FOR AGENDA

EBS/86/227

CONFIDENTIAL

October 7, 1986

To: Members of the Executive Board

From: The Secretary

Subject: Senegal - Requests for Stand-By Arrangement and for Arrangements Under the Structural Adjustment Facility

Attached for consideration by the Executive Directors is a paper on Senegal's requests for a stand-by arrangement equivalent to SDR 34.0 million and for arrangements under the structural adjustment facility. Draft decisions appear on page 43.

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

Mr. Calamitsis (ext. 6966) or Mr. Ugolini (ext. 6934) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

SENEGAL

Requests for Stand-By Arrangement and for Arrangements Under the Structural Adjustment Facility

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

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

Approved by A.D. Ouattara and S.J. Anjaria

October 7, 1986

I. Introduction

In the attached letter dated September 22, 1986, the Government of Senegal requests a one-year stand-by arrangement in an amount equivalent to SDR 34.0 million, representing 40 percent of Senegal's quota. In addition, the Government of Senegal requests a three-year structural adjustment arrangement, and the first annual arrangement thereunder, under the structural adjustment facility (SAF). 1/ The amount that will be available to Senegal under the SAF is currently projected at about SDR 40.0 million, and the first loan thereunder is for the amount of SDR 17.0 million. The stand-by arrangement and the first loan under the SAF are to support the Government's adjustment program for the fiscal year 1986/87 (July-June) which has been developed in a medium-term framework. The Senegalese authorities have prepared, in close collaboration with the staffs of the Fund and the World Bank, a policy framework paper setting forth the Government's basic economic objectives

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1/ The negotiations that formed the basis of these requests were initiated in Dakar during the period June 18-July 2, 1986 and were concluded in Washington during the period August 18-29, 1986. The Senegalese representatives included Mr. Touré, Minister of Economy and Finance, Mr. Kane, Minister of Planning and Cooperation, and other senior officials concerned with economic and financial matters. The staff representatives were Mr. Calamitsis (head-AFR), Mr. Ugolini (AFR), Mr. Hicklin (ETR), Mr. Brou (AFR), and Miss Casaromani (secretary-AFR); Mr. Franco, the Fund's resident representative in Dakar, took part in the discussions. A World Bank staff team, headed by Mr. Gorjestani, participated in the joint discussions with the Senegalese authorities on their policy framework paper. Mr. Alfidja, Executive Director for Senegal in the Fund, attended some of the policy meetings.

for the three-year period 1986/87-1988/89 and the macroeconomic and structural adjustment policies designed to achieve these objectives. This paper, dated September 19, 1986, has been transmitted both to the Managing Director of the Fund and the President of the World Bank, and it is expected to be considered by the Bank's Executive Directors, at a meeting of the Committee of the Whole, around mid-October.

Senegal made all the purchases, totaling SDR 76.6 million, envisaged under the 18-month stand-by arrangement which expired on July 15, 1986. As of August 31, 1986 the Fund's holdings of Senegal's currency subject to repurchase were equivalent to 246.1 percent of quota; excluding holdings resulting from purchases under the compensatory financing facility, they amounted to 239.9 percent of quota. If the full amount of the requested stand-by arrangement is purchased, and after taking into account scheduled repurchases, by September 30, 1987 the Fund's holdings of Senegal's currency subject to repurchase would amount to the equivalent of 226.1 percent of quota, all of which would be in respect of purchases under the tranche policies (Table 1). A waiver of the limitation in Article V, Section 3(b)(iii) of the Articles of Agreement will be required and is proposed.

According to the proposed phasing of purchases under the requested stand-by arrangement, an initial purchase of SDR 4.0 million would be available upon approval of the arrangement; a second purchase of SDR 7.5 million after December 14, 1986, upon observance of the performance criteria for end-September 1986; a third purchase of SDR 7.5 million after March 14, 1987, upon observance of the performance criteria for end-December 1986 and completion of the mid-term review of the program; a fourth purchase of SDR 7.5 million after June 14, 1987, upon observance of the performance criteria for end-March 1987; and a final purchase of SDR 7.5 million after September 14, 1987, upon observance of the performance criteria for end-June 1987.

As the negotiations on the adjustment program were initiated in June 1986 but concluded in August, consideration by the Executive Board of Senegal's requests for use of Fund resources could not be scheduled before end-September 1986, as had been originally foreseen. Consequently, the proposed first test date for the performance criteria, at end-September 1986, would precede the expected date on which the stand-by arrangement would become effective, which is not the normal case envisaged by the operational guidelines set forth in Executive Board Decision No. 7925-(85/38). It is to be noted, however, that the Senegalese authorities have effectively begun implementing their new program since July 1, the start of their fiscal year, and have committed themselves to the performance criteria well ahead of the first test date. Moreover, in view of the time lags with which complete data relating to the performance criteria become available in Senegal, the purchase pertaining to the end-September 1986 performance criteria is not expected to take place before mid-December 1986. As this purchase would thus be effected roughly two months after the initial purchase, which would be made following approval by the Executive Board in late

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

	Outstanding at September 30, 1986	1986 Oct.-Dec.	1987 Jan.-March	1987 April-June	1987 July-Sept.
		(In millions of SDRs)			
Transactions under tranche policies (net) 1/	--	2.62	-1.91	-4.96	-2.31
Purchases	--	11.50 2/	7.50	7.50	7.50
Ordinary resources	(--)	(5.75)	(3.75)	(3.75)	(3.75)
Enlarged access resources	(--)	(5.75)	(3.75)	(3.75)	(3.75)
Repurchases	--	-8.88	-9.41	-12.46	-9.81
Ordinary resources	(--)	(-5.59)	(-5.75)	(-7.03)	(-6.15)
Enlarged access resources	(--)	(-3.29)	(-3.66)	(-5.43)	(-3.66)
Transactions under special facilities (net)	--	--	--	--	--
Total Fund credit outstanding (end of period)	199.00	201.62	199.71	194.75	192.44
Tranche policies 1/	199.00	201.62	199.71	194.75	192.44
Special facilities	--	--	--	--	--
		(In percent of quota)			
Total Fund credit outstanding (end of period)	233.84	236.92	234.68	228.85	226.14
Tranche policies 1/	233.84	236.92	234.68	228.85	226.14
Special facilities	--	--	--	--	--
		(In millions of SDRs)			
Memorandum item:					
SAF loan disbursement	--	17.02	--	--	--

Source: IMF, Treasurer's Department.

1/ Ordinary and enlarged access resources.
2/ Consisting of two purchases: an initial purchase of SDR 4.0 million upon Executive Board approval of the stand-by arrangement; and a second purchase of SDR 7.5 million upon observance of the performance criteria for end-September 1986.

October, it would broadly conform with the operational guidelines. This scheduling would allow Senegal to make two purchases under the stand-by arrangement by the end of 1986, which are essential to the smooth execution of its adjustment program.

In support of their program of adjustment, the Senegalese authorities have informed the Paris Club and other official creditors of their intention to request a rescheduling of part of the debt service obligations falling due over the program period. Since the required debt relief is on terms broadly comparable to those obtained in 1984/85-1985/86, involving current maturities not previously rescheduled, and in view of the authorities' commitment to the adjustment process, it seems reasonable to expect that such relief will be forthcoming. Therefore, the staff considers that outright approval of the requested arrangement is appropriate. Any adjustments that may become necessary due to unexpected variations in the rescheduling arrangements would be dealt with in the context of the mid-term review of the program, to be completed by March 14, 1987.

Senegal is on the standard 12-month consultation cycle. The staff report for the 1985 Article IV consultation with Senegal, which was combined with the third review under the last stand-by arrangement, was considered by the Executive Board on March 25, 1986. Senegal continues to avail itself of the transitional arrangements of Article XIV.

For the purposes of this report, the following appendices are attached: the proposed stand-by arrangement, with the attached letter of intent from Senegal's Minister of Economy and Finance (Appendix I); the proposed arrangements under the SAF, with the attached letter from Senegal's Minister of Economy and Finance and the Minister of Planning and Cooperation transmitting the policy framework paper (Appendix II); a summary of Senegal's relations with the Fund (Appendix III); a summary of Senegal's relations with the World Bank Group (Appendix IV); and alternative scenarios for the balance of payments (Appendix V).

II. Background and Recent Economic Performance

1. Background

Senegal is a Sahelian country with limited natural resources, a high population growth rate (2.9 percent per annum), and low per capita income (about US$390 in 1985). The traditional economy, which provides a livelihood for the bulk of the population, is based largely on millet cultivation for domestic consumption and groundnut production for processing and export. Together with groundnut processing, primary sector activities account for about 30 percent of GDP. The modern sector, comprising fishing, manufacturing, and tourism, is concentrated in Dakar and the coastal belt, where most commercial and social facilities are also located. In view of Senegal's economic structure, the country is highly vulnerable to adverse weather conditions and

movements in the international terms of trade. Exports of groundnut oil and cake, fish, phosphates, and chemicals account for more than 60 percent of total export earnings. On the import side, foodstuffs and petroleum products represent about 40 percent of total import payments. As a member of the West African Monetary Union, Senegal shares a common currency, the CFA franc, issued by a common central bank, the Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO), with six other members of the Union; 1/ the CFA franc is pegged to the French franc, the intervention currency, at the fixed rate of CFAF 50 = F 1.

After several years of increasing difficulties, in the late 1970s and early 1980s Senegal's structural and financial problems assumed serious proportions. On the whole, the economy registered little growth, internal imbalances widened markedly, and the external payments position came under mounting pressure. As in the case of many low-income countries in sub-Saharan Africa, Senegal's problems were attributable in part to exogenous factors, particularly recurring drought and declining terms of trade. However, they were also due in large measure to the inappropriate production, investment, and pricing policies pursued by the Senegalese authorities in the 1970s; these policies led to an overextension of the public sector and a concomitant weakening of agricultural and industrial production incentives. In addition, fiscal and credit policies were generally expansionary, and tended to foster consumption rather than productive investment.

As a result, in the five fiscal years ended in June 1983 domestic demand consistently exceeded supply, with the resource gap amounting on average to some 15 percent of the gross domestic product (GDP) at current prices. Gross domestic savings were very small and at times negative, whereas gross investment averaged almost 16 percent of GDP. To finance the high level of domestic demand, the public sector had substantial recourse to external borrowing, but such borrowing overtaxed the country's debt servicing capacity, and thus the Government of Senegal had to seek a series of debt reschedulings. Over the same five-year period the disbursed medium- and long-term public and publicly guaranteed external debt rose almost threefold, reaching about SDR 1.3 billion at end-June 1983, equivalent to 57 percent of the estimated GDP for 1982/83. Even so, Senegal incurred sizable overall balance of payments deficits, which entailed a sharp increase in the net foreign liabilities of the central bank to SDR 0.4 billion at end-June 1983. On the fiscal side, the growing imbalances could not be fully financed, leading to a major accumulation of domestic arrears. As of end-June 1983 verified domestic arrears of the Government and public agencies totaled CFAF 55.7 billion, or about 6 percent of GDP. Moreover, with the liquidation of a large rural development agency (ONCAD), beginning in August 1983 the Government had to assume the servicing of this agency's debts to local banks valued at CFAF 94.0 billion (excluding late interest and other charges), or more than 10 percent of GDP. Other

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

public agencies and enterprises continued to face serious operational and financial difficulties.

In an effort to reverse these unfavorable trends, beginning with 1980 the Government adopted a number of adjustment programs which have been supported by use of Fund and World Bank resources, as well as by other external assistance, including debt relief from official creditors and commercial banks. Initially, the results achieved were unsatisfactory, not only because of the adverse impact of the drought but also due to weaknesses in policy implementation. It may be recalled that the authorities' program of economic and financial adjustment for 1980/81-1982/83, in support of which the Fund approved an extended arrangement in August 1980, went off track soon after its inception, and was subsequently replaced by annual programs. Similarly, the program supported by a structural adjustment loan and credit from the World Bank, which was approved in December 1980, was only partly implemented; and the second tranche of the loan was canceled in June 1983. Under the Fund-supported program for 1981/82, a significant adjustment was made; but the improvement proved only temporary, and the situation deteriorated again in the following year.

By contrast, since mid-1983 steady and substantial progress has been made toward economic and financial adjustment, as appropriate supply-side and demand-management policies have been pursued with determination and adapted promptly to deal with unforeseen developments. The economy has been progressively liberalized, agricultural production incentives have been strengthened, the Government's overall fiscal deficit has been reduced sharply, public enterprise reform has been undertaken, domestic credit expansion has been brought under control, and the external current account position has been improved (Table 2). However, economic growth has been slow, owing largely to the adverse impact of drought and continuing structural problems in several sectors.

2. Performance under the adjustment program in 1985/86

In 1985/86 the Senegalese authorities rigorously implemented the policies and measures envisaged under their adjustment program, which was initiated a year earlier and supported by the 18-month stand-by arrangement that expired on July 15, 1986. In fact, faced with major shortfalls in export earnings and government revenue, and in light of the third review under the stand-by arrangement, the authorities took additional measures designed to maintain the momentum of adjustment. In the event, the program was kept broadly on track; and, except for a minor and inadvertent excess in external borrowing at end-March 1986, 1/ the last test date, all performance criteria were observed (Table 3).

1/ As this gave rise to a noncomplying purchase, the matter was brought to the attention of the Executive Board; a waiver of the nonobservance was granted, on a lapse-of-time basis, on July 23, 1986 (EBS/86/151).

Table 2. Senegal: Selected Economic and Financial Indicators, 1982/83-1988/89

	1982/83	1983/84	1984/85	1985/86 Prog.	1985/86 Est.	1986/87 Prog.	1987/88 Projections	1988/89 Projections
	(Annual percent changes, unless otherwise specified)							
National income and prices								
GDP at constant prices	8.2	-1.0	-0.8	5.0	4.2	4.4	3.3	3.5
GDP deflator	8.9	10.7	11.8	8.4	8.9	6.8	5.7	5.0
Consumer prices	11.6	11.8	13.0	...	9.4	7.0	6.0	5.0
External sector								
Exports, f.o.b. (in SDRs)	...	21.6	-5.4	15.4	-4.8	13.2	11.1	10.4
Imports, f.o.b. (in SDRs)	...	-1.8	-4.1	5.7	-2.9	1.1	4.3	6.1
Non-oil imports, c.i.f. (in SDRs)	...	...	-5.0	3.0	7.3	6.5	4.8	5.7
Export volume	...	...	-9.2	...	-0.5	16.0	5.4	6.1
Import volume	...	...	-4.3	...	1.4	8.1	4.0	4.0
Terms of trade (in SDRs; deterioration -)	...	...	4.0	...	-0.1	4.3	5.1	2.1
Nominal effective exchange rate (end of period; depreciation -)	-1.0	1.6	4.3	...	6.3	...	...	...
Real effective exchange rate (end of period; depreciation -)	-1.6	7.6	5.1	...	10.4	...	...	...
Government budget								
Revenue	15.7	7.8	7.7	14.1	7.3	15.5	6.8	6.7
Total current and capital expenditure	15.1	8.9	2.5	7.0	0.9	6.4	2.6	2.6
Money and credit								
Domestic credit	17.4	4.7	2.7	6.9	8.0	1.9	1.3	0.9
Government (net)	28.8	33.7	4.7	17.2	12.2	3.5	-0.4	-3.4
Private sector	15.0	-2.2	2.1	3.5	6.6	1.3	1.9	2.4
Money and quasi-money	12.1	3.7	2.8	5.5	2.5	7.3	9.6	8.5
Velocity (GDP relative to M2) 1/	3.3	3.5	3.8	4.2	4.2	4.4	4.4	4.4
Interest rate (end of period)								
Minimum rate on time deposits 2/	9.5	9.5	9.5	9.5	9.0 3/	8.0 4/	...	...
Money market rate for overnight deposits	12.0	12.0	10.2	...	8.8	7.8 4/	...	...
	(In percent of GDP, unless otherwise specified)							
Overall fiscal deficit (-) 5/								
Commitment basis	-8.2	-4.6	-3.5	-1.4	-2.3	-0.9	0.5	1.3
Cash basis	-7.4	-6.9	-4.6	-2.4	-3.3	-3.0	-0.9	0.6
Gross domestic investment	15.3	15.4	14.7	...	14.0	14.0	14.0	14.0
Gross domestic savings	3.4	1.2	2.0	...	6.3	8.0	9.5	10.5
External current account deficit (-)								
Excluding official grants	-18.4	-17.2	-16.9	...	-13.2	-9.2	-7.8	-6.6
Including official grants	-14.0	-11.6	-11.2	-6.9	-8.3	-4.7	-3.6	-2.6
External debt (inclusive of use of Fund credit) 6/	66.8	86.0	91.1	...	82.7	76.1	72.1	67.8
Debt service ratio (in percent of exports of goods, services, and private transfers) 5/	...	19.2	24.7	27.5	26.6	26.6	27.5	27.2
	(In millions of SDRs, unless otherwise specified)							
GDP at current market prices (in billions of CFA francs)	891.9	977.5	1,083.8	1,265.0	1,229.5	1,370.3	1,495.9	1,625.6
Overall balance of payments deficit (-) 7/	...	-30.1	-75.7	0.2	-28.3	...	...	...
Gross official foreign reserves (in weeks of imports)	0.6	0.6	0.7	0.6	0.6	0.6	...	...

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

1/ GDP relative to average of end-June and end-December broad money stocks.
2/ Minimum rate on time deposits in excess of one year and in amounts of more than CFAF 2 million; the actual rates generally follow closely the money market quotations.
3/ Since March 24, 1986.
4/ Since September 22, 1986.
5/ Before debt rescheduling.
6/ The figures shown refer to the calendar years 1982-88.
7/ After debt rescheduling.

Table 3. Senegal: Quantitative Performance Criteria and Results Under the Adjustment Program in 1985/86

	Stock at End-June 1985	Change from July 1, 1985 to end 1985 Sept.	Dec.	1986 March	June 1/
		(In billions of CFA francs)			
Domestic credit	503.5				
Unadjusted ceiling		10.5	42.3	50.1	36.8
Adjusted ceiling 2/		9.6	47.7	59.7	48.8
Actual		8.6	44.0	53.4	44.7
Claims on Government (net)	126.6				
Unadjusted ceiling		13.1	21.5	24.2	22.9
Adjusted ceiling 2/		13.1	21.9	24.2	22.9
Actual		12.3	17.4	21.4	19.7
Arrears of the Government and public agencies					
1. Domestic and external	46.1				
Ceiling		-2.0	-4.0	-6.0	-15.0
Actual		-2.2	-4.2	-6.5	-9.6
2. External	8.6				
Ceiling		...	...	-2.0	-8.6
Actual		2.4	2.3	-4.0	-8.2
Repayment of 1984/85 crop credit	--				
Minimum		...	1.0	3.0	8.4
Actual		...	1.0	3.0	3.0
Repayment of ONCAD debt	89.7				
Minimum		3.0	4.0	8.0	12.0
Actual		3.0	4.0	8.0	8.0
			(In millions of SDRs)		
New external borrowing on nonconcessional terms by the Government or with government guarantee					
1. 1-12 years' maturity					
Ceiling		15.0	15.0	15.0	15.0
Actual		8.3	14.6	15.6	15.6
2. 1-5 years' maturity					
Ceiling		4.0	4.0	4.0	4.0
Actual		--	--	--	--

Sources: Letter of intent of the Minister of Economy and Finance of February 4, 1986; and data provided by the Senegalese authorities.

1/ Indicative targets set during review of the program (EBS/86/44).
2/ Adjusted for excess amount of external budgetary assistance and for variations in crop credit.

However, as the export and government revenue shortfalls could not be fully offset, some of the indicative targets for end-June 1986 could not be met.

After two years of stagnation, owing mainly to severe drought, the Senegalese economy registered a significant revival in 1985/86. With the substantial increases in producer prices under the new agricultural policy, adopted in 1984, and the return of good weather conditions, record food crops were harvested; output of millet and sorghum is estimated to have reached 949,600 tons in 1985/86, compared with 471,400 tons in 1984/85. Groundnut production also increased significantly, with the output processed for export rising to 300,000 tons, about double the previous year's level, though still well below the 400,000 tons assumed in the program and the much higher levels attained in the early 1980s. Therefore, given the increased activity in other sectors of the economy, it is now estimated that real GDP rose by slightly more than 4 percent in 1985/86, as against an increase of 5 percent envisaged in the program and a decline of about 1 percent in 1984/85. At the same time, the rate of inflation, as measured by the GDP deflator, declined from almost 12 percent in 1984/85 to an estimated 9 percent in 1985/86, virtually the same rate as envisaged in the program.

As indicated above, the authorities took additional measures in the course of the year to deal with a number of unforeseen developments. However, despite their best efforts, they could not fully compensate for the major shortfall in government revenue, and hence could not reduce the overall fiscal deficit in 1985/86 by as much as had been programmed. The revenue shortfall became apparent early in the fiscal year, amounting to more than CFAF 9 billion in the first quarter (July-September 1985); it continued throughout the year. While the factors behind the revenue shortfall, which was attributable mostly to lower-than-expected receipts from customs duties and taxes on domestic goods and services, have not yet been fully established (a comprehensive review is under way), two major reasons seem to have contributed to the problem: the lagged effects of two years of economic stagnation on the tax base, and a decline in imports, partly as a result of a wait-and-see attitude adopted by some traders in anticipation of tariff reform. In retrospect, it is also clear that the authorities' revenue target of CFAF 237.9 billion for 1985/86 (Table 4) was ambitious, especially given the weaknesses in tax administration. If it were not for the decision taken, in connection with the review of the program in December 1985, to mobilize the bulk of the surpluses being generated by the oil refining company (SAR) in support of the government budget, the revenue shortfall would have exceeded CFAF 38 billion, and total revenue would have shown an absolute decline in comparison with 1984/85. However, as CFAF 19.3 billion was collected from the SAR, the revenue shortfall in relation to the authorities' target amounted to CFAF 19.2 billion, equivalent to 1.6 percent of GDP. After taking into account the proceeds from external grants which reached the equivalent of CFAF 19.2 billion, as against a programmed CFAF 16.6 billion, total revenue and grants amounted to CFAF 237.9 billion, or CFAF 16.4 billion (6 percent) less than envisaged in the program.

