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EBS/88/222

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October 31, 1988

To: Members of the Executive Board

From: The Secretary

Subject: Senegal - Staff Report for the 1988 Article IV Consultation and Request for Arrangements Under the Enhanced Structural Adjustment Facility

Attached for consideration by the Executive Directors is the staff report for the 1988 Article IV consultation with Senegal and its request for arrangements under the enhanced structural adjustment facility (ESAF). A draft decision appears on page 35.

This subject, together with the policy framework paper for Senegal (EBD/88/304, 10/31/88), 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)

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INTERNATIONAL MONETARY FUND

SENEGAL

Staff Report for the 1988 Article IV Consultation and Request for Arrangements 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 G.E. Gondwe and J. T. Boorman

October 27, 1988

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I. Introduction

The discussions that formed the basis for the Article IV consultation and the request for a three-year arrangement under the enhanced structural adjustment facility (ESAF) were initiated in Dakar during July 1-17, 1988, and concluded in Washington during August 15-26, 1988. 1/ In the attached letter dated October 15, 1988, the Government of Senegal requests a three-year arrangement under the ESAF in an amount equivalent to SDR 144.67 million (170 percent of quota), and the first annual arrangement thereunder in an amount equivalent to SDR 59.57 million (70 percent of quota). The requested arrangements are in support of Senegal's adjustment policies outlined in the updated medium-term policy framework paper (PFP) for 1988/89-1990/91 (July/June) (EBD/88/304), which was prepared in collaboration with the staffs of the Fund and the World Bank, and the memorandum on economic and financial policies for 1988/89 (Appendix II). The updated PFP, which was transmitted to the Managing Director of the Fund and to the President of the World Bank on October 15, is expected to be considered by the Bank's Executive Directors, at a meeting of the Committee of the Whole, in November 1988.

The proposed access of 170 percent of quota over the three-year period is based on Senegal's demonstrated track record under previous Fund-supported programs, the strength of the proposed adjustment program, and its financing needs. Over the three-year period, the total budgetary external financing requirements amount to CFAF 250.0 billion (SDR 634.1 million), of which the Fund would account for about 23.5 percent on a gross basis and 3.6 percent on a net basis (after repurchases, but excluding charges). The proposed phasing of access, of 70 percent of quota during the first year and 50 percent in each of the two following years, is broadly commensurate with the distribution of Senegal's financing requirements over the three-year period. Senegal's yearly budgetary financing needs as a percentage of the total over the

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1/ The letter of request was finalized on October 15, 1988, following the confirmation of external financial commitments for 1988/89. The Senegalese representatives included Mr. Jean Collin, Minister of State and General Secretary 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. Famara Sagna, Minister of Industrial Development and Handicrafts; 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 Messrs. Nsouli (head-AFR), Brou (AFR), Enders (AFR), Yucelik (FAD), de Zamaróczy (AFR), and Miss Linares (secretary-AFR). Mr. Ugolini, the Fund's resident representative in Dakar, took part in the discussions. A World Bank staff team, led by Mr. Ingram, participated in the discussions on the PFP. Mr. Mawakani and Mr. Santos, Executive Director and Alternate Executive Director for Senegal in the Fund, attended the policy meetings.

three-year period are projected to be 46.9 percent in 1988/89, 30.8 percent in 1989/90, and 22.3 percent in 1990/91. The proposed phasing of drawings from the Fund, as a percent of total access over the three-year period, is 41.2 percent in the first year and 29.4 percent in each of the two successive years. As of September 30, 1988, total Fund credit outstanding amounted to 253.68 percent of quota. 1/ If all the disbursements under the proposed ESAF arrangements 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). The budgetary and balance of payments projections show that Senegal can begin to reduce its obligations to the Fund starting in 1991/92. During 1991/92-1992/93, total Fund credit outstanding would be reduced by 71 percent of quota.

The Fund and the World Bank staffs have continued their close cooperation on Senegal. In support of its adjustment program, Senegal is expected to receive a fourth structural adjustment loan (SAL) from the World Bank and other cofinancing amounting to about US$150 million. As preparation of the SAL is expected to be initiated in late 1988, the first disbursement is projected to take place only in the second quarter of 1989. The Government has also sought and received assurances of continued financial support of its programs from other multilateral and bilateral creditors, and has requested a rescheduling of part of its external debt service obligations under the auspices of the Paris Club.

Senegal is on the standard 12-month consultation cycle. The 1987 Article IV consultation with Senegal was concluded on March 25, 1987. The Executive Board was notified on February 17, 1988 (EBD/88/59) of the delay in conducting the 1988 Article IV consultation, with a view to aligning the consultation discussions more closely with the timing of the Government's fiscal year (July/June). Senegal continues to avail itself of the transitional arrangements under Article XIV.

II. Background: Adjustment and Growth

Faced with a severe economic and financial crisis, resulting mainly from recurrent droughts, declining terms of trade, and inadequate economic and financial policies, in mid-1983 the Senegalese Government started to implement effectively appropriate structural and demand management policies. These efforts have been supported by successive stand-by arrangements from the Fund and, starting in 1986/87, also by arrangements under the SAF; two structural adjustment loans from the

1/ Senegal has made all the purchases totaling SDR 21.275 million envisaged under the current one-year stand-by arrangement, which is due to expire on October 26, 1988. It also drew SDR 25.53 million under the second annual arrangement under the structural adjustment facility (SAF).

World Bank; and other multilateral and bilateral financial assistance, including debt relief. During 1983/84-1986/87, the economy was substantially liberalized, agricultural and industrial production incentives strengthened, public enterprise reform initiated, the Government's overall fiscal deficit sharply reduced, and an appropriate domestic credit policy pursued.

The policies implemented succeeded in revitalizing the economy, dampening inflationary pressures, and strengthening the external sector position (Table 1). Reflecting the return of favorable weather conditions and the improved domestic economic environment, real GDP growth averaged 4.2 percent annually during 1985/86-1986/87. The inflation rate, as measured by the GDP deflator, declined from an average annual rate of over 11 percent in 1983/84-1984/85 to 5.0 percent in 1986/87. The external current account deficit, excluding official grants, narrowed from 21.7 percent of GDP in 1982/83 to 11.0 percent in 1986/87, reflecting primarily an increase in private gross domestic savings. The improved financial situation and the strengthening in external debt management contributed to 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 74.2 percent in 1986/87, and to a stabilization of the debt service ratio, before debt relief, at about 30 percent of exports of goods and services and private transfers.

III. Performance Under the 1987/88 Program

In order to consolidate the gains achieved and to further the adjustment process, the Senegalese authorities pursued their adjustment efforts in 1987/88 within the context of a medium-term policy framework for 1987/88-1989/90. The policies envisaged were vigorously implemented, notwithstanding the political pressures associated with the presidential and parliamentary elections held in February 1988. All the performance criteria under the stand-by arrangement were met, and all the benchmarks under the second annual arrangement under the SAF were observed, albeit with a delay of a few weeks in the removal of the remaining quantitative restrictions on imports (Table 2). The measures implemented under the 1987/88 program are summarized in Table 3 and detailed in the memorandum on economic and financial policies (Appendix II). The objectives of the program with regard to growth, inflation, and the external current account were broadly realized. However, the capital outflows that had taken place in the first half of 1987/88 persisted. As a result, the balance of payments objective was not attained.

In 1987/88 real GDP is estimated to have grown by about 4.4 percent, compared with a program target of 4.2 percent, reflecting the continued strength of the agricultural sector, owing to the positive impact of the policies pursued and the good weather conditions. The favorable domestic supply conditions, the liberalization of the economy,

Table 1. Senegal: Selected Economic and Financial Indicators, 1984/85–1991/92

	1984/85	1985/86	1986/87	1987/88 Rev. prog.	1987/88 Prel. act.	1988/89 Prog.	1989/90	1990/91	1991/92
							Projections		
	(Annual changes in percent, unless otherwise specified)								
National income and prices									
GDP at constant prices	-0.5	4.2	4.2	4.2	4.4	4.2	3.5	3.6	3.8
GDP deflator	11.4	8.3	5.0	3.8	2.5	2.4	2.3	2.3	2.3
Consumer prices 1/	13.5	9.4	0.4	3.5	-2.6	...	...	...	...
External sector									
Exports, f.o.b.	-2.8	-11.5	-5.8	14.6	10.5	11.8	12.2	13.3	12.6
Imports, f.o.b.	3.9	-7.5	-15.4	5.1	3.7	6.7	6.6	6.7	7.6
Non-oil imports, f.o.b.	2.8	1.4	-8.2	2.4	2.3	8.6	6.6	6.7	7.6
Export volume	-14.1	2.3	2.3	16.9	16.3	9.5	6.8	6.1	6.5
Import volume	-1.7	9.8	2.2	0.3	-5.8	2.2	3.8	2.8	3.1
Terms of trade (deterioration -)	9.1	-6.6	10.3	-6.5	-7.3	3.2	1.4	1.7	0.3
Nominal effective exchange rate (end of period; depreciation -)	4.3	6.3	4.6	...	2.2	...	...	...	...
Real effective exchange rate (end of period; depreciation -)	5.2	7.3	-2.0	...	-1.9	...	...	...	...
Government financial operations									
Revenue	7.7	7.3	14.8	4.5	-1.4	9.5	8.3	9.6	7.5
Total current and capital expenditure	2.5	0.9	6.6	5.4	5.4	1.4	2.6	2.9	2.4
Money and credit									
Domestic credit 2/	4.8	14.2	10.7	-2.2	9.2	-3.0	2.3	3.6	0.8
Credit to the Government (net) 2/	2.1	5.5	0.6	1.9	1.8	1.2	-0.4	-0.2	-3.3
Credit to the economy 2/									
Including crop credit 2/	2.8	8.8	10.1	-4.1	7.4	-4.2	2.7	3.8	4.2
Excluding crop credit 2/	1.3	4.1	0.9	2.3	1.9	3.3	3.0	3.8	4.2
Money and quasi-money (M2)	2.8	2.5	17.4	3.2	1.2	5.2	6.2	5.7	5.4
Velocity (GDP relative to M2) 3/	3.8	4.2	3.9	4.1	4.1	4.2	4.2	4.2	4.2
Interest rate (end of period)									
Minimum rate on time deposits 4/	9.5	9.0	8.0	8.0	8.0	...	...	...	...
Money market rate for overnight deposits	10.3	7.8	8.0	7.5	7.75 5/	...	...	...	...
	(In percent of GDP, unless otherwise specified)								
Overall fiscal surplus or deficit (-) 6/									
Commitment basis	-3.5	-2.3	-1.5	-0.3	-1.0	0.2	0.6	1.9	2.7
Cash basis	-4.6	-3.3	-3.4	-2.9	-3.6	-1.9	0.3	1.6	2.5
Gross domestic investment	14.7	14.2	15.0	14.0	14.9	14.5	14.6	14.9	14.9
Gross domestic savings	2.5	4.2	9.3	9.5	10.2	10.6	11.8	13.2	14.1
External current account deficit (-)									
Excluding official grants	-18.7	-15.6	-11.0	-9.2	-9.9	-9.1	-7.8	-6.5	-5.4
Including official grants	-12.2	-10.0	-5.7	-4.1	-4.7	-4.0	-2.8	-1.7	-0.8
External debt 7/	91.0	80.3	74.2	72.7	74.3	73.9	72.5	69.6	65.6
Debt service ratio (in percent of exports of goods and services, and private transfers) 6/	25.2	29.1	29.6	28.9	30.0	30.4	29.1	26.8	25.2
GDP at current market prices (in billions of CFA francs)	1,083.8	1,223.1	1,338.2	1,460.3	1,432.9	1,527.8	1,617.9	1,714.4	1,820.8
Overall balance of payments surplus or deficit (-) (in millions of SDRs) 8/	-75.6	-28.0	86.3	72.8	-29.5	72.8	36.7	20.1	47.7
Gross official foreign reserves (in weeks of imports)	0.7	0.2	0.4	...	0.4	...	...	...	...

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

1/ Index of consumer prices in Dakar for the average Senegalese household.
2/ Annual percentage change over beginning-of-period money stock.
3/ GDP relative to end-June broad money stock.
4/ Minimum rate on time deposits in excess of one year and in amounts of more than CFAF 2 million; the actual rates generally follow closely the money market quotations.
5/ Since September 5, 1988.
6/ Before debt rescheduling.
7/ Public and publicly guaranteed debt, including Fund credit and central bank liabilities.
8/ After debt rescheduling.

Table 2. Senegal: Performance Criteria Under the Stand-By Arrangement and Benchmarks Under the SAF Arrangement, July 1987-June 1988 1/

	Stock at end-June 1987	Change from July 1, 1987 to end-			
		1987		1988	
		Sept.	Dec.	March	June
I. Performance Criteria and Financial Benchmarks					
		(In billions of CFA francs)			
Net domestic assets of the banking system	549.7	-7.4	-1.3	30.6	0.1
Adjusted ceiling		-11.0	-7.9	44.0	41.0
Actual		-17.3	-12.1	34.5	32.5
Credit to the Government (net)	143.9	1.4	10.5	8.9	6.5
Adjusted ceiling		-3.7	9.0	8.9	6.5
Actual		-7.7	-0.9	1.7	6.0
Payments arrears of the Government and public agencies	22.5	-3.0	-3.5	-9.5	-14.0
Adjusted ceiling		-3.0	-3.5	-1.1	-14.0
Actual		-3.6	-6.5	-4.1	-14.0
1. Domestic	22.5	-3.0	-3.5	-9.5	-14.0
Adjusted ceiling		-3.0	-3.5	-1.1	-14.0
Actual		-3.6	-6.5	-4.1	-14.0
2. External	--	--	--	--	--
Actual		--	--	--	--
Repayment of 1985/86 crop credit	2.5	--	-2.5	-2.5	-2.5
Adjusted ceiling		--	-2.5	-2.5	-2.5
Actual		--	-2.5	-2.5	-2.5
Repayment of ONCAD debt	80.2	-2.2	-3.4	-6.5	-8.6
Adjusted ceiling		-2.2	-3.4	-4.9	-8.6
Actual		-2.2	-3.4	-4.9	-8.6
New external borrowing on nonconcessional terms by the Government or with government guarantee		(In millions of SDRs)			
1. Short-term (less than 1 year)		--	--	--	--
Actual		--	--	--	--
2. 1-5 years' maturity		--	--	--	--
Actual		--	--	--	--
3. 1-12 years' maturity		24.0	24.0	24.0	24.0
Actual		5.4	5.4	5.4	12.7

II. Structural Benchmarks

Action	Status
(a) Elimination of the remaining quantitative restrictions on imports (January 1988).	Lifted in February 1988. 2/
(b) Implementation of appropriate adjustment in producer prices for the 1988/89 crop season based on recommendations of study on agricultural prices and other incentives (1988 and 1989).	Study completed in February 1988, and adjustment in producer prices effected on May 1, 1988.
(c) Adoption of a three-year public investment program for 1988/89-1990/91.	Implemented.

Sources: Letters of intent of the Minister of Economy and Finance dated September 18, 1987 and March 1, 1988; and data provided by the Senegalese authorities.

1/ For the provisions regarding the adjusted ceilings, see EBS/87/205 and EBS/88/52.
2/ With the exception of those on used clothes, maintained for sanitary reasons.

Table 3. Senegal: Policies Implemented Under the Program for 1987/88

Objectives	Status
1. Real growth: 4.2 percent;	4.4 percent
2. Inflation (GDP deflator): 3.8 percent;	2.5 percent
3. External current account deficit, excluding official grants: 9.2 percent of GDP.	9.9 percent
Policies	
A. Agricultural policy	
Continue to implement new agricultural policy, including Cereals Plan;	
1. Prepare study on agricultural producer prices;	Completed
2. Prepare an action plan on producer prices for 1988/89 crop season;	Completed
3. Complete a technical and financial audit of SONACOS.	Preliminary audit completed
B. Industrial policy	
1. Remove remaining quantitative restrictions on imports by January 1988;	Removed in February 1988
2. Gradual phasing out of product-specific exceptions to general tariff schedule by December 1988;	In progress
3. Eliminate direct operating subsidies to sugar company (CSS) by November 1987;	Implemented
4. Revise investment code by July 1987;	Implemented
5. Revise labor code by July 1987;	Implemented
6. Reduce price controls.	Reduced in February 1988
C. Public investment	
Implement first year of the three-year rolling public investment program (1987/88-1989/90), with an overall target of CFAF 144.0 billion for 1987/88.	Implemented
D. Public enterprise sector	
1. Initiate divestiture programs for ten public enterprises in 1987/88;	Implemented
2. Liquidate seven public enterprises and two public agencies by December 1987;	Implemented
3. Identify a second group of 10 to 17 enterprises for partial or complete privatization in 1987/88;	Implemented
4. Finalize and sign contract programs with nine public enterprises.	Signed one; others delayed.
5. Pursue progressive elimination of direct government subsidies to public enterprise sector.	Implemented
E. Fiscal policy	
Reduce overall deficit on a commitment basis, including grants, from 1.5 percent of GDP in 1986/87 to 0.3 percent of GDP in 1987/88. Reduce domestic payments arrears to CFAF 8.5 billion.	Overall deficit reduced to 1.0 percent of GDP; reduction in payments arrears achieved.
Revenue: increase by 4.5 percent;	Declined by 1.4 percent
1. Implementation of the second phase of the tax reform (with Fund technical assistance), including:	
(1) restructuring of revenue departments with increased emphasis on audit and greater use of computerized procedures for assessment and collection;	In progress
(2) reinforcing fight against smuggling and evasion;	In progress
(3) introducing fiscal cadaster in Dakar area;	In progress
2. Initiate the first step of the five-year program of sales of state-owned land, expected to yield CFAF 3.5 billion in 1987/88;	Delayed
3. Transfer to the budget CFAF 36.0 billion of receipts from the oil sector;	Implemented
4. Adopt a new customs code by December 1987.	Implemented
Total expenditure and net lending: increase by 0.8 percent;	Declined by 1.4 percent
1. Limit the increase in the wage bill to 2.1 percent:	Implemented
- Reduce the number of government employees to 67,700 at end-December 1987, and 67,100 at end-June 1988;	Implemented
- No general salary increase to be granted in 1987/88;	Implemented
2. Increase expenditure for materials and maintenance and other current expenditure to CFAF 45.7 billion;	Increased to CFAF 50.0 billion
3. Reduce expenditure on transfers and subsidies to CFAF 27.5 billion.	Implemented
F. Monetary policy	
1. Limit growth of domestic liquidity to 3.2 percent;	Implemented
2. Limit the growth of private sector credit, excluding crop credit, to 2.1 percent;	Implemented
3. Limit increase in net credit to the Government to 4.5 percent;	Implemented
4. Reduce outstanding 1986/87 crop credit to CFAF 7.8 billion by end-December, and fully reimburse balance by end-March 1988;	Reduced to CFAF 1.5 billion at end-June 1988
5. Reimburse fully outstanding 1985/86 crop credit;	Implemented
6. Complete preparatory work on the reform of the banking system.	Implemented
G. External debt	
1. Limit new nonconcessional loans to SDR 24.0 million for maturity from 1-12 years; no new nonconcessional loans with a maturity of 1-5 years; no short-term external borrowing (less than 1 year), except for normal import-related credits;	Implemented
2. No external payments arrears to be incurred.	Implemented

Sources: EBS/87/205, EBS/88/52, and Appendix I.

and the continued restraint in aggregate demand contributed to a reduction in the rate of inflation, as measured by the GDP deflator, to 2.5 percent, as against a program objective of 3.8 percent.

The external current account deficit, excluding official transfers, was reduced from 11.0 percent of GDP in 1986/87 to 9.9 percent in 1987/88, compared with a program target of 9.2 percent. Although exports increased by 10.5 percent, there was a shortfall from the program target due to the postponement of some exports by the groundnut oil processing company (SONACOS), in the expectation of better world market prices in the latter part of 1988; a decline in export receipts from petroleum products, mainly as a result of marketing difficulties in a neighboring country; and lower-than-projected export prices for the products of the chemical industries. However, the export shortfall was partly offset by a lower-than-programmed import bill, reflecting mainly lower cereal imports. Net service payments and net transfers were virtually in line with the program. By contrast, net capital inflows were much lower than projected, owing mainly to an exceptional increase in private capital outflows. Four major factors accounted for this increase: the shift in the location of the collection center for CFA franc banknotes from Paris to Abidjan in 1987; some speculative capital outflows toward the end of 1987; the impact of the political and social disturbances following the presidential and legislative elections in February 1988; and delays in the repatriation of some export proceeds. Consequently, the overall balance of payments, before debt rescheduling, recorded a deficit of CFAF 36.7 billion, compared with a programmed surplus of CFAF 2.4 billion. Following the Paris Club meeting of November 1987, Senegal received debt relief equivalent to CFAF 26.0 billion in 1987/88. 1/ Senegal's debt service ratio was accordingly reduced from 30.0 percent, before debt rescheduling, to 23.6 percent, after debt rescheduling. The balance of payments deficit, after debt rescheduling, amounted to CFAF 10.7 billion.

