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FOR AGENDA

EBS/89/218

CONFIDENTIAL

November 15, 1989

To: *Members of the Executive Board*

From: The Secretary

Subject: Senegal - Staff Report for the 1989 Article IV Consultation and Request for the Second Annual Arrangement Under the Enhanced Structural Adjustment Facility

Attached for consideration by the Executive Directors is the staff report for the 1989 Article IV consultation with Senegal and its request for the second annual arrangement under the enhanced structural adjustment facility. A draft decision appears on page 36.

This subject, together with the policy framework paper for Senegal (EBD/89/357, 11/14/89), will be brought to the agenda for discussion on a date to be announced.

Mr. Nsouli (ext. 6937) or Mr. Brou (ext. 6936) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

SENEGAL

Staff Report for the 1989 Article IV Consultation and Request for the Second Annual Arrangement Under the Enhanced Structural Adjustment Facility

Prepared by the African Department

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

Approved by Mamoudou Touré and Anupam Basu

November 14, 1989

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I. Introduction

The discussions that formed the basis for the 1989 Article IV consultation with Senegal, and the request for the second annual arrangement under the enhanced structural adjustment facility (ESAF), were initiated in Dakar during June 17-July 4, 1989 and concluded in Washington during August 8-18, 1989. 1/ The three-year arrangement under the ESAF for 1988/89-1990/91 (July/June) and the first annual arrangement thereunder were approved on November 21, 1988, in an amount equivalent to SDR 144.67 million (170 percent of quota). Senegal received the first two disbursements under the first annual arrangement, totaling SDR 59.56 million (70 percent of quota). 2/ In the attached letter dated November 1, 1989, the Government of Senegal requests the second annual arrangement under the ESAF in an amount equivalent to SDR 42.55 million (50 percent of quota), to be disbursed in two equal tranches; the first tranche would be available following Executive Board approval, and the second, upon the observance of the end-December 1989 performance criteria and the completion of the midterm review. The requested arrangement is in support of Senegal's adjustment policies outlined in the updated policy framework paper (PFP) for 1989/90-1991/92 (EBD/89/357), which was prepared in collaboration with the staffs of the Fund and the World Bank, and the memorandum on economic and financial policies for 1989/90 (Appendix II). The updated PFP, which was transmitted to the Managing Director of the Fund and to the President of the World Bank on November 1, 1989, is expected to be considered by the Bank's Executive Directors, at a meeting of the Committee of the Whole, in November 1989.

1/ The letter of request was finalized on November 1, 1989, after Senegal secured satisfactory assurances and indications of external financial assistance for 1989/90. The Senegalese representatives included Mr. Jean Collin, Minister of State and Secretary-General of the Presidency; Mr. Serigne Lamine Diop, Minister of Economy and Finance; Mr. Djibo Ka, Minister of Planning and Cooperation; Mr. Abdul Cissokho, Minister of Rural Development; Mr. Moussa Touré, Minister-Delegate of Economy and Finance; Mr. Djibril Sakho, National Director of the Central Bank of West African States (BCEAO); and other senior officials concerned with economic and financial matters. The staff representatives were Mr. Nsouli (head-AFR), Mr. Brou (AFR), Ms. Doizé (AFR), Mr. Faria (FAD), Mr. Ordoobadi (AFR), Mr. Pham (AFR), and Ms. Orraca-Tetteh (secretary-AFR). Mr. Ugolini, the Fund's resident representative in Dakar, took part in the discussions. A World Bank staff team, consisting of Mr. Rouis and Mr. Ngo, participated in the discussions on the policy framework paper. Mr. Mawakani and Mr. Toe, Executive Director and Advisor to the Executive Director for Senegal in the Fund, respectively, attended the policy meetings.

2/ The second disbursement under the first annual arrangement was made in March 1989, following the observance of the performance criteria for end-December 1988, and the completion of the midterm review (see EBS/89/18).

While continuing to avail itself formally of the transitional arrangements under Article XIV, Senegal maintains an exchange and trade system that is free of restrictions on payments and transfers for current international transactions similar to those of the other members of the West African Monetary Union. Senegal is on the standard 12-month Article IV consultation cycle. The last Article IV consultation with Senegal was concluded by the Executive Board on November 21, 1988. As of end-September 1989, Senegal's outstanding use of Fund credit amounted to SDR 232.17 million (272.83 percent of quota). If all the disbursements under the ESAF arrangement and all repurchases are made on schedule, total Fund credit outstanding would amount to 282.20 percent of quota at end-September 1991 (Appendix I, Tables I and II). Senegal has been discharging its financial obligations to the Fund on schedule, and is expected to continue to do so in the period ahead. The budgetary and the balance of payments projections show that Senegal's outstanding use of Fund credit will decline beginning in 1991/92.

The Fund and the World Bank staffs have continued their close cooperation on Senegal. The Bank staff and the Senegalese authorities are at an advanced stage of discussions on a fourth structural adjustment loan (SAL IV), which is expected to amount to about US$170 million, including cofinancing. The first disbursement, amounting to US$25 million from the World Bank and to US$35 million from the cofinanciers, is projected to take place during 1989/90. Senegal has adequate assurances and indications of prospective exceptional financing for 1989/90 in support of its adjustment program from multilateral and bilateral creditors, including debt rescheduling under the auspices of the Paris Club through December 1989 and the London Club through June 1990. To cover the remaining gap in 1990, the authorities have requested additional debt rescheduling from the Paris Club and other official creditors.

II. Background

In the early 1980s, Senegal was confronted with a deepening economic and financial crisis, resulting from a series of droughts, unfavorable movements in the terms of trade, and inadequate domestic policies. In mid-1983, the Government of Senegal launched a major adjustment effort, which has been supported by the Fund through successive stand-by arrangements, two arrangements under the structural adjustment facility (SAF), and the first annual arrangement under the ESAF; two structural adjustment loans from the World Bank; as well as other multilateral and bilateral financial assistance, including debt relief. During 1983/84-1987/88, the comprehensive structural and financial policies pursued succeeded in liberalizing the economy, enhancing private sector incentives, introducing reforms in the public enterprise sector, improving public investment programming, reducing the Government's overall fiscal deficit, containing the growth of domestic credit, and strengthening external debt management. As a result, the economy was revitalized, inflationary pressures were reduced, and the external position was strengthened. With a return of normal weather conditions, real GDP growth averaged 4.3 percent annually during 1985/86-1987/88 (Table 1). The annual rate of increase in the GDP deflator declined from an average of more than 11 percent in 1983/84-1984/85 to 2.5 percent in 1987/88. The external current account deficit, excluding official transfers, narrowed from 21.7 percent in 1982/83 to 10.2 percent in 1987/88. Furthermore, there was a reduction in the ratio of public and publicly guaranteed external debt to GDP from a peak of 91.0 percent in 1984/85 to 76.7 percent in 1987/88, while the debt service ratio, before debt relief, was stabilized at about 30 percent of exports of goods and services and private transfers.

III. Performance Under the 1988/89 Program 1/

Senegal continued its adjustment efforts in 1988/89 in the context of its medium-term policy framework for 1988/89-1990/91. The program, supported by the first annual arrangement under the ESAF, was effectively implemented in the first half of 1988/89. However, the Senegalese economy was seriously affected by two adverse factors during the second half of the year. First, a locust infestation of the crops and the uneven rain distribution resulted in a decline in agricultural production. Second, a series of strikes in the third quarter, and the social unrest that erupted following a border incident with Mauritania in March/April 1989 had a negative impact on revenue collection and contributed to a re-emergence of some private capital outflows. Thus, even though the performance criteria and the structural benchmark at end-December 1988, as well as the financial benchmarks at end-March 1989, were met, the financial benchmarks at end-June 1989 relating to the net domestic assets of the banking system, the repayment of domestic consolidated debt (ONCAD), and the elimination of the Government's domestic payments arrears were not observed. In addition, the completion of a plan of action to reduce energy prices and take compensatory revenue measures, which constituted a structural benchmark at end-March 1989, was delayed until August 31, 1989 because of the lengthy preparatory work that had to be undertaken by a joint Fund-World Bank mission, and the need to proceed cautiously (Table 2).

Although economic growth suffered, the inflationary pressures declined and the overall balance of payments position improved. Real GDP grew by only 0.6 percent in 1988/89, compared with a program target of 4.2 percent. This was mainly due to the impact of the locust infestation and the spotty rainfall, which led to a 12.3 percent fall in agricultural value added. By contrast, the liberalization measures undertaken and the reduction in the producer price of groundnuts contributed to a decline in the rate of inflation, as measured by the

1/ The analysis for 1988/89 is based on preliminary data, except for the monetary data which are final. The references are to the revised program targets (EBS/89/18).

Table 1. Senegal: Selected Economic and Financial Indicators, 1985/86-1992/93

	1985/86	1986/87	1987/88	1988/89 Prog. 1/	1988/89 Prel. act.	1989/90 Prog.	1990/91 Projections	1991/92 Projections	1992/93 Projections
				(Annual changes in percent, unless otherwise specified)					
National income and prices									
GDP at constant prices	4.2	4.2	4.4	4.2	0.6	4.6	3.7	3.8	3.8
GDP deflator	8.3	5.0	2.5	2.4	1.9	2.0	2.4	2.4	2.4
Consumer prices 2/	9.4	0.4	-2.6	...	-1.9	2.0	2.4	2.4	2.4
External sector									
Exports, f.o.b. (in SDRs)	-2.1	-0.4	10.4	11.8	11.4	-0.4	9.4	9.6	9.6
Imports, f.o.b. (in SDRs)	3.4	-8.5	3.1	6.4	5.1	-3.5	3.6	5.9	6.4
Non-oil imports, f.o.b. (in SDRs)	14.0	-0.6	0.4	9.9	8.0	-3.5	3.6	5.9	6.4
Export volume	0.1	-0.8	12.7	12.8	4.0	-2.2	5.7	5.4	5.1
Import volume	11.2	1.7	-5.0	1.3	-1.0	-0.3	2.6	0.5	0.5
Terms of trade (deterioration -)	5.1	11.7	-9.8	1.7	0.8	5.3	2.5	-1.2	-1.5
Nominal effective exchange rate (end of period; depreciation -)	6.3	4.6	2.2	...	3.5	...	...	...	...
Real effective exchange rate (end of period; depreciation -)	7.3	-2.0	-8.8	...	-0.2	...	...	...	...
Government financial operations									
Revenue	7.3	14.8	0.2	8.5	-2.3	12.3	10.0	10.0	10.0
Total expenditure and net lending	4.6	7.4	0.8	4.4	5.9	4.8	2.7	-2.8	1.6
Of which: total current and capital expenditure	(0.9)	(6.6)	(5.8)	(1.1)	(-0.9)	(3.4)	(-0.1)	(2.3)	(1.9)
Money and credit									
Domestic credit 3/	14.3	10.7	9.2	-3.0	0.1	-4.8	1.6	0.5	1.8
Credit to the Government (net) 3/	5.5	0.6	1.8	1.2	-2.9	-0.3	-0.2	-3.3	-2.5
Credit to the economy 3/									
Including crop credit 3/	8.8	10.1	7.4	-4.2	3.0	-4.5	1.8	3.9	4.3
Excluding crop credit 3/	4.1	0.9	1.9	3.3	15.0	-3.4	1.6	3.6	4.3
Money and quasi-money (M2)	2.6	17.4	1.2	5.2	7.1	5.0	4.5	4.5	4.5
Velocity (GDP relative to M2) 4/	4.2	3.9	4.1	4.2	4.0	4.0	4.1	4.2	4.2
Interest rates (end of period)									
Minimum rate on time deposits 5/	9.0	8.0	8.0	9.0	9.5	...	...	...	...
Money market rate for overnight deposits	7.8	8.0	7.5	9.0	9.0 6/	9.0 6/	...	...	...
				(In percent of GDP, unless otherwise specified)					
Overall fiscal surplus or deficit (-) 7/									
Commitment basis, excluding grants	-3.9	-2.6	-2.6	-1.8	-4.0	-2.8	-1.5	0.8	2.3
Cash basis, excluding grants	-4.9	-4.6	-5.2	-3.9	-4.3	-4.3	-1.5	0.8	2.3
Payment arrears of the government and public agencies (annual change in billions of CFAF)	-9.6	-14.0	-14.0	-8.5	—	-8.5	—	—	—
Gross domestic investment	14.2	15.0	14.9	14.5	15.0	15.2	16.2	17.5	17.5
Gross domestic savings	4.2	7.0	8.2	8.6	8.9	10.2	12.2	14.1	14.7
External current account deficit (-)									
Excluding official grants	-15.6	-11.3	-10.2	-9.1	-9.6	-8.3	-6.9	-6.1	-5.2
Including official grants	-10.0	-6.1	-5.1	-4.0	-4.5	-3.0	-1.8	-1.2	-0.6
External debt 8/	78.5	74.0	76.7	74.0	80.0	78.2	76.1	72.7	68.4
Debt service ratio (in percent of exports of goods and services, and private transfers) 7/	29.1	29.7	31.2	30.6	31.1	31.3	28.6	26.8	24.7
GDP at current market prices (in billions of CFA francs)	1,223.1	1,338.2	1,432.9	1,527.8	1,467.7	1,564.9	1,660.3	1,764.6	1,876.8
Overall balance of payments surplus or deficit (-) (in millions of SDRs) 9/	-28.0	86.3	-27.4	71.6	46.8	79.7	26.9	38.6	27.1
Gross official foreign reserves (in weeks of imports)	0.2	0.4	0.4	...	0.4	...	...	...	...

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

1/ Refers to the revised program (EBS/89/18).
2/ Index of consumer prices in Dakar for the average Senegalese family
3/ Annual percentage change over beginning-of-period money stock.
4/ GDP relative to end-June broad money stock.
5/ Minimum rate on time deposits in excess of one year and in amounts of more than CFAF 2 million; the actual rates generally follow the money market quotations closely.
6/ Since May 22, 1989.
7/ Before debt rescheduling.
8/ Public and publicly guaranteed debt, including Fund credit and central bank liabilities.
9/ After debt rescheduling.

Table 2. Senegal: Performance Criteria and Financial and Structural Benchmarks Under the First Annual Arrangement Under the Enhanced Structural Adjustment Facility, July 1988-June 1989 1/

	Stock at end-June 1988	Change from July 1, 1988 to End-								
		1988			1989					
		December			March			June		
		Performance criteria			Benchmarks			Benchmarks		
		Prog.	Adj.	Act.	Prog.	Adj.	Act.	Prog.	Adj.	Act.
I. Performance criteria and financial benchmarks										
		(In billions of CFA francs)								
Net domestic assets of the banking system	582.2	-31.8	4.7	3.0	8.2	20.2	5.8	-10.2	-11.5	20.0
Credit to the Government (net)	149.9	6.7	6.7	0.6	14.7	14.7	0.7	4.3	-9.3	-9.9
Payments arrears of Government and public agencies										
Domestic	8.5	-2.5	3.0	1.8	-5.0	1.4	-1.1	-8.5	-8.5	--
External	--	--	--	--	--		--	--	--	--
Repayment of 1986/87 crop credit	1.5	-1.5	-1.5	-1.5	-1.5	-1.5	-1.5	-1.5	-1.5	-1.5
Repayment of ONCAD debt	76.6	-4.3	--	--	-6.4	-3.6	-3.6	-8.6	-8.6	-3.6
		(In millions of SDRs)								
New external borrowing on nonconcessional terms by the Government or with government guarantee										
Short-term (less than 1 year)		--	--	--	--	--	--	--	--	--
1-5 years' maturity		--	--	--	--	--	--	--	--	--
1-12 years' maturity		24.0	24.0	0.5	24.0	24.0	0.8	24.0	24.0	0.8

II. Structural measures

1. Benchmarks	Status
a. Elimination of price controls, with the exception of those on certain strategic or essential products (December 1988).	Implemented
b. Completion of a plan of action to reduce energy prices and to take compensatory revenue measures (March 1989).	Implemented in August 1989
c. Adoption of a three-year public investment program for 1989/90-1991/92 (June 1989).	Implemented
2. Performance criterion	
Completion of a plan of action for the gradual reduction of the deficit of the groundnut sector, including streamlining the operations of the groundnut oil processing company (SONACOS) (December 1988).	Implemented

Sources: Letters of Intent of the Minister of Economy and Finance dated October 15, 1988 and January 31, 1989; and data provided by the Senegalese authorities.

1/ For the provisions regarding the adjusted ceilings, see EBS/88/222 and EBS/89/18.

GDP deflator, to 1.9 percent in 1988/89, as against a program target of 2.4 percent. In the external sector, the external current account deficit, excluding official transfers, was reduced from 10.2 percent of GDP in 1987/88 to 9.6 percent of GDP in 1988/89, broadly in line with the program target of 9.1 percent. 1/ An export shortfall was virtually offset by a lower-than-projected level of imports. 2/ Net service payments were in line with the program projection, but official transfers were lower than envisaged. The surplus in the capital account declined, as a result of a drop in net public sector drawings and the re-emergence of some private capital outflows. Accordingly, the balance of payments, before debt relief, recorded a deficit equivalent to CFAF 32.1 billion, compared with a target of CFAF 15.5 billion. During 1988/89, Senegal obtained debt relief under the auspices of the Paris 3/ and London Clubs, as well as from other creditors, amounting to CFAF 50.6 billion, and the public debt service ratio was reduced from 24.6 percent to 19.4 percent. Therefore, the balance of payments, after debt relief, is estimated to have recorded a surplus equivalent to CFAF 18.5 billion, compared with a deficit of CFAF 10.7 billion in 1987/88 and a program target of a surplus of CFAF 28.7 billion for 1988/89.

Progress was achieved on the structural front in 1988/89 (Table 3). In the agricultural sector, the Government implemented a number of measures aimed at reducing distortions, enhancing efficiency, and promoting diversification. The key measure taken was the politically sensitive reduction of the producer price of groundnuts from CFAF 90 to CFAF 70 per kilogram for the 1988/89 crop season. This was reinforced by the adoption in December 1988 of a plan of action to restructure the groundnut sector. Consistent with this plan, the number of collection points was reduced by 16 percent; the seed security stock was limited to 25,000 tons; procurement of confectionery groundnuts by the groundnut oil processing company (SONACOS) was held to 3,000 tons; subsidies to the confectionery groundnut sector were eliminated; and

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1/ The difference results essentially from a downward revision in the estimates for GDP.

2/ Export receipts in CFA francs grew by 12.4 percent, compared with a program projection of 15.5 percent. The increase in exports was due essentially to a sharp rise in the unit value of exports of groundnut products. The shortfall reflected essentially a downward revision in export receipts from the fishing sector, attributable to the impact of overfishing in previous years, a low level of efficiency, and an aging fleet. Import payments in CFA francs grew by 6.2 percent, instead of the 8.0 percent programmed. The growth in imports was mainly due to a sharp increase in the volume and unit price of rice imports. Imports of intermediate goods grew at a lower rate than projected.

3/ The debt relief obtained under the auspices of the Paris Club was on concessional terms (see SM/89/39). All the bilateral agreements were signed, except those with Canada and Norway, which are expected to be signed shortly.

Table 3. Senegal: Summary of the Adjustment Program for 1988/89 1/

Objectives	Implementation
1. Real growth: 4.2 percent;	0.6 percent
2. Inflation (GDP deflator): 2.4 percent;	1.9 percent
3. External current account deficit, excluding official grants: 9.1 percent of GDP.	9.6 percent
Policies	
A. Agricultural policy	
1. Liberalize producer prices for coarse cereals (October 1988);	Implemented
2. Limit the role of the Food Security Commission (October 1988);	Implemented
3. Reduce the producer price of groundnuts (October 1988);	Implemented
4. Complete a plan of action for the reform of SONACOS (December 1988).	Implemented
B. Industrial policy	
1. Complete the rationalization of the system of effective protection (July 1988);	Implemented
2. Reduce scope of reference prices for customs valuation (July 1988);	Implemented
3. Implement recommendations aimed at improving labor productivity and apply the revised labor code (1988/89);	Implemented
4. Eliminate price controls, with the exception of those on certain strategic or essential products (December 1988);	Implemented
5. Complete a plan of action to adjust energy prices and to take compensatory revenue measures (March 1989).	Implemented in August 1989
C. Public investment	
1. Implement the first year of the second three-year rolling public investment program (1988/89-1990/91).	Implemented
D. Public enterprise sector	
1. Finalize the privatization of ten enterprises (June 1989);	Two enterprises privatized
2. Sign four additional performance contracts (June 1989);	One performance contract signed
3. Reduce budgetary subsidies to public enterprises by a further 5 percent (1988/89);	Implemented
4. Settle CFAF 1.0 billion of public sector cross-debts (1988/89).	Implemented
E. Fiscal policy	
Achieve a fiscal surplus, on a commitment basis and including grants, of 0.2 percent of GDP.	Deficit of 2.1 percent of GDP
1. Revenue target: CFAF 272.8 billion (an increase of 8.5 percent over 1987/88 outcome);	Realization of CFAF 245.7 billion (a decline of 2.3 percent over 1987/88 outcome)
a. Computerize the customs and tax departments' activities (1988/89);	In progress, not completed
b. Apply the new tax regime to foreign-financed projects (1988/89);	Not implemented
c. Accelerate the sale of government-owned land (1988/89);	Not achieved
d. Collect tax arrears (1988/89);	In progress
e. Transfer the surplus from the oil sector to the budget (1988/89);	Implemented
f. Complete the last stage of the global income tax reform (June 1989).	In progress
2. Total expenditure target: CFAF 301.0 billion (4.4 percent over 1987/88 outcome)	Realization of CFAF 305.1 billion (5.9 percent over 1987/88 outcome)
a. Limit the total wage bill to CFAF 125.0 billion (1988/89);	Implemented
b. Reduce civil service personnel by 600 (1988/89);	Implemented
c. Freeze transportation, housing, and hospitalization allowances at their 1987/88 levels (1988/89);	Implemented
d. Reduce expenditures on transfers and subsidies to CFAF 26.5 billion (1988/89);	Implemented
e. Strengthen fiscal discipline in the special and correspondent accounts of the Treasury (1988/89);	In progress
f. Increase allocations for materials and supplies to essential services (1988/89).	Implemented
F. Monetary policy	
1. Limit the growth of domestic liquidity to 5.2 percent;	Increased by 7 percent
2. Limit the growth of credit to the private sector, excluding crop credit, to 3.3 percent;	Increased by 15.0 percent
3. Limit the increase of net bank credit to the Government to 1.2 percent;	Declined by 2.9 percent
4. Reimburse fully outstanding 1986/87 crop credit;	Implemented
5. Follow a flexible interest rate policy;	Implemented
6. Formulate a comprehensive banking system reform program (December 1988);	Implemented
7. Rehabilitate the BIAO-S and the USB, and prepare similar programs for other banks (1988/89).	Implemented
G. External debt	
1. Limit new nonconcessional loans (1988/89);	Implemented
2. Incur no external payments arrears (1988/89).	Implemented

Sources: EBS/88/222; EBS/89/18; and Appendix II.

1/ Fiscal year beginning July 1.

transportation costs were reduced. In the cereal sector, the producer prices for domestic coarse cereals were completely liberalized; the retail price of rice was reduced; the fertilizer subsidy financed directly by donors was further curtailed; the role of the food security commission was reduced to the management of a security stock; and pilot projects for the promotion of the transformation of locally produced cereals were initiated. In addition, agricultural extension services were strengthened, and studies on the improvement of land use management and the agricultural credit system were undertaken.

The regulatory environment was also liberalized. Price controls on all goods and services were sharply reduced, such that the only remaining goods and services subject to price controls were those considered strategic or essential by the authorities. 1/ The last stage of the rationalization of the system of effective protection was completed, including changes in the tariff structure and the significant reduction in the use of reference prices for customs valuation. Furthermore, initial steps were taken to reduce the rigidities in the labor market. The study on energy pricing and taxation was completed, and provided a basis for formulating the plan of action described below. Preparatory work was also undertaken for the renegotiation of the special agreements that grant tax advantages to certain enterprises beyond those included in the Investment Code.

The reform of the public enterprise sector was pursued, albeit at a slower pace than envisaged. The privatization program lagged behind schedule, largely because of problems linked to cumbersome legal and administrative procedures, as well as difficulties with the mobilization of financing by potential investors. In 1988/89, the Government reduced its participation to a minority position in only two enterprises; continued an information campaign to increase investor interest; and completed the preparatory work for the eventual privatization of several other enterprises. Furthermore, although negotiations were pursued on performance contracts with four additional enterprises, the negotiations were concluded with only one enterprise by end-June 1989, pending the settlement of certain legal issues with the other three. Direct budgetary subsidies to public enterprises were further reduced, and the settlement of public sector cross-payments arrears was initiated. In addition, steps were taken to strengthen and harmonize the Government's supervision of public enterprises and to develop a system to monitor the financial performance of the sector.

The authorities implemented the second three-year rolling public investment program, elaborated in consultation with the World Bank. Of

1/ These comprise the minimum producer prices for groundnuts, cotton, and paddy, and the retail prices for sugar, rice, tomatoes and tomato concentrate, cooking oil, wheat flour, bread, charcoal, petroleum products, cement, public medical fees, and pharmaceutical products, as well as the tariffs for electricity, water, and transportation.

the target of CFAF 144 billion for investment outlays under the 1988/89 program, actual outlays amounted to CFAF 100 billion, equivalent to an implementation rate of about 70 percent. The emphasis was on projects supporting the directly productive sectors, as well as on rehabilitation and maintenance operations. To reinforce the public investment programming process, the authorities upgraded the capacity of the Ministry of Planning to evaluate projects and monitor their implementation; increased the attention given to the identification of the recurrent costs of investment projects; initiated a program to strengthen and standardize the procedures for project identification and preparation at the level of the technical ministries; and undertook preparatory steps to integrate the annual investment program into the regular budgetary and expenditure control processes.