Table 4. Senegal: Government Financial Operations, 1982/83-1989/90

	1982/83	1983/84	1984/85	1985/86 Prog.	1985/86 Prov.	1986/87 Prog.	1987/88 Projections	1988/89 Projections	1989/90 Projections
	(In billions of CFA francs)								
Total revenue and grants	180.9	201.6	216.1	254.3	237.9	267.5	286.5	306.0	329.0
Revenue	175.7	189.4	203.9	237.9	218.7	252.7	270.0	288.0	310.0
Of which: tax revenue 1/	(164.5)	(177.4)	(190.1)	(222.1)	(208.4)	(241.5)	(256.6)	(273.4)	(294.2)
Grants	5.2	12.2	12.2	16.6	19.2	14.8	16.5	18.0	19.0
Of which: capital	(3.4)	(6.0)	(5.0)	(8.0)	(8.0)	(9.0)	(9.0)	(10.0)	(11.0)
Total expenditure and net lending	254.2	246.3	254.2	271.9	266.0	279.3	278.4	285.5	293.5
Current expenditure	186.6	205.3	217.1	232.4	220.3	227.7	234.4	240.5	245.5
Wages and salaries	92.7	100.4	106.6	112.0	111.8	114.0	117.0	120.0	123.0
Interest due 2/	26.7	36.9	44.4	48.4	41.0	42.7	43.4	44.5	45.5
Of which: external	(26.2)	(36.4)	(43.8)	(47.4)	(40.3)	(41.7)	(42.4)	(43.5)	(44.5)
Other 3/	67.2	68.0	66.1	72.0	67.5	71.0	74.0	76.0	77.0
Capital expenditure	39.0	40.3	34.7	37.0	33.8	42.6	43.0	44.0	47.0
Budgetary	7.9	10.0	9.7	9.0	5.8	12.6	11.0	11.0	12.0
Extrabudgetary	31.1	30.3	25.0	28.0	28.0	30.0	32.0	33.0	35.0
Treasury special accounts (net) 4/	-12.3	-6.9	-4.1	-5.0	-12.9	-15.3	-6.0	-6.0	-6.0
Treasury correspondents (net) 4/	-16.3	6.2	1.7	2.5	1.0	6.3	5.0	5.0	5.0
Overall fiscal deficit (-) (commitment basis)	-73.3	-44.7	-38.1	-17.6	-28.1	-11.8	8.1	20.5	35.5
Adjustments to cash basis	6.8	-22.6	-11.6	-13.0	-12.6	-29.0	-21.0	-11.5	-5.0
Payment arrears of the Government and public agencies (reduction -)	5.6	-2.0	-7.6	-10.0	-9.6	-14.0	-16.0	-6.5	--
Crop credit (repayment -)	1.2	-20.6	-4.0	-3.0	-3.0	-15.0	-5.0	-5.0	-5.0
Overall fiscal deficit (-) (cash basis)	-66.5	-67.3	-49.7	-30.6	-40.7	-40.8	-12.9	9.0	30.5
Financing	66.5	67.3	49.7	30.6	40.7	40.8	12.9	-9.0	-30.5
External	48.5	36.7	38.0	19.6	28.0	48.6	36.5	17.1	-1.7
Drawings	49.5	35.9	40.9	29.2	36.7	74.8	68.7	60.6	60.0
Treasury	(21.8)	(11.6)	(20.9)	(9.2)	(16.7)	(53.8)	(45.7)	(37.6)	(36.0)
Other	(27.7)	(24.3)	(20.0)	(20.0)	(20.0)	(21.0)	(23.0)	(23.0)	(24.0)
Amortization payments due 2/	-27.3	-28.4	-31.2	-34.1	-29.6	-45.6	-51.0	-59.4	-61.7
External debt rescheduling	26.3	29.2	28.3	24.5	20.9	...	...	...	...
Gap	--	--	--	--	--	19.4 2/	18.8	15.9	--
Domestic	18.0	30.6	11.7	11.0	12.7	-7.8	-23.6	-26.1	-28.8
Banking system 5/	20.2	35.2	17.9	22.0	19.6	4.0	-11.6	-14.1	-16.8
Repayment of ONCAD debt to banks	-2.0	-8.8	-10.0	-12.0	-8.0	-12.0	-12.0	-12.0	-12.0
Nonbank borrowing	2.0	1.4	2.0	1.0	0.8	0.2	--	--	--
Other	-2.2	2.8	1.8	--	0.3	--	--	--	--
Memorandum items:									
Payment arrears of the Government and public agencies outstanding (end of period)	53.7	53.7	46.1	36.7	36.5	22.5	6.5	--	--
Domestic	(55.7)	(53.7)	(37.5)	(36.7)	(36.1)	(22.5)	(6.5)	(--)	(--)
External	(--)	(--)	(8.6)	(--)	(0.4)	(--)	(--)	(--)	(--)
Nominal GDP	891.9	977.5	1,083.8	1,265.0	1,229.5	1,370.3	1,495.9	1,625.6	1,766.7
	(In percent of GDP)								
Total revenue and grants	20.3	20.6	19.9	20.1	19.3	19.5	19.2	18.8	18.6
Revenue	19.7	19.4	18.8	18.8	17.8	18.4	18.0	17.7	17.5
Of which: tax revenue	(18.4)	(18.1)	(17.5)	(17.6)	(17.0)	(17.6)	(17.2)	(16.8)	(16.7)
Total expenditure and net lending	28.5	25.2	23.4	21.5	21.6	20.4	18.6	17.6	16.6
Current expenditure	20.9	21.0	20.0	18.4	17.9	16.6	15.7	14.8	13.9
Capital expenditure	4.4	4.1	3.2	2.9	2.7	3.1	2.9	2.7	2.7
Overall fiscal deficit (-) (commitment basis)	-8.2	-4.6	-3.5	-1.4	-2.3	-0.9	0.5	1.3	2.0
Overall fiscal deficit (-) (cash basis)	-7.4	-6.9	-4.6	-2.4	-3.3	-3.0	-0.9	0.6	1.7

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

1/ Including receipts from the oil sector and the Price Equalization and Stabilization Fund.

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. If the full amount of debt service in respect of government-guaranteed debt is included, as shown in the balance of payments table, the financing gap in 1986/87 would amount to CFAF 26.8 billion.

3/ Consisting of outlays for materials, supplies, maintenance, subsidies and other current transfers, and unclassified expenditure.

4/ Deficits (-) are added to expenditure, while surpluses are deducted.

5/ Including the counterparts of Fund purchases and repurchases, as well as of loans under the structural adjustment facility. For some years, the figures differ from the variation shown in the monetary survey because they exclude the amounts of unprogrammed external resources deposited at the central bank in the fiscal year involved.

In view of the disappointing revenue performance, in 1985/86 the Government limited its total expenditure and net lending to CFAF 266.0 billion, or CFAF 5.9 billion (2 percent) below the programmed level. While the reduction was achieved in part by restraining the growth in outlays for materials, supplies, and transfers to a minimum (2 percent, instead of the programmed 9 percent), lower scheduled interest payments on the external debt (resulting from the appreciation of the CFA franc and lower interest rates) were also helpful. The wage bill was kept on target, despite an increase in the number of civil servants toward the end of the fiscal year, owing partly to a postponement of the retirement date for some teachers from June 1986 to September 1986. In addition, capital budgetary expenditure turned out to be significantly lower than programmed, largely because of a slower pace of implementation of certain projects. The reduction in total expenditure and net lending could have been more important if the Government did not have to extend through its special treasury accounts an unforeseen loan of CFAF 5.8 billion to the electricity company (SENELEC); the loan was needed in the context of the rehabilitation program of SENELEC, which was formulated in consultation with the World Bank. Thus, although total government outlays were kept below the programmed level, the overall fiscal deficit, on a commitment basis and including grants, is provisionally estimated to have amounted to CFAF 28.1 billion in 1985/86, or 2.3 percent of GDP, compared with a targeted 1.4 percent of GDP. Nevertheless, this outcome still represented a further significant step toward fiscal adjustment when viewed against the overall deficits equivalent to 3.5 percent of GDP in 1984/85 and 8.2 percent of GDP in 1982/83.

Faced with this situation, which was rendered more difficult by delays in certain external aid disbursements, the Treasury could not meet all of its obligations around year end. In the circumstances, and notwithstanding the many pressing domestic needs, the authorities felt that it was important to give priority to discharging Senegal's external debt service obligations. Accordingly, virtually all verified arrears on external debt service payments, which had reached CFAF 10.9 billion at end-December 1985, were liquidated at the close of the 1985/86 fiscal year. In consequence, however, domestic arrears of the Government and public agencies were reduced by only CFAF 1.4 billion in 1985/86, compared with a revised target of CFAF 6.4 billion established at the time of the mid-year review. Moreover, the Treasury could not effect on schedule certain repayments to local banks in respect of reclassified 1984/85 crop credits and ONCAD debt amounting to CFAF 5.4 billion and CFAF 4.0 billion, respectively. As shown in Table 4, the overall fiscal deficit, on a cash basis, amounted to CFAF 40.7 billion in 1985/86, or 3.3 percent of GDP, as against 2.4 percent of GDP envisaged in the original program.

The authorities' efforts to reduce the overall fiscal deficit were coupled with the implementation of a prudent credit policy in 1985/86. As a result, apart from the level of crop financing which was considerably higher than foreseen in the program, the expansion in both ordinary credit to the private sector and net bank credit to the Government was

smaller than programmed. Credit to the private sector, excluding crop credit, rose by about 3 percent (Table 5), slightly less than the programmed 3.5 percent. At the same time, the rise in net bank credit to the Government amounted to 12 percent, compared with the target of 17 percent. 1/ Total domestic credit expansion was limited to 8 percent in 1985/86, as against 7 percent in the program; however, excluding crop credit, the expansion was 6 percent. Thus, and in view of the external developments described below, the growth in money supply slowed to 2.5 percent in 1985/86, well below the programmed 5.5 percent and the estimated increase in nominal GDP of about 13 percent.

The fiscal and credit policies pursued in 1985/86 contributed to a reduction in the external imbalances, despite the major export shortfall. With very low export volumes of groundnut oil and cake in July-December 1985, owing to the poor 1984/85 harvest, and the sharp decline in world market prices in early 1986, export earnings from groundnut products amounted to only SDR 44 million in 1985/86, compared with an initially projected level of SDR 137 million. Other exports were also lower than had been envisaged, owing mostly to a decline in prices. Consequently, in 1985/86 total export earnings fell to an estimated SDR 528 million, some SDR 107 million less than originally projected and 5 percent lower than in 1984/85 (Table 6). However, the export shortfall was partly offset by a lower-than-programmed import bill (by SDR 42 million), reflecting the drop in petroleum prices, as well as the tendency for some traders to delay placing their import orders in view of the anticipated tariff reform. Net service payments were also lower (by SDR 7 million), largely due to falling interest rates, while net inflows of unrequited transfers were higher (by SDR 8 million). Therefore, the current account deficit, including official grants, amounted to SDR 241 million, SDR 50 million more than programmed, but still significantly below the 1984/85 level of SDR 261 million. In relation to GDP, the deficit was reduced from 11.2 percent in 1984/85 to 8.3 percent in 1985/86, but fell short of the target of 6.9 percent specified in the program. Excluding official grants, the current account deficit was brought down from 16.9 percent of GDP in 1984/85 to 13.2 percent of GDP in 1985/86.

As net capital inflows exceeded the amount originally foreseen, reflecting higher-than-expected disbursements of nonbudgetary public sector loans, the overall balance of payments deficit, after debt rescheduling, was reduced to SDR 28 million in 1985/86, compared with a programmed deficit of SDR 4 million and a deficit of SDR 76 million in 1984/85. After a reduction in external arrears of SDR 12 million and net repurchases from the Fund of SDR 8 million in 1985/86, there was a deterioration of SDR 48 million in Senegal's position in the operations account with the French Treasury and other foreign liabilities.

1/ Part of the difference was also due to a reclassification of deposits made at end-June 1986 by the BCEAO.

Table 5. Senegal: Monetary Survey, June 1982-June 1987

(In billions of CFA francs; end of period)

	1982	1983	1984		1985		1986					1987
	June	June	June	Dec.	June	Dec.	March	June		Sept.	Dec.	June
								Prog.	Est.	Prog.	Prog.	Prog.
Foreign assets (net)	-133.3	-178.8	-198.4	-210.1	-229.5	-264.4	-255.9	-229.0	-243.8	-239.0	-237.2	-232.6
Central bank	-120.7	-163.4	-181.5	-181.8	-215.7	-228.2	-232.8	-203.7	-219.8	-218.0	-217.2	-214.6
Commercial banks	-12.6	-15.4	-16.9	-28.3	-13.8	-36.2	-23.1	-25.3	-24.0	-21.0	-20.0	-18.0
Domestic credit	398.6	468.0	490.1	501.1	503.5	547.5	556.9	540.3	544.0	534.1	555.1	554.2
Claims on Government (net)	70.2	90.4	120.9	122.3	126.6	144.0	148.0	149.5	142.1	140.5 1/	148.8 1/	147.1
Claims on private sector	328.4	377.6	369.2	378.8	376.9	403.5	408.9	390.8	401.9	393.6	406.3	407.1
Ordinary credit	300.1	334.7	356.8	364.2	360.3	375.2	370.8	372.8	371.9	373.1	374.1	377.1
Of which: ONCAD	(67.7)	(67.7)	(67.7)	(67.7)	(67.7)	(67.7)	(67.7)	(67.7)	(67.7)	(67.7)	(67.7)	(67.7)
Crop credit	28.3	42.9	12.4	14.6	16.6	28.3	38.1	18.0	30.0	20.5	32.2	30.0
Money and quasi-money	238.1	266.8	276.6	287.1	284.3	300.1	306.1	310.0	291.4	288.8	305.6	312.8
Other items (net)	27.2	22.4	15.1	3.9	-10.3	-17.0	-5.1	1.3	8.8	6.3	12.3	8.8
Of which: ONCAD	(26.3)	(29.7)	(26.5)	(29.3)	(22.0)	(20.7)	(18.0)	(...)	(19.3)	(...)	(...)	(...)
Memorandum item:												
Domestic assets (net)	371.4	445.6	475.0	497.2	513.8	564.5	562.0	539.0	535.2	527.8 1/	542.8 1/	545.4

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

1/ Performance criteria.

Table 6. Senegal: Balance of Payments, 1982/83-1989/90

(In millions of SDRs)

	1982/83	1983/84	1984/85	1985/86		1986/87	1987/88	1988/89	1989/90
		Estimates		Prog.	Est.	Prog.		Projections	
Trade balance	-348.4	-229.3	-227.1	-165.9	-231.2	-169.9	-136.9	-116.1	-115.0
Exports, f.o.b.	482.0	586.2	554.8	635.4	528.1	597.5	663.6	732.9	806.2
Of which:									
Groundnut products	(106.1)	(155.1)	(90.9)	(137.4)	(43.5)	(86.4)	(96.2)	(115.4)	(127.2)
Imports, f.o.b.	-830.4	-815.5	-781.9	-801.3	-759.3	-767.4	-800.5	-849.0	-921.2
Of which:									
Petroleum products	(-208.2)	(-233.3)	(-229.7)	(...)	(-155.8)	(-118.8)	(-120.5)	(-130.7)	(-141.8)
Services (net)	-127.5	-160.7	-172.9	-179.8	-172.4	-168.6	-180.2	-179.3	-156.8
Of which:									
Interest due on public debt	(-108.7)	(-99.7)	(-110.3)	(-138.5)	(-116.7)	(-117.8)	(-122.8)	(-123.8)	(-127.3)
Unrequited transfers	150.5	125.9	139.1	154.3	162.2	176.7	182.7	188.4	194.2
Of which:									
Official grants	(110.0)	(147.9)	(151.7)	(...)	(166.5)	(178.6)	(182.1)	(185.8)	(189.5)
Current account deficit (-)	-325.4	-264.1	-260.9	-191.4	-241.4	-161.8	-134.4	-107.0	-77.6
Capital account	145.9	190.0	153.4	102.2	158.9	120.4	98.1	88.0	120.1
Public sector	104.3	143.5	110.6	55.7	111.4	70.3	48.1	38.0	70.1
Disbursements	(183.9)	(221.1)	(199.5)	(158.1)	(203.2)	(200.0)	(210.0)	(220.5)	(258.5)
Amortization	(-79.6)	(-77.6)	(-88.9)	(-102.4)	(-91.8)	(-129.7)	(-161.9)	(-182.5)	(-188.4)
Private sector	41.6	46.5	42.8	46.5	47.5	50.1	50.0	50.0	50.0
Errors and omissions	-22.9	-36.5	-47.0	--	-15.8	--	--	--	--
Overall balance (deficit -)	-202.4	-110.6	-154.5	-89.2	-98.3	-41.4	-36.3	-19.0	42.5
Debt rescheduling	91.3	80.4	78.8	...	70.0	...	...	...	--
Financing	-111.1	30.2	75.7	4.4	28.3	-25.6	-28.2	-34.2	-42.5
IMF	26.3	54.8	4.8	-8.3	-8.3	-1.1	-22.0	-33.5	-42.5
Purchases	(37.4)	(63.0)	(34.6)	(42.0)	(42.0)	(43.5) 1/	(19.0) 1/	(11.5) 1/	(--)
Repurchases	(-11.1)	(-8.2)	(-29.8)	(-50.3)	(-50.3)	(-44.6)	(-41.0)	(-45.0)	(-42.5)
Operations account and other	84.8	-24.6	52.4	12.7	48.5	-15.5	-6.2	-0.7	--
Arrears (reduction -)	--	--	18.5	--	-11.9	-9.0 2/	--	--	--
Financing gap	--	--	--	84.8	--	67.0	64.5	53.2	--
Memorandum items:									
Current account, including official grants/GDP	-14.0	-11.6	-11.2	-6.9	-8.3	-4.7	-3.6	-2.6	-1.8
Current account, excluding official grants/GDP	-18.4	-17.2	-16.9	...	-13.2	-9.2	-7.8	-6.6	-5.5
CFA francs/SDR (average)	384.2	430.2	467.1	460.0	424.4	400.0	400.0	400.0	400.0

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

1/ Includes purchases under the proposed stand-by arrangement amounting to SDR 26.5 million and SDR 7.5 million in 1986/87 and 1987/88, respectively, and disbursements under the structural adjustment facility amounting to about SDR 17 million, SDR 11.5 million, and SDR 11.5 million in 1986/87, 1987/88, and 1988/89, respectively.

2/ About SDR 4.5 million was liquidated in August 1986 and most of the remainder is expected to be rescheduled with non-Paris Club official creditors.

Debt relief of SDR 70 million formed an important element in the financing of Senegal's balance of payments in 1985/86. Following the Paris Club meeting of January 1985, all bilateral agreements were signed, involving the rescheduling of some debt service payments falling due in both 1984/85 and 1985/86. Senegal also sought and obtained debt relief from the London Club in May 1985, covering the same two-year period. In addition, Senegal made best efforts to obtain debt relief on comparable terms from other official creditors, and by end-June 1986 agreements had been reached with Oman and Saudi Arabia.

An important aim of the 1985/86 program was to eliminate all verified external arrears by end-June 1986 through a combination of debt rescheduling and cash payments. As indicated earlier, despite a severe shortage of budgetary resources toward the end of the fiscal year, this objective was given high priority, and virtually all nonreschedulable debt service arrears were eliminated. At end-June 1986 there remained outstanding external arrears of only SDR 0.9 million (CFAF 0.4 billion) to official creditors; in addition, a payment of SDR 3.9 million on a previous London Club rescheduling due at end-June 1986 was delayed, with the concurrence of the interested commercial bank, until August 1986. The rescheduling of a further SDR 3.9 million of arrears to Argentina is being negotiated. Total scheduled public debt service payments in 1985/86 amounted to SDR 259 million, equivalent to 27 percent of exports of goods, services, and private transfers, compared with 25 percent in 1984/85 (Table 7). After debt relief, debt service payments totaled SDR 189 million in 1985/86, representing a debt service ratio of 19 percent.

Since the CFA franc is pegged to the French franc, 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. In the fiscal year ended June 1986, Senegal's currency appreciated by 6.3 percent in nominal effective terms, following an appreciation of 4.3 percent in the previous year. In real effective terms, there was a more marked appreciation of 10.4 percent in 1985/86, given the higher rate of inflation in Senegal relative to that in its major trading partners (see Chart).

III. Medium-Term Objectives and Policy Framework, 1986/87-1988/89 1/

Despite the progress made during the past three years, Senegal still faces major structural and financial problems. The economy remains fundamentally weak and vulnerable, the rate of inflation is relatively high, and the internal and external financial imbalances are still unsustainably large. In addition, the sizable domestic and

1/ This section includes an assessment of Senegal's capacity to meet its financial obligations to the Fund.

Table 7. Senegal: External Public Debt Service, 1983/84-1989/90 and 1993/94 1/

(In millions of SDRs)

	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90	1993/94
	Estimates			Projections				Proj.
Principal	85.8	118.7	142.1	174.3	202.9	227.5	230.9	250.1
Medium- and long-term	77.6	88.9	91.8	129.7	161.9	182.5	188.4	240.9
IMF repurchases 2/	8.2	29.8	50.3	44.6	41.0	45.0	42.5	9.2
Interest	99.7	110.3	116.7	117.8	122.8	123.8	127.3	146.7
Medium- and long-term	76.0	81.2	90.2	96.7	102.2	105.8	112.0	141.8
IMF charges	15.7	20.6	18.9	16.7	16.2	13.6	10.9	0.5
Other	8.0	8.5	7.6	4.4	4.4	4.4	4.4	4.4
Total (before debt rescheduling)	185.5	229.0	258.8	292.1	325.7	351.3	358.2	396.8
Debt rescheduling	-80.4	-78.8	-70.0	...	...	...	...	...
Total (after debt rescheduling)	105.1	150.2	188.8	...	...	...	...	...
Memorandum items:								
Exports of goods, services, and private transfers	964.1	927.5	971.8	1,097.9	1,186.1	1,292.1	1,415.6	1,869.9
Debt service ratio (in percent)								
Before debt rescheduling	19.2	24.7	26.6	26.6	27.5	27.2	25.3	21.2
After debt rescheduling	10.9	16.2	19.4	...	...	...	...	...
IMF debt service ratio (in percent) 2/	2.5	5.4	7.1	5.6	4.8	4.5	3.8	0.5
Use of Fund credit tranches (in percent of quota) 3/	220.7	240.8	257.9	236.9	211.2	162.1	110.9	2.2
Use of Fund credit (including loans under the SAF) (in percent of GDP) 3/	8.7	9.5	7.9	6.7	5.8	4.6	3.2	0.4
External debt (inclusive of use of Fund credit) (in percent of GDP) 3/	86.0	91.1	82.7	76.1	72.1	67.8	63.1	50.0

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

1/ Consistent with the macroeconomic policy framework (Table 6 and Appendix V, Table I). Excluding debt service obligations of the multinational companies Air Afrique and Agence pour la Navigation Aérienne. Including scheduled repayments to BCEAO in respect of interest payments on the operations account deficit in previous years.

2/ Includes repayments of loans under the structural adjustment facility.

