FOR AGENDA

EBS/85/185

CONFIDENTIAL

August 7, 1985

To: Members of the Executive Board

From: The Secretary

Subject: Senegal - Second Review Under Stand-By Arrangement

Attached for consideration by the Executive Directors is the staff report for the second review under the stand-by arrangement for Senegal. A draft decision appears on page 37. 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) are available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

SENEGAL

Second 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 S. Kanesa-Thasan

August 6, 1985

1. 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, or 90 percent of Senegal's quota (60 percent of quota on an annual basis), in support of the Government's adjustment program for the fiscal years 1984/85 (July/June) and 1985/86 (EBS/84/267 and Supplements 1 and 3). The stand-by arrangement calls for three reviews with the Fund of progress in the implementation of the program, each of which constitutes a performance criterion. The first review, which was confined to assessing the adequacy of the external debt rescheduling arrangements made by the Senegalese authorities, was completed by the Executive Board on March 18, 1985 (EBS/85/45). The present second review, to be completed by September 14, 1985, involves reaching detailed understandings on the fiscal, credit, pricing, and external borrowing policies for 1985/86, including establishing the relevant performance criteria. Finally, the third review, to be completed by March 14, 1986, will 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.

The discussions that formed the basis for this review were held in Dakar during the period June 5-21, 1985. 1/ In the attached letter to the Managing Director dated July 29, 1985, the Minister of Economy and Finance reviews Senegal's performance in 1984/85, describes the adjustment policies to be pursued in 1985/86, and proposes the appropriate performance criteria for the 1985/86 program (Appendix I).

1/ The staff representatives in the discussions were Mr. Calamitsis (head-AFR), Mr. Yucelik (FAD), Mr. Begashaw (ETR), and Mr. Ugolini (AFR), with Ms. Buggs (AFR) as secretary; Mr. Franco, the Fund's resident representative in Dakar, also took part in the discussions. Mr. Doe, Alternate Executive Director for Senegal, attended most of the meetings.

Senegal has so far made three purchases under the stand-by arrangement totaling SDR 34.6 million: an initial purchase of SDR 10.6 million on January 31, 1985, following approval of the arrangement; a second purchase of SDR 12.0 million on March 29, 1985, upon observance of the performance criteria for end-December 1984 and completion of the first review of the program; and a third purchase of SDR 12.0 million on June 14, 1985, upon observance of the performance criteria for end-March 1985. Of the remaining four purchases, the next one, for SDR 10.5 million, may be made after September 14, 1985, subject to observance of the performance criteria for end-June 1985 and completion of the second review of the program. As of June 30, 1985 the Fund's holdings of Senegal's currency, the CFA franc, subject to repurchase were equivalent to 259.9 percent of quota; excluding holdings resulting from purchases under the compensatory financing facility, they amounted to 229.0 percent of quota. If the balance available under the current stand-by arrangement is purchased, and after taking into account scheduled repurchases, by June 30, 1986 the Fund's holdings of Senegal's currency subject to repurchase would amount to the equivalent of 250.1 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. In connection with the first review under the stand-by arrangement, a staff mission held discussions with the authorities in Dakar during the period February 6-16, 1985. Subsequently, at the request of the authorities, a staff team visited Dakar during the period April 10-19, 1985 to prepare the groundwork for the second review and, in particular, for the negotiation of the 1985/86 (July/June) fiscal program. 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. In this regard, it is to be noted that the World Bank staff has also begun discussions with the authorities on a program to be supported by a second structural adjustment credit (SAC II), with disbursements beginning toward the end of 1985/86. Summary statements on Senegal's relations with the Fund and the World Bank Group are presented in Appendix II and III, respectively.

II. Background

Since 1980 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, including debt relief from official and private creditors. Initially, the results achieved were unsatisfactory, not only because of the adverse impact of recurrent droughts and other exogenous factors but also due to weaknesses in policy implementation. In fact, the medium-term program of economic

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

	Outstanding at December 31, 1984	1985 Jan.-March	1985 April-June	1985 July-Sept.	1985 Oct.-Dec.	1986 Jan.-March	1986 April-June
				(In millions of SDRs)			
Transactions under tranche policies (net) 1/	--	19.13	7.70	6.13	2.71	1.89	1.97
Purchases	--	22.60 2/	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	-4.30	-4.37	-7.79	-8.61	-8.53
Ordinary resources	(--)	(-1.70)	(-1.80)	(-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) 3/	--	-5.25	-5.25	-5.25	-5.25	-5.25	-5.25
Purchases	--	--	--	--	--	--	--
Repurchases	--	-5.25	-5.25	-5.25	-5.25	-5.25	-5.25
Total Fund credit outstanding (end of period)	204.84	218.72	221.17	222.05	219.51	216.15	212.87
Tranche policies 1/	168.09	187.22	194.92	201.05	203.76	205.65	207.62
Special facilities 3/	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)	240.70	257.02	259.89	260.93	257.94	254.00	250.14
Tranche policies 1/	197.52	220.00	229.04	236.25	239.43	241.66	243.97
Special facilities 3/	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 which was made on March 29, 1985.
3/ Compensatory financing facility.

and financial adjustment undertaken in 1980, in support of which the Fund approved an extended arrangement and the World Bank a structural adjustment credit (SAC I), ran into considerable difficulties soon after its inception, and was subsequently replaced by successive annual programs. Under the 1981/82 program, a significant adjustment was made; but the improvement proved only temporary, and the situation deteriorated again in the following year. By contrast, beginning with the 1983/84 program, a major turnaround was realized, and steady progress has been made toward reducing the large internal and external financial imbalances.

Although the economy was hard hit by another severe drought, the 1983/84 adjustment program 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 4.6 percent of GDP in 1983/84 (Table 2), and there was some liquidation of domestic arrears of the Government and public agencies, whereas such arrears had increased in the previous year. The rate of domestic credit expansion was also reduced substantially, from 17 percent to 5 percent, respectively. As domestic demand was strictly limited and exports grew appreciably, 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 programmed 11.9 percent. Consequently, as net capital inflows turned out to be higher than expected, and Senegal obtained considerable debt relief from official creditors and commercial banks, the overall balance of payments deficit was more than halved to SDR 42 million in 1983/84, representing a major improvement in comparison with the deficit of SDR 96 million envisaged in the program.

Despite this turnaround, in mid-1984 Senegal continued to face major structural and financial problems. The economy, especially the agricultural sector, remained fundamentally weak, government finances were precarious, the public enterprise sector was overextended, and the external current account deficit was still unsustainably large. Moreover, the sizable domestic and external debt, the legacy of the expansionary policies pursued in the 1970s, weighed heavily on both the government budget and the balance of payments. As of the end of June 1984 domestic arrears of the Government and public agencies amounted to CFAF 53.7 billion, or about 5 percent of GDP, though there were also substantial arrears on taxes and customs duties; and, with the liquidation of a large rural development agency (ONCAD), beginning in August 1983 the Government had to service this agency's debt to local banks of CFAF 94.0 billion. In addition, the external debt was equivalent to over 90 percent of GDP, with the debt service, before rescheduling, amounting to 27.5 percent of exports of goods, services, and private transfers in 1984/85. Against this background, the authorities undertook the present adjustment program, covering the fiscal years 1984/85-1985/86, with a view to achieving a satisfactory economic growth and a viable internal and external financial position over the medium term.

Table 2. Senegal: Selected Economic and Financial Indicators, 1983-85 and 1982/83-1985/86

	1983	1984	1985	1982/83	1983/84	1984/85		1985/86
		Est.	Proj.		Est.	Prog.	Rev.	Prog.
	(Annual percent changes, unless otherwise specified)							
National income and prices								
GDP at constant prices	3.4	-4.1	10.5	8.3	-0.4	4.1	3.1	5.0
GDP deflator	8.1	12.2	7.7	9.1	10.1	9.0	10.1	8.4
External sector								
Exports, f.o.b. (in SDRs)	-0.4	0.4	3.8	3.5	9.1	4.5	-0.7	15.4
Imports, f.o.b. (in SDRs)	-4.4	-4.4	-1.1	0.1	-4.9	-4.3	-5.8	5.7
Non-oil imports, c.i.f. (in SDRs)	-0.7	-11.5	1.3	8.7	-10.9	-3.7	-5.5	3.0
Export volume	4.1	-6.8	-1.9	...	...	...	...	...
Import volume	1.7	-8.1	-5.4	...	...	...	...	...
Terms of trade (in SDRs; deterioration -)	-1.2	3.6	1.7	...	...	...	...	...
Nominal import-weighted effective exchange rate (end of period; depreciation -)	-7.0	-2.3	...	-5.8	-2.7	...	-2.0	...
Real import-weighted effective exchange rate (end of period; depreciation -)	-2.1	2.1	...	-3.1	7.1	...	3.6	...
Government budget								
Revenue	...	...	...	15.7	7.8	12.4	10.0	14.1
Total current and capital expenditure	...	...	...	12.9	10.7	9.7	6.3	5.5
Money and credit								
Domestic credit	7.6	4.4	11.0	17.4	4.7	7.6	4.9	6.9
Government (net)	22.2	14.4	22.1	28.8	33.7	15.9	5.7	17.2
Private sector	4.1	1.5	7.4	15.0	-2.2	4.9	4.6	3.5
Money and quasi-money	4.0	5.3	7.3	12.1	3.7	5.6	2.9	5.5
Velocity (GDP relative to M2) 1/	3.5	3.6	4.1	3.4	3.6	2.6	3.8	4.2
Interest rate (end of period)								
Minimum rate on time deposits 2/	9.5 3/	9.5	9.5	9.5 3/	9.5	9.5	9.5	9.5
Money market rate for overnight deposits	12.0	10.8	...	12.0	12.0	...	10.2	...
	(In percent of GDP, unless otherwise specified)							
Overall fiscal deficit (-) 4/								
Commitment basis	...	...	...	-8.2	-4.6	-3.3	-3.3	-1.4
Cash basis	...	...	...	-7.4	-6.9	-4.2	-4.2	-2.4
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	-11.1	-9.2	-9.5	-6.8
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	27.5	27.5
	(In millions of SDRs, unless otherwise specified)							
GDP at current market prices (in billions of CFA francs)	943.6	1,015.6	1,208.7	893.8	979.6	1,112.2	1,112.2	1,265.0
Overall balance of payments deficit (-) 6/	-75.4	-59.7	-47.6	-111.1	-42.1	...	-30.8	0.2
Gross official foreign reserves (in 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; the actual rates generally follow closely the money market quotations.
3/ Since April 5, 1983.
4/ Before debt rescheduling.
5/ Including official transfers.
6/ After debt rescheduling.

III. Performance Under the Program in 1984/85

In 1984/85, the first year of the program, the Senegalese authorities vigorously pursued their adjustment efforts. As described in detail in EBS/84/267, the program was designed essentially 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. This and other basic targets were to be realized through a combination of appropriate supply-side measures (including flexible pricing) and prudent fiscal, credit, wage, and external borrowing policies. In the event, the requisite policies and measures, most of which were introduced before Executive Board consideration of the program in January 1985, were implemented with determination and were adapted promptly in the light of changing circumstances. Thus, despite an unforeseen drop in marketed output of groundnuts and a shortfall in government revenue, the program remained on track; and, according to the latest available results, its basic objectives were achieved. As shown in Table 3, all the quantitative performance criteria of the program for end-December 1984 and end-March 1985 were observed; and preliminary indications are that those for end-June 1985 were also met. 1/

A key element of the authorities' program was the adoption of a new agricultural policy aimed at expanding and diversifying domestic production, particularly of cereals, and reducing government intervention in the rural sector. As part of this policy, which was endorsed at the first meeting of the Consultative Group for Senegal, held under the auspices of the World Bank in Paris in December 1984, a number of measures were taken. First, a process of institutional reform was initiated, including a restructuring of the cooperative system. Second, to foster domestic production of cereals and thereby progressively reduce reliance on imports, especially of rice, in October 1984 the producer prices of maize, millet/ sorghum, paddy, and cowpeas were raised by 20 percent, 9 percent, 10 percent, and 40 percent, respectively. Third, to reinforce this import-substitution strategy, in January 1985 the retail price of rice was increased by 23 percent to CFAF 160 per kilogram, bringing the cumulative increase to 100 percent since February 1982. Fourth, also in January 1985, the producer price of groundnuts was raised by 20 percent. Finally, employment and costs in a number of rural development agencies were either stabilized or reduced; and two other public enterprises, the Société Nationale d'Approvisionnement du Monde Rural (SONAR) and the Société des Terres Neuves (STN), were liquidated. SONAR, a costly enterprise in charge of distributing groundnut seeds to farmers, actually ceased operations in December 1984 and was formally liquidated in February 1985, with its functions being turned over to the two oil milling companies.

1/ The final figures regarding the end-June 1985 performance criteria will become available toward the end of August.

Table 3. Senegal: Quantitative Performance Criteria and Results Under the 1984/85 Adjustment Program

Change from July 1 to end	1984 Dec.	1985 March	1985 June Prov.
	(In billions of CFA francs)		
Domestic credit			
Unadjusted ceiling	36.9	47.2	37.3
Adjusted ceiling	14.3 1/	23.0 2/	24.1 3/
Actual	11.2	18.4	...
Claims on Government (net)			
Unadjusted ceiling	11.2	17.6	19.2
Adjusted ceiling	4.9 4/	5.4 5/	7.1 6/
Actual	1.5	4.5	...
Domestic arrears of the Government and public agencies			
Ceiling	-2.6	-4.0	-7.0
Actual	-2.6	-4.5	-7.0
Repayment of ONCAD debt			
Minimum	--	5.0	10.0
Actual	--	5.0	10.0
	(In millions of SDRs)		
New external borrowing on nonconcessional terms by the Government or with government guarantee			
1. 1-12 years' maturity			
Ceiling	10.0	20.0	20.0
Actual	5.8	5.8	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 24.2 billion on account of an excess amount of external budgetary assistance (CFAF 12.8 billion), lower crop credit (CFAF 12.0 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 0.6 billion) (see EBS/84/267, Table 9, page 31).

