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Statement by Mr. Santos on Senegal  
Executive Board Meeting 92/142  
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On behalf of my Senegalese authorities, I would like to express my appreciation to management and the staff for the constructive discussions held in Dakar and at Fund headquarters during the period from May to shortly after the Annual Meetings. While they share most of the staff's assessment and policy recommendations, my authorities are of the view that the staff's account of some of the adjustment measures implemented in 1991/92 does not reflect fully the extent of the ongoing adjustment efforts made in a very difficult social and political environment. Therefore, my statement will highlight the measures being implemented with a view to bringing about a lasting improvement in the economic and financial situation.

As indicated in the staff report, the 1991/1992 program supported by the third annual arrangement under the ESAF was successfully implemented, as reflected in the observance of all but one of the financial and structural performance criteria as well as the structural benchmarks set for end-December 1991. However, an unexpected sharp drop in world prices for the country's major export commodities, a disappointing crop yield, and some lapses in policy implementation contributed to a weakening of the economic and financial performance in early 1992. As a result, the program's objectives aimed at further increasing the overall fiscal surplus (on a commitment basis and excluding grants) and reducing the ratio of the external current account deficit to GDP (excluding official transfers), as well as accelerating the rate of growth in 1991/1992, proved more difficult to achieve than anticipated.

Under these circumstances, the Senegalese authorities concur with the staff that the two fundamental issues that need to be addressed in their adjustment strategy are 1) how to ensure a lasting improvement in the fiscal position that would enable them to make significant strides toward achieving internal and external viability and 2) how to create the conditions that would improve the competitiveness of the economy, expand and diversify production and, ultimately, bring about sustainable economic growth. My Senegalese authorities have expressed their intention to address squarely these two fundamental issues. It is in this context that they have initiated, since May 1992, discussions with the staff on a macroeconomic framework that would set the basis for policies in line with the medium-term objectives of their adjustment strategy.

With regard to the objective of ensuring a lasting improvement in the fiscal position, the Senegalese authorities are determined to broaden the revenue base, strengthen fiscal administration and correct any downward trend in Government revenue. To address the problem of underinvoicing and customs tax evasion, a wide array of administrative measures are being taken at various levels. In this context, the control over exemption regimes, warehousing of shipping containers, and transit regimes is being strengthened. As explained to the staff during the discussions, the initial delay in extending the VAT coverage and in putting in place the Société Générale de Surveillance (SGS) were largely due to technical factors. These have now been resolved. Moreover, the authorities will implement the automatic adjustment mechanism for domestic petroleum prices to meet the agreed amount of tax revenue on the consumption of petroleum products. My authorities stand ready to take further corrective measures and to rescind the decision taken in April 1992 to reduce customs tariffs and VAT rates, should these reductions result in any revenue shortfall.

On the expenditure side, the authorities are endeavoring to bring down the wage bill, scale back subsidies and transfers, and ensure that the operation of the groundnut sector in 1992/93 will not adversely affect the budgetary position. The reduction in the wage bill to the agreed amount of CFAF 125 billion in 1993, will be achieved through a program of voluntary departures for about 2,800 employees. In addition, the authorities will conduct an audit of administrative staffing levels, an organizational audit of Central Government departments, and an accounting audit of the payroll processing chain. The authorities are confident that these audits will enable them to achieve further savings in the wage bill. However, should these measures prove insufficient, the Government is prepared to consider additional measures, including reviewing bonuses, allowances, and other fringe benefits.

The Senegalese authorities recognize the paramount importance of improving competitiveness in the economy through the rapid implementation of those domestic structural policies that would help in reducing domestic costs throughout the economy. To this end, the Government will endeavor to secure the adoption of the new Labor Code by the National Assembly as soon as possible; extend its flexible pricing policy with regard to producer prices of cotton, groundnuts, and paddy; and integrate the phosphate sector with a view to streamlining and optimizing local production. In the agricultural sector, my authorities have indicated in their most recent communication that agreements have now been reached with the World Bank and other co-financiers on the reform of the cotton and cereal subsectors. Also, negotiations have just been completed on the groundnut sector. As to the groundnut oil processing company (SONACOS), a bilateral donor (USAID) is providing technical assistance for its privatization.

In order to build upon the significant progress achieved in the reform of the public enterprise sector, the authorities intend to pursue the system of performance contracts for the public enterprises that are in the Government's portfolio and expedite the settlement of cross debts. In

addition, the restructuring of two commercial banks is expected to be completed in 1993 and the mechanism for the recovery of nonperforming loans will be strengthened.

All in all, the Senegalese authorities are determined to implement the measures required to restore internal and external viability on a sustainable basis. However, the complexity of the socio-political environment has become more difficult with the recent breakup of the coalition government and with the upsurge of social tensions. While the upcoming legislative and presidential elections may cause some delays in the implementation of some measures, these delays should not be construed as an unwillingness to undertake the required internal adjustment, but rather as a necessary phase in the domestic consensus building to ensure the broadest possible support for the adjustment process. It is my authorities' strong hope that understanding could be reached in the near future on a comprehensive program that could be supported by the Fund as envisaged during the discussions with the staff in the second half of the current year.