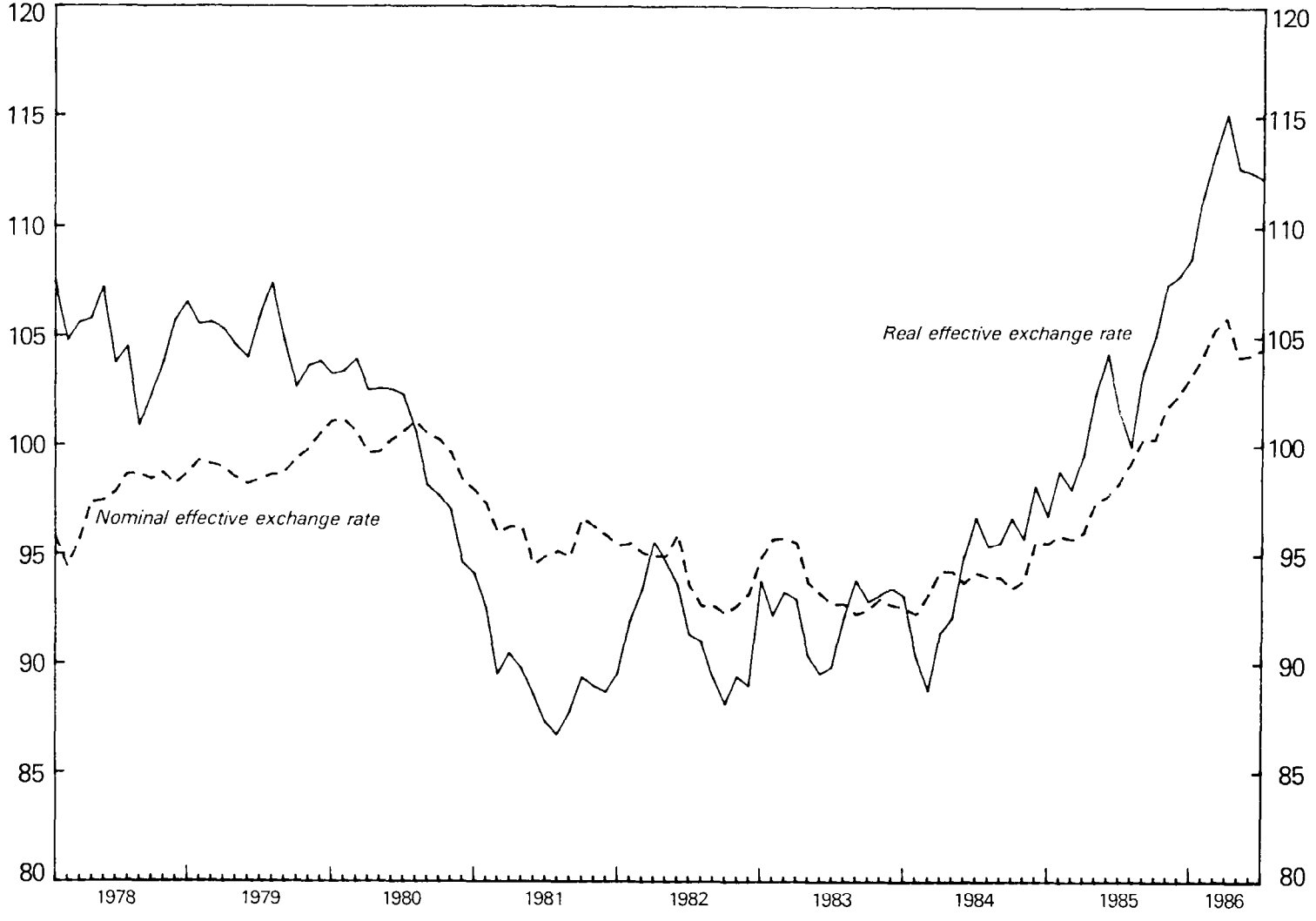
3/ The figures shown refer to the calendar years 1983-93.

CHART

SENEGAL

NOMINAL AND REAL EFFECTIVE EXCHANGE RATES[1], JANUARY 1978-JUNE 1986

(1980 = 100)



Source: IMF, Information Notice System.

[1] Based on the following trade weights (in percent): France (50), United Kingdom (8), Thailand (6), Germany (5), United States (5), Italy (4), Netherlands (3), Japan (2), other countries (17).

external debt weighs heavily on the government budget and the balance of payments. Before debt rescheduling, external debt service payments are estimated to amount to about 41 percent of government revenue and to 27 percent of exports of goods, services, and private transfers in 1986/87, as well as in each of the following two years; according to current projections, these ratios would decline only beginning in 1989/90.

In view of the magnitude of these problems, the Senegalese authorities have decided to pursue their adjustment efforts in the context of an overall policy framework for the three years 1986/87-1988/89 that has been developed in close collaboration with the staffs of the Fund and the World Bank. The macroeconomic and structural adjustment policies for the next three years are an integral part of the Government's Medium- and Long-Term Program of Economic and Financial Adjustment, covering the period 1985-92, which was endorsed at the first meeting of the Consultative Group for Senegal in December 1984. As such, they are also consistent with the program described in the Government's Letter of Development Policy of December 19, 1985 to the International Development Association, in support of which the Association approved a financing package equivalent to about SDR 64 million. 1/

As indicated in the policy framework paper (Appendix II), the basic objectives of the authorities' program for 1986/87-1988/89 are: (a) to achieve an average annual rate of growth of real GDP of the order of 3.5 percent, which would help improve real per capita income (given the estimated increase in population of 2.9 percent per annum); (b) to continue to curb the annual rate of inflation, as measured by the GDP deflator, from the estimated 9 percent in 1985/86 to some 5 percent in 1988/89; and (c) to reduce further the external current account deficit, excluding official grants, from the estimated 13.2 percent of GDP in 1985/86 to around 6.6 percent of GDP in 1988/89. In this way, and barring unforeseen adverse developments, it is expected that by the end of the program period Senegal would be close to realizing an overall position and a structure of the balance of payments consistent with orderly relations with its creditors; this would eliminate the need for exceptional balance of payments financing, notably further debt rescheduling. Meanwhile, Senegal will continue to maintain an exchange system which is free of restrictions on payments and transfers for current international transactions.

To attain the above-mentioned macroeconomic objectives, the Government of Senegal intends to continue to implement two key strategies during the program period: promote private sector initiative through appropriate pricing and other incentive policies, particularly in agriculture and industry, while reducing its own direct involvement

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1/ Consisting of an IDA credit of SDR 18.3 million, a Special African Facility credit of SDR 40.3 million, and a Special Joint Financing non-reimbursable contribution of about SDR 5.5 million from Switzerland (administered by IDA).

in production activities; and achieve greater efficiency in public resource management through improvements in the allocation and implementation of public investments, reform of the parapublic sector, and strengthening of government finances. In this context, a number of strong actions have already been taken, and others are planned for the period ahead, with a view to alleviating the macroeconomic and structural problems in the economy, thereby promoting balance of payments adjustment and economic growth.

The authorities' medium-term program involves the following specific actions: continued implementation of the new agricultural policy, aimed at expanding and diversifying domestic production, with a view to increasing exports and curbing reliance on imports; progressive privatization of both the rice import trade and the internal distribution of rice; industrial policy reform, comprising a rationalization of the system of effective protection, a phased elimination of quantitative restrictions on imports, a revision of the export subsidy scheme, and a reduction of wage and labor law rigidities; pursuit of an appropriate energy policy; execution of a public investment program along the lines agreed with the World Bank; acceleration of parapublic sector reform; and implementation of prudent fiscal, wage, credit, and external debt management policies. Consistent with the policy stance maintained in recent years, fiscal adjustment is a key element of the authorities' medium-term program of action. Accordingly, the program calls for improving government revenue performance, mainly through better tax administration, and for maintaining a tight lid on current outlays, especially the wage bill. With the implementation of these policies, it is thus expected that the Government's overall fiscal balance, on a commitment basis and including grants, will be turned from the estimated deficit equivalent to 2.3 percent of GDP in 1985/86 to a surplus of at least 1 percent of GDP in 1988/89 (Table 2). This progress on the fiscal front will permit the authorities to eliminate all currently verified domestic arrears of the Government and public agencies (CFAF 36.1 billion at end-June 1986) by the end of the program period, a development which is likely to have a highly favorable impact on economic growth. It will also help reduce net government borrowing from the domestic banking system, thereby making loanable funds increasingly available to meet the financing needs of the private sector. The financial operations of a number of major enterprises are also expected to improve, shifting from overall deficit to overall surplus. Gross domestic savings in terms of GDP are programmed to increase significantly, from an estimated 6.3 percent in 1985/86 to 10.5 percent in 1988/89. A summary and the time frame of the Government's macroeconomic and structural adjustment policies for the entire program period are provided in the table attached to the policy framework paper (Appendix II).

The effective implementation of these policies is expected to contribute to a further substantial improvement in Senegal's external payments position, as shown in the scenario for the balance of payments

underlying the policy framework paper (Table 6). 1/ The maintenance of adequate price and other incentives should lead to a recovery in exports of groundnut products from the low levels registered in recent years, while contributing to a better performance of nontraditional exports. Assuming normal weather conditions, marketed output of groundnuts processed for export is projected to increase from 300,000 tons in 1985/86 to 450,000 tons in 1988/89, which would permit a doubling of export volumes in 1986/87 followed by increases averaging almost 10 percent in the next two years. After the sharp fall from an average of US$984 per ton in 1984/85 to US$657 per ton in 1985/86, export unit values of groundnut oil are projected to decline further to US$627 per ton in 1986/87, before rising to US$676 per ton in 1988/89. These prices, which are in line with those envisaged in the Fund's latest report on the World Economic Outlook (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 SDR 44 million in 1985/86 to SDR 115 million in 1988/89, a level still lower, however, than that attained in 1983/84. Other exports are projected to rise at an average annual rate of 6 percent in volume and 8 percent in SDR terms, reflecting mainly an expansion of exports of chemicals, phosphates, and fish. As a result, during the three-year period 1986/87-1988/89 total exports are projected to grow at an average annual rate of 9 percent in volume and 11.5 percent in SDR terms. At the same time, total imports are programmed to rise by 5 percent in volume but by only 4 percent in SDR terms per annum, as prices of foodstuffs and petroleum products are expected to remain weak. Despite a substantial increase in crude oil imports in 1986/87, the sharp decline in world oil prices will enable Senegal to reduce its oil import bill from an estimated SDR 156 million in 1985/86 to a projected SDR 119 million in 1986/87. Non-oil imports are projected to increase at an average annual rate of 4 percent in volume and 6 percent in SDR terms during the program period. As the planned import-substitution measures should help reduce imports of foodstuffs, the non-oil import growth would be consistent with imports of intermediate and capital goods increasing at an annual rate of almost 5 percent in real terms during the three-year program period. On the basis of the current outlook for world commodity prices, which suggests an improvement in Senegal's terms of trade of about 12 percent over the next three years, the trade deficit is expected to narrow markedly. The service account is likely to deteriorate slightly, owing to the rise in scheduled interest payments on the public debt; but this is expected to be offset by an improved performance on the private transfers account. The current account deficit, excluding official grants, would decline steadily, from an estimated SDR 410 million in 1985/86 to SDR 290 million in 1988/89 (the figures are rounded). Nevertheless, this would still involve total financing requirements for current transactions of the order of SDR 950 million for the three-year program period.

1/ A sensitivity analysis of the impact of changes in key variables on the balance of payments is presented in Appendix V.

On the basis of recent and prospective flows of official grants and loans, total disbursements, mostly from traditional sources, are now projected to total about SDR 1,180 million during 1986/87-1988/89. A trend projection of official grants would account for approximately SDR 550 million of the total, the remaining SDR 630 million representing disbursements in respect of medium- and long-term loans. The latter is a conservative estimate, implying only a small increase over the SDR 624 million disbursed in 1983/84-1985/86. The pipeline of undisbursed loan commitments totaled some SDR 550 million at the end of 1985, and World Bank estimates suggest that much of this could be disbursed within the next three years. Disbursements from the existing pipeline will be complemented by those from new commitments to be made during the program period. Taking into account operations already approved and new commitments to be confirmed, it is estimated that World Bank disbursements in the form of project and program loans will amount to about SDR 170 million during 1986/87-1988/89, of which SDR 60 million would be available in 1986/87. Other loan disbursements are expected mostly from France, Germany, Italy, the United States, a number of Middle Eastern countries, the European Community, and the African Development Bank. A larger proportion of these loans is projected to be channeled in support of government operations.

These prospective inflows of official grants and loans, however, would be partly offset by the sharp increase in scheduled public debt amortization payments. Debt amortization, repurchases from the Fund, and a projected small improvement in the operations account together are estimated to amount to SDR 640 million in 1986/87-1988/89. Therefore, despite the expected improvement in the current account and the estimated net private capital inflows of approximately SDR 150 million, there would remain significant financing gaps over the period, although these are projected to decline from about SDR 110 million in 1986/87 to SDR 85 million in 1987/88 and further to SDR 65 million in 1988/89. If the resources available under the proposed one-year stand-by arrangement and the proposed arrangements under the structural adjustment facility are fully drawn, the residual financing gaps would be of the order of SDR 67 million in 1986/87, SDR 65 million in 1987/88, and SDR 53 million in 1988/89. As indicated in the policy framework paper, these gaps could be closed through debt rescheduling arrangements with official creditors, on terms similar to those obtained in recent years.

With the continued implementation of appropriate adjustment policies, in 1989/90 the current account deficit, excluding official grants, could be reduced to 5.5 percent of GDP, and the balance of payments could show an overall surplus of SDR 42.5 million, equivalent to the scheduled repurchases from the Fund. Thus, Senegal could attain a viable external payments position around the end of this decade. In the meantime, Senegal's debt servicing capacity would be progressively strengthened not only by the reduction in the external imbalances but also by the underlying improvement in the fiscal position. As indicated earlier, in light of the revenue and expenditure measures contained in the program, the Government's overall fiscal balance, on a commitment basis and including grants, is programmed to shift from deficit to

surplus. This improvement is particularly important as, given Senegal's membership in a monetary union with a convertible currency, there are no restrictions on foreign payments once adequate domestic resources are available. To the extent that the Government can generate such a surplus, it will continue to be in a position to discharge its external debt service obligations, including obligations to the Fund. 1/ Senegal has discharged its financial obligations to the Fund on schedule, and it is expected to continue to do so in the period ahead.

Over the program period, Senegal's external borrowing is expected to increase at a slower pace than GDP. The ratio of external debt, including use of Fund credit, to GDP is expected to decline steadily, from an estimated 76 percent at end-1986 to 63 percent at end-1989. Over the same period, and abstracting from any further use of Fund resources, outstanding Fund credit would also drop substantially in relation to Senegal's quota; at the same time, there will be some improvement in Senegal's position vis-à-vis the operations account with the French Treasury. Despite the precarious fiscal position, in recent years the Senegalese authorities have made determined efforts to avoid external debt service arrears and, when such arrears have arisen, they have taken steps to liquidate them in an orderly manner. As already mentioned, notwithstanding the many pressing domestic needs, in 1985/86 the authorities gave priority to the elimination of external arrears, and by end-June 1986 virtually all external arrears were liquidated.

IV. The Adjustment Program for 1986/87

Consistent with the medium-term objectives described above, the program for 1986/87 has been designed to sustain the recent progress toward economic recovery and financial adjustment. Accordingly, as set out in the authorities' letter of intent (Appendix I), the basic objectives of the 1986/87 program are: (a) to achieve a real rate of economic growth of about 4 percent; (b) to curb the rate of inflation, as measured by the GDP deflator, from the estimated 9 percent in 1985/86 to less than 7 percent; and (c) to reduce further the external current account deficit, excluding official grants, from the estimated 13.2 percent of GDP in 1985/86 to some 9 percent of GDP. To these ends, the authorities intend to continue to place emphasis on removing the structural impediments to economic growth and improving supply conditions, while restraining aggregate demand to a level compatible with available resources. A summary of the basic assumptions, targets, and policy content of the 1986/87 program is provided in Table 8.

A basic assumption of the program is that weather conditions in 1986/87 will be normal and that a better groundnut crop will be marketed. As shown in Table 8, the increase in the export volume of groundnut products is projected to more than compensate for the

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1/ As shown in Table 7, IMF debt service ratio declines steadily from 7.1 percent in 1985/86 to 0.5 percent in 1993/94.

Table 8. Senegal: Summary of the Adjustment Program for 1986/87

	1985/86		1986/87
	Prog.	Prov.	Prog.
Basic assumptions			
Terms of trade (percent change)	-8.3	-0.2	1.0
Exchange rate (period average)			
CFAF/US$	460.0	386.6	350.0
CFAF/SDR	460.0	424.4	400.0
Groundnuts			
Processed for export (thousand tons)	400.0	300.0	350.0
Export volume (thousand tons)			
Groundnut crude oil	120.0	54.8	115.4
Groundnut cake	150.0	77.6	156.1
Export prices (CFAF/kg)			
Groundnut crude oil	395.0	252.8	219.6
Groundnut cake	82.5	47.1	50.3
Exports of fish products (CFAF billion)	59.3	52.5	57.0
Exports of phosphates and chemicals (CFAF billion)	59.6	48.0	50.5
Of which: Industries Chimiques du Sénégal	(29.0)	(20.6)	(24.4)
Import prices of crude oil (US$/barrel)	...	24.9	15.6
Official grants and gross capital inflows (CFAF billion)	127.7	155.5	151.4
Basic targets			
Real GDP growth (percent)	5.0	4.2	4.4
GDP deflator (percent change)	8.4	8.9	6.8
Balance of payments			
Current account deficit incl. grants (-)			
In millions of SDRs	-191.4	-241.4	-161.8
In percent of GDP	-6.9	-8.3	-4.7
Current account deficit excl. grants (-)			
In millions of SDRs	...	-407.9	-340.4
In percent of GDP	...	-13.2	-9.2
Overall deficit before debt rescheduling (-)			
In millions of SDRs	-89.2	-98.3	-41.4
Overall deficit after debt rescheduling			
In millions of SDRs	...	-28.3	...
Overall fiscal deficit on a commitment basis (-)			
In billions of CFA francs	-17.6	-28.1	-11.8
In percent of GDP	-1.4	-2.3	-0.9
Total domestic credit expansion			
In billions of CFA francs	36.8	40.5	10.2
In percent of beginning money stock	12.9	14.2	3.5

Table 8 (cont'd). Senegal: Summary of the Adjustment Program for 1986/87

Principal elements of the program	
1. Agricultural policy	Status and expected progress
a. Maintenance of a producer price for groundnuts of CFAF 90 per kg so as to provide adequate incentives to farmers.	Policy being implemented.
b. Sale on a cash basis of up to 55,000 tons of high quality seeds.	Implemented July 1986.
c. Full integration of the two oil milling companies (SONACOS and SEIB).	Policy being implemented.
d. Transformation of one of the groundnut processing plants (at Djourbel) toward activities with a higher rate of return.	Policy being implemented.
e. Adoption of a cereals plan.	Implemented July 1986.
f. Maintenance of retail prices of imported cereals at the present level, so as to provide a minimum nominal protection above import costs of 25 percent to domestic producers.	Already in effect.
g. Completion and signature of the rehabilitation program, with the support of the World Bank and other creditors, of four rural development agencies (SODAGRI, SODEVA, SODEFITEX, and SOMIVAC).	Policy being implemented.
2. Price Equalization and Stabilization Fund	
a. Abolition of the monopoly on rice imports, and reduction by one fourth of its share in rice imports.	To be implemented December 1986.
b. Mobilization of the surpluses generated by the rice and flour sectors in support of the government budget:	Being implemented and to be completed by the end of December 1986.
-CFAF 6.3 billion to repay the outstanding 1985/86 crop credits;	To be completed by December 1986.

Table 8 (cont'd). Senegal: Summary of the Adjustment Program for 1986/87

-CFAF 10.0 billion to settle the remaining arrears to the Treasury.	Policy being implemented.
3. Industrial policy reform	
a. Launching of a comprehensive industrial policy reform to improve the competitiveness of the industrial sector, while reducing cost to the Government.	Implemented July 28, 1986.
b. Rationalization of the system of protection by basing it progressively on a reduced and narrowed band of harmonized tariffs so as to achieve a lower and more uniform level of effective protection in three stages over the period 1986/87-1988/89.	The first stage of tariff reductions was approved on July 28, 1986.
c. Progressive elimination of quantitative restrictions on imports so as to expand the taxable base and thus improve government revenue performance over the medium term.	Policy being implemented.
d. Lifting of all quantitative restrictions on imports, except for those on certain items where the restrictions would be gradually eliminated by January 1988, according to an established schedule. In 1986/87 restrictions will be eliminated on the following:	
packing paper and cardboard;	To be implemented October 1, 1986.
construction materials, marble, and shoe parts;	To be implemented January 1, 1987.
agricultural products and stationery.	To be implemented March 1, 1987.
e. Revision of the export subsidy scheme and reduction in the cost from CFAF 7 billion in 1985/86 to CFAF 4-5 billion in 1986/87.	Policy being implemented.

Table 8 (cont'd). Senegal: Summary of the Adjustment Program for 1986/87

f. Revision of existing special agreements with a number of enterprises. The Government will conduct annual audits of the operations of the oil refinery (SAR), the oil milling company (SONACOS), and the sugar company (CSS).	Policy being implemented.
g. Advancement of renegotiation of the existing agreement with the sugar company (CSS), with a view to eliminating the subsidy in the coming years.	Policy to be implemented.
4. Energy policy	
a. Maintenance of the existing structure of domestic prices of petroleum products unchanged, except for a significant reduction effected in July 1986 in the prices of diesel and fuel oils used by the electricity company (SENELEC) to support its rehabilitation efforts and to help promote the recovery and growth of the economy.	Policy being implemented.
b. No further adjustment in energy prices and tariffs until a comprehensive audit of energy consumption is completed in consultation with the World Bank.	Policy being implemented.
5. Public investment program	
a. Implementation of the interim public investment program for 1985/86-1986/87, with a view to raising the share of the primary sector in total investment from 22 percent to 35 percent.	Policy being implemented.
b. Adoption of a new budgetary process to better monitor the financial implementation of the public investment program.	Implemented July 1986.

Table 8 (cont'd). Senegal: Summary of the Adjustment Program for 1986/87

c. Review in consultation with the World Bank of a three-year "rolling" public investment program to be implemented as of 1987/88.	Implemented September 1986.
6. Public enterprises	
a. Intensification of efforts to liquidate or privatize certain public enterprises and to rehabilitate others.	Policy being implemented.
b. Liquidation of three public enterprises and offer for sale of another three to the private sector.	Policy being implemented.
c. Completion and signature of the rehabilitation programs, with World Bank assistance, for the electricity company (SENELEC), the national telecommunication company (SONATEL), the national post office (OPCE), the housing company (SICAP), the public housing office (OHLM), and the oil milling company (SONACOS/SEIB).	Policy being implemented.
d. Reduction of direct budgetary subsidies to the parapublic sector by 5 percent in 1986/87.	Policy being implemented.
7. Fiscal policy	
a. Strengthening of tax administration and collection through simplification of existing regulations and practices, as well as through a reallocation of staff in favor of assessment and audit. Accelerating the recovery of tax arrears.	Policy being implemented.

Table 8 (cont'd). Senegal: Summary of the Adjustment Program for 1986/87

b.	Mobilization of the prospective surplus of the oil refinery estimated at CFAF 45 billion in 1986/87 in support of the budget, on the basis of an average price of imported crude oil of US$16 per barrel and an average exchange rate of CFAF 350 per U.S. dollar. The collection of the CFAF 45 billion is scheduled as follows:	
	-CFAF 11 billion;	Before end-September 1986.
	-CFAF 22 billion;	Before end-December 1986.
	-CFAF 33 billion;	Before end-March 1987.
	-CFAF 45 billion.	Before end-June 1987.
c.	Mobilization by the Treasury of any additional surpluses that may be generated by the SAR and of the prospective surplus at the retail level, estimated at CFAF 6 billion.	Policy being implemented.
d.	Starting of the computerization of certain important procedures (customs, VAT, and taxes withheld at the source).	Policy being implemented.
e.	Establishment of a property tax register (test) for the Dakar region.	To be completed by the end of December 1986.
f.	Reform of the excise taxes, involving, inter alia, the substitution of certain specific taxes by ad valorem duties.	To be completed by the end of December 1986.
g.	Revision of the various exemption schemes, in order to limit the granting of exemptions and to ensure a better monitoring.	Policy being implemented.
h.	Increase in current outlays, excluding interest on the public debt, to be limited to about 3 percent in 1986/87. In particular, the growth of outlays on materials, supplies, and transfers will be limited to 5 percent; the wage bill will not exceed CFAF 114 billion; and the total number of civil servants will be reduced by 1 percent.	Policy being implemented.

