

FOR
AGENDA

EBS/85/45

CONFIDENTIAL

March 1, 1985

To: Members of the Executive Board
From: The Secretary
Subject: Senegal - First Review Under Stand-By Arrangement

Attached for consideration by the Executive Directors is a paper on the first review under the stand-by arrangement for Senegal. A draft decision appears on page 18.

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

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Calamitsis (ext. 576107) or Mr. Ugolini (ext. 573739).

Att: (1)

INTERNATIONAL MONETARY FUND

SENEGAL

First Review Under Stand-By Arrangement

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

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

Approved by A. D. Ouattara and Eduard H. Brau

March 1, 1985

I. Introduction

On January 16, 1985 the Fund approved an 18-month stand-by arrangement for Senegal in an amount equivalent to SDR 76.6 million, representing 90 percent of Senegal's quota, or 60 percent of quota on an annual basis (EBS/84/267 and Supplements 1 and 3). Under this arrangement, which is in support of the Government's adjustment program for the fiscal years 1984/85 (July/June) and 1985/86, Senegal made an initial purchase of SDR 10.6 million on January 31, 1985. The second purchase of SDR 12.0 million may be made after March 14, 1985, subject to the observance of the relevant performance criteria and completion of the first review of the program. The discussions that formed the basis for this review were held in Dakar during the period February 6-16, 1985. ^{1/} A letter from the Acting Minister of Economy and Finance summarizing the outcome of the review discussions is presented in Appendix I.

In accordance with the stand-by arrangement, this first review of the program is confined to assessing the adequacy of the external debt rescheduling arrangements made by the Senegalese authorities in relation to the overall financing needs of the balance of payments and the government budget, particularly for 1984/85. The second review, which will be broader in scope and is to be completed by September 14, 1985, will involve reaching detailed understandings with the Fund on the fiscal, credit, pricing, and external borrowing policies for 1985/86, including establishing the performance criteria for end-September 1985 and end-December 1985. Finally, the third review, to be completed by March 14, 1986, will

^{1/} The staff representatives in the discussions were Mr. Calamitsis (head-AFR), Mr. Yucelik (FAD), Mr. Begashaw (ETR), and Mr. Ugolini (AFR), with Ms. Elwell (AFR) as secretary. Mr. Franco, the Fund's resident representative in Dakar, also took part in the discussions.

focus on progress in the implementation of the policies for 1985/86; it will also include the establishment of the performance criteria for the remainder of the program period.

As of January 31, 1985 the Fund's holdings of Senegal's currency, the CFA franc, subject to repurchase were equivalent to 253.2 percent of quota; excluding holdings resulting from purchases under the compensatory financing facility, they amounted to 210.0 percent of quota. If the balance available under the stand-by arrangement is purchased, and after taking into account scheduled repurchases, the Fund's holdings of Senegal's currency subject to repurchase would amount by the end of June 1986 to the equivalent of 250.2 percent of quota, or 244.0 percent of quota apart from holdings under the compensatory financing facility (Table 1).

The staff report for the 1984 Article IV consultation with Senegal, which was combined with the request for the current stand-by arrangement, was considered by the Executive Board on January 16, 1985. Representatives of the Fund staff attended the meeting of the Paris Club that was held on January 17-18, 1985 to discuss Senegal's request for a rescheduling or refinancing of part of its external debt service obligations. ^{1/} As in the past, the Fund staff has maintained close collaboration with the World Bank staff, both at headquarters and in the field, on the various aspects of Senegal's adjustment efforts and external financing requirements. Summary statements on Senegal's relations with the Fund and the World Bank Group are presented in Appendix II and III, respectively.

II. Background

In recent years the Senegalese authorities have been making efforts to deal with the country's serious economic and financial difficulties in the context of adjustment programs supported by use of Fund resources, as well as by other external assistance. Although the economy was hard hit by severe drought, the adjustment program for the fiscal year ended June 1984 was kept on track, and its financial objectives were achieved. In particular, the overall fiscal deficit, on a commitment basis, was reduced sharply, from the equivalent of 8.2 percent of GDP in 1982/83 to 4.7 percent of GDP in 1983/84, and so was the rate of domestic credit expansion, which fell from 17 percent to 5 percent, respectively (Table 2). In 1983/84 there was also a reduction in domestic arrears of the Government and public agencies, whereas such arrears had increased in the previous year. As nontraditional exports, notably fish and phosphates, grew markedly and export prices of groundnut products recovered, the external current account deficit in relation to GDP was brought down from 14.0 percent in 1982/83 to an estimated 11.1 percent in 1983/84, significantly below the

^{1/} The staff representatives were Mr. Calamitsis (AFR), Ms. Dillon (ETR), and Mr. Taplin (Office in Europe).

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

| | Outstanding at December 31, 1984 | 1985 | | | | 1986 | |
|--|-------------------------------------|-----------------|----------------|----------------|---------------|----------------|----------------|
| | | Jan.- March | April- June | July- Sept. | Oct.- Dec. | Jan.- March | April- June |
| (In millions of SDRs) | | | | | | | |
| Transactions under tranche policies (net) <u>1/</u> | -- | <u>19.13</u> | <u>7.71</u> | <u>6.13</u> | <u>2.71</u> | <u>1.89</u> | <u>1.97</u> |
| Purchases | -- | 22.60 <u>2/</u> | 12.00 | 10.50 | 10.50 | 10.50 | 10.50 |
| Ordinary resources | -- | (11.30) | (6.00) | (5.25) | (3.63) | (--) | (--) |
| Enlarged access resources | -- | (11.30) | (6.00) | (5.25) | (6.87) | (10.50) | (10.50) |
| Repurchases | -- | -3.47 | -4.29 | -4.37 | -7.79 | -8.61 | -8.53 |
| Ordinary resources | -- | (-1.70) | (-1.79) | (-2.59) | (-4.68) | (-4.96) | (-5.25) |
| Enlarged access resources | -- | (-1.77) | (-2.50) | (-1.78) | (-3.11) | (-3.65) | (-3.28) |
| Transactions under special facilities (net) <u>3/</u> | -- | <u>-5.25</u> | <u>-5.25</u> | <u>-5.25</u> | <u>-5.25</u> | <u>-5.25</u> | <u>-5.25</u> |
| Purchases | -- | -- | -- | -- | -- | -- | -- |
| Repurchases | -- | -5.25 | -5.25 | -5.25 | -5.25 | -5.25 | -5.25 |
| Total Fund credit outstanding (end of period) | <u>204.84</u> | <u>218.72</u> | <u>221.18</u> | <u>222.06</u> | <u>219.52</u> | <u>216.16</u> | <u>212.88</u> |
| Tranche policies <u>1/</u> | 168.09 | 187.22 | 194.93 | 201.06 | 203.77 | 205.66 | 207.63 |
| Special facilities <u>3/</u> | 36.75 | 31.50 | 26.25 | 21.00 | 15.75 | 10.50 | 5.25 |
| (In per cent of quota) | | | | | | | |
| Total Fund credit outstanding (end of period) | <u>240.70</u> | <u>257.02</u> | <u>259.91</u> | <u>260.94</u> | <u>257.96</u> | <u>254.01</u> | <u>250.15</u> |
| Tranche policies <u>1/</u> | 197.52 | 220.00 | 229.06 | 236.26 | 239.45 | 241.67 | 243.98 |
| Special facilities <u>3/</u> | 43.18 | 37.02 | 30.85 | 24.68 | 18.51 | 12.34 | 6.17 |

Source: IMF, Treasurer's Department.