The program for 1987/88 placed particular emphasis on structural policies. The initial year of the three-year public investment program for 1987/88-1989/90 was implemented as envisaged, with an emphasis on high-return investment projects as well as rehabilitation and maintenance operations. The Government further liberalized the import and marketing of agricultural inputs, reduced subsidies for fertilizers financed directly by donors by about one third, and transferred additional production and marketing operations from rural development agencies to producer cooperatives and the private sector. The investment and labor codes were revised in July 1987; the direct operating subsidies to the sugar company (CSS) were discontinued effective November 1987; all the remaining quantitative restrictions on imports were removed in February 1988; and the scope of price controls was

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1/ For details on the Paris Club rescheduling of November 1987, see SM/88/16. All bilateral agreements based on that rescheduling were signed.

sharply reduced in February 1988. The Government adopted in the second half of 1987 a law and several decrees establishing the legal framework for privatizing public enterprises. Seven public enterprises and two public agencies were liquidated in the second half of 1987, and a first set of ten public enterprises was offered for sale. No offers for the purchase of these enterprises were received. The rehabilitation programs for several public enterprises were carried out, but progress in signing new contract programs was less than envisaged due to technical and administrative delays. The direct budgetary subsidies to the public enterprise sector were further reduced by 5 percent from the previous year's level.

The overall fiscal deficit, on a commitment basis and including grants, was further narrowed from 1.5 percent of GDP in 1986/87 to an estimated 1.0 percent of GDP in 1987/88, compared with a program target of 0.3 percent. The higher-than-programmed deficit reflected a shortfall in budgetary revenue and grants. Tax revenue rose by only 3.5 percent, as against a program estimate of 8.9 percent. The shortfall was due to a reduction in turnover and value-added tax receipts resulting from a slowdown in commercial activity during the curfew in effect in March and April 1988, declining domestic sales of petroleum products, and administrative delays in the introduction of the tax retention and reimbursement scheme applying to foreign-financed projects. Income tax receipts, which were 7.0 percent above the program target as a result of adjustments in the rates of individual income and payroll taxes, partly offset the revenue shortfall in other areas. Nontax revenue was lower than programmed, essentially because of delays in introducing the program for the sale of government-owned land in cities. The shortfall in revenue was partly compensated by lower total expenditure and net lending, which declined by 1.4 percent, compared with a programmed increase of 0.8 percent. Current expenditure exceeded the program target due to higher-than-anticipated interest due on external public debt and to additional outlays associated with the presidential and parliamentary elections. The wage bill was on target, as the total number of civil servants was reduced as programmed and no general salary increase was granted. The overruns in current outlays were offset by the better-than-projected results of the Treasury special accounts and correspondents, as well as lower budgetary capital outlays, reflecting the delay in implementing the aforementioned tax retention and reimbursement scheme for foreign-financed public projects. The verified domestic payments arrears of the Government and public agencies were reduced as programmed, while the required crop credit repayments by the Treasury were somewhat lower than envisaged. As a result, the overall fiscal deficit, on a cash basis, is estimated to have amounted to 3.6 percent of GDP, as against 2.9 percent of GDP in the program. As net foreign financing and domestic nonbank financing were both higher than programmed, net government borrowing from the banking system was kept below the program target.

Domestic liquidity expanded by 1.2 percent in 1987/88, compared with a program projection of 3.2 percent. Net credit to the Government grew by 1.8 percent of beginning-of-period money stock, as against a program target of 1.9 percent. The growth of ordinary credit was held to 1.9 percent of beginning-of-period money stock, compared with a program target of 2.3 percent. However, crop credit increased by 5.6 percent of beginning-of-period money stock, instead of declining by 6.4 percent as envisaged. This outcome resulted from a higher-than-expected groundnut crop, as well as slow exports of groundnut oil in the first half of 1988. Thus, domestic credit rose by 9.2 percent, whereas it had been programmed to decline by 2.2 percent. However, in view of the external sector developments, net foreign assets dropped sharply. During 1987/88, the preparatory work for the reform of the banking system was pursued and progress was made in the restructuring of certain banks, including the consolidation of their debit balances.

IV. Report on the Discussions and the Adjustment Strategy

While adjustment and economic growth have moved hand-in-hand in Senegal (Charts 1 and 2), further progress toward the achievement of a sustainable rate of growth and the re-establishment of financial balance is hindered by several remaining structural obstacles. The discussions, therefore, focused on the design of a medium-term strategy to overcome these obstacles. The discussions took into account the views expressed by Executive Directors at the conclusion of the 1987 Article IV consultation with Senegal. On that occasion, Directors had emphasized that, notwithstanding the progress made, the Senegalese economy remained vulnerable, internal and external financial imbalances were large, and the external debt burden was heavy. Accordingly, Directors stressed the need for sustained adjustment efforts in the context of a medium-term policy framework. In the discussions with the authorities, the key structural obstacles examined included physical and institutional bottlenecks and price distortions in the rural sector; rigidities relating to the labor market, wages, and administrative procedures, as well as the high cost of energy, in the industrial sector; weaknesses in public resource management, relating to public investment, the public enterprise sector, and the structures of expenditure and taxation; and the constraints imposed by the liquidity problems confronting the banking system. Against this background, a comprehensive medium-term strategy was designed, as outlined in the updated policy framework paper. Within this context, the program for 1988/89 involves major policy actions which will further the adjustment process in the coming year and contribute significantly to the achievement of Senegal's medium-term objectives (Table 4). It was recognized that the benefits of the measures implemented so far will fully materialize over the coming years, and that the continuing effects of these measures will be reinforced by those envisaged under the 1988/89-1990/91 program.

Table 4. Senegal: Structural Obstacles to Economic Growth and Adjustment Policies

Obstacles to Economic Growth	Medium-Term Objectives and Strategies	Measures for 1988/89
I. Primary Sector	Objective: Expand and diversify domestic production, marketing, and processing.	
1. Vulnerability of rainfed agriculture to adverse weather conditions.	Redirect public investment expenditure toward irrigation projects.	Channel public investment toward extension of irrigated areas and review the regulations governing them.
2. Inappropriate pricing policy.	Eliminate gradually price distortions and subsidies.	Reduce producer price of groundnuts from CFAF 90 to CFAF 70 per kg and retail price of rice from CFAF 160 to CFAF 130 per kg. Discontinue the "floor prices" for domestic cereals. Eliminate fertilizer subsidies directly financed by donors. Prepare and implement an action plan to reduce the deficit of the groundnut sector on the basis of audit.
3. Inefficiency of rural development agencies.	Further reduce Government's intervention in the sector.	Reduce the role of public rural agencies and of the Food Security Commission (CSA).
4. Low degree of diversification and regional specialization.	Fine-tune and continue the process of reform envisaged under the new agricultural policy. Continue to implement the Cereals Plan.	Introduce special extension campaigns and the National Seed Plan and initiate test projects for transformation of local coarse cereals.
5. Inadequate financial intermediation.	Improve financial intermediation in the rural sector.	Establish an action plan for the agricultural credit system.
II. Industrial Sector	Objective: Improve competitiveness and efficiency of the industrial sector.	
1. High factor costs due to high level of energy prices and high real wages.	Pursue the comprehensive industrial policy reform launched in 1986 to consolidate and strengthen the industrial sector.	Develop an action plan to adjust the domestic price of energy and to offset resulting revenue losses. Improve link between labor remuneration and productivity.
2. Inflexibility in the labor market.	Foster labor mobility through institutional reforms.	Apply the revised labor code regulations effectively.
3. Low productivity of labor.	Enhance labor productivity.	Follow up on recommendations recently adopted to improve labor productivity.
4. High level of domestic protection.	Reduce effective protection.	Complete rationalization of the system of effective protection.
5. Price controls.	Liberalize pricing system.	Continue the reduction in the scope of reference prices and lift all remaining price controls, except those for essential goods.
6. Excessive and inefficient administrative constraints.	Reduce and simplify administrative procedures.	Speed processing through the newly set up one-stop window.
III. Public Resource Management		
1. Public investment	Objective: Improve efficiency of public investment.	
a. Weakness in procedures for identification, preparation, and evaluation of projects.	Formulate a long-term development strategy and elaborate a new six-year development plan.	Implement a public investment program for 1988/89, amounting to CFAF 144 billion, with emphasis on directly productive projects.
	Continue to formulate and implement appropriate three-year "rolling" public investment programs.	Strengthen capabilities of Ministry of Planning and Cooperation to identify new projects.
b. Inadequate physical and financial monitoring of projects.	Improve the monitoring of projects.	Strengthen the capabilities of technical ministries in charge of project supervision.
c. Inappropriate evaluation and budgeting of recurrent costs.	Improve the evaluation and budgeting processes.	Initiate full integration of foreign-financed investment outlays in regular budget processes.
2. Public enterprise sector	Objective: Promote efficiency of the public enterprise sector.	
a. Slow pace and inadequate coordination of the reform program.	Step up reform program.	Finalize and sign contract programs with four public enterprises, and initiate negotiations with others. Implement annual revisions of contract programs.
b. High level of public ownership.	Reduce public ownership to a small group of key enterprises.	Finalize privatization of ten enterprises and continue to rehabilitate selected enterprises.

Table 4 (concluded). Senegal: Structural Obstacles to Economic Growth and Adjustment Policies

Obstacles to Economic Growth	Medium-Term Objectives and Strategies	Measures for 1988/89
c. Dependence of public enterprises on budget.	Continue to improve and rationalize financial relations between the State and public enterprises.	Reduce direct subsidies from the Government by a further 5 percent from 1987/88. Initiate the process for the settlement of all cross-debts.
3. Fiscal policy	Objective: Further reduce fiscal deficit and eliminate all remaining verified domestic payments arrears.	
a. Revenue		Target: Increase revenue by 9.5 percent.
i. Inelastic tax system and low tax yield.	Improve revenue performance.	Implement the reform of the organizational units of the General Tax Directorate. Reorganize the customs services, and computerize customs clearance procedures. Implement the reform of the taxation of foreign-financed projects. Develop gradually the taxation of the informal sector. Accelerate the work on the fiscal cadastre in the Dakar region, and introduce a new mechanism for taxing income and real estate.
ii. Dependency on exceptional profits from the oil sector.	Find alternative revenue sources.	Prepare a plan of action to raise revenue in order to offset the loss of revenue stemming from a possible downward adjustment in domestic energy prices.
b. Expenditure		Target: Limit the growth of total expenditure and net lending to 6.3 percent.
i. High share of wage bill in total expenditure.	Reduce the share of wage bill through appropriate employment and wage policies.	Limit the growth of the wage bill to 2.2 percent, by reducing the number of civil servants from 67,100 at end-June 1988 to 66,500 at end-June 1989, and refraining from any general salary increase.
ii. Insufficient provisions for recurrent expenditures.	Reallocate resources in line with development priorities.	Make adequate provisions for materials, supplies, and maintenance of essential services, as well as for the redeployment fund.
iii. Inadequate management of special accounts and correspondent accounts of the Treasury.	Strengthen the position of special accounts and correspondent accounts of the Treasury.	Reinforce fiscal discipline. Integrate several accounts in the budget and eliminate inoperative accounts.
c. Domestic payments arrears		
Existence of domestic payments arrears.	Settle all domestic payments arrears.	Eliminate remaining verified domestic payments arrears amounting to CFAF 8.5 billion.
IV. Monetary Policy and Financial Intermediation	Objective: Improve financial intermediation.	
a. Imbalance in credit policy between public and private sectors.	Pursue a prudent credit policy consonant with the objectives of economic growth, inflation and balance of payments, emphasizing provision of credit to the private sectors.	Limit the growth of domestic liquidity to 5.2 percent with credit to the private sector, excluding crop credit, growing by 3.3 percent. Reimburse fully outstanding 1986/87 crop credit. Follow a flexible interest rate policy.
b. Inefficient financial intermediation due to current banking crisis.	Reform banking system.	Formulate a comprehensive reform program for the banking system by end-December 1988. Implement rehabilitation program for the BIAO-S and the USB, and prepare similar programs for other banks confronting difficulties.
V. External Debt Management	Objective: Alleviate the debt burden.	
High level of external public debt.	Progressively reduce the debt service burden to manageable proportion, through greater emphasis on grant financing and a prudent debt management policy.	Strictly limit all external borrowing on nonconcessional terms. Make adequate provision for the settlement of debt service obligations. Incur no external payments arrears.

Sources: Memorandum on Economic and Financial Policies for 1988/89; and Policy Framework Paper for 1988/89-1990/91.

1. Structural obstacles

The authorities indicated that, despite the recent progress in restructuring the primary sector under the new agricultural policy and the Cereals Plan, the sector continues to face a number of structural obstacles. Agriculture remains highly vulnerable to weather conditions, while the recurrent droughts and related problems have contributed to deforestation and soil erosion. The vulnerability of the sector is exacerbated by the low degree of diversification, as farmers continue to depend mostly on groundnuts, while local coarse cereals are produced mainly for subsistence. Pricing policies have weakened the incentives for efficiency and diversification. In particular, the producer price for groundnuts and the retail price for rice were held at levels that increasingly exceeded world market prices in recent years. The lack of adequate transformation facilities for coarse grains is preventing a wider use of local cereals, particularly in the urban areas. Diversification has also been adversely affected by a weak infrastructure, in particular with regard to transportation and storage facilities. This has hampered the production of perishable products, such as fruits and vegetables. As to the livestock sector, the authorities explained that available pastures to support the traditional herd size have substantially shrunk, mainly as a result of drought, while the provision of veterinary services for smaller animal holdings, in particular poultry, remain inadequate. In the fishing sector, the authorities noted that there was a considerable increase in output in recent years that made the sector the major source of export receipts. The further expansion of the sector is, however, hindered by inadequate processing and storage facilities.

The authorities explained that the industrial sector has been characterized by a low degree of integration; a heavy concentration on groundnut processing and textiles; a low level of capacity utilization; inadequate financial returns; and a low level of investment. The Government, in the context of the new industrial policy launched in 1986, reoriented its strategy by substantially reducing and rationalizing the system of effective protection; the ensuing liberalization was designed to promote the competitiveness and efficiency of the domestic industry. The progress made has focused attention on the remaining rigidities. First, the industrial sector suffers from a relatively high level of factor costs, especially energy and labor. Second, there are considerable rigidities in the labor market. Notwithstanding the introduction of the new labor code, the institutional structure is such that employers cannot easily adapt the size of their manpower to their output requirements. Third, the industrial sector is subject to numerous administrative constraints and regulations, including the remaining price controls. Fourth, the growth of the sector is hindered by inadequate financial intermediation resulting from the liquidity crisis confronting the banking system.

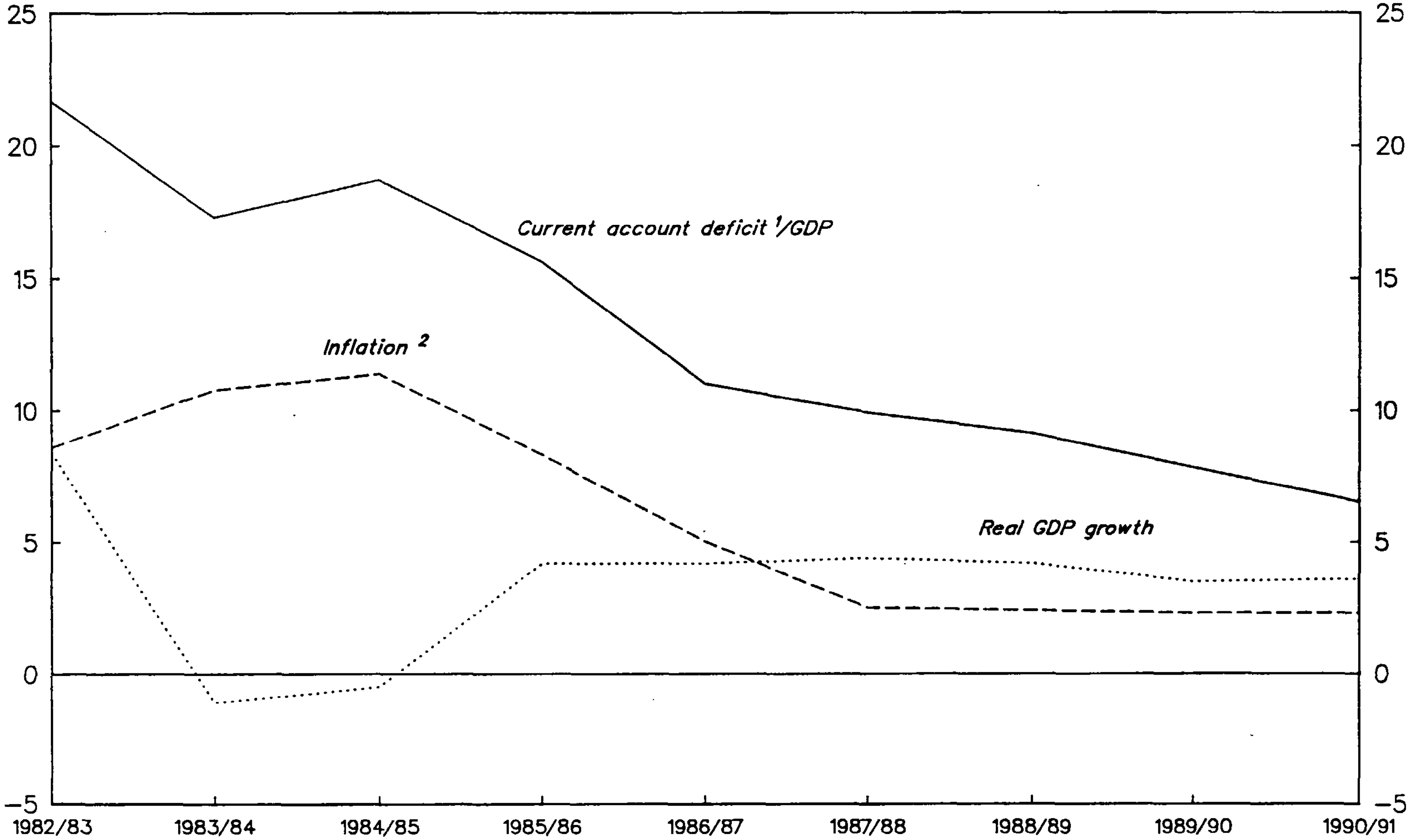
The authorities recognized that the performance of the public enterprise sector has been characterized by considerable financial

CHART 1

SENEGAL

REAL GROWTH AND ADJUSTMENT, 1982/83–1990/91

(In percent)

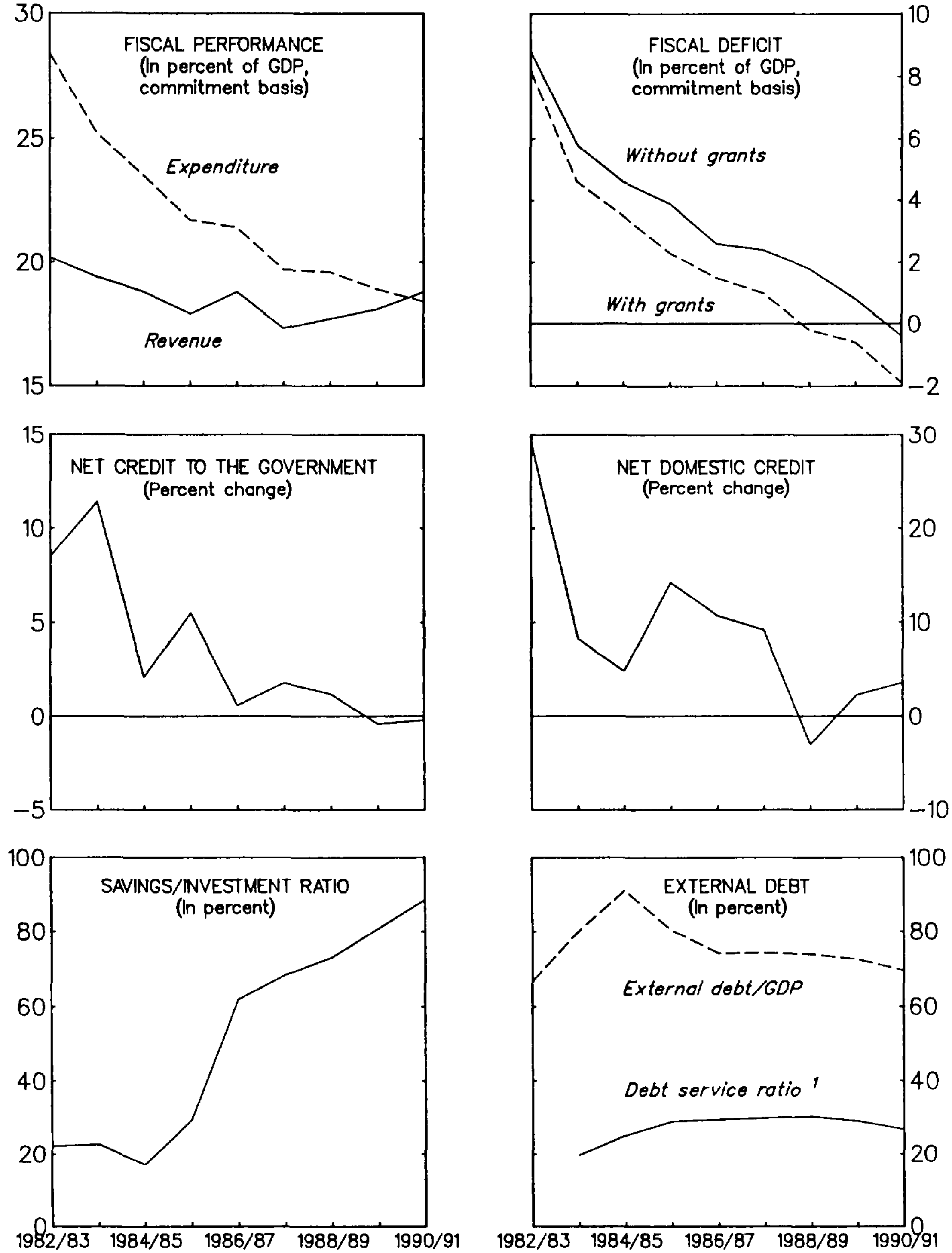


Sources: Data provided by the Senegalese authorities and staff estimates and projections.
1 Excluding official grants.
2 As measured by the GDP deflator.