Table 8 (concl'd) Senegal: Summary of the Adjustment Program for 1986/87

i. Reduction of arrears of the Government and public agencies by CFAF 14 billion.	Policy being implemented.
j. Liquidation and nonaccumulation of external arrears.	Policy being implemented.
k. Repayment of ONCAD debt of CFAF 12 billion to domestic banks.	Policy being implemented.
8. Credit policy	
a. Pursuance of a prudent credit policy, with an increase in total domestic credit of 2 percent; the increase in net bank credit to the Government to be reduced from 12 percent in 1985/86 to less than 4 percent in 1986/87.	Policy being implemented.
b. Rehabilitation of two commercial banks (BCS, USBCI).	Policy being implemented.
9. External debt management	
Limitation of new external loans on nonconcessional terms contracted or guaranteed by the Government with a maturity of 1-12 years to SDR 35 million, of which no more than SDR 18.2 million in the maturity range of 1-5 years.	Policy being implemented.

Source: Letter of intent of the Minister of Economy and Finance of September 22, 1986.

expected further reduction in export prices of groundnut products. Thus, with a moderate growth in other exports, total export earnings are projected to rise by 13 percent in terms of SDRs in 1986/87. However, to achieve the programmed reduction of the current account deficit, it will be essential to contain the growth of the total import bill in 1986/87 to only 1 percent. As the value of imported petroleum products is projected to decline by 24 percent because of low world prices, the increase in non-oil imports would need to be limited to 7 percent in nominal terms; with the expected fall in food imports, this would still allow for a 6 percent growth in the volume of imports of intermediate and capital goods, which would be consistent with the targeted increase in real GDP. To achieve this outcome, the authorities have resolved to pursue the supply-side and demand-management policies described below.

1. Agricultural policy

In line with the new agricultural policy, which was initiated in 1984, the authorities have introduced a number of far-reaching measures, and considerable progress has been made toward strengthening production and marketing incentives and reducing government intervention and subsidies; but further measures are clearly needed to fully revitalize this key sector. Accordingly, in 1986/87 the authorities intend to continue to give high priority to agricultural policy reform.

To encourage the development of groundnut production, in April 1985 the producer price was raised by 50 percent to CFAF 90 per kg, a remunerative level consonant with medium-term growth. In the circumstances, despite the sharp drop in world market prices of groundnut oil in early 1986, the producer price has been kept unchanged for the 1986/87 season so as not to give conflicting signals to a major segment of the farming community. The prospective losses on groundnut operations in 1986/87, estimated at about CFAF 11 billion, will be financed in almost equal shares by the oil millers (out of their profits on sales of imported vegetable oils) and by the Price Equalization and Stabilization Fund (CPSP). Although these losses are manageable, the authorities are keeping the situation under review. As part of their medium-term strategy, they have indicated that they would continue to provide groundnut producers with adequate incentives, while being mindful of trends in world market prices and financial constraints. In 1986/87 further steps will be taken to decontrol input distribution and marketing of groundnuts, as well as to rationalize the structure and management of the oil mills. To strengthen the groundnut sector, the authorities have already put in place or are in the process of implementing the following measures for the 1986/87 season: the sale on a cash basis of up to 55,000 tons of high-quality seeds to supplement those already held by the farmers themselves or their organizations; full integration of the two oil milling companies (SONACOS and SEIB); and transformation of one of their processing plants (at Djourbel) to carry out activities with a higher rate of return.

To promote food security, in July 1986 the Government launched its cereals plan, which has been prepared with assistance from the FAO and the World Bank, and endorsed by creditors and donors at a meeting held in Dakar in June 1986. While maintaining remunerative producer prices for cereals, measures will be applied to exploit more effectively the country's agricultural potential for a larger cereal production, improve farming techniques, further liberalize marketing arrangements, and develop the processing of coarse grains to respond to local consumer tastes. As indicated in the authorities' policy framework paper, a study will be undertaken with World Bank assistance to develop a model to facilitate the determination of producer prices of cereals in the future. On the basis of this study, which is expected to be completed during the first quarter of 1987, there will be an eventual review of producer prices of cereals to be put into effect in the 1987/88 growing season. Meanwhile, to foster the shift in demand in favor of domestic cereals, the retail price of rice will be kept at its present level, providing more than the agreed minimum nominal protection above import cost of 25 percent to producers of domestic coarse grains (other than rice). Finally, with the support of the World Bank and other creditors and donors, the process of restructuring rural development agencies is to be continued, with a view to reducing costs and government subsidies.

2. The Price Equalization and Stabilization Fund

In 1986/87 the authorities will take further steps to improve the operations of the Price Equalization and Stabilization Fund (CPSP), which are of importance not only to the agricultural sector but also to public finances. Moreover, in light of the recommendations of a number of studies, they will progressively reduce the CPSP's involvement in rice operations, with a view to fully privatizing rice imports and distribution. Thus, as an initial step, the CPSP's monopoly on rice imports will be abolished with effect in December 1986, and its share in rice imports will be reduced by one fourth, or 85,000 tons on an annual basis. Depending on a satisfactory evaluation of the role of private importers, in consultation with the World Bank, the rice trade will be fully privatized in December 1987, except for the management of a security stock of 60,000 tons of rice which will remain the responsibility of the CPSP. Under the new system, the bulk of the surpluses generated by the rice sector will continue to be mobilized in support of the government budget. On the basis of the latest available projections, the CPSP should generate sizable surpluses from the rice and flour sectors in 1986/87. In view of this, the authorities have decided that part of these surpluses will be utilized by the CPSP to settle its remaining arrears to the Senegalese Treasury in respect of customs duties on rice imports made during the period August 1980-June 1986, which amount to about CFAF 10 billion. Furthermore, the CPSP will transfer to the Treasury an additional CFAF 6.3 billion before end-December 1986 to repay the 1985/86 crop credits outstanding at the central bank (BCEAO).

3. Industrial policy

A fundamental element of the program for 1986/87 is the launching of a comprehensive industrial policy reform, designed to improve the competitiveness of the industrial sector and to make enterprises more fully responsible and accountable for their business decisions, while reducing the cost to the Government of administering industrial incentives. To these ends, strong actions have been initiated by the authorities in four major areas with technical assistance from the World Bank.

First, the system of protection is being rationalized by basing it progressively on a reduced and narrowed band of harmonized tariffs so as to achieve a lower and more uniform level of effective protection over the period 1986/87-1988/89. The reductions in tariffs, which were approved on July 28, 1986, will be carried out in three stages, effective July 1986, July 1987, and July 1988. As part of the first stage, the normal fiscal tariff has been reduced by 10 percentage points to 30 percent; the increased fiscal tariff by 15 percentage points to 35 percent; and the special fiscal tariff by 10 percentage points to 65 percent. By 1988/89, these tariffs will be brought down to 20, 30, and 50 percent, respectively. In order to expand the taxable base and thus improve government revenue performance over the medium term, the reduction of tariffs will be coupled with a progressive elimination of quantitative restrictions on imports. Furthermore, together with the tariff reform, the existing legal and administrative provisions concerning various exemption schemes will be further reviewed in order to limit the granting of exemptions and to ensure better monitoring. On August 14, 1986 all quantitative restrictions on imports were lifted, except for those on certain items where the restrictions will be eliminated over a period of two years. During the 1986/87 program period, restrictions will be eliminated as follows: packing papers and cardboard on October 1, 1986; construction materials, marble, and shoe parts on January 1, 1987; and agricultural products and stationery on March 1, 1987.

Second, in order to stimulate industrial exports in a more rational manner, with effect on July 28, 1986 the Government revised the export subsidy scheme, basing it on industrial value added in international prices; the subsidy rate for selected commodities has been set at a level of 25 percent, which will imply a total subsidy of CFAF 4-5 billion in 1986/87, compared with about CFAF 7 billion under the old scheme.

Third, government controls and administrative constraints burdening enterprises, as well as wage and labor rigidities, will be examined with a view to their reduction or elimination.

Finally, in the context of the planned reviews of the existing special agreements with a number of enterprises, beginning with calendar 1986, the Government will conduct annual audits of the operations of the oil refinery (SAR), the oil milling company (SONACOS), and the sugar company (CSS), so as to better assess their financial positions. In the

case of the SAR and SONACOS, the audit will help the Government to ascertain the actual level of their surpluses, and hence the amounts that could be mobilized in support of the budget. As for the CSS, which is subsidized by the CPSP, the Government is planning to advance renegotiation of the existing agreement with the company, with a view to eliminating the subsidy in the coming years.

4. Energy policy

The Government's energy policy has been designed to develop domestic and regional sources of energy, such as hydroelectric power from the Manantali dam, and to restrain consumption through appropriate pricing policies, with a view to conserving energy and progressively reducing reliance on oil imports. To these ends, although world oil prices have declined sharply since late 1985, the Government has kept the existing structure of domestic prices of petroleum products unchanged, except for a significant reduction effected in July 1986 in the prices of diesel and fuel oils used by the electricity company (SENELEC) to support its rehabilitation program (prepared with World Bank assistance) and, more generally, to help promote the recovery and growth of the economy through reductions in electricity tariffs. With the reduction in SENELEC's fuel costs, effective July 1, 1986, its electricity tariffs were also adjusted downward by an average of 4.8 percent for low-voltage consumers (residential and some small enterprises); 7.6 percent for medium-voltage consumers (commercial, small industries, and the public sector); and by 20 percent for the cement factory (SOCOCIM) and the phosphate mine of Taiba.

During the program period, there will be no further adjustments in energy prices and tariffs until a comprehensive audit of energy consumption is completed in consultation with the World Bank. While being fully consistent with the Government's medium-term objectives of promoting economic growth and energy conservation, this policy will also permit the full mobilization of the prospective surpluses of the oil sector in support of the budget. On the basis of an average price of imported crude oil of about US$16 per barrel and an average exchange rate of CFAF 350 per U.S. dollar, it is estimated that the SAR will generate surpluses (over and above those guaranteed to its private shareholders) totaling CFAF 45 billion in 1986/87, all of which will be passed on to the Treasury as envisaged in the program. In addition, the prospective surplus at the retail level in 1986/87, estimated at CFAF 6 billion, will be also made available and used exclusively to finance budgetary operations under the special accounts of the Treasury. To optimize the country's use of energy resources, a project was launched in June 1986 to assist the Government in adopting a more efficient system of pricing and in implementing measures to conserve energy. The project, which will cost some US$84 million, and will be partly financed by the World Bank, envisages, inter alia, the construction of fuel-efficient facilities and the rehabilitation of the existing ones.

5. Public investment program

During 1986/87 the Government will continue to implement the interim public investment program for 1985/86-1986/87, as agreed with the World Bank, which has been derived from the Seventh Plan for 1985/86-1988/89 and places greater emphasis on investments in support of directly productive and high-priority rehabilitation activities. Under this two-year interim program, whose cost will not exceed CFAF 310 billion, the share of the primary sector in total investment is to be raised from 22 percent (in the Sixth Plan) to 35 percent, while the combined share of the secondary and tertiary sectors will be reduced. In order to better monitor the financial implementation of the public investment program, a new budgetary process has been adopted beginning with the 1986/87 fiscal year. On this new basis, and for the first time, all public investment outlays have been integrated into the government budget, which will allow closer control of the domestic and external financing of the entire public investment program. Meanwhile, the reform of the public investment programming is being carried forward, with a view to the adoption of a three-year "rolling" public investment program effective in July 1987. This programming will make it possible to take into account any intervening changes in economic policy and to establish a more efficient relationship between the plan and the annual government budget. The first draft of this program has been reviewed in consultation with the World Bank, and the final draft should be ready for discussion with other creditors and donors in connection with the next meeting of the Consultative Group for Senegal tentatively scheduled for February 1987.

6. Parapublic sector reform

Following an inter-ministerial meeting held in July 1985, the Government adopted a comprehensive strategy for parapublic sector reform involving two basic policy decisions: liquidation or privatization of certain enterprises and rehabilitation of others. According to the guidelines set out in the Government's plan of action, all public enterprises engaged in the production of commercial goods and services will be considered for divestiture, with priority being given to those in competition with the private sector and those which place a heavy burden on public finances. The Government has already decided that of the 62 enterprises identified for divestiture, 5 will be liquidated and 30 offered for sale to the private sector. As a first step, in 1986/87 three enterprises will be liquidated and three will be offered for sale to the private sector. As regards those enterprises that will remain in the Government's portfolio, a rehabilitation program will be carried out in each case, with assistance from the World Bank and other partners. As in the past, the program will be included in a formal agreement between the Government and the enterprise, i.e., either a contrat-plan or a lettre de mission. In 1986/87 contrats-plans are expected to be completed and signed for the electricity company (SENELEC), the national telecommunications company (SONATEL), the national postal office (OPCE),

the housing company (SICAP), the public housing office (OHLM), and the oil milling companies (SONACOS/SEIB). In the case of SENELEC, the agreement will involve understandings on performance at the technical, financial, and quality control levels; and for the OPCE, the contrat-plan will focus on the degree of autonomy that the enterprise will have vis-à-vis the Government, the financing of its deficits, and its role within the banking system (checking accounts and time deposits). In addition, lettres de mission are expected to be finalized and signed for four rural development agencies (SODAGRI, SODEVA, SODEFITEX, and SOMIVAC). The main objectives of the agreements are to reduce the role of government intervention in the activities of these agencies and to encourage private sector initiative. The reconciliation of cross-debts within the public sector has recently been completed, and a schedule has been established for the orderly settlement of all verified arrears beginning in 1986/87.

7. Fiscal policy

A key element of the program for 1986/87 is to maintain the momentum of fiscal adjustment. To help restrain aggregate demand to a level compatible with available resources, a number of measures have been taken, and others will be introduced shortly, to reduce the overall fiscal deficit, on a commitment basis and including grants, from CFAF 28.1 billion (2.3 percent of GDP) in 1985/86 to CFAF 11.8 billion (0.9 percent of GDP) in 1986/87.

In 1986/87 payments arrears of the Government and public agencies will be reduced by CFAF 14 billion to CFAF 22.5 billion; this target includes the elimination of a small amount of external arrears early in the fiscal year, and the nonaccumulation of new external arrears thereafter. In view of the large repayments of outstanding crop credit of some CFAF 15.0 billion, the overall cash deficit will be of the order of CFAF 40.8 billion (3 percent of GDP), virtually the same as in 1985/86. Net domestic financing is expected to be negative, but net external financing is projected to be 74 percent higher than in the previous year. The bulk of the external financing is programmed to come from bilateral sources, as well as from the European Community (STABEX) and loans under the structural adjustment credit from the World Bank. The remaining financing gap of some CFAF 19.4 billion could be closed by a rescheduling of debt service payments falling due to the Paris Club and other official creditors, on terms similar to those obtained in recent years. In the context of domestic financing, which includes the counterparts of purchases under the proposed stand-by arrangement and the first loan under the SAF, net borrowing from the banking system is projected to be reduced from about CFAF 20 billion in 1985/86 to CFAF 4 billion in 1986/87; a repayment of CFAF 12 billion of debt to banks resulting from the liquidation of ONCAD is also included as a performance criterion.

To attain the 1986/87 fiscal targets, appropriate actions have been taken and additional measures will be adopted on both the revenue and

expenditure sides. In order to avoid the difficulties experienced in 1985/86, a number of steps have been undertaken to strengthen tax administration and collection so as to improve revenue performance. These measures, part of which have been recommended by a recent Fund technical assistance mission, will affect customs duties, turnover taxes, and industrial and commercial profit taxes. The existing regulations and practices governing these taxes will be simplified, and some staff will be reallocated to strengthen assessment and audit procedures. Efforts to recover tax arrears and to improve tax collection will continue to be pursued in order to avoid an accumulation of tax arrears and reduce the lags between assessments and collection. An excise tax reform, involving, inter alia, the substitution of certain specific taxes by ad valorem duties, is scheduled to be adopted by end-December 1986. In the area of customs administration, human and material resources will be strengthened. A new tariff structure, which involves a phased reduction of rates coupled with a gradual elimination of quantitative restrictions on imports, was introduced in July 1986; while this reform is expected to be revenue neutral in 1986/87, it will contribute to a significant improvement of revenue performance in the medium term. A study on the reform of property taxation and on the establishment of a property tax register for the Dakar region, as a test case, will be completed by end-December 1986, with a view to implementing the relevant recommendations in 1987/88. In addition, in 1986/87 the prospective surpluses of the SAR, estimated at about CFAF 45 billion, will be mobilized in support of the government budget; this will be based on a schedule which envisages the payment of CFAF 11 billion by end-September 1986, of CFAF 22 billion by end-December 1986, of CFAF 33 billion by end-March 1987, and of CFAF 45 billion by end-June 1987. Furthermore, the projected surplus, of about CFAF 6 billion, to be generated at the retail level by the petroleum sector, will be made available and used exclusively to finance budgetary operations under the special accounts of the Treasury. Reflecting these measures, government revenue is expected to increase by 15.5 percent largely due to the mobilization of the surpluses of the oil sector; by taking into account the anticipated level of external grants, equivalent to CFAF 14.8 billion in 1986/87, total revenue and grants are estimated to increase by 12.4 percent and to reach CFAF 267.5 billion.

With respect to government outlays, rigorous controls will be applied under the program. In 1986/87 the increase in current expenditure, excluding scheduled interest due on the government debt, 1/ will be limited to only 3 percent, implying a substantial decline in real terms. To this end, the increase of the wage bill will be contained to 2 percent, by strictly limiting advancements and promotions, avoiding any general increases in wages and salaries, and reducing the total number of civil servants from 68,893 at end-June 1986 to about 68,000 at

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1/ Scheduled interest due on the government debt comprises all debt directly contracted by the Government but only 10 percent of the government-guaranteed debt.

end-June 1987 essentially by refraining from filling vacancies created by attrition. In 1986/87 the increase in outlays on materials, supplies, and transfers will be confined to no more than 5 percent. In this context, direct budgetary subsidies to the parapublic sector will be reduced by 5 percent. 1/ Strict budgetary allocations have been established so as to limit consumption of electricity, water, and gasoline, as well as of telephone and other communication services. The amount of capital expenditure planned for 1986/87 is consistent with the objectives of the public investment program and with the normal level of investment in Senegal; as previously explained, the relatively low level of capital expenditure experienced in 1985/86 was exclusively due to technical delays in the implementation of a number of projects and not to a change in the investment policy. The deficit on the special accounts held with the Treasury is expected to increase moderately from 1985/86, largely as a result of a loan of CFAF 7.5 billion that the Government will on-lend in support of the rehabilitation program of a major local bank (USBCI). On the other hand, the surplus of the Treasury correspondents is projected to be significantly larger (CFAF 6.3 billion) than in 1985/86 (CFAF 1.0 billion) on account of the scheduled repayments of the CPSP by end-December 1986. Therefore, the rise in total expenditure and net lending is programmed to be held to 5 percent in 1986/87.

The special accounts include also a transfer of CFAF 1.5 billion in 1986/87 from the Government to the phosphate sector (the two mines of Taiba and Thies) and to the chemical company (ICS), to help alleviate some of the difficulties that these companies are presently experiencing. The transfer should restore some competitiveness in the cost of producing Senegalese phosphates vis-à-vis other producers that have been benefiting from the recent decline in energy prices. The ICS, which uses domestic phosphates as input for its chemical products (phosphoric acid and fertilizers) has been facing serious financial problems since 1985. With World Bank (IFC) assistance, a rehabilitation program has been agreed upon with all the major shareholders of the company. The program encompasses an increase in the ICS's capital and a strengthening of the operational activities of the company, including a significant reduction in current costs, so as to enhance its competitiveness vis-à-vis other foreign producers. The CFAF 1.5 billion transfer, which is to be disbursed monthly beginning in October 1986, is envisaged only as a temporary measure until a comprehensive audit of energy consumption in the major Senegalese industries presently being conducted by the World Bank is completed.

1/ A plan of gradual reduction of subsidies to the parapublic sector by 5 percentage points a year is being implemented beginning in 1986/87, with a view to reducing subsidies by 20 percent by 1989/90 according to the following schedule: 5 percent in 1986/87; 10 percent in 1987/88; 15 percent in 1988/89; and 20 percent in 1989/90.

8. Credit policy

To reinforce the above measures, the monetary authorities will continue to pursue a tight credit policy, without compromising the financing needs for the marketing of the expected harvest. In 1986/87 the increase in private sector credit, excluding crop credit, will be limited to 2 percent, the same percentage increase as in 1985/86; this limit takes into account the larger programmed reduction in domestic payment arrears of the Government and public agencies to the private sector. Crop financing requirements are estimated to be similar to those experienced in 1985/86. Consistent with the fiscal targets, the expansion in net bank credit to the Government will be limited to 3.5 percent, which compares with an increase of 12 percent in 1985/86. Therefore, total domestic credit is estimated to increase by about 2 percent in 1986/87, compared with 8 percent in the previous year. The growth in the net domestic assets of the banking system is programmed to be limited to 2 percent in 1986/87, about half of that realized in 1985/86. Taking into account the balance of payments target, the growth of money supply (broadly defined) will be held to 7 percent, significantly below the projected increase in nominal GDP.

In recent years the monetary authorities have been taking steps to improve the allocation of credit to the economy and the liquidity of the banking system. The monetary authorities have also intensified their efforts to regularize and ameliorate the financial position of a number of banks, including ensuring an orderly repayment of outstanding credits. The programs aimed at restructuring and rehabilitating two commercial banks, the BCS and the USBCI, will continue in 1986/87. In the case of the USBCI, the rehabilitation program involves a substantial reduction in its operating costs, mainly through a cutback in the wage bill and financial charges. In this context, the Government is expected to on-lend a loan contracted from a foreign commercial bank to the USBCI. This loan will be used exclusively to reduce the USBCI's liabilities vis-à-vis the BCEAO; the USBCI is currently paying penalty interest of 24.2 percent on these liabilities. In support of all these efforts, and to help ameliorate the liquidity position of banks, the Government has undertaken to ensure the repayment of the outstanding amount of 1984/85 crop credits at the BCEAO (CFAF 6.0 billion) by end-December 1986, as a performance criterion, and to make minimum quarterly repayments totaling CFAF 12 billion in 1986/87 on account of the debts resulting from the liquidation of ONCAD, also as a performance criterion.

9. External debt management

In view of the prospective external payments pressures, the Government is seeking not only Fund support but also debt relief. As envisaged in the letter of intent, the Government has informed the Paris Club and other official creditors of its intention to request a rescheduling of the debt service obligations falling due in 1986/87. Assuming debt rescheduling on terms similar to those obtained in recent years,

the estimated financing gap of the balance of payments for 1986/87 could be closed. To avoid aggravating the already serious external debt situation, which shows a debt service ratio before debt relief remaining at about 27 percent in 1986/87, the authorities will continue to limit nonconcessional borrowing so as to reduce the debt service burden over the medium term. During 1986/87 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 35 million; within this limit, loans from one up to five years will not exceed SDR 18.2 million. The latter amount relates to the loan which is expected to be used for the rehabilitation of the USBCI. 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 have recently taken steps to strengthen the management of the debt and investment department, including changes in personnel, to ensure, inter alia, that the administrative shortcomings experienced in 1985/86 will not recur.

In view of the need for Senegal to become current in its external obligations, the Government intends to eliminate all verified arrears on nonreschedulable external debt service payments by end-September 1986; no external arrears will be incurred thereafter.