3/ After downward adjustment by CFAF 13.2 billion on account of an excess amount of external budgetary assistance (CFAF 12.9 billion), lower crop credit (CFAF 1.1 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 0.8 billion) (see EBS/84/267, Table 9, page 31).

4/ 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).

5/ After downward adjustment by CFAF 12.2 billion on account of an excess amount of external budgetary assistance (CFAF 12.8 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 0.6 billion) (see EBS/84/267, Table 9, page 31).

6/ After downward adjustment by CFAF 12.1 billion on account of an excess amount of external budgetary assistance (CFAF 12.9 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 0.8 billion) (see EBS/84/267, Table 9, page 31).

On the whole, in 1984/85 weather conditions in Senegal improved. However, as the rains were uneven and the northern part of the country continued to suffer from drought, only output of cereals and cotton registered a significant recovery. In the case of groundnuts, the early official estimates of the crop turned out to be optimistic, and the marketed output in 1984/85 was even lower than that of the 1983/84 drought year. Based on almost final results, the marketed output of groundnuts fell to 236,000 tons in 1984/85, less than half the level projected in November 1984; this was due not only to the lower-than-expected crop (attributable partly to the low quality of seeds distributed) but also to the larger amount of small-scale processing of groundnuts in response to the increased retail price of groundnut oil. The reduced marketed output of groundnuts seriously affected the operations of the two oil milling companies, whose combined processing capacity is 900,000 tons. Therefore, despite some gains in other sectors of the economy, real GDP is now estimated to have grown by 3.1 percent in 1984/85, compared with an increase of 4.1 percent envisaged in the program and a small decline in the previous year. 1/ The GDP deflator, which was projected to increase by 9 percent, actually rose by an estimated 10 percent, reflecting mainly the somewhat faster-than-anticipated increase in local prices of imported goods denominated in U.S. dollars.

Although the volume of unshelled groundnuts processed for export fell markedly in 1983/84 and again in 1984/85, average export prices remained highly favorable, yielding a substantial surplus on groundnut operations of the stabilization fund, the Caisse de Péréquation et de Stabilisation des Prix (CPSP). In view of the outcome of the 1983/84 season, the surplus reflected in the 1984/85 accounts amounted to CFAF 4.1 billion. 2/ However, as the cost of the seed distribution scheme (then managed by SONAR) reached CFAF 7.0 billion, the groundnut sector as a whole registered a deficit of CFAF 2.9 billion. Furthermore, there was a final settlement of interest due to banks in respect of previous crop credits of CFAF 1.1 billion. Thus, in 1984/85 Treasury repayments of crop credits due to banks by the CPSP and the seed distribution scheme totaled CFAF 4.0 billion, as against CFAF 2.6 billion foreseen in the program. In view of the sizable increase in retail prices of vegetable oils in August 1984 and of rice in January 1985, the CPSP's other operations involved no government subsidies, but, as noted below, the CPSP was not in a position to pay most import duties on rice.

1/ As the Senegalese authorities are in the process of revising and finalizing the official national accounts for 1980-82, some changes in the estimates of nominal and real GDP for the most recent years are likely to be made in the period ahead.

2/ A surplus or deficit on account of groundnut operations for a given fiscal year is known only at the end of the marketing season in December, and hence is reflected in the accounts of the following fiscal year.

Despite a shortfall in government revenue, the basic objectives of the 1984/85 fiscal program were achieved. According to provisonal results, total revenue rose by 10 percent to CFAF 208.3 billion in 1984/85, whereas it had been estimated to reach CFAF 212.8 billion (Table 4). The revenue shortfall of CFAF 4.5 billion was attributable entirely to lower-than-expected collections from customs duties. In fact, revenue from such duties was as much as CFAF 7.0 billion lower than originally estimated, not only on account of a larger-than-anticipated decline in imports but also because of the nonpayment of most import duties on rice by the CPSP; this was somewhat compensated by improved collections from domestic taxes, resulting partly from the revenue measures introduced mid-way through the fiscal year. In line with the program, in January 1985 the service tax was extended to cover telecommunication services and the rates of the motor vehicle tax were raised substantially. After accounting for the proceeds from external grants equivalent to CFAF 12.2 billion, total revenue and grants together amounted to CFAF 220.5 billion, or CFAF 4.2 billion less than had been initially estimated.

In view of this situation, total government spending was kept significantly below the programmed level, underscoring the authorities' commitment to the success of the program. As a result of additional measures taken during the second half of the fiscal year, total expenditure and net lending was limited to CFAF 256.8 billion in 1984/85, or CFAF 4.8 billion below the level foreseen in the program, which more than compensated for the shortfall in total revenue and grants. This implied restraining the growth of total government spending to only 4 percent, as against 6 percent envisaged in the program and the annual inflation rate of 10 percent. The increase in current expenditure, excluding interest due on the government debt, was kept to 4 percent, compared with the programmed rise of 7 percent, with the economies being made entirely in outlays for materials, supplies, and transfers. The government wage bill was on target at CFAF 109.0 billion, as the growth in the number of civil servants was reduced further to 1 percent, the across-the-board increase in wages and salaries granted in January 1985 was strictly limited (to CFAF 1,515 or less than US$4 per month), and efforts were made to contain the wage drift. In addition, interest due on the government debt turned out to be somewhat lower than had been originally estimated. Capital outlays were also somewhat lower than expected, reflecting a slower pace of implementation of certain development projects. The deficit on the special accounts held with the Treasury was on target, while the financial operations of the Treasury correspondents recorded a smaller net surplus than had been foreseen as the CPSP did not generate the moderate surplus envisaged in the program.

Consequently, the overall fiscal deficit, on a commitment basis, which had been reduced sharply to CFAF 44.7 billion in 1983/84, was brought down further to an estimated CFAF 36.3 billion in 1984/85, slightly below the programmed level; in relation to GDP, the deficit decreased from 4.6 percent in 1983/84 to 3.3 percent in 1984/85. Meanwhile, domestic

Table 4. Senegal: Government Financial Operations, 1982/83-1985/86

	1982/83	1983/84	1984/85 Program	1984/85 Prov. results	1985/86 Program
			(In billions of CFA francs)		
Total revenue and grants	180.9	201.6	224.7	220.5	254.3
Revenue	175.7	189.4	212.8	208.3	237.7
Of which: tax revenue	(164.5)	(177.4)	(199.7)	(195.0)	(222.1)
Grants	5.2	12.2	11.9	12.2	16.6
Of which: capital	(3.4)	(6.0)	(5.0)	(5.0)	(8.0)
Total expenditure and net lending	254.2	246.3	261.6	256.8	271.9
Current expenditure	186.6	205.3	226.2	219.8	232.4
Wages and salaries	92.7	100.4	109.0	109.0	112.0
Interest due on government debt	26.7	36.9	46.2	44.8	48.4
Of which: external	(26.2)	(36.4)	(45.2)	(44.2)	(47.4)
Other 1/	67.2	68.0	71.0	66.0	72.0
Capital expenditure	39.0	40.3	35.0	34.0	37.0
Budgetary	7.9	10.0	10.0	9.0	9.0
Extrabudgetary	31.1	30.3	25.0	25.0	28.0
Treasury special accounts (net) 2/	-12.3	-6.9	-5.0	-5.0	-5.0
Treasury correspondents (net) 2/	-16.3	6.2	4.6	2.0	2.5
CPSP and seed distribution scheme	-11.4	--	2.3	--	--
Other	-4.9	6.2	2.3	2.0	2.5
Overall fiscal deficit (-) (commitment basis)	-73.3	-44.7	-36.9	-36.3	-17.6
Adjustments to cash basis	6.8	-22.6	-9.6	-11.0	-13.0
Payment arrears of the Government and public agencies (reduction -)	5.6	-2.0	-7.0	-7.0	-10.0
Crop credit (repayment -) 3/	1.2	-20.6	-2.6	-4.0	-3.0
Overall fiscal deficit (-) (cash basis)	-66.5	-67.3	-46.5	-47.3	-30.6
Financing	66.5	67.3	46.5	47.3	30.6
External	48.5	36.7	35.3	33.9	19.6
Drawings	49.5	35.9	40.9	40.9	29.2
Treasury	(21.8)	(11.6)	(20.9)	(20.9)	(9.2)
Other	(27.7)	(24.3)	(20.0)	(20.0)	(20.0)
Amortization payments due	-27.3	-28.4	-32.1	-33.4	-34.1
External debt rescheduling	26.3	29.2	...	26.4	24.5
Gap	--	--	26.5	--	--
Domestic	18.0	30.6	11.2	13.4	11.0
Banking system 4/	20.2	35.2 5/	19.2	19.0 5/	22.0
Repayment of ONCAD debt to banks	-2.0	-8.8	-10.0	-10.0	-12.0
Nonbank borrowing	2.0	1.4	2.0	2.0	1.0
Other	-2.2	2.8	--	2.4	--
Memorandum items:					
Payment arrears of the Government and public agencies outstanding (end of period)	55.7	53.7	46.7	46.7	36.7
Nominal GDP	893.8	979.6	1,112.2	1,112.2	1,265.0
			(In percent of GDP)		
Total revenue and grants	20.2	20.5	20.2	19.8	20.1
Revenue	19.6	19.3	19.1	18.7	18.8
Of which: tax revenue	(18.4)	(18.1)	(18.0)	(17.5)	(17.6)
Total expenditure and net lending	28.4	25.1	23.5	23.1	21.5
Current expenditure	20.9	21.0	20.3	19.8	18.4
Capital expenditure	4.4	4.1	3.1	3.0	2.9
Overall fiscal deficit (-) (commitment basis)	-8.2	-4.6	-3.3	-3.3	-1.4
Overall fiscal deficit (-) (cash basis)	-7.4	-6.9	-4.2	-4.2	-2.4

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 higher than the variation shown in the monetary survey because it excludes the amounts of unprogrammed external resources deposited at the Central Bank in the fiscal year involved.

arrears of the Government and public agencies were reduced by CFAF 7.0 billion, as set out in the program, and compared with a reduction of CFAF 2.0 billion in the previous year. As mentioned earlier, the Treasury also made repayments of crop credits due to banks by the CPSP and the seed distribution scheme totaling CFAF 4.0 billion, significantly more than had been originally estimated. Thus, the overall cash deficit amounted to some CFAF 47.3 billion in 1984/85, only slightly above the programmed level. However, given the available means of domestic and external financing, including external debt relief, indications are that net government borrowing from the banking system was kept below the established ceiling (even after a downward adjustment of the ceiling to take account of the receipt of certain external loans earmarked for the 1985/86 fiscal year).

The improvement in fiscal performance was reinforced by the implementation of a prudent credit policy. In 1984/85 the growth in private sector credit, excluding crop credit, is estimated to have been on target at 3 percent (Table 5). Since crop credit requirements were smaller than had been envisaged, because of the shortfall in marketed output of groundnuts, the overall increase in credit to the private sector, estimated at 4.6 percent, was slightly lower than programmed. At the same time, the rise in net credit to the Government is estimated to have been limited to under 6 percent, well below the targeted 15.5 percent, as government deposits with the banking system rose substantially with the receipt of certain external loans earmarked for financing government operations in 1985/86; however, as mentioned above, even after excluding the proceeds from these loans in accordance with the provisions of the letter of intent, indications are that the expansion in net credit to the Government was within the established ceiling. As a result, total domestic credit expansion is estimated to have amounted to 5 percent in 1984/85, compared with 8 percent specified in the program and 5 percent in the previous year. In relation to the money stock (broadly defined) at the beginning of the period, the increase in total domestic credit amounted to some 9 percent in the year ended June 1985, only fractionally higher than in the preceding year. Thus, in view of the external payments developments described below, the growth of money supply was probably limited to 3 percent in 1984/85, well below the estimated increase of 13 percent in nominal GDP. While pursuing a prudent credit policy, the monetary authorities intensified their efforts to strengthen the financial position of the banking system and improve the allocation of credit to the economy. In support of these efforts, in 1984/85 the Government repaid a total of CFAF 10 billion to local banks in respect of the debt resulting from the liquidation of ONCAD.

In 1984/85 there was also a further improvement in Senegal's external payments position, an improvement which was broadly in line with that specified in the program. Although the unforeseen reduction in export volume of groundnut oil and cake was compensated in part by higher-than-anticipated sales prices, export earnings from groundnut products fell to

Table 5. Senegal: Monetary Survey, June 1983-June 1986

(In billions of CFA francs; end of period)

	1983	1984		1985					1986
	June	June	Dec.	March	June		Sept.	Dec.	June
					Prog.	Est.	Prog.		Proj.
Foreign assets (net)	-178.8	-198.4	-210.1	-220.0	-210.4	-216.3	-225.7	-235.3	-236.0
Central bank	-163.4	-181.5	-181.8	-206.3	-194.5	-206.3	-206.7	-207.0	-207.7
Commercial banks	-15.8	-16.9	-28.3	-13.7	-15.9	-10.0	-19.0	-28.3	-28.3
Domestic credit	468.0	490.1	501.1	508.5	527.0 1/	514.0	524.5 1/	556.3 1/	549.4
Claims on Government (net)	90.4	120.9	122.3	125.4	139.6 1/	127.8	140.9 1/	149.3 1/	149.8
Claims on private sector	377.6	369.2	378.8	383.1	387.4	386.2	383.6	407.0	399.6
Ordinary credit	(334.7)	(356.8)	(364.2)	(361.8)	(367.7)	(367.6)	(371.6)	(376.1)	(381.0)
Crop credit	(42.9)	(12.4)	(14.6)	(21.3)	(19.7)	(18.6)	(12.0)	(30.9)	(18.6)
Money and quasi-money	266.8	276.6	287.1	287.2	291.6	284.7	285.8	308.0	300.4
Other items (net)	22.4	15.1	3.9	1.3	25.0	13.0	13.0	13.0	13.0

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

1/ Performance criteria.

an estimated SDR 102 million in 1984/85, some SDR 30 million or 23 percent below the level assumed in the program, and as much as SDR 62 million less than in 1983/84 (Table 6). However, the 1984/85 shortfall was mostly offset by a larger increase in other export earnings (by SDR 6 million), primarily from phosphates; lower import payments (by SDR 8 million), mainly for rice; and also lower service payments (by SDR 11.5 million), notably interest payments due on government and governmentguaranteed debts, reflecting revisions of the data, exchange rate changes, and the exclusion of debts owed by the multinational companies Air Afrique and Agence pour la Sécurité de la Navigation Aérienne (ASECNA). As a result, and in view of the net inflow of unrequited transfers, the external current account deficit is now estimated to have amounted to SDR 227 million in 1984/85, equivalent to about 9.5 percent of GDP, compared with SDR 223 million envisaged in the program. As net capital inflows were larger than had been foreseen (by SDR 7 million), due to higher disbursements of loans to the public sector, and given the debt relief indicated below, the overall balance of payments deficit was of the order of SDR 31 million in 1984/85, as against a programmed deficit of SDR 28 million and a deficit of SDR 42 million in the previous year.