1/ Ordinary and enlarged access resources.

2/ Consisting of two purchases: an initial purchase of SDR 10.6 million which was made on January 31, 1985; and a second purchase of SDR 12.0 million to be made after March 14, 1985, upon observance of the performance criteria for end-December 1984 and completion of the first review of the program.

3/ Compensatory financing facility.

Table 2. Senegal: Selected Economic and Financial Indicators, 1983-85 and 1982/83-1984/85

| | 1983 | 1984 | 1985 | 1982/83 | 1983/84 | | 1984/85 | |
|--|-------------------|---------|---------|-------------------|---------|-------|---------|---------|
| | | Est. | Proj. | | Prog. | Est. | Prog. | Rev. |
| (Annual percent changes, unless otherwise specified) | | | | | | | | |
| National income and prices | | | | | | | | |
| GDP at constant prices | 3.4 | -4.1 | 10.4 | 8.3 | 3.0 | -0.4 | 4.1 | 3.0 |
| GDP deflator | 8.1 | 12.2 | 7.7 | 9.1 | 8.7 | 10.1 | 9.0 | 10.0 |
| External sector | | | | | | | | |
| Exports, f.o.b. (in SDRs) | -0.4 | 2.5 | -0.5 | 3.5 | 12.6 | 9.1 | 4.5 | -- |
| Imports, f.o.b. (in SDRs) | -4.4 | -4.1 | -1.5 | 0.1 | -3.6 | -4.9 | -4.3 | -5.8 |
| Non-oil imports, c.i.f. (in SDRs) | -0.7 | -11.1 | -0.3 | 8.7 | ... | -10.9 | -3.7 | -7.4 |
| Export volume | 4.1 | -9.5 | -2.8 | ... | ... | ... | ... | ... |
| Import volume | 1.7 | -8.7 | -5.3 | ... | ... | ... | ... | ... |
| Terms of trade (in SDRs; deterioration -) | -1.2 | 7.8 | -1.7 | ... | ... | ... | ... | ... |
| Nominal effective exchange rate (end of period; depreciation -) | -7.0 | -3.0 | ... | -5.8 | ... | -2.7 | ... | ... |
| Government budget | | | | | | | | |
| Revenue | ... | ... | ... | 15.7 | 13.0 | 7.8 | 12.4 | 12.3 |
| Total current and capital expenditure | ... | ... | ... | 12.9 | 7.7 | 10.7 | 9.7 | 7.9 |
| Money and credit | | | | | | | | |
| Domestic credit | 7.6 | ... | ... | 17.4 | 12.8 | 4.6 | 7.6 | 7.6 |
| Government (net) | 22.0 | ... | ... | 28.8 | 45.7 | 33.2 | 15.9 | 15.9 |
| Private sector | 4.1 | ... | ... | 15.0 | 4.8 | -2.2 | 4.9 | 4.9 |
| Money and quasi-money | 3.9 | ... | ... | 12.1 | 6.8 | 3.5 | 5.6 | 5.6 |
| Velocity (GDP relative to M2) ^{1/} | 2.9 | ... | ... | 3.0 | 3.0 | 2.8 | 2.6 | 2.6 |
| Interest rate (end of period) ^{2/} | 9.5 ^{3/} | 9.5 | ... | 9.5 ^{3/} | 9.5 | 9.5 | 9.5 | 9.5 |
| (In percent of GDP, unless otherwise specified) | | | | | | | | |
| Overall fiscal deficit (-) ^{4/} | | | | | | | | |
| Commitment basis | ... | ... | ... | -8.2 | -4.8 | -4.7 | -3.3 | -3.0 |
| Cash basis | ... | ... | ... | -7.4 | -7.3 | -7.0 | -4.2 | -4.1 |
| Gross domestic investment | 15.7 | 14.7 | 13.1 | ... | ... | ... | ... | ... |
| Gross domestic savings | 1.5 | 1.3 | 7.8 | ... | ... | ... | ... | ... |
| External current account deficit (-) ^{5/} | -12.2 | -10.8 | -9.4 | -14.0 | -11.9 | -11.1 | -9.2 | -9.3 |
| External debt (inclusive of use of Fund credit) | 87.5 | 95.6 | 87.7 | ... | ... | ... | ... | ... |
| Debt service ratio (in percent of exports of goods, services, and private transfers) ^{4/} | 20.3 | 23.5 | 28.1 | ... | ... | 20.8 | 28.1 | 27.2 |
| (In millions of SDRs, unless otherwise specified) | | | | | | | | |
| GDP at current prices (in billions of CFA francs) | 943.6 | 1,015.6 | 1,208.7 | 893.8 | 982.7 | 979.6 | 1,112.2 | 1,112.2 |
| Overall balance of payments deficit (-) ^{6/} | -75.4 | -59.7 | -47.6 | -111.1 | -95.9 | -42.1 | ... | -25.7 |
| Gross official reserves (weeks of imports) | 0.8 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 |

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

^{1/} GDP relative to average of end-June and end-December broad money stocks.

^{2/} Minimum rate on time deposits in excess of one year and in amounts of more than CFAF 2 million.

^{3/} Since April 5, 1983.

^{4/} Before debt rescheduling.

^{5/} Including official transfers.

^{6/} After debt rescheduling.

level envisaged in the program. With higher-than-expected net capital inflows, coupled with substantial debt relief from official creditors and commercial banks, the overall balance of payments deficit was more than halved to about SDR 42 million in 1983/84, representing a major improvement in comparison with the program target.

Despite this improvement in 1983/84, Senegal continues to face major structural and financial problems. The economy, especially the agricultural sector, remains fundamentally weak, public finances are precarious, there are substantial domestic arrears, and the external current account deficit is still unsustainably large. In view of these problems, the authorities are pursuing their adjustment efforts under the present program, covering the fiscal years 1984/85 and 1985/86, with a view to achieving a satisfactory economic growth and a viable internal and external financial position over the medium term. The basic objective of the program, which is being supported by the current stand-by arrangement, is to further reduce the external current account deficit in terms of GDP, from the estimated 11.1 percent in 1983/84 to about 9.2 percent in 1984/85 and to some 6.9 percent in 1985/86. This and other objectives of the program are to be realized through a combination of appropriate supply measures, including flexible pricing, and of prudent fiscal, credit, income, and external debt management policies.

III. Recent Developments and Performance Under the Program

The policies adopted under the program for 1984/85 are being fully implemented. As shown in Table 3, virtually all of the measures envisaged in the program are already in place; the remaining actions are scheduled to be carried out in the period ahead. Despite an unforeseen drop in marketed output of groundnuts, the program remains on track, and indications are that its basic targets for 1984/85 as a whole will be achieved.