CHART 2

SENEGAL

KEY ECONOMIC POLICY INDICATORS, 1982/83–1990/91



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.

losses, while cross debts between public enterprises and the Government were substantial. The weak financial performance of the sector is attributable mainly to undercapitalization, organizational and managerial shortcomings, administrative controls, inappropriate pricing policies, and overemployment. It is estimated that at end-1987 the sector employed about 30,000 persons, with a total wage bill of CFAF 65 billion relative to total sales of CFAF 358 billion. Some progress in addressing the problems confronting the sector has been made in the context of the World Bank-supported public enterprise sector reform program, initiated in 1986, through the liquidation, privatization, or rehabilitation of certain enterprises; the definition of appropriate government oversight functions; and the rationalization of the financial relations between the Government and public enterprises. The pace of the reform program, however, has been slow, as the divestiture process has not attracted private investors and the rehabilitation of a number of enterprises needs to be accelerated.

The authorities are aware that Senegal's economic and financial difficulties have been aggravated by weaknesses in public investment programming, implementation, and monitoring. Investment projects had had low rates of return, while the associated external debt had risen sharply. In recent years the authorities have made substantial progress in strengthening public investment programming, with technical assistance from the World Bank, particularly with the introduction of three-year rolling public investment programs (PIP). However, the experience with the first rolling PIP has underscored some weaknesses in project preparation and evaluation at the level of the technical ministries, project identification, physical and financial monitoring, and the proper assessment of the recurrent costs and debt service implications.

While the budgetary deficit has been reduced sharply, government finances continue to suffer from a number of structural problems. On the revenue side, the tax system remains relatively inelastic, reflecting a narrow tax base and low tax yields. The tax system is heavily dependent on import duties, and has yet to be extended to cover the growing informal sector. Furthermore, while tax administration has improved, a further strengthening is needed. The vulnerability of the revenue base is highlighted by the dependence on exceptional profits generated by the oil sector, estimated at 2.5 percent of GDP in 1987/88. On the expenditure side, the share of the wage bill in total expenditure is still substantial, despite the reduction in the size of the civil service in recent years. This is mainly due to the large size of the civil service and the wage drift resulting from statutory merit increases and rising fringe benefits. Moreover, subsidies, in particular the large subsidy on groundnut operations, weigh heavily on the budget. Furthermore, the management of the Treasury correspondents and special accounts needs to be streamlined. In addition, the debt service burden, a legacy of past policies, weighs heavily on the budget. These structural problems are reflected in the high reliance of the budget on external financing.

Financial intermediation is constrained by the serious liquidity problems confronting the banking system owing to the sizable nonperforming loans of banks. At end-1987, these were estimated at about CFAF 200 billion, compared with ordinary credit outstanding of CFAF 381.4 billion. The level of nonperforming loans reflects a number of factors, including deficiencies in bank management, the nonobservance of normal banking procedures, and improper handling of credit extension, especially with respect to collateral. These factors have been compounded by serious weaknesses in internal controls, including the lack of effective internal audit systems. Furthermore, as a majority shareholder, the Government involved itself in banks' management decisions. A considerable proportion of the nonperforming loans was extended to cover the losses of public enterprises. The banking crisis underscores the need to strengthen external controls, particularly central bank supervision.

2. The medium-term strategy

The Government's adjustment strategy for 1988/89-1990/91, outlined in the updated policy framework paper (EBD/88/304), envisages an intensification of the adjustment effort. It places major emphasis on specific structural policies designed to alleviate the identified obstacles to economic growth. The timetable of the actions to be undertaken over the three-year period is given in the policy matrix attached to the policy framework paper; therefore, the discussion in this section covers only the broad thrust of policies.

Agricultural policy will aim at expanding and diversifying domestic production, mainly through a phased elimination of price distortions and associated subsidies as well as a further reduction in the Government's intervention. Industrial policy reform will be stepped up; it will include the final stage of rationalization of the system of effective protection, the abolition of virtually all price controls, and the adoption of actions aimed at reducing rigidities in the labor market. Energy policy will be streamlined, in particular through a medium-term plan of action to balance the need to mobilize budgetary revenue, promote efficiency and conservation, and enhance the competitiveness of the industrial sector. The second three-year rolling public investment program, prepared in close collaboration with the World Bank, will focus on projects supporting the directly productive sectors, while further reforms of public investment programming and budgeting will be pursued. The reform of the public enterprise sector will be intensified and accelerated. Selected enterprises will be liquidated, privatized, or rehabilitated. Financial intermediation will be enhanced through the rehabilitation of the banking system.

Financial policies will aim not only at aligning aggregate demand with available resources, but also at effecting structural changes that will ensure the durability of the adjustment achieved and at enhancing incentives. To improve the efficiency of public resource management, specific actions will be taken aimed at increasing the elasticity of revenue by widening the taxable base and gradually reducing the reliance on exceptional profits from the oil sector. Public expenditure policy will be readjusted, by gradually reducing the share of the wage bill in total expenditure while reallocating resources in line with development priorities. Public expenditure monitoring and control will be further strengthened through the consolidation of foreign-financed investment outlays with the regular budgetary and expenditure control processes. These fiscal measures are expected to lead to a gradual improvement in the fiscal position over the medium term. As a result, it is estimated that the reliance of the budget on gross foreign financing, excluding project-related financing, will decline from the equivalent of 7.5 percent of GDP in 1987/88 to 2.4 percent in 1991/92. The improved fiscal position will enable the authorities to follow a more flexible credit policy aimed at providing adequate resources to sustain the growth of private sector activity, while restraining the growth in aggregate demand. A cautious external debt policy will be pursued, with a view to reducing Senegal's debt service burden over the medium term. The authorities also intend to implement social policies to maximize the benefits of adjustment to the poorer segments of the population.

The envisaged policies are designed to contribute to the achievement of a sustained growth in per capita income over the medium term. Gross domestic investment, the efficiency of which is expected to be enhanced by the reduction in distortions and the improvements in public investment programming, is estimated to average 14.7 percent of GDP over the three-year period, while gross domestic savings are projected to rise from 10.2 percent of GDP in 1987/88 to 13.2 percent of GDP in 1990/91. The increase in economic activity is expected to come mainly from the continued expansion and diversification of agricultural production, the growth of a more efficient and competitive industrial sector, and the resulting favorable impact on the service sector. Hence, the objectives of the medium-term program are: (a) to achieve an average annual increase of 3.8 percent in real GDP, following the economy's strong recovery from the drought during the last four years; (b) to reduce the inflation rate, as measured by the GDP deflator, to 2.3 percent by 1990/91; and (c) to narrow further the external current account deficit, excluding official grants, to 6.5 percent of GDP by 1990/91. The balance of payments is projected to record surpluses, before debt relief, averaging CFAF 8.9 billion per annum during the program period. Taking into account a progressive reduction in the flow of budgetary assistance, the projected net drawings from the Fund, and a programmed improvement in Senegal's position in the operations account, Senegal will be able to service its external debt obligations without recourse to debt relief by 1989/90. Senegal's debit position in the operations account amounted to CFAF 58.3 billion at end-June 1988; this is expected to be fully repaid by 1990/91. Senegal has discharged its obligations to the Fund in a timely manner, and, in view of the projected improvement in the external sector position, is expected to continue to do so.

In comparison to the baseline medium-term scenario for Senegal's balance of payments presented in EBS/88/52, the present scenario takes into account recent developments in the Senegalese economy, the reinforcement of the adjustment policies over the next three years, and the latest international price projections provided in the World Economic Outlook. The key assumptions underlying the baseline scenario for 1988/89-1990/91 include the rigorous implementation of the adjustment policies envisaged; the continuation of normal weather conditions; an increase in the world market price of groundnut oil of about 19 percent in 1988/89 resulting from drought conditions in other producing countries, followed by an average annual increase of about 2 percent; an increase in the volume of groundnut oil exports of about 24 percent in 1988/89 due to the favorable crop and the carry-over of stocks from 1987/88, followed by an annual increase of about 3 percent; an expansion in the volume of fish exports of some 8 percent per year; an average annual increase of about 4 percent in the volume of intermediate and capital goods imports and about 3 percent in food and other consumer goods imports; and a turnaround in private capital flows, as the economic environment in Senegal improves.

A detailed explanation of the assumptions underlying the baseline scenario is given in Appendix VI, as well as sensitivity analyses based on changes in the underlying assumptions. Scenario I (Table 5) assumes the recurrence of adverse weather conditions in 1988/89 and 1989/90, leading to an increase in the volume of cereal imports of 146 percent over the 1988/89-1989/90 period, and, with a one-year lag, to a reduction in the exports of groundnut oil of 63 percent in volume over the 1989/90-1990/91 period. Under these conditions, Senegal would confront serious financing gaps and would not achieve a viable external payments position in the foreseeable future. By contrast, Scenario II assumes a significant improvement in Senegal's terms of trade in comparison to the baseline scenario. In this case, the financing gap would be lower in 1988/89 and eliminated by 1989/90.

3. The program for 1988/89

Consistent with the medium-term framework described above, the objectives of the 1988/89 program are to achieve a growth of real GDP of about 4.2 percent, compared with a population growth rate of some 2.9 percent; to stabilize the rate of inflation, as measured by the GDP deflator, at 2.4 percent; and to narrow the external current account deficit, excluding official grants, to 9.1 percent of GDP. The overall balance of payments surplus, before debt relief, is projected to amount to CFAF 4.5 billion.

To achieve these macroeconomic objectives, wide-ranging supply and demand management policies are being implemented. The priority reform measures are given in Table 6. Within this context, the two inter-dependent issues of the distortions in prices for a few key commodities and of their financial impact are being addressed. As noted above,

Table 5. Senegal: Medium-Term Outlook for the Balance of Payments, Alternative Scenarios, 1987/88-1991/92

(In percent, unless otherwise indicated)

	1987/88 Estimate	1988/89 Program	1989/90 Projections	1990/91 Projections	1991/92 Projections
			Baseline scenario		
Current account/GDP 1/	-9.9	-9.1	-7.8	-6.5	-5.4
Overall balance (CFAF billion) 2/	-36.7	4.5	14.4	7.9	18.8
Financing gap (CFAF billion) 3/	—	14.9 4/	—	—	—
Debt service ratio 5/	30.0	30.4	29.1	26.8	25.2
Export volume growth	16.3	9.5	6.8	6.1	6.5
Import volume growth	-5.8	2.2	3.8	2.8	3.1
Terms of trade (change)	-7.3	3.2	1.4	1.7	0.3
			Scenario I (Lower export volumes and higher import volumes)		
Current account/GDP 1/	-9.9	-9.9	-10.0	-8.4	-6.6
Overall balance (CFAF billion) 2/	-36.7	-7.9	-22.0	-24.5	-2.5
Financing gap (CFAF billion) 3/	—	27.3	36.4	32.4	21.3
Debt service ratio 5/	30.0	30.4	30.6	28.2	25.9
Export volume growth	16.3	9.5	-7.9	6.3	15.1
Import volume growth	-5.8	6.6	3.8	0.5	3.1
Terms of trade (change)	-7.3	3.2	1.4	1.7	0.3
			Scenario II (Improved terms of trade)		
Current account/GDP 1/	-9.9	-8.7	-6.9	-5.2	-3.7
Overall balance (CFAF billion) 2/	-36.7	10.1	28.9	31.4	50.9
Financing gap (CFAF billion) 3/	—	9.3	—	—	—
Debt service ratio 5/	30.0	30.3	28.7	26.2	24.4
Export volume growth	16.3	9.5	7.1	7.1	7.2
Import volume growth	-5.8	2.2	4.1	3.3	3.8
Terms of trade (change)	-7.3	5.7	4.2	3.6	2.3

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

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

Table 6. Senegal: Priority Reform Measures Under the 1988/89 Program 1/

	Measures	Timing
1.	Reduce producer price of groundnuts from CFAF 90 to CFAF 70 per kilogram.	Effective with the 1988/89 crop season starting in October 1988
2.	Eliminate "floor prices" for domestic cereals.	Effective with the 1988/89 crop season starting in October 1988
3.	Launch an action plan to improve the operations of the groundnut sector.	January 1989
4.	Formulate an action plan to adjust domestic energy prices and implement offsetting revenue measures.	March 1989
5.	Implement the new labor code regulations effectively.	July 1988
6.	Complete the rationalization of the system of effective protection through the last adjustment of tariff rates.	July 1988
7.	Remove all price controls, except those for essential and strategic goods.	December 1988
8.	Finalize and sign contract programs with four public enterprises.	July 1988-June 1989
9.	Streamline and implement revised privatization procedures.	July 1988-June 1989
10.	Implement tax reform for externally financed projects.	July 1988
11.	Reduce the number of civil servants from 67,100 at end-June 1988 to 66,500 at end-June 1989 and grant no general salary increases.	July 1988-June 1989
12.	Reinforce fiscal discipline of special accounts and correspondents accounts of the Treasury; integrate several accounts in the budget; and eliminate inoperative accounts.	July 1989
13.	Launch comprehensive reform of the banking system.	January 1989
14.	Implement rehabilitation measures for BIAO-S and USB.	July 1988-June 1989

1/ This table highlights the priority reform measures to be implemented under the 1988/89 program. A more detailed list of measures is given in Table 4.

Senegal has for the past several years regulated three key prices. First, the producer price of groundnuts was set to promote the groundnut sector. However, as international prices fell, subsidies increased. Second, the retail price of rice has been held above the international price level, generating sizable budgetary revenue and providing considerable protection to domestic cereal producers. Third, the maintenance of high domestic prices of petroleum products, despite declines in world prices, has resulted in significant exceptional budgetary revenue but eroded the competitiveness of the industrial sector. The Government, in the context of the 1988/89 program, has already taken decisive action by readjusting the producer price for groundnuts and the retail price for rice, thus virtually eliminating price distortions in the case of these two agricultural commodities at current international prices. By end-March 1989, the Government plans to develop a specific plan of action to readjust energy prices and define compensating revenue measures.

a. Agricultural policy

A major measure under the program is the adjustment of the producer price for groundnuts from CFAF 90 per kilogram to CFAF 70 per kilogram for the 1988/89 crop season. Taking into account the projected world price for groundnut oil, the subsidy to the sector is projected to be reduced from 1.5 percent of GDP for the 1987/88 crop to 0.3 percent of GDP for the 1988/89 crop. Furthermore, based on a recent study of the groundnut sector, a plan of action will be elaborated by end-1988, in consultation with the Fund and the World Bank staffs, with a view to further reducing costs and gradually re-establishing financial balance in the sector, assuming the continuation of current world market prices. In addition, steps to diversify SONACOS' production toward confectionery groundnuts and to reorient, in due course, its export strategy will be taken.

The Government is also implementing several actions with a view to promoting diversification and efficient domestic cereal production, as elaborated in its Cereals Plan adopted in July 1986. On May 4, 1988, the retail price of rice was reduced from CFAF 160 per kilogram to CFAF 130 per kilogram, which practically aligns it with the landed cost based on the current world market price. To encourage private sector activity in agriculture, the Government's intervention through the Food Security Commission (CSA) is being reduced to the management of a food security stock. Its operations have been reviewed and redefined, in consultation with the major donors, to ensure that they do not hamper private sector activity in the cereals market. Furthermore, beginning with the 1988/89 crop season, producer prices for domestic coarse cereals have been completely liberalized, while the subsidy on inputs directly financed by donors will be eliminated by the end of the year. The authorities are accelerating the introduction of pilot projects for artisanal and semi-industrial processing of local coarse cereals for domestic consumption, while further strengthening the marketing system through a nationwide price information system for producers and traders.

To reduce somewhat the vulnerability of the agricultural sector to droughts, public investment is being directed toward the extension of irrigated areas, particularly in the Fleuve region, including rehabilitation and maintenance of existing infrastructure. In this context, land use regulation is being revised, with a view to attracting to the irrigated areas foreign or domestic agro-business activity based on high-yield crops. Public investment projects are also being reoriented to provide the infrastructure which should allow specialization and market-oriented production. The authorities are satisfied with the growing strength of local cooperatives and professional organizations, which are increasingly assuming most of the responsibilities of former public rural development agencies. To allow a better access to financial intermediation by farmers and cooperatives, the authorities will prepare, by end-December 1988, a plan of action for a reform of the agricultural credit system.

In view of the potential for fruit and vegetable exports, investment projects are being designed to strengthen marketing and storage capacity, while farmers and cooperatives are being made aware of the possibilities in this area. With regard to the livestock sector, the authorities are preparing a plan of action, in collaboration with the World Bank and other donors, which will include a strengthening in veterinary services for poultry and other small animals; information campaigns and land management programs to limit the growth of the cattle herd in line with available pastures; and the dissemination of information on technologies designed to improve productivity. Furthermore, a new pastoral code to regulate conflicting farming and livestock interests is to be adopted shortly. The authorities are also undertaking a thorough assessment of fishing prospects in Senegal to provide a basis for specific actions in subsequent years.

b. Industrial policy

The authorities reiterated their determination to pursue the comprehensive industrial policy reform launched in July 1986. The objectives of the reform are to improve the competitiveness of the industrial sector, promote exports, and increase the flexibility of enterprises to adapt to market conditions. In addition to the various actions taken during 1987/88, several measures are being implemented in 1988/89 to consolidate and strengthen industrial sector performance. The final phase of the rationalization of the system of effective protection, involving a further restructuring of tariff levels, entered into effect in July 1988. The scope of reference prices for customs valuation is being reduced. The existing special agreements that grant tax and other special advantages to certain enterprises beyond those envisaged under the investment code will be gradually renegotiated, with a view to eliminating the exceptions to the common regime. In this respect, following the review of the special agreement with the Senegalese Sugar Company (CSS), the company began implementing a modernization program which has already resulted in efficiency gains which were passed on to consumers through a reduction of 10 percent in the retail price of sugar on May 1, 1988. A technical and financial audit of the CSS is currently being conducted and its results will be used to take further corrective actions.

With regard to the rigidities in the labor market and factor costs, the authorities will ensure an effective implementation of the new legal provisions and follow up on the recommendations recently adopted by the National Assembly with a view to improving labor productivity. These recommendations comprise measures to improve the link between remuneration and productivity, revise the system of employer contributions to social security, and define the rules governing the participation of workers in the capital and profits of enterprises. Furthermore, the provisions of the labor code will be appropriately implemented so as to enable enterprises to optimize the size of their labor force. With regard to energy costs, the Government, as indicated below, is preparing a detailed study that will provide the basis for rationalizing the cost of energy. Following the revision of the investment code, the procedures to approve new investment applications have been simplified with the introduction of a one-stop window (guichet unique), which reduces the previous lengthy administrative procedures. Additional measures are being considered to encourage the creation of new enterprises by further simplifying the regulatory environment.

In order to eliminate price distortions and improve resource allocation in the economy, the number of goods and services subject to price controls will be reduced from 55 to 17 by end-1988. These are considered strategic or highly sensitive by the authorities. They are the minimum producer prices for groundnuts, cotton, and paddy, and the retail prices of sugar, rice, tomato concentrate, cooking oil, wheat flour, bread, charcoal, petroleum products, cement, public physicians' fees, and imported pharmaceutical products, as well as the tariffs for electricity, water, and transportation.

c. Energy policy

The Government's energy policy has three basic objectives, namely to develop local sources of supply, particularly hydroelectric power; to restrain energy consumption through appropriate pricing and conservation polices; and to promote the efficient use of energy, particularly in the industrial sector. Consistent with this policy, as well as the need to mobilize budgetary revenue, the structure of domestic prices of petroleum products was kept virtually unchanged following the sharp decline in world oil prices in 1986. The only exceptions have been reductions in the prices of diesel and fuel oils used by the electricity company to support its rehabilitation efforts; in the retail price of butane, mainly to discourage the use of wood and charcoal for cooking purpose; and in jet fuel. In addition, to ensure the competitiveness of certain export-oriented enterprises, particularly the chemical company (ICS) and the phosphate mines (CSPT and SSPT), the Government decided to provide these enterprises, as of July 1987, with cash transfers amounting to some CFAF 5.0 billion on an annual basis, equivalent to a reduction in the prices of energy products to externally competitive levels. The energy policy has succeeded in promoting energy conservation; the volume of petroleum imports has declined by nearly 6 percent between 1984/85 and 1987/88. However, as indicated above, the competitiveness of the industrial sector has suffered. In the circumstances, the Government intends to reassess its energy policy, particularly with regard to its impact on the industrial sector. A plan of action will be prepared by end-March 1989, in collaboration with the staffs of the Fund and the World Bank, to rationalize energy costs and mobilize revenue for the budget from other sources. Pending the elaboration and adoption of this plan of action, the Government will maintain the domestic prices of petroleum products at their current levels during 1988/89 and will mobilize the surplus generated by the local refinery (SAR), estimated at about CFAF 36 billion for 1988/89, to support the budget.

d. Public investment

The authorities are implementing the second three-year rolling public investment program for 1988/89-1990/91, which is considered by the World Bank staff to constitute an improvement over the previous one in terms of its consistency with the macroeconomic framework, sectoral coverage, financing profile, and project selection and documentation. The total investment target has been set at CFAF 477 billion for the three-year period. Within this context, the public investment target for 1988/89 has been set at CFAF 144 billion (9 percent of GDP), practically the same level as in 1987/88. The three-year program places a strong emphasis on projects supporting directly productive activities, as well as on rehabilitation and maintenance operations. Consistent with Senegal's priorities, the new program allocates about 37 percent of targeted investment to the primary sector, 17 percent to the secondary sector, and 23 percent for each of the service and social sectors.

