommunication services. These measures aim at mobilizing about CFAF 2.0 billion by the end of the 1984/85 fiscal year. The upward adjustments in prices of petroleum products, which are indicated below, are estimated to yield an additional CFAF 3.0 billion in revenue from the value added tax on these products. Moreover, intensified efforts will be made to strengthen tax administration and improve enforcement, particularly with a view to recovering tax arrears and reducing the sizable lags between assessments and collections. Where the customs administration is concerned, every effort will be made to combat smuggling and underinvoicing. Furthermore, abuses of the existing credit lines to importers will be vigorously prosecuted. The tax incentive schemes will also be more closely monitored, and tax exemptions will be

reduced where justified on economic and financial grounds. As regards internal taxes, a comprehensive survey will be conducted to identify potential taxpayers and taxable activities. The establishment of a fiscal cadaster will be completed by the end of December 1985, with a view to increasing the yield of the real estate tax earmarked to local authorities, as well as of the related central government taxes. Finally, a broader review of the tax system, which is being carried out by a special commission, will also be finalized by the end of December 1985. The revenue measures already taken and those envisaged for the remainder of the current fiscal year, together with the favorable impact of the recent economic recovery, are expected to lead to a 12 percent rise in government revenue. Given the anticipated level of external grants, total revenue and grants are estimated to reach CFAF 224.7 billion in 1984/85, 11 percent higher than their 1983/84 level.

15. On the expenditure side, strict controls will continue to be applied on both current and capital outlays. In 1984/85 the increase in current outlays, excluding interest on the public debt, will be limited to 7 percent, significantly below the projected rate of inflation. To this end, the wage bill will not exceed CFAF 109 billion, as the wage drift will be constrained and the growth in the number of civil servants will be reduced to 1 percent. To stabilize, if not reduce, civil service employment in future years, admissions to training schools will be reduced further and new recruitment will continue to be strictly controlled by the unit under the Secretary General of the Presidency of the Republic. At the same time, outlays on materials, supplies, and transfers will be allowed to increase by only 4 percent, while capital budgetary expenditure will be maintained at the 1983/84 level. In 1984/85 further efforts will be made to achieve economies in housing allowances. On the basis of the recently completed survey of government-owned and government-rented housing units, the provision of housing for those found to be ineligible is being terminated; direct rental payments for those entitled to housing have been reduced; and such payments will be progressively replaced by lump-sum allowances. The deficit on the special accounts held with the Treasury is expected to be down significantly in 1984/85. Furthermore, on a net basis, the financial results of the Treasury correspondents are estimated to be close to those achieved last year. Consequently, total expenditure and net lending are programmed to rise by less than 6 percent to no more than CFAF 261.6 billion in 1984/85.

16. As in the case of agriculture, steps will be taken during the program period and beyond to reduce the costs of state intervention in other sectors of the economy. With technical and financial assistance from the World Bank, diagnostic studies of the problems facing the four major public utilities, namely, SONEES, SOTRAC, SENELEC, and OPT, have been nearly completed, and the necessary agreements with the Government on their rehabilitation programs are expected to be concluded by the end of December 1985. As regards SONEES, where much progress has been made in the context of negotiations with the World Bank on a water supply project

to be financed by an IDA credit, the agreement with the Government will be signed by the end of December 1984. As part of this agreement, a draft of which is being considered, SONEES will be taking the measures required to generate sufficient internal resources to cover part of its investment outlays and all of its debt servicing obligations; these measures will include selective increases in water tariffs, as well as improvements in the efficiency of the company's management and staff. In addition, the agreement will provide for a reciprocal settlement of arrears between the central and local governments on the one hand and SONEES on the other, resulting in an estimated net payment of CFAF 0.7 billion to SONEES; it will also provide for additional budgetary appropriations of CFAF 1.1 billion to fully cover the Government's water bills in 1984/85. Similar agreements are expected to be signed in the cases of SOTRAC and SENELEC by the end of February 1985 and September 1985, respectively. As regards OPT, there are a number of complex issues to be resolved, notably a possible restructuring of its operations; these issues will be discussed with creditors and donors in the next few months, with a view to taking remedial actions in 1985/86. To accelerate the preparation of rehabilitation programs for the above-mentioned public utilities, as well as to formulate similar programs for a number of other public enterprises, the units set up for this purpose at the Secretariat of the Presidency and the Ministry of Economy and Finance will be strengthened. At the same time, the economic and financial data on the public sector as a whole will be improved further so as to establish a better basis for policy decisions.

