

# COVID-19 MACROECONOMIC POLICY RESPONSES IN AFRICA

08

## COVID-19 and its Impact on Senegal's Macroeconomic Structure

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## About CoMPRA

The COVID-19 Macroeconomic Policy Response in Africa (CoMPRA) project was developed following a call for rapid response policy research into the COVID-19 pandemic by the IDRC. The project's overall goal is to inform macroeconomic policy development in response to the COVID-19 pandemic by low and middle-income countries (LMICs) and development partners that results in more inclusive, climate-resilient, effective and gender-responsive measures through evidence-based research. This will help to mitigate COVID-19's social and economic impact, promote recovery from the pandemic in the short term and position LMICs in the longer term for a more climate-resilient, sustainable and stable future. The CoMPRA project will focus broadly on African countries and specifically on six countries (Benin, Senegal, Tanzania, Uganda, Nigeria and South Africa). SAIIA and CSEA, as the lead implementing partners for this project, also work with think tank partners in these countries.

## Our Donor

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## Abstract

The spread of COVID-19 in 2020 and 2021 has caused high mortality and morbidity rates across the globe. Senegal, along with other developing countries, experienced the weakening of major economic sectors such as tourism, health, agriculture, banking and transport. This led to the deterioration of the macroeconomic environment – despite fast gross domestic product (GDP) growth of 6% over the past five years (2014-2019). As with most sub-Saharan countries, Senegal implemented a series of fiscal policies, and these, along with the new monetary policies of the Central Bank of West African States, aimed to enhance overall economic performance while

keeping inflation down and restoring GDP growth. Given the context, the objective of this paper is to contribute to policy responses to COVID-19. The paper reviews the major fiscal and monetary policies implemented in Senegal in response to the pandemic and the effect of these policies on the country's economic structure. Overall, Senegal's dual system has had a positive impact on the economy and in 2020 triggered a 1.3% real GDP growth compared to the -0.4% GDP growth forecast by the International Monetary Fund prior to the implementation of the new policies.

## Introduction

The COVID-19 outbreak spread across the globe rapidly causing high mortality and morbidity rates. Moreover, it created a broken economic structure in many countries, especially in developing nations with their fragile macroeconomic environments – Senegal's gross domestic product (GDP) growth was not spared. As with most sub-Saharan African countries, Senegal faced a fast GDP per capita growth after its independence in 1960. It also experienced multiple economic crises during the period 1970 to 1990 and implemented a series of macro-economic structural adjustments to increase exports and boost GDP growth. This led to the devaluation of the West African CFA<sup>1</sup> franc in 1994.

Following the change of currency parity supported by its development partners – the World Bank and International Monetary Fund (IMF) – Senegal held a steady GDP growth before a weakening in economic management between 2005 and 2012. A change of regime allowed the new government to pursue more reliable macroeconomic policies and to implement important infrastructural investment while initiating several reforms aimed at enhancing overall economic governance – developing the business environment and improving the performance of specific key sectors. This allowed a higher GDP growth average of 6.2% during the period 2014 to 2019. Despite efforts to maintain the positive economic changes in the country, the COVID-19 pandemic caused a drop of six percentage points in GDP growth in 2020.<sup>2</sup> Furthermore, the pandemic sunk major economic sectors such as tourism, health, agriculture, banking and transport. To alleviate the impact on the overall economy, local government implemented major fiscal policies in the form of stimulus package funds, as well as direct and indirect tax measures. On a regional level, the Central Bank of West African States (BCEAO) implemented various

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1 CFA is the currency code for the West African CFA franc.

2 World Bank, "Senegal COVID-19 Response Gets Additional Financial Boost from World Bank", press release, June 19, 2020, <https://www.worldbank.org/en/news/press-release/2020/06/19/senegal-covid-19-response-gets-additional-financial-boost-from-world-bank>.

monetary policies to create short-term incentives to keep the CFA zone<sup>3</sup> competitive and to ensure that Senegal's nominal GDP growth rate remained positive.

Given this context, the objective of this paper is to inform a policy response to COVID-19. It will start with an overview of Senegal's macroeconomic environment from the 1970s until 2019 (the year pre-COVID-19) and outline the major economic reforms implemented during these years to foster economic growth. The paper will also analyse the impact of the fiscal and monetary policies as implemented in response to the pandemic, as well as its effect on Senegal's economic structure.

## Previous economic crisis in Senegal and the CFA region (1970–1981)

Since the 1970s, external and local factors have constantly weakened the economic environment in Senegal and the CFA. Externally, Senegal faced rising world oil prices during the '70s, which had a substantial effect on its economy. The subsequent increase in the cost of energy related to farm machinery resulted in shortages of fuel, fertilisers and an overall high inflation rate. In addition, primary commodity prices – which heavily relied upon foreign exchange earnings – fell during the '70s and '80s and this led to the depreciation of Senegal's balance payment and recourse to massive foreign debt.<sup>4</sup>

Domestically, policies implemented by local government and supported by aid donors focused on the agriculture sectors, to the disadvantage of the industrial sector. Important

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“To alleviate the impact on the overall economy, local government implemented major fiscal policies in the form of stimulus package funds, as well as direct and indirect tax measures”

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3 The CFA zone includes eight West African and six Central African countries. They both use two different currencies: the West African CFA franc and the Central African CFA franc, guaranteed by the French treasury department.

4 Overseas Development Institute, “Africa's Economic Crisis”, 1982.

resources were invested in local intensive farming but a lack of technical and management skills and the high cost of machinery led to smaller yields per unit of land and a modest return to capital investment.<sup>5</sup> Furthermore, the high exchange rate policy adopted by Senegal and other countries inflated currency relative to world market commodities thereby creating expensive exports and cheaper imports.

According to the Overseas Development Institute, cheap wheat and rice imports displaced local staples, such as yams and millet, because the production of the crop was very low in the CFA region and could not provide for the population in the 1980s (3% in the 1990s, according to the UN).<sup>6</sup> Therefore, it increased the gap between population growth and food output. The aid budget allocation received from international agencies decreased because of the recession in the early '80s. Furthermore, the developed countries called for Western market protection from competing African markets.