1. External debt relief and the balance of payments

In order to alleviate the existing pressures on the balance of payments and the government budget, the Senegalese authorities have made arrangements for the rescheduling or refinancing of part of the country's external debt service obligations falling due over the two-year period ending June 1986. The most important arrangement made so far has been with the official creditors of the Paris Club, who agreed on January 18, 1985 to recommend to their Governments or appropriate institutions to provide substantial debt relief to Senegal in respect of all official and officially guaranteed loans of over one year's maturity contracted before January 1, 1983 and not previously rescheduled. Specifically, the Paris Club creditors agreed to reschedule or refinance 95 percent of the debt service payments falling due over the period January 1985-June 1986, with repayment to be made in ten equal and successive semiannual installments beginning on March 31, 1990; the remaining 5 percent is to

Table 3. Senegal: Implementation Status of the 1984/85-1985/86 Adjustment Program

| Policies and measures | Status of implementation |
|---|---|
| 1. <u>Agricultural policy</u> | |
| a. Restructuring of cooperative system through the creation of village sections. | 4,472 village sections have already been created. |
| b. Promulgation of legislation governing groupings of economic interest, independent of the cooperative system. | Implemented May 11, 1984. |
| c. Liquidation, merger, or restructuring of rural development agencies. | |
| i. SAED | Agreement on rehabilitation program signed December 27, 1984. |
| ii. SONAR and STN | Liquidated February 11, 1985. |
| iii. Others | Agreements on rehabilitation programs to be signed by the end of the program period. |
| d. Distribution of fertilizers: henceforth, no direct subsidy from the Treasury; study of the distribution system, to be followed by adoption of appropriate action plan. | Study completed in November 1984; action plan to be prepared by the end of May 1985. |
| e. Reconstitution and distribution of groundnut seeds: medium-term objective to transfer this responsibility to the farmers themselves or their organizations; meanwhile, functions to be turned over to the oil millers. | Agreement transferring these functions to the oil millers signed on December 26, 1984. Medium-term action plan to be prepared by the end of May 1985. |
| f. Producer prices of maize, millet/sorghum, paddy, and cowpeas to be raised by 20 percent, 9 percent, 10 percent, and 40 percent, respectively. | Implemented October 8, 1984. |

- g. Producer price of groundnuts to be raised by 20 percent, on a net basis. Implemented January 12, 1985, with effect from the start of the 1984/85 marketing season.
- h. Retail price of rice to be increased by 23 percent. Implemented January 12, 1985

2. Price Equalization and Stabilization Fund

- a. Diagnostic studies of its operations, by commodity, to be followed by action plan. Study of rice operations completed; other studies to be conducted shortly, with action plan to be adopted by the end of March 1985.
- b. Management to be strengthened with external technical assistance. Technical assistance, to be financed partly by the World Bank, expected to be in place by the end of March 1985.
- c. Retail prices of groundnut oil and imported vegetable oil to be raised by 25 percent and 50 percent, respectively. Implemented August 13, 1984.

3. Petroleum pricing

Pursuit of a flexible petroleum pricing policy, in light of developments in the world market.

On July 26, 1984 ex-refinery and retail prices of petroleum products were raised by 5 percent and 3-8 percent, respectively; on December 1, 1984 they were increased again by 10 percent and 8-16 percent, respectively.

4. Fiscal Policy

- a. Increases in taxes, coupled with intensified efforts to strengthen tax administration and enforcement. On September 26, 1984 customs duties for certain products were effectively increased. Furthermore, with effect on January 1, 1985, the service tax was extended to cover telecommunication services and the rates of motor vehicle taxes and business fees were raised.
- b. Establishment of register of land titles for fiscal purposes. To be completed by the end of December 1985.
- c. Broad review of the tax system. Being carried out by a special tax commission; review to be finalized by the end of December 1985.

d. Increase in current outlays, excluding interest on the public debt, to be limited to 7 percent in 1984/85. In particular, wage bill will not exceed CFAF 109 billion, and the growth of outlays on materials, supplies, and transfers will be limited to 4 percent.

Being implemented; some economies are now foreseen.

e. Capital budgetary expenditure in 1984/85 to be maintained at the 1983/84 level of CFAF 10 billion.

Being implemented; some economies are now foreseen.

f. Domestic arrears of the Government and public agencies will be reduced by CFAF 7 billion in 1984/85; also, repayment of ONCAD debt to amount to CFAF 10 billion in 1984/85.

Being implemented.

5. Public utilities

Agreements on the rehabilitation programs of the four major public utilities, namely, SONEES, SOTRAC, SENELEC, and OPT, to be concluded by the end of December 1985.

With technical assistance from the World Bank, diagnostic studies of the problems of these entities nearly completed; agreement regarding SONEES signed on December 28, 1984.

6. Credit policy

Monetary authorities will pursue prudent credit policy, with the increase in noncrop credit to the private sector to be limited to 3 percent in 1984/85.

Policy being implemented.

7. External debt management

New external loans on nonconcessional terms contracted or guaranteed by the Government with a maturity of 1-12 years to be limited to SDR 20 million, of which no more than SDR 4 million will be in the maturity range of 1-5 years.

Policy being implemented.

be paid in four equal and successive annual installments starting on July 31, 1986. As to the period July-December 1984, they decided to reschedule or refinance 90 percent of any debt service payments due and not paid, with repayment to be made in five equal and successive annual installments beginning on January 31, 1988; the remaining 10 percent is to be paid in two equal installments on July 31, 1986 and July 31, 1987. Thus, Senegal will have no debt service payments to make to its Paris Club creditors in 1984/85-1985/86, except for debt service payments due on previously rescheduled or refinanced debt and on loans contracted since January 1, 1983. On the basis of the terms of the agreement, the debt relief obtained by Senegal from the Paris Club creditors is estimated at SDR 61 million in 1984/85 and SDR 56 million in 1985/86.

Understandings have also been reached with commercial bank creditors of the London Club, and a rescheduling agreement is expected to be signed shortly. This will provide for the rescheduling of 80 percent of the principal due in 1984/85-1985/86, with repayment to be made in eight equal and successive semiannual installments beginning on July 31, 1988; the remaining 20 percent is to be paid in eight equal and successive quarterly installments starting April 15, 1985. The debt relief involved is estimated at SDR 14 million in 1984/85 and SDR 6 million in 1985/86. Moreover, the authorities intend to seek debt rescheduling or refinancing on terms comparable to those of the Paris Club from other official creditors, though these account for a relatively small portion of Senegal's external debt service obligations.

Therefore, based on the above, the total external debt relief is estimated to be of the order of SDR 84 million in 1984/85 and SDR 77 million in 1985/86, which is consistent with the financing requirements of the balance of payments and the government budget. As a result, Senegal's actual external debt service payments are estimated to amount to SDR 147 million in 1984/85 and SDR 185 million in 1985/86, equivalent to 17 percent and 19 percent of exports of goods, services, and private transfers, respectively, as against 27 percent in each of these years before debt rescheduling.