The program had envisaged a further improvement in the fiscal position. However, the drought and the civil disturbances in the second half of the fiscal year, combined with slippages in tax administration and delays in implementing some of the envisaged tax measures, contributed to the emergence of an overall fiscal deficit, on a commitment basis and including grants, of CFAF 30.7 billion (2.1 percent of GDP), compared with a program target of a surplus of CFAF 3.7 billion (0.2 percent of GDP). 1/ As a result, domestic payments arrears were not eliminated as envisaged and the repayment of crop credit by the Treasury fell significantly short of the programmed level. Accordingly, the overall fiscal deficit, on a cash basis and including grants, amounted to CFAF 35.3 billion (2.4 percent of GDP), against a targeted level of CFAF 27.8 billion (1.8 percent of GDP). Net foreign financing was higher than envisaged, reflecting a higher level of debt relief and the disbursement of CFAF 7.0 billion under a French loan for the reform of the banking system. As the loan was not utilized in 1988/89 and the Treasury was unable to use its deposits with commercial banks facing liquidity problems, it was not possible to achieve the programmed repayment of consolidated debt. In these circumstances, net government borrowing from the banking system remained below the programmed level.

There was a substantial shortfall in budgetary receipts in 1988/89, as total revenue and grants increased by only 1.0 percent, compared with a targeted increase of 12.3 percent. Even though there was a small shortfall in grants, this outcome is attributable in the main to developments in tax revenue. While the fall in economic growth and the civil disturbances in the second half of the year had an adverse impact, the shortfall was also due to the effects of a reduction in the value-added tax rate applicable to the textile sector in the second half of 1988/89; the delays in strengthening customs verification and valuation procedures, after the rationalization of the import tariff structure; slippages in the implementation of the envisaged tax reform measures for

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1/ Excluding grants, the overall fiscal deficit reached CFAF 59.4 billion (4.0 percent of GDP) compared with a program target of CFAF 28.2 billion (1.8 percent of GDP).

the second half of 1988/89, notably the levying of lump-sum advance payments on small- and medium-sized enterprises and the introduction of a special value-added tax rate on a group of nonessential goods; delays in the sales of government land; and administrative problems that arose during the implementation of the tax retention and reimbursement scheme for foreign-financed projects. The impact of the last factor was neutral, as the counterpart expenditure did not take place either. Import duties accounted for over half of the shortfall in tax revenue; domestic taxes on consumption, for about a third; and taxes on income and profits, for the remainder. Nontax revenue, by contrast, was somewhat higher than projected.

Total expenditure and net lending, which had been targeted to increase by 4.4 percent, actually rose by 5.9 percent in 1988/89, exclusively because of higher-than-programmed scheduled interest payments on public debt and expenditure on road maintenance in the Treasury's special accounts. The wage bill was held to the programmed level, reflecting the absence of a general wage increase and the reduction in the size of the civil service. Expenditure for subsidies and transfers was lower than programmed, virtually offsetting a higher level of expenditure on materials and supplies. Capital expenditure was below the targeted level, mainly because of reduced counterpart expenditure under the tax retention and reimbursement scheme.

While monetary developments in the first half of the year were in conformity with the program, there were marked deviations in the second half. In the first half, net domestic assets grew by 0.9 percent, compared with an adjusted program target of 1.4 percent of beginning-of-period money stock, 1/ as both net credit to the Government and credit to the economy were lower than programmed. Other monetary items (net) declined sharply, owing mainly to the restructuring and the losses of certain banks. In the second half, net domestic assets grew by 5.0 percent of the end-December money stock; ordinary credit was higher than envisaged, because the fiscal difficulties precluded repayment of the crop credit relating to the 1987/88 harvest that had been reclassified at end-December 1988. In addition, an audit of a commercial bank, under the ongoing reform of the banking system, resulted in a restructuring of its balance sheet, entailing an increase in the level of credit. There was also a further fall in other monetary items (net), owing primarily to valuation adjustments. Accordingly, for the year as a whole, net domestic assets grew by 5.7 percent of beginning money stock, against the targeted reduction of 3.0 percent. Thus, domestic liquidity grew by 7.1 percent, compared with a program target of 5.2 percent.

1/ The program provided, among other things, for an adjustment of net domestic assets of the banking system by the variation in crop credit from the program target, as well as by the amount of the 1987/88 crop credit reclassified in December 1988. The total adjustment amounted to CFAF 36.5 billion at end-December 1988.

During 1988/89, the central bank (BCEAO) pursued a more active interest rate policy, 1/ maintaining high real interest rates. Reflecting the evolution of interest rates abroad, particularly in France, the rates on the money market were adjusted upward through March 1989, then lowered somewhat thereafter. The discount rates were raised twice, and the difference between the normal and the preferential discount rates was reduced considerably. The normal discount rate was raised from 8.5 percent to 9.5 percent effective December 23, 1988, and to 10.0 percent effective March 30, 1989; the respective increases in the preferential discount rate were from 6.0 percent to 7.5 percent in December 1988, and to 9.0 percent in March 1989. The interest rates on loans, which are based on the discount rate, were raised pro tanto, while those on time and savings deposits were increased by 0.5-1.0 percentage point in December 1988 and by 1.0 percentage point in March 1989.

With a view to strengthening the financial position of the banking system, which is facing serious liquidity problems that stem mainly from sizable nonperforming loans and management difficulties, the Government, in consultation with the World Bank and other interested parties, prepared a plan of action for the reform of the banking system. The plan encompasses measures to close, merge, rehabilitate, or restructure various banks, as well as to further consolidate and refinance the nonperforming loans of the banking system. While the plan of action was being prepared, several steps were taken to restructure certain banks. The agreement concluded in July 1988 between Senegal and the BIAO (Banque Internationale pour l'Afrique de l'Ouest) regarding the BIAO-S (BIAO-Senegal) is being implemented. To improve its financial situation, the BIAO-S reduced its staff, closed seven of its agencies, and discontinued small accounts. The capital of the BIAO-S was reconstituted, and the Government's share was reduced from 35 percent to 25 percent. With regard to the USB (Union Sénégalaise des Banques), an agreement was reached between Senegal and Crédit Lyonnais for the creation of a new bank, the CL-S (Crédit Lyonnais du Sénégal), with a 5 percent government participation. In addition, a coordinator was appointed in December 1988 by the Government to handle the administrative and financial restructuring of three specialized banks with majority Government ownership.

IV. Report on the Discussions and the Adjustment Strategy

The Senegalese authorities recognized that the process of adjustment had suffered a setback in 1988/89, partly because of the unfavorable weather conditions and the civil disturbances, and emphasized that this had only strengthened the Government's resolve to pursue the reform effort. The discussions therefore centered on the

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1/ Interest rate policy in Senegal is determined in the context of the West African Monetary Union (WAMU).

requisite measures to reinforce the structural and macroeconomic policies, with a view to achieving the medium-term objectives of a sustainable rate of economic growth under conditions of domestic and external financial stability. The discussions took into account the views expressed by Executive Directors at the conclusion of the 1988 Article IV consultation with Senegal. On that occasion, Directors commended the authorities for the implementation of appropriate structural and demand management policies, which had led to progress toward economic and financial adjustment. Nonetheless, Directors noted that economic growth remained constrained by a number of structural bottlenecks, while the fiscal position was fragile. In these circumstances, Directors welcomed the decision of the authorities to put a strong emphasis on removing the remaining structural bottlenecks to economic growth. They also attached considerable importance to achieving the projected improvement in the overall fiscal position, maintaining a tight credit stance, and pursuing a more active interest rate policy.

1. The medium-term strategy

The authorities reaffirmed their determination to pursue Senegal's medium-term strategy, which entailed, on the one hand, a reduction in the obstacles to private initiative and growth, and, on the other, the achievement of greater efficiency in public resource management, including a strengthening in government finances. The authorities underscored the progress achieved on the structural front since 1983. In particular, they emphasized that the reduction in the producer price of groundnuts and the streamlining of the operations of the groundnut sector had eliminated the need to subsidize the sector. They also indicated that the liberalization of domestic price controls and the rationalization of tariffs, following the virtual elimination of quantitative import restrictions, had sharply reduced distortions and obstacles to private sector activity. Thus, in spite of the adverse exogenous factors encountered in 1988/89, there had been further reductions in inflationary pressures and external imbalances. As these factors were not expected to recur in 1989/90, the authorities were of the view that, with a reinforcement of their adjustment efforts, further progress toward their medium-term objectives could be achieved (Charts 1 and 2).

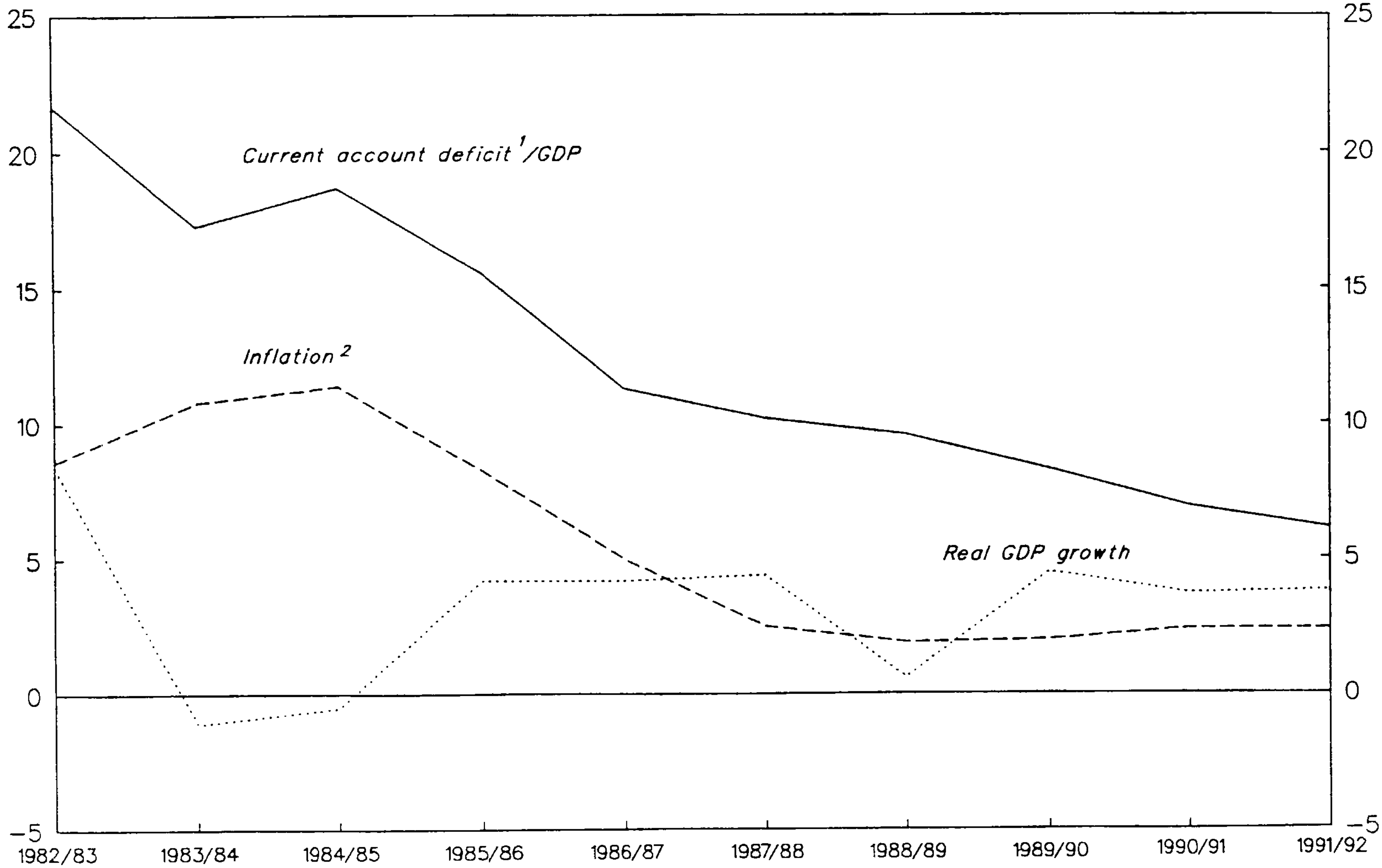
It was recognized that the recent developments highlighted the need for stepped-up efforts in several areas. In particular, the shortfall in government revenue in 1988/89 increased the need for additional tax measures to widen the revenue base and enhance the elasticity of the tax system; the continuing high share of the wage bill underscored the importance of a reform of the civil service; the opening of the industrial sector to outside competition accentuated the urgency of addressing the rigidities in the labor market and the high energy costs; the problems encountered in the reform of the public enterprise sector required a reassessment of the strategy being pursued; the overshooting of the monetary targets called for significant improvements in bank

CHART 1

SENEGAL

REAL GROWTH AND ADJUSTMENT, 1982/83–1991/92

(In percent)

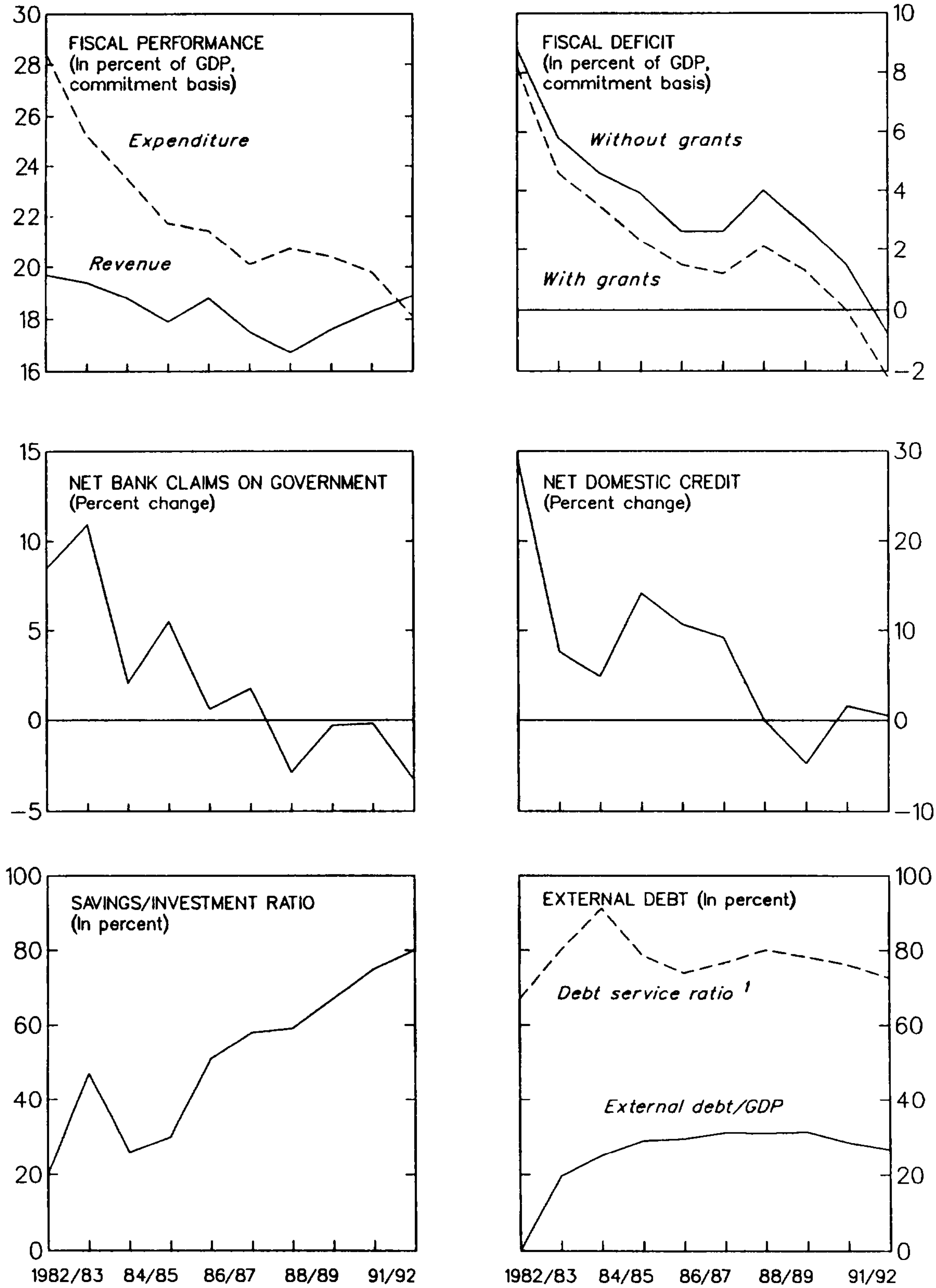


Source: Data provided by the Senegalese authorities and staff estimates and projections.
[1] Excluding official grants.
[2] As measured by the GDP deflator.

CHART 2

SENEGAL

KEY ECONOMIC POLICY INDICATORS, 1982/83–1991/92



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

[1] In percent of exports of goods and services, and private transfers; before debt relief.

supervision; and the liquidity problems of the banking system, which hampered financial intermediation and the conduct of monetary policy, necessitated the launching of a comprehensive reform program.

a. The medium-term objectives and policies

Against this background, Senegal's medium-term policy framework paper has been updated to cover the period 1989/90-1991/92, and the quantitative objectives and the policies have been revised. A key objective is to achieve an average annual growth of real GDP of nearly 4.0 percent. Real GDP is projected to grow by 4.6 percent in 1989/90, primarily as a result of a rebound in agricultural production following the drop in 1988/89. On the assumption that normal weather conditions will continue to prevail, and that the envisaged policies will be pursued effectively, real GDP is targeted to grow thereafter at an average annual rate of about 3.8 percent. The increase in economic activity is expected to be led by the private sector. The improvements in the incentives and investment environment, brought about by the liberalization of the economy, are expected to stimulate the agricultural sector in particular, as well as small- and medium-scale industrial enterprises. The recovery in the agricultural harvest is expected to exert a downward pressure on prices of key agricultural commodities in 1989/90, limiting the rate of inflation, as measured by the GDP deflator, to 2.0 percent. Thereafter, the program aims at stabilizing the annual inflation rate at 2.4 percent. The external current account deficit, excluding official grants, is projected to be reduced from 9.6 percent of GDP in 1988/89 to 6.1 percent in 1991/92, based on the baseline scenario discussed below. The overall balance of payments, before debt relief, is expected to record a deficit of CFAF 20.1 billion in 1989/90, and surpluses of CFAF 11.2 billion in 1990/91 and CFAF 16.1 billion in 1991/92. Taking into account the programmed reduction in external budgetary assistance, the scheduled external debt service payments, including Fund repurchases, and a programmed improvement in the operations account, Senegal should be able to meet its balance of payments financing need for 1989/90, by use of the projected drawings from the Fund and debt relief. The need for debt relief is now projected to be eliminated starting in 1990/91, one year later than originally envisaged. However, this will depend critically not only on the effective implementation of the policies envisaged and their prompt adaptation in light of changing circumstances, but also on the extent to which the projected levels of external budgetary assistance are forthcoming.

An important element of Senegal's medium-term strategy is the mobilization of domestic savings to cover a higher share of investment. The resource gap was reduced from 12.2 percent of GDP in 1983/84 to 6.1 percent in 1988/89, largely through a marked rise in gross domestic savings, coupled with a stabilization of gross domestic investment (Table 4). Gross domestic savings rose from 3.1 percent of GDP in 1983/84 to 8.9 percent in 1988/89, reflecting the restrained financial policies, the positive real interest rates, and the increases

Table 4. Senegal: Savings and Investment, 1983/84-1991/92

(In percent of GDP)

	1983/84	1985/86	1986/87	1987/88	1988/89 Est.	1989/90 Projections	1990/91 Projections	1991/92 Projections
Gross domestic investment	15.3	14.2	15.0	14.9	15.0	15.2	16.2	17.5
Public	11.1	10.0	10.6	10.5	10.5	10.6	10.8	11.5
Private	4.2	4.2	4.4	4.4	4.5	4.6	5.4	6.0
Gross domestic savings	3.1	4.2	7.0	8.2	8.9	10.2	12.2	14.1
Government	-1.7	-1.1	0.2	0.3	-1.2	0.8	2.5	3.9
Private 1/	4.8	5.3	6.8	7.9	10.1	9.4	9.7	10.2
Resource gap	12.2	10.0	8.0	6.7	6.1	5.0	4.0	3.4

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

1/ Including nongovernment public entities.

in per capita income. While government dissavings were reduced during this period, private savings (including nongovernment public entities) rose from 4.8 percent of GDP to 10.1 percent. The increase in the domestic savings rate in Senegal contrasts sharply with the experience in most other African countries, which generally witnessed a decline in the domestic savings rate. 1/ In the period ahead, the restructuring of the banking system and a more active interest rate rate policy should contribute to sustain the rate of gross private savings at around 10.0 percent of GDP. Through the fiscal effort, the authorities will place greater emphasis on mobilizing government savings, which are projected to rise by 5.1 percentage points of GDP between 1988/89 and 1991/92. Thus, gross domestic savings are expected to increase from 8.9 percent of GDP in 1988/89 to 14.1 percent in 1991/92. By contrast, gross domestic investment is programmed to increase from 15.0 percent of GDP in 1988/89 to 17.5 percent in 1991/92; public investment will rise from 10.5 percent of GDP to 11.5 percent, while private investment is projected to increase from 4.5 percent of GDP to 6.0 percent. As a result, the resource gap is projected to narrow from 6.1 percent of GDP in 1988/89 to 3.4 percent in 1991/92.

The policies envisaged are detailed in the updated policy framework paper; the timetable of the actions to be undertaken over the three-year period is given in the policy matrix attached to that paper. On the financial side, emphasis is being placed on redressing the budgetary situation and restraining the growth of credit, so as to align aggregate demand with available resources. Structural changes on the fiscal and financial intermediation fronts are being effected concurrently to ensure the durability of the progress achieved. On the fiscal side, tax measures are being taken to achieve a sustained revenue growth and to reduce the vulnerability of revenue to fluctuations in the surpluses from the oil sector. The objective is to achieve a growth in government revenue of 12.3 percent in 1989/90, and at least 10.0 percent a year thereafter. This will be reinforced by a restrained expenditure policy. The Government will reduce the wage bill and budgetary transfers and subsidies, while providing for more adequate allocations for recurrent expenditure on maintenance and basic services. The objective will be to achieve a turnaround in the budget, on a commitment basis and excluding grants, from a deficit of 4.0 percent of GDP in 1988/89 to a surplus of 0.8 percent in 1991/92. Accordingly, the dependence of the budget on exceptional external financing (excluding project financing) would be reduced, from CFAF 125.6 billion in 1988/89 to CFAF 36.0 billion in 1991/92. 2/ At the same time, the authorities will follow a prudent external debt management policy. Credit policy

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1/ See "The Role of National Saving in the World Economy - Recent Trends and Prospects" (SM/89/172); and "The Role of National Saving in the World Economy - Background Material" (SM/89/172, Supplement 1).

2/ Including official loans and grants disbursements, debt relief, and drawings from the Fund.

will continue to be geared toward the dual objectives of containing inflationary pressures and emphasizing the provision of credit to the private sector. The reform of the banking system, as detailed below, is being expanded in scope.

On the supply side, following the progress achieved in recent years, the measures will center on enhancing competitiveness and fostering the development of the industrial sector. In this regard, a plan of action will be launched to rationalize energy costs to local industries, while measures are being introduced to accord firms greater flexibility in adapting the size of their labor force to their requirements and in setting wages. Agricultural policy will include reforms to enhance production and diversification, while improving the profitability of the groundnut sector. Public investment programming and monitoring will continue to be reinforced to increase the efficiency of capital outlays. The reform of the public enterprise sector will be reassessed, in consultation with the World Bank staff, with a view to identifying the constraints to the restructuring of the sector.

b. The balance of payments outlook

The updated baseline scenario for the balance of payments for 1989/90-1991/92, compared with that in EBS/88/222, takes into account the outcome for 1988/89, the strengthening and the readjustment of Senegal's medium-term policies, and the latest international price projections for key commodities in the World Economic Outlook (WEO). It assumes the continuation of normal weather conditions, the nonrecurrence of the locust infestation, and the abatement of social disturbances. The export receipts projections over the three-year period have been significantly reduced, because of the lower 1988/89 base and modifications in the growth of export volumes and unit prices. In particular, the projected export receipts of the groundnut sector in 1991/92 have been reduced by 12.3 percent, relative to the previous scenario, mainly because of a downward revision in the volume of groundnut oil exports. Fish export receipts have also been revised downward, to take account of the lower base for 1988/89, and the prospects of lower growth in the volume of fish exports, from an annual average rate of 8.0 percent in the previous scenario to 5.7 percent in the current scenario. The import payments projections have also been revised downward, to take into account in particular the lower base for 1988/89 for intermediate and capital goods, as well as reduced food import payments. On balance, the deficit in the trade account is now projected at 2.2 percent of GDP in 1991/92, compared with the previous projection of a deficit of 1.4 percent. The current account deficit, excluding official transfers, is projected at 6.1 percent of GDP in 1991/92, compared with 5.4 percent in the original scenario. The projected surplus in the capital account is broadly in line with the one in the previous baseline scenario, although there are differences in the components. Private capital inflows have been revised downward, to show a gradual recovery from the estimated outcome for 1988/89. This downward revision is offset by an improvement in the public sector capital account surplus, owing to lower amortization payments--resulting partly from exchange rate movements--and to higher drawings associated with the public investment program.

A more detailed description of the assumptions underlying the baseline scenario is given in Appendix VI, along with two alternative scenarios that show the sensitivity of Senegal's external position to exogenous factors. In Scenario I (Table 5), drought conditions are assumed to emerge in 1990/91. In that case, the import volume of rice would increase at an annual average rate of 10.2 percent and that of wheat at 5.7 percent during 1990/91-1991/92, compared with 2.2 percent and 2.2 percent, respectively, under the baseline scenario; the export volume of groundnut oil would decline by 34.0 percent in 1991/92, and would then rise at an annual average rate of 6.7 percent in the next two years; and the export volume of fish products would grow at an average rate of 4.0 percent a year during 1990/91-1991/92, compared with 5.7 percent under the baseline scenario. Under these conditions, the achievement of balance of payments viability would be delayed. By contrast, Scenario II shows that Senegal's external position could improve faster than under the baseline scenario if the terms of trade were 2 percentage points higher than under the baseline scenario throughout the period.

c. Repayment capacity

Over the longer term, Senegal's external position is projected to continue to improve, and the debt service burden to be reduced. The baseline scenario for the balance of payments has been extended through the year 1999/2000. It assumes that, after 1991/92, export receipts would grow at an average annual rate of 8 percent; payments for imports would increase at an average annual rate of 7 percent; official transfers and capital inflows would decline from CFAF 190.3 billion in 1991/92 to CFAF 142.3 billion in 1999/2000; and that private capital inflows would stabilize at CFAF 10.0 billion a year. Under these assumptions, the external current account deficit, excluding official grants, would narrow from 8.3 percent of GDP in 1989/90 to 2.6 percent of GDP in 1999/2000, and the overall balance of payments would record an overall surplus of CFAF 22.0 billion in 1999/2000. The external debt profile would also improve, with the debt service ratio being reduced from 31.3 percent in 1989/90 to 10.0 percent by 1999/2000. The ratio of total debt to GDP would decline from 78.2 percent to 43.2 percent during the same period.