## Senegal and the CFA region recovery plan from the economic crisis (1981–1994)

After multiple diagnoses and reports<sup>7</sup> that assessed economic instability in the African region in 1981 – especially with the debt crisis doubling around the 1980s, the overvaluation of the currency and the disregard of peasant agriculture, among other bad policies – a series of economic reforms and structural adjustment programmes were adopted to help Senegal and the CFA region to recover and set on a path for sustainable growth.<sup>8</sup>

### The Lagos plan of action for economic development

The first plan was established in 1981 by the Organisation of Africa Unity, now the African Union. The programme focused on:

- Industrialisation by improving the connection between developing sectors, reducing imports and establishing global capital goods;
- Food production by increasing local investment and marketing strategies to develop the sector; and

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5 World Bank, "World Development Report:1992 Development and the Environment", 1992, <https://openknowledge.worldbank.org/handle/10986/5975>.

6 Food and Agriculture Organization of the United Nations, *Cereal Policies Review 1993-94*, 1994.

7 Robert H. Bates, *Markets and States in Tropical Africa: The Political Basis of Agricultural Policies* (Berkeley and Los Angeles, California: University of California Press, 1981)

8 Uka Ezenwe, "The African Debt Crisis and the Challenge of Development", *Intereconomics*, volume 28, issue 1, 1993: 35–43.

- Regional integration to build a regional producing market capable of sustaining trade volumes between African countries.

## Accelerated development in sub-Saharan Africa

An agenda for action was introduced around September 1981 by the World Bank to target the following:

- 1 Export crop production – an important recommendation to supplement food production in order to help improve producer prices;
- 2 More private sector involvement in the regional agricultural sector;
- 3 A trade and exchange rate policy aimed at countries gradually devaluing their inflated currency for improved competitiveness of their commodities in the global market, in addition to boosting crop exports production and the export of manufactured goods; and
- 4 Agricultural development – the centrepiece of the bank’s recommendations.

## The CFA currency devaluation (1994)

Despite the vast economic reforms supported by the World Bank and implemented by Senegal, the post-1986 crash of export revenues was a major economic shock for CFA country members. The CFA zone was subject to large external shocks because of the high dependence on a few primary commodity exports which are volatile in the international markets.<sup>9</sup> Despite the commodity price crash post-1986, the CFA gradually appreciated during the period 1986 to 1993.

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“The CFA zone was subject to large external shocks because of the high dependence on a few primary commodity exports which are volatile in the international markets”

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<sup>9</sup> Jean Paul Azam, “The Impact of Floods on the Adoption rate of high-yielding rice varieties in Bangladesh”, *Agricultural Economics*, volume 13, issue 3, 1996: 179-189; David Bevan, Paul Collier and Jan Willem Gunning, “La Politique Économique Face aux Chocs Externes Dans les Pays en Développement”, *Revue d’Économie du Développement*, volume 1, issue 1, 1993: 5-22.

In addition, France implemented the 'franc fort' strategy during the same period, to create a monetary leadership in Europe while simultaneously overvaluing the CFA currency.<sup>10</sup> Consequently, in January 1994, Senegal and all CFA countries adopted a 50% devaluation of their currency (with a new parity from French franc 1 = CFA 50 to French franc 1 = CFA 100) as a monetary policy supported by the IMF to regain competitiveness in world market commodities and to foster economic development. However, the 1994 monetary policy created new concerns, such as local traders withholding supplies in anticipation of higher prices which led to food shortages and food price inflation.<sup>11</sup>

### New plans for economic growth (1994-2001)

In 1994, following a historical twenty years of economic crisis, the Senegalese government entered a new path to improve its overall economy through:

- Better management of public finances;
- Liberalisation of the markets;
- External balance restorations; and
- New regulations for private sector investment.

Overall a series of structural adjustments supported by the IMF and other development partners, in line with better governance, aimed to reduce the size of the public sector and to better manage inflation. It was hoped this would bring the inflation rate to below 3%, improve the current account balance and reduce the deficit.

The economic environment faced a net improvement during the period 1996 through to 1998 when local government

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10 Oliver Jean Blanchard, Pierre Alain Muet, Vittorio Grilli and Patrice Vial, "Competitiveness through Disinflation: An Assessment of the French Macroeconomic Strategy", *Economic Policy*, volume 8, issue 16, 1993: 11.

11 Food and Agriculture Organization of the UN

engaged important reforms in the energy, agriculture and transport sectors – boosting GDP growth by 5.3% and reducing inflation by 1.1% in 1998.

In 1997, the BCEAO adjusted the monetary policy to maintain price stability with steady nominal GDP growth, allowing an increase of CFA 85.8 billion of net foreign assets in the banking system. Around 1998, the implementation of a new arbitration court in the Dakar Chamber of Commerce aimed to improve the legal system – the backbone of a functional judicial system.

The privatisation of the national electricity company, Senelec, was initiated in May 1998 and – as recommended by Senegal’s development partner – government subsidies to the sector were stopped. In order to keep fiscal revenue steady, the government created a new tax on gasoline and diesel.

By December 2001, the Senegalese government adopted the Poverty Reduction Strategy, a national process piloted by the government with the involvement of national investors and development partners. The strategy allows the country to receive aid from most major donors and lenders. Its four essential pillars are: (1) wealth creation, (2) stimulating access to basic social needs, (3) social protection and risk management and (4) inclusive development.

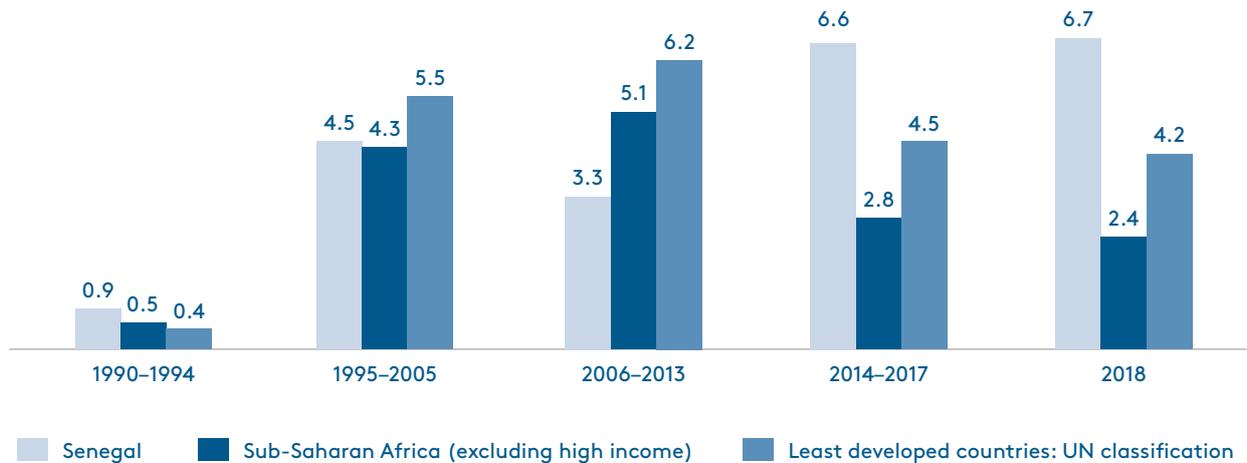
## Macroeconomic performance (2001–2016)

From 2001 to 2016, macroeconomic performance was reasonably steady, with a real GDP that doubled (an increase of 108%), due in part by the financial and telecommunication sectors that accounted for 70% of growth despite high price volatility for primary commodities and the world financial crisis of 2008.