Despite the unforeseen drop in marketed output of groundnuts, Senegal's external payments position in 1984/85 is expected to be broadly in line with that envisaged in the program because of other offsetting developments. According to provisional figures, the marketed output of groundnuts is estimated to fall to a low of 260,000 tons this season, about half the level projected last November, not only on account of a lower than expected crop but also because of larger artisanal processing of groundnuts in response to the increased retail price of groundnut oil. Even though the reduction in export volume of groundnut oil and cake will be compensated in part by higher-than-anticipated sales prices, export receipts from groundnut products in 1984/85 are now expected to be some SDR 27 million lower than had been projected in the program (Table 4). However, this shortfall will be almost entirely offset by a larger

Table 4. Senegal: Balance of Payments, 1983-85 and 1982/83-1985/86

(In millions of SDRs)

| | 1983 | 1984 | 1985 | 1982/83 | 1983/84 | | 1984/85 | | 1985/86 | |
|---|---------|----------|----------|----------|----------|---------|----------|----------|----------|----------|
| | | Est. | Proj. | | Prog. | Est. | Prog. | Est. | Prog. | Est. |
| Trade balance | -291.1 | -244.0 | -235.2 | -334.3 | -246.1 | -248.6 | -191.5 | -203.1 | -165.9 | -168.9 |
| Exports, f.o.b. | 531.9 | 545.4 | 542.6 | 496.1 | 485.0 | 541.0 | 560.9 | 541.0 | 635.4 | 615.8 |
| Of which: groundnut products | (133.2) | (122.4) | (71.5) | (103.5) | (141.3) | (163.5) | (131.9) | (105.2) | (137.4) | (110.0) |
| Imports, f.o.b. | -823.0 | -789.4 | -777.8 | -830.4 | -731.1 | -789.6 | -752.4 | -744.1 | -801.3 | -784.7 |
| Services (net) | -124.3 | -158.8 | -162.9 | -119.4 | -159.5 | -143.9 | -173.0 | -163.2 | -179.8 | -170.6 |
| Of which: interest due on public debt | (-80.4) | (-102.4) | (-114.8) | (-108.7) | (-114.1) | (-94.2) | (-121.9) | (-112.4) | (-138.5) | (-117.7) |
| Unrequited transfers (net) | 132.8 | 156.7 | 152.2 | 128.3 | 120.9 | 140.4 | 141.3 | 141.3 | 154.3 | 154.3 |
| Private | 27.2 | 30.4 | 32.6 | 26.8 | 27.9 | 29.0 | 35.0 | 35.0 | 40.0 | 40.0 |
| Public | 105.6 | 126.3 | 119.6 | 101.5 | 93.0 | 111.4 | 106.3 | 106.3 | 114.3 | 114.3 |
| Current account deficit (-) | -282.6 | -246.1 | -245.9 | -325.4 | -284.7 | -252.1 | -223.2 | -225.0 | -191.4 | -185.2 |
| Capital account | 142.9 | 124.7 | 118.2 | 145.9 | 111.6 | 115.8 | 109.3 | 114.9 | 102.2 | 112.7 |
| Public capital | 94.8 | 58.7 | 63.9 | 104.3 | 61.8 | 64.4 | 60.0 | 65.6 | 55.7 | 66.2 |
| Of which: amortization due on public debt | (-78.8) | (-80.9) | (-87.2) | (-79.6) | (-72.8) | (-72.1) | (-90.0) | (-89.4) | (-102.4) | (-93.8) |
| Private capital | 48.1 | 66.0 | 54.3 | 41.6 | 49.8 | 51.4 | 49.3 | 49.3 | 46.5 | 46.5 |
| Errors and omissions | -6.0 | -16.8 | -- | -22.9 | -- | 13.8 | -- | -- | -- | -- |
| Overall deficit (-) | -145.7 | -138.2 | -127.7 | -202.4 | -173.1 | -122.5 | -113.9 | -110.1 | -89.2 | -72.5 |
| Debt rescheduling | 70.3 | 78.5 | 80.1 | 91.3 | 77.2 | 80.4 | ... | 84.4 | ... | 76.5 |
| Of which: interest | (15.6) | (29.2) | (30.3) | (39.5) | (23.3) | (29.1) | (...) | (31.3) | (...) | (29.0) |
| Overall deficit after debt rescheduling (-) | -75.4 | -59.7 | -47.6 | -111.1 | -95.9 | -42.1 | ... | -25.7 | ... | 4.0 |
| Financing | 75.4 | 59.7 | 47.6 | 111.1 | 95.9 | 42.1 | 28.2 | 25.7 | 4.4 | -4.0 |
| Central Bank | 75.4 | 59.7 | 47.6 | 111.1 | 95.9 | 42.1 | 28.2 | 25.7 | 4.4 | -4.0 |
| IMF | (21.0) | (17.0) | (14.6) | (26.3) | (54.8) | (54.8) | (2.8) | (4.8) | (-8.3) | (-8.3) |
| Exceptional financing | (--) | (--) | (--) | (--) | (--) | (--) | (--) | (--) | (--) | (--) |
| Other | (54.4) | (42.7) | (33.0) | (84.8) | (41.1) | (-12.7) | (25.4) | (20.9) | (12.7) | (4.3) |
| Arrears (reduction -) | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- |
| Financing gap | -- | -- | -- | -- | -- | -- | 85.7 | -- | 84.8 | -- |

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

increase in phosphate export receipts (by SDR 7 million); lower import payments (by SDR 8 million), mainly for rice; and also lower interest payments due on the public debt (by SDR 10 million), reflecting revisions of the data and the exclusion of debt due by the multinational companies Air Afrique and Agence pour la Sécurité de la Navigation Aérienne. As a result, as net inflows of unrequited transfers are expected to be at the same level as that originally projected, the current account deficit is now estimated to amount to SDR 225 million in 1984/85, equivalent to about 9.3 percent of GDP, compared with SDR 223 million envisaged in the program. Since net capital inflows are likely to be slightly larger than had been initially expected, and given the estimated debt relief of SDR 84 million, the overall balance of payments deficit is projected to be of the order of SDR 26 million in 1984/85, compared with a programmed deficit of SDR 28 million. Indications are that the overall balance of payments outcome in 1985/86 may also be somewhat better than originally projected.

2. Fiscal and credit developments

While attempting to improve supply conditions, the authorities are continuing to pursue prudent fiscal and credit policies with a view to restraining aggregate domestic demand to a level compatible with available resources. On the fiscal side, the results achieved in the six-month period July-December 1984 were in line with the program; and net government borrowing from the banking system was CFAF 2.5 billion below the ceiling. An unforeseen deficit of CFAF 2.9 billion incurred by the groundnut sector last season, which was settled by the Government in December 1984, will be offset by economies in budgetary outlays.