Assuming that the disbursements under the third annual arrangement are made on schedule and that Senegal does not make any further use of Fund resources, Senegal's outstanding Fund credit is projected to decline from SDR 245.9 million at end-June 1991 (288.91 percent of quota) to SDR 114.5 million in June 1996 (134.8 percent of quota) and to SDR 6.6 million by end-June 2000 (7.7 percent of quota) (Appendix I, Table VIII). In relation to GDP, outstanding credit to the Fund would

Table 5. Senegal: Medium-Term Outlook for the Balance of Payments, Alternative Scenarios, 1988/89-1992/93

(In percent, unless otherwise indicated)

	1988/89 Estimate	1989/90 Program	1990/91 Projections	1991/92 Projections	1992/93 Projections
			Baseline scenario		
Current account/GDP 1/	-9.6	-8.3	-6.9	-6.1	-5.2
Overall balance (CFAF billion) 2/	-32.1	-20.1	11.2	16.1	11.3
Financing gap (CFAF billion) 3/	—	27.9 4/	—	—	—
Debt service ratio 5/	31.1	31.3	28.6	26.8	24.7
Export volume growth	4.0	-2.2	5.7	5.4	5.1
Import volume growth	-1.0	-0.3	2.6	0.5	0.5
Terms of trade (change)	0.8	5.3	2.5	-1.2	-1.5
			Scenario I (Drought conditions in 1990/91)		
Current account/GDP 1/	-9.6	-8.3	-7.6	-7.6	-6.8
Overall balance (CFAF billion) 2/	-32.1	-20.1	-0.6	-10.6	-19.3
Financing gap (CFAF billion) 3/	—	27.9 4/	11.9	26.8	30.6
Debt service ratio 5/	31.1	31.3	29.0	28.0	25.9
Export volume growth	4.0	-2.2	2.4	-2.9	5.6
Import volume growth	-1.0	0.3	4.2	0.2	0.2
Terms of trade (change)	0.8	5.3	3.4	1.7	-2.5
			Scenario II (Improved terms of trade)		
Current account/GDP 1/	-9.6	-7.9	-6.1	-4.9	-3.7
Overall balance (CFAF billion) 2/	-32.1	-15.2	23.7	35.9	39.3
Financing gap (CFAF billion) 3/	—	23.0	—	—	—
Debt service ratio 5/	31.1	31.2	28.3	26.3	24.1
Export volume growth	4.0	-2.2	5.7	5.4	5.1
Import volume growth	-1.0	-0.3	2.6	0.5	0.5
Terms of trade (change)	0.8	7.0	4.7	0.5	0.3

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

1/ Excluding official grants.
2/ Before debt rescheduling.
3/ After accounting for disbursements under the ESAF arrangement.
4/ Expected to be covered through requested debt relief.
5/ In percent of exports of goods and services, and private transfers.

also decline to less than 1/10 of 1 percent at end-June 2000. The ratio of debt service payments to exports of goods, services, and private transfers would decline from 5.0 percent in 1989/90 to 1.4 percent in 1993/94. In the following three-year period ending 1996/97, the ratio of debt service to the Fund would increase to an annual average of 2.1 percent as a result of repayments of loans under the SAF and the ESAF, which are projected to total about SDR 90.0 million in the same period. Thereafter, as those repayments gradually decline, reaching SDR 14.9 million in 1999/2000, the ratio of debt service payments to the Fund is also projected to decline, to less than 1 percent in June 2000. In relation to total scheduled debt service, the ratio of debt service payments to the Fund is also projected to follow the same pattern. Under the assumptions underlying Scenario I, the external current account deficit, excluding official grants, would remain higher than under the baseline scenario throughout the period. Even under these conditions, the ratio of debt service payments to the Fund would only be marginally higher in the peak repurchase period 1994/95-1996/97, and would still decline to less than 1 percent by 1999/2000. Accordingly, given Senegal's excellent track record in servicing its obligations to the Fund on schedule and its commitment to strengthen the adjustment effort if the balance of payments outlook weakens from that envisaged in the baseline scenario, the staff expects that Senegal will continue to discharge its future obligations to the Fund in a timely manner.

2. The program for 1989/90

Within the context of the above medium-term framework, the key macroeconomic objectives of the 1989/90 program are to achieve a growth in real GDP of 4.6 percent; to limit the inflation rate, as measured by the GDP deflator, to 2.0 percent; and to further reduce the external current account deficit, excluding official grants, to 8.3 percent of GDP. The overall balance of payments, before debt relief, is projected to record a deficit of CFAF 20.1 billion. To achieve these objectives, the authorities are giving priority in 1989/90 to containing the growth in aggregate demand, by taking steps to redress the budgetary position and limiting the growth of domestic liquidity, while continuing to implement wide-ranging structural reforms (Table 6).

a. Fiscal policy

The 1989/90 program aims at restoring the momentum of fiscal adjustment through a significant revenue effort and continued austerity measures. Despite a rise in foreign-financed expenditure associated with the restructuring of the banking system and an increase in capital expenditure, the overall fiscal deficit, on a commitment basis and excluding grants, is expected to be narrowed from CFAF 59.4 billion (4.0 percent of GDP) in 1988/89 to CFAF 43.8 billion (2.8 percent of GDP) in 1989/90 (Appendix I, Table III). The program provides for the settlement of verified domestic payments arrears amounting to

Table 6. Senegal: Summary of the Adjustment Program for 1989/90 1/

Objectives

1. Real growth: 4.5 percent;
2. Inflation (GDP deflator): 2.0 percent;
3. External current account deficit, excluding official grants: 8.3 percent.

Policies

A. Industrial policy

1. Modify investment code to permit the renewal of fixed-term employment contracts over a period of five years (October 1989);
2. Eliminate the obligations of newly established small- and medium-sized enterprises to receive prior approval for laying off workers (October 1989);
3. Extend new regulations to all new enterprises established in the Dakar free trade zone (October 1989);
4. Complete preparations for the introduction of the new system of petroleum pricing and taxation (November 1989);
5. Implement new petroleum taxation system (December 1989).

B. Agricultural policy

1. Finalize plan of action to reduce further the costs of groundnut marketing and processing, to rationalize SONACOS' refining capacity, and to privatize the marketing of confectionary groundnut (November 1989);
2. Adopt a new protocol defining the financial relations between SONACOS and the Government (December 1989);
3. Prepare a plan of action to improve the performance of the agricultural credit bank (June 1990);
4. Renegotiate the agreement on the determination of sugar prices (June 1990);
5. Initiate study on fishing sector (1989/90).

C. Public enterprise sector

1. Privatize 35 additional enterprises (1989/90-1990/91);
2. Liquidate 10 additional enterprises (1989/90-1990/91);
3. Sign eight performance contracts (June 1990);
4. Reduce direct subsidies to public enterprises from their 1988/89 level (1989/90);
5. Continue the settlement of public sector cross-debts (1989/90).

D. Public investment

1. Implement the first year of the third three-year rolling public investment program (1989/90-1991/92).

E. Fiscal policy

Reduce the fiscal deficit, on a commitment basis and excluding grants, to 2.8 percent of GDP;

1. Revenue target: CFAF 276.0 billion (12.3 percent over the 1988/89 estimate);

   a. Widen the coverage of the highest rate of the value-added tax (VAT) and reduce its level from 50 percent to 30 percent (September 1989);
   b. Increase the customs duty rate by 5 percentage points (September 1989);
   c. Introduce minimum tax assessments for imports to prevent underinvoicing (September 1989);
   d. Strengthen custom valuation and border procedures (September 1989);
   e. Expand the withholding system to property and professional income (September 1989);
   f. Introduce a separate profits tax (January 1990);
   g. Extend the VAT to the trade and other services (January 1990);
   h. Replace the schedular income tax system by a global one (January 1990);
   i. Transfer the surplus from the oil sector to the budget (June 1990).

2. Total expenditure and net lending: CFAF 319.8 billion (4.8 percent over the 1988/89 estimate);

   a. Limit the increase in the total wage bill to 3.8 percent (June 1990);
   b. Increase allocations for material and maintenance to essential services (June 1990);
   c. Reduce expenditure for subsidies and transfers to CFAF 24 billion (June 1990);
   d. Limit the net deficit of the Treasury's special accounts to the previous year's level while eliminating that for the correspondent accounts (June 1990);
   e. Improve the management of the special and correspondent accounts (June 1990).

F. Monetary policy

1. Limit domestic liquidity growth to 5 percent;
2. Reduce credit to the private sector, excluding crop credit, by 3.4 percent;
3. Reduce net bank credit to the Government by 0.3 percent;
4. Reimburse the 1987/88 crop credit;
5. Follow a flexible interest policy;
6. Restore the liquidity of the MFIS and the BSK or remove their licenses;
7. Implement the comprehensive reform of the banking system.

G. External debt

1. Limit new nonconcessional loans;
2. Incur no external payments arrears.

Source: Memorandum on Economic and Financial Policies for 1989/90.

1/ Fiscal year, beginning July 1.

CFAF 8.5 billion, and the repayment of reclassified crop credit obligations of CFAF 25.0 billion, 1/ which were carried forward from the previous year. Therefore, the overall deficit, on a cash basis and excluding grants, will rise to CFAF 67.3 billion (4.3 percent of GDP) in 1989/90 from CFAF 63.8 billion (4.3 percent of GDP) in 1988/89. Based on expected disbursements, scheduled external debt amortization, and already-secured debt relief, net external financing is estimated at CFAF 27.6 billion. Net domestic repayments will amount to CFAF 11.2 billion, owing to the scheduled reimbursement of consolidated domestic debt and a reduction in net liabilities to the banking system. A financing gap of CFAF 27.9 billion will remain. The Government is requesting additional external financial assistance, including debt relief, to cover this gap. It has already contacted the Paris Club and other official creditors to request an additional rescheduling of debt service obligations.

In view of the setback suffered in 1988/89, the authorities have taken measures to effect an increase in revenue of CFAF 30.3 billion (1.9 percent of GDP), compared with an originally projected increase of CFAF 20.0 billion (1.4 percent of GDP). Tax revenue is projected to increase by CFAF 35.8 billion, as a result of a number of tax and administrative measures, while nontax revenue is projected to decline by CFAF 5.5 billion, primarily because of a fall in receipts from the oil sector. The tax measures include a widening in the coverage of the higher rate of the value-added tax (VAT), with a concomitant reduction in its level from 50 percent to 30 percent; a uniform increase in the customs duty rate from 10 percent to 15 percent; the introduction of minimum tax assessments for imports to counter underinvoicing; the strengthening of customs valuation and border procedures, mainly through the computerization of procedures and the consolidation of regional offices; the expansion of the withholding system for property and professional income taxation; and the implementation of additional administrative measures. The projected financial impact of each measure is given in Table 7. In view of the low income elasticity of the tax system, no elasticity effect has been incorporated in the projections. The schedular income tax system will be replaced by a global one, and a separate profits tax will be introduced. Furthermore, a new taxation system for the energy sector will be introduced. The two measures are designed to improve the elasticity of the tax system and reduce the vulnerability of the tax base, but will not have an immediate revenue impact in 1989/90. Because of the importance of attaining the revenue objective, monthly tax revenue targets have been established which, if not achieved in any consecutive two-month period, will trigger a consultation with Fund management. In addition, a performance criterion at end-December 1989 and financial benchmarks on tax revenue at end-March and end-June 1990 have been set. Based on preliminary data, the tax

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1/ CFAF 15.0 billion, after netting the contribution of CFAF 10.0 billion of the groundnut oil processing company (SONACOS).

Table 7. Senegal: Impact of Revenue Measures Under the Adjustment Program for 1989/90

	Revenue impact	
	In billions of CFA francs	In percent of total increase
1. Taxes on foreign trade	27.0	75.4
Rationalization of value-added tax on imports	6.5	18.2
Increase in customs duty rate	5.0	14.0
Introduction of minimum assessed values for underinvoiced goods	5.5	15.4
Computerization and other improvements in customs administration	10.0	27.8
2. Taxes on income and consumption	8.8	24.6
Extension of value-added tax to trade and commerce sectors	2.0	5.6
Extension of withholding tax to professional and property income	1.0	2.8
Reduction of exemptions	2.0	5.6
Introduction of business license taxes	0.6	1.7
Introduction of other administrative measures, including arrears recovery	3.2	8.9
Total	35.8	100.0

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

revenue target for July-September 1989, which is seasonally low, has been achieved. Tax revenue during this period amounted to CFAF 44.2 billion, compared with a target of CFAF 44.0 billion.

The growth in expenditure and net lending, which was originally projected at 1.5 percent for 1989/90, has been revised to 4.8 percent, largely because of an additional CFAF 10.0 billion in expenditure associated with the reform of the banking sector. Current expenditure is projected to grow by 1.9 percent, primarily because of an increase of 3.8 percent in the wage bill. The Government has granted no cost of living increases during the last five years. The sharp fall in real wages prompted a number of strikes during 1988/89. Accordingly, the Government decided to grant a small general wage increase of 2.5 percent, with special additional increases for education and health workers. The cost of the wage adjustment, estimated at CFAF 5.0 billion, as well as the impact of the wage drift, estimated at CFAF 2.0 billion, will be partially offset by reductions in indemnities of CFAF 2.0 billion. Hence, the wage bill is programmed to be held at CFAF 130 billion in 1989/90. Recognizing the need to reduce the share of the wage bill, the Government has decided to limit the wage bill to CFAF 125 billion starting in 1990/91. For this purpose, the Government has undertaken several studies that would serve as a basis for determining the appropriate measures; these measures and their impact will be examined during the midterm review. Allocations for materials and maintenance have been increased to allow for the efficient functioning of the central administration. These increases have been offset by a reduction in the provisions for subsidies and transfers. An increase in capital expenditure of 12.2 percent is projected for 1989/90.

The net deficit of the Treasury's special accounts will be contained at the previous year's level of CFAF 11.0 billion, while that for the correspondent accounts will be eliminated because of the expected repayment of postal transfer arrears to Senegal by neighboring countries. To improve the management of the special and correspondent accounts and ensure greater transparency, the authorities will integrate some of these accounts into the budget and eliminate others. To maximize the profits of the Caisse de Péréquation et de Stabilization des Prix (CPSP), the Government has begun to renegotiate with the flour millers the agreement relating to the determination of the reference price for wheat imports. The key objective of this renegotiation will be to ensure that wheat purchases are made by international competitive bidding. The new agreement is expected to enter into effect in November 1989.

b. Monetary policy

The policy of the monetary authorities is to hold the growth of domestic liquidity below that of nominal GDP in order to reduce excess demand pressures. They also view the recent increases in interest rates as an important step to increasing the demand for domestic currency balances and dampening the tendency for private capital outflows. Accordingly, the growth of domestic liquidity is programmed to be held at 5.0 percent in 1989/90, compared with a projected growth of nominal GDP of 6.6 percent (Appendix I, Table IV). Domestic credit is programmed to be reduced by 4.8 percent of beginning money stock. In line with the envisaged improvement in the fiscal position, net bank credit to the Government is programmed to decline by 0.3 percent of beginning money stock. Credit to the economy is projected to be reduced by 4.5 percent of beginning money stock. Within this broad heading, both crop credit and reclassified crop credit are expected to decline by 9.2 percent of beginning money stock, for two reasons. First, the Government will repay CFAF 25.0 billion in reclassified crop credit. Second, the reduced producer price for groundnuts and the increased efficiency of the operations of the groundnut sector will diminish the needs of the sector for bank financing. In these circumstances, non-crop-related ordinary credit is programmed to increase by 4.6 percent of beginning money stock. The actual increase of liquidity to the nongovernment sector will be significantly higher, however, as the Government will provide resources equivalent to 7.7 percent of beginning money stock for the repayment of public sector arrears and for the restoration of liquidity of deposits in the banks that are being restructured. In this context, the monetary authorities indicated that they were relying increasingly on interest rate policy in the conduct of their credit policy. They underscored that they were maintaining a high level of real interest rates, and a positive differential between the money market rate and that in France (Chart 3). On October 2, 1989, the preferential discount rate was abolished, and the normal discount rate was raised again from 10.0 percent to 10.5 percent.

The Government is widening the scope of the reform of the banking system in 1989/90 in the context of a comprehensive program developed in collaboration with the BCEAO, the World Bank, and other multilateral and bilateral creditors and donors. Under this program, three banks (BIAO-S, BSK, and MFIS) 1/ are to be rehabilitated, through an infusion of liquidity and the introduction of measures to reduce their operating costs. The rehabilitation of the BIAO-S is well under way. The rehabilitation of BSK and MFIS is dependent on the provision of the requisite financial resources by their private shareholders. The Government has notified these two banks that, in the event that the requisite resources to restore the liquidity of the banks are not in place by end-November, the licenses of the banks will be withdrawn and they will be placed under receivership. Five other banks, in which the public sector had a majority participation, are being restructured. The performing assets of these five banks are to be taken over by two new commercial banks in which the Senegalese public sector will be a minority shareholder; the nonperforming assets are to be turned over to a loan recovery entity. The cost of the banking sector reform is

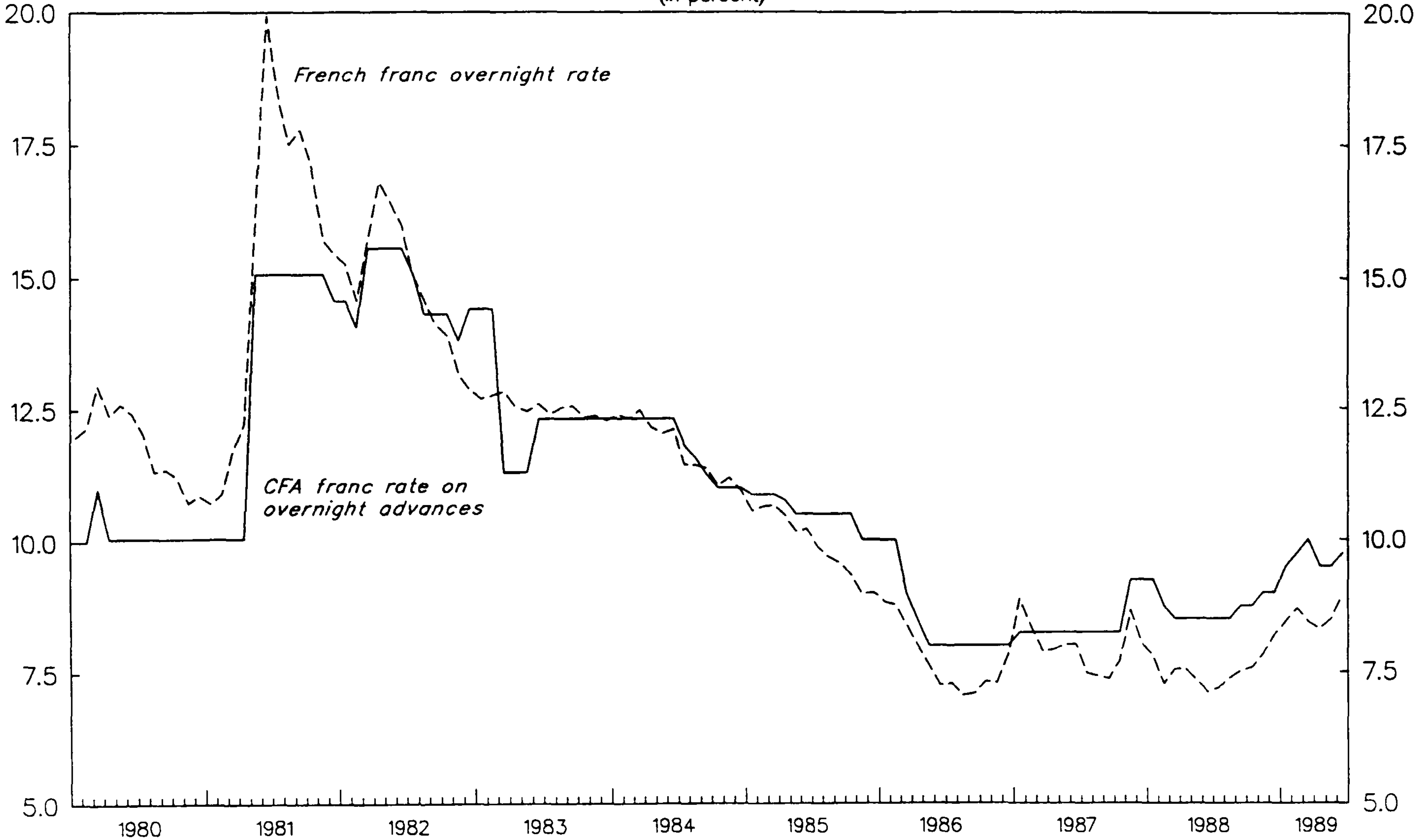
1/ BSK, banque Sénégalo-koweitienne; MFIS, Massraf Faycal Al-Islami du Sénégal.

CHART 3

SENEGAL

COMPARISON OF MONEY MARKET INTEREST RATES ON FRENCH FRANCS AND CFA FRANCS.[1] JANUARY 1980–JUNE 1989

(In percent)



Source: IMF, *Internatioal Financial Statistics.*

[1] Monthly average for French francs; end of month for CFA franc.

estimated at about CFAF 196 billion. The BCEAO has agreed to a consolidation of CFAF 126.5 billion on concessional terms. 1/ It is projected that the proceeds from the recovery of nonperforming loans will amount to about CFAF 38 billion. To finance the balance, the Government is seeking long-term concessional assistance. In this regard, the Government is negotiating a financial sector loan with the World Bank, the United States, and France. It is expected that a financial sector adjustment credit will be considered by the Executive Board of the World Bank before the end of 1989.

c. Industrial policy

The reforms in the area of industrial policy are geared to foster the growth of the sector by reducing distortions and increasing profitability and competitiveness. The authorities explained that the recent liberalization of the economy had accentuated the need to review policies affecting input costs in particular. Measures affecting two key inputs--labor and energy--were therefore being introduced. A major reform of the labor market, designed to accord enterprises greater flexibility in determining their employment and wage policies, would be implemented, in the context of the fourth structural adjustment loan from the World Bank. To this end, the Government modified the Investment Code in October so as to permit the renewal of fixed-term employment contracts over a period of five years. It also eliminated the obligation of small- and medium-scale enterprises (as defined in the Investment Code) to receive prior approval for layoffs. New enterprises established in the Dakar free trade zone will also benefit from the new legislation. Moreover, the Government is defining by decree the conditions enabling enterprises to have recourse to fixed-term employment. To further enhance competitiveness, the Government is freezing minimum wages for industrial workers (SMIG) at their present level.

To reinforce the effects of the reform of the labor market, the authorities have adopted a plan of action aimed at reducing the domestic energy costs of the industrial sector, based on a joint Fund-Bank study on tax reform and energy pricing. The envisaged reform will be implemented in two phases. In the first phase, a new simplified and more transparent system of taxation and pricing of petroleum products will be put in place during 1989/90. This will necessitate a modification in the current special agreement between the Government and the petroleum refinery (SAR). Currently, the Government receives transfers of surpluses from the SAR. Under the new system, the SAR will receive a negotiated flat fee for the processing and handling of crude petroleum. Petroleum products will then be subjected to an import tax, a value-added tax, and a petroleum levy, thereby transforming budgetary revenue from the petroleum sector from a transfer of surpluses to a tax

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1/ The terms involve a maturity period of 15 years, a grace period of 3 years, and an annual interest rate of 3 percent.

receipt. The new system will be carefully monitored during a trial period, to ensure that it is resulting in higher receipts. In the second phase, starting July 1, 1990, the authorities will determine the appropriate adjustments in the price of petroleum products to industrial users, in consultation with the Fund and the World Bank, taking into account the evolution of petroleum import prices and budgetary developments. At the same time, the rebates on petroleum products currently granted to the phosphate industry will also be eliminated.