The monetary policy implemented for economic growth was defined by the BCEAO, which kept a fixed parity between the CFA and the euro, and also kept inflation down at all times. Since 2004, the exchange rate has been stable with regards to the euro exchanged at CFA 655.9/€1 and an average value of CFA 510/\$1.

Senegal had a low inflation rate of 1.6 % during the period between 2000 and 2016, before reaching a high of 5.8% in 2008, the year of the financial crisis. Furthermore, energy and food product price increases triggered an abrupt rise in inflation. Nonetheless, the country reached a growth rate of 6.6% in 2016, ranking among the fastest-growing economies in Africa, alongside Tanzania and Côte d’Ivoire.

**Figure 1 Real GDP growth (1990-2018)**



Source: World Bank, 2018 "Senegal Economic Update", December 2018

## Senegal's pre-COVID-19 macroeconomic environment

The following section is an overview of key macroeconomic indicators, one to two years prior to COVID-19, to serve as a baseline comparison to the COVID-19 years (2020 and 2021).

### Foreign direct investment

Since 2014, foreign direct investment (FDI) was estimated at \$2,426 million, comprising \$95 million from Morocco, \$66 million from the US, \$93 million from Indonesia and \$823 million from France. The country's FDI inflow profited from the privatisation programme which started in the 1990s and almost doubled within ten years – despite the 2008 financial crisis which led to a reduction of 20% of foreign investment in 2009. The government's main plan regarding FDI is to develop agriculture, provide potable water to the population, and develop energy and infrastructure.

In 2018, FDI reached \$850 million and increased by 17% to \$985 million in 2019. Within West Africa, Senegal has the largest stock of FDI and it leads with respect to policies targeting FDI inflows. For 2019, the total stock of FDI stood at \$6.5 billion and, more recently, there have been important investments from China, the United Arab Emirates and Turkey. Nevertheless, France is still Senegal's largest investor alongside Morocco, the US and Indonesia.

**Table 1 Macroeconomic indicators 2016–2019**

	2016	2017	2018	2019	Medium term <sup>a</sup>	Long term <sup>b</sup>
<b>Real GDP growth</b>						
Current DSA	6.4	7.1	6.7	6.0	7.9	5.1
Previous DSA	6.2	7.2	6.2	6.9	8.3	5.1
<b>Overall fiscal deficit (percent of GDP)</b>						
Current DSA	3.3	2.5	4.1	4.7	4.0	2.4
Previous DSA	3.3	2.8	5.1	4.3	3.7	2.8
<b>Current account deficit (percent of GDP)</b>						
Current DSA	4.0	7.3	8.8	9.2	7.6	1.2
Previous DSA	4.0	7.3	7.3	7.0	7.5	1.2
<b>Exports of goods and services (percent of GDP)</b>						
Current DSA	21.5	21.9	21.8	22.7	26.4	31.3
Previous DSA	21.5	21.7	22.0	22.3	24.0	28.1

Note: a) Defined as the first 5 years of the projection period. For the current DSA update, the medium term covers the years 2018–2023

b) Defined as the last 15 years of the projection period. For the current DSA update, the long term covers the years 2024–2038

Source: IMF, "Senegal: Staff Report for the 2018 Article IV Consultation and Seventh Review Under the Policy Support Instrument and Request for Modification of Assessment Criteria--Debt Sustainability Analysis-Press Release; Staff Report; and Statement by the Executive Director for Senegal", IMF Staff Country Reports, 2019 <https://www.elibrary.imf.org/view/journals/002/2019/027/002.2019.issue-027-en.xml>

## Fiscal deficit

The 2019 projection for the public sector deficit was 4.7% of GDP and this related to investment in national companies such as Senegal Air and Petrosen Energy (with 4.3% still linked to Petrosen). Higher investment in oil and gas inflated the mid-term deficit of 3.7% of GDP previously forecast. Senegal's efforts to improve financial performance in the long run should reduce the deficit to 2.7 % of GDP.

## Real GDP growth

Senegal's GDP grew by more than 6% annually between 2014 and 2018. In 2019 real GDP growth stood at 4.4%, a decline from growth of 6.2% in 2017. The slowdown in economic activity was observed around February 2019 during the presidential elections and the unpaid balance of government obligations in the construction sector also contributed to the decline of GDP growth.

## Exports

In 2019 exports of goods and services reached about 23% of GDP and averaged out over the medium term to 28% in comparison to 21% and 22% in the previous year. Senegal exports averaged out to 32% of GDP in comparison to the year 2018.

## Current account

In 2018, the current account balance deficit totalled 9.5% of GDP, higher than anticipated (7.2%). However, in 2019 the deficit fell to 8.5% of GDP because Senegal introduced new measures to significantly reduce imports on the eve of COVID-19. The government also reduced imports of capital goods and oil and gas derivatives, overall improving its trade balance. Over the long term, the current account balance is projected to increase for investment in pre-production of oil.

## Eurobond

When Senegal issued the Eurobond, a new West African Economic and Monetary Union (WAEMU) regional market opened up for countries that lack access to international markets. Côte d'Ivoire issued a substantial Eurobond and this restored reserves within the region which had fallen in 2016. At the end of 2018, the stock amounted to 48% of GDP, which is an 8.5% increase in comparison to 2017. In March 2018, Senegal issued its biggest ever number of Eurobonds to the value of \$2.2 billion doubling the 2017 issuance of \$1.1 billion.