On the basis of revenue collections through the first half of the fiscal year and likely prospects, for 1984/85 as a whole total revenue and grants are estimated to reach CFAF 224.9 billion, fractionally above the level envisaged in the program and 12 percent higher than in 1983/84 (Table 5). Although a modest shortfall is likely to be incurred in customs revenue, this is expected to be compensated by higher-than-anticipated collections from taxes on goods and services, partly due to the favorable impact of the revenue measures introduced in January 1985. Total expenditure and net lending is now expected to be limited to CFAF 257.9 billion, or CFAF 3.7 billion below the programmed amount, as a result of some economies in nonwage outlays, as well as lower interest payments due on the public debt; the wage bill is being kept within the programmed amount, mainly through a containment of the wage drift and a reduction in the growth of the civil service. Therefore, barring unforeseen developments, it is now estimated that the overall fiscal deficit, on a commitment basis, will be reduced even more than programmed, from the equivalent of 4.7 percent of GDP in 1983/84 to some 3.0 percent of GDP in 1984/85; but in view of the programmed reduction in domestic arrears of the Government and public agencies and the higher crop credit repayments, the overall cash deficit is estimated to be on target.

Table 5. Senegal: Government Financial Operations, 1982/83-1984/85

| | 1982/83 | 1983/84 | | 1984/85 | |
|---|---------|---------|--------------------|---------|-----------------|
| | | Program | Prov. results | Program | Est. results |
| (In billions of CFA francs) | | | | | |
| Total revenue and grants | 180.9 | 209.4 | 201.6 | 224.7 | 224.9 |
| Revenue | 175.7 | 198.3 | 189.4 | 212.8 | 212.7 |
| Of which: tax revenue | (164.5) | (188.3) | (177.4) | (199.7) | (199.6) |
| Grants | 5.2 | 11.1 | 12.2 | 11.9 | 12.2 |
| Of which: capital | (3.4) | (11.1) | (6.0) | (5.0) | (5.0) |
| Total expenditure and net lending | 254.2 | 257.0 | 247.6 | 261.6 | 257.9 |
| Current expenditure | 186.6 | 203.1 | 205.3 | 226.2 | 223.5 |
| Wages and salaries | 92.7 | 100.0 | 100.4 | 109.0 | 109.0 |
| Interest due on government debt | 26.7 | 33.1 | 36.9 | 46.2 | 44.5 |
| Of which: external | (26.2) | (31.5) | (36.4) | (45.2) | (43.8) |
| Other ^{1/} | 67.2 | 70.0 | 68.0 | 71.0 | 70.0 |
| Capital expenditure | 39.0 | 42.4 | 40.3 | 35.0 | 34.0 |
| Budgetary | 7.9 | 10.0 | 10.0 | 10.0 | 9.0 |
| Extrabudgetary | 31.1 | 32.4 | 30.3 | 25.0 | 25.0 |
| Treasury special accounts (net) ^{2/} | -12.3 | -7.0 | -6.9 | -5.0 | -5.0 |
| Treasury correspondents (net) ^{2/} | -16.3 | -4.5 | 4.9 | 4.6 | 4.6 |
| CPSP and seed distribution scheme | -11.4 | -7.5 | -1.3 | 2.3 | 2.3 |
| Other | -4.9 | 3.0 | 6.2 | 2.3 | 2.3 |
| Overall fiscal deficit (-) (commitment basis) | -73.3 | -47.6 | -46.0 | -36.9 | -33.0 |
| Adjustments to cash basis | 6.8 | -23.8 | -22.6 | -9.6 | -13.3 |
| Payment arrears of the Government and public agencies (reduction -) | 5.6 | -- | -2.0 | -7.0 | -7.0 |
| Crop credit (repayment -) ^{3/} | 1.2 | -23.8 | -20.6 | -2.6 | -6.3 |
| Overall fiscal deficit (-) (cash basis) | -66.5 | -71.4 | -68.6 | -46.5 | -46.3 |
| Financing | 66.5 | 71.4 | 68.6 | 46.5 | 46.3 |
| External | 48.5 | 44.7 | 36.7 | 35.3 | 35.1 |
| Drawings | 49.5 | 43.1 | 35.9 | 40.9 | 40.4 |
| Treasury | (21.8) | (21.8) | (11.6) | (20.9) | (20.4) |
| Other | (27.7) | (21.3) | (24.3) | (20.0) | (20.0) |
| Amortization payments due | -27.3 | -24.8 | -28.4 | -32.1 | -32.3 |
| External debt rescheduling | 26.3 | 26.4 | 29.2 | ... | 27.0 |
| Gap | -- | -- | -- | 26.5 | -- |
| Domestic | 18.0 | 26.7 | 31.9 | 11.2 | 11.2 |
| Banking system ^{4/} | 20.2 | 41.3 | 34.7 ^{5/} | 19.2 | 19.2 |
| Repayment of ONCAD debt to banks | -2.0 | -16.6 | -8.8 | -10.0 | -10.0 |
| Nonbank borrowing | 2.0 | 2.0 | 1.4 | 2.0 | 2.0 |
| Other | -2.2 | -- | 4.6 | -- | -- |
| Memorandum items: | | | | | |
| Payment arrears of the Government and public agencies outstanding (end of period) | 55.7 | 55.7 | 53.7 | 46.7 | 46.7 |
| Nominal GDP | 893.8 | 982.7 | 979.6 | 1,112.2 | 1,112.2 |
| (In percent of GDP) | | | | | |
| Total revenue and grants | 20.2 | 21.3 | 20.6 | 20.2 | 20.2 |
| Revenue | 19.6 | 20.2 | 19.3 | 19.1 | 19.1 |
| Of which: tax revenue | (18.4) | (19.2) | (18.1) | (18.0) | (18.0) |
| Total expenditure and net lending | 28.4 | 26.2 | 25.3 | 23.5 | 23.2 |
| Current expenditure | 20.9 | 20.7 | 21.0 | 20.3 | 20.1 |
| Capital expenditure | 4.4 | 4.3 | 4.1 | 3.1 | 3.0 |
| Overall fiscal deficit (-) (commitment basis) | -8.2 | -4.8 | -4.7 | -3.3 | -3.0 |
| Overall fiscal deficit (-) (cash basis) | -7.4 | -7.3 | -7.0 | -4.2 | -4.1 |

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

^{1/} Consisting of outlays for materials, supplies, maintenance, subsidies and other current transfers, and unclassified expenditure.^{2/} Deficits (-) are added to expenditure, while surpluses are deducted.^{3/} Crop credit due by the CPSP and the seed distribution scheme.^{4/} Including the counterparts of Fund purchases and repurchases.^{5/} This figure is CFAF 4.8 billion higher than in the monetary survey (Table 6) because of an adjustment made for the amount of external assistance unutilized but deposited at the Central Bank in 1983/84.