17. Despite the price increases of petroleum products effected in August 1983, the financial situation of the oil refinery (SAR) and the stabilization fund for hydrocarbons has remained difficult, owing mostly to the strengthening of the U.S. dollar. In view of this, there have been two further adjustments in oil prices: on July 26, 1984 they were raised by an average of 5 percent at the refinery level and by 3-8 percent at the retail level; and on December 1, 1984 they were increased again by an average of 10 percent and 8-16 percent, respectively. The Government will continue to pursue a flexible oil pricing policy, taking into account developments in the world market. Accordingly, it will take such further action as may be needed to ensure the elimination of any remaining deficit of the oil refinery and the oil stabilization fund by the end of June 1985. To lower per unit costs of production of the refinery, steps are being taken to increase capacity utilization through an expansion of sales to neighboring countries.

18. To reinforce the above measures, and thus help attain the programmed reduction of the external current account deficit, the monetary authorities will pursue a prudent credit policy, without compromising the financing needs of the larger groundnut and cotton crops. In 1984/85 the increase in private sector credit, excluding crop credit, will be limited to 3 percent, less than half that of the previous year. However, despite the large reduction in net government borrowing from the banking system, total domestic credit expansion will be of the order of 8 percent, compared

with 5 percent last year, because of the estimated crop financing requirements and repayments. Consistent with the fiscal targets, the increases in total domestic credit and in net bank credit to the Government through the end of June 1985 will not exceed the amounts shown in the annexed table; the limits for the remainder of the program period will be established in the context of the reviews of the program. Since April 1984 the monetary authorities have been making intensified efforts to strengthen the financial position of the banking system and improve the allocation of credit to the economy. Moreover, to help ameliorate the position of banks, particularly the BNDS, the Government remains committed to reimbursing the debts resulting from the liquidation of ONCAD; the amounts to be repaid through the end of June 1985 are also indicated in the annexed table.

19. The adjustment measures described above are expected to contain import demand. In 1984/85 the import bill is programmed to rise by slightly more than 2 percent in terms of CFA francs, compared with almost 6 percent in 1983/84; for 1985/86, a faster increase is envisaged, consistent with the continued recovery of economic activity. Meanwhile, export receipts are projected to rise by some 12 percent each year, owing largely to the coming on stream of the Industries Chimiques du Sénégal as of March 1984. As a result, the trade deficit is projected to decrease significantly in 1984/85 and 1985/86. However, reflecting sharply higher interest payments on the public and publicly-guaranteed debt falling due during the period, the current account deficit, before debt rescheduling, is programmed to be reduced from CFAF 108 billion in 1983/84 to only some CFAF 103 billion in 1984/85, before declining more substantially to about CFAF 88 billion in 1985/86. As the external position will thus continue to be under pressure, the Government of Senegal has informed the Paris Club and commercial banks of its intention to request a rescheduling on standard terms of the debt service obligations falling due over the program period. Such rescheduling should help reduce the current account deficit, as well as the prospective overall balance of payments deficit, to a tolerable level.

20. The Government is aware of the need to pursue cautious external debt management policies so as to reduce the debt service burden over the medium term. Accordingly, as indicated in the annexed table, during the year ending June 1985 new external loans on nonconcessional terms contracted or guaranteed by the Government with an initial maturity of 1-12 years will be limited to the equivalent of SDR 20 million; within this limit, new borrowings with a maturity of 1-5 years will not exceed SDR 4 million. The corresponding limits for the remainder of the program period will be established in the context of the second review of the program. These limits will not include borrowings by the multinational companies Air Afrique and Agence pour la Sécurité de la Navigation Aérienne, or new borrowing for refinancing existing debts in the context of debt reschedulings. Conscious of the financial difficulties facing Air Afrique, whose outstanding loans are guaranteed by Senegal, the Senegalese author-

ities have informed the Board of Directors of Air Afrique of the urgent need to take appropriate measures to improve its operations and ensure the servicing of its debt. Until an audit of the company is completed in early 1985, the Government will not guarantee any further external borrowing by Air Afrique.