The reform of the public enterprise sector is central to the Government's industrial policy objectives. The envisaged reduction in the scope of activities of public enterprises, through privatization and liquidation, will widen the opportunities for the private sector, while the restructuring of other public enterprises will improve the efficiency of their operations and their competitiveness. Therefore, the Government is reviewing its approach toward the sector, in consultation with the World Bank, in the context of the ongoing discussion on the fourth structural adjustment loan. Several measures are considered. To accelerate the divestiture of public enterprises, foreign firms would be hired to assist in the preparatory work. The range of financial instruments available for privatization would be broadened, in particular through the creation of a secondary market for shares. The Government is aiming at privatizing 35 additional enterprises and liquidating 10 others during 1989/90-1990/91. The Government reaffirmed its commitment to liquidate any enterprises that cannot be privatized by the end of the period. With regard to the financial relations between the Government and public enterprises, direct subsidies to public enterprises, including public agencies, will be further reduced from their 1988/89 level. The outstanding amount of public enterprise overdrafts on the Treasury will be transformed into long-term loans, and steps will be taken to ensure that the amount and duration of any new overdrafts are limited. Furthermore, the Government will update its accounts of the remaining end-1988 stock of public sector cross-debts, and will continue to settle these in accordance with the established timetable. The system of performance contracts will continue to be used in the process of rehabilitation of public enterprises. To strengthen this process, the World Bank staff will assist the authorities in reviewing each performance contract to ensure that it is fully consistent with the objectives of the reform of the public enterprise sector. During 1989/90, the Government will conclude negotiations on eight performance contracts, three of which were initiated in 1988/89.

d. Agricultural policy

To consolidate and build upon the progress made over the last five years, the Government is reassessing its agricultural policy in the context of the preparation, with the World Bank, of an agricultural sector adjustment loan. In the area of cereal policy, the strategy will aim at increasing domestic cereal production through the further improvement in the efficiency of the production and marketing of locally produced rice, and the acceleration of the artisanal and semi-industrial processing of local coarse cereals. In this context, fertilizer subsidies have been eliminated with the start of the 1989/90 fiscal year. In the groundnut sector, significant progress has been achieved. The major reduction in the producer price of groundnuts, the measures taken to lower the operating costs of SONACOS, and the buoyant world price for groundnut oil are expected to contribute to the achievement of a surplus of CFAF 10.0 billion in the groundnut sector in 1989/90. To reinforce the sector, the Government intends to finalize in 1989/90 a medium-term plan of action to reduce the costs of groundnut marketing and processing, to rationalize SONACOS's refining capacity, and to privatize the marketing of confectionery groundnuts by 1991. A key reform measure will be the conclusion by end-December 1989 of a new protocol defining the financial relations between SONACOS and the Government, under which SONACOS will fully repay, starting with the 1988/89 crop season, the crop credit for groundnut operations. In the cotton sector, work is under way to enhance the technical and economic efficiency of the sector. In the sugar sector, the sugar company (CSS) is implementing reforms aimed at increasing productivity, reducing costs, and developing a marketing policy. Sugar prices are expected to be renegotiated between CSS and the Government to take into account the reduction in costs. With regard to the fishing sector, the Government is intent on taking steps to reverse the depletion of fishing resources and revitalize the sector. To this end, a comprehensive study, which will be undertaken in collaboration with foreign donors, will examine the physical, technical, and financial difficulties facing the sector, and serve as a basis for determining the requisite corrective measures. The Government will prepare a plan of action to improve the overall performance of the agricultural credit bank (CNCAS), which will focus on the administrative capacity and financial management of the CNCAS, while strengthening its loan recovery process.

e. Public investment program

The third rolling public investment program has been launched, for the years 1989/90-1991/92, with a total target of CFAF 485 billion (9.8 percent of GDP). It allocates 31.8 percent of total outlays to the primary sector, 11.6 percent to the secondary sector, and 56.6 percent to the service and social sectors. In this context, the outlays under the public investment program for 1989/90 are targeted at CFAF 158.3 billion, equivalent to 10.1 percent of GDP. Based on recent experience, an implementation ratio of 70 percent has been retained for purposes of financial programming. The investment program focuses on the rehabilitation and maintenance of existing infrastructure, particularly the road network, the development of agricultural infrastructure, and the improvement of water supply systems in urban areas. Consistent with the overall strategy on sectoral development, 40 percent of programmed outlays are allocated to the agricultural sector. To further improve the development planning system and improve the efficiency of public investment, efforts will continue to be made to strengthen project identification and appraisal, particularly at the level of the technical ministries, and to assess the recurrent costs and external debt effects of the public investment program. As an initial step, the emphasis will be on projects in specific sectors, such as transportation, health, education, and water resources. The 1989/90 investment budget has been integrated into the regular budgeting and expenditure control process. In this regard, the Ministry of Economy and Finance and the Ministry of Planning and Cooperation are collaborating closely to improve the monitoring of grant-financed public investment outlays.

f. External sector

The policies being pursued are expected to contribute to a further improvement in Senegal's external position (Appendix I, Tables V, VI, and VII). Export receipts are projected to rise by 5.4 percent in 1989/90. Export receipts of groundnut products are projected to expand by 5.5 percent, as a result of a further increase in the international price of groundnut oil. Export receipts from the fishing sector are projected to rise by 2.9 percent, reflecting a moderate volume increase of 1.0 percent and a unit price increase of 1.9 percent. A projected expansion in phosphate export receipts of 14.6 percent stems almost exclusively from an increase in export unit prices. Import payments are projected to rise by only 1.9 percent in 1989/90, reflecting the tight financial policies being pursued and a decline in the food import bill. In particular, the import payments for rice are projected to decline by 26.5 percent, mainly as a result of a 21.5 percent decline in import volume, which reflects the recovery in domestic agricultural production. Import payments for petroleum products are expected to increase by nearly 14 percent, as a result of a rise of some 12 percent in the import volume following a drawdown of stocks during the previous year. The volumes of capital and intermediate goods imports are projected to increase by 4.7 percent and 8.0 percent, respectively. The trade deficit is therefore expected to narrow from CFAF 65.4 billion in 1988/89 to CFAF 58.4 billion in 1989/90. The deficit in the service account is also projected to decline, mainly on account of higher receipts from the tourism sector. Net private transfers are expected to remain unchanged. Thus, the current account deficit, excluding official grants, is projected to narrow from CFAF 140.4 billion (9.6 percent of GDP) in 1988/89 to CFAF 128.9 billion (8.2 percent of GDP) in 1989/90.

The surplus in the capital account is projected to decline, reflecting an increase in scheduled amortization payments. Private capital outflows are expected to drop in 1989/90, as a result of the abatement of the social disturbances as well as the tight financial policies being pursued. Accordingly, the overall balance of payments deficit, before debt relief, is expected to narrow from CFAF 32.1 billion in 1988/89 to CFAF 20.1 billion in 1989/90. Taking into account debt relief already secured, and the projected net use of Fund resources, as well as the projected improvement in Senegal's external net foreign assets position, there would remain a residual financing gap of CFAF 27.9 billion. The authorities have requested further debt rescheduling, including debt service obligations on previously rescheduled debt, from the Paris Club and other official creditors to cover this remaining gap.

To reduce the heavy external debt service burden to more manageable proportions, the authorities intend to pursue a cautious debt management policy. Accordingly, the Government will neither contract nor guarantee any external loans on nonconcessional terms with an initial maturity from 1 up to 12 years beyond a limit equivalent to SDR 24.0 million; within this limit, there will be no loans with a maturity from 1 up to 5 years. These limits will not include borrowing 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. During the same period, there will be no short-term external borrowing of less than one year contracted or guaranteed by the Government, except for normal import-related credits. Furthermore, no external payments arrears will be incurred. The authorities will continue to strengthen external debt management and will take steps to extend the monitoring of external assistance received to cover all external grants.

Senegal continues to maintain an exchange system that is free from restrictions on payments and transfers for current international transactions. As a member of the WAMU, Senegal shares its common currency, the CFA franc, which is issued by the BCEAO. Because the CFA franc is pegged to the French franc at the fixed rate of CFAF 50 = F 1, variations in the nominal effective exchange rate reflect movements in the French franc against the currencies of Senegal's trading partners outside the franc area. The movements in the nominal and real effective exchange rate indices over the last ten years are shown in Chart 4. In 1987/88 and 1988/89, the nominal indices rose by 2.2 and 3.5 percent, respectively. The real indices, however, declined by 8.8 and 0.2 percent, respectively, reflecting the fall in the consumer price index of Senegal. The authorities emphasized that, in designing their adjustment program, they recognized the importance of further enhancing Senegal's competitiveness by keeping its inflation rate below those of its trading partners and competitors. To this end, they intended to continue to pursue prudent fiscal and credit policies, as well as a restrained wage policy. Overall, they noted that, in their view, the benefits of full convertibility and stability of the CFA franc afforded by membership in the WAMU outweighed the potential advantages of a more flexible exchange rate policy.

g. Performance criteria and benchmarks

The proposed performance criteria and benchmarks are shown in Table 8. For purposes of monitoring the program, quantitative targets for end-December 1989, end-March 1990, and end-June 1990 have been established as benchmarks. Those for end-December 1989 will also constitute performance criteria. The quantitative benchmarks for the first half of 1990 are indicative in nature; definitive benchmarks will

Table 8. Senegal: Performance Criteria and Financial and Structural Benchmarks Under the Second Annual Arrangement Under the Enhanced Structural Adjustment Facility

	Stock at end-June 1989	Change from July 1, 1989 to End- 1989 December Perf. crit.	1990 March Indicative	1990 June Indicative
I. Financial benchmarks				
		(In billions of CFA francs)		
Net domestic assets of the banking system 1/ 2/ 3/	602.1	6.5	4.2	-18.0
Credit to the Government (net) 1/ 2/	140.0	10.0	6.4	-1.1
Payments arrears of the Government and public agencies				
Domestic	8.5	--	-2.0	-8.5
External	--	--	--	--
Cumulative minimum tax revenue		100.2	165.2	232.0
		(In millions of SDRs)		
New external borrowing on nonconcessional terms by the Government or with government guarantee 4/				
Short-term (less than 1 year)		--	--	--
1-5 years' maturity		--	--	--
1-12 years' maturity		24.0	24.0	24.0
II. Structural measures				
1. Benchmarks			Date	
a. Completion of the revision of the energy taxation system in accordance with paragraph 28			End-December 1989.	
b. Adoption of a three-year public investment program for 1990/91-1992/93 in accordance with paragraph 32.			End-June 1990.	
2. Performance criteria				
a. Completion of the renegotiation of the protocol governing the financial relations between the Government and the groundnut oil processing company (SONACOS) in accordance with paragraph 31.			End-December 1989.	
b. Completion of a plan of action for the acceleration of public enterprise reform program, including in particular the privatization process, in accordance with paragraph 29.			End-December 1989.	

Source: Appendix II, Annex.

1/ The program assumes that Senegal will receive a cumulative amount of external budgetary assistance (including grants and debt relief but excluding project aid and assistance envisaged for the reform of the banking sector), beginning July 1, 1989, of CFAF 46.8 billion through December 31, 1989, of CFAF 67.3 billion through March 31, 1990, and of CFAF 97.9 billion through June 30, 1990. In the event that the external budgetary assistance exceeds the above amounts, the changes will be reduced pro tanto, net of any budgetary assistance used to accelerate (a) the reduction in payments arrears of the Government and public agencies; and (b) the repayment of reclassified crop credit. The changes exclude variations resulting from the restructuring of the banking sector.

2/ The program does not envisage the receipt by Senegal of any extrabudgetary external financial assistance during the period July 1, 1989-June 30, 1990 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 changes will be reduced pro tanto, net of any expenditure tied to such assistance.

3/ The program envisages a reduction in crop credit of CFAF 6.2 billion during the period July 1-December 31, 1989; an increase of CFAF 0.8 billion during the period July 1, 1989-March 31, 1990; and a reduction of CFAF 4.2 billion during the period July 1, 1989-June 30, 1990. In the event that the variation in crop credit differs from these amounts, the variation in net domestic assets will be adjusted pro tanto.

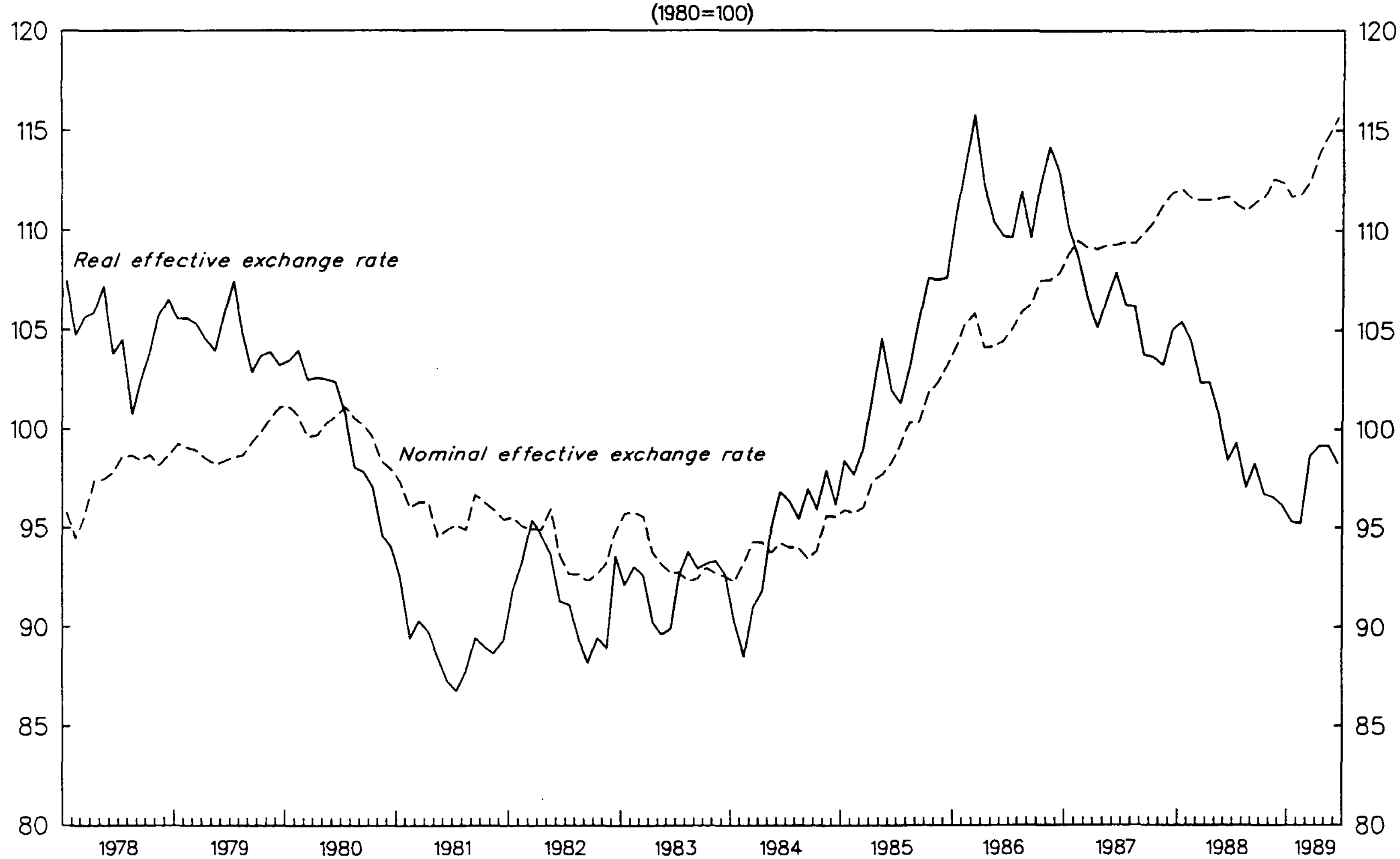
4/ The exchange rate applicable to these borrowings will be the rate of the SDR vis-à-vis the contract currency on June 30, 1989, as reported in International Financial Statistics. For debts directly contracted by the Government, the loan will count toward the ceiling on the date of the signing. For debts guaranteed by the Government, the full amount of the loan will count toward the ceiling on the date of full or first partial guarantee, whichever is earlier. For the purposes of this ceiling, the length of the loan is deemed to be from the date of signing or the date that the loan enters into effect (whichever is later) until the last scheduled amortization payment. Loans on concessional terms as defined by the OECD Development Assistance Committee are excluded from these ceilings.

CHART 4

SENEGAL

NOMINAL AND REAL EFFECTIVE EXCHANGE RATE INDICES,
JANUARY 1978–JUNE 1989

(1980=100)



Source: IMF, Information Notice System.

be established at the time of the midterm review of the program with the Fund, to be completed by March 1990. In addition, the standard clauses regarding the exchange and payments system will constitute performance criteria. During the midterm review, progress in the implementation of the program will be assessed, and understandings on necessary additional measures will be reached.

Although the negotiations were initiated in June 1989 and the financial program covers the fiscal year starting July 1, 1989, the letter of intent requesting the second annual arrangement was finalized only on November 1, 1989, after Senegal had received satisfactory assurances on the requisite external financial assistance. Hence, no financial benchmarks have been established for end-September 1989. The first disbursement will be available following Executive Board approval and the second upon observance of the end-December 1989 performance criteria and the completion of the midterm review by March 1990.

3. Social aspects of the adjustment strategy

Senegal's adjustment strategy aims at achieving further increases in real per capita income. In the agricultural sector, the high level of public sector investment and the reforms implemented are viewed as critical to enhancing the real income of the farming community over the medium and long term. The reduction in the producer price of groundnuts was essential to realign relative prices in the sector, thereby improving resource allocation. It was recognized that the reduction in the producer price had reduced rural incomes; however, the subsidies benefiting the groundnut producers had come at the expense of other segments of the society. In the urban sector, the restrained incomes policy, the reform of the civil service, the restructuring of the public enterprise sector, and the transformation that the industrial sector was undergoing would initially reduce urban incomes and employment opportunities. Nonetheless, it was noted that the adjustment measures were laying the foundation for an expansion in private sector activity, thereby contributing to the generation of employment opportunities over the medium and long term. In particular, the reform of the labor market and the plan of action to revise energy taxation and costs would improve the profitability and competitiveness of Senegal's industrial sector, which would stimulate private investment.

The Senegalese authorities have been undertaking a number of measures specifically designed to address the short-term issues. First, they have established a foreign-financed Redeployment Fund to provide support to workers in the agricultural and industrial sectors who have had to relocate as a result of the reform of the public enterprise sector; civil servants who voluntarily leave the service; emigrants who are resettling in Senegal; and new graduates from colleges and universities. Second, they have adjusted civil service salaries, after a five-year freeze, and provided additional premia for education and health workers, to partially offset the erosion of real salaries in the urban centers. Third, they have expanded the program of assistance to women in the rural areas, to enable them to engage in small trade activities. Fourth, the administered prices of key consumer goods--including rice, groundnut oil, and sugar--have been reduced, thereby improving real incomes. Fifth, the Government has been attempting to maintain the provision of basic social services, with particular emphasis on education and health care.

To develop a comprehensive and detailed medium-term set of policies targeted at the most vulnerable groups, the Government will embark on two major initiatives. First, a country-wide survey on the socio-economic impact of adjustment programs will soon be undertaken, as part of the multicountry social dimensions of adjustment projects, financed by the United Nations Development Programme and executed by the World Bank. In this context, detailed data on income distribution and welfare indicators will be compiled. Second, a UNICEF-financed study will be prepared. The study will aim at quantifying the impact of structural adjustment on Senegalese households.

V. Staff Appraisal

During the five-year period 1983/84-1987/88, the Senegalese authorities effectively implemented wide-ranging structural and macroeconomic policies, which contributed to growth-oriented adjustment. After having achieved further progress in the first half of 1988/89, however, the Senegalese economy suffered a setback in the second half, owing mainly to two factors. The agricultural sector was adversely affected by an uneven rain distribution and a locust infestation of the crops; and economic activity, particularly in the capital, was disrupted by civil disturbances.

While the momentum of structural reform was maintained in 1988/89, there were serious financial slippages. On the structural front, the Government implemented the politically sensitive decision to reduce the producer price of groundnuts; launched a plan of action to reform the groundnut oil processing sector; eliminated most price controls; rationalized the system of effective protection; initiated banking sector reforms; and implemented a public investment program emphasizing the directly productive sectors. On the financial front, however, the slowdown in economic activity, the civil disturbances, a weakening in tax administration, and delays in the implementation of certain measures contributed to a major shortfall in revenue. Thus, the budget target was not achieved, and the Government was unable to adhere to the programmed repayments of domestic payments arrears, crop credit, and consolidated domestic bank debt. Even though the central bank rediscount rates were raised by about 3 percentage points, which markedly increased real interest rates, credit expansion was higher than programmed.

In the event, the progress made in achieving the program objectives for 1988/89 was mixed. Real GDP virtually stagnated, reflecting primarily the fall in agricultural output. By contrast, the liberalization of the economy and the reduction in the producer price of groundnuts contributed to a drop in the rate of inflation to below the program objective. The external current account deficit, excluding official grants, was reduced broadly in line with the program objective. However, the civil disturbances contributed to private capital outflows, although these were significantly lower than in the previous year. Thus, while the balance of payments, after debt relief, turned around from a deficit to a surplus, the surplus was lower than envisaged.

In light of the setback suffered in 1988/89, several elements of Senegal's medium-term adjustment policies were revised and strengthened. The overall strategy, however, rightly continues to focus on promoting private sector activity through measures designed to reduce distortions, enhance competitiveness, and promote financial intermediation, while strengthening public resource management through changes in the structure of government revenue and expenditure and a restructuring of the public enterprise sector. Under the revised medium-term balance of payments projections, Senegal should be able to eliminate the need for further debt relief by 1990/91, one year later than originally foreseen. This will depend critically on the effective implementation of the medium-term policies envisaged under the program, their adaptation in the light of changing circumstances to keep the economy on the path of adjustment, and the extent to which the projected levels of external budgetary assistance, albeit reduced, are forthcoming.

The measures being implemented by the authorities under the program for 1989/90 should enable Senegal to make progress toward the medium-term objectives. In the view of the staff, the authorities will need to concentrate their efforts in four areas in the period ahead if their growth-oriented adjustment strategy is to succeed.

First, the momentum of fiscal adjustment needs to be regained. To this end, revenue mobilization has to be given high priority. The tax measures implemented thus far in 1989/90 are essential to lay the foundation for a recovery in revenue, but will need to be accompanied by a substantial strengthening of tax administration. While the tax revenue target for the first quarter of 1989/90 has been achieved, revenue will need to be closely monitored on a monthly basis in order to put in place promptly any requisite additional measures to prevent a shortfall. Over the medium term, the introduction of a global income tax system to replace the current schedular income tax and the gradual extension of taxation to the informal sector should help to further widen the tax base and improve the elasticity of the tax system. The revision in energy taxation is needed to reduce the vulnerability of the revenue base. At the same time, a tight rein on expenditure will have to be maintained, and the structure of expenditure improved. In this context, the reform of the civil service is essential to reduce the share of the wage bill in total government outlays and permit a more balanced allocation for other recurrent expenditures and capital formation. In this regard, the staff welcomes the work being undertaken in consultation with the World Bank.

Second, the reduction of distortions in the industrial sector is critical to increasing the profitability and competitiveness of the sector. The two major remaining constraints in the sector are the inflexibility of the labor market and the high energy costs. The courageous decision taken by the authorities to introduce greater flexibility in employment procedures and in wage determination, notwithstanding the resistance of interest groups, should enhance investment incentives, and contribute to an expansion in employment opportunities over the medium and long term. This will need to be reinforced by the implementation of the plan of action to change the taxation of the energy sector and restructure energy prices. In this regard, the course of action being pursued by the authorities, involving a change in the tax system before the price structure is modified, is not only prudent, but also essential to prevent an unwarranted fall in government revenue from this source.

Third, the enhancement of the process of financial intermediation is necessary to mobilize domestic savings and channel them into productive investment. In this respect, the policy of the BCEAO of maintaining substantially positive real interest rates, and the reform of the banking system are essential. The authorities are to be commended for launching a comprehensive reform program for the restructuring and rehabilitation of banks in difficulty. Even though most of the requisite external financing has been mobilized, the authorities will need to strongly support the efforts to recover nonperforming loans. Bank supervision will also need to be strengthened to ensure that the current problems confronting the banking system do not recur. The ongoing restructuring of the banking system, the improvements in bank supervision, and the more active interest rate policy should enable the monetary authorities to reinforce credit control.

Fourth, the reform of the public enterprise sector needs to be accelerated to further ameliorate the financial position of the sector and widen the scope for private sector activity. Although progress has been made in improving the institutional framework governing the relations between the enterprises and the Government, reducing transfers, and settling public sector cross-debts, there has been a considerable slowdown in concluding negotiations on performance contracts for enterprises to be rehabilitated and in privatizing or liquidating others. There is an urgent need to reassess the reform of the public enterprise sector, in consultation with the World Bank, in order to resume progress in this area. The staff notes that the Government is committed to a complete disengagement from all nonstrategic enterprises and is prepared to liquidate those enterprises that cannot be privatized by 1990/91.

Senegal is at a critical juncture in its adjustment process. The crisis that prevailed when the reform efforts were launched in 1983/84 has abated. Nonetheless, the setback suffered in 1988/89 highlights the challenge that still lies ahead. The achievement of sustainable growth and financial balance will require determination and perseverance. Senegal established a fine track record in the implementation of previous programs. This, together with the resoluteness that the authorities have shown in recent months in introducing politically difficult measures to recover from the setback, augurs well for the future. Over the medium term, Senegal's external position is projected to continue to improve. With a narrowing of the external current account deficit, the overall balance of payments is forecast to strengthen and eventually move to a surplus position; and the debt to GDP and debt service ratios are expected to record a steady declining trend. Senegal's capacity to repay the Fund is projected to strengthen, because outstanding Fund credit is foreseen to decrease from 289 percent of quota in June 1991 to less than 7.5 percent of quota in June 2000, and the debt service ratio to the Fund is projected to decline from 5 percent to less than 1 percent between 1989/90 and 1999/2000. The staff is of the view that the proposed program for 1989/90 should, if effectively implemented, be instrumental in achieving further progress toward Senegal's medium-term objectives. The success of these efforts, however, will also depend on the timely flow of external financial assistance. For 1989/90, the authorities have obtained satisfactory assurances and indications of prospective exceptional external assistance to cover most of the financing requirements. The balance could be covered by debt relief from Paris Club participants and other official creditors. The staff, therefore, recommends approval of the second annual arrangement under the enhanced structural adjustment facility.

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

VI. Proposed Decision

In view of the foregoing, the following draft decision is proposed for adoption by the Executive Board:

Request for Second Annual Arrangement Under the Enhanced Structural Adjustment Facility

1. The Government of Senegal has requested the second annual arrangement under the enhanced structural adjustment facility.

2. The Fund has appraised the progress of Senegal in implementing economic policies and achieving the objectives under the program supported by the first annual arrangement, and notes the updated policy framework paper set forth in EBD/89/357.