Several reforms will be initiated in 1988/89 to further improve development planning and public investment efficiency. They include a study on Senegal's long-term development prospects to be completed by end-December 1989; this will be used to formulate a long-term development strategy and elaborate a new six-year development plan, in the context of which future three-year rolling public investment programs will be designed. The capacity of the Ministry of Planning and Cooperation to evaluate the profitability of projects, analyze their implications for recurrent costs and debt servicing, monitor their execution, and compile timely and accurate information on their implementation will also be strengthened. Furthermore, the Ministry of Planning will concentrate on the evaluation of project proposals, while the relevant technical ministries will be given full responsibility for project identification and preparation, based on standardized procedures. Preparatory steps will be taken with a view to fully integrating the annual investment program into the regular budgetary and expenditure control processes and to centralizing drawings on all external public sector loans and grants at the level of the Ministry of Finance by 1989/90.

e. Public enterprise reform

The Government is accelerating the pace of public enterprise sector reform. The divestiture program is being reformulated, in collaboration with the World Bank. The authorities will launch a major information campaign in the media and exert efforts to attract interested buyers. In addition to the 10 public enterprises identified for sale in 1987/88, a second set of 11 public enterprises has already been identified for divestiture. Those enterprises that cannot be sold to the private sector will be liquidated on the basis of a timetable to be elaborated in consultation with the World Bank. With respect to the rehabilitation process, the system of contract programs will be improved by taking into account the objectives of increased autonomy and accountability of public enterprises, while ensuring that financial resources to support the rehabilitation programs remain consistent with the allocation in the budget for that purpose. It is expected that four new contract programs, namely with the low-income housing office (SNHLM), the transportation company in Dakar (SOTRAC), the textile fiber company (SODEFITEX), and the postal office (OPCE) will be signed before end-June 1989. Budgetary subsidies to the public enterprise sector will be reduced by a further 5 percent in 1988/89. In addition, the gradual elimination of cross-debts between the Government and public enterprises is being initiated. Although the Government is overall a net creditor, given the structure and financial position of several enterprises, a repayment by the Government of CFAF 1.0 billion is programmed for 1988/89. To better control financial relations between the Government and public enterprises, a monitoring unit will be set up, with World Bank assistance, to compile a comprehensive data base on the public enterprise sector.

f. Fiscal policy

The Government is taking revenue-generating and expenditure-containing measures aimed at achieving a turnaround in the overall fiscal position, on a commitment basis and including grants, from a deficit of CFAF 14.4 billion (1.0 percent of GDP) in 1987/88 to a surplus of CFAF 3.2 billion (0.2 percent of GDP) in 1988/89. Taking into account the settlement of the remaining CFAF 8.5 billion of verified domestic payments arrears and an estimated CFAF 23.0 billion in crop credit, the overall fiscal deficit, on a cash basis, is projected at CFAF 28.3 billion (1.9 percent of GDP) in 1988/89, about half the cash deficit recorded in 1987/88. In view of the programmed repayment of ONCAD debt by the Treasury, and notwithstanding some net borrowing from the banking system, net domestic financing is projected to be negative. The cash deficit and the net domestic financing requirements are expected to be covered by the counterpart of external budgetary assistance. Taking into account the indications given by creditors, the external public debt amortization due in 1988/89, as well as the debt relief through October 31, 1988 already obtained under the last Paris Club rescheduling, a budgetary financing gap of CFAF 11.4 billion would remain. To cover this gap, as well as that on government-guaranteed debt of CFAF 3.5 billion, the Government is requesting additional rescheduling for part of its debt service obligations from the Paris Club and other official creditors.

The authorities are implementing strong measures aimed at achieving an increase in revenue of 9.5 percent in 1988/89. The breakdown of the contribution to revenue of the various measures to be taken in 1988/89 is given in Table 7. The key measures include the computerization of the Customs Department; the implementation of the new tax retention and reimbursement scheme applicable to foreign-financed projects; the recovery of tax arrears, based on a recently completed inventory; and the sale of government-owned land. The authorities are also undertaking a comprehensive survey of taxpayers designed to update taxpayer files and to identify unregistered taxpayers, mainly in the informal sector; requiring taxpayers to use official forms to document taxable transactions; computerizing the Tax Department, with a view to monitoring effectively tax assessments and collections; revising the penalties for late payments; accelerating the work on the fiscal cadastre in the Dakar region in order to improve receipts from real estate tax, tax on rental income, capital gains tax, and registration duties on real estate transfers; and extending the value-added tax to the retail stage. As indicated above, the authorities plan to conduct a comprehensive review of the tax system and administration, with technical assistance from the Fund and the World Bank, to establish a more durable revenue base and reduce the dependence on oil profits.

In tandem with the revenue measures, the growth of total expenditure and net lending is programmed to be limited to 6.3 percent in 1988/89. Current expenditure, excluding interest due on government debt, is programmed to be stabilized at about its 1987/88 level, implying a cut in real terms. For the fourth consecutive year, no general salary increase will be granted. Furthermore, the total number of civil servants will be further reduced from 67,100 at end-June 1988 to 66,500 at end-June 1989. Other measures include the freezing of transportation, housing, and hospitalization allowances at their 1987/88 level. As a result, the growth of the wage bill will be held to 2.2 percent. Allocations for maintenance, materials, and supplies will be increased, 1/ to allow for the efficient functioning of essential services. However, other expenditure, particularly for electricity, water, gas, and telecommunications, as well as total transfers and subsidies, will be reduced. Consistent with the public investment program, the level of capital outlays has been set at CFAF 44.0 billion, with the increase of CFAF 5.0 billion from the previous year's level representing payments of taxes on foreign-financed public projects under

1/ Excluding from the 1987/88 base the nonrecurrent expenditures associated with the elections.

Table 7. Senegal: Impact of Revenue Measures Under the Adjustment Program for 1988/89

	Revenue impact	
	In billions of CFA francs	In percent of total increase
Effects of measures	13.0	55.6
1. Introduction of the new tax regime applicable to foreign-financed projects	5.0	21.5
2. Collection of tax arrears	4.0	17.1
3. Computerization of Customs Department	2.0	8.5
4. Sale of government-owned land	2.0	8.5
Recovery in value-added and service tax receipts 1/	3.0	12.8
Impact of tax elasticity	7.4	31.6
Total	23.4	100.0

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

1/ Following the decline resulting from the curfews in effect during 1987/88.

the new tax scheme. The deficit on the treasury special accounts is projected to amount to CFAF 7.0 billion, while the overall position of the Treasury correspondents is projected to move from a surplus of CFAF 11.6 billion in 1987/88 to a deficit of CFAF 3.0 billion in 1988/89, as contributions of the Price Equalization and Stabilization Fund (CPSP) to the budget will decline to CFAF 3.0 billion following the reduction in the retail price of rice. Concerning the reference import price of wheat, the Government will renegotiate by end-November 1988 the agreements it has signed with the flour millers, with a view to maximizing the profit from this product by putting in place an international public bidding system for wheat purchases. Finally, to strengthen the position of the special and correspondent accounts of the Treasury, the Government, based on the recommendations of a Fund technical assistance mission, is reinforcing fiscal discipline in the management of those accounts, integrating several accounts into the budget, and eliminating inoperative accounts.

g. Financial intermediation

The authorities will continue to pursue a credit policy aimed at meeting the growth requirements of the economy, while containing the rise in aggregate demand. They recognize that, in view of the capital flows that took place in 1987/88, a particularly tight credit stance is essential in 1988/89. Total domestic credit is programmed to decline in 1988/89 by 3.0 percent of beginning-of-period money stock, compared with a growth of 9.2 percent in 1987/88. The increase in private sector credit, excluding crop credit, will be held to 3.3 percent of beginning-of-period money stock. Even though this credit growth is particularly low, the liquidity position of the private sector will benefit from the programmed settlement of the remaining domestic payments arrears of the Government and public agencies. In view of the repayment of the high level of crop credit outstanding at end-June 1988, as well as the reduction in the producer price of groundnuts, crop financing requirements are projected to decline by 7.5 percent of beginning-of-period money stock. Consistent with the fiscal target, the expansion in net bank credit to the Government will be limited to the counterpart of net drawings from the Fund; it will thus be held to 1.2 percent of beginning-of-period money stock. Taking into account the credit stance and the external sector target, domestic liquidity is programmed to grow by 5.2 percent.

Interest rate policy in Senegal is determined in the broader context of the West African Monetary Union (WAMU) 1/ by the Central Bank of the West African States (BCEAO). The monetary authorities indicated that they attach particular importance to pursuing a flexible interest rate policy, which takes into account economic and financial conditions in the WAMU, as well as interest rate developments in France and other

1/ Benin, Burkina Faso, Côte d'Ivoire, Mali, Niger, Senegal, and Togo.

international markets. As shown in Chart 3, the overnight money market rate on advances, a representative rate, has moved in line with the comparable interest rate in France; except for two short periods, it has remained higher than that in France since the beginning of 1985. It has also been positive in real terms since April 1986. In September 1988, following interest rate developments in France, the overnight money market rate in the WAMU was increased by 0.25 percentage point. The authorities noted that the high real interest rate and the positive differential with France would reduce the incentives for capital outflows. The issue of interest rate policy will be considered again at the time of the midterm review.

Following several meetings and discussions with bilateral and multilateral creditors and donors, preparatory work is under way to develop and put in place a comprehensive reform program for the banking system by end-December 1988. The authorities indicated that the reform program will involve general measures to restructure the banking system. These would include mobilizing external financial resources for the repayment of government-guaranteed debt vis-à-vis banks; consolidating certain debit balances of banks with the central bank; reducing the share of government participation in banks and attracting private shareholders; increasing banks' own resources; recovering overdue loan repayments from the private sector; restructuring, liquidating, or merging certain banks; and strengthening the supervision and control of bank operations by the Ministry of Economy and Finance and the central bank. In the meantime, specific rehabilitation and restructuring programs are under way. The Banque Internationale de l'Afrique de l'Ouest-Sénégal (BIAO-S) started implementing a restructuring plan on July 1, 1988, which includes the reduction of its staff by half, the closure of all branches, and the discontinuation of smaller accounts. The Union Sénégalaise de Banque (USB) benefited in November 1987 from a moratorium from the central bank consolidating its debit balance in an amount of CFAF 21.9 billion and the refinancing of certain nonperforming loans. Negotiations are being actively pursued with USB's foreign commercial bank partner, with a view to reducing the Government's share and extending a management contract to this partner. The USB has curtailed its staff and is implementing other cost-reducing measures. The national ad hoc committee for the restructuring of the banking system also adopted a rehabilitation plan for the Banque Nationale de Développement du Sénégal (BNDS) in June 1988, and transmitted it for approval to the BCEAO. Similar restructuring plans for other commercial and development banks in difficulty are being reviewed by the authorities.

h. External sector

The policies being pursued, as well as favorable external factors, are expected to contribute to an improvement in the external sector position. The combination of a good groundnut harvest and delayed sales of groundnut oil exports in 1987/88 is expected to lead to an increase of some 24 percent in the volume of groundnut oil exports. This, together with the recent increase in the international price of edible oils, is expected to result in an increase of 43.7 percent in export receipts from the groundnut sector. Other export receipts are projected to grow by 6.3 percent in value, reflecting mainly the expansion of exports of chemical products, fish, and phosphates, as well as a projected recovery in petroleum exports. Hence, total export earnings are projected to rise by 11.8 percent. By contrast, import payments are programmed to rise by only 6.7 percent, largely due to the tight financial policies and a 2.0 percent reduction in the volume of petroleum imports. The projected increase reflects a higher level of cereal imports, resulting from a combination of a higher world market price and import volume for rice, as well as a rise in intermediate goods imports. The service account is likely to deteriorate slightly, owing to the rise in scheduled interest payments on the external public debt. Thus, the external current account deficit, excluding official grants, is expected to decline from CFAF 67.7 billion (9.9 percent of GDP) in 1987/88 to CFAF 61.6 billion (9.1 percent of GDP) in 1988/89.

The surplus in the capital account is projected to increase sharply in 1988/89. While net public capital inflows are programmed to decline, reflecting lower loan disbursements and higher external debt amortization, the authorities do not expect the exceptional private capital outflows, which took place in 1987/88, to continue. The receipt of banknotes from the new center in Abidjan has been regularized; the speculative tendencies have diminished; and the disturbances associated with the elections are over. Furthermore, a tight rein on credit is being kept. In the circumstances, private capital flows are expected to be reversed in 1988/89, thereby largely offsetting the decline in net public capital disbursements. Taking into account all these factors, as well as the debt relief already secured through October 31, 1988, the overall balance of payments is programmed to record a surplus of CFAF 13.8 billion for 1988/89. Given the projected net use of Fund resources of CFAF 7.4 billion and a programmed improvement in Senegal's position in the operations account of CFAF 36.1 billion, a financing gap of CFAF 14.9 billion remains. This gap could be covered by additional debt relief from the Paris Club and other official creditors on the assumption that coverage is comparable to that obtained in previous years.

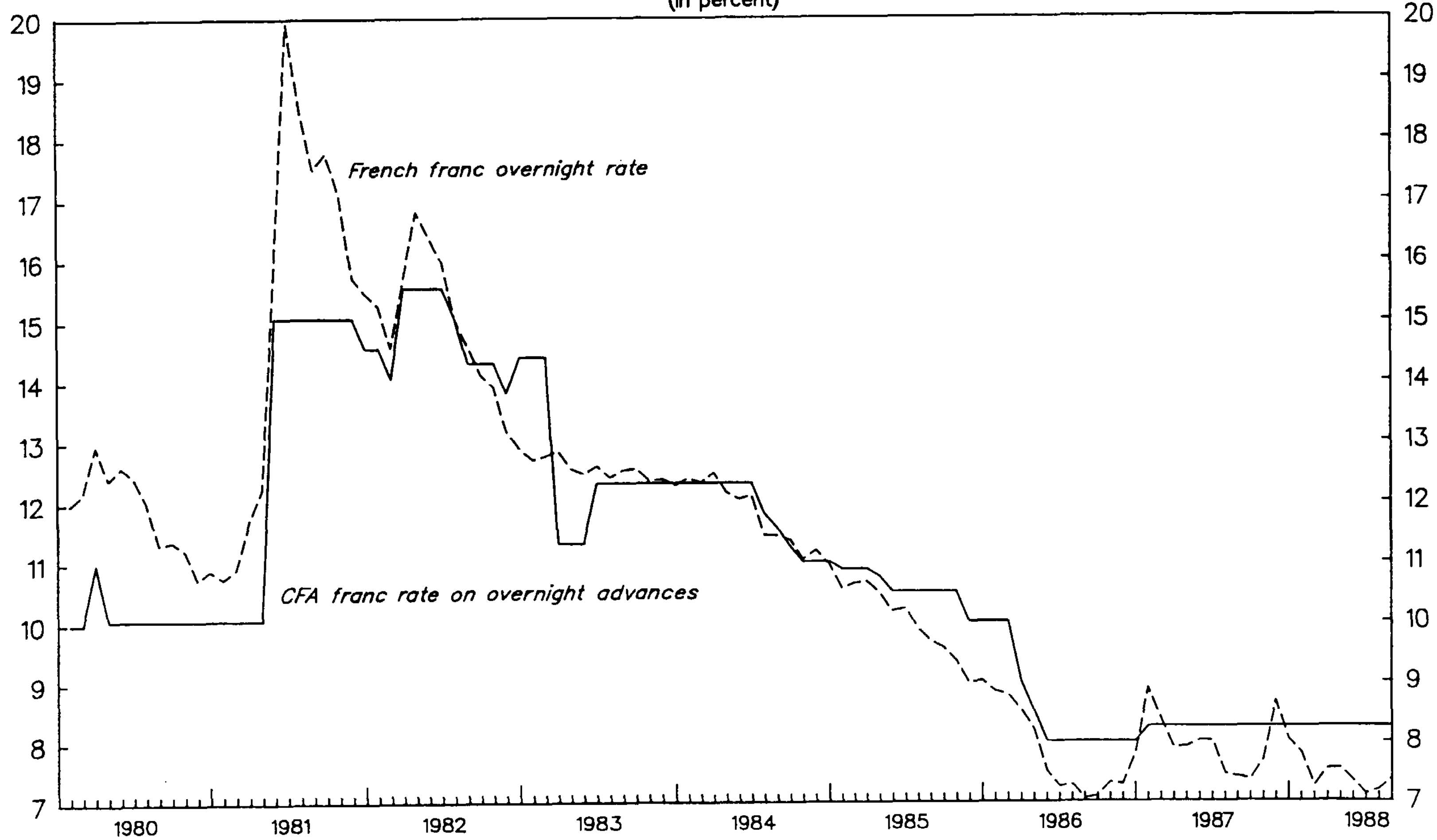
To avoid aggravating the external debt situation, which shows a debt service ratio before debt relief remaining at 30.4 percent in 1988/89, the authorities will continue to limit nonconcessional borrowing so as to reduce the debt service burden over the medium term. During 1988/89, the Government will not contract or guarantee any external loans on nonconcessional terms, with an initial maturity from 1 up to 12 years, beyond a limit equivalent to SDR 24 million; within this limit, there will be no loans with a maturity from 1 up to 5 years. During the program 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. The authorities will continue to take steps to strengthen the management of the debt and

CHART 3

SENEGAL

COMPARISON OF MONEY MARKET INTEREST RATES[1]
ON FRENCH FRANCS AND CFA FRANCS, JANUARY 1980–AUGUST 1988

(In percent)



Source: IMF, *International Financial Statistics.*
[1] Monthly average for French franc; end of month for CFA franc.

investment department. Furthermore, there will be no accumulation of external payments arrears.

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, with the other members of the Union, a 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 the fiscal years ending June 1987 and 1988, Senegal's currency appreciated by 4.6 and 2.2 percent in nominal terms, respectively. In real terms, however, the currency depreciated by 2.0 and 1.9 percent, respectively. The authorities indicated that there had, therefore, been an improvement in competitiveness based on this indicator. They emphasized that the design of their adjustment programs has taken into account Senegal's exchange arrangement. Thus, in their view, these programs had enabled Senegal to make satisfactory progress toward its adjustment objectives. However, they recognized the importance of further enhancing Senegal's competitiveness by keeping the inflation rate below those of its trading partners and competitors. To this end, they would be pursuing prudent fiscal and credit policies, as well as a restrained wage policy. Overall, they noted that 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.

i. 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 1988, end-March 1989, and end-June 1989 have been established as benchmarks. Those for end-December 1988 will also constitute performance criteria. The quantitative benchmarks for the first half of 1989 are indicative in nature; definitive benchmarks will be established at the time of the midterm review of the program with the Fund to be completed by mid-March 1989. 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 any necessary additional measures, including interest rate policy, will be reached.

No financial benchmarks have been established for end-September 1988, even though the financial program covers the fiscal year starting July 1, 1988. This is due to the fact that the letter of intent could not be finalized until October 15, 1988 because of delays in receiving confirmation on the requisite external financial assistance, although

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

	Stock at end-June 1988	Change from July 1, 1988 to End- 1988 Dec. Perf. crit.	1989 March Indicative benchmarks	1989 June Indicative benchmarks
I. Financial benchmarks		(In billions of CFA francs)		
Net domestic assets of the banking system 1/ 2/ 3/	582.2	-31.8	8.2	-10.2
Credit to the Government (net) 1/ 2/	149.9	6.7	14.7	4.3
Payments arrears of Government and public agencies				
1. Domestic	8.5	-2.5 4/	-5.0 4/	-8.5 4/
2. External	--	--	--	--
Repayment of 1986/87 crop credit	1.5	-1.5	-1.5	-1.5
Repayment of ONCAD debt	76.6	-4.3 4/	-6.4 4/	-8.6 4/
		(In millions of SDRs)		
New external borrowing on nonconcessional terms by the Government or with government guarantee 5/				
1. Short-term (less than 1 year)		--	--	--
2. 1-5 years' maturity		--	--	--
3. 1-12 years' maturity		24.0	24.0	24.0

II. Structural measures	Date
1. Benchmarks	
(a) Elimination of price controls, with the exception of those on certain strategic or essential products.	End-December 1988
(b) Completion of a plan of action to reduce energy prices and to take compensatory revenue measures.	End-March 1989
(c) Adoption of a three-year public investment program for 1989/90-1991/92.	End-June 1989
2. Performance criterion	
(a) 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).	End-December 1988

Source: Appendix II, Annex.