On the basis of the debt rescheduling agreement reached on January 18, 1985 with representatives of the official creditors of the Paris Club, the Government of Senegal has already concluded bilateral agreements with several creditors; the few remaining are expected to be signed not later than the end of August 1985, as provided in the Agreed Minute of the Paris Club. 1/ A debt rescheduling agreement was also signed on May 7, 1985 with commercial banks of the London Club. 2/ Moreover, the Government has initiated discussions with its other official creditors, whose claims account for a relatively small portion (6 percent) of Senegal's external debt service obligations, with a view to reaching debt rescheduling or refinancing agreements on terms comparable to those of the Paris Club. 3/

1/ The debt relief from the Paris Club creditors is now estimated at SDR 56.1 million in 1984/85 and SDR 53.0 million in 1985/86. For details on the terms of the Paris Club agreement, see EBS/85/45 and EBS/85/67.

2/ According to the agreement, the total amount (principal) consolidated in 1984/85-1985/86 was SDR 21 million. About 20 percent (SDR 4.2 million) is to be paid in eight quarterly installments beginning on May 31, 1985, and the remaining 80 percent (SDR 16.8 million) is to be paid in eight equal semiannual installments beginning in the second half of 1988. The agreement stipulates a commission of 1.5 percent, and an interest rate of 1 15/16 above LIBOR. The debt relief from commercial banks of the London Club is estimated at SDR 14.3 million in 1984/85 and SDR 4.2 million in 1985/86.

3/ On the assumption of the terms of the Paris Club agreement, debt relief from non-Paris Club official creditors is estimated at SDR 9.2 million in 1984/85 and SDR 14.2 million in 1985/86.

Table 6. Senegal: Balance of Payments, 1982/83-1985/86

(In millions of SDRs)

	1982/83	1983/84		1984/85		1985/86	
		Prog.	Est.	Prog.	Est.	Prog. 1/	Proj.
Trade balance	-334.3	-246.1	-248.6	-191.5	-207.0	-165.9	-166.5
Exports, f.o.b.	496.1	485.0	541.0	560.9	537.2	635.4	620.1
Of which: groundnut products	(103.5)	(141.3)	(163.5)	(131.9)	(102.0)	(137.4)	(110.6)
Imports, f.o.b.	-830.4	-731.1	-789.6	-752.4	-744.2	-801.3	-786.6
Services (net)	-119.4	-159.5	-143.9	-173.0	-161.5	-179.8	-172.7
Of which: interest due on public debt	(-108.7)	(-114.1)	(-94.2)	(-121.9)	(-111.8)	(-138.5)	(-121.8)
Unrequited transfers (net)	128.3	120.9	140.4	141.3	141.3	154.3	154.3
Private	26.8	27.9	29.0	35.0	35.0	40.0	40.0
Public	101.5	93.0	111.4	106.3	106.3	114.3	114.3
Current account deficit (-)	-325.4	-284.7	-252.1	-223.2	-227.2	-191.4	-184.9
Capital account	145.9	111.6	115.8	109.3	116.7	102.2	113.4
Public capital	104.3	61.8	64.4	60.0	67.4	55.7	66.9
Of which: amortization due on public debt	(-79.6)	(-72.8)	(-72.1)	(-90.0)	(-90.5)	(-102.4)	(-93.1)
Private capital	41.6	49.8	51.4	49.3	49.3	46.5	46.5
Errors and omissions	-22.9	--	13.8	--	--	--	--
Overall deficit (-)	-202.4	-173.1	-122.5	-113.9	-110.5	-89.2	-71.5
Debt rescheduling	91.3	77.2	80.4	...	79.7	...	71.7
Of which: interest	(39.5)	(23.3)	(29.1)	(...)	(29.3)	(...)	(28.9)
Overall deficit after debt rescheduling (-)	-111.1	-95.9	-42.1	...	-30.8	...	0.2
Financing	111.1	95.9	42.1	28.2	30.8	4.4	-0.2
Central Bank	111.1	95.9	42.1	28.2	30.8	4.4	-0.2
IMF	(26.3)	(54.8)	(54.8)	(2.8)	(4.8)	(-8.3)	(-8.3)
Other	(84.8)	(41.1)	(-12.7)	(25.4)	(26.0)	(12.7)	(8.1)
Financing gap	--	--	--	85.7	--	84.8	--
Memorandum items:							
Current account deficit/GDP (in percent)	-14.0	-11.9	-11.1	-9.2	-9.5	-6.9	-6.8
CFA francs/SDR (average)	384.2	412.0	430.2	460.0	467.0	460.0	463.0

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

1/ As originally envisaged in EBS/84/267.

Thus, based on the agreements actually signed or being negotiated, the total external debt relief is now estimated at SDR 80 million in 1984/85 and SDR 72 million in 1985/86, with some 85 percent being accounted for by the Paris Club creditors and the commercial banks of the London Club. Although the estimated debt relief falls somewhat short of the level that had been envisaged earlier, it is still basically in line with the financing requirements of the program because of the offsetting developments mentioned above, particularly the downward adjustment in the total interest payments due on the public debt and the higher net capital inflows.

Senegal's external debt service obligations (principal and interest) on government and government-guaranteed medium- and long-term debt are now estimated to have amounted to SDR 182 million in 1984/85, equivalent to 22 percent of exports of goods, services, and private transfers; including Fund repurchases and charges, the figure would rise to SDR 232 million, implying a debt service ratio of 27.5 percent (Table 7). However, after accounting for the estimated external debt relief, actual debt service payments would decline to SDR 152 million (debt service ratio of 18 percent) in 1984/85, before rising to SDR 194 million (debt service ratio of 20 percent) in 1985/86.

Senegal continues to maintain an exchange system which is free of restrictions on payments and transfers for current international transactions. Since the CFA franc is pegged to the French franc, variations in Senegal's nominal effective exchange rate reflect exchange rate developments between the French franc and the currencies of Senegal's trading partners outside the franc area. As a result, in the year ended June 1985 the nominal effective exchange rate (import weighted) depreciated by about 2 percent, compared with 3 percent in the year ended June 1984 (Chart 1). However, owing to the higher rate of inflation in Senegal relative to that in its major trading partners, the real effective exchange rate appreciated further by some 4 percent in 1984/85.

IV. The Program for 1985/86

As indicated in the attached letter from the Minister of Economy and Finance, although considerable progress was made in 1984/85, the Senegalese authorities are keenly aware of the need to pursue their adjustment efforts, with a view to achieving a satisfactory economic growth and a viable internal and external financial position over the medium term. Accordingly, for the 1985/86 fiscal year, economic and financial policies will continue to be geared toward alleviating the structural problems in the economy and improving supply conditions, while restraining aggregate demand to a level compatible with available resources. In particular, the program, which is summarized in Table 8, has been designed to further reduce the external current account deficit in terms of GDP, from the estimated 9.5 percent in 1984/85 to some 6.8 percent in 1985/86.

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

(In millions of SDRs)

	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90
	Estimates		Projections				
Principal	80.3	120.3	143.4	166.6	181.5	193.9	184.5
Medium- and long-term	72.1	90.5	93.1	122.0	140.5	148.9	147.5
IMF repurchases	8.2	29.8	50.3	44.6	41.0	45.0	37.0
Other	--	--	--	--	--	--	--
Interest	94.1	111.8	121.8	128.6	128.0	123.1	119.3
Medium- and long-term	70.4	82.7	92.4	97.9	98.8	97.8	97.9
IMF charges	15.7	20.6	20.8	19.3	16.2	12.5	8.7
Other	8.0	8.5	8.6	11.4	13.0	12.8	12.7
Total (before debt rescheduling)	174.4	232.1	265.2	295.2	309.5	317.0	303.8
Debt rescheduling	-80.4	-79.7	-71.7	...	...	...	...
Total (after debt rescheduling)	94.0	152.4	193.5	...	...	...	...
Memorandum items:							
Exports of goods, services, and private transfers	838.8	845.6	965.9	1,075.5	1,172.3	1,273.8	1,377.8
Debt service ratio (in percent)							
Before debt rescheduling	20.8	27.5	27.5	27.5	26.4	24.9	22.1
After debt rescheduling	11.2	18.0	20.0	...	...	...	...

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

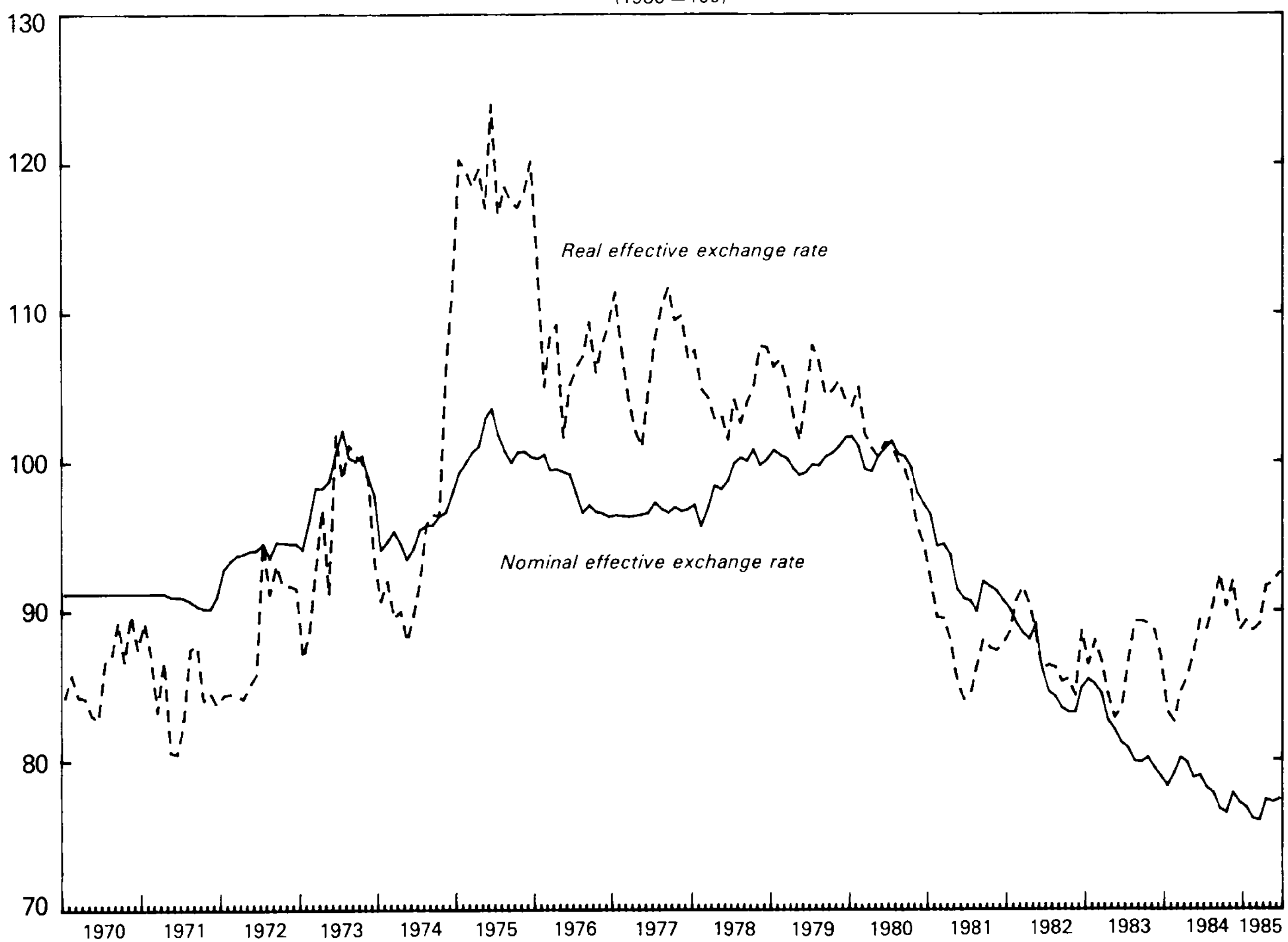
1/ Excluding debt service obligations of the multinational companies Air Afrique and ASECNA.

CHART 1

SENEGAL

NOMINAL AND REAL EFFECTIVE EXCHANGE RATES[1], 1970-85

(1980 = 100)



Source: IMF *International Financial Statistics*

[1] Based on the following average import weights (in percent): France (46), U.S. (24), U.K. (7); Germany (5), Thailand (6), Italy (4), Ivory Coast (4), and the Netherlands (4).