## External debt

In 2019 external public debt was forecast at 53.5% of GDP and reached 63.7% by the end of the year. The government justified the high percentage as follows:

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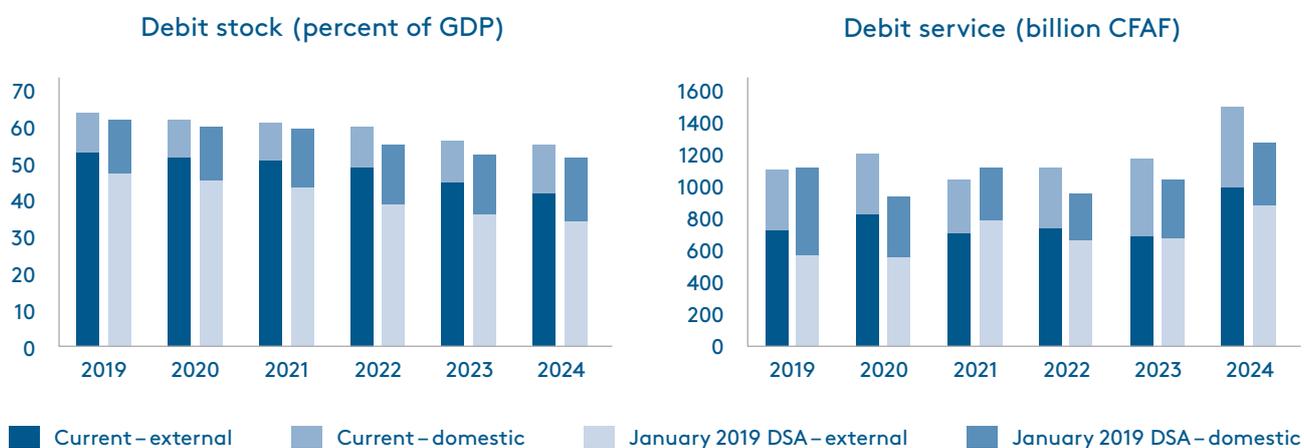
“In 2019 external public debt was forecast at 53.5% of GDP and reached 63.7% by the end of the year”

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- 1 The purchase of Air Senegal airplanes.
- 2 A large investment in Petrosen, a national oil company.
- 3 Payments by Senelec financed up to \$250 million.
- 4 A decrease of the 2018 outstanding balance.

Furthermore, in 2019 the total public debt serviced was estimated at 28% of the total revenue for the year to reflect the past two years' non-concessional borrowing increase.

**Figure 2 Senegal debt (2019–2024)**



Source: IMF, "Senegal: Request for a Three-year Policy Coordination Instrument—Debt Sustainability Analysis", *IMF Staff Country Reports* 2020, 011 (2020), <https://www.elibrary.imf.org/view/journals/002/2020/011/article-A002-en.xml>

## Domestic borrowing

For 2014 to 2019, Senegal's domestic borrowing represents, on average, 35.5% of the total financing whereas 10% will reach maturity in less than a year. Nonetheless, the average maturity over five years is conceived in the medium-to-long term with some debt relieve for state owned enterprises.

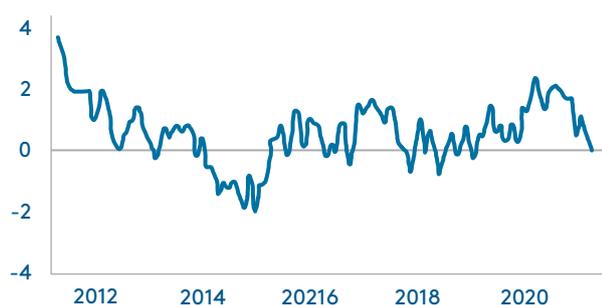
## Inflation

In 2019 Senegal Inflation was kept under 2%, versus the forecast GDP deflator of 1.1%, which is expected to float around 2% over the medium term.

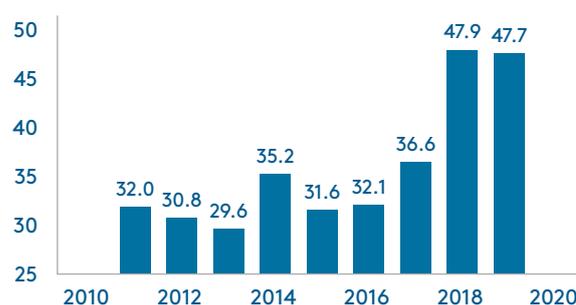
## Political environment

February 2019 coincides with presidential elections, and the old and new presidents showed an exemplary lesson in democracy in Africa and the rest of the world. The new government made efforts to change the bureaucracy, including implementing new administrative procedures, and improvements to the business environment and to the country's competitiveness.

**Figure 3** Senegal inflation rate (2011–2021)



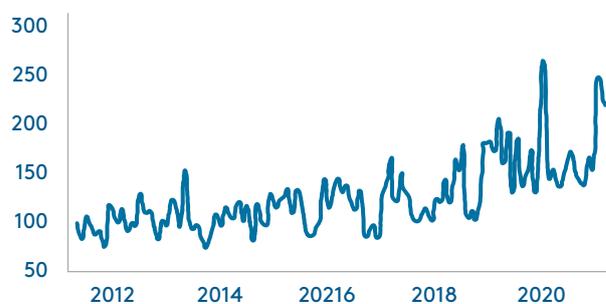
**Figure 4** Senegalese government debt to GDP (2010–2019)



**Figure 5** Senegal GDP growth rate (2018–2021)



**Figure 6** Senegal exports (2012–2020)



Source: TradingEconomics.com (database), <https://tradingeconomics.com/senegal/terms-of-trade>

## Natural resources

For the past few years, the mining sector in Senegal has contributed greatly to exports, thereby creating revenues. The increased production of precious metals such as gold, zircon, and titanium have added considerable financial resources to exports. Zircon and titanium contribute 2.4% and 3.1% respectively of all exports whereas gold exports amounted to 1.1% in 2007 and to almost

15% in 2017. Revenues from the mining sector increased by two percentage points in 2016.

## Senegal oil discovery

In 2014, Cairn Energy discovered two petroleum deposits, namely SNE and FAN, making Senegal a potential oil producer. After the discovery, prospective drilling was carried out between 2015 and 2016 with an estimated reserve for the FAN and SNE evaluated by the company at approximately 350 and 500 million barrels of oil (65 000 barrels per day). In 2016 Kosmos Energy discovered natural gas. A further discovery (Gupeumbeul-1) in the St Louis block amounting to 101 cubic meters with reserves of close to 450 cubic meters is to date the largest natural gas reserve in West Africa. Another block estimated at 140 billion cubic meters of natural gas has been located off the coast of Cayar about 65 kilometres northwest of Dakar. Gas production is forecast to begin in 2021 with the first oil production scheduled for between 2021 and 2023.