1/ The program assumes that Senegal will receive a cumulative amount of external budgetary assistance (excluding grants) beginning July 1, 1988 of CFAF 35.0 billion through December 31, 1988, of CFAF 45.0 billion through March 31, 1989, and of CFAF 53.2 billion through June 30, 1989. In the event that the external budgetary assistance (excluding grants) 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 ONCAD debt.

2/ The program does not envisage the receipt by Senegal of any extrabudgetary external financial assistance during the period July 1, 1988-June 30, 1989 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 45.8 billion during the period July 1-December 31, 1988; a reduction of CFAF 15.8 billion during the period July 1, 1988-March 31, 1989; and a reduction of CFAF 25.8 billion during the period July 1, 1988-June 30, 1989. In the event that the variation in crop credit is lower or higher than these amounts, the variation in net domestic assets will be adjusted downward or upward pro tanto. In addition, the variation in net domestic assets will be adjusted by the amount of the 1987/88 crop credit that would be reclassified in December 1988.

4/ In the event of a shortfall in the cumulative projected budgetary assistance, the changes will be adjusted accordingly to compensate for the shortfall.

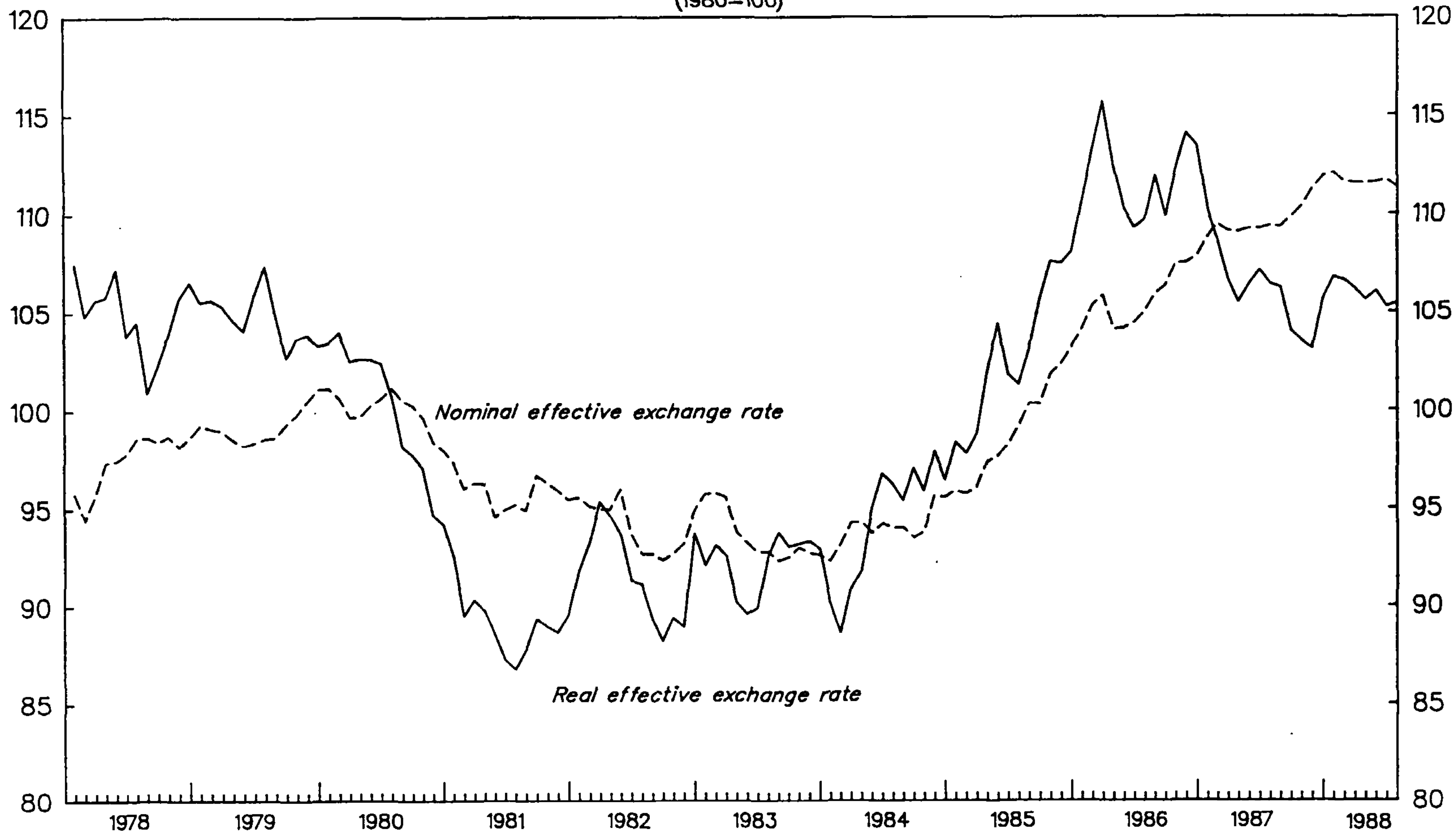
5/ The exchange rate applicable to these borrowings will be the rate of the SDR vis-à-vis the contract currency on June 30, 1988, as reported in International Financial Statistics. For debts directy contracted by the Government, the loan will count toward the ceiling on the date of the signature. For 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 signature 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–AUGUST 1988

(1980=100)



Source: IMF, Information Notice System.

negotiations had been initiated on July 1, 1988 and concluded on August 26, 1988. Disbursements under the first arrangement under the ESAF are, however, scheduled to be spaced about five months apart, with the first drawing shortly after Board approval, and the second shortly after receipt of the data for the end-December 1988 performance criteria and the completion of the semiannual review under the arrangement in March 1989.

V. Social Aspects of the Adjustment Strategy

The Government's proposed three-year adjustment program is designed to contribute to consolidating the recent increases in per capita income. As agriculture is expected to be a major source of economic growth, the real income of the farming community is expected to benefit substantially over the medium term. In the urban sector, incomes are expected to increase at a slower pace during the transitional adjustment period. This results from the containment of wage increases in the public sector, in view of the need to restore financial balance. Moreover, the substantial reform of the public enterprise sector, which involves the liquidation, privatization, or rehabilitation of selected enterprises, may initially reduce employment opportunities. However, the improved economic environment is expected to enhance private sector activities, leading to increased employment opportunities over the medium term. The industrial and service sectors are expected to benefit particularly from the policies envisaged under the adjustment program.

The authorities are taking specific measures to address short-term social issues. First, the administered prices of key consumer goods such as rice, groundnut oil, and sugar, have been recently reduced, benefiting real urban incomes. Second, the Government has established a foreign-financed Redeployment Fund that is designed to facilitate the re-entry of eligible beneficiaries into gainful private employment. The Redeployment Fund is financed by external concessional resources amounting to CFAF 10.0 billion. It is providing 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. Third, a proposed industrial sector rehabilitation project is expected to provide financing for training programs, technical assistance to strengthen industrial support institutions, and a line of credit to help industries to modernize and enhance their productivity.

While the adjustment program focuses primarily on the directly productive sectors, the Government has reinforced its efforts to improve basic social services with the assistance of multilateral organizations and nongovernmental institutions. Education and health care, in particular, will continue to receive priority. As part of the multicountry social dimensions of adjustment projects, financed by the United Nations Development Programme and executed by the World Bank, work is expected to start shortly to compile data on income distribution and welfare indicators, and to study the socioeconomic impact of adjustment programs.

VI. Staff Appraisal

Since mid-1983, the Senegalese Government has effectively implemented a series of adjustment programs that have contributed to a marked recovery in economic activity and a reduction in domestic and external financial imbalances. The wide-ranging policies implemented have brought about a liberalization of the economy, a strengthening in public investment programming, and improvements in the performance of the public enterprise sector. In addition, the fiscal deficit has been sharply reduced, through the introduction of comprehensive revenue measures and the pursuit of an austere expenditure policy. Significant progress has also been made in the payment of both domestic and external payments arrears. Credit policy has been reoriented toward the private sector. The external debt of the country relative to GDP has been considerably reduced through a prudent external debt management policy. The success of these efforts reflects the readaptation and strengthening of policies in the face of adverse exogenous factors, such as droughts and declining terms of trade, as well as the steadfastness of the Government, notwithstanding the political pressures associated with the presidential and parliamentary elections held in February 1988.

The significant progress achieved thus far has brought to the forefront the remaining obstacles to the achievement of sustained economic growth and the attainment of financial viability. In the agricultural sector, diversification and efficiency have suffered as a result of price distortions and an inappropriate infrastructure. The industrial sector, which has been significantly liberalized, is now constrained by the rigidities in the labor market, high labor and energy costs, administrative regulation, and an inefficient domestic banking system. The public enterprise sector continues to incur significant losses resulting mainly from managerial problems, undercapitalization, and overemployment. Public investment programming has been improved, but remains inadequate in the areas of project identification, preparation, and monitoring, as well as the proper assessment and budgeting of recurrent costs. The weaknesses in the banking system, arising in part from sizable nonperforming loans, hinder financial intermediation, thereby limiting the mobilization of domestic savings and their channeling into productive investment. Public finances also exhibit a number of structural problems. Revenue remains relatively inelastic and highly dependent on exceptional profits generated by the oil sector. Expenditure is still dominated by the high share of the wage bill, as well as a significant level of subsidies, particularly on groundnut operations. The fiscal imbalance has led to a heavy reliance on external financing.

To overcome these obstacles, the Government's medium-term adjustment strategy involves an intensification of the adjustment process. The reduction in subsidies, the liberalization of producer prices for certain products, the reduction in the Government's intervention, and the emphasis that the public investment program places on the agricultural sector are critical to enhance agricultural production and improve efficiency. In this context, the staff welcomes the courageous decision taken by the Government to adjust the producer price of groundnuts, thus significantly reducing the subsidy to this sector. The further streamlining of the operations of the groundnut oil processing company will be particularly important to eliminate over time the burden of this sector on the government budget. The emphasis being placed on the transformation and marketing of local cereals is designed to stimulate domestic production, particularly in light of the reduction in the retail price of rice. In the industrial sector, the recent revision of the labor and investment codes, the further reduction in tariffs, and the liberalization of prices are particularly important for promoting the profitability of the sector. The steps being taken to link remuneration to productivity, as well as to reassess energy policy, are fundamental to increase the competitiveness and strengthen the long-term growth prospects of the sector. The contribution of public investment to economic growth will be further enhanced through the strengthening in the process of public investment programming, specifically with regard to the evaluation of the viability of projects and the analysis of their recurrent cost and debt service implications. The acceleration of the public enterprise sector reform is needed to reduce the burden of this sector on the economy and widen the scope for private sector activity.

Fiscal policy is designed not only to restrain the growth in aggregate demand, but also to achieve changes in the structure of taxation and expenditure in order to improve resource allocation and release resources to the production sectors. The fiscal measures being taken by the authorities are expected to bring about, starting in 1988/89, a turnaround in the overall fiscal position, on a commitment basis and including grants, to a surplus. This will enable the Government to reduce over the three-year period its dependence on domestic and foreign financing, as well as to repay the remaining domestic payments arrears of the public sector. The revenue measures envisaged are designed to improve the distribution of the tax burden and the elasticity of the tax system. A critical element is the work that will be completed to map out revenue measures to substitute for the present dependence of the budget on oil profits. The reduction in the share of the wage bill, to be achieved through a curtailment in the number of civil servants and a freeze on general salary increases, as well as the continued austerity measures will enable the Government to allocate additional resources to such recurrent expenditures as maintenance, materials, and supplies. Concomitantly, credit policy is designed to meet the growth requirements of the economy, while reinforcing the fiscal stance. In this context, the staff welcomes the steps being taken to rehabilitate certain banks and attaches considerable importance to the launching of a comprehensive reform program for the banking system.

Particular attention will have to be placed on several areas if the objectives of the adjustment program for 1988/89 are to be achieved. First, a tight rein will have to be maintained on credit, in light of the recent private capital outflows. While the staff concurs that these flows were due to exceptional nonrecurrent factors, it considers that a more active interest rate policy needs to be pursued in response to any further developments. Second, the evolution of government revenue and expenditure will need to be carefully monitored and, if necessary, additional measures taken to achieve the fiscal target. Third, the preparatory work for the reform of the banking system needs to be given high priority, if a comprehensive program is to be defined by the end of the year. Fourth, emphasis will have to be given to streamlining the divestiture process and improving the financial relations between the Government and public enterprises.

In the view of the staff, the medium-term strategy proposed by the Senegalese authorities, as well as the measures being taken in 1988/89, should contribute to furthering the adjustment process over the medium-term, bringing about sustainable growth in per capita income, and achieving domestic and external financial stability. Senegal has established a fine track record in the implementation of previous programs, a record that augurs well for the future. The success of the proposed program will depend not only on the effective implementation of the policies envisaged, but also on the timely flow of external financial resources to support this process. The authorities have already secured sufficient commitments to cover most of the financing gap for 1988/89. The balance could be covered by debt relief from Paris Club participants and other creditors on the assumption that coverage is comparable to that obtained in previous years. Accordingly, the staff recommends approval of the requested arrangements 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.

VII. Proposed Decision

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

ESAF Arrangement

1. The Government of Senegal has requested a three-year structural adjustment arrangement under the enhanced structural adjustment facility, and the first annual arrangement thereunder.

2. The Fund notes the updated policy framework paper for Senegal set forth in EBD/88/304.

3. The Fund approves the arrangements set forth in EBS/88/222.

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

	Outstanding at Sept.30, 1988	1988 Oct.-Dec.	1989 Jan.-March	April-June	July-Sept.	Oct.-Dec.	1990 Jan.-March	April-June	July-Sept.	Oct.-Dec.	1991 Jan.-March	April-June	July-Sept.
	(In millions of SDRs)												
Transactions under tranche policies (net)	—	-14.10	-8.75	-12.98	-7.45	-14.21	-6.02	-14.38	-5.56	-13.75	-5.63	-11.85	-5.72
Purchases	—	—	—	—	—	—	—	—	—	—	—	—	—
Ordinary resources	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)
Borrowed resources	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)
Repurchases	—	-14.10	-8.75	-12.98	-7.45	-14.21	-6.02	-14.38	-5.56	-13.75	-5.63	-11.85	-5.72
Ordinary resources	(—)	(-6.01)	(-6.36)	(-8.40)	(-3.98)	(-4.27)	(-4.71)	(-3.89)	(-3.17)	(-3.08)	(-2.65)	(-3.24)	(-3.78)
Borrowed resources	(—)	(-8.10)	(-2.39)	(-4.58)	(-3.47)	(-9.94)	(-1.31)	(-10.49)	(-2.39)	(-10.67)	(-2.98)	(-8.61)	(-1.94)
Transactions under special facilities (net)	—	—	—	—	—	—	—	—	—	—	—	—	—
Loans under:													
Structural adjustment facility	—	—	—	—	—	—	—	—	—	—	—	—	—
Enhanced structural adjustment facility	—	29.79	—	29.79	—	21.27	—	21.27	—	21.27	—	21.27	—
Total Fund credit outstanding (end of period)	215.89	231.56	222.81	239.62	232.17	239.24	233.22	240.11	234.55	242.06	236.43	245.86	240.14
Tranche policies	173.33	159.23	150.48	137.50	130.05	115.84	109.82	95.44	89.88	76.13	70.50	58.65	52.93
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	42.55	42.55
Enhanced structural adjustment facility	—	29.79	29.79	59.58	59.58	80.85	80.85	102.12	102.12	123.38	123.38	144.66	144.66
	(In percent of quota)												
Total Fund credit outstanding (end of period)	253.68	272.11	261.83	281.57	272.83	281.12	274.05	282.15	275.61	284.45	277.84	288.91	282.20
Tranche policies	203.68	187.11	176.83	161.57	152.82	136.12	129.04	112.15	105.61	89.45	82.84	68.91	62.20
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	50.00	50.00
Enhanced structural adjustment facility	—	35.00	35.00	70.00	70.00	95.00	95.00	120.00	120.00	145.00	145.00	170.00	170.00
Memorandum item:													
Trust Fund loans outstanding (end of period)													
In millions of SDRs	5.60	4.96	3.70	3.06	1.80	1.16	0.71	0.29	0.13	0.13	—	—	—
In percent of quota	6.59	5.83	4.35	3.60	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	Executive Board approval of the ESAF arrangement and the first annual arrangement thereunder.
SDR 29.79 million	After March 14, 1989	Compliance with the performance criteria for December 31, 1988 and completion of the semiannual review under the arrangement.
SDR 21.27 million	November 15, 1989	Executive Board approval of the second annual arrangement.
SDR 21.27 million	After March 14, 1990	Compliance with the performance criteria for December 31, 1989 and completion of the semiannual review under the arrangement.
SDR 21.27 million	November 15, 1990	Executive Board approval of the third annual arrangement.
SDR 21.27 million	After March 14, 1991	Compliance with the performance criteria for December 31, 1990 and completion of the semiannual 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, 1984/85–1991/92 1/

	1984/85	1985/86	1986/87	1987/88		1988/89	1989/90	1990/91	1991/92
				Rev. prog.	Est.	Prog.		Projections	
				(In billions of CFA francs)					
Total revenue and grants	216.1	237.9	266.1	283.9	267.4	302.7	316.3	346.6	370.7
Revenue	203.9	218.7	251.0	262.2	247.4	270.8	293.3	321.6	345.7
Tax revenue	190.1	185.1	196.0	213.5	202.9	224.4	246.3	274.1	297.7
Nontax revenue	13.8	33.6	55.0	48.7	44.5	46.4	47.0	47.5	48.0
Of which: refinery surplus	(--)	(19.3)	(42.0)	(36.0)	(35.4)	(36.0)	(36.0)	(36.0)	(36.0)
Grants	12.2	19.2	15.1	21.7	20.0	31.9	23.0	25.0	25.0
Of which: capital	(5.0)	(8.0)	(9.0)	(10.8)	(10.8)	(12.0)	(13.0)	(15.0)	(15.0)
Total expenditure and net lending	254.2	266.0	285.8	288.0	281.8	299.5	306.1	314.6	322.0
Current expenditure	217.1	220.3	232.7	240.5	246.4	245.5	249.1	253.6	257.0
Wages and salaries	106.6	111.8	119.8	122.3	122.3	125.0	127.5	130.0	133.0
Interest due 2/	44.4	41.0	39.6	45.0	46.6	44.5	44.6	43.6	41.0
Of which: external	(43.8)	(40.3)	(39.3)	(42.0)	(43.6)	(41.5)	(41.6)	(40.6)	(38.0)
Materials and maintenance	33.5	40.2	43.2	44.7	49.0	48.5	49.8	53.0	56.5
Transfers and subsidies 3/	32.3	25.7	28.6	27.5	27.5	26.5	26.2	26.0	25.5
Other	0.3	1.6	1.5	1.0	1.0	1.0	1.0	1.0	1.0
Capital expenditure	34.7	33.8	38.1	45.0	39.0	44.0	48.0	52.0	56.0
Budgetary	9.7	5.8	8.1	15.0	9.0	14.0	16.0	18.0	21.0
Extrabudgetary	25.0	28.0	30.0	30.0	30.0	30.0	32.0	34.0	35.0
Treasury special accounts (net) 4/	-4.1	-12.9	-14.8	-13.0	-8.0	-7.0	-7.0	-7.0	-7.0
Treasury correspondents (net) 4/	1.7	1.0	-0.2	10.5	11.6	-3.0	-2.0	-2.0	-2.0
Overall fiscal surplus or deficit (-) (commitment basis)	-38.1	-28.1	-19.7	-4.1	-14.4	3.2	10.2	32.0	48.7
Adjustment to cash basis	-11.6	-12.6	-26.3	-38.2	-37.1	-31.5	-5.5	-4.4	-3.3
Payments arrears of the Government and public agencies (reduction -)	-7.6	-9.6	-14.0	-14.0	-14.0	-8.5	--	--	--
Crop credit (repayment -)	-4.0	-3.0	-12.3	-24.2	-23.1	-23.0	-5.5	-4.4	-3.3
Overall fiscal surplus or deficit (-) (cash basis)	-49.7	-40.7	-46.0	-42.3	-51.5	-28.3	4.7	27.6	45.4
Financing	49.7	40.7	46.0	42.3	51.5	28.3	-4.7	-27.6	-45.4
External	38.0	28.0	52.0	47.4	51.9	21.2	5.5	-18.2	-23.2
Drawings	40.9	36.7	76.8	82.1	79.9	71.2	69.3	48.0	52.8
Treasury	20.9	16.7	55.8	62.9	60.7	53.2	50.3	29.0	32.8
Project loans	20.0	20.0	21.0	19.2	19.2	18.0	19.0	19.0	20.0
Amortization due 2/	-31.2	-29.6	-43.9	-53.6	-45.9	-57.4	-63.8	-66.2	-76.0
External debt rescheduling	28.3	20.9	19.1	18.9	17.9	7.4	--	--	--
Domestic	11.7	12.7	-6.0	-5.1	-0.4	-4.3	-10.2	-9.4	-22.2
Banking system 5/	17.9	19.6	1.8	6.5	6.0	4.3	-1.6	-0.8	-13.6
Repayment of ONCAD debt to banks	-10.0	-8.0	-12.0	-8.6	-8.6	-8.6	-8.6	-8.6	-8.6
Nonbank borrowing	2.0	0.8	2.2	--	1.0	--	--	--	--
Other 6/	1.8	0.3	2.0	-3.0	1.2	--	--	--	--
Additional rescheduling requested	--	--	--	--	--	11.4	--	--	--
Memorandum items:									
Payments arrears of the Government and public agencies outstanding (end of the period)	46.1	36.5	22.5	8.5	8.5	--	--	--	--
Domestic	37.5	36.1	22.5	8.5	8.5	--	--	--	--
External	8.6	0.4	--	--	--	--	--	--	--
Nominal GDP	1,083.8	1,223.1	1,338.2	1,460.3	1,432.9	1,527.8	1,617.9	1,714.4	1,820.8
				(In percent of GDP)					
Total revenue and grants	19.9	19.5	19.9	19.8	18.7	19.8	19.6	20.2	20.4
Of which: revenue	(18.8)	(17.9)	(18.8)	(18.3)	(17.3)	(17.7)	(18.1)	(18.8)	(19.0)
tax revenue	(17.5)	(15.1)	(14.6)	(14.9)	(14.2)	(14.7)	(15.2)	(16.0)	(16.3)
Total expenditure and net lending	23.5	21.7	21.4	20.1	19.7	19.6	18.9	18.4	17.7
Of which: current expenditure	(20.0)	(18.0)	(17.4)	(16.8)	(17.2)	(16.1)	(15.4)	(14.8)	(14.1)
capital expenditure	(3.2)	(2.8)	(2.8)	(3.1)	(2.7)	(2.9)	(3.0)	(3.0)	(3.1)
Overall fiscal surplus or deficit (-) (commitment basis)	-3.5	-2.3	-1.5	-0.3	-1.0	0.2	0.6	1.9	2.7
Overall fiscal surplus or deficit (-) (cash basis)	-4.6	-3.3	-3.4	-2.9	-3.6	-1.9	0.3	1.6	2.5

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.