3. The Fund approves the arrangement set forth in EBS/89/---.

Table I. Senegal: Fund Position During Period of ESAF Arrangement 1/

	Outstanding at Sept.30, 1989	1989 Oct.-Dec.	1990 Jan.-March	1990 April-June	1990 July-Sept.	1990 Oct.-Dec.	1991 Jan.-March	1991 April-June	1991 July-Sept.	1991 Oct.-Dec.	1992 Jan. March	1992 April-June
						(In millions of SDRs)						
Transactions under tranche policies (net)	—	-14.21	-6.02	-14.38	-5.56	-13.75	-5.63	-11.85	-5.72	-11.26	-6.29	-9.48
Purchases	—	—	—	—	—	—	—	—	—	—	—	—
Ordinary resources	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)
Borrowed resources	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)
Repurchases	—	-14.21	-6.02	-14.38	-5.56	-13.75	-5.63	-11.85	-5.72	-11.26	-6.29	-9.48
Ordinary resources	(—)	(-4.27)	(-4.71)	(-3.89)	(-3.17)	(-3.08)	(-2.65)	(-3.24)	(-3.78)	(-4.31)	(-3.59)	(-3.28)
Borrowed resources	(—)	(-9.94)	(-1.31)	(-10.49)	(-2.39)	(-10.67)	(-2.98)	(-8.61)	(-1.94)	(-6.95)	(-2.69)	(-6.20)
Transactions under special facilities (net)	—	—	—	—	—	—	—	—	—	—	—	—
Loans under:												
Structural adjustment facility	—	—	—	—	—	—	—	—	—	—	—	-1.70
Enhanced structural adjustment facility	—	21.275	—	21.275	—	21.275	—	21.275	—	—	—	—
Total Fund credit outstanding (end of period)	232.17	239.24	233.22	240.11	234.55	242.06	236.43	245.86	240.14	228.88	222.59	211.41
Tranche policies	130.05	115.84	109.82	95.44	89.88	76.13	70.50	58.65	52.93	41.67	35.38	25.90
Special facilities	—	—	—	—	—	—	—	—	—	—	—	—
Structural adjustment facility	42.55	42.55	42.55	42.55	42.55	42.55	42.55	42.55	42.55	42.55	42.55	40.85
Enhanced structural adjustment facility	59.58	80.85	80.85	102.12	102.12	123.38	123.38	144.66	144.66	144.66	144.66	144.66
						(In percent of quota)						
Total Fund credit outstanding (end of period)	272.83	281.12	274.05	282.15	275.61	284.45	277.84	288.91	282.20	268.95	261.56	248.43
Tranche policies	152.82	136.12	129.04	112.15	105.61	89.45	82.84	68.91	62.20	48.96	41.57	30.43
Special facilities	—	—	—	—	—	—	—	—	—	—	—	—
Structural adjustment facility	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	48.00
Enhanced structural adjustment facility	70.00	95.00	95.00	120.00	120.00	145.00	145.00	170.00	170.00	170.00	170.00	170.00
Memorandum item:												
Trust Fund loans outstanding (end of period)												
In millions of SDRs	1.80	1.16	0.71	0.29	0.13	0.13	—	—	—	—	—	—
In percent of quota	2.12	1.36	0.83	0.34	0.15	0.15	—	—	—	—	—	—

Source: IMF, Treasurer's Department.

1/ Rounded to the second decimal point.

Table II. Senegal: Proposed Schedule of Disbursements Under ESAF Arrangement

Amount	Availability date	Conditions necessary for disbursement 1/
SDR 29.79 million	November 30, 1988	Disbursed
SDR 29.79 million	After March 14, 1989	Disbursed
SDR 21.275 million	November 15, 1989	Executive Board approval of the second annual arrangement.
SDR 21.275 million	March 1990	Compliance with the performance criteria for December 31, 1989, and completion of the midterm review under the arrangement.
SDR 21.275 million	November 15, 1990	Executive Board approval of the third annual arrangement.
SDR 21.275 million	After March 14, 1991	Compliance with the performance criteria for December 31, 1990, and completion of the midterm review under the arrangement.

Source: IMF.

1/ Other than generally applicable conditions under the ESAF arrangement, including the performance clause on the exchange and trade system.

Table III. Senegal: Government Financial Operations, 1985/86-1992/93 1/

	1985/86	1986/87	1987/88	1988/89 Prog.	1988/89 Prov.	1989/90 Prog.	1990/91	1991/92	1992/93
							Projections		
				(In billions of CFA francs)					
Total revenue and grants	237.9	266.1	271.4	304.7	274.2	299.0	328.6	359.0	392.4
Revenue	218.7	251.0	251.4	272.8	245.7	276.0	303.6	334.0	367.4
Tax revenue	185.1	196.0	205.5	224.4	196.2	232.0	256.1	286.0	318.4
Nontax revenue	33.6	55.0	45.9	48.4	49.5	44.0	47.5	48.0	49.0
Grants	19.2	15.1	20.0	31.9	28.5	23.0	25.0	25.0	25.0
Of which: capital	(8.0)	(9.0)	(10.8)	(12.0)	(12.0)	(13.0)	(15.0)	(15.0)	(15.0)
Total expenditure and net lending	266.0	285.8	288.2	301.0	305.1	319.8	328.4	319.3	324.2
Current expenditure	220.3	232.7	244.7	245.5	248.1	252.8	249.4	252.3	254.2
Wages and salaries	111.8	119.8	122.3	125.0	125.2	130.0	125.0	125.0	125.0
Interest due 2/	41.0	39.6	46.1	44.5	47.7	46.8	45.4	45.3	43.2
Of which: external	(40.3)	(39.3)	(43.6)	(40.2)	(42.6)	(42.2)	(40.3)	(39.5)	(36.9)
Materials and maintenance	40.2	43.2	46.5	48.5	49.3	51.0	55.0	59.0	64.0
Transfers and subsidies 3/	25.7	28.6	29.0	26.5	24.9	24.0	23.0	22.0	21.0
Other	1.6	1.5	0.8	1.0	1.0	1.0	1.0	1.0	1.0
Capital expenditure	33.8	38.1	41.7	44.0	41.0	46.0	49.0	53.0	57.0
Budgetary	5.8	8.1	11.7	14.0	11.0	14.0	15.0	18.0	22.0
Extrabudgetary	28.0	30.0	30.0	30.0	30.0	32.0	34.0	35.0	35.0
Banking sector reform	—	—	—	—	—	10.0	17.0	1.0	—
Treasury special accounts (net) 4/	-12.9	-14.8	-9.5	-7.0	-11.0	-11.0	-11.0	-11.0	-11.0
Treasury correspondents (net) 4/	1.0	-0.2	7.7	-4.5	-5.0	—	-2.0	-2.0	-2.0
Overall fiscal surplus or deficit (-) (commitment basis)	-28.1	-19.7	-16.8	3.7	-30.9	-20.8	0.2	39.7	68.2
Adjustment to cash basis	-12.6	-26.3	-37.1	-31.5	-4.4	-33.5	—	—	—
Payments arrears of the Government and public agencies (reduction -)	-9.6	-14.0	-14.0	-8.5	—	-8.5	—	—	—
Crop credit (repayment -)	-3.0	-12.3	-23.1	-23.0	-4.4	-15.0 5/	—	—	—
Overall fiscal surplus or deficit (-) (cash basis)	-40.7	-46.0	-53.9	-27.8	-35.3	-44.3	0.2	39.7	68.2
Financing	40.7	46.0	53.9	27.8	35.3	44.3	-0.2	-39.7	-68.2
External	28.0	52.0	51.9	32.1	47.7	27.6	9.0	-18.6	-41.6
Drawings	36.7	76.8	79.9	51.2	53.0	63.6	72.0	46.0	26.7
Treasury	16.7	55.8	60.7	33.2	28.0	34.6	36.0	25.0	6.7
Project loans	20.0	21.0	19.2	18.0	18.0	19.0	19.0	20.0	20.0
Banking sector reform	—	—	—	—	7.0	10.0	17.0	1.0	—
Amortization due 2/	-29.6	-43.9	-45.9	-57.9	-55.9	-61.4	-63.0	-64.6	-68.3
External debt rescheduling	20.9	19.1	17.9	38.8	50.6	25.4	—	—	—
Domestic	12.7	-6.0	2.0	-4.3	-12.4	-11.2	-9.2	-21.1	-26.6
Banking system 6/	19.6	1.8	6.0	4.3	-9.9	-1.1	-0.8	-13.6	-10.5
Reimbursement of consolidated and restructured bank debt (incl. ONCAD)	-8.0	-12.0	-8.6	-8.6	-3.6	-10.1	-8.4	-7.5	-16.1
Nonbank borrowing	0.8	2.2	1.0	—	—	—	—	—	—
Other 7/	0.3	2.0	3.6	—	1.1	—	—	—	—
Financing gap 8/	—	—	—	—	—	27.9	—	—	—
Memorandum items:									
Domestic payments arrears of Government/ public agencies (end of the period)	36.5	22.5	8.5	8.5	8.5	—	—	—	—
Nominal GDP	1,223.1	1,338.2	1,432.9	1,527.8	1,467.7	1,564.9	1,660.3	1,764.6	1,876.8
				(In percent of GDP)					
Total revenue and grants	19.5	19.9	18.9	19.9	18.6	19.1	19.8	20.3	20.9
Revenue	(17.9)	(18.8)	(17.5)	(17.9)	(16.7)	(17.6)	(18.3)	(18.9)	(19.6)
Of which: tax revenue	(15.1)	(14.6)	(14.3)	(14.7)	(13.4)	(14.8)	(15.4)	(16.2)	(17.0)
Total expenditure and net lending	21.7	21.4	20.1	19.7	20.7	20.4	19.8	18.1	17.3
Of which: current expenditure	(18.0)	(17.4)	(17.1)	(16.1)	(16.9)	(16.2)	(15.0)	(14.3)	(13.5)
capital expenditure	(2.8)	(2.8)	(2.9)	(2.9)	(2.8)	(2.9)	(3.0)	(3.0)	(3.0)
Overall fiscal surplus or deficit (-) (commitment basis excluding grants)	-3.9	-2.6	-2.6	-1.8	-4.0	-2.8	-1.5	0.8	2.3
Overall fiscal surplus or deficit (-) (cash basis excluding grants)	-4.9	-4.6	-5.2	-3.9	-4.3	-4.3	-1.5	0.8	2.3

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

1/ Budget year ending June 30.
2/ In accordance with established procedures, the external debt service figures in this table include all debt directly contracted by the Government, but only 10 percent of the government-guaranteed debt.
3/ Includes outlays for scholarships.
4/ Deficits are added to expenditure, while surpluses are deducted. For the Treasury's special accounts, excludes net movements in the Debt Amortization Fund, National Energy Fund, and investment expenditures relating to the fifth and sixth Plans, which are shown separately.
5/ Net of a transfer from SONACOS amounting to CFAF 10.0 billion in 1989/90.
6/ Includes the counterparts of Fund purchases and repurchases, as well as those of loans under the structural adjustment facility. For some years, the figures differ from the variation shown in the monetary survey because they exclude the amounts of unprogrammed external resources deposited at the BCEAO in the fiscal year involved.
7/ Including errors and omissions.
8/ Expected to be financed by additional debt relief under the auspices of the Paris Club and other official creditors.

Table IV. Senegal: Monetary Survey, June 1986–June 1993 1/

	1986	1987	1988				1989						1990 2/		1991 2/	1992 2/	1993 2/
	June		June	December			March		June		Sept. 2/	Dec. 2/	March	June	June		
			Act.	Prog.	Adj.	Act.	Prog.	Act.	Prog.	Prel. act.	Program		Program		Projections		
	(In billions of CFA francs; end of period)																
Net foreign assets	–243.8	–207.5	–236.0	...	...	–250.7	...	–234.7	–207.9	–231.3	...	...	...	–194.8	–183.6	–167.5	–156.2
Central bank	–219.8	–185.0	–196.5	...	...	–211.4	...	–179.9	–167.8	–178.0	...	...	...	–144.8	–133.6	–117.5	–106.2
Commercial banks	–24.0	–22.5	–39.5	...	...	–39.4	...	–54.8	–40.1	–53.3	...	...	...	–50.0	–50.0	–50.0	–50.0
Domestic credit	544.0	575.3	606.7	574.9	611.4	593.6	614.9	602.6	596.5	607.2	603.2	613.7	611.4	589.2	595.6	597.8	605.6
Credit to the Government (net)	142.1	143.9	149.9	156.6 3/	156.6 3/	105.5 3/	164.6	150.6	154.2	140.0	143.0	150.0 3/	146.4	138.9	138.1	124.5	114.0
Credit to the economy	401.9	431.4	456.8	418.3	454.8	443.1	450.3	452.0	442.3	467.2	463.2	463.7	466.0	450.3	457.5	473.3	491.6
Ordinary credit	371.9	374.5	380.9	388.3	433.9	422.2	390.3	411.4	392.3	433.0	437.2	435.7	431.0	420.3	426.5	441.3	459.6
ONCAD	67.7	66.4	65.8	...	...	65.8	...	65.8	...	65.8	65.8	65.8	65.8	65.8	65.8	65.8	65.8
Reclassified crop credit	3.5	2.2	2.4	...	...	46.2	...	36.4	...	29.9	29.8	24.0	14.0	—	—	—	—
Other	300.7	305.9	312.7	...	...	310.2	...	309.2	...	337.3	341.6	345.9	350.2	354.5	360.7	375.5	393.8
Crop credit	30.0	56.9	75.9	30.0	20.9	20.9	60.0	40.6	50.0	34.2	26.0	28.0	35.0	30.0	31.0	32.0	32.0
Money and quasi-money	291.5	342.2	346.2	360.1	...	334.5	408.6	353.3	364.1	370.8	...	...	...	389.3	406.9	425.2	444.3
Currency in circulation	75.2	108.9	97.7	...	...	92.8	...	99.2	...	...	...	...	...	...	...	...	...
Demand deposits	112.6	121.6	122.0	...	...	122.1	...	124.9	...	...	...	...	...	...	...	...	...
Time deposits	103.7	111.8	126.5	...	...	119.6	...	129.2	...	...	...	...	...	...	...	...	...
Other items (net)	8.7	25.6	24.5	24.5	24.5	8.4	24.5	14.6	24.5	5.1	5.1	5.1	5.1	5.1	5.1	5.1	5.1
Of which: ONCAD	(19.3)	(13.6)	(10.8)	(...)	(...)	(13.1)	(...)	(10.7)	(...)	(11.9)	(...)	(...)	(...)	(...)	(...)	(...)	(...)
Memorandum item:																	
Domestic assets (net)	535.3	549.7	582.2	550.4 3/	586.9 3/	585.2 3/	590.4	588.0	572.0	602.1	598.1	608.6 3/	606.3	584.1	590.5	592.7	600.5
	(Change in percent of beginning-of-period money stock)																
Net foreign assets	–5.0	12.5	–8.3	...	...	...	...	–4.8	8.1	1.4	...	...	...	9.8	2.9	4.0	2.7
Central bank	–1.4	11.9	–3.4	...	...	...	...	0.7	8.3	5.3	...	...	...	9.0	2.9	4.0	2.7
Commercial banks	–3.6	0.5	–5.0	...	...	...	...	–5.5	–0.2	–4.0	...	...	...	0.9	—	—	—
Domestic credit	14.2	10.7	9.2	...	...	...	3.5	0.1	–3.0	0.1	...	...	...	–4.8	1.6	0.5	1.8
Credit to the Government (net)	5.5	0.6	1.8	...	...	...	5.2	1.4	1.2	–2.9	...	...	...	–0.3	–0.2	–3.3	–2.5
Credit to the economy	8.8	10.1	7.4	...	...	...	–1.7	–1.3	–4.2	3.0	...	...	...	–4.5	1.8	3.9	4.3
Ordinary credit	4.1	0.9	1.9	...	...	...	2.8	8.5	3.3	15.0	...	...	...	–3.4	1.6	3.6	4.3
ONCAD	—	–0.4	–0.2	...	...	...	...	–0.2	...	—	...	...	...	—	—	—	—
Reclassified crop credit	1.2	–0.4	0.1	...	...	...	...	9.3	...	7.9	...	...	...	–8.1	—	—	—
Other	2.8	1.8	2.0	...	...	...	...	–0.6	...	7.1	...	...	...	4.6	1.6	3.6	4.3
Crop credit	4.7	9.2	5.6	...	...	...	–4.5	–9.8	–7.5	–12.0	...	...	...	–1.1	0.3	0.2	—
Money and quasi-money	2.5	17.4	1.2	...	...	...	11.4	–3.7	5.2	7.1	...	...	...	5.0	4.5	4.5	4.5
Currency in circulation	3.7	11.6	–3.3	...	...	...	...	–4.9	...	...	...	...	...	...	...	...	...
Demand deposits	0.1	3.1	0.1	...	...	...	...	–0.5	...	...	...	...	...	...	...	...	...
Time deposits	–1.2	2.7	4.3	...	...	...	...	1.7	...	...	...	...	...	...	...	...	...
Other items (net)	6.7	5.8	–0.3	...	...	...	1.7	–1.0	—	–5.6	...	...	...	—	—	—	—
Of which: ONCAD	(–0.9)	(–2.0)	(–0.8)	(...)	(...)	(...)	(...)	(–0.5)	(...)	(0.3)	(...)	(...)	(...)	(...)	(...)	(...)	(...)
Memorandum item:																	
Domestic assets (net)	7.6	4.9	9.5	...	...	...	1.7	1.1	–3.0	5.7	...	...	...	–4.8	1.6	0.5	1.8

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

1/ Data may not add up because of rounding.
2/ Excluding transactions and adjustments related to the reform of the banking system.
3/ Performance criteria.

Table V. Senegal: Balance of Payments, 1986/87-1992/93

(In billions of CFA francs, unless otherwise indicated)

	1986/87	1987/88	1988/89		1989/90		1990/91	1991/92	1992/93
		Est.	Prog.	Est.	Proj.	Prog.	Projections		
Trade balance	-86.5	-74.5	-64.0	-65.4	-54.2	-58.4	-45.6	-38.1	-30.3
Exports, f.o.b.	201.1	218.4	252.3	245.4	283.0	258.6	282.8	309.9	339.8
Of which: groundnut products	(19.1)	(29.1)	(45.0)	(45.8)	(46.2)	(48.3)	(48.1)	(51.8)	(55.7)
Imports, f.o.b.	-287.6	-292.9	-316.3	-311.2	-337.2	-317.0	-328.4	-348.2	-370.4
Of which: petroleum products	(-38.2)	(-46.8)	(-32.5)	(-41.2)	(-34.6)	(-41.8)	(-44.6)	(-47.9)	(-51.5)
Services (net)	-66.1	-72.8	-76.8	-76.4	-73.0	-72.2	-69.5	-69.8	-68.0
Of which: interest due on public debt	(-45.6)	(-50.4)	(-50.6)	(-52.0)	(-50.5)	(-52.1)	(-49.1)	(-48.4)	(-46.0)
Unrequited transfers	71.6	72.0	79.2	75.4	82.7	83.1	86.0	86.6	87.7
Of which: gross official grants	(70.6)	(70.7)	(77.7)	(74.0)	(80.8)	(81.4)	(84.5)	(85.3)	(86.2)
Current account (deficit -)	-81.0	-75.3	-61.6	-66.4	-44.5	-47.5	-29.1	-21.3	-10.6
Capital account	88.5	38.6	46.1	34.3	46.8	27.4	40.3	37.4	21.9
Public sector	93.8	75.2	40.1	35.6	31.8	30.0	35.3	32.4	11.9
Drawing	142.1	132.7	103.2	99.6	101.3	99.6	106.0	105.0	88.7
Amortization	-48.3	-57.5	-63.1	-64.0	-69.5	-69.6	-70.7	-72.6	-76.8
Private sector	2.4	-35.2	6.0	-8.2	15.0	-2.6	5.0	5.0	10.0
Errors and omissions	-7.7	-1.4	—	6.9	—	—	—	—	—
Overall balance (deficit -)	7.5	-36.7	-15.5	-32.1	2.3	-20.1	11.2	16.1	11.3
Debt rescheduling	26.6	26.0	44.2	50.6	12.2 1/	25.4 1/	—	—	—
Financing	-34.1	10.7	-28.7	-18.5	-14.5	-33.2	-11.2	-16.1	-11.3
Net use of Fund resources	-0.4	-4.1	7.5	7.5	0.2	0.2	2.4	-14.3	-10.9
Purchases 2/	17.2	19.8	25.2	25.2	17.0	17.7	17.7	—	—
Repurchases	-17.6	-15.7	-17.7	-17.7	-16.8	-17.5	-15.3	-14.3	-10.9
Operations account and other	30.1	6.6	-36.2	-26.0	-14.7	-33.4	-13.3	-1.6	-0.2
Payments arrears (reduction -)	-3.6	—	—	—	—	—	—	—	—
Financing gap 3/		—	—	—	—	27.9	—	—	—
Memorandum items:									
Current account (in percent of GDP)									
Including gross official grants	-6.1	-5.1	-4.0	-4.5	-2.8	-3.0	-1.8	-1.2	-0.6
Excluding gross official grants	-11.3	-10.2	-9.1	-9.6	-7.7	-8.3	-6.9	-6.1	-5.2
Exchange rate (CFAF/SDR)	395.00	390.00	400.43	394.23	400.43	416.34	416.34	416.34	413.34
Operations account (end of period)	-56.1	-60.3	...	-45.4	...	...	...	...	...

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

1/ Debt relief already received for 1989/90.
2/ Includes disbursements under the SAF and the ESAF.
3/ Expected to be financed by additional debt relief under the auspices of the Paris Club and other official creditors.

Table VI. Senegal: Balance of Payments, 1986/87-1992/93

(In millions of SDRs, unless otherwise indicated)

	1986/87	1987/88	1988/89		1989/90		1990/91	1991/92	1992/93
		Est.	Prog.	Est.	Proj.	Prog.	Projections		
Trade balance	-219.0	-190.9	-159.9	-165.9	-135.4	-140.3	-109.5	-91.6	-72.7
Exports, f.o.b.	509.1	560.0	630.1	623.5	706.8	621.1	679.3	744.3	816.2
Of which: groundnut products	(48.4)	(74.6)	(112.4)	(116.2)	(115.4)	(116.0)	(115.5)	(124.4)	(133.8)
Imports, f.o.b.	-728.1	-750.9	-790.0	-789.4	-842.2	-761.4	-788.8	-835.9	-888.9
Of which: petroleum products	(-96.7)	(-120.0)	(-82.5)	(-104.5)	(-86.4)	(-100.4)	(-107.1)	(-115.1)	(-123.7)
Services (net)	-167.3	-186.7	-191.8	-193.8	-182.4	-173.4	-166.9	-167.6	-163.3
Of which: interest due on public debt	(-115.4)	(-129.2)	(-127.9)	(-131.9)	(-125.8)	(-125.1)	(-118.4)	(-116.2)	(-110.3)
Unrequited transfers	181.3	184.6	197.8	191.3	206.6	199.6	206.5	208.0	210.6
Of which: gross official grants	178.7	181.3	194.1	187.7	201.8	195.5	203.0	204.9	207.0
Current account (deficit -)	-205.0	-193.0	-153.9	-168.4	-111.2	-114.1	-69.9	-51.2	-25.4
Capital account	224.2	98.9	115.1	87.0	116.9	65.8	96.8	89.8	52.5
Public sector	237.5	192.9	100.1	90.3	79.4	72.1	84.8	77.8	28.5
Drawings	359.8	340.3	257.7	252.6	253.0	239.2	254.6	252.2	213.0
Amortization	-122.3	-147.4	-157.6	-162.3	-173.6	-167.2	-169.8	-174.4	-184.5
Private sector	6.1	-90.3	15.0	-20.8	37.5	-6.2	12.0	12.0	24.0
Errors and omissions	-19.4	-3.7	—	17.5	—	—	—	—	—
Overall balance (deficit -)	19.1	-94.1	-38.8	-81.4	5.7	-48.3	26.9	38.6	27.1
Debt rescheduling	67.3	66.7	110.4	128.3	30.5 1/	61.0 1/	—	—	—
Financing	-86.4	27.4	-71.6	-46.8	-36.2	-79.7	-26.9	-38.6	-27.1
Net use of Fund resources	-1.1	9.0	18.8	18.9	0.5	0.5	5.8	-34.5	-26.2
Purchases 2/	43.5	50.0	63.9	63.9	42.6	42.6	42.6	—	—
Repurchases	-44.6	-41.0	-45.0	-45.0	-42.1	-42.1	-36.8	-34.5	-26.2
Operations account and others	-76.2	18.4	-90.4	-65.9	-36.7	-80.2	-32.7	-4.1	-0.9
Payments arrears (reductions -)	-9.1	—	—	—	—	—	—	—	—
Financing gap 3/	—	—	—	—	—	67.0	—	—	—
Memorandum items:									
Current account (in percent of GDP)									
Including gross official transfers	-6.1	-5.1	-4.0	-4.5	-2.8	-3.0	-1.8	-1.2	-0.6
Excluding gross official transfers	-11.3	-10.2	-9.1	-9.6	-7.7	-8.3	-6.9	-6.1	-5.2
Exchange rate (CFAF/SDR)	395.00	390.00	400.43	394.23	400.43	416.34	416.34	416.34	416.34

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

1/ Debt relief already received for 1989/90.
2/ Includes disbursement under the SAF and the ESAF.
3/ Expected to be financed by additional debt relief under the auspices of the Paris Club and other official creditors.

Table VII. Senegal: External Public Debt Service, 1986/87-1992/93 1/

(In millions of SDRs, unless otherwise indicated)

	1986/87	1987/88	1988/89		1989/90		1990/91	1991/92	1992/93
		Est.	Prog.	Est.	Proj.	Prog.	Projections		
Principal	166.9	188.4	202.6	207.3	218.4	209.2	206.6	208.9	210.7
Medium- and long-term	122.3	147.4	157.6	162.3	176.3	167.2	169.8	174.4	184.5
IMF repurchases	44.6	41.0	45.0	45.0	42.1	42.1	36.8	34.5	26.2
Interest	115.4	129.2	127.9	131.9	128.0	125.1	118.4	116.2	110.3
IMF charges	16.0	14.8	13.5	13.5	10.8	10.8	8.2	5.6	3.5
Other	99.4	114.4	114.4	118.4	117.2	114.3	110.2	110.6	106.8
Total debt service (before rescheduling)	282.3	317.7	330.5	339.2	346.4	334.3	325.0	325.1	321.0
Debt rescheduling	67.3	66.7	110.4	128.3	—	61.0 2/	—	—	—
Memorandum items:									
Exports of goods, services, and private transfers	949.1	1,019.2	1,081.7	1,089.2	1,172.5	1,067.2	1,135.8	1,213.8	1,301.7
Debt service ratio (in percent)									
Before debt rescheduling	29.7	31.2	30.6	31.1	29.1	31.3	28.6	26.8	24.7
Principal	17.6	18.5	18.7	19.0	18.3	19.6	18.2	17.2	16.2
Interest	12.2	12.7	11.8	12.1	10.8	11.7	10.4	9.6	8.5
After debt rescheduling	22.7	24.6	20.3	19.4	29.1	25.6	28.6	26.8	24.7
IMF debt service ratio (in percent)	6.4	5.5	5.4	5.4	4.4	5.0	4.0	3.3	2.3

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

1/ Excludes debt service obligations of the multilateral companies, Air Afrique and Agence pour la Sécurité de la Navigation Aérienne.