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### TOOLS

To model the revenue impact of individual resource projects, the IMF uses the Fiscal Analysis of Resource Industries (FARI) tool. This tool is applied to each project model and it combines costs, output volumes and price parameters to derive pre-tax cash flows, and project-specific fiscal terms are then superimposed to deliver post-tax cash flows. Funding shortfalls are assessed before being filled with borrowing and FDI. Regarding gas and oil production in Senegal, this process will yield disaggregated government revenue streams and flows of profit to the investor. Besides the fiscal impact of the natural resources projects, the results from FARI can also be used to quantify the impact on other macro-economic aggregates.

Before the pandemic, Senegal adopted various macroeconomic policies in order to foster GDP growth. These include the Accelerated Growth Strategy, which would have allowed the country to attain development by 2015 and capitalise on international trade development; and the Millennium Challenge Account, which promoted a better business environment and infrastructural development. In 2008, Senegal adopted the Great Agricultural Offensive for Food and Abundance (GOANA), which is primarily a strategy of agricultural intensification but also ensures coherence of policy options and programmes for the agricultural sector. GOANA and the national programme of food security both aim to eradicate food poverty, and are closely aligned to the PRS and the Accelerated Growth Strategy.

## Policy responses to the impact of COVID-19

COVID-19 has drastically changed Senegal's economic outlook – GDP growth fell 1.3% in 2020 and economic drivers such as tourism, exports and transport performed poorly. In response, the country initiated containment measures and implemented a number of economic and social resilience programmes. Despite these efforts by government, Senegal's limited fiscal tools, large informal sector and precarious health system remain a big challenge. The economic recovery period will certainly take time and there will be a gradual return to more investment.

Senegal's flagship economic development programme, the Emerging Senegal Plan, needs to be upgraded to fit the new COVID-19 reality. Private investment will be fundamental to increase the country's productivity capacities to support export growth. Individual consumption and services are the main contributor to GDP growth, with the agriculture sector in particular being the primary and most dynamic component of growth.

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Finally, the pandemic has delayed development of the energy sector, which along with the oil and gas sectors, is not expected to contribute to the country's finance and exports before 2035.

## Impact on finance

The pandemic created a downturn in the mobilisation of domestic revenue as a percentage of GDP, leading to a drop of two percentage points in 2020, simultaneously creating an increase in debt amounting to 68.6% of GDP in 2020 versus 64.1% in 2019 and 61.4% in 2018. The structure of the total external debt is 83%, with 30% belonging to commercial lenders, 42% to multilateral institutions and 28% to bilateral partners lenders. Nevertheless, the debt cap distress remains sustainable. Furthermore, government has commenced with the Medium-Term Resource Mobilisation Strategy to ensure fiscal sustainability. Overall the pandemic will impact Senegal's total public debt driving the stock to reach \$9.8 billion in 2021, 8.2% more than 2020 and equivalent to 65.3% of GDP.

## Economic issues

Even though Senegal has done well for the past years maintaining a 6% GDP growth during the period 2014-2019, the COVID-19 pandemic significantly impacted its macroeconomic performance for 2020-2021. This created a large fiscal deficit generated by low export, high debts and an overall slowing down of the economy. According to the World Bank, the country could face a major drop in potential GDP (-6.7%), local and foreign investment (-3%), export (-16%) and import (-18%), tourism (-60%) and transport (-9%), and funds transferred from Senegalese abroad (-30%).

Senegal's public deficit is impacted and could double in size to reach \$410 million (CFA 208 billion), which is essentially caused by a decrease in revenues from low-value economic

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activities. Furthermore, the reduction of imports will stabilise the current account and inflation is forecast to stay low because of the travel ban and the central bank monetary policy.

In the job market, 40% of the working population has been impacted, especially workers in the hotel and restaurant industries, leading to high unemployment rates of 15% in 2020 and 20% in 2021.<sup>12</sup> A survey from the Center for Global Development indicates that during the pandemic 86.8% of households in urban areas declared a loss of income as compared to 93.7% in rural areas.<sup>13</sup> According to Senegal's Ministry of Finance survey, the probability of vulnerable households sinking into transitional poverty is 17.2% higher than the status quo.

Overall, the country experienced its worst economic crisis with the COVID-19 pandemic and implemented a series of fiscal and monetary policies through the BCEAO to relieve the impact on key economic sectors with the aim of maintaining the same GDP growth trend from previous years.

## COVID-19 impact on revenue collection

In early 2020, the objectives set for revenue were comfortably met and expected performance was still relatively good in March and April. The pre-payments of some taxes helped reach 80% of initial targets. By May 2020, tax receipts dropped to 60% of the target. By the end of April, the fiscal deficit reached CFA 700 billion (nearly 5% of GDP) – identified as capital used for COVID-19 resilience.

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12 World Bank, “Senegal COVID-19 Response Gets Additional Financial Boost from World Bank,” press release, June 19, 2020 <https://www.worldbank.org/en/news/press-release/2020/06/19/senegal-covid-19-response-gets-additional-financial-boost-from-world-bank>.

13 Alexis le Nestour, Samba Mbaye, Justin Sandefur and Laura Moscoviz, “Covid19 Phone Survey Senegal”, April 19, 2020, <https://doi.org/10.7910/DVN/9XE95F>.

## COVID-19 impact on the banking system

By April 2020, the average deposit increased by 7.5% and the credit allowed to the economy rose by 2.2% (simultaneously declining since December 2020 by 4.2%). Broadly speaking, money kept stable at -1% year to date boosted by an increase in government credit. For the period end April 2019 to December 2020, there has been a decline in gross non-performing loans from 13.5% to 13.9%. Nevertheless, the banking system in the CFA region could be affected by the services sector because transport, retail account and hospitality are still impacted by COVID-19 and performing poorly.

## COVID-19 impact on hydrocarbon production prospects

In Senegal, activities related to hydrocarbon are deferred by one year and this has impacted scheduled growth and investment tied to imports. A projection worth 8.9% of 2020 GDP is set for the current account deficit in comparison to 11.5% of GDP as forecast (caused by lower imports, increased grants budget and lower fuel import prices). Consequently, the current account deficit is expected to increase to 10% of GDP in the medium term, because of the investments in hydrocarbon-related projects, and a sharp decline when oil and gas exports commence.

The 2020 fiscal deficit amounted to 6.2% of GDP and was set to decline to 3% by 2022. The public sector debt could peak and reach almost 70% of GDP in 2021-2022, before resuming its downward trajectory. For 2020, the regional market did adapt as planned by sovereign funding demand and did not block the private sector. The WAEMU region import policy position did weaken but their reserves adequately covered a three-month period. It is assumed that the member countries are working towards a 3% GDP deficit by 2022.