5/ Includes the counterparts of Fund purchases and repurchases, as well as those of loans under the SAF and ESAF. 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.

6/ Including errors and omissions.

Table IV. Senegal: Monetary Survey, June 1985–June 1992

(In billions of CFA francs; end of period)

	1985	1986	1987	1988					1989		1990	1991	1992
	June			March		June		Dec.	Mar.	June	June		
				Rev. prog.	Act.	Rev. prog.	Act.	Prog.	Program		Projections		
Net foreign assets	-229.5	-243.8	-207.5	...	-217.2	-196.7	-236.0	...	...	-207.9	-193.5	-185.6	-166.8
Central bank	-215.7	-219.8	-185.0	...	-182.6	-156.6	-196.5	...	...	-167.8	-153.4	-145.5	-126.7
Commercial banks	-13.8	-24.0	-22.5	...	-34.6	-40.1	-39.5	...	...	-40.1	-40.1	-40.1	-40.1
Domestic credit	503.5	544.0	575.3	598.4	602.2	567.9	606.7	574.9	614.9	596.5	604.7	618.8	622.2
Credit to the Government (net)	126.6	142.1	143.9	152.8	145.6	150.4	149.9	156.6 1/	164.6	154.2	152.6	151.8	138.2
Credit to the economy	376.9	401.9	431.4	445.6	456.6	417.5	456.8	418.3	450.3	442.3	452.1	467.0	484.0
Ordinary credit	360.3	371.9	374.5	382.5	380.2	382.5	380.9	388.3	390.3	392.3	403.1	418.0	435.0
Of which: ONCAD	(67.7)	(67.7)	(66.7)	(...)	(66.4)	(...)	(...)	(...)	(...)	(...)	(...)	(...)	(...)
Crop credit	16.6	30.0	56.9	63.1	76.4	35.0	75.9	30.0	60.0	50.0	49.0	49.0	49.0
Of which: reclassified	(—)	(3.5)	(2.2)	(...)	(2.4)	(...)	(...)	(...)	(...)	(...)	(...)	(...)	(...)
Money and quasi-money	284.3	291.4	342.2	...	366.9	353.1	346.2	360.1	408.6	364.1	386.8	408.8	431.0
Currency in circulation	64.8	75.2	108.9	...	117.1	...	...	...	...	...	...	...	...
Demand deposits	113.0	112.8	117.2	...	122.2	...	...	...	...	...	...	...	...
Time deposits	106.5	103.4	116.1	...	127.6	...	...	...	...	...	...	...	...
Other items (net)	-10.3	8.8	25.6	18.1	18.1	18.1	24.5	24.5	24.5	24.5	24.5	24.5	24.5
Of which: ONCAD	(22.0)	(19.3)	(13.6)	(...)	(12.5)	(...)	(...)	(...)	(...)	(...)	(...)	(...)	(...)
Memorandum items:													
Domestic assets (net)	513.8	535.2	549.7	580.3	584.1	549.8	582.2	550.4 1/	590.4	572.0	580.2	594.3	597.7
Doubtful and litigious claims	20.7	25.1	17.2	...	16.1	...	...	...	...	...	...	...	...

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

1/ Performance criteria.

Table V. Senegal: Balance of Payments, 1984/85-1991/92

	1984/85	1985/86	1986/87	1987/88 Rev. prog.	1987/88 Prel. act.	1988/89 Prog.	1989/90	1990/91	1991/92
							Projections		
				(In billions of CFA francs)					
Trade balance	-120.1	-120.9	-81.6	-63.6	-70.7	-64.0	-54.2	-39.2	-26.2
Exports, f.o.b.	245.1	216.8	204.1	238.1	225.6	252.3	283.0	320.5	360.9
Of which: groundnut products	(42.5)	(15.6)	(19.0)	(35.3)	(33.2)	(47.7)	(48.7)	(53.1)	(57.8)
Imports, f.o.b.	-365.2	-337.7	-285.7	-301.7	-296.3	-316.3	-337.2	-359.7	-387.1
Of which: petroleum products	(-107.3)	(-77.7)	(-38.2)	(-49.1)	(-43.4)	(-40.2)	(-45.1)	(-48.3)	(-51.7)
Services (net)	-75.6	-70.1	-66.8	-72.9	-72.0	-76.8	-73.1	-74.7	-74.0
Of which: interest due on public debt	(-50.8)	(-49.8)	(-45.9)	(-47.1)	(-47.7)	(-50.6)	(-50.5)	(-49.8)	(-46.3)
Unrequited transfers	63.0	68.8	71.5	76.5	75.0	79.2	82.7	84.1	84.8
Of which: gross official grants	(69.6)	(69.2)	(70.6)	(73.7)	(73.8)	(77.7)	(80.8)	(82.4)	(83.2)
Current account (deficit -)	-132.7	-122.2	-76.9	-60.0	-67.7	-61.6	-44.6	-29.8	-15.4
Capital account	62.7	80.4	84.4	62.4	31.0	66.1	59.0	37.7	34.2
Public sector	54.5	43.2	93.8	85.4	84.0	60.1	44.0	17.7	14.2
Drawings	93.2	84.6	142.1	142.9	141.5	123.2	113.5	90.5	96.4
Amortization	-38.7	-41.4	-48.3	-57.5	-53.8	-63.1	-69.5	-72.8	-82.2
Private sector	33.9	25.0	2.4	-23.0	-53.0	6.0	15.0	20.0	20.0
Errors and omissions	-25.7	12.2	-11.8	—	—	—	—	—	—
Overall balance (deficit -)	-70.0	-41.8	7.5	2.4	-36.7	4.5	14.4	7.9	18.8
Debt rescheduling	34.7	29.9	26.6	26.0	26.0	9.3 1/	—	—	—
Financing	35.3	11.9	-34.1	-28.4	10.7	-28.7	-14.4	-7.9	-18.8
IMF, net	2.2	-3.5	-0.4	3.5	4.1	7.4	0.2	2.3	-13.6
Purchases 2/	16.2	17.8	17.2	19.5	19.8	25.2	16.8	16.8	—
Repurchases	-13.9	-21.3	-17.6	-16.0	-15.7	-17.7	-16.6	-14.5	-13.6
Operations account and other	24.5	20.4	-30.1	-31.9	6.6	-36.1	-14.6	-10.2	-5.2
Payments arrears (reduction -)	8.6	-5.0	-3.6	—	—	—	—	—	—
Requested debt rescheduling 3/	—	—	—	—	—	14.9	—	—	—
Memorandum items:				(In percent of GDP)					
Current account									
Excluding gross official grants	-18.7	-15.6	-11.0	-9.2	-9.9	-9.1	-7.8	-6.5	-5.4
Including gross official grants	-12.2	-10.0	-5.7	-4.1	-4.7	-4.0	-2.8	-1.7	-0.8

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

1/ On debt service through October 1988.
2/ Includes disbursements under the SAF and the ESAF.
3/ On the basis of a cut-off date of January 1, 1983 and excluding debt service on already rescheduled debt.

Table VI. Senegal: External Public Debt Service, 1984/85-1991/92 1/

(In millions of SDRs, unless otherwise specified)

	1984/85	1985/86	1986/87	1987/88 Rev. prog.	1987/88 Est.	1988/89 Prog.	1989/90 Projections	1990/91 Projections	1991/92 Projections
Principal	112.7	147.8	166.9	188.4	188.4	205.1	218.4	221.4	243.0
Medium- and long-term	82.9	97.5	122.3	147.4	147.4	160.1	176.3	184.7	208.5
IMF repurchases	29.8	50.3	44.6	41.0	41.0	45.0	42.1	36.8	34.5
Interest	108.8	117.3	116.2	120.8	122.3	128.4	128.0	126.2	113.5
Medium- and long-term	88.0	97.1	100.2	106.0	107.5	114.9	117.2	118.1	107.9
IMF charges	20.8	20.2	16.0	14.8	14.8	13.5	10.8	8.2	5.6
Total debt service before rescheduling	221.4	265.2	283.1	309.2	310.7	333.5	346.4	347.7	356.5
Debt rescheduling	74.3	70.5	67.3	66.7	66.7	23.6 2/	—	—	—
Total debt service after rescheduling	147.1	194.7	215.7	242.5	244.1	309.9	346.4	347.7	356.5
Memorandum items:									
Exports of goods and services, and private transfers	877.8	912.6	956.7	1,070.3	1,035.9	1,096.3	1,190.9	1,297.5	1,412.0
Debt service ratio (in percent)									
Before debt rescheduling	25.2	29.1	29.6	28.9	30.0	30.4	29.1	26.8	25.2
Principal	(12.8)	(16.2)	(17.4)	(17.6)	(18.2)	(18.7)	(18.3)	(17.1)	(17.2)
Interest	(12.4)	(12.9)	(12.2)	(11.3)	(11.8)	(11.7)	(10.8)	(9.7)	(8.0)
After debt rescheduling	16.8	21.3	22.6	22.7	23.6	28.3	29.1	26.8	25.2
IMF debt service ratio (in percent)	5.8	7.7	6.3	5.2	5.4	5.3	4.4	3.5	2.8

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

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

2/ Refers to the amount of debt service rescheduled in November 1987 and falling due in the period July 1-October 30, 1988.

Enhanced Structural Adjustment Facility:
Three-Year and First Annual Arrangements

Attached hereto is a letter dated October 15, 1988 with an attached Memorandum of the Economic and Financial Policies of Senegal from the Minister of Economy and Finance of Senegal requesting from the International Monetary Fund a three-year arrangement under the enhanced structural adjustment facility, and the first annual arrangement thereunder, and setting forth

(i) the objectives and policies of the program to be supported by the three-year arrangement; and

(ii) the objectives and policies of the program to be supported by the first annual arrangement.

To support these objectives and policies, the Fund grants the requested arrangements in accordance with the following provisions, and subject to the Regulations for the administration of the structural adjustment facility and the Instrument to Establish the Enhanced Structural Adjustment Facility Trust:

1. (a) For a period of three years from November --, 1988, Senegal will have the right to obtain loans from the Fund under the enhanced structural adjustment facility, in a total amount equivalent to SDR 144.67 million. Of this amount, the equivalent of SDR 11,488,500 shall be provided from the structural adjustment facility within the Special Disbursement Account, and the equivalent of SDR 133,181,500 shall be provided from the Enhanced Structural Adjustment Facility Trust, subject to any changes in the amount of access to the structural adjustment facility.

(b) The amount of each annual arrangement will be the equivalent of SDR 59.57 million for the first annual arrangement; the equivalent of SDR 42.55 million for the second annual arrangement; and the equivalent of SDR 42.55 million for the third annual arrangement.

(c) Under the first annual arrangement:

(i) the first loan, in an amount equivalent to SDR 29.785 million, will be available on November -- at the request of Senegal; and

(ii) the second loan, in an amount equivalent to SDR 29.785 million, will be available on March 15 at the request of Senegal subject to paragraph 2 below.

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

(a) If the Managing Director finds that at the end of December 1988

(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 target for the repayment of the 1986/87 crop credit, or

(v) the target for the repayment of ONCAD debt, or

(vi) the limit on the contracting or guaranteeing by the Government of nonconcessional external loans, or

(vii) the structural performance criterion related to the completion of a plan of action for the gradual reduction of the deficit of the groundnut sector

referred to in paragraphs 23 and 24 of the memorandum attached to the letter and specified in the table annexed to the memorandum were not observed; or

(b) If Senegal

(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

(c) Until the Fund has determined that the midterm review of Senegal's program referred to in paragraph 23 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(c)(ii) 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 second annual arrangement, the Fund will appraise the progress of Senegal in implementing the policies and reaching the objectives of the program supported by the first annual arrangement, taking into account primarily:

(a) The indicators described in paragraphs 23 and 24 of the memorandum attached to the letter;

(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; and

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

4. In accordance with paragraph 3 of the attached letter, Senegal will provide the Fund with such information as the Fund requests in connection with the progress of Senegal in implementing the policies and reaching the objectives supported by these arrangements.

5. In accordance with paragraph 4 of the attached letter, during the period of the first 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 first 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. These consultations may include correspondence and visits of officials of the Fund to Senegal or of representatives of Senegal to the Fund.

TRANSLATION

October 15, 1988

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

Dear Mr. Camdessus:

1. The objectives of Senegal's three-year economic and financial adjustment program are set out in the policy framework paper for 1988/89-1990/91, 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 policies that the Government of Senegal intends to pursue in the three-year period starting from 1988/89 and the objectives and policies for the first annual program thereunder. In support of these objectives and policies, the Government of Senegal hereby requests a three-year arrangement under the enhanced structural adjustment facility in an amount equivalent to SDR 144.67 million and the first annual arrangement thereunder in an amount equivalent to SDR 59.57 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 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 first 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 first 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 mid-term review of its first annual program to be completed not later than March 15, 1988.

Sincerely yours,

/ s /

Serigne Lamine Diop
Minister of Economy
and Finance

Attachment

TRANSLATION

October 15, 1988

SENEGAL

Memorandum on Economic and Financial Policies for 1988/89

1. The Government of Senegal has vigorously implemented since mid-1983 wide-ranging supply- and demand-management policies, supported by the use of Fund and World Bank resources as well as other multilateral and bilateral assistance, including debt relief. The policies pursued, together with a return of favorable weather conditions, have contributed to a resumption of economic growth, a sharp reduction in the rate of inflation, and a significant strengthening of the external sector position. However, the magnitude of the initial economic distortions and financial imbalances was such that Senegal continued to face serious structural bottlenecks and unsustainable domestic and external financial positions. To maintain the momentum of the adjustment process, the Government of Senegal has updated and extended its medium-term economic and financial policy framework to cover the period 1988/89-1990/91, in collaboration with the staffs of the Fund and the World Bank. The framework provides for a reinforcement of structural policies, a further strengthening of the fiscal position, the pursuit of a prudent credit policy, a reform of the banking system, and a continued cautious external debt management policy. The Government of Senegal is requesting support for its medium-term policies from the Fund, in the context of the enhanced structural adjustment facility; from the World Bank, in the context of a structural adjustment loan and sectoral reform projects; and from other multilateral and bilateral creditors and donors in the form of budgetary assistance, including debt relief. This memorandum, which supplements the medium-term policy framework paper, reviews briefly the progress made in the implementation of the 1987/88 adjustment program, outlines the thrust of the updated medium-term policy framework, and details the elements of the 1988/89 adjustment program.

I. The 1987/88 Adjustment Program

2. During 1987/88, the Government of Senegal implemented effectively its adjustment program. It has observed all the benchmarks under the second annual arrangement under the structural adjustment facility, albeit with a delay of a few weeks with regard to the policy action relating to the removal of the remaining quantitative import restrictions. In addition, all the performance criteria under the stand-by arrangement supporting the 1987/88 adjustment program have been met. Reflecting the policies pursued, the quantitative objectives of the program with regard to growth, inflation, and the external current account have been largely realized; however, due to a number of

nonrecurrent factors, the external capital account surplus was significantly lower than projected. The growth of real GDP is estimated to have reached 4.4 percent, compared with a program target of 4.2 percent. This growth was led by a marked rise in agricultural output, owing to the positive effects of the agricultural policy pursued and the continued favorable weather conditions. The rate of inflation, as measured by the GDP deflator, dropped to 2.5 percent, against a program target of 3.8 percent. The fall in inflationary pressures resulted from the combination of good domestic supply conditions, owing to the rise in domestic output and the liberalization of the economy, as well as the restrained aggregate demand, stemming from the tight financial policies pursued. The lower inflationary pressures also contributed to a narrowing in the external imbalances. The external current account deficit, excluding grants, fell to 9.9 percent of GDP. This, however, was somewhat higher than the program target of 9.2 percent, owing primarily to a drop in petroleum product exports and a fall in the export price of chemical products. The capital account recorded a lower surplus than projected, as private sector capital outflows were higher than initially envisaged. This resulted from the impact of an exceptional delay in the repatriation of bank notes, owing to the transfer of the collection center from Paris to Abidjan in 1987; some speculative tendencies in the first half of the fiscal year; and delays in the repatriation of export proceeds. Taking into account these factors, the overall balance of payments, before debt relief, recorded a deficit of CFAF 36.7 billion, compared with the program target of a surplus of CFAF 2.4 billion.

3. *On the structural front, the first year of the first three-year* rolling public investment program for 1987/88-1989/90 was implemented as envisaged, with emphasis on high-return investment projects as well as rehabilitation and maintenance operations. An implementation ratio of some 85 percent is estimated to have been achieved in 1987/88, compared with 69 percent in the previous year. In the context of the new agricultural policy, the Government has further liberalized the import and marketing of agricultural inputs, reduced subsidies for fertilizers financed directly by donors by about one third, and further transferred production and marketing operations from rural development agencies to producer cooperatives and the private sector. The study on agricultural prices and incentives was completed and, as described below, actions for the 1988/89 crop season were announced. A preliminary audit of the groundnut oil processing company (SONACOS) was completed; the technical, financial, and management study of the groundnut sector (filière arachidière) will be finalized shortly. In the industrial sector, the investment and labor codes were revised in July 1987; the direct operating subsidies to the sugar company (CSS) were discontinued effective November 1987; all the remaining quantitative restrictions on imports were removed in February 1988; and the scope of price controls was sharply narrowed in February 1988. The reform of the public enterprise sector was continued in 1987/88. To coordinate and supervise the parapublic sector reform, the Government established a coordination unit, with World Bank technical assistance. The Government adopted in

the second half of 1987 a law and several decrees establishing the legal framework for privatizing public enterprises. Seven public enterprises and two public agencies were liquidated in the second half of 1987, and a first set of ten enterprises was selected for privatization. The rehabilitation programs for several enterprises remaining in the Government's portfolio have been carried out in the context of formal agreements (contrats-plans) defining the reciprocal commitments between the Government and the enterprises. Furthermore, direct subsidies to the public enterprise sector were reduced, and progress was made in verifying cross-debts between the Government and public enterprises.

4. The authorities continued to pursue tight financial policies. The overall fiscal deficit, on a commitment basis and including grants, was further reduced in 1987/88 to an estimated 1.0 percent of GDP, from 1.5 percent of GDP in 1986/87. However, it fell short of the program target of 0.3 percent, owing to lower-than-projected revenue. While the reduction in payments arrears of the Government and public agencies was on target, the required crop credit repayments by the Treasury were less than envisaged. As a result, the overall deficit, on a cash basis, is estimated at 3.6 percent of GDP, compared to the program target of 2.9 percent. As net foreign financing and domestic nonbank financing were both higher than foreseen in the program, the Government was able to keep its net use of domestic bank credit below the program target.