10. Performance criteria and benchmarks

The proposed stand-by arrangement includes the following performance criteria: (a) ceilings on the cumulative change of net domestic assets of the banking system; (b) ceilings on the cumulative change of net bank claims on the Government; (c) a cumulative reduction of domestic payments arrears of the Government and public agencies; (d) elimination and avoidance of external payments arrears; (e) a cumulative repayment of crop credits; (f) a cumulative repayment of ONCAD debt; and (g) ceilings on new nonconcessional external loans contracted or guaranteed by the Government. In addition, the stand-by arrangement includes the standard clauses regarding the exchange and payments system and overdue financial obligations to the Fund, which will also constitute performance criteria. As shown in the footnotes to Table 9, certain asymmetrical adjustments to the performance criteria will be made should external financial assistance and crop credit deviate from the targeted levels. The credit ceilings have been set only for end-September 1986 and end-December 1986, though the program includes indicative targets for the whole of 1986/87; the credit ceilings for the remainder of the program period that are not specified in Table 9 will be established at the time of the mid-term review of the program to be completed by end-March 1987, which will also constitute a performance criterion. During the mid-term review, progress in the implementation of the program will be assessed, and understandings on additional measures will be reached, if necessary, especially in light of the outcome of the debt rescheduling agreements.

Table 9. Senegal: Proposed Quantitative Performance Criteria for 1986/87

	Stock at End-June 1986	Change from July 1, 1986 to end 1986 Sept.	Dec.	1987 March	June
		(In billions of CFA francs)			
Net domestic assets 1/ 2/ 3/	535.2	-7.4	7.6	...	10.2 4/
Claims on Government (net) 1/ 2/	142.1	-1.6	6.7	5.8 4/	5.0 4/
Arrears of the Government and public agencies					
1. Domestic	36.1	-3.6 5/	-6.6	-9.6	-13.6
2. External	0.4	-0.4 5/	-0.4	-0.4	-0.4
Repayment of 1984/85 crop credit	6.0	3.0 5/	6.0	6.0	6.0
Repayment of ONCAD debt	87.0	3.0 5/	5.0	9.0	12.0
		(In millions of SDRs)			
New external borrowing on nonconcessional terms by the Government or with government guarantee 6/					
1. Short-term (less than 1 year)		--	--	--	--
2. 1-5 years' maturity		--	18.2	18.2	18.2
3. 1-12 years' maturity		16.8	35.0	35.0	35.0

Source: Letter of intent of the Minister of Economy and Finance of September 22, 1986.

1/ The program assumes that Senegal will receive external budgetary assistance (excluding grants) of CFAF 15.5 billion during the period July 1-September 30, 1986 and of CFAF 44 billion during the period July 1-December 31, 1986. 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 repayment of reclassified 1984/85 crop credit; (b) the reduction of arrears of the Government and public agencies; and (c) the repayment of ONCAD debt. No adjustment to the changes will be made if the external budgetary assistance falls below the above amounts.

2/ The program does not envisage the receipt by Senegal of any exceptional external financial assistance during the period July 1-December 31, 1986 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/ At end-September 1986, the variation in net domestic assets will be adjusted upward by the amount of the reclassified 1984/85 crop credit outstanding. The program envisages a reduction in crop credit of CFAF 9.5 billion during the period July 1-September 30, 1986 and an increase of CFAF 2.2 billion during the period July 1-December 31, 1986. 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. The program envisages that the Government will repay all the 1985/86 crop credit during the period July 1-December 31, 1986; *in the event that part of the 1985/86 crop credit is reclassified at end-*December 1986, the variation of net domestic assets will be adjusted upward by up to CFAF 3.5 billion.

4/ Indicative.

5/ The program assumes that Senegal will receive external budgetary assistance, including a grant, administered by the World Bank and estimated at CFAF 16.8 billion during the period July 1-September 30, 1986. In the event that the full amount is not received, the changes in arrears of the Government and public agencies, and in repayments of crop credit and ONCAD debt, will be adjusted to compensate for the shortfall up to a cumulative amount of CFAF 13 billion.

6/ The exchange rate applicable to these borrowings will be the rate of the SDR vis-à-vis the contract currency on June 30, 1986, as reported in International Financial Statistics. For debts directly contracted by the Government, the loan will count toward the ceiling on the date of 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. For the 1986/87 ceiling, remaining tranches under the loans signed by SOTEXKA and SOTRAC in 1985/86 will count toward the ceiling on the dates the guarantees on the remaining tranches become effective, and will be converted into SDRs at the exchange rates of June 30, 1985. Loans on concessional terms as defined by the OECD Development Assistance Committee are excluded from these ceilings.

For the purposes of monitoring progress in the implementation of the first annual arrangement under the structural adjustment facility (SAF), all of the above performance criteria and the indicative credit limits for 1986/87 as a whole will serve as financial benchmarks. Moreover, there will be the following structural benchmarks for the timetable of specific policy actions under the SAF: (a) formulation of an appropriate action program based on a study for the determination of producer prices of cereals (target date no later than March 1987); (b) abolition of the CPSP's rice import monopoly (December 1986); (c) elimination of quantitative restrictions on certain imports according to the established schedule (October 1986, January 1987, and March 1987); and (d) adoption of a three-year "rolling" public investment program (July 1987).

V. Staff Appraisal

Since mid-1983 the Senegalese authorities have made steady and substantial progress in reducing the imbalances in the economy by implementing rigorously a wide array of supply-side and demand-management policies and readapting them promptly to mitigate the effects of adverse unforeseen developments. The economy has been progressively liberalized, agricultural production incentives have been strengthened, the Government's overall fiscal deficit has been reduced sharply, public enterprise reform has been initiated, domestic credit expansion has been brought under control, and the external current account position has been improved. However, economic growth has remained sluggish, owing largely to the adverse impact of drought and continuing structural problems in several sectors. In addition, in recent years there have been large shortfalls in export earnings and government revenue, which have made the adjustment process more difficult.

In 1985/86, the second year of the program supported by the last stand-by arrangement, the authorities took all of the corrective actions initially envisaged and, faced with the shortfall in government revenue, took additional measures designed to keep the program broadly on track. This required not only the mobilization of the bulk of the surpluses of the oil refinery in support of the budget but also the achievement of greater economies in current expenditure. Thus, despite the size of the revenue shortfall, the overall fiscal deficit, on a commitment basis, was reduced further in relation to GDP, although not to the extent originally planned. Notwithstanding the many pressing domestic needs, the authorities gave high priority to the liquidation of virtually all existing external arrears by end-June 1986. In the circumstances, they were unable to reduce domestic arrears and certain obligations to local banks by the amounts programmed for the last quarter of the year. Overall, however, in view of the restrictive financial policies pursued and the wide-ranging structural measures implemented, Senegal continued to make progress in 1985/86. Economic activity picked up, the rate of inflation dropped appreciably, and, even though the external current account deficit was higher than programmed, it narrowed substantially compared with 1984/85.

Despite the progress achieved thus far, Senegal still faces major structural and financial problems. The economy remains fundamentally weak and vulnerable, the rate of inflation is relatively high, and the internal and external financial imbalances are still unsustainably large. In addition, the sizable domestic and external debt weighs heavily on the government budget and the balance of payments. In light of these problems, the Senegalese authorities have rightly decided to pursue their adjustment efforts in the context of an overall policy framework for the three years 1986/87-1988/89--a framework that has been developed in close collaboration with the staffs of the Fund and the World Bank. This policy package has been derived from, and hence is fully consistent with, the Government's Medium- and Long-Term Program of Economic and Financial Adjustment, covering the period 1985-92, which was endorsed at the first meeting of the Consultative Group for Senegal in December 1984.

The basic objectives of the program for 1986/87-1988/89 are to achieve some increase in real per capita income, reduce the annual rate of inflation, and narrow further the external current account deficit. Barring unforeseen adverse developments, it is expected that by the end of the program period Senegal would be close to realizing an overall position and a structure of the balance of payments consistent with orderly relations with its creditors, while maintaining an exchange system which is free of restrictions on payments and transfers for current international transactions. In the interim, given the prospective fiscal and external imbalances, Senegal's adjustment efforts would need to continue to be supported by further concessional external assistance and appropriate debt relief. In view of the difficulties experienced in recent years, it will also be essential that external loans and grants be disbursed in a timely manner. To attain these basic objectives, the Government has chosen to continue to promote private sector initiative through appropriate pricing and other incentive policies, particularly in agriculture and industry, and to achieve greater efficiency in public resource management through improvements in the allocation and implementation of public investments, reform of the parapublic sector, and the strengthening of government finances. If rigorously carried out, these key strategies could go a long way toward alleviating the macroeconomic and structural problems in the economy, thereby promoting balance of payments adjustment and economic growth over the medium term.

Consistent with the medium-term policy framework, the program for 1986/87 places strong emphasis on alleviating the structural impediments to economic growth and improving supply conditions, while restraining aggregate demand to a level compatible with available resources. In this regard, the actions already taken, particularly in the areas of agricultural and industrial policy reform, have been encouraging and augur well for Senegal. In the period ahead, it will be particularly important for the authorities to continue to implement the new agricultural policy, which has been designed to develop groundnut production, as well as promote food security; abolish the state monopoly on rice imports; pursue industrial policy reform, including the progressive

rationalization of the system of effective protection and the reduction of quantitative restrictions on imports; maintain an appropriate energy policy; carry out the interim public investment program along the lines agreed with the World Bank; accelerate parapublic sector reform; and apply prudent fiscal, credit, and external debt management policies.

While the importance of the structural measures undertaken by the authorities cannot be overestimated, there is no doubt that demand management will continue to be of the essence in Senegal's adjustment effort. Indeed, the success of the 1986/87 program will hinge critically on the authorities' ability to keep aggregate demand within the programmed limits, mainly by maintaining the momentum of fiscal adjustment. On the revenue side, this will require resolute actions to mobilize the prospective surpluses of the oil sector, both fully and promptly, in support of the budget. There will also be need for a strengthening of tax administration and enforcement so as to recover tax arrears and reduce the sizable lags between assessments and collection, notably at the customs level. On the expenditure side, rigorous controls should continue to be applied on both current and capital budgetary outlays. In this respect, it will be particularly important for the authorities to keep the growth of the government wage bill to an absolute minimum by strictly limiting advancements and promotions, avoiding any general increases in wages and salaries, and reducing the total number of civil servants through attrition. The scheduled reduction in domestic arrears of the Government and public agencies, coupled with the programmed repayments of crop credits and ONCAD debt, should be instrumental in improving the liquidity of the private sector; given the established credit limits, this should help promote the revival of economic activity, while enhancing the adjustment process. Furthermore, the steps being taken to improve the operations and financial position of a number of banks facing difficulties, notably the USBCI, should help strengthen the entire banking system and ameliorate resource allocation.

The staff believes that the adjustment policies and measures set forth in the authorities' policy framework paper for 1986/87-1988/89 and in their letter of intent focusing on the first year of the program represent substantial efforts toward resolving Senegal's economic and financial problems. As such, they are worthy of the support of the international community. In this spirit, the World Bank approved in February 1986 a sizable financing package in support of Senegal's adjustment efforts. In view of the country's balance of payments need, the authorities have requested a three-year structural adjustment arrangement, and the first annual arrangement thereunder, under the structural adjustment facility; they have also requested a one-year stand-by arrangement from the Fund. The staff considers that these requests are justified and that access under the proposed stand-by arrangement is consistent with the present access policy, given the strength of the adjustment program.

VI. Proposed Decisions

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

(i) Stand-By Arrangement

1. The Government of Senegal has requested a stand-by arrangement in an amount equivalent to SDR 34.0 million for a period of 12 months from 1986 through 1987.

2. The Fund approves the stand-by arrangement set forth in EBS/86/227.

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

(ii) Structural Adjustment Facility

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

2. The Fund approves the arrangements set forth in EBS/86/227.

Senegal - Stand-By Arrangement

Attached hereto is a letter dated September 22, 1986 from the Minister of Economy and Finance of Senegal requesting a stand-by arrangement and setting forth the objectives, policies, and measures that the authorities of Senegal intend to pursue for the period of this stand-by arrangement and understandings of Senegal with the Fund regarding reviews that will be made of progress in realizing the objectives of the program and of the policies and measures that the authorities of Senegal will pursue for the remaining period of this stand-by arrangement.

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

1. For a period of 12 months from _____, 1986, Senegal will have the right to make purchases from the Fund in an amount equivalent to SDR 34.0 million, subject to paragraphs 2, 3, 4, and 5 below, without further review by the Fund.

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

SDR 4.0 million until December 15, 1986;
SDR 11.5 million until March 15, 1987;
SDR 19.0 million until June 15, 1987;
SDR 26.5 million until September 15, 1987;

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

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

4. Senegal will not make purchases under this stand-by arrangement, other than the initial purchase equivalent to SDR 4.0 million that it may request within 15 days of the effective date of this arrangement, that would increase the Fund's holdings of Senegal's currency in the credit tranches beyond 25 percent of quota or increase the Fund's holdings of that currency resulting from purchases of borrowed resources beyond 12.5 percent of quota:

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

(i) the limit on net domestic assets of the banking system referred to in paragraph 20 of the attached letter and specified in the table annexed to that letter, or

(ii) the limit on net bank claims on the Government referred to in paragraph 20 of the attached letter and specified in the table annexed to that letter, or

(iii) the target for the reduction of arrears of the Government and public agencies referred to in paragraph 17 and 21 of the attached letter and specified in the table annexed to that letter, or

(iv) the target for the repayment of the outstanding 1984/85 crop credits to the BCEAO referred to in paragraph 20 of the attached letter and specified in the table annexed to that letter, or

(v) the target for the repayment of debts relating to the Office National de Coopération et d'Assistance pour le Développement (ONCAD) referred to in paragraph 20 of the attached letter and specified in the table annexed to that letter, or

(vi) the limit on contracting of government and government-guaranteed external debt specified in paragraph 22 of the attached letter and in the table annexed to that letter,

is not observed; or

(b) after March 14, 1987, until understandings on additional measures have been reached in accordance with paragraph 25 of the attached letter, if necessary, and suitable performance criteria have been established for end-March 1987 and end-June 1987 in consultation with the Fund pursuant to the mid-term review contemplated in paragraph 23 of the said letter, or after such performance criteria having been established, while they are not being observed; or

(c) throughout the duration of this stand-by arrangement, while Senegal has any overdue financial obligation to the Fund or fails to meet a repurchase expectation pursuant to the Guidelines on Corrective Action in respect of a noncomplying purchase, or if Senegal

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

(ii) introduces or modifies multiple currency practices, or

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

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

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

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

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

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

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

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

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

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

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

11. In accordance with paragraph 25 of the attached letter Senegal will consult the Fund on the adoption of any measures that may be appropriate at the initiative of the Government or whenever the Managing Director requests consultation because any of the performance criteria in paragraph 4 above have not been observed or because he considers that consultation on the program is desirable. In addition, after the period of the arrangement and while Senegal has outstanding purchases in the upper credit tranches, the Government will consult with the Fund from time to time, at the initiative of the Government or at the request of the Managing Director, concerning Senegal's balance of payments policies.

Dakar, September 22, 1986

Dear Mr. de Larosière:

As you are aware, since mid-1983 the Government of Senegal has been making intensified adjustment efforts, with a view to achieving a viable external payments position consonant with the restoration of sustainable economic growth over the medium term. As a result, in the context of successive programs supported by use of Fund resources, as well as by other external assistance, steady and substantial progress has been made toward economic and financial adjustment; and, except for a minor and inadvertent excess in external borrowing at end-March 1986, all performance criteria of the programs through that date were observed. The economy has been progressively liberalized, agricultural production incentives have been strengthened, the Government's overall fiscal deficit has been reduced sharply, public enterprise reform has been accelerated, domestic credit expansion has been brought under control, and the external current account position has been improved. However, these developments have entailed considerable social costs, not only because of the strong measures introduced under the programs but also because of the policy adaptations that became necessary to cope with major unforeseen developments, notably shortfalls in exports of groundnuts and in government revenue.

2. After two years of stagnation, owing mainly to severe drought, Senegal's overall economic performance improved appreciably in 1985/86 (July-June), the last year of the program supported by the 18-month stand-by arrangement from the International Monetary Fund which expired on July 15, 1986. With the substantial increases in producer prices under the new agricultural policy and the return of good weather conditions, record food crops were harvested; and production of groundnuts increased significantly, though it remained well below the levels reached in the early 1980s. Therefore, given the progress registered in other sectors of the economy, the gross domestic product (GDP) is now estimated to have risen by slightly more than 4 percent in real terms in 1985/86, compared with an increase of 5 percent envisaged in the program and a decline of about 1 percent in 1984/85. Furthermore, the rate of inflation, as measured by the GDP deflator, was brought down from almost 12 percent to some 9 percent, the programmed level. At the same time, although the country's export earnings were considerably lower than initially projected (by roughly SDR 100 million), largely because of the sharp decline in world market prices of groundnut oil, the export shortfall was partly offset by lower imports of goods and services. Thus, the external current account deficit, excluding official grants, was actually reduced from SDR 413 million in 1984/85 to an estimated SDR 408 million in 1985/86, or from the equivalent of 16.9 percent to 13.2 percent of GDP, respectively. Including official grants, the current account deficit is estimated to have declined from 11.2 percent to 8.3 percent of GDP, but fell short of the target of 6.9 percent of GDP specified in the program.

3. To help limit aggregate demand to a level compatible with available resources, the fiscal program was tightened further in the

course of the year, as it became increasingly evident that the shortfall in government revenue in 1985/86 would be even larger than had been foreseen at the time of the third review under the last stand-by arrangement. While the factors behind the revenue shortfall, which was attributable mostly to lower receipts from customs duties and taxes on goods and services, have not yet been fully established, two major reasons seem to have contributed to the problem: the lagged effects of two years of economic stagnation on the tax base; and the decline in imports, partly as a result of the wait-and-see attitude adopted by some traders in anticipation of tariff reform. In the event, the revenue shortfall in relation to the initial estimate amounted to CFAF 19 billion, equivalent to 1.5 percent of GDP, placing great strain on the budget, especially in the last few months of the fiscal year. If it were not for the decision taken in connection with the third review to mobilize the bulk of the surpluses being generated by the oil refinery (SAR) in support of the budget, the revenue shortfall would have been of the order of CFAF 38 billion. Thus, although expenditure was kept below the programmed level, the overall fiscal deficit, on a commitment basis and including grants, is estimated to have amounted to 2.3 percent of GDP in 1985/86, compared with a targeted 1.4 percent of GDP and a deficit equivalent to 3.5 percent of GDP in 1984/85. Faced with this situation, as well as with delays in certain external aid disbursements, the Treasury could not meet all of its obligations around year end. In the circumstances, and notwithstanding the many urgent domestic needs, it was felt important to give priority to discharging Senegal's external debt service obligations. Accordingly, virtually all verified arrears on external debt service payments, which had reached CFAF 10.9 billion at end-December 1985, were liquidated by end-June 1986. By contrast, domestic arrears of the Government and public agencies were reduced by only a small amount over the year as a whole. Moreover, the Treasury could not effect on schedule certain repayments in respect of reclassified 1984/85 crop credits and ONCAD debt amounting to CFAF 5.6 billion and CFAF 4.0 billion, respectively; these amounts will be repaid in the context of the 1986/87 program.

4. Despite the substantial progress made during the past three years, Senegal still faces major structural and financial problems. The economy remains fundamentally weak and vulnerable, the rate of inflation is high, and the internal and external financial imbalances are unsustainably large. In addition, the sizable domestic and external debt weighs heavily on the government budget and the balance of payments. Conscious of the magnitude of these problems, the Government of Senegal is determined to pursue its adjustment efforts in the period ahead. Thus, in collaboration with the staffs of the International Monetary Fund and the World Bank, as well as with representatives of Senegal's principal bilateral creditors and donors, the Government has developed an overall policy framework for the three years 1986/87-1988/89 aimed at carrying forward the process of adjustment. This is an integral part of our Medium- and Long-Term Program of Economic and Financial Adjustment, covering the period 1985-92, which was endorsed at the first meeting of the Consultative Group for Senegal in December 1984.

5. As indicated in the policy framework paper, which was transmitted to you on September 19, 1986, the basic objectives of the program for 1986/87-1988/89 are: (a) to achieve an average annual rate of growth of real GDP of the order of 3.5 percent, which would help improve real per capita incomes, given the estimated increase in population of 2.9 percent per annum; (b) to continue to curb the annual rate of inflation, as measured by the GDP deflator, from the estimated 9 percent in 1985/86 to some 5 percent in 1988/89; and (c) to reduce further the external current account deficit, excluding official grants, from the estimated 13.2 percent of GDP in 1985/86 to around 6.6 percent of GDP in 1988/89. In this way, and barring unforeseen adverse developments, it is our expectation that by the end of the program period Senegal would be close to realizing an overall position and a structure of the balance of payments consistent with orderly relations with creditors. Meanwhile, Senegal will continue to maintain an exchange system which is free of restrictions on payments and transfers for current international transactions. The Government of Senegal will remain in close contact with the staffs of the International Monetary Fund and the World Bank on developments and progress in the implementation of the three-year program, and the policy framework paper will be updated annually as the program is implemented.

6. To attain the above-mentioned macroeconomic objectives, the Government intends to pursue two key strategies during the program period: promote private sector initiative through appropriate pricing and other incentive policies, particularly in agriculture and industry, while reducing its own direct involvement in production activities; and achieve greater efficiency in public resource management through improvements in the allocation and implementation of public investments, reform of the public enterprise sector, and strengthening of government finances. As part of the latter strategy, the Government's overall fiscal balance, on a commitment basis and including grants, will be turned from the estimated deficit of 2.3 percent of GDP in 1985/86 to a surplus of at least 1 percent of GDP in 1988/89. Furthermore, during the program period all currently verified domestic arrears of the Government and public agencies (CFAF 36.1 billion at end-June 1986) will be settled in an orderly manner, which, we are convinced, will have a highly favorable impact on economic growth; and net government borrowing from the domestic banking system will be reduced considerably, thus making loanable funds increasingly available to meet the financing needs of the private sector. As the operating results of a number of key enterprises are also expected to improve, shifting from deficit to surplus, gross domestic savings in terms of GDP are programmed to increase significantly, from an estimated 6.3 percent in 1985/86 to 10.5 percent in 1988/89.

7. In support of these objectives and policies to be pursued during 1986/87-1988/89, and the objectives and policies for the first year of this period as set out below, the Government of Senegal hereby requests from the International Monetary Fund a three-year structural adjustment arrangement in the amount that will be available to Senegal

under the Fund's Structural Adjustment Facility (SAF), and the first annual arrangement thereunder. In addition, the Government hereby requests from the Fund a one-year stand-by arrangement in an amount equivalent to SDR 34.0 million. In view of Senegal's resource needs, the Goverment has also sought and received assurances of continued financial support from its other major creditors.

8. Consistent with our medium-term policy framework, the program for 1986/87 has been designed to sustain the recent progress toward economic and financial adjustment. Accordingly, the basic objectives of the 1986/87 program are: (a) to achieve a real rate of economic growth of about 4 percent; (b) to curb the rate of inflation, as measured by the GDP deflator, from the estimated 9 percent in 1985/86 to less than 7 percent; and (c) to reduce further the external current account deficit, excluding official grants, from the estimated 13.2 percent of GDP in 1985/86 to some 9 percent of GDP. To these ends, the Government will continue to place emphasis on removing the structural impediments to economic growth and improving supply conditions, while restraining aggregate demand to a level compatible with available resources.

