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SIXTH CONSULTATIVE GROUP FOR SENEGAL

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STATEMENT BY THE INTERNATIONAL MONETARY FUND

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I. INTRODUCTORY REMARKS

1. It is a pleasure to be here today to discuss, together with the Senegalese authorities and development partners, Senegal's strategy for growth acceleration and poverty reduction. I would like to outline the macroeconomic program that the government intends to pursue over the next three years to help achieve these objectives.
2. As you know, Senegal is requesting Fund support for its economic program under the Policy Support Instrument (PSI). If approved by the Executive Board, Senegal would join a handful of other African countries that benefit from Fund support under this new type of instrument. It is designed to address the needs of low-income members that may not need Fund financial assistance, but seek Fund endorsement and assessment of their economic policies. Eligible countries may be thought of as mature stabilizers—macroeconomically speaking—and Senegal's record over the last decade has on balance been good in this regard.
3. I am happy to inform you that Fund Management has endorsed Senegal's request for a PSI, and the Fund's Executive Board is expected to meet in early November to discuss the request.
4. Let me now describe Senegal's current macroeconomic situation, before turning to the macroeconomic and related structural policies that the government intends to pursue under its proposed program. I will also touch on the risks for the proposed program.

II. MACROECONOMIC SITUATION

5. As I noted, Senegal's economic performance since the 1994 CFA franc devaluation has generally been good, but economic problems have emerged over the past two years. Economic growth slowed and real per-capita income fell in 2006 for only the third time since that devaluation. A slump in agriculture was partly to blame for this, as well as a temporary stop in exports by the main chemical company and disruptions in the operations of large public companies in the energy sector. Inflation rose sharply as food prices surged and administered energy prices were adjusted—with a delay—to higher international oil prices.
6. These economic problems adversely affected Senegal's fiscal situation. While fiscal performance had been good earlier in the decade, the fiscal deficit doubled to 6 percent of GDP in 2006, due mainly to a strong rise in energy subsidies. In addition, government spending on capital projects and the wage bill increased. The size of the fiscal deficit last year was such that

9. **The second element is to strengthen fiscal governance and transparency:**

- Two government projects receive a lot of attention in the program, given their size and potential economic impact: the airport and the planned special economic zone.
- The **airport** project has been under discussion for some time. Based on the extensive information that the government has made available to Fund and Bank staff, it appears that fiscal risks associated with the project are limited. Several other potential concerns related to the airport have been addressed by the government, such as the ownership structure of the company managing the airport project and, for the airport tax, the transparency of its collection and usage.
- The planned **special economic zone**, to be built outside of Dakar next to the new airport, may be self-sustaining and worthwhile, but it entails some budgetary risks. First, the tax incentives that are to be accorded to companies that choose to operate in the zone may undermine government revenues. The authorities' program includes a commitment that the zone's revenue implications will be studied carefully, in consultation with Fund staff, which may identify the need for corrective action to safeguard government revenue. In addition, in order to manage governance risks, the authorities are committed to normalizing the status of APIX, the public entity that will manage the zone. They will make these changes to avoid the potential for conflict of interest between the public and private sectors, and will also make sure that generally all standard public sector rules and regulations are followed.
- Several other fiscal governance issues will also be addressed under the proposed program. For example, procurement practices will be strengthened, and the number of contracts awarded on a noncompetitive basis will be halved so that soon only a small share is bid noncompetitively. The proposed program also includes other measures to improve public financial management. Implementation of most of these measures will require sustained efforts spread over several years and may require technical assistance from the Fund and other development partners.

10. **The third element of the proposed program is to promote private sector activity:**

- More needs to be done to stimulate private sector activity and thus achieve a sustained increase in economic growth. Many of the well-founded reforms proposed in the authorities' *Accelerated Growth Strategy*—which I am sure we will discuss during this meeting—need to be implemented quickly. The authorities have now committed to submitting the necessary enabling legislation to parliament to elevate the strategy to the rank of national priority and set the institutional framework for its expeditious implementation.

11. **The fourth focal point of the proposed program is to enhance the contribution of the financial sector to the economy:**

- A well-functioning and sound financial sector is essential for a strong market economy. To move ahead in this area, the authorities have included several commitments in its

also if business activity continues to be adversely affected by energy supply problems due to a lack of reforms in the sector, or if the recovery of the chemical company is delayed.

- Second, slippages in the fiscal area could undermine program objectives and take the form of delays in restructuring public enterprises, excessively generous tax incentives in the new special economic zone, or failure to reduce payment delays to suppliers.
- Third, it should generally be recognized that strong political resolve will be needed to implement structural reforms, address governance concerns, and provide an environment where the private sector can flourish.
- Finally, the PSI's pre-defined review schedule requires a redoubling of efforts to prevent the program from going off-track. Delaying a scheduled program review would not be possible under a PSI, and difficulties in implementing the program would clearly signal that the government's macroeconomic program was off track; such signals are more modulated under a traditional PRGF program. The authorities have, however, expressed their resolve to meet the PSI review schedule, and Fund staff stands ready to assist.

VI. CONCLUDING REMARK

14. In closing, as already indicated, the Fund's Executive Board is expected to discuss Senegal's request for a PSI in early November. I wish the authorities well in their efforts to strengthen growth and reduce poverty.