5. Total revenue and grants increased by only 0.5 percent in 1987/88, compared with a program target of 6.7 percent. There was a shortfall in both tax and nontax revenue as well as in external grants. Tax revenue was less than programmed due to several factors. The introduction of a tax retention and reimbursement regime applying to projects financed through foreign financial assistance was delayed as a result of administrative constraints. Other factors responsible for the shortfall in tax receipts included the slowdown in commercial activity during March and April 1988 in the city of Dakar, which resulted in a lower collection of value-added taxes; a reduction of the service tax on interest from bank deposits from 17 percent to 7 percent; and declining domestic sales of petroleum products. Changes in income taxation partly compensated for the revenue loss in other taxes, as collection exceeded the program target by 7 percent. Nontax revenue was CFAF 4.2 billion less than programmed, owing to delays in introducing the sales scheme for the government-owned land that had been anticipated to yield some CFAF 5 billion. On the expenditure side, total expenditure and net lending declined by 1.4 percent, instead of increasing by 0.8 percent as envisaged, because of lower-than-anticipated budget capital outlays. The latter reflected primarily the delay in implementing the retention and reimbursement regime for foreign-financed projects. Current expenditure exceeded the program target. This was attributable mainly to revised data on external debt interest charges and to increased outlays associated with the elections held in February 1988. The growth of the wage bill was contained to 2.1 percent, as programmed. The total number of the civil servants was cut back from 68,131 at end-June 1987

to 67,100 at end-June 1988, as programmed, and no general salary increase was granted.

6. The monetary authorities pursued a prudent credit policy in 1987/88. Net bank credit to the Government grew by 1.8 percent of beginning money stock, compared with a program target of 1.9 percent. The growth of ordinary credit was held to 1.9 percent of beginning money stock, below the program projections. However, crop credit grew by 5.6 percent, instead of declining by 6.4 percent as envisaged. This was due to a higher than expected groundnut crop, as well as slow sales of groundnut oil exports in the first half of 1988. Thus, domestic credit grew by 9.2 percent, instead of declining by 2.2 percent as envisaged in the program. However, reflecting the developments in the external sector, the growth of domestic liquidity is estimated at 1.2 percent, compared to a program projection of 3.2 percent. In view of the problems confronting the banking system, a number of steps outlined in Section III were taken in 1987/88 to further the preparatory work for the reform of the system, to restructure certain banks, and, at the same time, to continue evaluating the requests for consolidating the debit balances of other banks with the central bank.

II. The Medium-Term Objectives and Policy Strategy

7. The updated policy framework for 1988/89-1990/91, designed within the context of Senegal's medium- and long-term adjustment program, involves a reinforcement of the Government's adjustment efforts, with a view to achieving a sustainable average annual increase in real GDP of 3.8 percent, following the strong recovery of the economy during the last four years from the drought; reducing the rate of inflation, as measured by the GDP deflator, to 2.3 percent by 1990/91; and narrowing the external current account deficit, excluding official grants, to 6.5 percent of GDP by 1990/91. This will contribute to the attainment of a projected balance of payments surplus, before debt relief, of CFAF 4.5 billion in 1988/89 and CFAF 7.9 billion by 1990/91. Taking into account a progressive reduction in the flows of external budgetary assistance, the projected net drawings from the Fund, and a programmed improvement in Senegal's position in the operations account, Senegal will be able to service its external debt obligations without recourse to debt relief by 1989/90.

8. The medium-term policy strategy focuses on the implementation of major structural policies designed to alleviate the bottlenecks to economic growth. Public investment programming and implementation will be further strengthened, in the context of three-year rolling public investment programs emphasizing the directly productive sectors. The new agricultural policy will be reassessed and fine tuned, with a view to promoting and diversifying agricultural production. Particular attention will be given to enhancing industrial development, through appropriate policies involving corrective measures designed to consolidate and promote the industrial sector. Energy policy will be

streamlined, based on a medium-term plan of action designed to balance the objectives of promoting efficiency and conservation, enhancing competitiveness, and mobilizing revenue. The reform of the public enterprise sector will be accelerated through a step-up in the processes of liquidating, privatizing, and rehabilitating selected enterprises.

9. 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 widen the tax base; in particular, efforts will be made to establish a more durable tax base and to reduce the reliance of revenue on the windfall profits from the oil sector. A restrained expenditure policy will be concurrently pursued, involving a reduction in the share of the wage bill and the implementation of further economy measures. The objective is to achieve a turnaround in the budget position, on a commitment basis and including grants, from a deficit of 1.0 percent of GDP in 1987/88 to a surplus of 1.9 percent of GDP in 1990/91. This will enable the Government to repay all verified domestic public arrears by June 1989, to reduce domestic net bank borrowing, and to curtail sharply the foreign financing requirements. Concomitantly, the monetary authorities will pursue a balanced credit policy, with the dual objective of promoting economic activity and restraining the growth in aggregate demand. In this regard, a major reform program of the banking system will be launched. In light of Senegal's heavy debt service burden, a prudent external debt management policy will be pursued.

III. The Program for 1988/89

10. Consistent with the medium-term framework, the adjustment program for 1988/89 is designed to: (a) achieve a growth of real GDP of 4.2 percent; (b) reduce the rate of inflation, as measured by the GDP deflator, to 2.4 percent; and (c) narrow the external current account deficit, excluding grants, to 9.1 percent of GDP. As private capital flows are expected to be reversed during 1988/89, due to the tight credit policy and the nonrecurrent nature of the factors that prevailed in 1987/88, the overall balance of payments surplus, before debt relief, is projected to reach CFAF 4.5 billion. Taking into account debt rescheduling already secured through November 1988, a reduction in the debit balance of the operations account of CFAF 36.1 billion, and the projected net use of Fund resources, a financing gap of CFAF 14.9 billion for 1988/89 remains. This is expected to be covered by debt relief under the auspices of the Paris Club and other creditors. To achieve the above objectives, major structural and demand-management measures are being taken.

a. Structural measures

11. The Government is implementing the second three-year rolling public investment program for 1988/89-1990/91, elaborated in close collaboration with the World Bank, with a total investment target of

CFAF 477 billion. The target for 1988/89 has been set at CFAF 144 billion, equivalent to some 9 percent of GDP. The primary sector accounts for 37 percent of targeted investment, the secondary sector for 17 percent, and the services and social sectors for 23 percent each. The program is considered by the World Bank staff to constitute an improvement over the previous one and to be consistent with Senegal's adjustment objectives. The Government will take additional steps to further improve development planning and public investment monitoring. First, a study on Senegal's long-term development prospects will be completed by end-December 1989. This will provide a basis for formulating a long-term development strategy and elaborating a new six-year development plan, in the context of which future three-year rolling public investment programs will be designed. Second, the capacity of the Ministry of Planning to evaluate the profitability of projects, to analyze their implications for recurrent costs and debt service, to monitor their execution, and to compile timely and accurate information on their implementation will be strengthened. Third, the Ministry of Planning will concentrate on the evaluation of project proposals, while the relevant technical ministries will be given full responsibility for project identification and preparation, based on standardized procedures. Finally, preparatory steps will be taken to fully integrate the annual investment program into the regular budgetary and expenditure control process starting in 1989/90. In this context, drawings on all external public sector loans and grants will be centralized at the level of the Ministry of Finance.

12. The Government will accelerate the pace of reform in the agricultural sector, supported by public investment, with a view to further expanding and diversifying domestic production, broadening the export base and reducing reliance on imports, and alleviating the financial burden of the groundnut sector on public finances. The reform will involve a continued withdrawal of the Government from production activities, a further liberalization of prices, and the elimination of fertilizer and input subsidies financed by the United States by mid-1989. The Government will prepare a program for the protection of soils through an appropriate input policy, in consultation with the Fund and the World Bank. Furthermore, the measures to protect the natural vegetation and plants will be reinforced. To promote efficient domestic cereal production, the Government is taking a number of specific actions during 1988/89, in line with the strategy elaborated in the Cereals Plan that was adopted in July 1986. First, the retail price of rice was reduced from CFAF 160 per kilogram to CFAF 130 per kilogram on May 4, 1988, aligning it thereby with the world market price. Second, producer prices for local coarse cereals for 1988/89 have been fully liberalized. Third, the role of the Food Security Commission (CSA) will be limited primarily to the management of a food security stock. Its operations have been reviewed and redefined, in consultation with the World Bank, to ensure that they will not hamper the development of private trading in the cereals market. Fourth, the Government, in collaboration with donors, will seek to promote transformation and marketing facilities for local cereals. Fifth, productivity is being

enhanced with a step-up in extension services. Sixth, the Government will review, before the beginning of the 1989 planting season, the regulations governing the use of irrigated land in the Fleuve region to encourage private investment in high-yield crops. Seventh, the Government will establish a plan of action, by end-December 1988, for a reform of the agricultural credit system, with a view to permitting farmers and local cooperatives access to financial intermediation while avoiding any subsidies. In this regard, it will prepare a timetable for the withdrawal of the rural development agency in the Fleuve region (SAED) from financial intermediation.

13. With regard to the groundnut sector, the Government has reduced significantly the subsidy to the sector by lowering the producer price from CFAF 90 per kilogram to CFAF 70 per kilogram for the 1988/89 crop season. Based on projected world prices for groundnut oil, the subsidy to the sector is projected to be reduced from 1.5 percent of GDP for the 1987/88 crop to 0.3 percent of GDP for the 1988/89 crop. Furthermore, a major study of the groundnut sector will be completed by end-September 1988 and, on this basis, a plan of action will be elaborated by end-1988, in consultation with the Fund and the World Bank. The plan of action will include a timetable for specific measures aimed at reducing costs and gradually re-establishing, starting with the 1988/89 harvest, financial balance in the groundnut sector, assuming the continuation of current world market prices. The plan will also include measures to expand the production of confectionery groundnuts and to reorient, in due course, the export strategy of SONACOS. Pending the implementation of this plan, the losses incurred by the sector, in respect of the 1987/88 harvest, and which are included in the 1988/89 budget, will be calculated by taking into account the Government's share in SONACOS' actual profits at the end of its fiscal year. These profits will continue to be calculated on the basis of the company's actual operating costs, selling prices, and receipts, in conformity with prevailing accounting practices in Senegal. SONACOS will give detailed information on the quantities and prices of its sales, to enable the Government, in consultation with the Fund and the World Bank, to revise, as needed, its agreement with SONACOS.

14. With regard to industrial policy, the Government will continue its strategy to consolidate and strengthen the industrial sector. Accordingly, the final phase of the rationalization of the system of effective protection entered into effect in July 1988. The Government has already eliminated reference prices for customs valuation, except for specific products for which underinvoicing and dumping practices remain common. The Government will also renegotiate the special agreements that grant tax advantages to certain enterprises beyond those envisaged under the Investment Code, and will not enter into any new such agreements, except for investments covered by the Mining and Petroleum Codes. The Government will, within its prerogatives, follow up on the recommendations recently adopted with a view to improving labor productivity. The recommendations comprise measures to improve the link between remuneration and productivity; revise the system of

employer contributions to social security; and define the rules governing the participation of workers in the capital and profits of enterprises. Furthermore, the provisions of the Labor Code will be implemented more flexibly so as to enable enterprises to optimize the size of their labor force. To further reduce distortions, the Government will lift all remaining price controls for goods and services by end-1988, except for the minimum producer prices for groundnuts, cotton and paddy, and the retail prices of sugar, rice, tomato concentrate, cooking oil, wheat flour, bread, charcoal, petroleum products, cement, public physicians' fees, and imported pharmaceutical products as well as the tariffs of electricity and water, and transportation. Furthermore, in view of the incidence of the high cost of energy on industrial competitiveness, a plan of action will be prepared by March 1989, in collaboration with the Fund and World Bank staffs, to mobilize other domestic revenue sources and offset the losses resulting from a possible adjustment in the domestic prices of energy. In the meantime, the Government will maintain the current structure of domestic energy prices unchanged through June 1989.

15. The reform of the public enterprise sector will be stepped up in 1988/89 to give greater impetus to the process of divestiture. The Government, in collaboration with the World Bank, is reformulating its privatization policy of the ten enterprises identified for sale. Two will be rehabilitated prior to offering them for sale. A second set of eleven enterprises has now been identified for divestiture. The Government plans to launch an information campaign in the media to attract interested buyers. The Government will, on the basis of a timetable set up in collaboration with the World Bank, liquidate those enterprises which cannot be privatized. In 1988/89, the rehabilitation of those enterprises remaining in the Government's portfolio will be undertaken in the context of contracts defining the measures to be implemented and the objectives of the enterprises. Four additional contracts (contrats-plans) will be signed by December 1988. In addition, based on the schedule elaborated with the World Bank, budgetary subsidies to the public enterprise sector will be reduced by a further 5 percent in 1988/89. To improve the data base on the public enterprise sector, a monitoring unit will be set up, with financial and technical assistance from the World Bank. In addition, the procedure for the settlement of the cross-debts between the Government and public enterprises will be initiated in the context of the 1988/89 budget.

b. Financial policies

16. The overall fiscal position, on a commitment basis and including grants, is programmed to turn around and record a surplus of CFAF 3.2 billion (0.2 percent of GDP). The remaining CFAF 8.5 billion of verified domestic payments arrears will be settled. In addition, the repayment of crop credit by the Government is estimated at CFAF 23 billion. Taking into account these factors, the overall fiscal deficit, on a cash basis, is projected at CFAF 28.3 billion (1.9 percent of GDP). This deficit is expected to be financed through external financial

assistance, which is estimated at CFAF 21.2 billion on a net basis. After repayment of the ONCAD debt of CFAF 8.6 billion, the Government's net recourse to the domestic banking system is programmed at CFAF 4.3 billion. The remaining gap of CFAF 11.4 billion is expected to be covered through debt relief.

17. Total revenue and grants are projected to increase by 13.2 percent to CFAF 302.7 billion, with grants expected to reach CFAF 31.9 billion. Total revenue is projected to increase by 9.5 percent, with tax revenue rising by 10.6 percent. The new tax regime applicable to projects financed through foreign assistance is estimated to yield some CFAF 3.5 billion in import duties and CFAF 1.5 billion in receipts from the value-added tax. Computerization of the customs department's operations will become operative effective January 1, 1989; it is estimated that this will improve duty assessments and will yield some CFAF 2 billion in additional revenue in 1988/89. The remainder of the tax revenue increase will require substantial improvements in tax assessment and collection efforts. An inventory of all taxpayers liable for indirect taxes and customs arrears has been established. Based on this, it is estimated that CFAF 4 billion in tax arrears can be collected during 1988/89. A comprehensive survey of taxpayers is under way to update taxpayers' files and identify new taxpayers in the informal sector; this will contribute to an expansion of income receipts from value-added, service, and business license taxes. In addition, a study will begin on the possibility of introducing the use of official billing documents by business taxpayers, with a view to enhancing accounting and recording practices for taxable transactions. Computerization of the tax department will provide improved monitoring of the tax department's operations. Motor vehicle tax operations will be computerized to reduce tax evasion. Penalties for late tax payments will be revised to discourage such acts by taxpayers and improve revenue performance. The fiscal cadastre work in the Dakar region will be accelerated, and its results will be used for all taxes levied on real estate. The proceeds from the sale of the government-owned land have been conservatively projected at CFAF 2 billion. The financial surplus of the oil refinery (SAR) will continue to be mobilized in support of the budget; it is estimated at CFAF 36 billion for 1988/89. It will be paid in four equal installments. In preparation for introducing future tax reforms, studies on the extension of the value-added tax to the retail stage and on the establishment of a global single income tax to replace the existing schedular taxes will be finalized. The Government intends to conduct a comprehensive study on the domestic tax system and administration, with technical assistance from the Fund and the World Bank, to establish a more stable revenue base and to reduce the dependence on receipts from oil profits. Based on this study, a plan of action will be elaborated by March 1989.

18. The growth of total expenditure and net lending will be limited to 6.3 percent. Current expenditure, excluding interest due on government debt, will be contained at its 1987/88 level, implying a cut in real terms. To this end, the rise in the wage bill will be held to

2.2 percent, implying an upper limit of CFAF 125 billion. No general salary increase will be granted and the wage drift will be restrained. The total number of the civil servants will be reduced from 67,100 at end-June 1988 to 66,500 by end-June 1989. The reduction takes into account the projected departure of civil servants reaching retirement age; the limitation of new recruitment to the graduating class of the Government's national schools; and an increase in voluntary departures. In this regard, the Government will initiate, with bilateral and multilateral technical and financial assistance, a program that will provide incentives for voluntary departures for civil servants who are deemed not to be vital for the functioning of the administration. Transportation, housing, and hospitalization allowances will be frozen at their 1987/88 levels. To allow for the efficient functioning of essential services, particularly the Treasury, the customs administration and the tax departments, and to ensure adequate provisions for maintenance, the allocations for materials and supplies will be increased; however, as the outlays associated with the February 1988 elections will not recur in 1988/89, the total for this category will remain virtually unchanged. Expenditure saving measures will continue to be strictly enforced, particularly regarding the use of electricity, water, gas, and telecommunications. Total transfers and subsidies will be curtailed mainly on account of the reduction in transfers to public enterprises. Consistent with the public investment program, capital investment expenditure has been set at CFAF 44 billion, with the increase of CFAF 5 billion representing payment of taxes on foreign-financed projects under the new legislation. The deficit on the treasury special accounts is projected to decline, while the overall position of the treasury correspondents is projected to turn around into a deficit, as contributions of the Price Equalization and Stabilization Fund (CPSP) to the budget will be reduced to CFAF 3.0 billion following the reduction in the retail price of rice. In this context, the CPSP will ensure that its rice imports are effected at the lowest possible price. Concerning the import price of wheat, the Government will take necessary steps to renegotiate, at the latest in November 1988, the agreements it has signed with the flour millers with the aim of maximizing the profit from this product. The objective of this renegotiation would be, in particular, to put in place an international public bidding system for wheat purchases. Pending the implementation of the new system, upon the expiration of the current agreement by November 1989, practical modalities will be put in place in order to align the reference price of imported wheat with the lowest world price, taking into account any subsidies from exporting countries. These modalities will involve, among other things, formal consultations based on the widest possible sample of wheat exporters. Finally, to strengthen the position of the special and correspondent accounts of the Treasury, the Government will take measures, based on the recommendations of a Fund technical assistance mission, aimed at reinforcing fiscal discipline in the management of those accounts, integrating several accounts into the budget, and eliminating inoperative accounts.

19. A cautious credit policy, consonant with the objectives of the program, will be pursued in 1988/89. In view of the improved budgetary position, the growth in net bank credit to the Government will be held to 1.2 percent of beginning money stock. The growth in ordinary credit will be limited to 3.3 percent of beginning money stock; the economy will, in addition, benefit from the repayments of arrears by the Government. In view of the repayment of the high level of crop credit outstanding at end-June 1988, crop credit is projected to decline by 7.5 percent of beginning money stock. Accordingly, total domestic credit is programmed to decline by 3.0 percent of beginning money stock. This is expected to contribute to reversing the exceptional private capital outflows which occurred in 1987/88. Taking into account the balance of payments objective, domestic liquidity is programmed to grow by 5.2 percent.

20. The Government will launch in 1988/89 a major reform of the banking system, which is facing serious liquidity difficulties, stemming mainly from sizable nonperforming loans and management problems. To develop a medium-term strategy, the Government has held a number of meetings with bilateral and multilateral donors and creditors, including the Fund and the World Bank staffs. At the last meeting on October 30-31, 1987, a detailed report prepared by the Government was reviewed. The general recommendations comprised mobilizing an external loan for the repayment of government-guaranteed debt vis-à-vis banks; consolidating certain debit balances of banks with the central bank; reducing the share of government participation in banks and attracting private shareholders; increasing banks' own resources; recovering loans from the private sector; and restructuring, liquidating, or merging certain banks. In addition, the central bank would strengthen the supervision and control of bank operations. The preparatory work has been continued, in collaboration with major multilateral institutions and bilateral donors, with a view to putting in place a comprehensive reform program by end-1988. In the meantime, specific restructuring and rehabilitation programs are under way. In accordance with a restructuring plan, the Banque Commerciale du Sénégal (BCS), was liquidated in 1987, and its assets and liabilities taken over by a new bank, ASSURBANK; the Government guaranteed the nonperforming loans of the bank in an amount of CFAF 4.4 billion, while the central bank consolidated its debit balance in an amount of CFAF 3.7 billion. The Banque Internationale de l'Afrique de l'Ouest-Sénégal (BIAO-S) has adopted a wide-ranging restructuring plan, to be implemented starting July 1, 1988. This plan includes the dismissal of 166 employees, corresponding to half of the staff; the closure of all branches; and the discontinuation of the smaller accounts. The Union Sénégalaise de Banque (USB) benefited in November 1987 from a moratorium consolidating its debit balance in an amount of CFAF 21.9 billion and the refinancing of certain nonperforming loans. Negotiations have been actively pursued with USB's foreign commercial bank partner, with a view to reducing the Government's share from 62.5 percent to less than 25.0 percent and extending a management contract to its partner. In the meantime, the USB has effected a compression in its staff and is implementing cost-reducing measures.