During the period July-December 1984 the increase in private sector credit, excluding crop credit amounted to 2 percent (Table 6), virtually the same expansion envisaged in the program. However, crop credit requirements were substantially lower than projected, because of the unforeseen drop in marketed output of groundnuts indicated above; at end-December 1984, outstanding crop credit amounted to only CFAF 14.6 billion, compared with CFAF 30.9 billion in the program. Since net government borrowing from the banking system was also lower than programmed, total domestic credit expansion amounted to only 2.5 percent, as against the projected 7.5 percent. Thus, given the evolution of the balance of payments, money supply, broadly defined, expanded by 4.5 percent, somewhat slower than programmed. In view of these developments and prospects, expectations are that the rate of domestic credit and monetary expansion for 1984/85 as a whole will remain within the programmed limits.

3. Performance criteria

As indicated in Table 7, all the quantitative performance criteria for end-December 1984 were met. The standard performance clause regarding the exchange and payments system and overdue financial obligations to the Fund was also observed.

IV. Medium-Term Economic Outlook

1. The groundnut sector

The recent shortfall in marketed output of groundnuts, with its consequent adverse impact on the operations and costs of the two oil milling companies, has heightened the authorities' concerns with the problems and prospects of the groundnut sector. Accordingly, following an interministerial meeting chaired by the President of the Republic on January 23, 1985, an intensive review of various aspects of this sector has been undertaken, notably the existing excess capacity of the oil milling companies. In this context, and consistent with the new agricultural policy, serious consideration is being given to the following actions: strengthening incentives for production of groundnuts, without compromising the desired increase in output of cereals; turning over progressively the responsibility for reconstitution of the groundnut seed stock to the farmers themselves or their organizations (for the coming season, the Government has already decided to reduce the seed stock from 120,000 tons to 100,000 tons); and substantially reducing the costs of the oil milling companies which are now being compensated by the Treasury. ^{1/} Appropriate actions in these areas are expected to be taken shortly.

^{1/} These costs amounted to CFAF 7.5 billion in 1983/84.

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

(In billions of CFA francs; end of period)

| | 1982 | 1983 | | 1984 | | | 1985 | | |
|----------------------------|--------|--------|--------|--------|--------|--------|--------|-----------------|-----------------|
| | Dec. | June | Dec. | March | June | Sept. | Dec. | March Prog. | June Prog. |
| Foreign assets (net) | -159.3 | -178.8 | -182.5 | -177.3 | -198.4 | -221.5 | -209.0 | -209.4 | -210.4 |
| Central bank | -139.6 | -163.4 | -170.3 | -168.8 | -181.5 | -196.8 | -180.4 | -195.0 | -194.5 |
| Commercial banks | -19.7 | -15.4 | -12.2 | -8.5 | -16.9 | -24.7 | -28.6 | -14.4 | -15.9 |
| Domestic credit | 446.2 | 468.0 | 480.2 | 482.5 | 489.6 | 494.2 | 501.6 | 536.9 <u>1/</u> | 527.0 <u>1/</u> |
| Claims on Government (net) | 87.6 | 90.4 | 106.9 | 110.9 | 120.3 | 129.7 | 122.7 | 138.0 <u>1/</u> | 139.6 <u>1/</u> |
| Claims on private sector | 358.6 | 377.6 | 373.3 | 371.6 | 369.3 | 364.5 | 378.9 | 398.9 | 387.4 |
| Of which: crop credit | (33.3) | (42.9) | (22.0) | (19.2) | (12.4) | (5.6) | (14.6) | (33.3) | (19.7) |
| Money and quasi-money | 262.4 | 266.8 | 272.7 | 276.6 | 276.2 | 262.8 | 288.6 | 302.5 | 291.6 |
| Other items (net) | 24.5 | 22.4 | 25.0 | 28.6 | 15.0 | 9.9 | 4.0 | 25.0 | 25.0 |

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

1/ Performance criteria.

Table 7. Senegal: Quantitative Performance Criteria and Results
Under the 1984/85 Adjustment Program

| Change from July 1 to end | 1984 | 1985 | |
|--|--------------------|-------|------|
| | Dec. | March | June |
| (In billions of CFA francs) | | | |
| Domestic credit | | | |
| Ceiling | 14.3 ^{1/} | 47.2 | 37.3 |
| Actual | 12.0 | ... | ... |
| Claims on Government (net) | | | |
| Ceiling | 4.9 ^{2/} | 17.6 | 19.2 |
| Actual | 2.4 | ... | ... |
| Domestic arrears of the Govern- ment and public agencies | | | |
| Ceiling | -2.6 | -4.0 | -7.0 |
| Actual | -2.6 | ... | ... |
| Repayment of ONCAD debt | | | |
| Minimum | -- | 5.0 | 10.0 |
| Actual | -- | ... | ... |
| (In millions of SDRs) | | | |
| New external borrowing on nonconcessional terms by the Government or with government guarantee (cumulative) | | | |
| 1. 1-12 years' maturity | | | |
| Ceiling | 10.0 | 20.0 | 20.0 |
| Actual | 5.8 | ... | ... |
| 2. 1-5 years' maturity | | | |
| Ceiling | 2.0 | 4.0 | 4.0 |
| Actual | -- | ... | ... |

Sources: Letter of intent of the Minister of Economy and Finance of December 3, 1984; and data provided by the Senegalese authorities.

^{1/} After downward adjustment by CFAF 22.6 billion on account of an excess amount of external budgetary assistance (CFAF 6.6 billion), lower crop credit (CFAF 16.3 billion), and drawings made to finance public sector expenditures not reflected "above the line" in the table on the financial operations of the Government (-CFAF 0.3 billion) (see EBS/84/267, Table 9, page 31).

^{2/} After downward adjustment by CFAF 6.3 billion on account of an excess amount of external budgetary assistance (CFAF 6.6 billion) and drawings made to finance public sector expenditures not reflected "above the line" in the table on the financial operations of the Government (-CFAF 0.3 billion) (see EBS/84/267, Table 9, page 31).

2. The balance of payments

The medium-term outlook of Senegal's balance of payments, as presented in the last staff report in December 1984 (EBS/84/267), remains basically unchanged. Assuming that appropriate adjustment policies continue to be pursued, a viable external payments position could be attained toward the end of this decade. In the interim, however, given the magnitude of the fiscal and external imbalances, Senegal will require further external assistance, both in the form of concessional loans and appropriate debt relief.

V. Staff Appraisal

After successfully implementing the 1983/84 program, the Senegalese authorities have continued to pursue an appropriate mix of adjustment policies in the context of the program for 1984/85-1985/86 which is designed to achieve a satisfactory economic growth and a viable internal and external financial position over the medium term. Although some of the policy decisions envisaged under the program, notably in the area of consumer pricing, have been particularly delicate, they have been rigorously implemented, demonstrating a commitment to the adjustment process. Despite an unexpected drop in marketed output of groundnuts, the program remains on track, and indications are that its basic targets for 1984/85 will be achieved. Meanwhile, all the performance criteria of the program for end-December 1984 have been met.