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“The banking system in the CFA region could be affected by the services sector because transport, retail account and hospitality are still impacted by COVID-19 and performing poorly”

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## COVID-19 impact on debt

Senegal's 2020 debt to GDP ratio totalled 68.6% in 2020 in comparison to 61.9% at the beginning of 2020. The growth outlook deteriorated further leading to a higher fiscal deficit and increased borrowing. Therefore, Senegal increased its initial 2020 debt limit of FCFA 9,5 billion to FCFA 10 billion. When compared to the previous year, growth did decline by 0.9% in 2020 and is forecast to increase by 1.5% in 2021. The fiscal deficit increased in 2020 by 0.5% of GDP and 1.2% of GDP in 2021. Simultaneously, the government proposed alleviating actions to delay 0.5% of GDP when exploiting externally financed projects in 2020 to hold off the energy projects. Senegal's alternative financing resources, such as the World Bank, the IMF and bilateral creditors among others, helped maintain a sustainable debt.

## A review of fiscal policies implemented during the pandemic

To restore the growth trajectory and economic development, the Senegalese government initiated a national fund with an envelope of \$2.1 million (CFA 1.4 billion). The following was implemented: a solidarity fund (FORCE COVID19) financed by members of government each contributing \$1 700 (CFA 1 million); an economic-growth watch committee was set up; and a post-COVID development plan was rolled out with a budget of \$100 million (CFA 64 billion). Other major fiscal policies were introduced in the form of taxation rebates which allowed local government to issue partial tax debt forgiveness from a fund of \$330 million (CFA 180 billion) to individuals, financial and commercial entities affected by the COVID-19 pandemic.

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## Labour market support

A cash facility was implemented from salary deductions and local company social contributions to the retirement pension fund agency. This measure will allow those workers active in the labour force to get 100% of their salary from companies that keep production or services current, and will also give 70% of wages to those workers laid off and affected by the pandemic. Furthermore, the value-added taxes collected by customs services and agencies were frozen for 12 to 24 months.

## Business support

The government paid over \$500 million (CFA 280 billion) to state contractors and suppliers to clear domestic debt and allow financial capital relief to local companies and keep the value chains active. Moreover, according to the Senegal Ministry of Finance Report (2020), \$100 million (CFA 55 billion) was initially set aside for contingencies related to an assessment of COVID-19 and its evolution, with an additional amount of \$2.1 million (CFA 1.2 billion) also approved for combatting the ravages of COVID-19.

## Developmental and health sector stimulus

The economic sectors directly affected by the pandemic – hotel, agriculture, transport and infrastructure – received \$200 million (CFA 100 billion). Moreover, the finance ministry restructured the country's budget to save \$300 million (CFA 160 billion) with a freeze on current investment and a drastic decrease in functional expenses. In support of the department of health, \$180 million (CFA 64 billion) was ring-fenced to fight COVID-19, as well as to stabilise the energy/water sector and to improve social resilience, \$30 million (CFA 15.5 billion) helped pay electricity and water bills for 975 522 households. Finally, \$150 million (CFA 69 billion) was set aside to provide food to one million households impacted by the pandemic.

# A review of the monetary policies of the BCEAO implemented during the COVID-19 pandemic

Since the date of its creation in May 1962, the BCEAO regulates monetary policies, centralises foreign exchange reserves, allows free currency circulation and transfers within the eight-member countries in the union. The common currency used is the CFA, which stands for the financial community of Africa. The member countries in the zone have heterogeneous economic activities,

different institutional patterns, and several strengths and weaknesses. During the years of economic crises within the region, the BCEAO has managed to keep inflation low by introducing appropriate monetary policies. In March 2020, with the COVID-19 pandemic, the bank implemented several measures which should maintain competitiveness in the region.

## Bank support

The central bank increased the financial resources of local banks from CFA 340 billion to CFA 4,750 billion to keep cash flow in the economy. Moreover, it also reconsidered widening the access to refinancing to over 1 700 private entities which were not previously allowed in the portfolio. In April 2020, electronic payments were fortified jointly within the regional banking industry to avoid physical contact and the spread of the virus, which led to a reduction in bank fees related to bank transfers, mobile wires and online payments. All interest charges and penalties were voided for businesses requesting a loan extension.

## Business support

Small- and medium-sized enterprises, companies and businesses affected by the pandemic were granted loan repayment extensions. To reduce in-person contact, ATM operations were guaranteed to function satisfactorily with a supply to local banks of a sufficient quantity of quality banknotes. The COVID-19 bonds were adopted and auctions were organised in April 2020 at a record low rate (2.5%) to boost liquidity and allow individuals and businesses to get credit from banks at a low rate. Senegal and the rest of the member states were able to mobilise low-cost financial resources and improve their budget deficit.

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“The COVID-19 bonds were adopted and auctions were organised in April 2020 at a record low rate (2.5%) to boost liquidity and allow individuals and businesses to get credit from banks at a low rate”

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## Perspective

Senegal initiated a resilience plan estimated at 7% of its GDP to fight the economic impact of the COVID-19 outbreak and this has led to an increase in the country's debt – maintained by foreign investors at 80%. In 2020, the debt/GDP ratio was 65.8% and is expected to rise to 66.8% this year. In 2021, the budget deficit should stay high at around -6.5%, with inflation remaining close to 2% in 2021 – well under WAEMU's base criterion of 3%. The Senegalese government has been following the Emerging Senegal Plan (ESP) since 2014, which includes more than \$7 billion to fund infrastructure development, mining, agriculture, tourism and the food processing industry. With the help of the IMF, the country is leading a fiscal reform to consolidate policies that target deficit reduction and debt management.