The national ad hoc committee for the restructuring of the banking system adopted a rehabilitation plan for the Banque Nationale de Développement du Sénégal (BNDS) in June 1988, and transmitted it for approval to the BCEAO. The authorities are reviewing similar plans for the other commercial and development banks in difficulty.

c. The external sector

21. The effective implementation of the above policies is expected to contribute to an improvement in the external sector of Senegal. Export receipts are projected to rise by nearly 12 percent, mainly on account of a strong expansion in exports of groundnut oil. The combination of a bumper crop and delayed sales in 1987/88 is expected to lead to an increase of some 23 percent in the volume of groundnut oil exports. This, together with the recent upsurge in the international price of groundnut oil, is expected to result in an increase in export receipts from the groundnut sector of nearly 44 percent. By contrast, the import bill is projected to rise by less than 7 percent, reflecting the tight financial policies and a reduction of about 2 percent in the volume of petroleum products imports. Thus, notwithstanding an increase in scheduled interest payments on external public debt, the external current account deficit, excluding official grants, is projected to be reduced further from 9.9 percent of GDP in 1987/88 to some 9.1 percent of GDP in 1988/89. Private capital flows are expected to be reversed, reflecting the nonrecurrent nature of the exceptional factors that prevailed in 1987/88 and the tight financial policies pursued in 1988/89. On the basis of prospective disbursements of official grants and external loans, and taking into account the scheduled amortization on the external public debt, the overall balance of payments surplus, before debt rescheduling, is projected to amount to CFAF 4.5 billion in 1988/89. Taking into account debt relief already obtained, the programmed improvement in Senegal's operation account of CFAF 36.1 billion, and projected net drawings from the Fund, an external financing gap of CFAF 14.9 billion remains. This gap is expected to be covered by debt relief under the auspices of the Paris Club as well as from other creditors.

22. Given the heavy external debt burden, the Government recognizes the need to continue to pursue a prudent external debt policy, with a view to reducing the debt service to a more manageable level. Hence, the Government will not contract or guarantee any new nonconcessional external loans 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 Agence pour la Sécurité de la Navigation Aérienne (ASECNA) or new borrowing for refinancing existing debts in the context of debt reschedulings. Furthermore, during the program period, there will be no accumulation of external payments arrears.

d. Performance criteria and benchmarks

23. The proposed quantitative benchmarks and performance criteria are shown in the annexed table. These comprise ceilings on net domestic assets of the banking system and net bank credit to the Government; repayment of domestic payments arrears of the Government and public agencies; avoidance of domestic and external payments arrears; repayment of the 1986/87 crop credit; repayment of ONCAD debt and other debts to local banks; 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 1988, end-March 1989, and end-June 1989 have been established as benchmarks. Those for end-December 1988 will also constitute performance criteria. The quantitative benchmarks for the first half of 1989 are indicative in nature, and definitive benchmarks will be established at the time of the midterm review of the program with the Fund to be completed by mid-March 1989. At the time of the mid-term review, understandings on credit and interest rate policies will be reached, particularly in light of the evolution of private capital flows. In addition, the standard clauses regarding the exchange and payments system will constitute performance criteria.

24. The following are proposed as structural benchmarks: (1) the elimination of price controls, with the exception of the above-specified strategic or essential products, by end-December 1988; (2) the completion by end-March 1989 of the action plan on energy prices and appropriate compensatory revenue measures; and (3) the adoption by end-June 1989 of a three-year public investment program for 1989/90-1991/92 consistent with Senegal's macroeconomic objectives. The completion by end-December 1988 of a plan of action for the gradual reduction in the deficit of the groundnut sector, including the streamlining of the operations of the groundnut oil processing company (SONACOS), shall constitute a structural performance criterion.

Senegal: Performance Criteria and Financial and Structural Benchmarks Under the First Annual Arrangement Under the Enhanced Structural Adjustment Facility

	Stock at end-June 1988	Change from July 1, 1988 to End- 1988 Dec. Perf. crit.	1989 March Indicative benchmarks	1989 June Indicative benchmarks
I. Financial benchmarks				
		(In billions of CFA francs)		
Net domestic assets of the banking system 1/ 2/ 3/	582.2	-31.8	8.2	-10.2
Credit to the Government (net) 1/ 2/	149.9	6.7	14.7	4.3
Payments arrears of Government and public agencies				
1. Domestic	8.5	-2.5 4/	-5.0 4/	-8.5 4/
2. External	--	--	--	--
Repayment of 1986/87 crop credit	1.5	-1.5	-1.5	-1.5
Repayment of ONCAD debt	76.6	-4.3 4/	-6.4 4/	-8.6 4/
New external borrowing on nonconcessional terms by the Government or with government guarantee 5/		(In millions of SDRs)		
1. Short-term (less than 1 year)		--	--	--
2. 1-5 years' maturity		--	--	--
3. 1-12 years' maturity		24.0	24.0	24.0

II. Structural measures

1. Benchmarks	Date
(a) Elimination of price controls, with the exception of those on certain strategic or essential products.	End-December 1988
(b) Completion of a plan of action to reduce energy prices and to take compensatory revenue measures.	End-March 1989
(c) Adoption of a three-year public investment program for 1989/90-1991/92.	End-June 1989
2. Performance criterion	
(a) 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).	End-December 1988

Source: Appendix II, Annex.

1/ The program assumes that Senegal will receive a cumulative amount of external budgetary assistance (excluding grants) beginning July 1, 1988 of CFAF 35.0 billion through December 31, 1988, of CFAF 45.0 billion through March 31, 1989, and of CFAF 53.2 billion through June 30, 1989. In the event that the external budgetary assistance (excluding grants) 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 ONCAD debt.

2/ The program does not envisage the receipt by Senegal of any extrabudgetary external financial assistance during the period July 1, 1988-June 30, 1989 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 45.8 billion during the period July 1-December 31, 1988; a reduction of CFAF 15.8 billion during the period July 1, 1988-March 31, 1989; and a reduction of CFAF 25.8 billion during the period July 1, 1988-June 30, 1989. In the event that the variation in crop credit is lower or higher than these amounts, the variation in net domestic assets will be adjusted downward or upward pro tanto. In addition, the variation in net domestic assets will be adjusted by the amount of the 1987/88 crop credit that would be reclassified in December 1988.

4/ In the event of a shortfall in the cumulative projected budgetary assistance, the changes will be adjusted accordingly to compensate for the shortfall.

5/ The exchange rate applicable to these borrowings will be the rate of the SDR vis-à-vis the contract currency on June 30, 1988, as reported in International Financial Statistics. For debts directy contracted by the Government, the loan will count toward the ceiling on the date of the signature. 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 signature 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, 1988)

I. Membership status

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

A. Financial Relations

II. General Department

General Resources Account

a. Quota	SDR 85.1 million
b. Total Fund holdings of Senegal's currency	SDR 257.45 million, equivalent to 302.52 percent of quota.
c. Fund credit	SDR 173.33 million, equivalent to 203.68 percent of quota, of which: SDR 60.92 million (71.59 percent of quota) under credit tranches; SDR 7.82 million (9.19 percent of quota) under the EFF; SDR 6.98 million (8.20 percent of quota) under the SFF; and SDR 97.61 million (114.70 percent of quota) under the EAR.
d. Reserve tranche position	SDR 0.99 million

Special Disbursement Account

Structural adjustment facility	SDR 42.55 million (amount disbursed)

Senegal - Relations with the Fund (continued)
(As of September 30, 1988)

III. Previous stand-by and extended arrangements

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

b. An extended Fund facility, approved on August 8, 1980, in an amount equivalent to SDR 184.8 million (440 percent of the existing quota); only SDR 41.1 million was utilized, and the EFF was canceled on September 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); 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 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.

Senegal- Relations with the Fund (continued)
(As of September 30, 1988)

IV. Financial obligations due to the Fund

(In millions of SDRs)

	Overdue Financial Obligations 09/30/88	Principal and interest due 1988 Oct.-Dec.	1989	1990	1991
Principal	--	14.7	47.2	40.7	34.6
Repurchases	--	14.1	43.4	39.7	34.5
Trust Fund repayments	--	0.6	3.8	1.0	0.1
Charges and interest including SDR, Trust Fund and SAF	--	1.7	13.0	10.0	7.3
Total	--	16.4	60.2	50.7	41.9

V. SDR Department

a. Net cumulative allocation — SDR 24.46 million

b. Holdings — SDR 1.01 million (4.14 percent of the net cumulative allocation)

VI. Administered accounts

a. Trust Fund loans

Disbursed — SDR 33.23 million

Outstanding — SDR 5.61 million

b. SFF Subsidy Account

Payments by the Fund — SDR 7.65 million

Senegal - Relations with the Fund (continued)
(As of September 30, 1988)

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-August 1988 was CFAF 409.96 = SDR 1.

VIII. Last Article IV consultation and midterm review under stand-by arrangement

(a) 1987 Consultation

The 1987 Article IV consultation was concluded on March 25, 1987.

(b) Review Under Stand-By Arrangement

The discussions on the midterm review under the last one-year stand-by arrangement were held in Dakar during the period December 4-21, 1987. The staff report (EBS/88/52) was discussed by the Executive Board on March 29, 1988, and the following decision was adopted:

1. Senegal has consulted with the Fund in accordance with paragraph 4(b) of the stand-by arrangement for Senegal (EBS/87/205, Supplement 1) and paragraphs 31 and 34 of the letter of intent from the Minister of Economy and Finance dated September 18, 1987, attached to the stand-by arrangement, in order to assess the progress made in the implementation of the program and to establish suitable performance criteria for the remaining period of the stand-by arrangement.

2. The letter from the Secretary of State attached to the Minister of Economy and Finance dated March 1, 1988 and the table annexed to that letter shall be attached to the stand-by arrangement for Senegal, and the letter of September 18, 1987 and the table annexed to that letter shall be read as supplemented by the letter dated March 1, 1988 and the table annexed to that letter. Accordingly, references in paragraphs 4(a)(i) and 4(a)(ii) of the stand-by arrangement for Senegal to paragraph 27 of the letter of September 18, 1987 and the table annexed to that letter, relating to the limit on net domestic assets of the banking system and the limit on net bank claims on the Government, shall comprehend a reference to paragraph 11 of the letter dated March 1, 1988, and to the table annexed to that letter.

Senegal - Relations with the Fund (continued)
(As of September 30, 1988)

3. The Fund decides that the review contemplated in paragraph (b) of the stand-by arrangement for Senegal is completed.

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.

Senegal - Relations with the Fund (concluded)
(As of September 30 1988)

	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 1988.
	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.
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

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 parapublic 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 June 30, 1988, the World Bank Group had approved 86 operations in Senegal for a total of US$897.2 million, consisting of 55 IDA credits (including 3 special fund credits) and 20 Bank loans, together with two SFA 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 (FY89-91), the Bank's lending program, on present planning, is expected to amount to about US$227 million, all of which would be on IDA terms. About US$160 million was committed in FY87, including the third structural adjustment credit (SAL III) of US$93 million, which was approved in May 1987, and US$130 million in FY88. The policy-based operations, financed partly out of the Special African Facility, aimed at increasing the efficiency of public sector management and restoring public sector savings through an acceleration of the parapublic 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 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 June 30, 1988; in millions of U.S. dollars)

	IBRD and IDA 1/		IFC loans and investment participations 1/		Grand total
	Total commitments	Of which: undisbursed	Total commitments	Of which: undisbursed	
Seventeen loans and 30 credits fully disbursed	431.43	(—)	—	(—)	431.43
Structural adjustment and technical assistance	81.15	(28.50)	—	(—)	81.15
Agriculture, livestock, and forestry	89.50	(52.48)	5.0	(—)	94.50
Energy, industry, and tourism	92.80	(56.67)	48.65	(3.3)	141.45
Transport and tele-communications	45.15	(24.06)	—	(—)	46.15
Urban development, education, and health	102.50	(68.21)	—	(—)	102.50
Total	843.53	(229.92)	53.65	(3.3)	897.18
Less: repaid or sold					90.49
Total committed					806.69
Held by IBRD					86.38
IDA					700.82
IFC					19.46

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	163.6	84.3	11.6
1988 (June)	129.6	138.8	8.8

Source: World Bank Group.

1/ Less cancellations.
2/ End of period.

Senegal - Statistical Issues

1. Outstanding statistical issues

a. Real sector

The weighting base of the consumer price index (based on a 1961 household budget survey) is outdated and the coverage is limited to Dakar. The authorities are considering undertaking a comprehensive survey to compile a new Consumer Price Index (CPI).

There is a need to improve the currentness of data on national accounts and external trade.

b. Government finance

Annual data published in IFS cover consolidated central government operations, including extrabudgetary and social security operations, through 1983, as reported for publication in the 1987 Government Finance Statistics Yearbook.

Data published in the 1987 Government Finance Statistics Yearbook cover consolidated central government operations as explained above. Data on central government capital expenditure and lending minus repayments and on local government operations are not included. Data for 1984 have been received for publication in the 1988 GFSY.

c. Monetary accounts

A technical assistance mission to the BCEAO headquarters in May 1985 recommended some improvements in the compilation of money and banking statistics for the BCEAO countries; while some recommendations have been implemented, the implementation of the remaining recommendations would result in improvements in the monetary data in terms of their sectorization and classification as well as their overall quality.

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 1988 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 (BCEAO). During the past year, these data have been provided on a regular basis, although their currentness could be improved.

Senegal - Statistical Issues (concluded)

2. Status of IFS data

		Latest Data in Oct. 1988 IFS
Real Sector	- National Accounts	1984
	- Prices	April 1988
	- Production (Indus.)	Q3 1987
	- Employment	n.a.
	- Earnings	n.a.
Government Finance	- Deficit/Surplus	1983
	- Financing	1983
	- Debt	1983
Monetary Accounts	- Monetary Authorities	March 1988
	- Deposit Money Banks	March 1988
	- Other Banking Institutions	March 1988 1/
Interest Rates	- Discount Rate	March 1988
	Bank Lending/ Deposit Rates	March 1988
	- Bond Yields	March 1988
External Sector	- Merchandise Trade:	
	Values:	1986
	Unit values of exports and imports	1984
	- Balance of payments	1984
	- International Reserves	June 1988
	- Exchange Rates	Aug. 1988

1/ Dates relate only to deposits with the Savings Bank.

Medium-Term Outlook for the Balance of Payments

1. Baseline scenario

The baseline scenario underlying the policy framework paper takes into account the impact of the policies envisaged under the program, the latest developments in the Senegalese economy, the continuation of normal weather conditions, and the international price projections provided in the latest World Economic Outlook (WEO). This indicates an improvement during 1988/89-1990/91 in Senegal's terms of trade of 6.3 percent cumulatively.

Exports are expected to increase by 11.8 percent in 1988/89, and to average an annual rate of about 12.7 percent over the 1989/90-1990/91 period. The good harvest and the carry-over of stocks from 1987/88 will permit an increase in the volume of groundnut oil exports of 23.9 percent in 1988/89. Thereafter, the volume of groundnut oil exports is projected to increase at an average annual rate of 3.0 percent. Export unit values of groundnut oil are projected to increase by 19.0 percent in 1988/89, reflecting the drought conditions in other countries producing crops utilized for manufacturing edible oils. However, as world supply conditions improve in the following years, the world price of groundnut oil is projected to decline by 1.0 percent in 1989/90, before increasing at an average annual rate of 5.8 percent in the following two years. These prices, which are in line with those envisaged in the WEO, also take into consideration the fact that Senegal's recorded export unit values of groundnut oil are, on average, some US$50 per ton higher than those used for the WEO. Thus, export earnings from groundnut products are estimated to increase from CFAF 33.2 billion in 1987/88 to CFAF 47.7 billion in 1988/89, and to CFAF 53.1 billion in 1990/91, a level still lower than that attained in 1983/84. Other exports are projected to increase at an average annual rate of 6.5 in volume and 11.2 percent in value. Export earnings from fish products, Senegal's largest export item, are projected to increase at an average annual rate of 9.6 percent on account of an expansion in volume averaging 8.2 percent per year. After declining sharply in 1987/88, as a result of marketing difficulties in neighboring countries, exports of petroleum products are projected to recover in following years, increasing by 11.1 percent per year in volume terms.

Import payments are projected to increase at an average annual rate of 6.7 percent during the program period, with an average annual increase of 3.0 percent in volume terms. The imports bill for petroleum products is projected to decline by 6.0 percent in 1988/89, owing to a 2.0 percent fall in volume terms on account of stocks carried over from 1987/88 and lower world prices, and to increase thereafter at an average annual rate of 8.8 percent through 1990/91, with an annual average volume increase of 3.5 percent. Non-oil import payments are projected to increase at an average annual rate of 7.1 percent with a 3.3 percent annual growth in volume terms. Import payments of food products are projected to increase by about 10.0 percent per year, on account of a sharp increase in the volume of rice and wheat imports in 1988/89, reflecting delays in the arrival of imports ordered in 1987/88 and the recent increase in the world price of rice. The value and volume of intermediate and capital goods imports are projected to increase at an average annual rate of 7.2 percent and 3.9 percent, respectively.

Reflecting these factors, the trade deficit is expected to narrow from CFAF 70.7 billion in 1987/88 to CFAF 64.0 billion in 1988/89 and to CFAF 39.2 billion in 1990/91. The deficit on the service account is projected to widen marginally, while public transfers are expected to increase further. The current account deficit, excluding official transfers, is projected to improve over the medium term, from 9.9 percent of GDP in 1987/88 to 9.1 percent of GDP in 1988/89, and 6.5 percent of GDP in 1990/91. Taking into account the projected decline in the external financing requirements of the budget, as well as scheduled external public debt amortization, net public capital inflows are projected to decline during the program period from CFAF 84.0 billion in 1987/88 to CFAF 60.1 billion in 1988/89 and to CFAF 18.0 billion in 1990/91. The private capital outflows which took place in 1987/88 are projected to be reversed starting in 1988/89, as the exceptional factors that prevailed in 1987/88 are not expected to recur. Thereafter, private capital inflows are projected to stabilize, as a result of the improved economic environment. Hence, the overall balance of payments, before debt rescheduling, is projected to turn from a deficit of CFAF 36.7 billion in 1987/88 to a surplus of CFAF 4.5 billion in 1988/89, and to reach CFAF 7.9 billion in 1990/91. This improvement, together with the net drawings from the Fund, should enable Senegal to reconstitute its external reserves position, as Senegal's debit position in the operations account amounted to CFAF 58.3 billion at end-June 1988.

Senegal's debt service burden is projected to decline over the medium term as the authorities are committed to a prudent external debt management policy. The scheduled debt service before debt relief is projected to stabilize at 30 percent of exports of goods, services, and private transfers in 1988/89, and to decline gradually in subsequent years to 26.8 percent in 1990/91. The decline reflects mainly lower scheduled interest payments resulting from an improved debt profile, and a reduction in the debt service ratio to the Fund from 5.4 percent in 1987/88 to 3.5 percent by 1990/91.

2. Alternative scenarios for the balance of payments

Senegal's medium-term outlook for the balance of payments is sensitive to changes in the underlying assumptions. To illustrate the sensitivity of the balance of payments, two alternative scenarios are presented in Table 5. Scenario I illustrates the consequences of a recurrence in adverse weather conditions. If two consecutive years of droughts were to occur in 1988/89 and 1989/90, the decline in agricultural production is assumed to lead to a decline in the volume of exports of groundnut oil to 69.5 thousand tons in 1989/90 and 1990/91, the same level recorded during the last drought in 1984/85, compared with 195.6 thousand tons and 201.5 thousand assumed in the program, respectively. Imports of rice are assumed to increase to 447.5 thousand tons and 455.0 thousand tons in 1988/89 and 1989/90, compared with a program projection of 252.0 thousand tons and 259.3 thousand tons, respectively. Similarly, wheat imports are assumed to increase to 135.6 thousand tons and 139.5 thousand tons, compared with the program projections of 115.0 thousand tons and 118.3 thousand tons, respectively. In these circumstances, the external current account deficit, excluding official grants, would rise to 9.9 percent of GDP in 1988/89 and 6.6 percent in 1990/91. The overall balance of payments, before debt rescheduling, would record a deficit of CFAF 7.9 billion in 1988/89 and CFAF 24.5 billion in 1990/91. Thus, the financing gap would be higher in each year of the program period, thereby postponing the achievement of a viable balance of payments position beyond the end of this decade. Scenario II assumes an improvement in Senegal's terms of trade relative to the baseline scenario. It is assumed that the unit value of exports will be one percentage point higher and that of imports one percentage point lower during the program period. In this case, the current account deficit, excluding official grants, would be reduced to 8.7 percent of GDP and 5.2 percent of GDP in 1988/89 and 1990/91, respectively. The financing gap would be reduced to CFAF 9.3 billion in 1988/89 and eliminated by 1989/90.

Senegal - Selected Social and Demographic Indicators

Area

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

Population (1987)

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

Population characteristics (1980-87)

Crude birth rate (per thousand)	46.0
Crude death rate (per thousand)	19.0
Life expectancy at birth (years)	47.0
Urban population (percent of total)	36.0

Access to safe water (1980-87)

In percent of population

Total	43.0
Urban	63.0
Rural	27.0

Nutrition (1980-87)

Per capita supply of

Calories (per day)	2,418
Proteins (grams per day)	60

Gross Domestic Product

Per capita(1987)	SDR 537

Population density (1980-87)

57.0 per sq. km. of agricultural land

Health (1980-87)

Population per physician (in thousands)	13.1
Population per hospital bed (in thousands)	0.9
Infant mortality rate (per thousand)	137

Education (1980-87)

Enrollment rates (in percent)	
Primary	55
Secondary	13
Pupil-teacher ratio	
Primary	44
Secondary	23

Source: World Bank.