Table 8. Senegal: Summary of the Adjustment Program for 1985/86

	1984/85		1985/86
	Prog.	Est.	Prog.
Basic assumptions			
Real GDP growth (percent)	4.1	3.1	5.0
GDP deflator (percent change)	9.0	10.1	8.4
Terms of trade (percent change) 1/	6.9	3.6	1.7
Exchange rate (period average)			
CFAF/US$	460.0	470.0	457.0
CFAF/SDR	460.0	467.0	463.0
Groundnuts			
Processed for export (thousand tons)	400.0	160.0	400.0
Export volume (thousand tons)			
Groundnut oil	108.0	70.5	82.2
Groundnut cake	140.7	86.8	111.6
Export prices (CFAF/kg)			
Groundnut oil	436.8	491.2	464.7
Groundnut cake	78.2	87.8	82.5
Exports of fish products (CFAF billion)	51.6	51.0	56.4
Exports of phosphates and chemicals (CFAF billion)	50.2	45.8	53.1
Of which: Industries Chimiques du Sénégal	(22.5)	(14.5)	(21.2)
Official grants and gross capital inflows (CFAF billion)	119.8	123.4	127.0
Basic targets			
Balance of payments			
Current account deficit (-)			
In millions of SDRs	-223.2	-227.2	-184.9
In percent of GDP	-9.2	-9.5	-6.8
Overall deficit before debt rescheduling (-)			
In millions of SDRs	-113.9	-110.5	-71.5
Overall deficit after debt rescheduling (-)			
In millions of SDRs	...	-30.8	0.2
Overall fiscal deficit on a commitment basis (-)			
In billions of CFAF	-36.9	-36.3	-17.6
In percent of GDP	-3.3	-3.3	-1.4
Total domestic credit expansion			
In billions of CFAF	37.3	23.9	35.4
In percent of beginning money stock	13.5	8.6	12.4

Principal elements of the program	Status and expected progress
1. Agricultural policy	
a. Net producer price of groundnuts to be raised from CFAF 60 per kilogram to CFAF 90 per kilogram.	Implemented in April 1985.
b. Retainer of CFAF 20 per kilogram used to finance the seed and fertilizer distribution schemes to be abolished.	Implemented in April 1985.
c. Amount of groundnut seeds distributed freely to farmers to be cut by one half to 60,000 tons, with some 40,000 tons to be sold to the cooperatives and the oil millers.	Implemented.
d. Government subsidies to the oil millers to be cut by one half.	Being implemented.
e. Managements of the two oil milling companies to be consolidated, and marketing and other arrangements to be made freely by the companies to increase the profitability of their operations; individuals or private firms to be allowed to buy groundnuts directly from farmers and sell them to the oil millers at a price to be agreed upon.	Being implemented.
f. Producer prices of maize, millet/sorghum, paddy, cowpeas, and cotton to be raised by 17 percent, 17 percent, 29 percent, 83 percent, and 43 percent, respectively.	Implemented in April 1985.

2. Price Equalization and Stabilization Fund	
a. Three diagnostic studies of its operations.	Completed by the end of June 1985.
b. Separation of price equalization and stabilization functions from the commercial activities involved in rice imports and marketing.	Action plan to be adopted by the end of October 1985.
3. Petroleum pricing	
Increases in the refinery and retail prices of petroleum products by 5 percent and 4-8 percent (for the major products), respectively. These increases should eliminate any remaining cumulative deficit of the refinery by the end of June 1986.	Implemented in June 1985.
4. Fiscal policy	
a. Revenue performance to be improved through the implementation of the recommendations made by a Fund technical assistance mission, the National Committee to Combat Customs Fraud, and the National Commission for Tax Reform (whose report is to be finalized by the end of December 1985).	Being implemented.
b. Establishment of an ad hoc commission to complete a comprehensive inventory of tax and customs arrears and to ensure their full settlement.	To be implemented. This should lead to the recovery of at least CFAF 8 billion of arrears in 1985/86.
c. Completion of a study on the establishment of a property tax register for the Cap-Vert region.	To be implemented by the end of December 1985.

d. Increase in current outlays, excluding interest due on the government debt, to be limited to 5 percent in 1985/86. In particular: wage bill will not exceed CFAF 112 billion, as no general increase in wages and salaries will be granted, no growth in the total number of civil servants will be allowed, and the wage drift will be reduced significantly.	Being implemented
e. Capital budgetary expenditure in 1985/86 to be maintained at the 1984/85 level of CFAF 9 billion.	Being implemented.
f. Domestic arrears of the Government and public agencies to be reduced by CFAF 10 billion in 1985/86; also, repayment of ONCAD debt to amount to CFAF 12 billion in 1985/86.	Being implemented.
5. <u>Public utilities</u>	
Agreements on the rehabilitation programs of the two major public utility companies, SENELEC and OPT, to be concluded in 1986.	With World Bank assistance, diagnostic studies of the problems of these companies have been completed; agreements are expected to be signed on schedule.
6. <u>Credit policy</u>	
Monetary authorities will pursue a prudent credit policy, with a view to limiting domestic credit expansion to 7 percent.	Policy being implemented.
7. <u>External debt management</u>	
New external loans on nonconcessional terms contracted or guaranteed by the Government with a maturity of 1-12 years to be limited to SDR 15 million, of which no more than SDR 4 million will be in the maturity range of 1-5 years.	Policy being implemented.

1/ The terms of trade changes are in SDRs and refer to the calendar years 1984-85.

A basic assumption of the program is that weather conditions in 1985/86 will be normal and that average crops will be marketed. Thus, as mentioned below, it is projected that the volume of groundnuts processed for export will rebound to 400,000 tons. Moreover, other exports are expected to continue to grow rapidly. Another basic assumption is that, apart from the external debt relief already obtained or being negotiated, there will be a moderate increase in net inflows of official transfers and capital, reflecting in part the disbursements under SAC II of the World Bank. However, to help achieve the targeted reduction of the external current account deficit, it will be essential to contain the growth of imports, without compromising the revival of the economy. To this end, the authorities have resolved to pursue the supply-side and demand management policies set out below, which are also consistent with the broader objectives of the Seventh Plan for 1985/86-1988/89, adopted by the National Assembly on July 5, 1985.

1. Agricultral policy

In line with the new agricultural policy adopted last year and the objectives of the Seventh Plan, in April 1985 the authorities introduced further measures to strengthen production and marketing incentives and to reduce government intervention and subsidies in agriculture. By announcing these measures well ahead of planting, the authorities also sought to have a maximum impact on the outcome of the new season. With regard to the groundnut sector, which has a key role in the economy, the following actions have been taken to revitalize the entire sector: (a) the net producer price of groundnuts has been raised by 50 percent to CFAF 90 per kilogram for the 1985/86 season; (b) the retainer of CFAF 20 per kilogram, used until recently to finance the seed and fertilizer distribution schemes, has been abolished; (c) the groundnut seeds distributed freely to farmers have been cut by one half to about 60,000 tons in 1985/86, while some 40,000 tons have been sold to the cooperatives and the oil millers (for the next season, the reconstitution of the groundnut seed stock will be left in the hands of the farmers themselves or their organizations, except for a security stock to be managed by the oil millers); (d) government subsidies to the oil millers have also been cut by one half this year and will be eliminated next year; and (e) the managements of the two oil milling companies have been consolidated, and these companies will henceforth be free to make their own marketing and other arrangements to increase the profitability of their operations. The authorities have also announced that individuals or private firms will henceforth be allowed to buy groundnuts directly from farmers and sell them to the oil millers at a price to be agreed upon.

In addition to these actions in the groundnut sector, steps have been taken to foster domestic cereal production and thereby to help reduce reliance on imported foodstuffs, especially rice, which account for about one fifth of the total import bill. Thus, for the 1985/86 season, producer prices of the major food crops have been raised substantially:

maize and millet/sorghum by 17 percent; paddy by 29 percent; and cowpeas by as much as 83 percent. To maintain an appropriate structure of incentives, the cotton producer price has also been increased by 43 percent.

2. The Price Equalization and Stabilization Fund

In view of the importance of the stabilization fund (CPSP) not only in the agricultural sector but also in public finances, three studies were carried out in 1984/85 on the various aspects of its operations; two studies (financed by the U.S. AID) focused on the CPSP's rice operations, while the third (financed by the World Bank and the French Fonds d'Aide et de Coopération) was broader in scope. On the basis of the reports submitted to the authorities, and after consultation with Senegal's principal creditors and donors, the Government intends to adopt by the end of October 1985 an action plan specifying the steps to be taken to restructure and rehabilitate the CPSP. To this end, a meeting was held between the authorities and representatives of the principal creditors and donors in Dakar in July 1985; 1/ and another meeting may be required before formal consideration of the action plan by the Government.

In any event, as indicated in the attached letter from the Minister of Economy and Finance, it is the Government's intention to separate the commercial activities involved in rice imports and marketing from the basic price equalization and stabilization functions of the CPSP. Accordingly, it is to be expected that the price equalization and stabilization functions will be carried out by a much smaller entity under the control of the Ministry of Economy and Finance. This entity will need to be supported by long-term external technical assistance in financial management, as well as by short-term assistance for the periodic negotiations between the authorities and the companies engaged in the production and marketing of groundnut oil, sugar, and cotton. As to the commercial activities involved in rice imports and marketing, pending the adoption of the action plan noted above, a major effort will be made, with external technical assistance, to regularize the CPSP's rice accounts for previous years and recover at least part of the receivables. Moreover, the rice already in stock and in the pipeline, part of which has been purchased at highly favorable prices, is expected to be sold at a substantial profit, with the receipts being used to settle bank credits and import duties to the Treasury. On the basis of the CPSP's cash flow for rice operations, which has been reviewed by the Government and is to be strictly observed, the CPSP will make payments of import duties (both current and in arrears) totalling CFAF 10 billion in the fiscal year ending June 1986, in accordance with the schedule set out in the letter of intent.

1/ The Fund staff representative at this meeting was Mr. Ouattara (AFR).

In 1985/86 the CPSP's price equalization and stabilization activities are expected to be in overal financial equilibrium. Although sugar operations are projected to be in deficit, the latter is expected to be more than compensated by surpluses on account of cotton and rice. A prospective deficit on account of wheat flour is to be reduced, if not eliminated, by an appropriate adjustment in the retail price of the final product.

3. Energy policy

Although prices of petroleum products were increased significantly at the refinery and the retail levels in July 1984 and again in December 1984, the cumulative deficit of the refinery could not be absorbed, mostly due to the strengthening of the U.S. dollar in early 1985. In the circumstances, and consistent with its commitment to pursue a flexible oil pricing policy, the Government recently announced further price increases for petroleum products. Effective June 30, 1985, prices were raised by 5 percent at the refinery level and by 4-8 percent for the major products at the retail level; for certain other products, such as gasoline for fishing boats and butane, the increases in retail prices ranged from 15 percent to 61 percent. These increases were designed to eliminate the remaining cumulative deficit of the refinery by the end of June 1986; however, in view of the latest developments in the world oil market and exchange rates, the deficit may be eliminated somewhat sooner.

To reduce reliance on oil imports, which account for about one fourth of the total import bill, the authorities also envisage exploiting domestic sources of energy, such as peat and lignite, as well as hydroelectric power from the Manantali dam. Meanwhile, with World Bank assistance, they are taking steps to promote overall financial equilibrium of the energy sector.

4. Fiscal policy

As in 1984/85, fiscal adjustment will continue to be a key element of the program for 1985/86. 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 further reduce the overall fiscal deficit, on a commitment basis, from the estimated CFAF 36.3 billion in 1984/85 to CFAF 17.6 billion in 1985/86, or from 3.3 percent of GDP to 1.4 percent of GDP, respectively (Table 4).

In 1985/86 domestic arrears of the Government and public agencies will be reduced by CFAF 10.0 billion, or by CFAF 3.0 billion more than in the year just ended. This target, a performance criterion under the stand-by arrangement, excludes any liquidation of arrears through reciprocal debt settlements between the Government and enterprises; however, the arrears reduction could be accelerated if external budgetary assistance is higher than programmed. At the same time, Treasury repayments of crop credits due to banks are estimated to amount to CFAF 3.0 billion, somewhat less than in 1984/85. Therefore, the overall cash deficit will also be reduced substantially, from CFAF 47.3 billion (4.2 percent of GDP) in 1984/85 to CFAF 30.6 billion (2.4 percent of GDP) in 1985/86. In view of the expected means of domestic and external financing, including disbursements equivalent to CFAF 9.2 billion in the context of the World Bank's SAC II now under preparation, the reduction in the cash deficit should help keep net government borrowing from the banking system within prudent limits.

To achieve the 1985/86 fiscal targets, the authorities will make intensified efforts to improve revenue performance, mainly by strengthening tax administration, on the basis of the recommendations of a recent Fund technical assistance mission, the National Committee to Combat Customs Fraud, and the National Commission for Tax Reform whose report is expected to be finalized by the end of December 1985. In view of the substantial outstanding arrears on account of domestic taxes and customs duties, an ad hoc commission is to be established to speed up completion of a comprehensive inventory of these arrears and to ensure their full settlement; 1/ this effort is expected to result in the recovery of at least CFAF 8 billion of arrears by the end of June 1986, though the revenue estimates of the program are conservative in this respect. In addition, steps will be taken to ensure that the inventory of arrears is frequently updated and to avoid future accumulations through a reduction of the lags between assessments and collections of domestic taxes and customs duties. As regards taxes on net income and profits, as well as other domestic taxes, the authorities intend to improve the existing assessment, auditing, and collection procedures. In particular, the tax department will attempt to progressively expand the taxable base through increased cross-checking of data available from various sources on taxpayers and taxable activities heretofore unidentified; it will complete a study on the establishment of a property tax register for the Cap-Vert region by the end of December 1985; and it will improve the monitoring of deductions concerning the value added tax so as to eliminate abuses. Furthermore, to improve both revenue performance and tax equity, the Government will submit to the National Assembly by the end of March 1986 appropriate amendments to the progressive surtax on individual income, notably in respect of the family unit rule, the dependency allowance scheme, and the valuation of benefits in kind. As to customs duties, the authorities will establish a review commission to simplify and rationalize the rate structure, especially with the aim of discouraging smuggling and maximizing imports through official channels. Meanwhile, the human and material resources of the customs administration will be strengthened so as to improve border controls, auditing of declared values, and physical examination of imported

1/ The recent Fund technical assistance mission estimated the tax and customs arrears, excluding arrears on rice import duties, at about CFAF 23 billion as of the end of May 1985.

goods. The Government will also review the existing exemption schemes, including duty-free import privileges, with a view to confining the granting of exemptions only to those cases which are fully justified. Finally, the current studies on the computerization of customs clearance procedures will be completed shortly to allow implementation to start in early 1986. Although the full revenue impact of the above measures will materialize only over the medium term, it is still expected that they will contribute measurably to revenue growth in 1985/86; as shown in Table 4, government revenue is estimated to rise by 14 percent in the year ending June 1986, compared with 10 percent in the previous year. Given the anticipated level of external grants, total revenue and grants are estimated to reach CFAF 254.3 billion in 1985/86, 15 percent above the 1984/85 level.