9. An important assumption of the 1986/87 program is that weather conditions will remain favorable and that a better groundnut crop will be marketed. Thus, assuming that the currently low export prices of groundnuts are more than compensated by the recovery in volume, and that there is a moderate growth in other exports, total export receipts are projected to increase by 13 percent in terms of SDRs in 1986/87. However, to achieve the programmed reduction of the external current account deficit, the total import bill expressed in SDRs should rise by only 1 percent; as the value of imported petroleum products is projected to decline by 24 percent, this would imply limiting the growth of non-oil imports to 7 percent in nominal terms. To attain this result, the policies and measures described below will be rigorously implemented.

10. Under the new agricultural policy, which was adopted in 1984, a number of far-reaching measures have already been implemented, and considerable progress has been made in several areas; but further measures are required to fully revitalize this key sector. Accordingly, in 1986/87 we will continue to give high priority to agricultural policy reform, with a view to expanding and diversifying domestic production, so as to increase exports and curb reliance on imports, especially of rice; at the same time, we will reduce government intervention and subsidies.

To encourage the development of groundnut production, in April 1985 we raised the producer price to a remunerative level consonant with medium-term growth. In the circumstances, despite the recent sharp drop in world market prices of groundnut oil, we opted to maintain the producer price unchanged for the 1986/87 season so as not to give conflicting signals to a major segment of the farming community. The prospective losses on groundnut operations in 1986/87, estimated at CFAF 11 billion, will be financed by the oil millers and the government

budget. For the medium term, we will continue to provide groundnut producers with adequate incentives, while being mindful of trends in world market prices and financial constraints. In 1986/87 further steps will be taken to decontrol input distribution and marketing of groundnuts, as well as to rationalize the structure and management of the oil mills. To strengthen the groundnut sector, the Government has decided to implement the following measures for the 1986/87 season: permit the sale on a cash basis of up to 55,000 tons of high-quality seeds to supplement those already held by the farmers themselves or their organizations; fully integrate the two oil milling companies (SONACOS and SEIB); and transform one of their processing plants (at Djourbel) to carry out activities with a higher rate of return.

To promote food security, in 1986/87 the Government intends to vigorously implement its cereals plan, which has been prepared with assistance from the FAO and the World Bank, and endorsed by creditors and donors at a meeting held in Dakar in June 1986. While maintaining remunerative producer prices for cereals, measures will be applied to exploit better the country's agricultural potential for greater cereals production, improve farming techniques, further liberalize marketing arrangements, and develop the processing of coarse grains to respond to local consumer tastes. Meanwhile, to foster the shift in demand in favor of domestic cereals, the retail price of rice will be kept at its present level, providing a minimum nominal protection above import cost of 25 percent to producers of domestic coarse grains (other than rice). Finally, with the support of the World Bank and other creditors and donors, in 1986/87 the process of restructuring of rural development agencies will be continued, with a view to reducing costs and government subsidies.

11. The Government remains committed to reducing progressively the involvement of the Price Equalization and Stabilization Fund (CPSP) in rice operations and privatizing rice imports and internal distribution. Thus, as an initial step, the CPSP's monopoly on rice imports will be abolished with effect in December 1986, and its share in rice imports will be reduced by one fourth, or 85,000 tons on an annual basis. Depending on a satisfactory evaluation of the role of private importers, in consultation with the World Bank, the rice trade will be fully privatized in December 1987, except for the management of a security stock of 60,000 tons of rice which will remain the responsibility of the CPSP. Under the new system, the bulk of the surpluses generated by the rice sector will continue to be mobilized in support of the government budget. Meanwhile, part of the surplus to be generated by the rice sector in 1986/87 will be utilized by the CPSP to settle its remaining arrears to the Senegalese Treasury in respect of customs duties on rice imports made during the period August 1980-June 1986, which amount to about CFAF 10 billion. Furthermore, the CPSP will transfer to the Treasury an additional CFAF 6.3 billion before end-December 1986 to repay the 1985/86 crop credits outstanding at the central bank (BCEAO).

12. A fundamental element of the program for 1986/87 is the launching of a comprehensive industrial policy reform, designed to improve the competitiveness of the industrial sector and to make enterprises more fully responsible and accountable for their business decisions, while reducing the cost to the Government of administering industrial incentives. As part of this reform, the system of protection is being rationalized by basing it progressively on a reduced and narrowed band of harmonized tariffs so as to achieve a lower and more uniform level of effective protection over the period 1986/87-1988/89. The new tariff structure, which was approved on July 28, 1986, is as follows in comparison with the old:

	Old Rates	New Rates	
		1986/87	1988/89
Customs tariff	15	15	10
Low fiscal tariff	10	10	10
Normal fiscal tariff	40	30	20
Increased fiscal tariff	50	35	30
Special fiscal tariff	75	65	50

This phased reduction of tariffs is being coupled with a progressive elimination of quantitative restrictions on imports so as to expand the taxable base and thus improve government revenue performance over the medium term. Accordingly, all quantitative restrictions on imports were lifted, effective August 14, 1986, except for those on certain items where the restrictions would be eliminated as follows: packing papers and cardboard on October 1, 1986; construction materials, marble, and shoe parts on January 1, 1987; and agricultural products and stationery on March 1, 1987. The complete elimination of all quantitative restrictions on imports is to be achieved by January 1988. In order to stimulate industrial exports in a more rational manner, with effect on July 28, 1986 the Government has revised the export subsidy scheme, basing it on industrial value-added in international prices. Conscious of the costs involved in such a scheme and given the existing budgetary constraints, we have set the subsidy rate at a level of 25 percent, which will imply a total subsidy of CFAF 4-5 billion in 1986/87, compared with about CFAF 7 billion under the old scheme.

In the context of the planned reviews of the existing special agreements with a number of enterprises, beginning with calendar 1986, the Government will conduct annual audits of the operations of the oil refinery (SAR), the oil milling company (SONACOS), and the sugar company (CSS), so as to better assess their financial positions. In the case of the SAR and SONACOS, this will help the Government to ascertain the actual level of their surpluses. As for the CSS, which continues to receive a large subsidy from the CPSP, we are planning to advance renegotiation of the existing agreement with the company, with a view to eliminating the subsidy in the coming years.

13. The Government intends to pursue an energy policy geared toward developing local sources of supply and restraining energy consumption through appropriate pricing policies in order to limit the

oil import bill. Although world oil prices have declined sharply since late 1985, we have maintained the existing structure of domestic prices of petroleum products unchanged, except for a significant reduction effected in July 1986 in the prices of diesel and fuel oils used by the electricity company (SENELEC) to support its rehabilitation efforts and, more generally, to help promote the recovery and growth of the economy through reductions in electricity tariffs. There will be no further adjustments in energy prices and tariffs until a comprehensive audit of energy consumption is completed in consultation with the World Bank. This policy is fully consistent with our medium-term objectives of promoting economic growth and energy conservation, while giving due regard to the need to mobilize the prospective surpluses of the oil sector in support of the budget. On the basis of an average price of imported crude oil of about US$16 per barrel and an average exchange rate of CFAF 350 per U.S. dollar, it is now estimated that the SAR will generate surpluses (over and above those guaranteed to its private shareholders) totaling CFAF 45 billion in 1986/87, all of which will be passed on to the Treasury for the financing of programmed government operations; use of any additional surpluses that may be generated by the SAR will be determined in the context of the mid-term review of the program. In addition, the prospective surplus at the retail level in 1986/87, estimated at CFAF 6 billion, will be made available and used exclusively to finance budgetary operations under the special accounts of the Treasury.

14. During 1986/87 the Government will continue to implement the interim public investment program for 1985/86-1986/87, as agreed with the World Bank, which has been derived from the Seventh Plan for 1985/86-1988/89 and places greater emphasis on investments in support of directly productive and high-priority rehabilitation activities. Under this interim program, the share of the primary sector in total investment is to be raised from 22 percent (in the Sixth Plan) to 35 percent, while the combined share of the secondary and tertiary sectors will be reduced. In order to better monitor the financial implementation of the public investment program, a new budgetary process has been adopted beginning with the 1986/87 fiscal year. On this new basis, and for the first time, all public investment outlays have been integrated into the government budget, which will allow closer control of the domestic and external financing of the entire public investment program. Meanwhile, we have been carrying forward the reform of public investment programming, with a view to the adoption of a three-year "rolling" public investment program effective in July 1987. The first draft of this program is expected to be reviewed in consultation with the World Bank by end-September 1986 and the final draft should be ready for discussion with other creditors and donors by end-February 1987, in time for inclusion of its first year in the 1987/88 budget law. In this regard, it should be noted that, in line with the progressive withdrawal of the Government from direct involvement in production and trade, the ratio of public investment in the overall level of investment in directly productive activities will be reduced. Furthermore, public investment in relation to GDP will be kept at a level consistent with

the objectives of the adjustment program and public finance constraints. Finally, increasing priority will be given to investments in support of directly productive activities, as well as to the rehabilitation and maintenance needs of the key sectors. In view of Senegal's limited debt servicing capacity, projects will be selected not only on the basis of their impact on the growth of output and employment but also on their contribution to the programmed improvement of the external current account. We trust that the preparation of investment programs and projects along these lines will help to facilitate and increase donor support of the Government's efforts, and that the next meeting of the Consultative Group for Senegal, tentatively scheduled for February 1987, will serve as a major forum for mobilizing and coordinating external assistance to Senegal.

15. In line with the comprehensive strategy for parapublic sector reform, which was adopted in July 1985, the Government will intensify its efforts to liquidate or privatize certain public enterprises and to rehabilitate others. According to the guidelines set out in our plan of action, all public enterprises engaged in the production of commercial goods and services will be considered for divestiture, with priority being given to those in competition with the private sector and those which place a heavy burden on public finances. As a first step, it has already been decided that in 1986/87, out of the 62 enterprises identified for divestiture, 3 will be liquidated and 3 offered for sale to the private sector. As regards those enterprises that will remain in the Government's portfolio, a rehabilitation program will be carried out in each case, with assistance from the World Bank and other partners. As in the past, the program will be included in a formal agreement between the Government and the enterprise, i.e., either a contrat-plan or a lettre de mission. In 1986/87 contrats-plans are expected to be completed and signed for the electricity company (SENELEC), the national telecommunications company (SONATEL), the national postal office (OPCE), the housing company (SICAP), the public housing office (OHLM), and the oil milling companies (SONACOS/SEIB). In addition, lettres de mission are expected to be finalized and signed for four rural development agencies (SODAGRI, SODEVA, SODEFITEX, and SOMIVAC). A new policy aimed at reducing direct budgetary subsidies to the parapublic sector up to 20 percent by 1989/90 has been initiated; in this context, a 5 percent reduction from the 1985/86 level is programmed for 1986/87. The reconciliation of cross-debts within the public sector has recently been completed, and a schedule has been established for the orderly settlement of all verified arrears beginning in 1986/87.

16. While the rehabilitation of the parapublic sector should help improve public finances, the Government will also pursue a tight fiscal policy designed to maintain the momentum of fiscal adjustment in 1986/87. In particular, to help limit the growth of domestic demand, the overall fiscal deficit, on a commitment basis and including grants, will be reduced further, from an estimated CFAF 28 billion in 1985/86 to some CFAF 12 billion in 1986/87, or from 2.3 percent of GDP to 0.9 percent of GDP, respectively.

17. In 1986/87 the verified arrears of the Government and public agencies will be reduced by CFAF 14 billion to CFAF 22.5 billion, in accordance with the schedule set out in the annexed table on the proposed performance criteria; as indicated in this table, the reduction in arrears could be accelerated if external budgetary assistance is higher than programmed. However, even after settlement of an estimated CFAF 15 billion of crop credits, including those that could not be reimbursed by June 1986, the overall cash deficit of the Treasury in relation to GDP will be reduced slightly, from 3.3 percent in 1985/86 to 3.0 percent in 1986/87. Given the expected sources of domestic and external financing, including debt relief, net government borrowing from the banking system in 1986/87 will be much lower than the 1985/86 level.

18. To achieve the 1986/87 fiscal targets, resolute actions will be taken on both the revenue and expenditure fronts. In view of the difficulties experienced in 1985/86, we intend to intensify our efforts in 1986/87 to improve revenue performance through a series of measures, including a number of measures recommended by the recent Fund technical assistance missions. In this context, priority will be given to strengthening tax administration and collection, especially with regard to customs duties, turnover taxes, and industrial and commercial profit taxes, through a simplification of existing regulations and practices, as well as through a reallocation of staff in favor of assessment and audit. The computerization of certain important procedures (customs, VAT, and taxes withheld at the source) will be started in 1986/87 and completed in the next fiscal year. We will continue to pursue the efforts to recover tax arrears and to improve collection procedures so as to avoid future accumulations, particularly through a reduction of the lags between assessments and collection. We will also complete the studies on the reform of property taxation and on the establishment of a property tax register (test) for the Dakar region by December 1986, with a view to implementing the relevant recommendations in 1987/88. Furthermore, with effect in December 1986, an excise tax reform is envisaged, involving inter alia the substitution of certain specific taxes by ad-valorem duties. In addition, as indicated earlier, in 1986/87 the prospective surpluses of the SAR, totaling CFAF 45 billion, will be mobilized in support of the government budget; of this total, at least CFAF 11 billion will be collected by end-September 1986, CFAF 22 billion by end-December 1986, and CFAF 33 billion by end-March 1987. Where the customs administration is concerned, its human and material resources will be strengthened so that it can effectively discharge its responsibilities. As to the customs duties, we have enacted (as explained above) a new tariff involving a phased reduction of the rates, coupled with a progressive elimination of quantitative restrictions on imports; this reform is expected to be revenue neutral in 1986/87 and to contribute to an appreciable improvement of revenue performance in subsequent years. Regarding the various exemption schemes, which are a source of considerable revenue losses for the government budget, the existing legal and administrative provisions will be reviewed in order to limit the granting of exemptions and to ensure a better monitoring. Given the anticipated level of external grants, equivalent to CFAF 14.8

billion, in 1986/87 total revenue and grants are estimated to reach CFAF 267.5 billion, or 12 percent higher than the 1985/86 level; excluding grants, total revenue is expected to increase by 15 percent, the bulk of which is attributable to the mobilization of the surpluses of the oil sector in support of the budget.

19. On the expenditure side, strict controls will continue to be applied on both current and capital outlays. In 1986/87 the increase in current outlays, excluding scheduled interest on the government debt, will be limited to 3 percent, implying a significant cut in real terms. To this end, the wage bill will be kept to within CFAF 114 billion, only 2 percent above the 1985/86 level, by strictly limiting advancements and promotions, avoiding any general increase in wages and salaries, and reducing the total number of civil servants from 68,893 at end-June 1986 to about 68,000 at end-June 1987 essentially by refraining from filling vacancies created by retirees. In the years ahead, the Government will aim at further reducing civil service employment through accelerated retirement, redeployment of existing staff, rigorous control of new recruitment, and the containment of admissions to civil service training schools. In 1986/87 outlays on materials, supplies, and transfers will be allowed to increase by no more than 5 percent to CFAF 71 billion. In this context, as mentioned earlier, direct budgetary subsidies to the parapublic sector will actually be reduced by 5 percent. Additional expenditure-saving measures will include strict limits on consumption of electricity, water, and gas, as well as on the use of telephone and other communication services. The level of capital expenditure planned for 1986/87 is consistent with the objectives of our public investment program, which calls for an increase in such expenditure by 26 percent in nominal terms over last year's relatively low level. The deficit on the special accounts held with the Treasury in 1986/87 is expected to increase moderately, while the surplus of the treasury correspondents is likely to be significantly larger on account of the scheduled repayments of the CPSP by end-December 1986. Consequently, total expenditure and net lending are programmed to rise by 5 percent to no more than CFAF 279.3 billion in 1986/87.

20. To reinforce the fiscal program, and thus help attain the programmed reduction of the external current account deficit, the monetary authorities will pursue a prudent credit policy, without compromising the financing needs of the expected cash crops. In 1986/87 the increase in private sector credit, excluding crop credit, will be limited to 2 percent, the same percentage increase as in 1985/86. Consistent with the fiscal targets, the expansion in net bank credit to the Government will be limited to 3.5 percent, which compares with an increase of 12 percent in 1985/86. Therefore, and in order to better control total credit expansion, net domestic assets of the banking system relative to the level outstanding at end-June 1986 will be reduced by CFAF 7.4 billion by end-September 1986 and will rise by no more than CFAF 7.6 billion by end-December 1986, as shown in the annexed table. Within these overall limits, net bank credit to the Government will be reduced by CFAF 1.6 billion and will rise by no more than

CFAF 6.7 billion, respectively. Although the ceilings for the remainder of the program period will be established in the context of the mid-term review of the program, indicative limits for the whole of 1986/87 are also shown in the annexed table. The monetary authorities are taking further steps to strengthen the financial position of the banking system and to improve the allocation of credit to the economy. In 1986/87 the programs aimed at restructuring and rehabilitating two commercial banks, the BCS and the USBCI, will be carried forward. The USBCI's rehabilitation program involves a substantial reduction in its costs, mainly through a cutback in the wage bill and financial charges; in support of these efforts, the Government intends to on-lend to the USBCI a loan to be contracted from a foreign commercial bank, whose proceeds will be used exclusively to reduce the USBCI's liabilities with the BCEAO on which it is currently paying penalty interest of 24.2 percent. Moreover, to help ameliorate the liquidity position of banks, the Government will make minimum quarterly repayments totaling CFAF 12 billion in 1986/87 on account of the debts resulting from the liquidation of ONCAD. The Government will also repay the outstanding 1984/85 crop credits to the BCEAO of CFAF 6.0 billion by end-December 1986, in accordance with the schedule indicated in the annexed table.

21. The adjustment measures specified above, together with the improved prospects for groundnut production and oil import prices, should lead to an improvement in Senegal's external payments position in 1986/87. The external current account deficit, excluding official grants, is targeted to be reduced markedly, from SDR 408 million in 1985/86 to SDR 340 million in 1986/87, or from the equivalent of 13.2 percent of GDP to some 9 percent of GDP, respectively. After taking into account a modest increase in official grants and loan disbursements, scheduled amortization of public sector debt, repurchases from the Fund, and the liquidation of some small remaining arrears, the resulting financing gap is estimated at SDR 110 million in 1986/87. The gap is expected to be closed by the purchases under the requested stand-by arrangement, use of the Structural Adjustment Facility, and the rescheduling of debt service payments falling due to the Paris Club and other official creditors, on terms similar to those obtained in recent years. All verified arrears on nonreschedulable external debt service payments, including those accumulated since end-June 1986, will be eliminated by end-September 1986, and no external arrears will be incurred thereafter, as specified in the annexed table and under the assumption that the envisaged external budgetary assistance will be disbursed as scheduled. In the event that other arrears, external or domestic, are found to have existed as of end-June 1986, a schedule will be established for their elimination in an orderly manner.

22. The Government is aware of the need to pursue cautious external debt management policies so as to reduce the debt service burden over the medium term. Accordingly, as indicated in the annexed table, during the year ending June 1987 the Government will not contract or guarantee any external loans on nonconcessional terms, with an initial maturity from one up to (and including) 12 years, beyond a limit

equivalent to SDR 35 million; within this limit, loans from one up to(and including) 5 years will not exceed SDR 18.2 million. The latter amount relates to the loan which is expected to be used for the rehabilitation purposes of the USBCI, as described above; if this loan is not contracted, the borrowing ceilings will be reduced pro tanto. These limits will not include borrowings by the multinational companies Air Afrique and Agence pour la Sécurité de la Navigation Aérienne, or new borrowing for refinancing existing debts in the context of debt reschedulings. During the program period, there will be no short-term external borrowing (of less than 1 year) contracted or guaranteed by the Government, except for normal import-related credits.

23. As indicated above and shown in greater detail in the annexed table, to monitor progress under the program, the following quantitative performance criteria will apply: (a) ceilings on the cumulative change of net domestic assets of the banking system; (b) ceilings on the cumulative change of net bank claims on the Government; (c) a cumulative reduction of domestic payments arrears of the Government and public agencies; (d) elimination and avoidance of external payments arrears; (e) a cumulative repayment of crop credits; (f) a cumulative repayment of ONCAD debt; and (g) ceilings on new nonconcessional external loans contracted or guaranteed by the Government. The performance criteria for the remainder of the program period that are not specified in the annexed table will be established at the time of the mid-term review of the program to be completed by end-March 1987. In addition, the stand-by arrangement will include the standard clauses regarding the exchange and payments system which will also constitute performance criteria.

For the purposes of the first annual arrangement under the Structural Adjustment Facility (SAF), all of the above performance criteria and the indicative credit limits for 1986/87 as a whole will serve as benchmarks. Moreover, there will be the following benchmarks for the timetable of specific policy actions under the SAF: (a) formulation of an appropriate action program based on a study for the determination of producer prices of cereals (target date no later than March 1987); (b) abolition of the CPSP's rice import monopoly (December 1986); (c) elimination of quantitative restrictions on certain imports according to the established schedule (October 1986, January 1987, and March 1987); and (d) adoption of a three-year "rolling" public investment program (July 1987).

24. As regards the request for loans under the Structural Adjustment Facility, the Government of Senegal will provide the Fund with such information as the Fund requests in connection with the progress being made in implementing the policies and achieving the objectives of the program.

25. The Government of Senegal believes that the policies and measures described above are adequate to achieve the objectives of its program but will take any further measures that may become appropriate

for this purpose. The Government will consult with the Managing Director of the Fund on the adoption of any measures that may be appropriate, at the initiative of the Government or whenever the Managing Director requests such consultation. The Government will reach detailed understandings with the Fund on any further measures that may be needed in the context of the mid-term review of the program referred to above. During the mid-term review, progress in the implementation of the program will be assessed and understandings on additional measures will be reached, if necessary, especially in light of the outcome of the debt rescheduling arrangements; understandings will also be reached on the appropriate performance criteria for the remainder of the program period.

26. The Government remains convinced of the need to pursue its adjustment efforts in the medium term and, in this context, would appreciate the continued technical and financial support of the Fund.

Sincerely yours,

Mamoudou Touré
Minister of Economy and Finance

Attachment

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

Senegal: Proposed Quantitative Performance Criteria for 1986/87

	Stock at End-June 1986	Change from July 1, 1986 to end 1986 Sept.	Dec.	1987 March	June
	(In billions of CFA francs)				
Net domestic assets 1/ 2/ 3/	535.2	-7.4	7.6	...	10.2 4/
Claims on Government (net) 1/ 2/	142.1	-1.6	6.7	5.8 4/	5.0 4/
Arrears of the Government and public agencies					
1. Domestic	36.1	-3.6 5/	-6.6	-9.6	-13.6
2. External	0.4	-0.4 5/	-0.4	-0.4	-0.4
Repayment of 1984/85 crop credit	6.0	3.0 5/	6.0	6.0	6.0
Repayment of ONCAD debt	87.0	3.0 5/	5.0	9.0	12.0
	(In millions of SDRs)				
New external borrowing on nonconcessional terms by the Government or with government guarantee 6/					
1. Short-term (less than 1 year)		--	--	--	--
2. 1-5 years' maturity		--	18.2	18.2	18.2
3. 1-12 years' maturity		16.8	35.0	35.0	35.0

1/ The program assumes that Senegal will receive external budgetary assistance (excluding grants) of CFAF 15.5 billion during the period July 1-September 30, 1986 and of CFAF 44 billion during the period July 1-December 31, 1986. 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 repayment of reclassified 1984/85 crop credit; (b) the reduction of arrears of the Government and public agencies; and (c) the repayment of ONCAD debt. No adjustment to the changes will be made if the external budgetary assistance falls below the above amounts.