As envisaged in the program, the authorities have made arrangements with official creditors of the Paris Club and commercial bank creditors of the London Club for the rescheduling or refinancing of part of the country's external debt service obligations, and they intend to seek comparable arrangements with other creditors. On this basis, the total external debt relief is estimated to be of the order of SDR 84 million in 1984/85 and SDR 77 million in 1985/86, with some three fourths being accounted for by the Paris Club, which is in line with the financing requirements of the program. This level of external debt relief, together with the authorities' adjustment efforts, will alleviate considerably both the external payments position and the government budgetary situation. In fact, barring unforeseen developments, the overall balance of payments deficit is now projected to amount to about SDR 26 million in 1984/85, compared with a programmed deficit of SDR 28 million. Indications are that the overall balance of payments outcome in 1985/86 may also be somewhat better than originally projected.

Despite these signs of progress, Senegal continues to face major structural and financial problems. The economy, especially the agricultural sector, remains fundamentally weak, public finances are precarious, there are substantial domestic arrears, and the external current account deficit is still unsustainably large. However, if appropriate adjustment policies

are pursued with determination over several years, Senegal could reach a sustainable financial position toward the end of this decade. In the interim, given the magnitude of the fiscal and external imbalances, Senegal's adjustment efforts would need to be supported by creditors and donors through further concessional assistance and appropriate debt relief.

VI. Proposed Decision

The following draft decision is proposed for adoption by the Executive Board:

1. Senegal has consulted with the Fund in accordance with paragraph 4(b) of the stand-by arrangement for Senegal (EBS/84/267, Supplement 3, January 18, 1985), and paragraph 21 of the letter from the Minister of Economy and Finance dated December 3, 1984 attached thereto, in order to reach understandings with the Fund on the adequacy of arrangements for rescheduling Senegal's external debt.

2. The letter from the Acting Minister of Economy and Finance dated February 28, 1985 shall be attached to the stand-by arrangement. The Fund finds that no further understandings are necessary, and that Senegal may proceed to make purchases under the stand-by arrangement.

3. In accordance with Executive Board Decision No. of February 20, 1985 on overdue payments to the Fund, the stand-by arrangement for Senegal is amended to read as set out in the Attachment.

Dakar, February 28, 1985

Dear Mr. de Larosière:

1. In accordance with my letter to you of December 3, 1984, the Senegalese authorities have recently consulted with a Fund staff mission in connection with the first review of the adjustment program being supported by the 18-month stand-by arrangement for Senegal which was approved on January 16, 1985. As set forth in the arrangement, the first review is confined to assessing the adequacy of the external debt rescheduling arrangements made by Senegal in relation to the overall financing needs of the balance of payments and the government budget, particularly for the fiscal year 1984/85 (July/June); the second and third reviews, which will be broader in scope, will include reaching detailed understandings with the Fund on the economic and financial policies to be implemented in 1985/86. Before turning to the external debt rescheduling arrangements, I would like to indicate that all the quantitative performance criteria for end-December 1984, the first test date of the program, have been met; and it is our expectation that those for end-March 1985 and end-June 1985 will also be observed.

2. The external debt rescheduling arrangements already made have been satisfactory. As you are aware, on January 18, 1985, the representatives of official creditors of the Paris Club agreed to recommend to their Governments or appropriate institutions to provide substantial debt relief to Senegal in respect of all government and government-guaranteed debts contracted before January 1, 1983 and not previously rescheduled. Specifically, they decided to reschedule or refinance 95 percent of the debt service payments falling due over the period January 1, 1985-June 30, 1986, which virtually coincides with the period of the stand-by arrangement, the remaining 5 percent being deferred for payment after June 1986. As to the period July 1-December 31, 1984, they agreed to reschedule or refinance 90 percent of any debt service payments due and not paid, the remaining 10 percent being deferred for settlement also after June 1986. Thus, apart from the debt service payments due on previously rescheduled debt and on loans contracted after the January 1, 1983 cut-off date, Senegal will have no debt service payments to make to its Paris Club creditors in 1984/85-1985/86. Furthermore, understandings have been reached with commercial bank creditors of the London Club on the rescheduling of the bulk of the principal repayments falling due over the two-year period ending June 1986, and a formal agreement is expected to be signed shortly. Finally, comparable rescheduling or refinancing arrangements will be sought with other official creditors, who account for a relatively small portion of Senegal's external debt service obligations. On this basis, it is estimated that the total external debt relief will be of the order of SDR 84 million in 1984/85 and of SDR 77 million in 1985/86, which is broadly in line with the assumptions made in the program.

3. This level of external debt relief, together with our domestic adjustment efforts, will help alleviate the external payments position and the government budgetary situation. Although total export earnings in 1984/85 are now expected to be some 4 percent lower than had been projected some months ago, the overall balance of payments deficit is estimated to be practically the same as in the program. The export shortfall is attributable to an unforeseen drop in marketed output of groundnuts due to a lower than expected crop and to larger artisanal processing of groundnuts in response to the increased retail price of groundnut oil. While the reduction in export volume of groundnut oil and cake will be compensated in part by higher than foreseen export prices, groundnut product export receipts will still be substantially lower than had been projected. However, this shortfall will be almost entirely offset by a larger increase in other exports and by lower imports and service payments, including interest payments due on the public debt. As a result, the current account deficit is now estimated to amount to SDR 225 million in 1984/85, equivalent to about 9.3 percent of GDP, compared with SDR 223 million envisaged in the program. As net capital inflows are likely to be slightly larger than had been foreseen, and, given the level of external debt relief, the overall balance of payments deficit is projected to be of the order of SDR 26 million in 1984/85, compared with a programmed deficit of SDR 28 million. Indications are that the overall balance of payments deficit in 1985/86 may also be somewhat lower than originally projected.

4. The policies adopted under the program for 1984/85 are being fully implemented. In particular, while attempting to improve supply conditions, the Government is continuing to pursue cautious fiscal and credit policies with a view to restraining aggregate domestic demand to a level compatible with available resources. On the fiscal side, the results achieved so far have been in line with the program, and it is expected that the small unforeseen deficit incurred by the groundnut sector last season, which had to be settled in December 1984, will be offset by economies in other areas. Thus, the programmed reduction of the overall fiscal deficit, on a commitment basis, from the equivalent of 4.7 percent of GDP in 1983/84 to 3.3 percent of GDP in 1984/85 will be achieved, if not exceeded. Similarly, both net government borrowing from the banking system and total domestic credit expansion will be kept within the limits of the program.

5. The recent shortfall in marketed output of groundnuts, with its consequent adverse impact on the operations and costs of the two oil milling companies, has heightened the Government's concerns with the problems and prospects of the groundnut sector. Accordingly, following the restricted interministerial meeting chaired by the President of the Republic on January 23, 1985, a series of studies have been undertaken on the various aspects of this sector, notably production incentives, marketing arrangements, the distribution of seeds and fertilizers, and the role of the oil millers. In this context, and consistent with the new agricultural policy, serious consideration is being given to the following actions: strengthening incentives for production of groundnuts, without compromising

the desired increase in output of cereals; turning over progressively the responsibility for reconstitution of the groundnut seed stock to the farmers themselves or their organizations (for the coming season, the Government has already decided to reduce the seed stock from 120,000 tons to 100,000 tons); and substantially reducing the costs of the oil millers which are now being compensated by the Treasury. Appropriate decisions in these areas will be taken shortly.