From the viewpoint of the World Bank, if the objectives of the ESP are pursued, most of the population living under the poverty line will progressively be able to access high-growth or value-added sectors, such as horticulture or agricultural

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“Senegal initiated a resilience plan estimated at 7% of its GDP to fight the economic impact of the COVID-19 outbreak and this has led to an increase in the country's debt – maintained by foreign investors at 80%”

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“If the objectives of the Emerging Senegal Plan are pursued, most of the population living under the poverty line will progressively be able to access high-growth or value-added sectors”

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**Table 2 Senegal macro-economic indicators before and after COVID-19**

Main indicators	2018	2019	2020 (e*)	2021 (e*)	2022 (e*)
<b>GDP (billions \$)</b>	23.25	23.31e	24.45	27.93	30.52
<b>GDP (constant prices, annual % change)</b>	6.4	4.4	0.8	5.2	6.0
<b>General government gross debt (in % of GDP)</b>	63.2	64.8	65.8	66.8	66.6
<b>Inflation rate (%)</b>	0.5	1.0	2.5	2.0	1.7
<b>Current account (billions \$)</b>	-2.04	-1.83	-2.68	-3.59	-3.58
<b>Current account (in % of GDP)</b>	-8.8	-7.8	-11.0	-12.8	-11.7

Note: (e\*) = estimated data

Source: International Monetary Fund (IMF) and the World Economic Outlook Database, 2021, <https://santandertrade.com/en/portal/analyse-markets/senegal/economic-outline>

processing. In 2019, the country was ranked 166<sup>th</sup> in the Human Development Index and in 2019 the unemployment rate of the country was at 7.7%.<sup>14</sup>

The Senegalese government authorities have committed to rationalising public spending and mobilising domestic revenue in order to decrease the fiscal deficit to 5% of GDP in 2021 and 4.2% in 2022. Similarly, these important measures will decrease the current account deficit to 8.2% in 2021 and 7.1% in 2022, as exports resume and remittances pick up.

## Conclusion

Since its independence in 1960, Senegal, as with other former French colonies, has had multiple GDP growth spurts (1970s-1980s). Nonetheless, long financial crises (1980s-1994) due to rapid population growth and a shortage of food output plus external factors such as the global rise in oil prices had a substantial effect on the country's economy and increased the cost of energy related to farm machinery. The result of this was an overall high inflation rate with shortages of fuel and fertilisers. Local government implemented policies aid donors supported; these policies focused on agricultural rather than industrial investment. Despite the economic crisis in 1994, with the devaluation of its currency and a few structural adjustments supported by the international institutions (IMF and World Bank),<sup>15</sup> Senegal secured a positive GDP growth rate which lasted until 2020. Nevertheless, the same year, the country faced its biggest macroeconomic crises with the spread of COVID-19.

The Senegalese government, in order to maintain the same growth rate as previous years, implemented major fiscal policies for more than \$2 billion (1 000 billion CFA) injected directly to trigger the overall economy, with the aim of reducing the budget deficit, cutting taxes, paying government debt to local companies, maintaining wages and boosting tourism, health, agriculture and exports. Similarly, the BCEAO introduced major monetary policies that, among other measures, kept inflation low, cash flow in banks and interest rates low.

Today with the adoption of the fiscal and monetary policies, Senegal faces a more optimistic GDP growth rate. The dual system has had a positive impact of 1.3% real GDP growth on the economy in 2020 compared to a -0.4% GDP growth forecast prior to the implementation of the policies.

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14 ILO estimate.

15 See International Monetary Fund African Department, Statement by Mr. Mohamed-Lemine Raghani, Executive Director for Senegal, and Mr. Oumar Diakite, Advisor to Executive Director, July 17, 2020, <https://www.elibrary.imf.org/view/journals/002/2020/225/article-A003-en.xml>.

# Annexes

Statement by Mr. Mohamed-Lemine Raghani Executive Director for Senegal and  
Mr. Oumar Diakite, Advisor to Executive Director, July 17, 2020

## I Introduction

- 1 Our Senegalese authorities appreciate staff's constructive engagement and policy advice in the context of the first review of their Policy Coordination Instrument (PCI). They view the Fund's support under the PCI as instrumental to sustain their efforts in restoring the country's strong economic performance following the COVID-19 outbreak.
- 2 The policy discussions held with staff focused on reestablishing sound economic policies and reforms while responding to the shock of the pandemic. Despite the current difficult circumstances, our authorities are determined to speed up their actions to effectively contain the pandemic and alleviate the shock on vulnerable populations and the economy. They remain strongly committed to their medium-term policies and reforms anchored by the "Plan Senegal Emergent" (PSE) phase II and supported by the PCI.

## II Recent Economic Developments and Performance under the PCI-Supported Program

- 3 The economic outlook in 2020 has been profoundly impacted by the COVID-19 pandemic. Domestic containment measures, low external demand as well as the decline in remittances have led to an unprecedented economic downturn that has generated substantial fiscal and balance of payments needs. During the first quarter of 2020, the economic activity index (excluding agriculture and forestry) contracted by 1.9% and inflation rose to 3.3% in April compared with the same period in 2019.
- 4 Thanks in part to the emergency financing obtained under the RCF/RFI on April 13, 2020 and the debt service suspension under the G-20 initiative, the authorities are responding to the crisis through their social and economic resilience program (programme de resilience économique et social, PRES). The PRES aims to strengthen the health sector and the resilience of the population and support private sector activities and employment. The implementation of the PRES is expected to help GDP growth reach 1.1% in 2020 from 5.3% in 2019, under a scenario of gradual economic recovery. However, risks facing the economy are on the downside. Should the pandemic last longer and the global crisis be more severe than currently anticipated, a contraction of economic activity is to be expected.

5 The performance under the PCI-supported program remains satisfactory amid challenging conditions. All quantitative targets (QT) at end-December 2019 were met, except the QT related to the share of government contracts using sole sourcing, and all continued QTs were observed. Significant progress was also made in advancing reform targets (RTs), including the study on the mechanisms to improve enrollment and attendance of children in secondary schools, the medium-term revenue strategy and the study of the expenditure chain which have all been finalised. Due to delays caused by the COVID-19 outbreak, the targets for some on-going reforms have been postponed to end-December 2020, including the legal framework for public-private partnerships (PPPs), and the legislation on the allocation and management of hydrocarbon revenues. The authorities remain committed to their implementation.

### **III Policies and Reforms under the PCI-Supported Program**

6 The PCI supports the following three pillars of the authorities' reform strategy: (i) achieving high and inclusive private sector-led growth; (ii) consolidating macroeconomic stability through a prudent budgetary policy; and (iii) managing oil and gas revenues within a sustainable and transparent framework.

#### ***A Achieving High and Inclusive Private Sector-Led Growth***

7 The authorities are determined to pursue their efforts towards promoting a strong private sector, which plays a central role in the country's strategy to foster strong and inclusive growth and generate employment and incomes. The private sector development strategy being prepared includes far-reaching structural reforms to improve the business climate and the adoption of a diversified range of innovative financing instruments. The authorities will also adopt best practices in public-private partnerships (PPPs).

8 The Compact with Africa (CwA) Initiative launched under the German G20 Presidency in 2017 is another conduit for implementing meaningful reforms to support increased private investment. In this regard, progress continues to be made in the priority areas of labor legislation, access to land, access to finance, SMEs development, and vocational training. Another important effort underway is the establishment of a one-stop shop to improve the coordination of entities and programmes whose mandate is to support SMEs.