Under the program, rigorous controls will continue to be applied on both current and capital government outlays. In 1985/86 the increase in current expenditure, excluding interest due on the government debt, will be limited to 5 percent, compared with a projected inflation rate of 8 percent. To this end, the growth of the wage bill will be reduced substantially, from more than 8 percent in 1984/85 to less than 3 percent in 1985/86, as no general increase in wages and salaries will be granted, the total number of civil servants will be stabilized at the 1984/85 level, and the wage drift will be held to a minimum. Thus, the wage bill is programmed to be kept to within CFAF 112.0 billion in 1985/86. To reduce civil service employment over the medium term, the Government intends to pursue a tight recruitment policy, to redeploy existing staff wherever possible, and to strictly limit admissions to civil service training schools. Outlays on materials, supplies, and transfers are estimated to increase by 9 percent to CFAF 72.0 billion in 1985/86; however, this would bring them only slightly above the amount originally programmed for 1984/85. To contain the growth of such outlays, while keeping appropriations at realistic levels, strict limits will be placed on consumption of electricity, water, and gas, as well as on telephone and other communication expenses. At the same time, efforts will continue to be made to achieve economies in housing allowances (on the basis of a survey completed in 1984) by discontinuing the provision of housing to those found to be ineligible; and direct rental payments will be replaced by lump-sum allowances by the end of June 1986. Capital budgetary expenditure is to be maintained at the 1984/85 level of CFAF 9.0 billion, and extrabudgetary outlays for development purposes that are financed directly by external loans and grants are estimated to rise by 12 percent to CFAF 28.0 billion. The deficit in 1985/86 on the special accounts held with the Treasury is expected to remain at the same level as in 1984/85, while the surplus of the Treasury correspondents is likely to be slightly larger than in 1984/85, partly on account of the substantial increase in the rates of business license fees (earmarked to local governments) in January 1985. Consequently, total expenditure and net lending are programmed to rise by only 6 percent to CFAF 271.9 billion in 1985/86.

Conscious of the need to continue to improve fiscal management over the medium term, the authorities intend to further strengthen budgetary procedures and controls. Thus, the process of estimating budgetary aggregates will be improved, and consideration will be given to the introduction of performance budgeting in selected government departments. Furthermore, current budgetary outlays will be monitored more closely to eliminate carryovers and overruns. Finally, a study on the new accounting plan for Treasury operations will be finalized, and the computerized processing of Treasury operations will be streamlined so as to establish reliable and up-to-date statements conducive to better economic and financial management.

5. Public enterprise reform

The authorities remain committed to the reduction of government intervention not only in agriculture but also in other sectors of the economy. Accordingly, following an interministerial meeting held in July 1985, the Government adopted a comprehensive strategy for public enterprise reform, including guidelines for the liquidation or privatization of a number of enterprises, as well as for the selection of those enterprises to be rehabilitated. The adoption of this strategy is expected to help accelerate public enterprise reform and better integrate this process with the overall adjustment effort.

Meanwhile, with World Bank assistance, further steps have been taken to come to grips with the problems facing the four major public utility companies. Thus, in December 1984 an agreement was signed between the Government and the water supply company (SONEES) on the latter's rehabilitation program; this has included improvements in the company's management and staff, coupled with a settlement of net arrears owed to the company by the central and local governments. In June 1985 a similar agreement was signed between the Government and the transport company (SOTRAC). Furthermore, on the basis of legislation passed in July 1985, the post and telecommunications office (OPT) is being split into two separate entities: a national telecommunications company (SONATEL) merging the domestic telecommunications activities of the OPT with those of the external telecommunications agency (TELESENEGAL); and a national postal office (ONP) responsible for postal services and savings bank activities. As regards the electricity company (SENELEC), a report on the restructuring of the company has been discussed with the creditors concerned at a meeting held in Paris in July 1985. Although substantial problems have yet to be resolved, especially regarding the settlement of the sizable cross-arrears among the various parties in the energy sector, it is expected that the necessary agreement between the Government and SENELEC will be signed by the end of March 1986.

As already indicated, significant progress has also been made in the restructuring of a number of rural development agencies, while two such agencies (SONAR and STN) have been liquidated. As part of the action plan for the rehabilitation of the rice producing enterprise (SAED), which was adopted in December 1984, efforts are being made to reduce the company's operating costs by progressively turning over some of its production support activities to the farmers themselves and other private sector intermediaries.

6. Credit policy

To reinforce the above measures, the monetary authorities will pursue a prudent credit policy, without compromising the financing needs for the marketing of the expected normal crops and the desired revival of private sector activity. In 1985/86 the increase in private sector credit, excluding crop credit, is to be limited to 4 percent, compared with an estimated 3 percent in 1984/85 (Table 5); this limit takes into account the larger programmed reduction in domestic arrears of the Government and public agencies, which should help ease the liquidity position of enterprises. Including crop credit, the increase in private sector credit is estimated at 3.5 percent in 1985/86. Net credit to the Government is programmed to rise by 17 percent in 1985/86, as against an estimated 6 percent in 1984/85. It should be noted, however, that this acceleration is due entirely to the drawdown of the proceeds from a sizable external loan deposited in the Government's account with the Central Bank in the last few days of June 1985, the bulk of which is programmed to finance government operations in 1985/86. If this external assistance programmed for 1985/86 is excluded from government deposits in both years, the increase in net government borrowing from the banking system would amount to only 6 percent in 1985/86, compared with 12 percent in 1984/85. Thus, total domestic credit expansion in 1985/86 is expected to be in the order of 7 percent; but if the above-mentioned external assistance is excluded, the expansion would be 4 percent, as against 6 percent in 1984/85. In view of the expected evolution of the balance of payments, the growth of money supply (broadly defined) is estimated at 6 percent in 1985/86, well below the projected increase of 13 percent in nominal GDP.

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 an effort to improve the liquidity position of banks, in 1985/86 the Government will make minimum repayments of CFAF 12.0 billion (which are included in the fiscal program) on account of the debt resulting from the liquidation of ONCAD; as indicated in the letter of intent, such repayments to banks could be increased if external budgetary assistance is higher than programmed. At the same time, any 1984/85 crop credit that may be reclassified at the end of December 1985 will be entirely repaid by the Government before the end of March 1986.

7. Balance of payments and external debt management

On the basis of the policies and measures described above, and the assumptions set out in Table 8, Senegal's external payments position is expected to improve further in 1985/86. Following the shortfall experienced last year, total export earnings are now projected to increase by 15 percent in SDR terms in 1985/86, owing to a recovery in exports of groundnut products and a continued rapid growth in other exports. As indicated earlier, the program assumes that the volume of groundnuts processed for export will rebound to 400,000 tons in 1985/86, from 160,000 tons in 1984/85. 1/ As a result, although groundnut export prices are expected to decline by 8 percent, export earnings from groundnut products are projected to increase by 8 percent to SDR 111 million (Table 6). At the same time, earnings from other exports (including re-exports of petroleum products) are forecast to rise by 17 percent, mainly because of a major expansion in exports of chemicals from the Industries Chimiques du Senegal (which came on stream in 1984) and the continued growth in exports of phosphates and fish. 2/ Reflecting the containment of aggregate demand, and in particular of rice imports, total import payments are programmed to rise by 6 percent in SDR terms in 1985/86, which would still represent a significant improvement over 1984/85 when they actually declined. The trade deficit is thus expected to narrow substantially, more than offsetting the expected deterioration in the services account associated with an increase in interest payments due on the public debt by SDR 10 million. 3/ Therefore, since the net inflow of unrequited transfers is also projected to increase, the current account deficit is programmed to be reduced from the estimated SDR 227 million in 1984/85 to SDR 185 million in 1985/86, or from about 9.5 percent of GDP to 6.8 percent of GDP, respectively. Although gross capital inflows are likely to increase, in 1985/86 net capital inflows are estimated to be slightly lower than in 1984/85, on account of an increase in amortization payments due on the public debt. 4/ However, given the substantial reduction of the current account deficit and the estimated debt relief of SDR 72 million, the overall balance of payments is projected to be in equilibrium in 1985/86.

1/ However, export volume in 1985/86 is projected to increase by only 18 percent, reflecting the usual lag in exports; a certain portion of the 1984/85 marketed output (which was very low) is to be exported in 1985/86, and part of that marketed in 1985/86 is to be sold in 1986/87.

2/ The rapid growth of these exports reflects mainly increases in volume.

3/ Interest payments due on the public debt in 1985/86 are now estimated to be SDR 16.7 million lower than originally projected because of the exclusion of interest owed by the multinational companies Air Afrique and ASECNA (SDR 6.1 million); lower estimates for Fund charges (by SDR 1.3 million); lower estimates of interest on new drawings and on rescheduled debt (by SDR 6.8 million); and revisions of the data and exchange rate changes (by SDR 2.5 million).

4/ Amortization payments due on the public debt in 1985/86 are now estimated to be SDR 9.3 million lower than originally projected, owing largely to the exclusion of SDR 8.7 million owed by Air Afrique and ASECNA.

In view of the already heavy external debt service burden, the authorities intend to keep nonconcessional borrowing to a strict minimum. Accordingly, in 1985/86 new external loans on nonconcessional terms contracted or guaranteed by the Government with an initial maturity of 1-12 years will be limited to SDR 15 million; within this ceiling, a subceiling of SDR 4 million will apply to loans with an initial maturity of 1-5 years. These limits do not include borrowings for refinancing existing debts under debt-rescheduling arrangements.

8. Performance criteria

As in 1984/85, the proposed performance criteria for 1985/86 include: (a) ceilings on the cumulative change of total domestic credit of the banking system; (b) ceilings on the cumulative change of net bank claims on the Government; (c) a cumulative reduction of domestic payment arrears of the Government and public agencies; (d) a cumulative repayment of ONCAD debt; (e) ceilings on new external loans on nonconcessional terms contracted or guaranteed by the Government in the maturity ranges of 1-5 and 1-12 years; and (f) the standard clause regarding the exchange and payments system. The credit ceilings have been set only for end-September 1985 and end-December 1985, though the program includes indicative targets for the whole of 1985/86; the credit ceilings for the remainder of the program period will be established in the context of the third and last review of the program, when the credit requirements of the private sector will be better known. As shown in the footnotes to Table 9, certain adjustments to the credit ceilings will be made should external financial assistance and crop credit deviate from the targeted levels.

V. Medium-Term Outlook of the Balance of Payments

In connection with the discussions that formed the basis of this paper, the staff representatives reviewed the medium-term outlook of Senegal's balance of payments; and, in light of the comments made by Executive Directors in considering the current stand-by arrangement for Senegal, the sensitivity analysis contained in EBS/84/267 was updated and developed. This review suggested that, if appropriate adjustment policies are pursued with determination, a viable external payments position could be attained toward the end of this decade. As shown in the base-line scenario presented in Table 10, the current account deficit could decline steadily from SDR 185 million in 1985/86 to SDR 41 million in 1989/90, or from the equivalent of 6.8 percent of GDP to 1 percent of GDP, respectively. This would allow a shift in the balance of payments from an overall deficit of SDR 72 million (before debt rescheduling) in 1985/86 to an overall surplus of SDR 47 million in 1989/90. In the interim, however, Senegal would require further exceptional external assistance, including debt relief, to close the prospective financing gaps.

Table 9. Senegal. Proposed Quantitative Performance Criteria for 1985/86

Change from July 1, 1985 to end	1985 Sept.	1985 Dec.	1986 March	1986 June
	(In billions of CFA francs)			
Domestic credit 1/ 2/ 3/	10.5	42.3	...	35.4 4/
Claims on Government (net) 1/ 2/	13.1	21.5	22.0 4/	22.0 4/
Domestic arrears of the Government and public agencies 5/	-2.0	-4.0	-6.0	-10.0
Repayment of ONCAD debt	3.0	4.0	8.0	12.0
	(In millions of SDRs) 6/			
New external borrowing on non-concessional terms by the Government or with government guarantee				
1. 1-12 years' maturity	15.0	15.0	15.0	15.0
2. 1-5 years' maturity	4.0	4.0	4.0	4.0

Source: Letter of intent of the Minister of Economy and Finance of July 29, 1985.

1/ The program does not envisage any receipt of external budgetary assistance (excluding grants) during the period July 1, 1985-December 31, 1985. In the event that budgetary assistance is received, the increases will be reduced pro tanto, net of any budgetary assistance used for the following purposes: (a) to repay crop credit for 1984/85; (b) to accelerate the repayment of ONCAD debt; and/or (c) to accelerate the reduction of domestic arrears of the Government and public agencies.

2/ The program does not envisage the receipt by Senegal of any exceptional external financial assistance (excluding grants) during the period July 1, 1985-December 31, 1985 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 increases will be reduced pro tanto, net of any expenditure tied to such assistance. In the event that drawings are made against the structural adjustment loans of the CCCE deposited at the BCEAO on June 30, 1985 to finance public sector expenditures not reflected "above the line" in the table of the financial operations of the Government, the increases will be adjusted upward pro tanto up to CFAF 0.4 billion at end-December 1985.

3/ The program assumes that the outstanding crop credit for 1984/85 will not exceed CFAF 12.0 billion at end-September 1985, and that the crop credit for 1985/86 will not exceed CFAF 30.9 billion at end-December 1985. In the event that the outstanding crop credit falls below or above these amounts, the increase will be adjusted downward or upward pro tanto. The program assumes that the Government will repay CFAF 1.0 billion at end-December 1985 for the outstanding 1984/85 crop credit. In the event that the outstanding 1984/85 crop credit will be higher than CFAF 1.0 billion, the difference could be reclassified as ordinary credit at end-December 1985, and the increase will be adjusted upward pro tanto; in any event, the amount of crop credit reclassified at end-December 1985 will be repaid before end-March 1986.

4/ Indicative target.

5/ Excluding any reduction of arrears resulting from reciprocal compensations.

6/ The exchange rate applicable to these borrowings will be the rate of the SDR vis-à-vis the contract currency on June 30, 1985.