21. The Government of Senegal believes that the policies and measures described above are adequate to achieve the objectives of the program, but will take any further measures that may become necessary for this purpose. The Government will provide the Fund staff with all relevant information in connection with the progress being made toward achieving the program's objectives, and 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 will reach understandings with the Fund on any further measures that may be needed in the context of three reviews of the program, each of which will constitute a performance criterion; the first review will be completed by March 14, 1985, the second by September 14, 1985, and the third by March 14, 1986. The first review will be confined to the adequacy of the external debt rescheduling arrangements; in the event that the scale of debt relief forthcoming proves to be less than envisaged in the program, the Government will reach understandings with the Fund on the adoption of additional measures to attain the targets of the program. The second review, which will be broader in scope, will involve reaching detailed understandings on fiscal, credit, pricing, and external borrowing policies for 1985/86, including establishing the appropriate performance criteria for the remainder of the program period. Finally, the third review will focus on progress in the implementation of the policies for 1985/86.

The Government remains convinced of the need to pursue its adjustment efforts in the medium term and to maintain close collaboration with the Fund.

Sincerely yours,

Mamoudou Touré
Minister of Economy and Finance

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

Senegal: Proposed Quantitative Performance Criteria for December 1984-June 1985

Change from July 1, 1984 to end	1984 Dec.	1985 March	1985 June
	(In billions of CFA francs)		
Domestic credit 1/ 2/ 3/	36.9	47.2	37.3
Claims on Government (net) 1/ 2/	11.2	17.6	19.2
Domestic arrears of the Government and public agencies 4/	-2.6	-4.0	-7.0
Repayment of ONCAD debt	--	5.0	10.0
	(In millions of SDRs) 5/		
New external borrowing on nonconcessional terms by the Government or with government guarantee			
1-12 years	10.0	20.0	20.0
Of which: 1-5 years	2.0	4.0	4.0

1/ In the event that external budgetary assistance (excluding grants) falls below CFAF 10.0 billion during the period July 1-December 30, 1984, below CFAF 11.0 billion during the period July 1, 1984-March 31, 1985, and below CFAF 20.9 billion during the period July 1, 1984-June 30, 1985, the increase will be adjusted upward by the amount of the shortfall, subject to a maximum increase of CFAF 2.0 billion. Should external budgetary assistance exceed the above amounts, the increase will be adjusted downward pro tanto.

2/ The program does not envisage the receipt by Senegal of any exceptional external financial assistance (excluding grants) during the period July 1, 1984-June 30, 1985 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 increases will be reduced pro tanto, net of any expenditure tied to such assistance. In the event that drawings are made against the structural adjustment loans of the CCCE deposited at the BCEAO on June 30, 1984 to finance public sector expenditures not reflected "above the line" in the table of the financial operations of the Government, the increases will be adjusted upward pro tanto up to CFAF 1.6 billion at end-June 1985.

3/ The program assumes that the outstanding crop credit for 1984/85 will not exceed CFAF 30.9 billion at end-December 1984, CFAF 33.3 billion at end-March 1985, and CFAF 19.7 billion at end-June 1985. In the event that the outstanding crop credit falls below these amounts, the increase will be adjusted downward pro tanto; no adjustment will be made in the event that the outstanding crop credit exceeds these amounts.

4/ Excluding any reduction of arrears resulting from reciprocal compensations.

5/ The exchange rate applicable to these borrowings will be the rate of the SDR vis-à-vis the contract currency on June 30, 1984.