2/ Refers to the amount of debt service rescheduled in January 1989 and falling due in the period July 1-December 31, 1989.

Table VIII. Senegal: Indicators of Fund Credit, 1989/90-1999/2000

	1989/90	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/2000
	Prog.				Projections				
Outstanding Fund credit									
In millions of SDRs	240.1	185.2	168.7	145.5	114.5	78.7	47.3	21.3	6.4
In percent of quota	282.2	217.9	198.5	171.3	134.8	92.8	55.8	25.2	7.7
In percent of GDP	6.4	4.1	3.5	2.9	2.1	1.4	0.8	0.3	0.1
Debt service due to the Fund									
In millions of SDRs	52.9	29.7	20.0	26.1	33.8	38.2	33.8	28.2	16.5
In percent of exports of goods, services, and private transfers									
Baseline scenario	5.0	2.3	1.4	1.8	2.2	2.3	1.9	1.5	0.8
Scenario I	5.0	2.4	1.5	1.9	2.3	2.4	2.0	1.5	0.8
In percent of total debt service due	15.8	9.3	5.4	8.1	11.2	13.8	13.5	12.6	8.2
Memorandum items:									
Current account deficit (as a percent of GDP) 1/									
Baseline scenario	8.3	5.2	4.6	4.2	3.8	3.4	3.1	2.8	2.6
Scenario I	8.3	6.8	6.2	5.6	5.0	4.5	3.9	3.5	3.1
Overall balance of payments (In millions of SDRs)									
Baseline scenario	79.7	27.1	18.5	21.3	38.3	64.3	62.0	68.2	53.5
Scenario I	79.7	-46.6	-53.4	-47.3	-25.1	5.8	11.3	26.1	20.6
Total debt service ratio 2/									
Baseline scenario	31.3	24.7	27.9	21.8	19.4	16.7	14.0	11.8	10.0
Scenario I	31.3	25.9	28.7	22.8	20.1	17.2	14.4	12.0	10.0
Total debt to GDP ratio	78.2	68.4	63.9	59.7	55.7	52.3	48.9	45.9	43.2

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

1/ Excluding gross official grants.
2/ In percent of exports of goods, services, and private transfers.

Senegal - Enhanced Structural Adjustment Facility: Second Annual Arrangement

Attached hereto is a letter with an annexed memorandum on economic and financial policies dated November 1, 1989 from the Minister of Economy and Finance of Senegal, requesting from the International Monetary Fund the second annual arrangement under the enhanced structural adjustment facility and setting forth the objectives and policies of the program to be supported by the second annual arrangement.

To support these objectives and policies, the Fund grants the requested arrangement in accordance with the following provisions, and subject to the regulations for the administration of the enhanced structural adjustment facility and the instrument to establish the enhanced structural adjustment facility trust:

1. Under the second annual arrangement:

(a) the first loan, in an amount equivalent to SDR 21.27 million, will be available on December -- at the request of Senegal; and

(b) the second loan, in an amount equivalent to SDR 21.27 million, will be available in March 1990 at the request of Senegal subject to paragraph 2 below.

2. Senegal will not request disbursement of the second loan specified in paragraph 1(b) above:

(a) if the Managing Director finds that at the end of December 1989:

(i) the limit on net domestic assets of the banking system, or

(ii) the limit on net bank credit to the Government, or

(iii) the target for the reduction of existing domestic payments arrears, or

(iv) the nonaccumulation of external payments arrears, or

(v) the target for minimum government tax revenue, or

(vi) the cumulative limits on the contracting or guaranteeing by the Government of new nonconcessional external debt as referred to in paragraph 35 of the *memorandum* attached to the letter and specified in the table annexed thereto was not observed; or

(b) if the Managing Director finds that at the end of December 1989:

(i) the renegotiation of the protocol governing the financial relations between the SONACOS and the Government has not been completed, or

(ii) a plan of action for the acceleration of the public enterprise reform program, as referred to in paragraph 36 of the memorandum attached to the letter and specified in the table annexed thereto, has not been completed, or

(c) if Senegal has

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

(ii) introduced or modified multiple currency practices, or

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

(iv) imposed or intensified import restrictions for balance of payments reasons; or

(d) until the Fund has determined that the midterm review of Senegal's program referred to in paragraph 35 of the memorandum attached to the letter has been completed.

If the Managing Director finds that any of the performance clauses that have been established in or under this paragraph 2 have not been met, the second loan specified in paragraph 1(b) above may be made available only after consultation has taken place between the Fund and Senegal and understandings have been reached regarding the circumstances in which Senegal may request that second loan.

3. Before approving the third annual arrangement, the Fund will appraise the progress of Senegal in implementing the policies and reaching the objectives of the program supported by the second annual arrangement, taking into account primarily:

(a) the indicators described in paragraphs 35 and 36 of the memorandum attached to the letter and in the table annexed thereto;

(b) imposition or intensification of restrictions on payments and transfers for current international transactions;

(c) introduction or modification of multiple currency practices;

(d) conclusion of bilateral payments agreements which are inconsistent with Article VIII of the Articles of Agreement of the Fund; and

(e) imposition or intensification of import restrictions for balance of payments reasons.

4. In accordance with paragraph 3 of the annexed letter, Senegal will provide the Fund with such information as the Fund requests in connection with the program of Senegal in implementing the policies and reaching the objectives supported by this arrangement.

5. In accordance with paragraph 4 of the attached letter, during the period of the second annual arrangement, Senegal will consult with the Managing Director on the adoption of any measures that may be appropriate at the initiative of the Government or whenever the Managing Director requests such a consultation. Moreover, after the period of the second annual arrangement, and while Senegal has outstanding financial obligations to the Fund arising from the loans under this arrangement, Senegal will consult with the Fund from time to time at the initiative of the Government or whenever the Managing Director requests consultation on Senegal's economic and financial policies. These consultations may include correspondence and visits of officials of the Fund to Senegal or of representatives of Senegal to the Fund.

Dakar, November 1, 1989

Mr. Michel Camdessus
Managing Director
International Monetary Fund
Washington, D.C. 20431
U.S.A.

Dear Mr. Camdessus:

1. The objectives of Senegal's updated and revised three-year economic and financial adjustment program are set out in the policy framework paper for 1989/90-1991/92, which was prepared in collaboration with the staffs of the Fund and the World Bank and which was transmitted to you this same day.

2. The attached memorandum on the economic and financial policies of Senegal, based on the policy framework paper referred to above, sets out the objectives and the detailed policies for 1989/90 that the Government of Senegal intends to pursue. In support of these objectives and policies, the Government of Senegal hereby requests the second annual arrangement under the enhanced structural adjustment facility in an amount equivalent to SDR 42.55 million.

3. The Government of Senegal will provide the Fund with such information as the Fund requests in connection with Senegal's progress in implementing the economic and financial policies and achieving the objectives of the program.

4. The Government of Senegal believes that the policies and measures set forth in the attached memorandum on the economic and financial policies are adequate to achieve the objectives of its program, but will take any further measures that may become appropriate for this purpose. During the period of the second annual arrangement, the Government of Senegal will consult with the Managing Director on the adoption of any measures that may be appropriate, at the initiative of Senegal or whenever the Managing Director requests such a consultation. Moreover, after the period of the second annual arrangement and while Senegal has outstanding financial obligations to the Fund arising from loans under that arrangement, Senegal will consult with the Fund from time to time, at the initiative of the Government or whenever the Managing Director requests consultation on Senegal's economic and financial policies.

5. In addition, Senegal will conduct with the Fund a midterm review of its second annual program to be completed not later than March 31, 1990.

Sincerely yours,

/ s /

Serigne Lamine Diop
Minister of Economy
and Finance

Attachment

Dakar, November 1, 1989

SENEGAL

Memorandum on Economic and Financial Policies for 1989/90

1. Since mid-1983, Senegal has made substantial progress toward structural and financial adjustment in the context of successive programs supported by the use of Fund resources and other multilateral and bilateral financial assistance, including debt relief. As a result of the implementation of wide-ranging structural and macroeconomic policies, as well as the return of normal weather conditions, considerable progress was made in promoting economic growth and reducing internal and external financial imbalances. However, the Senegalese economy suffered a setback in 1988/89, owing mainly to two factors that emerged in the second half of the year. First, the agricultural sector was seriously affected by uneven rain distribution and locust infestation. Second, economic activity, particularly in the capital, Dakar, was disrupted by a series of strikes in the third quarter and by social disturbances that followed a border incident with neighboring Mauritania. In light of the outcome for 1988/89, the Government of Senegal has decided to redouble its efforts to ensure that progress toward its medium-term objectives continues to be made. Accordingly, the Government has extended and updated its medium-term economic and financial policy framework (PFP) for 1989/90-1991/92. The thrust of policies outlined in this framework, which was elaborated in collaboration with the staffs of the Fund and the World Bank, remains consistent with that outlined in the previous PFP; however, specific policies have been modified. The revised framework provides for a step-up in structural reforms, a strengthening in the fiscal effort, the pursuit of a prudent credit policy, the reform of the banking system, and the continuation of a cautious external debt management policy. In support of these policies, the Government of Senegal is requesting support from the Fund, in the context of the second annual arrangement under the enhanced structural adjustment facility (ESAF); from the World Bank, in the form of a structural adjustment loan and four sectoral adjustment loans; and from other multilateral and bilateral donors and creditors, in the form of budgetary assistance, including debt relief.

I. Progress Under the 1988/89 Adjustment Program 1/

2. Despite the progress made in the first half of 1988/89, the poor agricultural harvest and the social disturbances in the second half of 1988/89 had a severe impact on the economy. On the structural front,

1/ The analysis is based on estimates and preliminary data for 1988/89, except for the monetary data.

major actions were taken during the year, including the politically sensitive decision to reduce the producer price of groundnuts; the launching of a plan of action to reform the groundnut oil processing sector; the elimination of virtually all price controls; the rationalization of the system of effective protection; the pursuit of the reform of the public enterprise sector; the initiation of banking sector reforms; and the implementation of a public investment program emphasizing the directly productive sectors. On the financial front, a number of revenue-generating and expenditure-containing measures were put in place, with a view to strengthening the budgetary position. However, the slowdown in economic activity, the social disturbances, the slippages in tax administration, and the delays in the implementation of certain measures contributed to a major shortfall in revenue. While a tight credit stance was maintained during the first half of the year, substantial slippages occurred in the second half. There was an upward revision in the discount rates (in December 1988 and March 1989) by about 3 percentage points, which significantly increased the real interest rates. All the quantitative and structural performance criteria for end-December 1988, as well as the financial benchmarks for end-March 1989, were observed. However, as the financial slippages took place in the second half of the year, the financial benchmarks at end-June 1989 on the net domestic assets of the banking system, on the Government's domestic payments arrears and on the reduction of ONCAD debt were not observed. 1/ Furthermore, the completion of a plan of action to reduce energy prices and to take compensatory revenue measures, which constituted a structural benchmark at end-March 1989, was delayed owing to the unexpectedly lengthy preparatory work that had to be done by a joint Fund-World Bank mission and the need to proceed cautiously. The plan of action was finalized and adopted on August 31, 1989.

3. The progress made in achieving the program objectives for 1988/89 was mixed. Real GDP grew by only 0.6 percent, compared with a program target of 4.2 percent, reflecting primarily the fall of 12.3 percent in real value added in the agricultural sector. By contrast, the liberalization measures undertaken and the reduction in the producer price of groundnuts led to a fall in the rate of inflation, as measured by the GDP deflator, to 1.9 percent, compared with a program target of 2.4 percent. The external current account deficit, excluding official grants, was reduced to 9.6 percent of GDP, broadly in line with the program target of 9.1 percent of GDP. 2/ The trade balance was virtually in line with the program projection, as a sharp decline in export receipts from the fishing sector was offset by a reduction in import payments for intermediate goods. The financial slippages and the social disturbances contributed to the re-emergence of private capital outflows. However, these were lower than in the previous year, owing in part to the

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1/ The Office National de la Commercialisation Agricole et du Développement (ONCAD) was liquidated in 1980.

2/ The difference arises mainly from a downward revision in nominal GDP.

increase in domestic interest rates. As the surplus in the capital account was lower than initially programmed, the balance of payments, after debt relief, recorded a surplus of CFAF 18.5 billion, compared with a program target of a surplus of CFAF 28.7 billion.

4. In the area of agricultural sector reform, the Government continued to implement a broad array of measures aimed at diversifying crop production, broadening the export base, reducing the reliance on imports, and re-establishing financial balance in the groundnut sector. First, the Government reduced further the subsidy on fertilizers, in the context of a program initiated in 1986/87, with bilateral support from the United States. Second, the pricing and marketing of coarse grains were liberalized, and the role of the food security commission (CSA) was limited primarily to the management of a food security stock. Third, the Government pursued a number of pilot projects aimed at promoting the transformation of locally produced grains. These pilot projects succeeded in identifying appropriate techniques for the industrial, semi-industrial, and artisanal processing of coarse grains, and for the marketing of these products. Fourth, the Government took measures to strengthen agricultural extension services, in the context of an ongoing project financed by the World Bank. Fifth, feasibility studies aimed at defining a plan of action for the improvement of land use management, the encouragement of private investment in high-yield crops in irrigated areas, and the strengthening of soil conservation were completed with the support of the United Nations Development Programme (UNDP) and other donors. Sixth, the Government completed, with technical assistance from the French Government, a study that evaluated the various agricultural credit schemes pursued since 1980, with a view to developing a plan of action for the reform of the agricultural credit system.

5. With regard to the groundnut sector, the Government implemented the politically sensitive decision to reduce the producer price by 22 percent, thereby virtually eliminating the subsidy to the sector. In addition, at end-December 1988, the Government put in place a plan of action to streamline the groundnut sector, meeting a structural performance criterion. In this context, the Government implemented a number of measures aimed at increasing the efficiency of the sector, including the reduction of collection points from 876 in 1987/88 to 737 in 1988/89, as against a program target of 750; the limitation of the seed security stock to 25,000 tons; a reduction in transportation costs; the containment of confectionery groundnut procurement at 3,000 tons; and the elimination of subsidies to the confectionery groundnut sector, other than the expenditures related to the provision of extension services. These measures, coupled with a buoyant world market for groundnut oil, are expected to result in a surplus in the financial operations of the sector for the 1988/89 crop. Notwithstanding the progress made, there were delays in the implementation of several measures, including the privatization of the confectionery groundnut marketing company (SEPFA), owing to the absence of investors; the renegotiation of the protocol defining the financial relations between the groundnut oil processing company (SONACOS) and the Government; and the conclusion of

the third phase of a study aimed at developing a medium-term strategy for improving further the SONACOS's operations and establishing a transparent method for monitoring the technical and financial performance of the sector.

6. In the area of industrial policy, the Government took a number of measures aimed at improving incentives and reducing distortions. The liberalization of prices was vigorously pursued through the elimination, in December 1988, of all remaining price controls, other than those on 17 goods and services considered to be essential or strategic. The final phase of the rationalization of the system of effective protection was implemented on July 1, 1988, with the restructuring of tariffs and the elimination of reference prices for customs valuation, except those for specific products for which underinvoicing and dumping practices remain common. Preparatory work was undertaken for the renegotiation of the special agreements that grant tax advantages to certain enterprises beyond those envisaged in the Investment Code; and included the conclusion of studies on the cement, sugar, and petroleum industries. In the area of labor market reform, the Government implemented measures aimed at reducing rigidities and strengthening the link between productivity and remuneration. In this context, the Government discontinued the obligation of employers to hire workers through the Government Employment Agency (Service de la main d'oeuvre); the regulations governing fixed-term employment were liberalized; and employers were enabled to lower salaries in the case of downward adjustments in grade and responsibility. With regard to energy policy, a joint Fund-World Bank study was prepared to provide the basis for the formulation of a plan of action for rationalizing the cost of energy inputs.

7. The reform program for the public enterprise sector in 1988/89 comprised the continuation of the privatization program, the expansion of the number of enterprises operating under performance contracts, the further reduction of direct budgetary subsidies to the sector, and the initiation of a phased reduction in public sector cross-payments arrears. However, the pace of public enterprise sector reform, and in particular that of the privatization program, has been slow, largely owing to difficulties linked to cumbersome legal and administrative procedures, as well as to the mobilization of financing by potential investors. In 1988/89, the Government reduced its participation to a minority position in only two enterprises; continued an information campaign to increase investor interest; and assessed the suitability of other enterprises for eventual privatization. Although negotiations were pursued during 1988/89 on performance contracts with four additional enterprises to set forth the financial relations between them and the Government, the negotiations were concluded with only one enterprise (SOTRAC) by end-June. The negotiations with the remaining three enterprises (SNHLM, SODEFITEX, and OPCE) were not concluded, pending the settlement of certain legal issues. 1/ Direct budgetary subsidies were further reduced, and the phased settlement of public sector cross-payments arrears was initiated. In addition, steps were taken to strengthen and

harmonize the governmental supervision of public enterprises and to develop a system to monitor the financial performance of the sector.

8. The Government implemented the second three-year rolling public investment program, elaborated in consultation with the World Bank. Of the target of CFAF 144 billion for investment outlays under the 1988/89 program, actual outlays amounted to CFAF 100 billion, equivalent to an implementation rate of about 70 percent. The emphasis was on projects supporting the directly productive sectors, as well as on rehabilitation and maintenance operations. The Government also introduced a number of measures to reinforce the public investment programming process. First, a study on the development perspectives of Senegal until 2015 was undertaken. Following its review and adoption by the Government, the study will set forth Senegal's broad development strategy and priorities. Second, the authorities upgraded the capacity of the Ministry of Planning to evaluate projects and monitor their implementation. As a result, increased attention is now being given to the identification of the recurrent cost and debt service implications of investment projects in certain key sectors. Third, at the level of the technical ministries, a program was initiated to strengthen and standardize the procedures for project identification and for the preparation of project proposals. Finally, to improve the economic analysis and monitoring of public investment, preparatory steps were taken to integrate the annual investment program into the regular budgetary and expenditure control processes. To this end, the disbursement of all foreign loans was centralized with the Ministry of Economy and Finance; however, additional work is necessary to improve the coverage and the monitoring of grant-financed investment.

9. The momentum of fiscal adjustment could not be maintained in 1988/89 because of an unanticipated worsening of the economic environment in the second half of the year, slippages in tax administration, and delays in the implementation of some of the envisaged tax measures. Primarily as a result of a serious shortfall in revenue, the overall fiscal position, on a commitment basis and including grants, recorded a deficit of CFAF 30.9 billion (2.1 percent of GDP), as against a program target of a surplus of CFAF 3.7 billion (0.2 percent of GDP). However, as the repayments of domestic payments arrears and of crop credit were lower than programmed, the overall cash deficit, including grants, amounted to CFAF 35.3 billion (2.4 percent of GDP), compared with a program target of CFAF 27.8 billion (1.8 percent of GDP). This deficit was more than fully covered by a higher-than-envisaged level of net external financing, because of higher debt relief and the disbursement of CFAF 7.0 billion under a French loan for the reform of the banking sector. Net bank claims on the Government remained below the programmed level, reflecting the inability of the Treasury to use its deposits with commercial banks facing liquidity

1/ SOTRAC: National transportation company; SNHLM: low-cost housing company; SODEFITEX: textile company; OPCE: Post Office.

problems, and the non-utilization of the CFAF 7.0 billion in counterpart funds generated by the above-mentioned disbursement. In addition, the programmed repayment of ONCAD debt to the banks was not achieved.

10. Total revenue and grants increased by only 1 percent, compared with a targeted increase of 12.3 percent. They are estimated to have reached CFAF 274.2 billion, remaining CFAF 30.5 billion below the program target. While there was a small shortfall in grants, this outcome was largely explained by a shortfall of CFAF 28.2 billion in tax revenue. Nontax revenue, however, was CFAF 1.1 billion higher than programmed. More than half of the shortfall in tax revenue is attributable to import duties (including the value-added tax (VAT) charged on imports); about one third to domestic taxes on consumption; and the remainder to taxes on income and profits. Several factors contributed to this outcome. First, economic growth was significantly lower than projected, especially in the second half of the year. Second, the social disturbances following the incident with Mauritania in April disrupted commercial sector activity, contributing to significant losses in the value-added, profit, and import taxes. Third, the rationalization of the tariff structure was not accompanied by the envisaged improvements in customs administration; in particular, customs duty receipts appear to have suffered from marked underinvoicing. Fourth, imports were lower than projected, reflecting especially the slowdown in economic activity in the second half of the year. Fifth, the VAT rate in the textile sector was reduced from 20 percent to 7 percent in the second half of the year, and the sector was allowed to withhold taxes collected on goods supplied. Sixth, the revenue measures programmed to be implemented in the second half of the year were not taken. Seventh, the recovery of tax arrears lagged. Eighth, the programmed sale of government land was significantly lower than expected, partly owing to the limited possibilities of financing from the banking system. Finally, the targeted level of CFAF 5.0 billion anticipated from the introduction of a tax retention and reimbursement scheme on foreign-financed project imports remained essentially unrealized for administrative reasons. The overall budgetary impact was neutral, however, as the counterpart expenditure for reimbursement did not take place either.

11. Total expenditure and net lending was 1.4 percent above the program target. The higher-than-programmed level of current expenditure was due to higher scheduled interest payments on external public debt. The wage bill was limited to the programmed level, through the envisaged reduction in the size of the civil service and the absence of a general cost of living adjustment. An increase in expenditure on materials and maintenance was more than offset by a reduction in subsidies and transfers. The higher-than-programmed deficit in the Treasury's special accounts was due to an increase in expenditures of the Road Fund. However, capital expenditure was lower than programmed, owing to the lower-than-envisaged counterpart expenditure under the aforementioned tax reimbursement scheme.

12. While monetary developments in the first half of the year were in conformity with the program, there were marked deviations in the second half. In the first half, net domestic assets grew by 0.9 percent, as compared with an adjusted program target of 1.4 percent of beginning-of-period money stock, as both net credit to the Government and credit to the economy were lower than programmed. In the second half, net domestic assets grew rapidly by 5.0 percent of the end-December money stock, owing to an expansion in ordinary credit. Ordinary credit was higher than envisaged, due to the fact that the reclassified crop credit relating to the 1987/88 harvest was not repaid, as programmed, as a result of the aforementioned fiscal difficulties. In addition, an audit of a commercial bank, under the ongoing reform of the banking system, resulted in a restructuring of its balance sheet, accounting for a significant increase in the level of credit. Accordingly, for the year as a whole, net domestic assets grew by 5.7 percent of beginning money stock, as against a programmed reduction of 3.0 percent. Even though net foreign assets were lower than projected, the rise in net domestic assets led to a growth of 7.1 percent in domestic liquidity, compared with a program target of 5.2 percent. In the circumstances, the performance criteria at end-December 1988 on net bank credit to the Government and net domestic assets were met. The financial benchmarks relating to the repayment of 1986/87 crop credit through end-June 1989 were also met. Taking into account the adjustments envisaged under the first annual arrangement under the ESAF, the financial benchmarks relating to net domestic assets of the banking system, net credit to the Government, reduction in domestic payments arrears of the Government and public agencies, and the repayment of ONCAD debt were met for end-March 1989. However, the financial benchmarks on net domestic assets of the banking system, domestic payments arrears and the repayment of ONCAD debt, were not met at end-June 1989.

13. Considerable progress was made in 1988/89 toward the reform of the banking sector. Regarding the BIAO-S (Banque Internationale pour l'Afrique de l'Ouest-Sénégal), the agreement signed in July 1988 between Senegal and the BIAO group, which is the majority shareholder, has been implemented. To optimize its structure and reduce its operating costs, the BIAO-S has dismissed about half of its staff, closed seven of its agencies, and discontinued more than 10,000 small accounts. The BIAO group and the private shareholders provided resources to reconstitute the capital of the BIAO-S to the level of CFAF 1.1 billion, while the Government's contribution was limited to CFAF 0.3 billion, thereby reducing the Government's share in the capital from 35 percent to 25 percent. An agreement was reached in December 1988 with the shareholders of BSK (Banque Sénégalo-Koweitienne) under which the Kuwaiti partner has undertaken to provide resources to improve the liquidity and the solvency of the bank, provided that the group of Senegalese partners fully reimburses its loans from the bank. However, the Senegalese partners have not yet been able to liquidate their real estate assets to mobilize the requisite resources. With regard to the USB (Union Sénégalaise de Banque), an agreement was reached between Senegal and Crédit Lyonnais, for the creation of a new bank, the CL-S (Crédit

Lyonnais du Sénégal), with a 5 percent government participation. On November 10, 1987, the USB's debit balances of CFAF 21.9 billion in the books of the Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO) were consolidated on concessional terms by the BCEAO. In addition, the personnel of USB was reduced from 330 to 175. In consultation with the World Bank, France, and the United States Agency for International Development (USAID), work was pursued to complete a restructuring program for the other public banks. A coordinator has been appointed by the Government to oversee the restructuring program.