Table 10. Senegal: Medium-Term Outlook of the Balance of Payments, Base-Line Scenario, 1983/84-1989/90

(In millions of SDRs)

	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90
	Estimates		Projections				
Trade balance	-248.6	-207.0	-166.5	-122.3	-111.7	-96.2	-87.8
Exports, f.o.b.	541.0	537.2	620.1	704.8	769.6	833.2	892.9
Of which: groundnut products	(163.5)	(102.0)	(110.6)	(154.5)	(174.3)	(188.5)	(201.0)
Imports, f.o.b.	-789.6	-744.2	-786.6	-827.1	-881.3	-929.4	-980.7
Services (net)	-143.9	-161.5	-172.7	-173.3	-167.0	-149.5	-126.7
Of which: interest due on public debt	(-94.2)	(-111.8)	(-121.8)	(-128.6)	(-128.0)	(-123.1)	(-119.3)
Unrequited transfers (net)	140.4	141.3	154.3	158.9	163.7	168.6	173.6
Current account deficit (-)	-252.1	-227.2	-184.9	-136.7	-115.0	-77.1	-40.9
Capital account	129.6 1/	116.7	113.4	80.5	79.0	79.4	88.3
Of which: amortization due on public debt	(-72.1)	(-90.5)	(-93.1)	(-122.0)	(-140.5)	(-148.9)	(-147.5)
Overall balance (deficit -)	-122.5	-110.5	-71.5	-56.2	-36.0	2.3	47.4
Debt rescheduling	80.4	79.7	71.7	...	...	...	...
Financing	42.1	30.8	-0.2	...	...	...	...
Of which: IMF (net)	54.8	4.8	-8.3	...	...	...	....
Purchases	(63.0)	(34.6)	(42.0)	(...)	(...)	(...)	(...)
Repurchases	(-8.2)	(-29.8)	(-50.3)	(-44.6)	(-41.0)	(-45.0)	(-37.0)
Financing gap	--	--	--	100.8	77.0	42.7	--
Memorandum item:							
Current account deficit/GDP (in percent)	-11.1	-9.5	-6.8	-4.5	-3.4	-2.1	-1.0

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

1/ Including a positive net errors and omissions figure of SDR 13.8 million.

The steady improvement in Senegal's balance of payments, as depicted in this scenario, is based on a continuous decline in the trade deficit, a reversal in the deterioration of the services account beginning in 1987/88, and a moderate increase in net inflows of unrequited transfers. Although the scenario allows for some increase in gross capital inflows, net capital inflows during 1986/87-1989/90 are projected to remain substantially below the levels of recent years, reflecting the rising amortization payments due on government and government-guaranteed debts. Total external debt service obligations (including those to the Fund) are projected to remain at 27.5 percent of exports of goods, services, and private transfers in 1986/87, before declining gradually to 22 percent in 1989/90 (Table 7). Despite the reduction in the debt service ratio in the medium term, substantial financing gaps will remain through 1988/89, and hence Senegal will probably need to reschedule at least part of its external debt service obligations for that period.

The decline in the trade deficit is predicated on the basic assumption that total export earnings will increase at an average annual rate of close to 10 percent in SDR terms, while the annual rise in total import payments would be contained on average to 6 percent. 1/ The increase in total export earnings is based on a continued strong performance of non-traditional exports, notably fish and chemicals, as well as a recovery in groundnut exports. 2/ In this scenario, assuming normal weather conditions, export volumes of groundnut oil and groundnut cake are projected to recover from 82,200 tons and 111,600 tons in 1985/86 to 145,500 tons and 194,000 tons in 1989/90, respectively, while export prices are projected to increase at an average annual rate of only 1.3 percent in SDR terms. The lower growth rate projected for imports is critically dependent on the full implementation of the structural adjustments recently initiated by the authorities, and the pursuit of cautious demand management and income policies. Accordingly, while the volume of food imports, especially of rice, is assumed to decline over the medium term, the volume of other imports (including petroleum products) is forecast to rise at an average annual rate of 3 percent. Consistent with the availability of resources and a real GDP growth rate of 4 percent, the volume of intermediate and capital goods imports is projected to grow by 4 percent per annum.

Another basic assumption underlying this scenario is that gross external assistance to Senegal will remain constant in real terms, as envisaged in the Fund's latest projections regarding official development

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1/ These projections are based on the outlook for prices of primary commodities (including oil) and manufactures, as well as the exchange rate assumptions, utilized in the Fund's latest WEO.

2/ Total export volume is projected to increase at an average annual rate of 7.5 percent.

assistance to indebted developing countries. In SDR terms, budgetary assistance and gross drawings on medium- and long-term loans contracted or guaranteed by the Government are projected to increase at an average annual rate of 4 percent, from SDR 160 million in 1985/86 to SDR 185 million in 1989/90. Moreover, assuming a continuation of an overall environment conducive to foreign direct investment, gross private capital inflows are projected to increase from SDR 84 million in 1985/86 to SDR 116 million in 1989/90.

Senegal's medium-term balance of payments outlook is sensitive to a number of underlying factors, which can be summarized under two broad categories: domestic adjustment policies and measures; and the external environment. Clearly, as shown in Table 11, a slackening of the adjustment effort and/or a further deterioration in the external terms of trade would, at least, delay the achievement of the projected overall balance of payments surplus beyond 1989/90; in the meantime, such developments would result in higher financing gaps than those envisaged in the baseline scenario (Scenario B). For example, if the volume of groundnut exports remained constant during 1986/87-1989/90, 1/ while total import volume increased at an average annual rate of 4 percent as against 2.4 percent in the base-line scenario, 2/ the current account deficit in terms of GDP would be higher by about 1 percentage point each year (Scenario C); in 1989/90, it would amount to 2.4 percent, compared with 1 percent in the base-line scenario. Furthermore, the achievement of the overall balance of payments surplus would be delayed by at least two years.

A broadly similar situation would develop (Scenario D) if the external terms of trade deteriorated further as a result, for instance, of import prices increasing by an additional 2 percentage points in SDR terms and export prices declining by 1 percentage point in SDR terms per year from the levels projected in the base-line scenario. However, the effects of these changes would probably be less marked than the case presented above under Scenario C. The curent account deficit in terms of GDP would be higher than the situation under the base-line scenario by an average of 3/4 of 1 percentage point, and the achievement of the overall balance of payments surplus would be delayed by one year.

By contrast, assuming no other changes, should groundnut export volume recover more rapidly than in the base-line scenario, the reduction in the current account deficit in terms of GDP would be accelerated to reach one half of 1 percent in 1989/90, and a higher balance of payments surplus would be achieved by that year (Scenario A).

1/ Such an outcome could result from inappropriate agricultural pricing policies.

2/ Assuming a failure to implement the import-substitution stragegy regarding foodstuffs and/or a relaxation of demand management and incomes policies.

Table 11. Senegal: Medium-Term Outlook of the Balance of Payments, Alternative Scenarios, 1983/84-1989/90

(In millions of SDRs)

	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90
	Estimates		Projections				
				Scenario A 1/			
Current account deficit/GDP 2/	-11.1	-9.5	-6.8	-4.2	-2.8	-1.5	-0.5
Overall balance 3/	-122.5	-110.5	-71.5	-46.0	-14.9	23.8	70.3
Debt rescheduling	80.4	79.7	71.7	...	...	...	...
Financing gap 4/	--	--	--	90.6	55.9	21.2	--
				Scenario B (Base-Line)			
Current account deficit/GDP 2/	-11.1	-9.5	-6.8	-4.5	-3.4	-2.1	-1.0
Overall balance 3/	-122.5	-110.5	-71.5	-56.2	-36.0	2.3	47.4
Debt rescheduling	80.4	79.7	71.7	...	...	...	...
Financing gap 4/	--	--	--	100.8	77.0	42.7	--
				Scenario C 5/			
Current account deficit/GDP 2/	-11.1	-9.5	-6.8	-5.2	-4.3	-3.2	-2.4
Overall balance 3/	-122.5	-110.5	-71.5	-77.2	-63.8	-37.4	-4.7
Debt rescheduling	80.4	79.7	71.7	...	...	...	...
Financing gap 4/	--	--	--	121.8	104.8	82.4	41.7
				Scenario D 6/			
Current account deficit/GDP 2/	-11.1	-9.5	-6.8	-5.2	-4.2	-2.8	-1.7
Overall balance 3/	-122.5	-110.5	-71.5	-79.2	-60.8	-23.9	20.2
Debt rescheduling	80.4	79.7	71.7	...	...	...	...
Financing gap 4/	--	--	--	123.8	101.8	68.8	16.8

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

1/ Based on the assumption that groundnuts processed for export will increase gradually from 400,000 tons in 1985/86 to 525,000 tons in 1989/90, i.e., export volume will increase from 82,200 tons of groundnut oil and 111,600 tons of cake in 1985/86 to 162,000 tons of groundnut oil and 215,000 tons of cake in 1989/90.
2/ In percent.
3/ Excluding debt rescheduling.
4/ Including projected Fund repurchases.
5/ Based on the assumption that groundnuts processed for export will remain constant during 1986/87-1989/90 at the level projected for 1985/86 (400,000 tons); and import volume is assumed to increase by an average of 4 percent per year, compared with 2.4 percent in the base-line scenario.
6/ Based on the assumption of a further deterioration in the terms of trade, i.e., an increase in the projected average import prices by 5 percent per year in SDR terms, compared with an average of 3 percent in the base-line scenario; and an increase in projected average export prices by 1 percent per year in SDR terms, as against 2 percent in the base-line scenario.

VI. Staff Appraisal

Since mid-1983 Senegal has made substantial progress toward economic and financial adjustment. The economy has been progressively liberalized, agricultural production incentives have been strengthened, the overall fiscal deficit has been reduced sharply, efforts have been made to liquidate the sizable domestic arrears of the Government and public agencies, public enterprise reform has been initiated, domestic credit expansion has been brought under control, and the external payments position has been improved.

In 1984/85, the first year of the current program, the Senegalese authorities continued to pursue an appropriate mix of supply-side and demand management policies designed to reduce further the internal and external imbalances. Although some of the policy decisions envisaged in the program, notably those affecting consumer prices, were particularly delicate, they were rigorously implemented. Moreover, the program was adapted promptly in the light of changing circumstances, underscoring the authorities' commitment to the adjustment process. Thus, despite an unforeseen drop in marketed output of groundnuts and a shortfall in government revenue, the program was kept on track; and, according to the latest available results, its basic objectives were achieved. In particular, the overall fiscal deficit, on a commitment basis, which was reduced from the equivalent of 8.2 percent of GDP in 1982/83 to 4.6 percent of GDP in 1983/84, was brought down to an estimated 3.3 percent of GDP in 1984/85. Domestic credit expansion was also strictly contained. As a result, notwithstanding the sizable shortfall in export earnings from groundnut products, in 1984/85 both the external current account deficit and the overall balance of payments deficit were practically on target.

While substantial progress has been made in recent years, Senegal continues to face major structural and financial problems. The economy remains fundamentally weak, government finances are precarious, the public enterprise sector is overextended, and the external current account deficit is still unsustainably large. In addition, the large 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. However, if appropriate adjustment policies are pursued with determination over several years, a viable external payments position could be attained toward the end of this decade (as indicated in the base-line scenario of the balance of payments through 1989/90). 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.

The authorities are keenly aware of the need to persevere in their adjustment efforts, with a view to achieving a satisfactory economic growth and a sustainable internal and external financial position over the medium term. Accordingly, under the proposed program for 1985/86, the Government's economic and financial policies will continue to be geared toward alleviating the structural problems in the economy and improving supply conditions, while restraining aggregate demand to a level compatible with available resources. The rigorous implementation of these policies would promote the adjustment process and, in particular, help achieve the targeted reduction of the external current account deficit from the estimated 9.5 percent of GDP in 1984/85 to some 6.8 percent of GDP in 1985/86.

In line with the new agricultural policy initiated last year, which was endorsed at the first meeting of the Consultative Group for Senegal convened by the World Bank, the authorities have taken recently a number of far-reaching measures to strengthen production and marketing incentives and to reduce government intervention and subsidies in agriculture. These measures, which are commendable, should be coupled as soon as possible with a concrete plan of action for the restructuring and rehabilitation of the Price Equalization and Stabilization Fund (CPSP), in consultation with Senegal's principal creditors and donors, notably the World Bank. Although the major ingredients of this plan, which call inter alia for the separation of the commercial activities involved in rice imports and marketing from the basic price stabilization functions of the CPSP, have already been discussed with the creditors and donors, it is essential that the necessary consensus on all aspects of the plan be reached quickly to maintain the momentum of reform in the agricultural sector.

As part of the 1985/86 program, the authorities have also announced recently significant increases in prices of petroleum products, which should eliminate the remaining cumulative deficit of the refinery by the end of June 1986, if not earlier. Moreover, they are taking steps to further reduce the overall fiscal deficit, on a commitment basis, to the equivalent of 1.4 percent of GDP in 1985/86, mainly by strengthening tax administration and maintaining a tight lid on government spending. To this end, it will be particularly important for the authorities to recover at least part of the substantial outstanding arrears on account of domestic taxes and customs duties; and to continue to improve the existing tax assessment, auditing, and collection procedures. It will also be essential to maintain strict limits on current expenditures. In this regard, the objective of substantially reducing the growth of the wage bill, from more than 8 percent in 1984/85 to less than 3 percent in 1985/86, is appropriate. The authorities are also to be commended for the steps being taken to further reduce domestic arrears of the Government and public agencies; repay the debt resulting from the liquidation of a major rural development agency; contain credit expansion, without compromising the desired revival of private sector activity; and strictly limit new external borrowing on nonconcessional terms.

The staff believes that the policies and measures adopted by the authorities under the program for 1985/86 represent further substantial efforts toward resolving Senegal's economic and financial problems, and are deserving of continued Fund support.

VII. 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(c) of the stand-by arrangement for Senegal (EBS/84/267, Supplement 3, January 18, 1985) in order to reach understandings on the policies to be pursued in 1985/86 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 July 29, 1985 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 July 29, 1985. Accordingly, the performance criteria referred to in paragraph 4(a) of the stand-by arrangement shall be those referred to in paragraphs 12, 18, and 20 of the letter dated July 29, 1985 and specified in the table annexed to that letter.