Senegal - Relations with the Fund
(As of November 30, 1984)

I. Membership status

a. Date of membership	August 31, 1962
b. Status	Article XIV

A. Financial relations

II. General Department

a. Quota	SDR 85.1 million
b. Total Fund holdings of Senegal's currency	SDR 297.61 million, equivalent to 349.71 percent of quota.
c. Fund credit	SDR 213.46 million, equivalent to 250.83 percent of quota, of which: SDR 60.78 million (71.42 percent of quota) under credit tranches; 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 50.48 million (59.32 percent of quota) under the SFF; and SDR 39.68 million (46.63 percent of quota) under the EAR.
d. Reserve tranche position	SDR 0.958 million

III. Previous stand-by and extended arrangements

a. One-year stand-by arrangement, approved on March 30, 1979, in an amount equivalent to SDR 10.5 million (25 percent of the existing quota); the full amount was purchased.

b. An extended Fund facility, approved on August 8, 1980, in an amount equivalent to SDR 184.8 million (440 percent of the existing quota); only SDR 41.1 million was utilized, and the EFF was canceled on September 11, 1981 and replaced by a one-year stand-by arrangement.

c. One-year stand-by arrangement, approved on September 11, 1981, in an amount equivalent to SDR 63.0 million (100 percent of the existing quota); the full amount was purchased.

d. One-year stand-by arrangement, approved on November 24, 1982, in an amount equivalent to SDR 47.25 million (75 percent of the existing quota); only SDR 5.9 million was utilized upon Fund approval, and the stand-by arrangement was canceled on September 19, 1983 and replaced by another one-year stand-by arrangement.

e. One-year stand-by arrangement, approved on September 19, 1983, in an amount equivalent to SDR 63.0 million (100 percent of the existing quota); the full amount was purchased.

IV. SDR Department

Net cumulative allocation	SDR 24.46 million
Holdings	SDR 0.12 million (0.49 percent of the net cumulative allocation)

V. Administered accounts

a. Trust Fund loans	
Disbursed	SDR 33.23 million
Outstanding	SDR 29.82 million
b. SFF Subsidy Account	
Payments by the Fund	SDR 4.35 million

B. Nonfinancial Relations

VI. Exchange rate arrangements

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.

VII. Last Article IV consultation and 1983/84 stand-by arrangement

The last Article IV consultation discussions, together with stand-by negotiations, were held in Dakar during the periods April 11-23, June 4-19, and July 4-9, 1983. The staff report (EBS/83/182) was discussed by the Executive Board on September 19, 1983, and the following decision was adopted on the 1983 consultation:

1. The Fund takes this decision in concluding the 1983 Article XIV consultation with Senegal, in the light of the 1983 Article IV consultation with Senegal conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. The Fund notes with satisfaction that Senegal continues to maintain an exchange system which is free of restrictions on payments and transfers for current international transactions.

At the same time, the following decision was adopted on the stand-by arrangement:

1. The Government of Senegal has requested a stand-by arrangement in an amount equivalent to SDR 63 million for a period of 12 months from September 19, 1983 through September 18, 1984.

2. The Fund approves the stand-by arrangement attached to EBS/83/182, and waives the limitation in Article V, Section 3(b)(iii).

3. The Fund notes the cancellation as of September 19, 1983 of the stand-by arrangement approved by the Fund for Senegal on November 24, 1982 (EBS/82/198, Supplement 1).

Senegal is on the standard 12-month cycle for Article IV consultations.

VIII. Technical assistance

a. Central Banking Department	An external debt expert was assigned in January 1984 as a consultant to the Ministry of Economy and Finance for a period of one year; this assignment is being extended.
b. Fiscal Affairs Department	A consultant from the fiscal panel assisted a unit in the Ministry of Economy and Finance during the period October 1981-January 1982 in taking stock of government arrears.
c. Other	Technical assistance was provided in the area of government finance statistics in September-October 1982 and again in May 1984, as well as in the area of balance of payments statistics in February 1984.
IX. Fund resident representative	Stationed in Dakar since July 24, 1984.