6. The Government believes that the policies set out in my letter of December 3, 1984 remain adequate to achieve the objectives of the program in 1984/85, but it will take any further measures that may be required for this purpose. If necessary, the Government will consult with the Fund on the adoption of any measures that may be appropriate in accordance with the policies of the Fund on such consultations.

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

Sincerely yours,

Serigne Lamine Diop
Acting Minister of Economy and Finance

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

Senegal - Relations with the Fund
(As of January 31, 1985)

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 299.60 million, equivalent to 352.06 percent of quota.
- c. Fund credit SDR 215.45 million, equivalent to 253.17 percent of quota, of which: SDR 64.22 million (75.46 percent of quota) under credit tranches; SDR 36.75 million (43.18 percent of quota) under the CFF; SDR 20.52 million (24.11 percent of quota) under the EFF; SDR 48.98 million (57.56 percent of quota) under the SFF; and SDR 44.98 million (52.86 percent of quota) under the EAR.
- d. Reserve tranche position SDR 0.958 million

III. Previous stand-by and extended arrangements

- a. One-year stand-by arrangement, approved on March 30, 1979, in an amount equivalent to SDR 10.5 million (25 percent of the existing quota); the full amount was purchased.
- b. An extended Fund facility, approved on August 8, 1980, in an amount equivalent to SDR 184.8 million (440 percent of the existing quota); only SDR 41.1 million was utilized, and the EFF was canceled on September 11, 1981 and replaced by a one-year stand-by arrangement.

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

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

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

IV. SDR Department

| | |
|---------------------------|---|
| Net cumulative allocation | SDR 24.46 million |
| Holdings | SDR 0.22 million (0.90 percent of the net cumulative allocation) |

V. Administered accounts

| | |
|------------------------|-------------------|
| a. Trust Fund loans | |
| Disbursed | SDR 33.23 million |
| Outstanding | SDR 27.60 million |
| b. SFF Subsidy Account | |
| Payments by the Fund | SDR 4.35 million |

B. Nonfinancial Relations

VI. Exchange rate arrangements

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

VII. Last Article IV consultation and 1984/85-1985/86 stand-by arrangement

The last Article IV consultation discussions, together with stand-by negotiations, were held during the periods June 4-20, 1984 and July 26-31, 1984. The staff report (EBS/84/267) was discussed by the Executive Board on January 16, 1985, and the following decision was adopted on the 1984 Article IV consultation:

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

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

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

1. The Government of Senegal has requested a stand-by arrangement in an amount equivalent to SDR 76.6 million for a period of 18 months from January 16, 1985 through July 15, 1986.

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

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

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

VIII. Technical assistance

a. Central Banking Department

An external debt expert was assigned in January 1984 as a consultant to the Ministry of Economy and Finance for a period of one year; this assignment has been extended for a second year.

b. Fiscal Affairs Department

A consultant from the fiscal panel assisted a unit in the Ministry of Economy and Finance during the period October 1981-January 1982 in taking stock of government arrears.

c. Other

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

IX. Fund resident representative

Stationed in Dakar since July 24, 1984.

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

Lending operations

(In millions of U.S. dollars)

| | <u>IBRD and IDA 1/</u> | | <u>IFC loans and equity participations</u> | | <u>Grand total</u> |
|--|--------------------------|------------------------------|--|-----------------------------|--------------------|
| | <u>Total commitments</u> | <u>Of which: undisbursed</u> | <u>Total commitments</u> | <u>Of which undisbursed</u> | |
| Ten loans and 19 credits fully disbursed | 166.5 | (--) | -- | (--) | 166.5 |
| Structural adjustment and technical assistance | 41.9 | (18.4) | -- | (--) | 41.9 |
| Agriculture, livestock, and forestry | 75.9 | (42.7) | 0.8 | (--) | 76.7 |
| Power, industry, and tourism | 39.8 | (20.9) | 31.7 | (22.0) | 71.5 |
| Transport and telecommunications | 110.3 | (46.4) | -- | (--) | 110.3 |
| Urban development, education, and health | <u>52.0</u> | <u>(21.7)</u> | <u>0.5</u> | <u>(--)</u> | <u>52.5</u> |
| Total | 486.4 | (150.1) | 33.0 | (22.0) | 519.4 |
| Less repaid or sold | | | | | 25.5 |
| Total outstanding | | | | | 493.9 |
| Held by IBRD | | | | | 119.9 |
| IDA | | | | | 344.5 |
| IFC | | | | | 29.3 |

Memorandum items:

Annual IBRD/IDA operations

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

Source: World Bank Group.

1/ Less cancellations.

Commentary on lending operations

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: (a) in 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) in 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) in improving the effectiveness of external assistance by acting as a focal point for increased aid coordination among the donors.

Over the next five year period (FY85-89), the Bank's lending program, on present planning, would amount to about US\$150 million, almost all of which would be on IDA terms. Some US\$50 million could be committed in FY85, partly in support of a well defined structural adjustment program currently under discussion with the Government. This major policy-based operation would set the framework for additional sector specific operations (notably in agriculture), as well as rehabilitation projects in water supply, telecommunications, power, education, and health. Senegal is also a candidate for additional resources under the Special Facility for Sub-Saharan Africa.

Senegal - Stand-By Arrangement

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

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

1. For a period of 18 months from January 16, 1985, Senegal will have the right to make purchases from the Fund in an amount equivalent to SDR 76.6 million, subject to paragraphs 2, 3, 4, 5, and 6 below, without further review by the Fund.

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

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

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

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

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

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

- (i) the limit on total domestic credit of the banking system referred to in paragraph 18 of the attached letter and specified in the table annexed to that letter, or
- (ii) the limit on net bank claims on the Government referred to in paragraph 18 of the attached letter and specified in the table annexed to that letter, or
- (iii) the target for the reduction of domestic arrears of the Government and public agencies referred to in paragraph 13 of the attached letter and specified in the table annexed to that letter, or
- (iv) the target for the repayment of debts relating to the Office National de Coopération et d'Assistance pour le Développement (ONCAD) referred to in paragraph 18 of the attached letter and specified in the table annexed to that letter, or
- (v) the limit on contracting of government and government-guaranteed external debt specified in paragraph 20 of the attached letter and in the table annexed to that letter,

is not observed; or

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

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

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

(e) throughout the duration of this stand-by arrangement, if Senegal

- (i) imposes restrictions on payments and transfers for current international transactions, or
- (ii) introduces or modifies multiple currency practices, or
- (iii) concludes bilateral payments agreements which are inconsistent with Article VIII, or
- (iv) imposes or intensifies restrictions on imports for balance of payments reasons.

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

5. Senegal will not make purchases under this stand-by arrangement during any period of the arrangement in which the member has an overdue financial obligation to the Fund or is failing to meet a repurchase expectation pursuant to the Guidelines on Corrective Action in respect of a noncomplying purchase.

6. 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 6, 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.

7. 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.

8. 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).

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

10. (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.

11. 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.

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