3. The Fund finds that no further understandings are necessary, and that Senegal may proceed to make purchases under the stand-by arrangement.

Dakar, July 29, 1985

Dear Mr. de Larosière:

1. In accordance with the current 18-month stand-by arrangement for Senegal, which was approved on January 16, 1985, the Senegalese authorities have recently consulted with a Fund staff mission regarding the second review of the adjustment program for the fiscal years 1984/85-1985/86. As envisaged in my letter to you of December 3, 1984, the discussions focused on the policies and measures to be implemented in 1985/86, as well as on the appropriate performance criteria for this period. They also provided an opportunity to assess the progress made in 1984/85, the first year of the program. In this respect, I would like to indicate that, despite an unforeseen drop in marketed output of groundnuts, the basic objectives of the 1984/85 program were achieved. In particular, there was a further substantial reduction of the internal and external financial imbalances, and all the performance criteria for the period through end-March 1985 were met.

2. The progress made in 1984/85 was the result of the full implementation of a broad range of both structural adjustment and demand management policies, which were supported by considerable external financial assistance, including debt relief from official and private creditors. In this regard, a key element of the adjustment effort was the adoption of a new agricultural policy aimed at expanding and diversifying domestic production, particularly of cereals, and reducing government intervention in the rural sector. As part of this policy, which was endorsed at the first meeting of the Consultative Group for Senegal, held under the auspices of the World Bank in Paris last December, a number of strong measures were taken in 1984/85: increases ranging from 9 percent to 40 percent were made in the producer prices of maize, millet/sorghum, paddy, and cowpeas; the retail price of rice (most of which is imported) was raised by 23 percent, thus restraining imports and encouraging local cereal production; the producer price of groundnuts was increased by 20 percent; employment and costs in a number of rural development agencies (SAED, SODEFITEX, SODEVA, SOMIVAC, and SODAGRI) were either stabilized or reduced; and two other agencies (SONAR and STN) were liquidated in accordance with the Government's program. At the same time, the authorities continued to pursue tight fiscal, credit, and wage policies, while strictly limiting new external borrowing on nonconcessional terms.

3. In 1984/85 a further fiscal adjustment was realized, although revenue performance fell short of expectations. According to provisional results, total revenue rose by 10 percent to CFAF 208.3 billion, whereas it had been estimated to reach CFAF 212.8 billion. The shortfall of CFAF 4.5 billion was attributable largely to the nonpayment of most import duties on rice by the price equalization and stabilization fund (CPSP),

reflecting the latter's continuing liquidity difficulties. Although the shortfall in customs revenue was even larger than that in total revenue, it was somewhat compensated by higher-than-expected collections from other taxes, partly due to the favorable impact of the measures introduced in January 1985. After accounting for the proceeds from external grants, total revenue and grants together amounted to CFAF 220.5 billion, or CFAF 4.2 billion below the initial estimate. In the circumstances, total expenditure and net lending was limited to CFAF 256.8 billion, significantly below the programmed level of CFAF 261.6 billion, more than compensating for the revenue shortfall; this implied restraining the growth of total government spending to some 4 percent in 1984/85, compared with about 6 percent envisaged in the program and an annual inflation rate of the order of 10 percent. Current expenditure, excluding interest due on the government debt, which was programmed to rise by 7 percent, actually increased by only 4 percent, with the entire cutback being made in outlays on materials, supplies, and transfers. The wage bill was kept on target at CFAF 109.0 billion, as the across-the-board increase in wages and salaries effective January 1985 was strictly limited, the growth in the number of civil servants was reduced to 1 percent, and efforts were made to contain the wage drift. Meanwhile, interest due on the government debt turned out to be slightly lower than had been originally estimated. Capital outlays were also somewhat lower than expected, mainly because of a slow implementation of certain foreign-financed projects. The deficit on the special accounts held with the Treasury was on target, but the financial operations of the Treasury correspondents showed a smaller net surplus than anticipated because the CPSP did not generate the moderate surplus foreseen under the program.

4. Thus, the overall fiscal deficit, on a commitment basis, which had been reduced to CFAF 44.7 billion in 1983/84, was brought down even further to CFAF 36.3 billion in 1984/85, fractionally below the programmed level; in terms of GDP, the deficit declined from 4.6 percent in 1983/84 to 3.3 percent in 1984/85. Concurrently, domestic arrears of the Government and public agencies were reduced by CFAF 7.0 billion, as set out in the program, while crop credit repayments were higher than had been initially estimated. Therefore, the overall cash deficit in 1984/85 was only slightly higher than programmed, and net government borrowing from the banking system is now estimated to have been kept below the established ceiling (after adjustment for the receipt of certain external loans earmarked for the 1985/86 fiscal year). As bank credit to the private sector was also below the implicit ceiling, because of the shortfall in marketed output of groundnuts, total domestic credit expansion is provisionally estimated to have been lower than programmed.

5. Despite the unforeseen drop in marketed output of groundnuts, Senegal's external payments position in 1984/85 was close to that envisaged in the program because of other offsetting developments. Based on almost final results, the marketed output of groundnuts fell to a low of 2365000 tons in 1984/85, less than half the level projected in

November 1984, not only on account of a lower-than-expected crop due to adverse weather conditions and the low quality of seeds distributed but also because of a larger amount of small-scale processing of groundnuts in response to the increased retail price of groundnut oil. Although the reduction in export volume of groundnut oil and cake was compensated in part by higher-than-anticipated sales prices, export receipts from groundnut products were still some SDR 30 million, or 23 percent, lower than had been projected in the program. However, this shortfall was mostly offset by a larger increase in other export receipts (primarily from phosphates), lower import payments (mainly for rice), and also lower service payments (notably interest payments due on the public debt). As a result, the current account deficit is now estimated to have amounted to SDR 227 million in 1984/85, equivalent to about 9.5 percent of GDP, compared with SDR 223 million envisaged in the program. As net capital inflows were larger than had been foreseen, and given the debt relief indicated below, the overall balance of payments deficit was of the order of SDR 31 million in 1984/85, as against a programmed deficit of SDR 28 million and a deficit of SDR 42 million in the previous year.

6. Following the debt rescheduling agreement reached on January 18, 1985 between the representatives of Senegal and official creditors of the Paris Club, several bilateral agreements have already been signed; the few remaining are expected to be concluded shortly and, in any event, not later than the end of August 1985, as provided in the Agreed Minute of the Paris Club. A debt rescheduling agreement was also signed on May 7, 1985 with commercial banks of the London Club. Moreover, comparable debt rescheduling or refinancing agreements are being sought with other official creditors, whose claims account for a relatively small portion of Senegal's external debt service obligations. On the basis of the agreements actually signed or being negotiated, the total external debt relief is now estimated at SDR 80 million in 1984/85 and SDR 72 million in 1985/86, with some 85 percent being accounted for by the Paris Club and the commercial banks of the London Club. Although somewhat lower than had been envisaged earlier, the estimated debt relief is broadly in line with the financing requirements of the program, especially as total debt service payments due have also been revised downward.

7. Although considerable progress was made in 1984/85, the Government of Senegal is keenly aware of the need to pursue its adjustment efforts, with a view to achieving a satisfactory economic growth and a viable internal and external financial position over the medium term. Accordingly, in 1985/86 economic and financial policies will continue to be geared toward alleviating the structural problems in the economy and improving supply conditions, while restraining aggregate demand to a level compatible with available resources. Since the existing imbalances are still unsustainably large, the basic objective of the 1985/86 program will be to further reduce the external current account deficit to some 6.8 percent of GDP, even below the level envisaged in my letter of December 3, 1984. However, despite our best efforts, there is no doubt

that Senegal will require further substantial external financial support in the period ahead, especially if a sustained recovery of the economy is to be achieved. For this reason, apart from the support of the International Monetary Fund, the Government is seeking to mobilize additional development aid and balance of payments assistance from bilateral and multilateral sources, including a structural adjustment credit from the World Bank.

8. A critically important assumption of the 1985/86 program is that an average groundnut crop will be marketed (about 400,000 tons) and that other exports, notably phosphates and chemicals, will continue to grow rapidly. Thus, despite some softening of export prices, total export receipts are projected to increase by 15 percent in terms of SDRs. However, to achieve the programmed reduction of the external current account deficit, it will be essential to restrain the growth of the import bill expressed in SDRs to around 6 percent, which would still represent a significant improvement over 1984/85, when imports are estimated to have fallen, mainly because of a decline in rice purchases. To this end, the following policies and measures have already been implemented or will be introduced in the period ahead.

9. In the context of the new agricultural policy, in April 1985 the Government introduced a number of far-reaching measures designed to strengthen production and marketing incentives and to reduce government intervention and subsidies in agriculture. With regard to the groundnut sector: (a) the net producer price of groundnuts has been raised from CFAF 60 per kilogram to CFAF 90 per kilogram for the 1985/86 season (with the announcement of this major increase well before the beginning of the planting season, it is hoped that the increase will have a considerable impact on production and marketing through official channels); (b) the levy of CFAF 20 per kilogram, which was used until recently to finance the seed and fertilizer distribution schemes, has been abolished; (c) the groundnut seed stock distributed freely to farmers has been cut by one half to about 60,000 tons in 1985/86, while some 40,000 tons have been sold to the cooperatives and the oil millers (for the next season, the reconstitution of the groundut seed stock will be left in the hands of the farmers themselves or their organizations, except for a security stock that will be managed by the oil millers); (d) government subsidies to the oil millers have been cut by one half this year and will be eliminated next year; and (e) the managements of the two oil milling companies (SONACOS and SEIB) have been consolidated, and the oil millers will henceforth be free to make their own marketing and other arrangements to increase the profitability of their operations. Individuals or private firms will henceforth be authorized to buy groundnuts directly from farmers and sell them to the oil millers at a price to be agreed upon. In addition to these actions in the groundnut sector, steps have been taken to boost domestic cereal production and thereby help restrain imports, especially of rice. Thus, for the 1985/86 season, producer prices of the major food crops have been raised substantially: maize and millet/sorghum

by 17 percent; paddy by 29 percent; and cowpeas by as much as 83 percent. In order to maintain an appropriate structure of incentives, the cotton producer price was also increased by 43 percent. As part of the action plan for the rehabilitation of SAED, which was adopted in December 1984, steps are being taken to reduce the company's operating costs by progressively turning over some of its production support activities to the farmers themselves and other private sector intermediaries.

10. To improve the operations of the CPSP, a comprehensive study of its activities has recently been completed, following two earlier studies which focused on its rice operations. On the basis of the reports submitted to the Government, which were somewhat delayed for technical reasons, an action plan will be adopted no later than the end of October 1985 spelling out the specific steps to be taken for the reorganization and rehabilitation of this key public entity. Although the details of the plan will need to be carefully examined in consultation with Senegal's principal creditors and donors, it is the Government's intention to separate the commercial activities involved in rice imports and marketing from the price equalization and stabilization functions of the CPSP. To improve the efficiency of these functions, external technical assistance will be sought in a number of areas, including financial management. In the meantime, as recommended in the reports, a major effort will be made, also with external technical assistance, to regularize the CPSP's rice accounts and recover at least part of the receivables. It will also be essential to ensure the orderly sale of rice already in stock or in the pipeline so that the CPSP will be able to repay bank credits and settle the current and most of the unpaid import duties to the Treasury. On the basis of the CPSP's cash flow for rice operations, which has been reviewed by the Government and will be strictly observed, the CPSP will make payments of import duties totaling CFAF 10.0 billion in the fiscal year ending June 1986; of this total, at least CFAF 1.5 billion will be paid by end-September 1985, CFAF 3.0 billion by end-December 1985, and CFAF 6.0 billion by end-March 1986. To ensure overall financial equilibrium of the CPSP's price equalization and stabilization activities, some of which are expected to be in surplus, steps will be taken before the end of July 1985 to reduce, if not eliminate, the prospective deficit on account of wheat flour in 1985/86.

11. While the reduction of subsidies, especially to the groundnut sector, should help improve public finances, the Government will also pursue a tight fiscal policy in 1985/86. In particular, to help contain the growth of domestic demand, the overall fiscal deficit, on a commitment basis, will be reduced by about one half to CFAF 17.6 billion in 1985/86, or only 1.4 percent of GDP. Accordingly, a number of measures have already been taken, and others will be introduced shortly, to accelerate the growth of government revenue and to strictly limit spending.

12. In 1985/86 domestic arrears of the Government and public agencies will be reduced by CFAF 10 billion, in accordance with the schedule set out in the annexed table on the proposed performance criteria; however, as indicated in the annexed table, the reduction in arrears could be accelerated if external budgetary assistance is higher than programmed. After settlement of an estimated CFAF 3.0 billion of crop credits from banks, the overall cash deficit of the Treasury will still be reduced substantially, from CFAF 47.3 billion in 1984/85 to CFAF 30.6 billion in 1985/86, or from the equivalent of 4.2 percent of GDP to 2.4 percent of GDP, respectively. Given the expected sources of domestic and external financing, including debt relief, the reduction in the cash deficit should help limit net government borrowing from the banking system.