Senegal - Relations with the World Bank Group
(As of October 31, 1984)

Lending operations (In millions of U.S. dollars)

	IBRD and IDA 1/		IFC loans and equity participations		Grand total
	Total commitments	Of which: undisbursed	Total commitments	Of which undisbursed	
Ten loans and 19 credits fully disbursed	166.5	(--)	--	(--)	166.5
Structural adjustment and technical assistance	41.9	(19.1)	--	(--)	41.9
Agriculture, livestock, and forestry	75.9	(46.8)	0.8	(--)	76.7
Power, industry, and tourism	39.8	(22.7)	31.7	(22.0)	71.5
Transport and telecommunications	110.3	(51.3)	--	(--)	110.3
Urban development, education, and health	52.0	(23.3)	0.5	(--)	52.5
Total	486.4	(163.2)	33.0	(22.0)	519.4
Less repaid or sold					27.3
Total outstanding					492.1
Held by IBRD					117.9
IDA					344.8
IFC					29.4

Memorandum items:

Annual IBRD/IDA operations	Commitments	Disbursements	Repayments
1976	36.3	16.7	0.3
1977	19.6	20.7	0.6
1978	37.3	16.3	1.8
1979	31.5	27.2	2.6
1980	57.6	30.0	2.1
1981	93.9	69.4	2.4
1982	18.8	25.8	3.1
1983	59.1	36.8	4.9

Source: World Bank Group.
1/ Less cancellations.

Senegal - Basic Data

Area, population, and GDP per capita

Area:	196,200 square kilometers
Population: Total (1982)	6.0 million
Growth rate (1980-84)	2.9 percent per annum
GDP per capita (1982)	SDR 386

	1980 Prov.	1981 Prov.	1982 Prov.	1983 Est.	1984 Est.
Gross domestic product (GDP) (in current prices)					
Total (in billions of CFA francs)	627.5	669.8	844.1	943.6	1,015.6
			(In percent of GDP)		
Primary sector	21.9	20.8	22.8	23.1	19.6
Of which: agriculture	(10.8)	(9.6)	(12.6)	(12.9)	(8.7)
Secondary sector	23.1	24.6	24.7	24.7	25.4
Of which: industry	(14.6)	(16.5)	(15.2)	(14.9)	(17.1)
Tertiary sector	55.0	54.6	52.5	52.2	55.0
Consumption	100.4	104.7	97.5	98.5	98.7
Gross investment	15.6	16.4	15.7	16.2	13.0
Resource gap	-16.0	-21.1	-13.2	-14.7	-11.7
Gross domestic saving	-0.4	-4.7	2.5	1.5	1.3
			(Annual percent changes)		
Real GDP	-3.3	-0.8	13.8	3.4	-4.1
Nominal GDP	7.8	6.7	26.0	11.8	7.6
Prices					
GDP deflator	11.4	7.6	10.8	8.1	12.2
Consumer price index	8.7	5.9	17.3	11.4	13.0
Export prices (in SDRs)	-7.4	31.7	-11.6	-4.3	11.8
Import prices (in SDRs)	24.4	3.0	3.6	-3.2	4.6
Terms of trade (in SDRs)	-25.5	27.9	-14.7	-1.2	6.9

Senegal - Basic Data (continued)

	1979/80	1980/81	1981/82	1982/83	1983/84 Est.	1984/85 Prog.
Government finance	(In billions of CFA francs)					
Total revenue and grants	143.8	132.3	160.6	180.9	201.6	224.7
Of which: revenue	(139.2)	(125.5)	(151.9)	(175.7)	(189.4)	(212.8)
Total expenditure and net lending	172.7	206.8	212.6	254.2	247.6	261.6
Of which: current expenditure	(144.9)	(151.3)	(165.4)	(186.6)	(205.3)	(226.2)
Overall deficit (-)						
Commitment basis	-28.9	-74.5	-52.0	-73.3	-46.0	-36.9
Cash basis	-21.4	-58.0	-72.7	-66.5	-68.6	-46.5
Foreign financing (net)	17.0	35.3	28.6	48.5	36.7	35.3
Domestic financing (net)	4.4	22.7	44.1	18.0	31.9	11.2
Of which: banking system	(6.9)	(18.9)	(38.7)	(20.2)	(34.7)	(19.2)
	(In percent of GDP)					
Total revenue and grants	23.8	20.4	21.2	20.2	20.6	20.2
Of which: revenue	(23.0)	(19.3)	(20.1)	(19.6)	(19.3)	(19.1)
Total expenditure and net lending	28.6	31.9	28.1	28.4	25.3	23.5
Of which: current expenditure	(24.0)	(23.3)	(21.8)	(20.9)	(20.9)	(20.3)
Overall deficit						
Commitment basis	4.8	11.5	6.9	8.2	4.7	3.3
Cash basis	3.5	8.9	9.6	7.4	7.0	4.2