9 Expanding social safety nets is a priority in the authorities' inclusive growth strategy. With the increased level of vulnerability revealed by the COVID-19 pandemic, the authorities are keen to put in place measures to increase the resilience of the health sector and vulnerable populations to shocks. In this regard, they intend notably to accelerate the implementation of the Support Project for Social Safety Nets (PAFS) to protect and revitalise the most

vulnerable, in particular the youth and women. They will also uphold the current budgetary envelope reserved to cash transfers while considering the enlargement of social safety nets in coordination with development partners.

- 10 In the financial sector, the authorities are closely monitoring the risks associated with the pandemic. While supporting large and small and medium enterprises through a dedicated financial facility, they are ensuring notably that their measures are based on solid risk-sharing with the banking sector to reduce fiscal costs. In the same vein, the impact of public sector exposures on financial institutions is being carefully monitored to preserve financial stability. Furthermore, efforts are also being made to expand access to financial services, including through mobile banking. In this connection, the Government digitalised the payment of pensions of more than 50 000 retired civil servants in April 2020. Furthermore, the interoperability of digital financial services between banks, microfinance institutions and electronic money institutions initiated by the regional central bank, BCEAO, has made significant progress. Given the impact of the COVID-19, the authorities' ongoing efforts to further advance their financial inclusion strategy are expected to be completed in December 2020.

## ***B Consolidating Macroeconomic Stability Through a Prudent Budgetary Policy***

- 11 The authorities are implementing a comprehensive response plan to the COVID-19 pandemic. The key measures under the plan are intended to support prevention and provide care in the health sector, strengthen economic resilience and step up social cohesion. They also intend to restore activity and jobs in the sectors most affected by the crisis such as tourism, transportation, exports, hospitality and agriculture.
- 12 The authorities are determined not to exceed the fiscal deficit target of 6.1% of GDP on 2020 and have identified appropriate measures to this end, taking into account the major challenges affecting revenue collection and the potential pressures on spending associated with the spread of the pandemic. The 2020 supplementary budget provides notably for a precautionary reserve which will be mobilised depending on the attainment of revenue objectives. The authorities will continue to streamline exemptions, facilitate telework in revenue administrations to ensure continuity of public services, and complete the digitalisation of tax return filing and payment procedures.
- 13 While implementing the pandemic response plan, the authorities will ensure that the new spending measures are temporary and aimed at addressing the specific needs induced by the crisis. In line with their commitment to foster transparency and accountability regarding pandemic-related expenditures, they will publish the list of successful bidders on government contracts, establish expenditure controls and entrust the Audit Office (Cour des comptes)

with the mission of preparing a special report on the execution of expenditures related to COVID-19.

- 14 The authorities remain committed to gradually bringing the fiscal deficit to 3% of GDP by 2022, in line with the WAEMU fiscal convergence criteria, as the economic situation normalises. The authorities are aware that achieving this objective entails strengthening revenue mobilisation by broadening the tax base and enhancing the efficiency and effectiveness of government agencies, including through ambitious digital innovations and reorganisation. In this context, wide-ranging reforms in the framework of the medium-term revenue strategy (“Stratégie de recettes à moyen terme”, SRMT) will be launched, with a view to achieving a tax-to-GDP ratio of 20% by 2023.
- 15 Priority will also be given to medium-term reforms in the area of public financial management as the crisis abates. These will include the implementation of program budgeting, the reduction of simplified or derogatory expenditure procedures, and improved reporting of transfers taking place through treasury deposit accounts (comptes de dépôt). The authorities will continue to improve cash management by consolidating further the Treasury Single Account (TSA). In order to strengthen the management of fiscal risks, a database for the full range of PPPs will be set up, presenting their budgetary impact and quantifying major fiscal risks if any.
- 16 The authorities take note of the recent staff’s assessment that Senegal’s debt remains at moderate risk of debt distress, with little space to absorb further short-term shocks. In this regard, they are committed to enhancing debt management under their medium-term debt strategy (SDMT) by pursuing a prudent debt management policy focused on mobilizing highly concessional resources and giving priority to financing from the regional financial market. Furthermore, they will step up their efforts to make the National Public Debt Committee (CNDP) fully operational, adopt a consistent public sector borrowing strategy encompassing SOEs and compatible with the ceiling on nominal debt set under the program, while improving debt data. The authorities look forward to the Fund’s technical assistance in this endeavor.

## **C Managing Oil and Gas Revenues Within a Sustainable and Transparent Framework**

- 17 Due to the COVID-19 pandemic and the major shocks experienced by the oil industry worldwide, the start of oil production in Senegal has been pushed back from 2022 to 2023. In this context, the authorities will pursue a prudent policy regarding the state’s financial commitments in the forthcoming investments in the oil sector, including by obtaining further assurances on the profitability of projects prior to providing government guarantees to the State-owned petroleum company (PETROSEN) for potential loans.

18 The authorities will also strengthen the legal and fiscal frameworks governing the distribution and management of oil and gas revenues, based on international best practices. The technical work on the two draft laws pertaining to the distribution, supervision and management of hydrocarbon revenues, and the rules governing the organisation and functioning of the Sovereign Fund for Strategic Investments (FONSIS) have been slightly delayed due to the severe impact of the COVID-19 pandemic, and should be finalised by end-December 2020.

## IV Conclusion

19 Our Senegalese authorities remain strongly committed to their PCI-supported program. In this regard, they will continue to implement reforms aimed at preserving macroeconomic stability, achieving strong economic growth, and improving public financial management and the business environment, consistent with the goals of the PSE Phase II.

20 In view of Senegal's satisfactory performance and their strong determination to pursue reforms, the authorities seek Executive Directors' support for the completion of the first review under the PCI arrangement and the request for modification of quantitative targets"

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# About Initiative Prospective Agricole et Rurale (IPAR)

IPAR is a space for reflection, dialogue, and proposals for concerted agricultural and rural policies in Senegal and in the West African region. The initiative was prompted by specialists in agriculture and the rural world who were already supporting farmers' organizations and who were interested in creating permanent spaces for prospective and strategic reflection. The staff of the IPAR Executive Secretariat is made up of a multidisciplinary team of sociologists, economists and agronomists, supported by the experts of the Scientific Committee and the members of the Board of Directors.

Cover image: CFA currency issued by the Central Bank of West African States/Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO), used in the eight West African countries which share the common currency (Issouf Sanogo/AFP via Getty Images)