13. To attain the 1985/86 fiscal targets, additional efforts will be made to improve revenue performance on the basis of the recommendations of a recent Fund technical assistance mission, as well as of those of the National Committee to Combat Customs Fraud and the National Commission for Tax Reform whose report will be finalized by the end of December 1985. In view of the magnitude of the arrears on taxes and customs duties, the Government has decided to establish an ad hoc commission, under the direct authority of the Minister of Economy and Finance, to speed up completion of a comprehensive inventory of tax arrears and to ensure their full settlement. This effort is expected to result in the recovery of at least CFAF 8 billion of arrears by the end of June 1986, including arrears on rice import duties. Moreover, measures will be introduced to ensure a continuous updating of the inventory of tax and customs arrears and to avoid any accumulations in the future by reducing the sizable lags between assessments and collection. The monitoring of credit lines to importers will be improved in order to eliminate abuses in the application of this system, and thus ensure collection of customs duties on time. As regards the tax department, steps will be taken shortly to improve the existing procedures for assessment, audit, and collection. In particular, the taxable base will be progressively expanded through increased cross-checking of data available from various sources concerning taxpayers and taxable activities heretofore unidentified. Abuses in value-added tax deductions, which have contributed to revenue loss, will also be terminated. As to the general income tax, the Government will submit to the National Assembly before the end of March 1986 appropriate amendments regarding the rule of the family unit, the dependency allowance scheme, and the valuation of benefits in kind, with a view to improving both revenue performance and tax equity. Furthermore, a study on the establishment of a property tax register for the Cap-Vert region will be completed by the end of December 1985. Where the customs administration is concerned, every effort will be made to strengthen its human and material resources so that it can effectively discharge its responsibilities. As to the customs tariff, a review commission will be established to simplify and rationalize the rate structure of duties and taxes levied on imports, as well as to determine appropriate rates for those commodities susceptible to smuggling, with a view to discouraging such activities and maximizing revenue. Meanwhile, special

attention will be given to strengthening the controls on declared values and the physical examinations of imported goods. Regarding the various exemption schemes, including duty-free import privileges, which are a source of considerable revenue losses for the government budget, the existing legal and administrative provisions will be revised in order to limit the granting of exemptions and to ensure a better monitoring. Finally, the current studies on the computerization of customs clearance procedures will be completed shortly so as to allow a start of implementation in early 1986. While some of the above measures will have their full revenue impact only over the medium term, it is still expected that they would contribute measurably to revenue growth in 1985/86. Given the anticipated level of external grants, total revenue and grants are estimated to reach CFAF 254.3 billion in 1985/86, 15 percent higher than the 1984/85 level.

14. On the expenditure side, strict controls will continue to be applied on both current and capital outlays. In 1985/86 the increase in current outlays, excluding interest due on the government debt, will be limited to 5 percent, implying a substantial cut in real terms. To this end, the wage bill will be kept to within CFAF 112.0 billion, only 3 percent above the 1984/85 level, as no general increase in wages and salaries will be granted, no growth in the total number of civil servants will be allowed, and the wage drift will be reduced significantly. In the years ahead, the Government will aim at reducing civil service employment through rigorous control of new recruitment, redeployment of existing staff, and the application of strict limits on admissions to civil service training schools. In 1985/86 outlays on materials, supplies, and transfers will be allowed to increase by no more than 9 percent to CFAF 72.0 billion, which would bring them only slightly above the amount originally programmed for 1984/85. As in the year just ended, efforts will continue to be made to achieve economies in housing allowances: the provision of housing for those found to be ineligible will be terminated; and direct rental payments, which are being reduced, will be replaced by lump-sum allowances no later than the end of June 1986. Additional expenditure-saving measures will include strict limits on consumption of electricity, water, and gas, as well as on telephone and other communication expenses. The deficit on the special accounts held with the Treasury in 1985/86 is expected to remain at the same level as in 1984/85, while the surplus of the Treasury correspondents is likely to be somewhat larger, partly on account of the substantial increase in the rates of business license fees (earmarked to local governments) which was introduced in January 1985. Consequently, total expenditure and net lending are programmed to rise by 6 percent to no more than CFAF 271.9 billion in 1985/86.

15. To further improve fiscal management over the medium term, continued efforts will be made to ensure that budgetary estimates are as realistic as possible, based on the outturn of revenue and expenditure. In this regard, consideration will be given to the introduction of performance budgeting in selected government departments. Furthermore,

in the area of budgetary accounting of current expenditure, steps will be taken to liquidate appropriations regarding all commitments for which no payment orders have been issued by the end of the fiscal year. No irregular expenditure commitments will be honored by the Government, and those responsible for such practices will be vigorously prosecuted. Use of capital budget appropriations will be monitored closely so that the overall amount utilized in any given fiscal year will not exceed the level established in the financial program for the same year. Finally, the study on the Treasury's new accounting plan will be finalized and the computerized processing of Treasury operations will be streamlined so as to establish reliable and up-to-date statements conducive to better economic and financial management.

16. Apart from the steps being taken to rehabilitate the rural development agencies, notably SAED, continued efforts are being made to improve the operations of the major public utility companies. Thus, on December 28, 1984 an agreement was signed between the Government and the water supply company (SONEES) on the latter's rehabilitation program. As part of this program, measures have been taken to improve the efficiency of the company's management and staff; in addition, there has been a reciprocal settlement of arrears between the central and local governments on the one hand and SONEES on the other, resulting in a net payment of CFAF 0.7 billion to the company. On June 5, 1985 a similar agreement was signed between the Government and the transport company (SOTRAC), which provides for measures to rehabilitate the company's operations, including tariff increases and reciprocal settlement of arrears. Furthermore, on the basis of the recommendations made in a study prepared with external assistance, the post and telecommunications office (OPT) is being restructured into two separate entities: a national telecommunications company (SONATEL) merging the domestic telecommunications activities of the OPT with those of the external telecommunications agency (TELESENEGAL); and a national postal office (ONP) responsible for postal services and savings bank activities. As regards the electricity company (SENELEC), a report on the restructuring of the company has been completed, and the broad direction of energy policy has been discussed with the principal creditors and donors at a meeting held in Paris in July 1985. Although substantial problems have yet to be resolved, especially regarding the settlement of the sizable reciprocal arrears in this sector, it is expected that the necessary agreement between the Government and SENELEC will be signed by the end of March 1986. The Government is determined to accelerate public enterprise reform in the period ahead, with World Bank technical and financial assistance. To this effect, rehabilitation programs for a number of other public enterprises will be prepared and appropriate agreements will be signed in the years ahead.

17. The Government remains committed to pursuing a flexible oil pricing policy, consistent with the evolution of the world oil market and exchange rates. Accordingly, substantial price increases were effected both at the refinery level and the retail level in July 1984 and again in

December 1984. However, because of the strengthening of the U.S. dollar in early 1985 and the high cost of operation of the local refinery due to its large excess capacity, the financial situation of the refinery has remained difficult. In the circumstances, and with a view to eliminating the remaining cumulative deficit of the refinery by the end of the program period, effective June 30, 1985 prices were raised by 5 percent at the refinery level and by 4-8 percent for the major products at the retail level.

18. To reinforce the fiscal program, and thus help attain the desired reduction of the external current account deficit, the monetary authorities will pursue a prudent credit policy, without compromising the financing needs of the expected normal groundnut crop. In 1985/86 the increase in private sector credit, including crop credit, will be limited to 3.5 percent, compared with an estimated 5 percent in 1984/85; excluding crop credit, the increase will be slightly higher, reflecting the need to foster private sector activity. Net bank credit to the Government is programmed to rise by 17 percent, or at a substantially faster rate than is estimated for the year just ended. It should be noted, however, that the acceleration is due to receipt of a sizable external loan in the last few days of June 1985 to finance certain government operations in 1985/86; if the proceeds from this loan are excluded from government deposits, the increase in net government borrowing from the banking system in 1985/86 would be lower than 6 percent, or less than half that in 1984/85. Total domestic credit expansion in 1985/86 will be of the order of 7 percent, as against 5 percent last year. Consistent with the fiscal targets, the increases in total domestic credit and in net bank credit to the Government for end-September 1985 and end-December 1985, which are performance criteria, will not exceed the amounts shown in the annexed table; although the credit ceilings for the remainder of the program period will be established in the context of the third and last review of the program, indicative limits for the whole of 1985/86 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 this context, to help ameliorate the liquidity position of banks, the Government will make minimum repayments of CFAF 12 billion in 1985/86 on account of the debts resulting from the liquidation of a major rural development agency (ONCAD). As indicated in the annexed table, the repayments to banks could be increased if external budgetary assistance is higher than programmed.

19. The adjustment measures specified above, together with the debt relief from official and commercial bank creditors, will help improve Senegal's external payments position in 1985/86. In fact, despite an increase of SDR 9 million in interest payments due on the public debt, the current account deficit is projected to be reduced from SDR 227 million in 1984/85 to SDR 185 million in 1985/86, equivalent to 6.8 percent of GDP. As net capital inflows are likely to be only slightly lower than last year, the balance of payments, after debt rescheduling, is expected to be in equilibrium in 1985/86.

20. The Government is aware of the need to pursue cautious external debt management policies so as to reduce the external debt service burden over the medium term. Accordingly, as shown in the annexed table, during the year ending June 30, 1986 new external loans on nonconcessional terms contracted or guaranteed by the Government with an initial maturity of 1-12 years will be limited to the equivalent of SDR 15 million; within this limit, new borrowings with a maturity of 1-5 years will not exceed SDR 4 million. These limits will not include borrowings for refinancing existing debts in the context of debt reschedulings.

21. The Governement of Senegal believes that the policies and measures described above are adequate to achieve the objectives of the 1985/86 program, 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, in this context, would appreciate the continued technical and financial support of the Fund.

Sincerely yours,

Mamoudou Touré
Minister of Economy and Finance

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

Senegal: Proposed Quantitative Performance Criteria for 1985/86

Change from July 1, 1985 to end	1985 Sept.	1985 Dec.	1986 March	1986 June
	(In billions of CFA francs)			
Domestic credit 1/ 2/ 3/	10.5	42.3	...	35.4 4/
Claims on Government (net) 1/ 2/	13.1	21.5	22.0 4/	22.0 4/
Domestic arrears of the Government and public agencies 5/	-2.0	-4.0	-6.0	-10.0
Repayment of ONCAD debt	3.0	4.0	8.0	12.0
	(In millions of SDRs) 6/			
New external borrowing on non-concessional terms by the Government or with government guarantee				
1. 1-12 years' maturity	15.0	15.0	15.0	15.0
2. 1-5 years' maturity	4.0	4.0	4.0	4.0

1/ The program does not envisage any receipt of external budgetary assistance (excluding grants) during the period July 1, 1985-December 31, 1985. In the event that budgetary assistance would be received, the increases will be reduced pro tanto, net of any budgetary assistance used for the following purposes: (a) to repay crop credit for 1984/85; (b) to accelerate the repayment of ONCAD debt; and/or (c) to accelerate the reduction of domestic arrears of the Government and public agencies.

2/ The program does not envisage the receipt by Senegal of any exceptional external financial assistance (excluding grants) during the period July 1, 1985-December 31, 1985 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 increases will be reduced pro tanto, net of any expenditure tied to such assistance. In the event that drawings are made against the structural adjustment loans of the CCCE deposited at the BCEAO on June 30, 1985 to finance public sector expenditures not reflected "above the line" in the table of the financial operations of the Government, the increases will be adjusted upward pro tanto up to CFAF 0.4 billion at end-December 1985.

3/ The program assumes that the outstanding crop credit for 1984/85 will not exceed CFAF 12.0 billion at end-September 1985, and that the crop credit for 1985/86 will not exceed CFAF 30.9 billion at end-December 1985. In the event that the outstanding crop credit falls below or above these amounts, the increase will be adjusted downward or upward pro tanto. The program assumes that the Government will repay CFAF 1.0 billion at end-December 1985 for the outstanding 1984/85 crop credit. In the event that the outstanding 1984/85 crop credit will be higher than CFAF 1.0 billion, the difference could be reclassified as ordinary credit at end-December 1985, and the increase will be adjusted upward pro tanto; in any event, the amount of crop credit reclassified at end-December 1985 will be repaid before end-March 1986.

4/ Indicative target.

5/ Excluding any reduction of arrears resulting from reciprocal compensations.

6/ The exchange rate applicable to these borrowings will be the rate of the SDR vis-à-vis the contract currency on June 30, 1985.

Senegal - Relations with the Fund
(As of June 30, 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 305.31 million, equivalent to 358.77 percent of quota.
c. Fund credit	SDR 221.17 million, equivalent to 259.89 percent of quota, of which: SDR 73.69 million (86.59 percent of quota) under credit tranches; SDR 26.25 million (30.85 percent of quota) under the CFF; SDR 18.81 million (22.10 percent of quota) under the EFF; SDR 45.44 million (53.40 percent of quota) under the SFF; and SDR 56.98 million (66.96 percent of quota) under the EAR.
d. Reserve tranche position	SDR 0.965 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 standby 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 6.09 million (24.90 percent of the net cumulative allocation)

V. Administered accounts

a. Trust Fund loans

Disbursed	SDR 33.23 million
Outstanding	SDR 27.38 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.
	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.

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: (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.

2. As of June 30, 1985 the Bank Group had approved 58 operations in Senegal for a total of US$568.6 million, consisting of 33 IDA credits, 12 Bank loans, five blends of Bank and IDA funds, five 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, 1985.

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 outstanding issues related to long-term development prospects. Ongoing or planned operations for agricultural research, irrigation, and education development relate to both of these two concerns.

4. Over the next five year period (FY85-89), the Bank's lending program, on present planning, could amount to about US$175 million, almost all of which would be on IDA terms. Some US$60 million could be committed in FY86, partly in support of a second structural adjustment credit (SAC II) currently under discussion with the Government. 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. SAC II would concentrate on addressing some 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. Later operations would address in greater detail some particular reform programs, such as that envisaged for the industrial protection system and investment code, which will be studied during SAC II.

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 initiating preparation of a new structural adjustment operation, as well as by organizing sector meetings of interested donors on telecommunications and power; further sector meetings are planned during 1985-86 for the water supply and agriculture sectors. A second CG meeting is also planned for mid-1986 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, 1985; 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	
Twelve loans and 19 credits fully disbursed	182.1	(--)	--	(--)	182.1
Structural adjustment and technical assistance	16.3	(10.5)	--	(--)	16.3
Agriculture, livestock, and forestry	75.9	(41.2)	0.8	(--)	76.7
Power, industry, and tourism	43.1	(21.4)	31.7	(22.0)	74.8
Transport and telecommunications	103.3	(43.5)	--	(--)	103.3
Urban development, education, and health	84.5	(50.6)	0.5	(--)	85.0
Total	505.2	(167.2)	33.0	(22.0)	538.2
Less repaid or sold					25.8
Total outstanding					512.4
Held by IBRD					110.9
IDA					368.5
IFC					33.0

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	36.8	4.9
1984	35.0	31.8	5.9

Source: World Bank Group.
1/ Less cancellations.