	1979	1980	1981	1982	1983	1984 Prog.
Money and credit	(In billions of CFA francs; end of period)					
Foreign assets (net)	-56.9	-77.0	-121.6	-159.3	-182.5	-207.3
Domestic credit	252.2	292.5	370.3	446.2	480.2	526.6
Government (net)	12.0	17.9	40.7	87.6	106.9	131.6
Private sector	240.2	274.6	329.6	358.6	373.3	395.0
Money and quasi-money	161.1	177.9	216.9	262.4	272.7	294.3
	(Annual percent changes)					
Domestic credit	15.1	16.0	26.6	20.5	7.6	9.7
Of which: private sector	(15.9)	(14.3)	(20.0)	(8.8)	(4.1)	(5.8)
Money and quasi-money	1.4	10.4	21.9	21.0	3.9	7.9

Senegal - Basic Data (concluded)

	1979 Prov.	1980 Prov.	1981 Prov.	1982 Prov.	1983 Est.	1984 Est.
Balance of payments			(In millions of SDRs)			
Exports, f.o.b.	423.9	369.1	433.8	534.2	531.9	544.1
Of which: groundnut products	(164.8)	(64.0)	(28.4)	(122.1)	(133.2)	(127.4)
Imports, f.o.b.	-659.7	-747.3	-855.8	-860.5	-823.0	-784.0
Trade deficit (-)	-235.8	-378.2	-422.0	-326.3	-291.1	-239.9
Services (net)	-24.0	-45.4	-91.7	-74.8	-124.3	-178.2
Unrequited transfers (net)	68.0	92.0	130.1	123.2	132.8	156.7
Current account deficit (-)	-191.8	-331.6	-383.6	-277.9	-282.6	-261.4
Capital account (net)	152.1	253.4	175.3	97.8	142.9	121.5
Errors and omissions	-26.2	-16.4	10.3	-9.6	-6.0	--
Allocation of SDRs	4.4	4.4	4.4	--	--	--
Overall deficit (-)	-61.5	-90.2	-193.6	-189.7	-145.7	-139.9
Overall deficit (-) after debt rescheduling	-61.5	-90.2	-139.5	-103.6	-75.4	-59.7
			(In percent of GDP)			
Exports, f.o.b.	20.0	16.2	20.8	23.0	23.0	23.9
Imports, f.o.b.	31.2	32.8	40.9	37.0	35.5	34.5
Current account deficit before debt rescheduling	9.1	14.5	18.4	11.9	12.2	11.5
Current account deficit after debt rescheduling	9.1	14.5	18.0	11.3	11.5	10.2
			(In millions of SDRs; end of period)			
Gross official international reserves	15.5	7.4	17.9	21.5	22.4	17.6 1/
External public debt						
Disbursed and outstanding (end of period) 2/	716.0	877.0	1,214.3	1,736.0	2,028.1	2,214.0
Interest due	30.9	42.5	57.1	64.9	80.4	123.2
Amortization due (including Fund repurchases)	92.0	91.5	63.7	52.7	34.6	53.1
Debt rescheduling	--	--	54.1	86.1	70.3	80.2
Debt service after rescheduling (in percent of exports of goods, services, and private transfers)	17.4	19.5	15.1	11.7	11.9	17.3
Exchange rates			(CFA francs per SDR)			
End of period	264.8	288.0	334.5	370.9	437.0	469.4 3/
Period average	274.8	275.0	320.4	362.8	407.4	446.8

1/ End-June 1984.
2/ Including short-term debt, Fund credit, and the foreign liabilities of the Central Bank.
3/ End-November 1984.