14. Interest rate policy in Senegal is determined in the context of the West African Monetary Union (WAMU). Since 1988, the WAMU has moved toward a more active interest rate policy aimed at fostering domestic savings, strengthening financial intermediation, improving resource allocation, and dampening capital outflows. The normal discount rate was raised from 8.5 percent to 9.5 percent effective December 23, 1988, and to 10.0 percent effective March 30, 1989; the preferential discount rate was raised from 6.0 percent to 7.5 percent and then to 9.0 percent. The interest rates on loans, which are based on the discount rates, were raised pro tanto. The rates on savings and time deposits were raised by 0.5-1.0 percentage point on December 23, 1988, and by 1.0 percentage point on March 30, 1989. The rates on deposits for a period of one year or more, as well as the rates on deposits exceeding CFAF 2.0 million, remained negotiable, subject to preset minima.

II. Medium-Term Policy Strategy and Objectives

15. In view of the setback suffered in 1988/89, the Government is determined to strengthen and readjust certain financial and structural policies for 1989/90, consistent with the thrust of its medium-term adjustment strategy, as outlined in the medium-term PFP for 1989/90-1991/92. First, the revenue shortfall that occurred in 1988/89 underscores the urgency of bolstering tax administration and restructuring the system, with a view to expanding the tax base, enhancing its elasticity, and reducing distortions. Second, the recent minor increases for 1989/90 in civil service salaries, in particular those of schoolteachers and health workers, have accentuated the need to adopt a reform of the civil service to improve the efficiency of the civil service, contain the growth of the wage bill and ensure a better balance between salaries and allocations for other recurrent costs and basic services. Third, the importance of the reform of the banking sector is underscored by the adverse impact of the banks' liquidity problems on the operations of the Treasury, the conduct of monetary policy, and financial intermediation. Fourth, the opening of the industrial sector to outside competition has highlighted the importance of addressing prevailing rigidities in the labor market and of reducing energy costs. Fifth, the serious difficulties that have beset the reform of the public enterprise sector demonstrate the need to take vigorous action to step up the pace

of reforms. Sixth, the necessary restructuring of the public sector increases the urgency of reinforcing job creation efforts in the private sector, as well as assisting workers in relocating.

16. The basic objectives of the program for 1989/90-1991/92 are to achieve an average annual rate of economic growth of about 3.7 percent, significantly higher than the 2.9 percent population growth rate; to stabilize the rate of inflation, as measured by the GDP deflator, to 2.4 percent by 1991/92; and to reduce further the external current account deficit, excluding official grants, from an estimated 9.6 percent of GDP in 1988/89 to 6.1 percent of GDP in 1991/92. The overall balance of payments, before debt relief, is projected to record a deficit of CFAF 20.1 billion in 1989/90, and surpluses of CFAF 11.2 billion in 1990/91 and CFAF 16.1 billion in 1991/92. Taking into account the programmed reduction in external budgetary assistance, the projected drawings from the Fund and scheduled repurchases, and a programmed improvement in the operations account, Senegal should be able to service its external debt obligations without recourse to debt relief starting in 1990/91, one year later than originally envisaged.

17. Financial policies will continue to be geared toward aligning aggregate demand with available resources. On the budgetary front, measures will be taken to enhance the elasticity of the tax system and to widen the tax base, so as to ensure durable revenue growth and to reduce the existing degree of reliance on windfall surpluses from the oil sector. A restrained expenditure policy, involving a containment of the wage bill and a reduction in budgetary transfers and subsidies, will be pursued concurrently. The objective is to achieve a turnaround in the budget, on a commitment basis and excluding grants, from a deficit of 4.0 percent of GDP in 1988/89 to a surplus of 0.8 percent in 1991/92. This will enable the Government to reduce the dependence of the budget on exceptional external financing (excluding project financing and including the Fund), from CFAF 135.6 billion in 1988/89 to CFAF 36.0 billion in 1991/92. To complement these measures, a prudent external debt management policy will continue to be followed. The monetary authorities will pursue a balanced credit policy, with the dual objectives of continuing to contain inflationary pressures while emphasizing the provision of credit to the private sector. The reform of the banking system will be broadened.

18. The structural policies will continue to be geared toward overcoming the impediments to economic growth. A focal point will be the implementation of measures to enhance competitiveness and foster the development of the industrial sector. Accordingly, a plan of action will be launched to rationalize energy costs to local industries; measures will be introduced to accord firms greater flexibility in adapting the size of their labor force to their requirements and in setting wages; and the tax structure will continue to be reviewed, with a view to promoting local industrial production. Agricultural policy will include reforms to enhance production and diversification, while re-establishing financial balance in the groundnut sector. Public

investment programming and monitoring will be reinforced to increase the efficiency of capital outlays, while emphasis will continue to be placed on the directly productive sectors and rehabilitation operations. The reform of the public enterprise sector will be reassessed, with a view to accelerating the rehabilitation of certain enterprises and privatizing or liquidating others. A redeployment fund and a public works program are in place to mitigate the short-term employment effects, pending the expansion of employment opportunities in the private sector.

III. The Program for 1989/90

19. Consistent with the updated medium-term policy framework, the key objectives for the program for 1989/90 are as follows: (a) to achieve a growth of real GDP of 4.4 percent; (b) to stabilize the rate of inflation, as measured by the GDP deflator, to 2.0 percent; and (c) to further reduce the external current account deficit, excluding grants, to 8.3 percent of GDP. Private capital outflows are projected to decline further in 1989/90, owing to the recovery of economic activity, the restructuring of the banking system, the upward revision of the interest rate structure, and the abatement of the social disturbances that occurred in the second half of 1988/89. Taking into account expected drawings and the scheduled amortization payments, the overall balance of payments, before debt relief, is projected to record a deficit of CFAF 20.1 billion. Including the debt relief already obtained, a programmed improvement in Senegal's position in the operations account, the purchases under the ESAF arrangement, and the scheduled repurchases from the Fund, there will remain a financing gap of CFAF 27.9 billion for 1989/90, consistent with the budgetary financing gap. To cover this gap, the authorities are requesting additional external financial assistance, including debt relief.

20. The Government is implementing major macroeconomic and structural measures in 1989/90. Particular emphasis is being given to the achievement of a recovery in government revenue, the reform of the banking system, and the realization of further progress in industrial policy reforms, notably in the areas of energy, labor, and tax policy.

1. Macroeconomic policies

a. Fiscal policy

21. The program provides for a significant revenue effort and the containment of current expenditure through continued austerity measures. Thus, notwithstanding the rise in foreign-financed expenditure associated with the restructuring of the banking system and in capital expenditure, the overall fiscal deficit, on a commitment basis and excluding grants, is expected to decline to CFAF 43.8 billion (2.8 percent of GDP) in 1989/90, compared with CFAF 59.4 billion (4.0 percent of GDP) in 1988/89. With the settlement of verified domestic payments arrears of CFAF 8.5 billion, the repayment of reclassified crop credit

obligations of CFAF 25.0 billion, which were carried forward from the previous year, and the receipt of CFAF 10.0 billion from SONACOS, the overall deficit, on a cash basis and excluding grants, will rise to CFAF 67.3 billion (4.3 percent of GDP). Based on expected disbursements, scheduled external debt amortization, and already-secured debt relief, net external financing is estimated at CFAF 27.6 billion. Net domestic repayments will amount to CFAF 11.2 billion, reflecting scheduled reimbursement for consolidated domestic debt and a reduction in net liabilities to the banking system. Accordingly, a financing gap of CFAF 27.9 billion will remain. The Government is requesting additional external financial assistance, including debt relief, to cover this gap. It has already contacted the Paris Club as well as other creditors.

22. Total revenue and grants are projected to rise by 9.0 percent to CFAF 299.0 billion, with grants expected to decline to CFAF 23.0 billion. Revenue is projected to rise by 12.3 percent, compared with an original target of 7.5 percent, albeit from a lower base. This translates into an increase in revenue of CFAF 30.3 billion (1.9 percent of GDP), compared with an originally programmed increase of CFAF 20 billion (1.4 percent of GDP). This revenue increase, in turn, reflects a projected increase in tax revenue of CFA 35.8 billion generated mainly by new discretionary and administrative tax measures, which will be partially offset by a reduction of CFAF 5.5 billion in nontax revenue, primarily because of lower receipts from the petroleum sector. The new tax measures, which were implemented beginning on September 4, 1989, are as follows. First, the coverage of the higher rate of the value-added tax (TVM) was expanded, while its level was reduced from 50 percent to 30 percent; the projected yield is CFAF 6.5 billion. Second, the customs duty rate was raised across the board from 10 percent to 15 percent, with an expected yield of CFAF 5.0 billion. Third, to combat the erosion of the tax base, minimum tax assessments were established for imports known to be subject to underinvoicing; this measure is estimated to yield at least CFAF 5.5 billion. Fourth, customs administration will be substantially reinforced to control fraud. In this context, certain measures have already been taken to improve customs control. The key element is the computerized system for customs procedures, which will come into operation in November 1989. In addition, since July 1989, some custom offices at the border have been converted into surveillance posts and customs clearance formalities are being consolidated into better-equipped regional offices. Moreover, the Government is appointing customs counselors in certain diplomatic missions. This package of administrative measures is estimated to have a revenue effect of CFAF 10.0 billion. Fifth, an extension of the withholding tax scheme for the general income tax to cover professional and property income and a further reduction in exemptions are expected to yield CFAF 3.0 billion. Sixth, the VAT will be extended to the trade and other service sectors effective January 1990, with an estimated revenue effect of CFAF 2.0 billion. Seventh, other specific administrative measures (including recovery of arrears and licensing fees) are expected to yield CFAF 3.8 billion. Finally, the present schedular income tax system will

be replaced beginning January 1990 by a global income tax for individuals and a separate profit tax for enterprises. This measure will not have an immediate revenue impact, but is expected to improve the elasticity of the tax system. The revenue measures introduced and their impact will be reassessed by end-June 1990, with a view to determining the package of revenue measures to be incorporated in the 1990/91 budget. To monitor revenue performance under the 1989/90 program, monthly tax revenue targets have been established, together with quarterly benchmarks and a midyear performance criterion at end-December 1989. If in any consecutive two-month period the cumulative revenue target is not achieved, the Government of Senegal will consult with the Fund management on appropriate corrective measures.

23. The growth of expenditure and net lending will be limited to 4.8 percent in 1989/90, compared with an original target of 1.5 percent. Current expenditure is projected to rise by 1.9 percent to CFAF 252.8 billion, compared with an original target of CFAF 249.1 billion. Interest on external debt is projected to be CFAF 1.6 billion higher than originally envisaged. Effective July 1, 1989, civil service salaries, which had not been adjusted since 1983, were increased by CFAF 3,000 per employee (about 2.5 percent of the average salary); special additional increases were also granted to the education and health service staffs. The total cost of CFAF 7.0 billion--CFAF 5.0 billion for wage adjustments plus CFAF 2.0 billion for the wage drift--is being partially offset by a compression in indemnities. Thus, the wage bill is to be held to a maximum of CFAF 130 billion in 1989/90. Moreover, the Government is committed to reducing the wage bill to CFAF 125 billion starting in 1990/91. To this end, the Government completed three studies at end-September 1989 that identified appropriate measures. The results of these studies will be assessed at the time of the midterm review of the program, and the wage bill for 1989/90 will be revised downward to take account of the measures that will be put in place in the second half of the year. The budget provides for an increase in maintenance expenditures as well as a reduction in subsidies and other transfers. Capital expenditures are projected to increase by 12.2 percent, consistent with the public investment program. While the Treasury's correspondent accounts will be in virtual balance, reflecting primarily the anticipated receipt of CFAF 7.5 billion in arrears for postal money orders owed by two countries, the deficit in the Treasury's special accounts is expected to be held at the same level as in 1988/89. In addition, to maximize the profits to the Caisse de Péréquation et de Stabilisation des Prix (CPSP), the Government has begun to renegotiate with the flour millers the agreement relating to the determination of the reference price for wheat imports, and expects that the new arrangement will enter into effect upon the expiration of the present one on November 1, 1989. The objective of this renegotiation will be, in particular, to ensure that wheat purchases are made by international competitive bidding. Finally, based on the recommendations of a Fund technical mission, the Government

will take measures to reinforce fiscal discipline in the management of the special and correspondent accounts by integrating active accounts into the budget on a gross basis and eliminating inoperative accounts.

b. Monetary policy

24. A cautious credit policy consonant with the objectives of the program will be pursued in 1989/90. Net bank credit to the Government is programmed to decline by 0.3 percent of beginning money stock. Crop credit is projected to decline by 1.1 percent of initial money stock owing to a stricter control and a faster pace of reimbursement of crop credit during 1989/90. With the repayment of outstanding reclassified crop credit of CFAF 25.0 billion by the Government, ordinary credit is projected to decline by 3.4 percent of beginning money stock. Accordingly, total domestic credit is programmed to decline by 4.8 percent of initial money stock. Taking into account the balance of payments objective, domestic liquidity is programmed to grow by 5.0 percent.

25. The Government has developed, in collaboration with the BCEAO, the World Bank, and other multilateral and bilateral creditors and donors, a comprehensive reform program for the banking sector under which three banks are to be rehabilitated through an infusion of capital by their private shareholders and five other banks are to be restructured. The three banks that are to be rehabilitated include two banks in which the Government is a minority shareholder--namely, the BIAO-S (Banque Internationale pour l'Afrique Occidentale-Sénégal), and the BSK (Banque Sénégalo-Koweitienne), and a wholly private bank, the MFIS (Masraf Faycal Al-Islami du Sénégal). The rehabilitation of the BIAO-S is well under way. Under the agreement between Senegal and the BIAO group, an increase in the bank's capital from CFAF 1.1 billion to CFAF 1.5 billion will take place in December 1989, without the participation of the Government, thus reducing further the share of the Senegalese public sector in the capital of the BIAO-S, from 25 percent to 18 percent. To compensate the BIAO-S for costs arising from the nonavailability of part of the sectoral loan that was to have been disbursed to the BIAO-S, Senegal paid in June 1989 an amount of CFAF 0.5 billion, financed from the first tranche of a loan from France. The Government will also make available a loan of CFAF 5.6 billion on concessional terms to the BIAO-S. The rehabilitation of the BSK and the MFIS is contingent on the fulfillment, by the partners concerned, of their commitment to reliquefy the bank. The Government notified both the BSK and MFIS in August 1989 that it will withdraw their licenses and place them under receivership in the event that the banks are not reliquefied by end-November 1989.

26. A plan of action has also been drawn up for the restructuring of the USB (with minority government equity participation), three public sector banks (BNDS, SOFISEDIT, and SONAGA/SONABANQUE) and the wholly private Assurbank. The operational and financial restructuring of the USB is already well advanced. Part of its performing assets and corresponding liabilities have been taken over by the CL-S, which started operations on July 3, 1989. It is envisaged that the BNDS and other

interested private sector banks will take over the performing assets not retained by the CL-S. The performing assets and corresponding liabilities of the three public sector banks (BNDS, SOFISEDIT, and SONAGA/SONABANQUE) and of Assurbank will be taken over by a new bank expected to start operations in November 1989. The participation of the Senegalese public sector in the new bank's capital of CFAF 2.0 billion will be limited to 25 percent. The balance is expected to be subscribed by the BCEAO, the West African Development Bank (BOAD), the African Development Bank (BAD), and private partners, including a managing partner. Pending the conclusion of a contract with a managing partner, the new bank's operations will be restricted to the management of its existing loan portfolio and the collection of deposits. A separate loan recovery institution will also be established in December 1989 to manage the nonperforming assets of all the restructured banks. This loan recovery institution will hold the counterpart liabilities of its portfolio of nonperforming loans. These liabilities will include an estimated CFAF 51 billion of deposits, mostly public sector deposits, which will be temporarily frozen. To prevent a recurrence of the banks' problems, the Government will take steps to reinforce bank supervision, and ensure that the existing regulations are effectively implemented.

27. On the financial side, the BCEAO has agreed to consolidate CFAF 126.5 billion. Of this total, CFAF 62.2 billion corresponds to debit balances of the public sector banks and Assurbank, and CFAF 64.3 billion is in respect of refinanceable ONCAD debt. In addition to the loan in the amount of CFAF 11.0 billion already secured from France, the Government will seek further financial assistance from bilateral and multilateral donors and creditors. In this respect, the Government is currently negotiating, in the context of its restructuring plan, a financial sector loan with the World Bank, the African Development Bank (AfDB), and the United States.

2. Structural policies

a. Industrial policy

28. The Government will reinforce its reforms in the area of industrial policy, with a view to reducing distortions, increasing the profitability and competitiveness of the sector, and fostering its development. To these ends, action will be taken in three major areas. First, a reform of the labor market, designed to accord enterprises greater flexibility in determining their employment and wage policies, will be undertaken. The plan of action is currently under preparation with the World Bank in the context of the discussions on the fourth structural adjustment loan. The Government is committed to the modification of the Investment Code so as to permit the renewal of fixed-term employment contracts over a period of five years. In the same context, the obligation of small- and medium-scale enterprises (as defined in the Investment Code) to receive prior approval for lay-offs will be eliminated. New enterprises established in the Dakar free trade zone will benefit from these new legislations. Moreover, the Government will define by

decree the conditions under which enterprises may have recourse to fixed-term employment contracts in the event of an upturn in economic activity. The Government is also committed to freezing minimum wages (SMIG) at their present levels. Furthermore, labor regulations will be reviewed by a commission comprising representatives from the Government, employers, and the unions to improve the functioning of the labor market. Second, the Government will rationalize the energy prices charged to industry, consistent with the need to promote conservation and, over time, to reduce the relative reliance of the budget on exceptional surpluses from the petroleum sector. These measures, based on the recommendations of a joint Fund-Bank study on tax reform and energy pricing, will be implemented in two phases. In the first phase, to be completed by end-November 1989, the authorities will prepare the relevant legislation for the introduction of a new taxation system for petroleum products. Under the new system, which will require the renegotiation of the special agreement with the petroleum refining company (SAR), the SAR will receive a negotiated flat fee for the processing and handling of crude petroleum. Petroleum products will be subjected to an import tax, a VAT, and a petroleum levy, thus transforming the nature of budgetary revenue generated by the petroleum sector from a transfer of surpluses to a tax receipt. The new system will be monitored during a three-month trial period to ascertain that it is resulting in higher receipts. In the second phase starting July 1, 1990, the requisite adjustments in the price of petroleum products to industrial users will be determined in consultation with the Fund and the World Bank, taking into account the evolution of petroleum import prices and government finances. Simultaneously, government rebates to the phosphate industry will be discontinued.

29. The industrial policy reforms being pursued are consistent with the strategy relating to public enterprise reform, involving the reduction in the scope of activities of the public enterprises and the strengthening in the financial position of the sector. Over the last three years, progress has been made in improving the institutional framework governing the relations between these enterprises and the Government, as well as in liquidating certain enterprises, privatizing some, and signing performance contracts aimed at the rehabilitation of others. Nonetheless, little further progress was made in 1988/89, particularly with regard to the privatization process and the conclusion of performance contracts with additional enterprises. To accelerate the process, the Government, in consultation with the World Bank, will re-evaluate its privatization policies with the objective of achieving a complete disengagement from all nonstrategic enterprises through the implementation of a broad range of privatization measures. To promote private sector participation, the possibility of creating a secondary market for shares will be examined. Moreover, the Government will engage, by end-November 1989, foreign firms qualified to assist in the privatization process. During 1989/90-1990/91, a minimum of 10 additional enterprises will be liquidated and a further 35 privatized. The enterprises that cannot be privatized at the end of this period will be liquidated. The fourth structural adjustment credit, currently under negotiation with the World

Bank, will focus in particular on the acceleration of the reform of the public enterprise sector. The measures developed in this regard will be assessed by the Fund at the time of the midterm review. The Government will substantially reduce direct subsidies to public enterprises over the program period, including noncommercial public enterprises (public agencies), from their 1988/89 levels. These reductions in subsidies will be accomplished through efficiency gains and increased user charges. The total level of overdrafts of the public agencies outstanding on June 30, 1989 will be transformed into long-term loans and measures will be taken to limit the level and duration of such overdrafts. The Government will update its accounting of the end-1988 stock of outstanding public sector cross-payments arrears and continue to settle these arrears in conformity with the established timetable. The Government will neither guarantee nor subsidize the interest on the foreign loans contracted by the public agencies. Furthermore, the Government will conclude the three performance contracts currently under negotiation with OPCE, SNHLM, and SODEFITEX by end-December 1989, and five additional performance contracts by end-June 1990.

b. Agricultural policy

30. The Government has over the last five years liberalized the agricultural sector and reduced the scope of its involvement in the sector. Furthermore, it has progressively reduced fertilizer subsidies, under a U.S.-supported program, and has eliminated them with the start of the 1989/90 fiscal year. In addition, the sector has been supported by the emphasis given to it in the public investment program, an emphasis that will continue in 1989/90. Given the importance of the rural sector, in terms of its share of GDP, employment, and export receipts, the Government has been reassessing agricultural policy in the context of the preparation, with the World Bank, of an agricultural sector adjustment loan. In this context, the Government will take a number of measures aimed at further reforming the cereals market; restructuring the groundnut sector; increasing the efficiency of the cotton sector; strengthening and harmonizing agricultural credit; reinforcing extension services; and improving land-use management. In the area of cereals policy, measures will be taken to rationalize the pricing, and increase the efficiency, of the production and marketing of local rice; and to continue the promotion of the domestic production and processing of cereals, including maize. In the cotton sector, the technical and economic efficiency of cotton production will be improved, with a view to eliminating the sector's deficit over the medium term. As a result of the envisaged efficiency improvements in rice and cotton production, the financial operations of the CPSP should be in equilibrium in 1989/90. In addition, the rebate in sugar prices granted by the CPSP will be confined to industrial users and the reference price will be linked to world market trends. The sugar company (CSS) will pursue a program aimed at increasing productivity, reducing costs, and developing a marketing policy. The Government and CSS will renegotiate the agreement on the determination of sugar prices in light of the reductions in production costs already achieved. In this context, the

CSS's exemption from import taxes and duties will be eliminated. In the area of agricultural credit, the Government will formulate a plan of action for strengthening the administrative capacity, financial management, and performance of the agricultural credit bank (CNCAS), as well as for ensuring the timely repayment of agricultural credit, including crop credit. The ongoing reinforcement of agricultural extension services will be continued with World Bank support. The Government will also ensure the application of the existing land use regulations, implement land management programs, and adopt a new pastoral code to increase real value added in the livestock sector. A depletion of fishing resources has taken place; since 1986/87, the volume of exports has declined steadily, and the share of fish exports fell from 26 percent to 21 percent in 1988/89. To determine the requisite steps to reverse this trend and revitalize the sector, a comprehensive study of the potential for and the bottlenecks to the expansion of the sector's output will be initiated in cooperation with foreign donors.

31. The Government will continue its reform of the groundnut sector with a view to further improving the financial viability of groundnut production and processing, consistent with the plan of action of December 1988 detailed in the Government's letter of intent of January 31, 1989. The reduction in the producer price, the measures taken by the SONACOS to lower operating costs, and the buoyant international price for groundnut oil are expected to contribute to the emergence of a surplus in 1989/90, thus eliminating the need for budgetary support for the sector. To provide the basis for further strengthening the sector, the Government will complete by end-November 1989 a medium-term plan of action to reduce the costs of groundnut marketing and processing, including the rationalization of the SONACOS's refining capacity, the adoption of a flexible system for the determination of groundnut producer prices in line with world market conditions, and the privatization of confectionery groundnut marketing in 1991. The Groundnut Guarantee Fund will be strengthened so that it can better monitor the financial performance of the sector. On the basis of the ongoing study of the SONACOS's technical and financial operations, the Government will conclude by end-December 1989 a new protocol governing the financial relations between the SONACOS and the Government taking into account the status of the SONACOS. The protocol will base the SONACOS's gross financial results on its actual operating costs and receipts, based on the actual selling prices and quantities. A detailed financial statement will be provided identifying the allocations for depreciation, reserves, and dividends, as well as the change in stocks. The protocol will also incorporate the provision, effective under the plan of action adopted in December 1988, that the SONACOS will fully repay the crop credit for groundnut operations starting with the 1988/89 crop season. The calculation of the financial outcome will be subjected to yearly verification by an independent auditor, in accordance with Senegal's accounting standards. To ensure full transparency, the SONACOS will provide complete access to its financial accounts to the Government and

other concerned parties authorized by the Government. 1/ The SONACOS is projected to record an operating surplus of CFAF 10 billion in 1989. This surplus will be transferred to the Treasury in two equal installments starting in December 1989. The financial results of the SONACOS will be subject to an external audit by an independent controller, and its report will be reviewed by the Government in consultation with the Fund. Should the surplus established through such an audit differ from that indicated above, appropriate compensating adjustments will be effected in the 1990/91 budget.

c. Public investment

32. The three-year public investment program for 1989/90-1991/92, elaborated in consultation with the World Bank, continues to complement the overall adjustment program by according priority to high-yielding projects in the directly productive sectors. The three-year program targets a total of CFAF 485 billion for capital outlays, equivalent to 9.8 percent of GDP. The primary sector accounts for 31.8 percent of targeted investment, the secondary sector for 11.6 percent, and the service and social sectors for 56.6 percent. The program is considered by the World Bank to be consistent with Senegal's adjustment and long-term development objectives. Totaling CFAF 158.3 billion (10.1 percent of GDP), the investment program for 1989/90 allocates more than 40 percent of its resources to projects in the agricultural sector. In line with recent experience, an implementation rate of 70 percent has been retained as a working hypothesis for purposes of financial projections. The ongoing efforts to strengthen project identification, appraisal, and monitoring capacities of the planning and technical ministries will continue to focus on improving the assessment of and budgeting for the recurrent cost and debt service payments associated with the investment program. The investment budget for 1989/90 is being fully integrated into the regular budgeting and expenditure control processes. In this regard, the Ministry of Economy and Finance and the Ministry of Planning and Cooperation are increasing their coordination to improve the monitoring of grant-financed investments. A new public investment program for 1990/91-1992/93 will be adopted by end-June 1990.