2/ The program does not envisage the receipt by Senegal of any exceptional external financial assistance during the period July 1-December 31, 1986 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/ At end-September 1986, the variation in net domestic assets will be adjusted upward by the amount of the reclassified 1984/85 crop credit outstanding. The program envisages a reduction in crop credit of CFAF 9.5 billion during the period July 1-September 30, 1986 and an increase of CFAF 2.2 billion during the period July 1-December 31, 1986. 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. The program envisages that the Government will repay all the 1985/86 crop credit during the period July 1- December 31, 1986; in the event that part of the 1985/86 crop credit is reclassified at end-December 1986, the variation of net domestic assets will be adjusted upward by up to CFAF 3.5 billion.

4/ Indicative.

5/ The program assumes that Senegal will receive external budgetary assistance, including a grant, administered by the World Bank and estimated at CFAF 16.8 billion during the period July 1-September 30, 1986. In the event that the full amount is not received, the changes in arrears of the Government and public agencies, and in repayments of crop credit and ONCAD debt, will be adjusted to compensate for the shortfall up to a cumulative amount of CFAF 13 billion.

6/ The exchange rate applicable to these borrowings will be the rate of the SDR vis-à-vis the contract currency on June 30, 1986, as reported in International Financial Statistics. For debts directly contracted by the Government, the loan will count toward the ceiling on the date of 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. For the 1986/87 ceiling, remaining tranches under the loans signed by SOTEXKA and SOTRAC in 1985/86 will count toward the ceiling on the dates the guarantees on the remaining tranches become effective, and will be converted into SDRs at the exchange rates of June 30, 1985. Loans on concessional terms as defined by the OECD Development Assistance Committee are excluded from these ceilings.

Senegal - Three-Year and First Annual Arrangements Under the Structural Adjustment Facility

Attached hereto is a letter dated September 22, 1986 from the Government of Senegal, requesting from the Fund a three-year structural adjustment arrangement 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 International Monetary Fund grants the requested arrangements in accordance with the following provisions and subject to the Regulations for the administration of the Structural Adjustment Facility:

1. For a period of three years from_____, 1986 Senegal will have the right to obtain three successive loans from the Fund under the Structural Adjustment Facility in a total amount equivalent to SDR 39,997,000.

2. The first loan, in an amount equivalent to SDR 17.02 million, is available for disbursement at the request of Senegal.

3. The second and third loans will be available upon approval by the Fund of the corresponding annual arrangements and will be disbursed at the request of Senegal. The amount of the second loan will be equivalent to SDR 11,488,500, and the amount of the third loan will be equivalent to SDR 11,488,500.

4. 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 paragraph 23 of the annexed letter dated September 22, 1986 from the Minister of Economy and Finance,

(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,

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

5. In accordance with paragraph 24 of the annexed letter dated September 22, 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 the first annual arrangement.

6. In accordance with paragraph 25 of the annexed letter dated September 22, Senegal will consult the Fund on the adoption of any measures that may be appropriate at the initiative of the Government or whenever the Managing Director requests consultation because he considers that consultation on the program is desirable. These consultations may include correspondence and visits of officials of the Fund to Senegal or of representatives of Senegal to the Fund.

APPENDIX II
ATTACHMENT

Dakar, September 19, 1986

Dear Mr. de Larosière:

On behalf of the Government of Senegal, we are pleased to transmit herewith a policy framework paper, prepared in collaboration with the staffs of the International Monetary Fund and the World Bank, setting forth the Government's basic economic objectives for the next three years and the macroeconomic and structural adjustment policies designed to achieve them. These policies are an integral part of our Medium- and Long-Term Program of Economic and Financial Adjustment, covering the period 1985-92, which was endorsed at the first meeting of the Consultative Group for Senegal in December 1984.

We are forwarding today the same letter and attached paper to the President of the World Bank.

Sincerely yours,

Cheikh Hamidou Kane
Minister of Planning and Cooperation

Mamoudou Touré
Minister of Economy and Finance

Attachment

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

SENEGAL

Economic Policy Framework for 1986/87-1988/89

September 19, 1986

I. Introduction

After several years of increasing difficulties, in the late 1970s and early 1980s Senegal's structural and financial problems assumed disquieting proportions, and the country faced a serious and imminent payments crisis. On the whole, the economy registered little growth, with real gross domestic product (GDP) rising at a slower pace than the annual increase in population of 2.9 percent, internal imbalances widened markedly, and the external payments position came under mounting pressure. As in the case of many low-income countries in Africa, notably in the Sahelian region, Senegal's problems were attributable in part to exogenous factors, particularly recurring drought, declining terms of trade, the sharp increase in interest rates in international financial markets, the variability in exchange rates, and the rise in protectionism in industrial countries. However, they were also due largely to the inappropriate production, investment, and pricing policies pursued in the 1970s; these policies led to a considerable weakening of agricultural and industrial production incentives and to an overextension of the public sector. In addition, fiscal and credit policies were generally expansionary, and tended to favor consumption rather than productive investment.

As a result, in the five fiscal years ended in June 1983 domestic demand consistently exceeded supply, with the resource gap amounting on average to some 15 percent of GDP; gross domestic saving was very small and at times negative, while gross investment averaged almost 16 percent of GDP. To finance the high level of domestic demand, the public sector had substantial recourse to external borrowing; but such borrowing overtaxed the country's debt servicing capacity, and thus the Government of Senegal had to seek a series of debt reschedulings. Over the same five-year period the disbursed medium- and long-term public and publicly-guaranteed external debt rose almost threefold, reaching some SDR 1.3 billion, equivalent to 57 percent of the estimated GDP for 1982/83. Nevertheless, Senegal still incurred sizable overall balance of payments deficits, entailing an increase in the net foreign liabilities of the central bank (BCEAO) from SDR 48 million at end-June 1978 to SDR 400 million at end-June 1983. On the fiscal side, the growing imbalances could not be fully financed, leading to a large accumulation of domestic arrears. As of end-June 1983, verified domestic arrears of the Government and public agencies totaled CFAF 55.7 billion, or about 6 percent of GDP. Moreover, with the liquidation of a large rural development agency (ONCAD), beginning in August 1983 the Government had to ensure the servicing of this agency's debts to local banks valued at

CFAF 94.0 billion (excluding late interest and other charges), or more than 10 percent of GDP. Other public agencies and enterprises continued to face serious operational and financial difficulties.

II. Recent Adjustment Effort

In an effort to deal with the country's serious structural and financial problems, since 1980 the Government has adopted a number of adjustment programs which have been supported by use of Fund and World Bank resources, as well as by other external assistance, including external debt relief obtained through reschedulings negotiated with official creditors and commercial banks. Initially, the results achieved were mixed, not only because of the adverse impact of drought and the other exogenous factors already mentioned but also due to certain weaknesses in policy implementation. Thus, the program of economic and financial adjustment for 1980/81-1982/83, in support of which the Fund approved an extended arrangement in August 1980, ran into considerable difficulties at an early stage, and was subsequently replaced by annual programs. Similarly, the program supported by a structural adjustment loan and credit from the World Bank, which was approved in December 1980, was only partly implemented; and the second tranche of the loan was cancelled in June 1983. Under the Fund-supported program for 1981/82, a significant adjustment was made; but the improvement was not sustained, and the situation deteriorated again in the following year.

By contrast, since mid-1983 steady and substantial progress has been made toward economic and financial adjustment, as appropriate supply-side and demand management policies have been pursued with determination and adapted promptly to deal with unforeseen developments. The economy has been progressively liberalized, agricultural production incentives have been strengthened, government outlays relative to GDP have been reduced sharply, public enterprise reform has been accelerated, domestic credit expansion has been brought under control, and the external current account position has been improved. A particularly important achievement has been the major turnaround in the Government's fiscal performance, a key element of the adjustment effort; although the growth in revenue has lagged behind that of GDP, the overall fiscal deficit, on a commitment basis and including grants, was reduced from the equivalent of 8.2 percent of GDP in 1982/83 to 3.5 percent in 1984/85, and it is estimated to have been brought down further to 2.3 percent in 1985/86. This major fiscal adjustment, together with the favorable impact of policies and measures in other areas, helped to limit the external current account deficit, including official grants, to an estimated 8.3 percent of GDP in 1985/86, compared with 14.0 percent in 1982/83; excluding official grants, the external current account deficit was reduced from 18.4 percent of GDP in 1982/83 to an estimated 13.2 percent in 1985/86. However, economic growth has been slow, owing largely to the adverse impact of drought and continuing structural problems in several sectors.

III. Current Problems and Medium-Term Objectives

Despite the substantial progress made during the past three years, Senegal still faces major structural and financial difficulties. The economy remains fundamentally weak and vulnerable, government finances are precarious, the public enterprise sector is overextended, domestic arrears are substantial, and the external current account deficit is unsustainably large. In addition, the sizable domestic and external debt, the legacy of the expansionary policies pursued in the 1970s, weighs heavily on the government budget and the balance of payments. Scheduled external debt service payments are estimated to amount to 26-27 percent of exports of goods, services, and private transfers in 1986/87, as well as in each of the next two years.

In view of the magnitude of the existing problems, the Government of Senegal has decided to pursue the adjustment effort in the context of an overall policy framework for the three years 1986/87-1988/89 that has been developed in close collaboration with the staffs of the Fund and of the World Bank, as well as with representatives of Senegal's principal bilateral creditors and donors. This is an integral and essential part of our Medium- and Long-Term Program of Economic and Financial Adjustment, covering the period 1985-92, which was endorsed at the first meeting of the Consultative Group for Senegal in December 1984. As such, it is consistent with the program described in our Letter of Development Policy of December 19, 1985 to the International Development Association, in support of which the Association approved a financing package equivalent to about SDR 64 million.

The basic objectives of the program for 1986/87-1988/89 are threefold: (a) to achieve an average annual rate of growth of real GDP of the order of 3.5 percent, which would help improve real per capita incomes; (b) to continue to curb the annual rate of inflation, as measured by the GDP deflator, from an estimated 9.0 percent in 1985/86 to some 5.0 percent in 1988/89; and (c) to reduce further the external current account deficit, excluding official grants, from the estimated 13.2 percent of GDP in 1985/86 to around 6.6 percent in 1988/89. In this way, substantial progress would be made toward a viable external payments position consonant with the restoration of sustainable economic growth over the medium term. Indeed, it is our expectation that, barring unforeseen developments, by the end of the program period Senegal would be close to realizing an overall position and a structure of the balance of payments consistent with orderly relations with creditors, while continuing to maintain an exchange system which is free of restrictions on payments and transfers for current international transactions.

To attain these basic objectives, our overall policy framework encompasses two key strategies: the promotion of private sector initiative through appropriate pricing and other incentive policies, particularly in agriculture and industry, coupled with a progressive withdrawal of the Government and public agencies from direct involvement in production activities; and the achievement of greater efficiency in

public resource management through improvements in the allocation and implementation of public investments, reform of the public enterprise sector, and strengthening of government finances. As part of the latter strategy, during the program period the Government's overall fiscal balance, on a commitment basis and including grants, will be turned from the estimated deficit of 2.3 percent of GDP in 1985/86 to a surplus of at least 1 percent of GDP in 1988/89; all currently verified domestic arrears of the Government and public agencies will be settled in an orderly manner; and recourse to domestic bank borrowing by the Government will be reduced considerably, thus making loanable funds increasingly available to meet the financing needs of the private sector. As the operating results of a number of key enterprises are also expected to shift from deficit to surplus, gross domestic savings in terms of GDP are programmed to increase significantly, from an estimated 6.3 percent in 1985/86 to 10.5 percent in 1988/89.

IV. Macroeconomic and Structural Adjustment Policies

Within the broad framework described above, the Government will implement a coherent set of supply-side and demand management policies designed to alleviate the macroeconomic and structural problems in the economy, thereby promoting balance of payments adjustment and economic growth. In 1986/87, the first year of the program, we intend to take strong actions in several important areas; but in this process, high priority will be given to the continued implementation of the new agricultural policy, which was adopted in 1984, industrial policy reform, and the reform of the parapublic sector. A summary and the time frame of our policies for the entire program period is provided in the attached table.

1. Public investment program

In the period immediately ahead, we will continue to implement the interim public investment program for 1985/86-1986/87, as agreed with the World Bank, which has been derived from the Seventh Plan for 1985/86-1988/89 and places greater emphasis on investments in support of directly productive and high-priority rehabilitation activities. At the same time, the reform of the public investment programming and budgeting process will be carried forward, with a view to the adoption of a three-year "rolling" public investment program effective in July 1987. A draft of this program is to be reviewed with the World Bank by end-September 1986 and should thus be ready for discussion with other creditors and donors by end-February 1987, in time for inclusion of its first year in the 1987/88 budget law. In this regard, it should be noted that, in line with the progressive withdrawal of the Government from direct involvement in production and trade, the ratio of public investment in the overall level of investment in directly productive activities will be reduced. Furthermore, public investment in relation to GDP will be kept at a level consistent with the objectives of the adjustment program and public finance constraints. Finally, in the

selection of projects, increasing priority will be given to investments in support of directly productive activities, as well as to the rehabilitation and maintenance needs of the key sectors, while carefully evaluating the financing requirements and recurrent cost implications. Overall, projects will be selected not only on the basis of their impact on the growth of output and employment but also on their contribution to the programmed improvement of the external current account.

The preparation of appropriate investment programs and projects should help to facilitate and increase donor support of our efforts. In this regard, the Consultative Group for Senegal, together with the sectoral meetings held within its framework, should continue to serve as the major vehicle for the mobilization and coordination of development assistance to Senegal. In view of the country's limited debt servicing capacity, it is to be hoped that such assistance will progressively take the form of grants.

2. Agricultural policy

Under the new agricultural policy, a number of far-reaching measures have already been implemented, and considerable progress has been made in several areas; but further measures are clearly needed to fully revitalize this key sector. Accordingly, agricultural policy reform will continue to receive high priority, with a view to expanding and diversifying domestic production, thereby increasing exports and curbing reliance on imports, especially of rice; and also, reducing government intervention and subsidies.

To promote food security, we will vigorously implement our cereals plan, which was prepared with assistance from the FAO and the World Bank, and endorsed by creditors and donors at a meeting on agriculture held in Dakar in June 1986. With the abandonment of the past practice of rigid pricing and trading arrangements, more weight will be given progressively to economic factors in determining producer prices of cereals. In order to assure minimum acceptable rural incomes and to provide additional incentives to farmers, producer prices of cereals were increased significantly over the past two years. We are treating these prices as floor prices and intend to support them, if necessary, during a transition period until consumer demand for local cereals has developed sufficiently to absorb marketable surpluses of local grains. A study will be undertaken with World Bank assistance to develop a model to facilitate the determination of producer prices in future. On the basis of this study, which is expected to be completed during the first quarter of 1987, there will be an eventual review of producer prices of cereals to be put into effect in the 1987/88 growing season. Steps will also be taken to exploit better the country's agricultural potential for greater cereals production, improve farming techniques, liberalize progressively marketing arrangements for rice, and develop the processing of coarse grains to respond to local consumer tastes. At the same time, to foster the shift in demand in favor of domestic cereals, the retail price of rice will be kept at a level that will provide a

minimum nominal protection above import cost of 25 percent to producers of domestic coarse grains (other than rice). The Government remains committed to reducing progressively the involvement of the Price Equalization and Stabilization Fund (CPSP) in rice operations and privatizing rice imports and internal distribution. Thus, as an intitial step, the CPSP's share in rice imports will be reduced by one fourth, or 85,000 tons on an annual basis, with effect in December 1986; a year later, and depending on a satisfactory evaluation in consultation with the World Bank of the role of private importers, the rice trade will be fully privatized, except for the management of a security stock of 60,000 tons of rice which will remain the responsibility of the CPSP.

To encourage the development of groundnut production, we intend to keep the producer price at a level that would continue to provide adequate incentives to farmers, while being mindful of world market trends and financial constraints; we will also decontrol input distribution and marketing, and rationalize the structure and management of the groundnut oil mills. Furthermore, although increased use of fertilizers will be encouraged, the Government's objective will be to decontrol gradually the marketing channels and eliminate reliance on subsidies which are currently being financed by donors. Finally, with the support of the World Bank and other creditors and donors, the restructuring of rural development agencies will be pursued.

3. Industrial policy

A fundamental element of our program is a comprehensive industrial policy reform designed to improve the competitiveness of the industrial sector and to make enterprises more fully responsible and accountable for their business decisions, while reducing the cost to the Government of administering industrial incentives. A number of important aspects of this reform will be put in place this year and others will be implemented during the period through 1988 with the following objectives. First, the system of protection will be rationalized by basing it progressively on a reduced and narrowed band of harmonized tariffs to achieve a lower and more uniform level of effective protection, and by phasing out quantitative restrictions on imports; the reductions in tariffs are being carried out in three stages, effective July 1986, July 1987, and July 1988. Second, export incentives are being increased in certain sectors, notably through the introduction in July 1986 of a revised export subsidy scheme based on industrial value-added in international prices, to improve the attractiveness of exporting relative to production for domestic sales. Third, government controls and administrative constraints burdening enterprises, as well as wage and labor law rigidities, will be examined with a view to their reduction or elimination. In addition, we will be reviewing the existing special agreements with certain enterprises, and henceforth we will be applying the general fiscal and trade laws to all enterprises engaged in commercial activities. These reforms are expected to lead to the restructuring and modernization of our industries, which, on the one hand, will be exposed to more international competition, but, on the

other hand, will have better conditions and opportunities to face up to this challenge. We also believe that these reforms will encourage domestic and foreign investment, as well as foster labor mobility.

4. Energy policy

The Government will continue to pursue an energy policy geared toward developing local sources of supply, notably of hydroelectric power, and restraining energy consumption through appropriate pricing policies, with a view to limiting the oil import bill. Although efforts to expand local energy sources have not yet yielded any results, they are expected to bear fruit with the development of the hydroelectric power potential of the Manantali dam. The sharp reduction in world oil prices since late 1985 has had a highly favorable impact on the balance of payments, as well as on the financial position of the oil refinery (SAR). Consistent with the medium-term objectives of our energy policy, and the need to mobilize additional resources in support of the government budget, we have decided to maintain unchanged the existing structure of domestic prices of petroleum products, except for a significant reduction effected in July 1986 in those of diesel and fuel oils used by the electricity company (SENELEC) to support its rehabilitation efforts and, more generally, to help promote the recovery and growth of the economy through reductions in electricity tariffs. During the program period, we will continue to apply the present policy of maintaining domestic prices of petroleum products above those prevailing on world markets.

5. Fiscal policy

While placing a strong emphasis on removing the structural impediments to economic growth and improving supply conditions, the program will aim at restraining aggregate demand to a level compatible with available resources. Thus, the Government will maintain the momentum of fiscal adjustment over the medium term through the implementation of wide-ranging tax measures designed to increase the tax elasticity and ensure a durable revenue growth, combined with a spending policy aimed at curbing nonpriority expenditure and reallocating resources in line with development priorities. The resulting further improvement in government finances will not only ensure the liquidation of all currently verified domestic arrears but also improve the prospects for an orderly discharge of external debt service obligations.

To improve government revenue performance and make it more responsive to economic growth, we intend to implement a broadly-based program of action. This program is designed to increase revenue mainly by limiting exemptions to those envisaged by existing legislation, lowering those tax rates that encourage widespread evasion because of their excessively high level, and strengthening assessment and control procedures. To this end, most of the measures being studied by the National Commission for Tax Reform and those recommended by the recent Fund technical assistance missions will be implemented in 1986/87. Besides

closing a number of loopholes, reforming the taxation of household income, revising the rate schedule of the general income tax, and reforming excise and property taxation, these measures aim at simplifying the existing legislation, streamlining collection procedures, reallocating personnel in favor of assessment and audit tasks, and restructuring the revenue departments to increase their efficiency. Our program of action also includes the revision of the customs tariff which, coupled with a progressive reduction of quantitative restrictions on imports, is expected to promote a sound industrial policy and improve revenue collection by deterring evasion and increasing the flow of imported goods passing through official channels. Moreover, the mobilization of the bulk of the profits now being generated by the oil sector in support of the budget should help improve revenue performance.

Concurrently, we will pursue a prudent spending policy, consistent with the need to generate adequate resources for financing the public investment program, clearing domestic arrears, and servicing the external debt. Measures to improve the allocation of available resources along clearly defined lines, including completion of a study on the sectoral and functional distribution of current expenditure, will be implemented in time for the preparation of the 1987/88 budget. In general, appropriations for outlays other than materials, supplies, and maintenance of essential services will be cut in real terms. Thus, the growth of the wage bill will be strictly limited through a freeze, and if necessary a reduction, of the total number of civil servants and a rationalization of administrative structures, coupled with a stricter stance with regard to promotions and merit increases; this will tend to reduce the share of the wage bill in the government budget. Subsidies and transfers will also be cut and, in particular, subsidies to public enterprises will be gradually terminated.

6. Parapublic sector reform

To enhance parapublic sector reform, so as to overcome the weaknesses in investment, savings, and budgetary performance, in July 1985 the Government adopted a comprehensive strategy involving two basic policy decisions: liquidation or privatization of certain enterprises; and rehabilitation of others. According to the guidelines set out in our plan of action, all public enterprises engaged in the production of commercial goods and services will be considered for divestiture, with priority being given to those in competition with the private sector and those that place a heavy burden on public finances. A number of enterprises eligible for divestiture have been identified, and the process of liquidation or privatization will be launched in 1986/87. As regards those enterprises that will remain in the Government's portfolio, a rehabilitation program is to be carried out in each case, focusing on: improvements in management, with increased autonomy and accountability; reduction and where possible elimination of subsidies, both direct and indirect; and simplification and strengthening of government supervision of the enterprise. As has been the recent practice, the program is to be included in a formal agreement between

the Government and the enterprise, contained in a contrat-plan (or lettre de mission in the case of rural development agencies) defining their reciprocal commitments. Altogether, at least seven formal agreements with public entities are expected to be signed in the current fiscal year ending June 1987. In view of the problems of cross-arrears within the public sector, a reconciliation of the reciprocal obligations between the Government and the enterprises has recently been completed, and a schedule has been established for the orderly settlement of all verified arrears.

7. Monetary and credit policy

To reinforce the above measures, the monetary authorities will continue to pursue a prudent credit policy, without compromising the financing needs for the marketing of the cash crops and the desired revival of private sector activity. Further steps will also be taken to improve the financial position of the banking system, including the implementation over the next two years of programs aimed at restructuring and rehabilitating three commercial banks facing serious difficulties. In view of the targeted reduction in the external current account deficit and in the rate of inflation, we will be monitoring closely the increase in domestic liquidity. On the expectation that government recourse to bank borrowing will be gradually reduced, more credit will be allocated to the productive sectors of the economy. In the area of interest rate policy, which is common to all member countries of the West African Monetary Union, adjustments would be made when needed to take account of developments in foreign financial markets, as well as to foster financial savings and an efficient allocation of resources within the Union.

8. External debt management

In view of the heavy external debt burden, the Government will follow a very cautious external debt management policy, so as to limit debt servicing to manageable proportions. To this end, the Government will keep nonconcessional borrowing to a strict minimum in 1986/87 and beyond, while making intensified efforts to mobilize external assistance in the form of grants.