3. The external sector

33. The adjustment measures described above should lead to an improvement in Senegal's external payments position. Export receipts are projected to grow by 5.2 percent in 1989/90, mainly on account of increases in receipts from the groundnut and phosphate sectors. The export volume of groundnut oil is projected to expand by 4.0 percent, partly because of the recovery in agricultural production, while the world price of groundnut oil is expected to rise by an additional 6.2 percent. The phosphate sector is also expected to benefit from increases in export

1/ Not including information on product patents.

volume and international prices. Import payments are projected to grow by only about 2 percent, reflecting mainly a 5 percent drop in the import price of rice and the tight financial policies being pursued. With a narrowing in the trade and the service account deficits, the external current account deficit, excluding grants, is expected to be reduced from an estimated 9.6 percent of GDP in 1988/89 to 8.3 percent in 1989/90. Private capital outflows should continue to decline, as a result of the more active interest rate policy being pursued and the nonrecurrent nature of the social disturbances that occurred in 1988/89. On the basis of prospective disbursements of official grants and loans, and taking into account the higher scheduled amortization of the public debt, the balance of payments, before debt relief, is projected to record a deficit of CFAF 20.1 billion (SDR 48.3 million) in 1989/90. In view of the programmed reduction in Senegal's position in the Operations Account, the expected purchases and the scheduled repurchases from the Fund, and taking into account the debt relief already obtained from the Paris Club, there would remain a financing gap estimated at CFAF 27.9 billion (SDR 67.0 million) in 1989/90, consistent with the budgetary financing gap. This gap is expected to be covered by additional financial assistance, including further debt relief.

34. The Government is aware of the need to pursue a cautious external debt management policy so as to reduce the debt service burden. Accordingly, the Government will neither contract nor guarantee any external loans on nonconcessional terms beyond the limits established in the annexed table, except for normal import-related credits. These limits will not include borrowings by the multinational companies, Air Afrique, and the Agence pour la Sécurité de la Navigation Aérienne (ASECNA) or new borrowing for refinancing existing debts in the context of debt reschedulings. In addition, the Government will not incur any external payments arrears during the program period.

4. Performance criteria and benchmarks

35. The proposed quantitative benchmarks and performance criteria are shown in the annexed table. These comprise quarterly ceilings on net domestic assets of the banking system and net bank credit to the Government; the reduction of domestic payments arrears; the nonaccumulation of external payments arrears; minimum cumulative government tax revenue; and cumulative limits on the contracting of government or government-guaranteed nonconcessional external debt. For purposes of monitoring the program, quantitative targets for end-December 1989, end-March 1990, and end-June 1990 have been established. Those for end-December 1989 will constitute performance criteria. The quantitative targets for the first half of 1990 are proposed as indicative benchmarks, as the Government cannot make commitments prior to the credit exercise conducted by the BCEAO for all member countries toward the end of 1989. Thus, definitive benchmarks will be established at the time of the midterm review of the program with the Fund, scheduled to be completed by March 1990. The standard clauses regarding the exchange and payments system will also constitute performance criteria.

36. The following are proposed as structural benchmarks: (a) the completion by end-December 1989 of the revision in the energy taxation system, in accordance with paragraph 28 above; and (b) the adoption by end-June 1990 of a three-year public investment program for 1990/91-1992/93, consistent with Senegal's macroeconomic objectives, in accordance with paragraph 32 above. The following are proposed as structural performance criteria for end-December 1989: (a) the completion of the renegotiation of the protocol governing the financial relations between the SONACOS and the Government, in accordance with paragraph 31 above; and (b) the completion of a plan of action for the acceleration of the public enterprise reform program, including in particular the privatization process, in accordance with paragraph 29 above.

Table I. Senegal: Performance Criteria and Financial and Structural Benchmarks Under the Second Annual Arrangement Under the Enhanced Structural Adjustment Facility

	Stock at end-June 1989	Change from July 1, 1989 to End- 1989 December Perf. crit.	1990 March Indicative	1990 June Indicative
I. Financial benchmarks				
		(In billions of CFA francs)		
Net domestic assets of the banking system 1/ 2/ 3/	602.1	6.5	4.2	-18.0
Credit to the Government (net) 1/ 2/	140.0	10.0	6.4	-1.1
Payments arrears of the Government and public agencies				
Domestic	8.5	--	-2.0	-8.5
External	--	--	--	--
Cumulative minimum tax revenue		100.2	165.2	232.0
		(In millions of SDRs)		
New external borrowing on nonconcessional terms by the Government or with government guarantee 4/				
Short-term (less than 1 year)		--	--	--
1-5 years' maturity		--	--	--
1-12 years' maturity		24.0	24.0	24.0

II. Structural measures	Date
1. Benchmarks	
a. Completion of the revision of the energy taxation system in accordance with paragraph 28	End-December 1989.
b. Adoption of a three-year public investment program for 1990/91-1992/93 in accordance with paragraph 32.	End-June 1990.
2. Performance criteria	
a. Completion of the renegotiation of the protocol governing the financial relations between the Government and the groundnut oil processing company (SONACOS) in accordance with paragraph 31.	End-December 1989.
b. Completion of a plan of action for the acceleration of public enterprise reform program, including in particular the privatization process, in accordance with paragraph 29.	End-December 1989.

1/ The program assumes that Senegal will receive a cumulative amount of external budgetary assistance (including grants and debt relief but excluding project aid and assistance envisaged for the reform of the banking sector), beginning July 1, 1989, of CFAF 46.8 billion through December 31, 1989, of CFAF 67.3 billion through March 31, 1990, and of CFAF 97.9 billion through June 30, 1990. In the event that the external budgetary assistance exceeds the above amounts, the changes will be reduced pro tanto, net of any budgetary assistance used to accelerate (a) the reduction in payments arrears of the Government and public agencies; and (b) the repayment of reclassified crop credit. The changes exclude variations resulting from the restructuring of the banking sector.

2/ The program does not envisage the receipt by Senegal of any extrabudgetary external financial assistance during the period July 1, 1989-June 30, 1990 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 changes will be reduced pro tanto, net of any expenditure tied to such assistance.

3/ The program envisages a reduction in crop credit of CFAF 6.2 billion during the period July 1-December 31, 1989; an increase of CFAF 0.8 billion during the period July 1, 1989-March 31, 1990; and a reduction of CFAF 4.2 billion during the period July 1, 1989-June 30, 1990. In the event that the variation in crop credit differs from these amounts, the variation in net domestic assets will be adjusted pro tanto.

4/ The exchange rate applicable to these borrowings will be the rate of the SDR vis-à-vis the contract currency on June 30, 1989, as reported in International Financial Statistics. For debts directly contracted by the Government, the loan will count toward the ceiling on the date of the signing. For debts guaranteed by the Government, the full amount of the loan will count toward the ceiling on the date of full or first partial guarantee, whichever is earlier. For the purposes of this ceiling, the length of the loan is deemed to be from the date of signing or the date that the loan enters into effect (whichever is later) until the last scheduled amortization payment. Loans on concessional terms as defined by the OECD Development Assistance Committee are excluded from these ceilings.

Senegal - Relations with the Fund
(As of September 30, 1989)

I. Membership status

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

A. Financial Relations

II. General Department

	Millions of SDRs	Percent of Quota
a. General Resources Account		
(i) Quota:	85.10	100.00
(ii) Total Fund holdings of Senegal's currency:	214.18	251.68
(iii) Use of Fund credit:	130.08	152.86
Credit tranches	44.49	52.28
EAR	81.20	95.41
EFF	4.39	5.16
(iv) Reserve tranche position	1.01	1.19
b. Special Disbursement Account		
(i) Structural Adjustment Facility	42.55	50.00
(ii) Enhanced Structural Adjustment Facility	11.49	13.50

Senegal - Relations with the Fund (continued)
(As of September 30, 1989)

III. Previous stand-by, extended arrangements, SAF and ESAF 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 arrangement, 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 arrangement was canceled on September 10, 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 18, 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.

f. An 18-month stand-by arrangement, approved on January 16, 1985, in an amount equivalent to SDR 76.6 million (90 percent of quota, or 60 percent of quota on an annual basis); the full amount was purchased.

g. One-year stand-by arrangement, approved on November 10, 1986, in an amount equivalent to SDR 34.0 million (40 percent of quota), together with a three-year arrangement under the structural adjustment facility (SAF) in an amount equivalent to SDR 54.04 million (63.5 percent of quota) and the first annual arrangement thereunder for SDR 17.02 million (20 percent of quota); the full amount under the stand-by arrangement was purchased, and the first loan under the SAF equivalent to SDR 17.02 million was disbursed.

h. One-year stand-by arrangement, approved on October 26, 1987 for an amount equivalent to SDR 21.275 million (25 percent of quota), together with the second annual arrangement under the SAF for an amount equivalent to SDR 25.53 million (30 percent of quota); the loan under the SAF and the full amount of the stand-by arrangement have been disbursed. SAF arrangement replaced by ESAF on date of ESAF arrangement.

i. A three-year ESAF arrangement, approved on November 21, 1988 for an amount equivalent to SDR 144.67 million (170 percent of quota), together with the first annual arrangement thereunder for an amount equivalent to SDR 59.57 million (70 percent of quota); the full amount under the first annual arrangement has been disbursed.

Senegal- Relations with the Fund (continued)
(As of September 30, 1989)

IV. Financial obligations due to the Fund

(In millions of SDRs)

	Overdue Financial Obligations 09/30/89	Principal and interest due Oct.-Dec. 1989	1990	1991	1992
Principal	--	14.9	40.7	34.6	31.5
Repurchases	--	14.2	39.7	34.5	28.1
Trust Fund repayments	--	0.6	1.0	0.1	--
SAF Loans	--	--	--	--	3.4
Charges and interest including SDR, Trust Fund, SAF, and ESAF (provisional)	--	1.9	12.0	8.8	5.8
Total	--	16.8	52.7	43.4	37.3

V. SDR Department

a. Net cumulative allocation SDR 24.46 million

b. Holdings SDR 0.92 million (3.78 percent of the net cumulative allocation)

VI. Administered accounts

a. Trust Fund loans

Disbursed SDR 33.23 million

Outstanding SDR 1.81 million

b. ESAF Trust loans
Disbursed SDR 48.08 million
Outstanding SDR 48.08 million

Senegal - Relations with the Fund (continued)
(As of September 30, 1989)

c. SFF Subsidy Account

Payments by the Fund	SDR 7.79 million

B. Nonfinancial Relations

VII. 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. The exchange rate at end-September 1989 was CFAF 405.41 = SDR 1.

VIII. Last Article IV consultation and midterm review under the first annual arrangement under the enhanced structural adjustment facility (ESAF)

(a) 1988 Consultation

The 1988 Article IV consultation was concluded on November 21, 1988.

(b) ESAF Arrangement

The discussions on the midterm review under the first annual arrangement under the enhanced structural adjustment facility were held in Dakar during the period December 1-14, 1988. The staff report (EBS/89/18) was discussed by the Executive Board on March 20, 1989, and the following decision was adopted:

1. The Fund determines that the review contemplated in paragraph 2(c) of the first annual arrangement under the enhanced structural adjustment facility for Senegal (EBS/88/222, Sup. 1, 11/23/88) has been completed.

2. The letter of the Minister of Economy and Finance of Senegal dated January 31, 1989 shall be attached to the ESAF arrangements for Senegal (EBS/88/222, Sup. 1, 11/23/88) and the letter of the Minister of Economy and Finance of Senegal dated October 15, 1988 together with the memorandum of economic and financial policies attached thereto shall be read as supplemented and modified by the letter dated January 31, 1989.

3. Accordingly, the indicators referred to in paragraph 3(a) of the first annual arrangement under the ESAF for Senegal shall include the benchmarks for March and June 1989 set out in the table annexed to the letter of the Minister of Economy and Finance of Senegal dated January 31, 1989.

Senegal - Relations with the Fund (concluded)
(As of September 30, 1989)

IX. Technical assistance

a. Central Banking Department

An external debt expert was assigned as a consultant to the Ministry of Economy and Finance during the period January 1984-December 1985.

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 payments arrears.

A team of two Fund staff members and a member of the fiscal panel provided technical assistance in the customs and internal revenue fields during a period of three weeks in May 1985. Follow-up technical assistance was provided by a Fund staff member and a member of the fiscal panel for two weeks in October-November 1985 and one week in February 1986.

A Fund staff member participated in May 1986 in a World Bank mission to assist the authorities with a revision of the customs tariffs, and with a simplification and rationalization of the tariffs structure and nomenclature.

A member of the fiscal panel was assigned as Tax Advisor to the Ministry of Economy and Finance for an initial period of six months effective June 1986. His term has been extended by one year to November 1989.

A team of one Fund staff member and a member of the fiscal panel provided technical assistance in the area of budgeting and Treasury accounting for a period of three weeks in March 1988.

A team of one Fund staff member, two members of the fiscal panel, and one consultant from the World Bank visited Dakar in February 1989 to provide technical assistance in the area of fiscal reform and taxation of petroleum products.

c. Bureau of Statistics

Technical assistance was provided in the area of government finance statistics in September-October 1982 and again in May 1984, in the area of balance of payments statistics in February 1984, as well as in the area of monetary statistics in May 1985.

X. Fund resident representative

Stationed in Dakar since July 24, 1984.

Senegal - Relations with the World Bank Group
(As of August 31, 1989)

Commentary on lending operations

1. The World Bank's assistance strategy in Senegal is designed to support a far-reaching medium- and long-term structural adjustment program. The main objectives of this strategy are to assist the Government in (a) addressing the central issues of economic management by promoting institutional reforms in the public enterprise sector, investment programming and budgeting process, and by improving the efficiency of the civil service and reducing its costs; (b) developing and diversifying the productive base by implementing appropriate private sector incentive policies, reducing input costs and in general improving the investment climate, and (c) improving the effectiveness of external assistance by acting as a focal point for increased aid coordination among the donors.

2. As of August 31, 1989, the World Bank Group had approved 86 operations in Senegal for a total of US$916.12 million, consisting of 57 IDA credits (including 3 special fund credits and two SFA), 20 Bank loans, and 9 IFC operations. Physical execution of most projects is progressing reasonably well. The attached table contains the latest disbursement status of World Bank and IFC operations in Senegal.

3. Past projects strongly supported modernization and expansion of the country's infrastructure, particularly its transport systems (highways, rails, port, and airports). However, in view of the financial difficulties in supporting new investments, emphasis has shifted to better utilization and maintenance of existing facilities, and on helping the Government resolve some of the key issues related to long-term development prospects. Ongoing or planned operations for agricultural research, irrigation, education development, and financial sector reforms relate to both of these concerns.

4. Over the next three-year period (FY90-92), the Bank's lending program, all of which would be on IDA terms, is expected to amount to about US$312 million, essentially for policy-based lending (SAL IV and SECALs). About US$127 million were committed in FY87, including the third structural adjustment credit (SAL III) of US$85 million, which was approved in May 1987, and US$142 million in FY88. The policy-based operations, financed partly out of the Special Facility for sub-Saharan Africa, aimed at increasing the efficiency of public sector management and restoring public sector savings through an acceleration of the public enterprise sector reform, extending the reform of production and private investment incentives in agriculture and industry, and rehabilitating the financial sector and improving financial intermediation. While the specific targets of the program had been met and the third and last tranche of SAL III was disbursed in mid-1988, the desired supply response has been lagging. An intensification and deepening of the adjustment process is clearly indicated.

Senegal - Relations with the World Bank Group (concluded)

Lending operations (As of August 31, 1989; in millions of U.S. dollars)

	IBRD and IDA 1/		IFC loans/equity and investment participations 1/		Grand total
	Total commitments	Of which: undisbursed	Total commitments	Of which: undisbursed	
Nineteen loans and 36 credits fully disbursed	495.47	(--)	--	(--)	495.47
Structural adjustment and technical assistance	84.30	(16.80)	--	(--)	84.30
Agriculture, livestock, and forestry	99.50	(53.02)	5.04	(--)	104.54
Energy, industry, and tourism	59.50	(41.72)	47.61	(3.3)	107.11
Transport, equipment and telecommunications	48.65	(19.71)	--	(--)	48.65
Urban development, education, and health	76.05	(52.77)	--	(--)	76.05
Total	863.47	(184.02)	52.65	(3.3)	916.12
Less: repaid or sold					101.56
Total committed					814.56
Held by IBRD					76.95
IDA					719.15
IFC					18.46

Memorandum items:

Annual IBRD/IDA operations 2/	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	31.8	5.6
1984	34.2	29.0	5.9
1985	24.2	33.7	6.0
1986	72.4	77.7	9.9
1987	127.0	71.0	10.3
1988	142.0	100.0	10.8
1989 (June)	21.6	48.8	11.0

Source: World Bank Group.

1/ Less cancellations.
2/ During fiscal year ending June 30.

Senegal - Statistical Issues

1. Outstanding statistical issues

a. Real sector

The weighting base of the consumer price index (based on a 1960-61 household budget survey) is outdated and its coverage is limited to Dakar. The authorities are considering undertaking a comprehensive survey to compile a new Consumer Price Index (CPI).

b. Balance of payments

The latest period for which the Bureau has received balance of payments data is 1984. Senegal is thus seriously uncurrent in its reporting. The most recent technical assistance mission took place in January 1982.

2. Coverage, currentness, and reporting of data in IFS

The table below shows the currentness and coverage of data published in the country page for Senegal in the October 1989 issue of IFS. The data are based on reports sent to the Fund's Bureau of Statistics by the Banque Centrale de l'Afrique de l'Ouest, which during the past year have been provided on a regular basis except for data on bank deposit rates; and on an irregular basis for real sector data. Data on balance of payments, provided by the Ministry of Finance have been sent on an infrequent basis.

Status of IFS Data

Real Sector	- National Accounts	1986
	- Prices: CPI	Feb. 1989
	- Production (Industrial)	Q2 1988
	- Employment	n.a.
	- Earnings	n.a.
Government Finance	- Deficit/Surplus	1984
	- Financing	1984
	- Debt	1984
Monetary Accounts	- Monetary Authorities	April 1989
	- Deposit Money Banks	April 1989
	- Other Banking Institutions/ Savings Deposits	April 1989
Interest Rates	- Discount Rate	May 1989
	- Bank Lending/Deposit Rates	Dec. 1987/ May 1989
	- Bond Yield	n.a.

External Sector	- Merchandise Trade:	
	Total: Exports & Imports	1986
	Commodity: Exports & Imports	1985
	Unit Value: Exports & Imports	1987
	- Balance of Payments	1984
	- International Reserves	June 1989
	- Exchange Rates	Aug. 1989

3. Technical assistance missions in statistics (1985-present)

None.

Medium-Term Outlook for the Balance of Payments

1. Baseline scenario

The baseline scenario underlying Senegal's adjustment program for 1989/90-1991/92 takes into account the measures envisaged under the program, the recovery of weather conditions, the nonrecurrent nature of the locust infestation that occurred in 1988/89, the abatement of social disturbances, and the latest international price projections provided in the World Economic Outlook (WEO).

Export earnings are expected to increase by 5.3 percent in 1989/90, and by an average annual rate of 9.5 percent during 1990/91-1991/92. The volume of groundnut oil exports is projected to increase by nearly 4.0 percent in 1989/90, to 146,900 tons, and by an annual average rate of 3.3 percent in the following two years. After the sharp increase recorded in the world price of groundnut oil, from an average of SDR 370.8 per ton in 1987/88 to an average of SDR 559 per ton in 1988/89, the average export price of groundnut oil is projected to increase by some 6.0 percent in 1989/90, before declining by 3.7 percent in 1990/91, as the world supply conditions of edible oil improve. Thereafter, the world price of groundnut oil is projected to increase at an annual average rate of 4.0 percent in the following two years. Hence, export earnings from the groundnut sector are projected to increase from CFAF 45.8 billion in 1988/89 to CFAF 48.3 billion in 1989/90 and further to CFAF 51.8 billion in 1991/92. Exports receipts from fish products, Senegal's leading export sector, are projected to increase at an annual average rate of 5.7 percent in volume and 10.0 percent in value, while phosphate exports are expected to increase at an annual average rate of 11.6 percent in value and nearly 3.4 percent during the period 1989/90-1991/92.

The import bill is projected to increase by 1.9 percent in 1989/90, and at an average annual rate of 4.8 percent during the following two years. Import payments for petroleum products are projected to rise by nearly 14 percent in 1989/90, on account of a 12 percent increase in the volume to rebuild the stocks that were drawn down in the previous year. Thereafter, the import payments for petroleum products are projected to increase at an average annual rate of 7.0 percent, with the volume increasing by 3.5 percent. The import bill for foodstuffs is projected to decline by some 7 percent in 1989/90, on account of a sharp decline in the volume of imports of rice and wheat, which reflects the recovery in agricultural production. In the next two years, import payments for foodstuffs are projected to grow by less than 1 percent annually on average, as increases in the import volume of cereals are expected to be offset by a reduction in import prices. Consistent with the targeted growth in real GDP, imports of intermediate goods are projected to increase at an annual rate of more than 4 percent in volume terms, while the import volume of capital goods is projected to increase at an annual rate of 3.2 percent, in line with the public investment program.

Accordingly, the trade deficit is projected to narrow from CFAF 65.4 billion in 1988/89 to CFAF 38.1 billion in 1991/92. The service account is also projected to improve over the three-year period, owing to a gradual reduction in interest payments on the external public debt and to an increase in tourism receipts. Taking into account a projected stagnation in net receipts from private transfers, the external current account deficit, excluding official grants, is projected to decline steadily from CFAF 140.4 billion in 1988/89 to CFAF 128.9 billion in 1989/90 and, subsequently, to CFAF 106.6 billion in 1991/92.

Net public capital inflows are expected to increase from CFAF 30.0 billion in 1989/90 to CFAF 35.3 billion in 1990/91, before declining to CFAF 32.4 billion in 1991/92. Net private capital outflows are expected to decline in 1989/90 to CFAF 2.6 billion on account of the continued tight credit policy being pursued, the more active interest rate policy, and the nonrecurrent nature of the social disturbances. Thereafter, private capital inflows would stabilize at about CFAF 5.0 billion through 1991/92, reflecting the improved economic environment in Senegal. Accordingly, the overall balance of payments, before debt relief, is projected to record a deficit of CFAF 20.1 billion in 1989/90, and turn into surpluses of CFAF 11.2 billion in 1990/91 and CFAF 16.1 billion in 1991/92.

These improvements, along with the debt relief already obtained for 1989/90 and the projected net drawings from the Fund, should allow Senegal to ameliorate its external reserve position in the operation account during the next three years. However, there would remain a residual financing gap amounting to CFAF 27.9 billion in 1989/90. This financing gap is expected to be covered by further debt relief from the Paris Club and other creditors. No financing gap is projected for 1990/91 and beyond, on the assumption of the projected decline in external budgetary assistance.

Senegal's external public debt service burden is expected to be reduced over the medium term, as a result of the prudent fiscal policies being pursued. The external public debt service ratio, before debt rescheduling, is projected to decline from 31.3 percent in 1989/90 to 26.8 percent in 1991/92. This improvement reflects lower interest payments from an improved debt profile and lower debt service to the Fund, owing to the shift in the use of Fund resources from a stand-by arrangement to arrangements under the SAF and the ESAF. Hence, the debt service ratio to the Fund is projected to decline from 5.4 percent in 1988/89 to 3.3 percent in 1991/92.

2. Alternative scenarios for the balance of payments

Senegal's medium-term balance of payments outlook remains very sensitive to changes in the external environment. To illustrate this case, two alternative scenarios are presented. Scenario I shows the impact of a weaker trade performance resulting from lower export and higher import volumes. More specifically, it is assumed that as a consequence of poor weather conditions occurring in 1990/91, the export volume of groundnut oil will decline to 100,000 tons in 1991/92, compared with 156,760 tons in the baseline scenario, before increasing at an average annual rate of 6.6 percent in the following two years. The volume of fish exports will also increase at an annual average of 4.0 percent during 1990/91 and 1991/92, compared with 5.7 percent in the baseline scenario. The volume of rice and wheat imports will increase to 360,000 tons and 120,000 tons in 1990/91, compared with 288,000 tons and 107,000 tons in the baseline scenario, respectively; thereafter the volume of rice imports is expected to decline at an annual average rate of less than 1.0 percent, compared with an increase of 1.5 percent in the original scenario, while the volume of wheat imports will remain practically unchanged from the average annual growth rate of 1.5 percent in the baseline scenario. Under these circumstances, the attainment of a viable external payments position in the medium term would be compromised. The current account deficit, excluding official grants, would reach 6.8 percent of GDP in 1991/92, compared with 5.2 percent in the baseline scenario. The overall balance of payments would record substantial deficits, and financing gaps would emerge in each of the next three years. In addition, the external debt service ratio would reach 25.9 percent in 1991/92, compared with 24.7 percent in the baseline scenario. These results highlight the vulnerability of Senegal's external payments position and the need for continuous adaptation of domestic policies to compensate for the impact of exogenous shocks.

On the other hand, scenario II shows that Senegal's external payments position could improve faster if the terms of trade were to be better than what has been assumed in the baseline scenario. In this particular case, assuming that the terms of trade were 2 percentage points higher throughout the period, the external current account deficit, excluding official grants, would narrow more rapidly, and the overall balance of payments position would improve at a faster pace. Even though there would still be a financing gap in 1989/90, this would be lower than under the baseline scenario, and would be eliminated in subsequent years. In addition, the debt service ratio would decline to 24 percent in 1991/92.

Senegal - Selected Social and Demographic Indicators

Area

Total	196,200 sq. km.
Agricultural	55.7 percent of total

Population (1988)

7.0 million
Rate of growth (1980-86) 2.9 percent per annum

Population characteristics (1980-88)

Crude birth rate (per thousand)	45.0
Crude death rate (per thousand)	18.0
Life expectancy at birth (years)	47.0
Urban population (percent of total)	37.0

Access to safe water (1980-88)

In percent of population	
Total	43.0
Urban	63.0
Rural	27.0

Nutrition (1980-88)

Per capita supply of	
Calories (per day)	2,418
Proteins (grams per day)	60

Gross Domestic Product

Per capita (1988)	SDR 537

Population density (1980-88)

58.0 per sq. km. of agricultural land

Health (1980-88)

Population per physician (in thousands)	13.1
Population per hospital bed (in thousands)	0.9
Infant mortality rate (per thousand)	124

Education (1980-88)

Enrollment rates (in percent)	
Primary	55
Secondary	13
Pupil-teacher ratio	
Primary	46
Secondary	23

Source: Social Indicators of Developments. A World Bank publication.