9. Social impact

The adjustment measures described above may entail an adverse social impact for some groups. However, the social costs are expected to be attenuated by a progressive orientation of current government expenditure toward the maintenance of social infrastructure and the provision of essential services. Moreover, they are expected to last for a relatively short period, until the adjustment measures take hold and economic performance improves. Overall, the social costs of the program, which are clearly unavoidable, are expected to be significantly smaller than those that would be incurred in the absence of an orderly adjustment process.

Senegal's economic situation and financial constraints necessitate reduction in real per capita consumption before an improvement is possible and sustainable. As much of this adjustment has already taken place since the early 1980s, current projections indicate that real per capita consumption should begin increasing in a few years. The adjustment program may also cause an income transfer between social and economic groups, but this is likely to favor the less advantaged, i.e., the rural communities, which represent the bulk of the population, relative to urban dwellers. Farmers' real incomes are already benefiting from the new pricing policies in agriculture, policies which are also addressing the key issue of ensuring a more balanced interregional development of the country. Urban areas have been bearing the cost of increased prices for basic commodities; they may also be adversely affected from the reduction in employment which may occur as inefficient firms face increased competition. In the medium term, however, new employment opportunities and improved earnings are expected, particularly as manufacturing firms respond to the industrial policy reforms under implementation. Although the speed at which this takes place is difficult to predict, the pattern of some adverse effects in the near term followed by generalized benefits in the medium and long term is typical of the expected impact of the program across most income groups.

V. External Financing Requirements

The effective implementation of the Government's macroeconomic and structural adjustment policies is expected to help strengthen Senegal's external payments position. In particular, the maintenance of appropriate price and other incentives should lead to a recovery in exports of groundnut products from the low levels registered in recent years, while contributing to a better performance of nontraditional exports. At the same time, the structural and demand-management measures should help promote import-substitution, especially in respect of foodstuffs. Thus, assuming no major changes in the current outlook for world commodity prices, the trade deficit is expected to narrow markedly; and the services and private transfers accounts together are projected to improve somewhat. Under this scenario, the current account deficit, excluding official grants, would decline steadily, from an estimated SDR 410 million in 1985/86 to SDR 290 million in 1988/89. Nevertheless, this would still involve total financing requirements for current transactions of the order of SDR 950 million over the three-year program period.

On the basis of recent and prospective flows of official grants and loans, total disbursements, mostly from traditional sources, are now projected to total about SDR 1.2 billion during 1986/87-1988/89. Of this total, taking into account operations already approved and new commitments to be confirmed, it is estimated that World Bank disbursements in the form of project and program loans will amount to about

SDR 170 million, including SDR 60 million in 1986/87. However, debt amortization, repurchases from the Fund, and an improvement in the operations account together are estimated to amount to SDR 640 million. Therefore, despite the expected improvement in the current account and the estimated net private capital inflows of approximately SDR 150 million, there would remain significant financing gaps over the period, although these are projected to decline from about SDR 110 million in 1986/87 to SDR 85 million in 1987/88 and further to SDR 65 million in 1988/89.

It is our expectation that, in the absence of any major external shocks, the financing gaps could be closed primarily through debt rescheduling arrangements along the lines of those concluded in recent years. Senegal will also be requesting shortly a one-year stand-by arrangement from the Fund in an amount equivalent to SDR 34 million; in addition, SDR 40 million is expected to be available over the next three years from the Structural Adjustment Facility (SAF). In 1986/87 purchases under the stand-by arrangement, together with use of the SAF, are estimated to amount to about SDR 43 million; the remaining financing gap of some SDR 67 million is expected to be covered by debt rescheduling from official creditors, which will be sought on terms similar to those obtained in recent years.

Table 1. Senegal: Summary and Time Frame for Macroeconomic and Structural Adjustment Policies, 1986/87-1988/89

	Objectives and Targets	Strategies and Measures	Timing of Measures 1/
1. Agricultural policy reform	Expand and diversify domestic production, and reduce government intervention and subsidies.	Continue the process of reform envisaged in the new agricultural policy.	1986/87, 1987/88, and 1988/89
a. Cereals policy	Promote food security, and reduce reliance on rice imports.	Adopt cereals plan.	July 1986
		Complete study to determine future producer prices of cereals.	March 1987
		Maintain remunerative producer prices for cereals, develop processed products responsive to consumer tastes, and keep a minimum nominal protection above import cost of 25 percent for domestic cereal production by adjusting, when necessary, the retail price of rice.	1986/87, 1987/88, and 1988/89
	Progressively privatize rice imports and internal distribution.	Abolish system of prior licensing and selection of local rice distributors, and assure distributors sufficient margins to cover transportation costs.	July 1986
		Initiate reduction in the share of the CPSP in rice imports.	December 1986
		Following an evaluation of performance under the new import system, fully privatize rice trade, except for security stock to be managed by CPSP.	December 1987
b. Groundnut sector	Foster production and reduce government intervention.	Maintain remunerative producer prices.	1986/87, 1987/88, and 1988/89
		Rationalize marketing, pass financial responsibility on to the oil millers, and fully merge SONACOS with SEIB.	1986/87
c. Rural development agencies	Restructure and rehabilitate key agencies.	Finalize and sign lettres de mission for SODAGRI, SODEVA, SODEFITEX, and SOMIVAC.	1986/87
2. Industrial policy reform	Rationalize the system of protection.	Lower existing rates and harmonize tariffs in three stages so as to achieve a lower and more uniform level of effective protection, which, combined with the progressive elimination of quantitative restrictions, would also help improve revenue performance.	July 1986, July 1987, and July 1988
	Increase export incentives.	Introduce revised export subsidy scheme based on industrial value added in international prices.	July 1986
	Apply the general fiscal and trade laws to all registered enterprises.	Review special agreements with certain major enterprises.	1986/87
	Improve business environment, and foster labor mobility.	Review wage and labor law rigidities and controls or constraints burdening enterprises, with a view to their reduction or elimination.	1986/87 and 1987/88

1/ Where a single date is indicated, it means that the measure(s) will be in effect no later than that date; where one year or several years are noted, it means that action will be taken in each year.

3. Energy policy	Develop local sources of supply and restrain energy consumption.	Maintain a structure of retail prices consistent with energy conservation and budgetary requirements.	1986/87, 1987/88, and 1988/89
4. Investment programming	Place greater emphasis on directly productive and high-priority rehabilitation activities.	Introduce appropriate public investment program for 1986/87.	July 1986
		Adopt appropriate three-year "rolling" public investment program.	July 1987
	Evaluate carefully financing requirements and recurrent cost implications of projects.	Strengthen capabilities of Planning Ministry.	1986/87, 1987/88, and 1988/89
5. Parapublic sector reform	Promote the efficiency of the parapublic sector, and reduce government intervention and subsidies.	Liquidation or privatization of public enterprises in competition with the private sector in the production of commercial goods and services.	1986/87, 1987/88, and 1988/89
		Finalize and sign contrats-plans for SENELEC, OPCE, SONATEL, SICAP, OHLM, and SONACOS/SEIB.	1986/87
	Progressively eliminate all verified cross-arrears.	Reconcile reciprocal obligations between the Government and the enterprises; and establish a schedule for the orderly settlement of all verified arrears.	1986/87, with settlement over three years
		Reduce and preferably eliminate operating subsidies to parastatals, according to an agreed plan.	1986/87, 1987/88, and 1988/89
6. Fiscal policy	Achieve a turnaround in the Government's fiscal operations, on a commitment basis and including grants, from deficit to surplus.	Improve revenue performance and pursue a prudent spending policy.	1986/87, 1987/88, and 1988/89
a. Revenue	Improve revenue performance.	Implement the recommendations of the National Commission for Tax Reform and recent Fund technical assistance missions:	1986/87, 1987/88, and 1988/89
		- Reform direct tax code.	1986/87
		- Revise customs tariff in three stages.	July 1986, July 1987, and July 1988
		Mobilize the prospective surpluses of the oil sector in support of the budget.	1986/87, 1987/88, and 1988/89
b. Expenditure	Maintain tight limits on current government outlays.	Control the wage bill by freezing or reducing the number of government employees, while developing proposals for a civil servants' resettlement fund; also keeping wage drift to a minimum.	1986/87, 1987/88, and 1988/89
		Reduce government subsidies and transfers.	1986/87, 1987/88, and 1988/89
		Make adequate provisions for materials, supplies, and maintenance of essential services.	1986/87, 1987/88, and 1988/89

c. Domestic arrears	Gradually eliminate all currently verified domestic arrears of the Government and public agencies.	Allocate adequate resources to liquidate such arrears.	1986/87, 1987/88, and 1988/89
7. Credit policy	Increase and improve credit to the private sector, while reducing net government borrowing from the banking system.	Strengthen the existing credit information structure	1986/87, 1987/88, and 1988/89
	Improve financial position of the banking system.	Restructure and rehabilitate three banks facing serious difficulties (BCS, BNDS, and USBCI).	1986/87 and 1987/88
	Discourage capital flight, mobilize domestic savings, and improve resource allocation.	Follow a flexible interest rate policy	1986/87, 1987/88, and 1988/89
8. External debt management	Limit external debt service burden to manageable proportions; and re-establish orderly relations with creditors.	Keep new external borrowing on nonconcessional terms to a strict minimum, while intensifying efforts to mobilize resources in the form of grants.	1986/87, 1987/88, and 1988/89
		Make adequate provisions for the prompt settlement of debt service obligations so as to avoid any external arrears.	1986/87, 1987/88, and 1988/89

Senegal - Relations with the Fund
(As of August 31, 1986)

I. Membership status

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

A. Financial Relations

II. General Department

a. Quota	SDR 85.1 million
b. Total Fund holdings of Senegal's currency	SDR 293.56 million, equivalent to 344.95 percent of quota.
c. Fund credit	SDR 209.43 million, equivalent to 246.09 percent of quota, of which: SDR 65.88 million (77.41 percent of quota) under credit tranches; SDR 5.25 million (6.16 percent of quota) under the CFF; SDR 15.38 million (18.07 percent of quota) under the EFF; SDR 32.98 million (38.75 percent of quota) under the SFF; and SDR 89.93 million (105.67 percent of quota) under the EAR.
d. Reserve tranche position	SDR 0.975 million

III. Previous stand-by and extended arrangements

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

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

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

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

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

f. An eighteen-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.

IV. SDR Department

a. Net cumulative allocation	SDR 24.46 million
b. Holdings	SDR 0.51 million (2.1 percent of the net cumulative allocation)

V. Administered accounts

a. Trust Fund loans	
Disbursed	SDR 33.23 million
Outstanding	SDR 18.26 million
b. SFF Subsidy Account	
Payments by the Fund	SDR 6.12 million

B. Nonfinancial Relations

VI. Exchange rate arrangements

Senegal's currency, the CFA franc, is pegged to the French franc, which is the intervention currency, at the rate of CFAF 1 = F 0.02.

VII. Last Article IV consultation and third review under stand-by arrangement

The last Article IV consultation discussions, together with the third review under the stand-by arrangement, were held during the period

December 11-21, 1985. The staff report (EBS/86/44) was discussed by the Executive Board on March 25, 1986, and the following decision was adopted on the 1985 Article IV consultation:

1. The Fund takes this decision in concluding the 1985 Article XIV consultation with Senegal, in the light of the 1985 Article IV consultation with Senegal conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

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

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

1. Senegal has consulted with the Fund in accordance with paragraph 4(d) of the stand-by arrangement for Senegal (Attachment to EBS/85/45, March 1, 1985) in order to reach understandings on the progress made in the implementation of the 1985/86 program and to establish suitable performance criteria as contemplated in paragraph 21 of the letter from the Minister of Economy and Finance dated December 3, 1984, attached to the stand-by arrangement.

2. The letter from the Minister of Economy and Finance dated February 4, 1986 shall be attached to the stand-by arrangement for Senegal, and the letter of December 3, 1984 shall be read as modified and supplemented by the letter dated February 4, 1986. Accordingly, the performance criteria referred to in paragraph 4(a) of the stand-by arrangement shall be those referred to in paragraphs 9 and 11 of the letter dated February 4, 1986 and specified in the table annexed to that letter.

3. The Fund decides. pursuant to paragraph 4 (d) of the stand-by arrangement, that the review provided for in paragraph 21 of the letter from the Minister of Economy and Financed dated December 3, 1984 is completed.

VIII. 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 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 on a revision of the customs tariff, and on a simplification and rationalization of the tariff structure and nomenclature.

A member of the fiscal panel has been assigned as Tax Advisor to the Ministry of Economy and Finance for a period of six months effective May 1986.

c. Other

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

IX. Fund resident representative

Stationed in Dakar since July 24, 1984.

Senegal - Relations with the World Bank Group

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 and the investment programming and budgeting process, and by improving the management of public employment and finances; (b) developing and diversifying the productive base by implementing appropriate incentive policies and reorienting the investment program in the direction of high-priority new investments in the productive sectors and rehabilitation of existing assets; and (c) improving the effectiveness of external assistance by acting as a focal point for increased aid coordination among the donors.

2. As of March 31, 1986, the World Bank Group had approved 61 operations in Senegal for a total of US$646 million, consisting of 36 IDA credits, 11 Bank loans, five blends of Bank and IDA funds, six IFC operations, two blends of Bank and IFC funds, and one blend of Bank, IDA, and IFC funds. Physical execution of most projects is progressing reasonably well, although some operations have been affected by the shortage of local counterpart funds. The attached table contains the disbursement status of World Bank and IFC operations in Senegal as at March 31, 1986.

3. Past projects strongly supported modernization and expansion of the country's infrastructure, particularly in transport (highways, rail, port, and airport). But with slow growth in the economy and financial difficulties in supporting new investments, emphasis is now being placed on better utilization and maintenance of existing facilities, and on helping the Government to resolve some of the key issues related to long-term development prospects. On-going or planned operations for agricultural research, irrigation, and education development relate to both of these two concerns.

4. Over the next three-year period (FY87-89), the Bank's lending program, on present planning, could amount to about US$200 million, almost all of which would be on IDA terms. US$117 million has or will be committed in FY86, partly in support of the structural adjustment credit (SAC) which was approved on February 4, 1986. This major policy-based operation, to be financed partly out of the Special Facility for Sub-Saharan Africa, would set the framework for new sector specific operations, notably in agriculture, telecommunications, and power. The SAC concentrates on addressing some of the central economic management issues, such as the institutional capacity for improved fiscal and debt management, investment programming, pricing policy for agriculture and food imports, and the establishment of clear guidelines for reform of the parastatals, and also includes a component for the reform of the industrial incentives and protection system.

Senegal - Relations with the World Bank Group (continued)

5. Given the need to focus Senegal's public investment program on financing high-priority rehabilitation and maintenance needs and developmental recurrent costs, improved donor coordination is assuming increased importance. The Bank is pursuing its economic dialogue with Senegal in close collaboration with the IMF and bilateral and multilateral donors. In this connection, the Bank convened a first meeting of the Consultative Group in December 1984, at which agreement was reached on the policy measures, assistance levels, and aid coordination mechanisms needed to enable Senegal to overcome its economic and financial difficulties. The Bank followed up on this meeting by preparing the structural adjustment operation indicated above, as well as by helping organize sector meetings of interested donors on telecommunications, power, and agriculture. Further sector meetings are planned during 1987 for tourism, hydraulics, education, and industry sectors. A second meeting of the Consultative Group is tentatively planned for February 1987 to review progress of the adjustment program and to consider the Government's new three-year investment program.

Senegal - Relations with the World Bank Group (concluded)

Lending operations (As of March 31, 1986; in millions of U.S. dollars)

	IBRD and IDA 1/		IFC loans and equity participations		Grand total
	Total commitments	Of which: undisbursed	Total commitments	Of which undisbursed	
Fourteen loans and 21 credits fully disbursed	247.3	(--)	--	(--)	247.3
Structural adjustment and technical assistance	80.3	(56.3)	--	(--)	80.3
Agriculture, livestock, and forestry	80.8	(42.0)	0.8	(--)	81.6
Power, industry, and tourism	43.1	(20.1)	35.0	(10.2)	78.1
Transport and telecommunications	58.3	(31.3)	--	(--)	58.3
Urban development, education, and health	72.5	(49.3)	0.5	(--)	73.0
Total	582.3	(199.0)	36.3	(10.2)	618.6
Less repaid or sold					38.8
Total outstanding					579.8
Held by IBRD					112.7
IDA					439.5
IFC					27.6

Memorandum items:

Annual IBRD/IDA operations	Commitments	Disbursements	Repayments
1976	36.3	16.7	0.3
1977	19.6	20.7	0.6
1978	37.3	16.3	1.8
1979	31.5	27.2	2.6
1980	57.6	30.0	2.1
1981	93.9	69.4	2.4
1982	18.8	25.8	3.1
1983	59.1	31.8	5.6
1984	34.2	29.0	5.9

Source: World Bank Group.
1/ Less cancellations.

Senegal - Alternative Scenarios for the Balance of Payments

Senegal's medium-term balance of payments outlook is sensitive both to changes in domestic adjustment policies and the external environment. Alternative scenarios for the period through 1993/94, indicating the sensitivity of the balance of payments to changes from the assumptions in the macroeconomic policy framework, are shown in Table I.

The adjustment path underlying the authorities' medium-term policy framework aims at achieving a position of viability around the end of this decade. A continuation of appropriate policies beyond 1988/89, coupled with export and import volumes growing by 4 percent (and no change in the terms of trade), would allow the achievement of a sustained rate of economic growth of 3-4 percent and an external current account deficit, excluding official grants, stabilizing at about 5 percent of GDP. In order for Senegal to generate an overall surplus in the balance of payments, so as to make repurchases from the Fund and to service the increasing debt amortization payments, such a current account deficit would be consistent with gross capital inflows averaging annually SDR 300 million in the five years ending 1993/94. This compares with an average annual level of gross capital inflows of SDR 210 million assumed during the three-year program period 1986/87-1988/89. However, it is equivalent to the average annual inflows of gross official capital plus Fund purchases and debt relief in the same three-year period. The outstanding external debt would fall as a proportion of GDP from 63 percent at end-1989 to about 50 percent by end-1993; the debt service ratio would decline from 25 percent in 1989/90 to 21 percent in 1993/94.

Scenario A illustrates the consequences of a weaker export performance, resulting either from adverse climatic conditions, or from the failure to maintain adequate pricing incentives and other supporting measures to revitalize the groundnut sector and encourage nontraditional exports. This scenario assumes that the volume of groundnuts processed for export rises to only 375,000 tons in 1989/90 rather than to 450,000 tons as assumed in the macroeconomic policy framework; that the average annual growth of non-groundnut exports during 1986/87-1988/89 would amount to 5 percent rather than 6 percent; and that total export growth would average annually only 3 percent in the subsequent five years rather than 4 percent. Under these conditions, balance of payments viability will be delayed beyond 1993/94.

Scenario B assumes that the authorities respond to the weakening in the export volume growth assumed in Scenario A by readapting their policies to limit the average annual growth in import volume to 4 percent in the three-year program period and to 3 percent thereafter. In such a case, balance of payments viability would be achieved by 1989/90.

However, such policies, involving a severe curtailment in aggregate demand, would be reflected in a lower rate of real economic growth.

Scenario C shows that Senegal's external payments position could ameliorate more rapidly than in the macroeconomic policy framework with a more marked improvement in the terms of trade. If the terms of trade were to increase by 14 percent during the three-year program period, compared with 12 percent, the current account deficit would be reduced by about 0.6 percent of GDP by 1988/89, and total financing requirements would be reduced by SDR 16 million on average each year in the three-year program period, and by an average of SDR 44 million each year thereafter. At the same time, the debt service ratio would fall to 19 percent by 1993/94, compared with 21 percent in the macroeconomic policy framework. Such an improvement in the terms of trade could reflect a number of factors such as import oil prices lower than the US$16 per barrel assumed in the macroeconomic policy framework and/or a faster recovery in groundnut oil export prices.

Table I. Senegal: Medium-Term Outlook for the Balance of Payments, Alternative Scenarios, 1985/86-1993/1994

	1985/86	1986/87	1987/88	1988/89	3-year Average 1986/87-1988/89	5-year Average 1989/90-1993/94
			Macroeconomic Policy Framework 1/			
Current account/GDP 2/	-13.2	-9.2	-7.8	-6.6	-7.9	-5.3
Overall balance (SDR million) 3/	-98.3	-41.4	-36.3	-19.0	-32.2	25.9
Financing gap (SDR million) 4/	--	67.0	64.5	53.2	61.6	--
Debt service ratio 5/	26.6	26.6	27.5	27.2	27.1	23.6
Export volume growth 6/	-0.5	16.0	5.4	6.1	9.1	4.0
Import volume growth 6/	1.4	8.1	4.0	4.0	5.4	4.1
			Scenario A (Lower export volumes; higher financing gap) 7/			
Current account/GDP 2/	-13.2	-9.5	-8.4	-7.3	-8.4	-6.5
Overall balance (SDR million) 3/	-98.3	-51.4	-57.7	-48.8	-52.6	-49.5
Financing gap (SDR million) 4/	--	77.0	86.0	83.0	82.0	75.1
Debt service ratio 5/	26.6	26.8	28.0	28.0	27.6	25.8
Export volume growth 6/	-0.5	11.7	4.6	5.2	7.1	3.1
Import volume growth 6/	1.4	8.1	4.0	4.0	5.4	4.1
			Scenario B (Lower export volumes; lower import volumes) 8/			
Current account/GDP 2/	-13.2	-9.2	-7.8	-6.6	-7.9	-5.3
Overall balance (SDR million) 3/	-98.3	-41.4	-36.3	-19.0	-32.2	25.9
Financing gap (SDR million) 4/	--	67.0	64.6	53.2	61.6	--
Debt service ratio 5/	26.6	26.8	28.0	27.8	27.5	24.3
Export volume growth 6/	-0.5	11.7	4.6	5.2	7.1	3.1
Import volume growth 6/	1.4	6.7	2.6	3.3	4.2	3.5
			Scenario C (Improved terms of trade; lower financing gap) 9/			
Current account/GDP 2/	-13.2	-9.0	-7.3	-6.0	-7.4	-4.7
Overall balance (SDR million) 3/	-98.3	-33.6	-16.8	3.4	-15.7	69.9
Financing gap (SDR million) 4/	--	59.3	45.1	30.9	45.1	-44.4
Debt service ratio 5/	26.6	26.8	27.8	27.4	27.3	22.8
Export volume growth 6/	-0.5	16.0	5.4	6.1	9.1	4.0
Import volume growth 6/	1.4	8.1	4.0	4.0	5.4	4.1

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

1/ Based on the scenario described in the Policy Framework Paper (Appendix II) and shown in more detail in Table 6.
2/ Excluding official grants; in percent.
3/ Excluding debt rescheduling.
4/ Excluding projected Fund purchases and drawings under the structural adjustment facility.
5/ In percent of exports of goods, services, and private transfers.
6/ Annual percent changes.
7/ Based on the assumption that groundnuts processed for export will increase gradually from 300,000 tons in 1986/87 to only 375,000 tons in 1989/90. Over the same period, non-groundnut export volumes are assumed to grow by about 1 percent per annum less than in the macroeconomic policy framework; from 1989/90, total export volumes are assumed to grow by 3 percent, rather than 4 percent.
8/ Export volume growth as Scenario B; import volume growth constrained so that the current account remains as in the macroeconomic policy framework.
9/ The terms of trade are assumed to improve by 14 percent over the period 1986/87-1988/89 rather than 12 percent in the macroeconomic policy framework, and not to change thereafter.