SENEGAL

Table 1	2019
Population, million	16.7
GDP, current US$ billion	23.6
GDP per capita, current US$	1407.3
International poverty rate ($1.9)[a]	38.5
Lower middle-income poverty rate ($3.2)[a]	68.4
Upper middle-income poverty rate ($5.5)[a]	88.4
Gini index[a]	40.3
School enrollment, primary (% gross)[b]	81.0
Life expectancy at birth, years[b]	67.7

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2011), 2011PPPs.
(b) Most recent WDI value (2018).

The COVID-19 outbreak will halt years of strong economic performance, with growth slowing from 5.3 percent in 2019 to -0.7 percent in 2020. The fiscal deficit of 6.2 percent of GDP in 2020 reflects the attempt to accommodate the shock. The current account deficit widens as exports and remittances slow, financed by increased external support. Recovery will be gradual while poverty increases following disruption of labor income, remittances, basic services and food inflation. The key risk is a protracted crisis

Recent developments

The COVID-19 outbreak halted years of strong economic performance. Growth averaged 6.3 percent between 2016-19, despite slowing to 5.3 percent in 2019 (2.5 percent in per capita terms) due to poor agriculture performance. 2020Q1 saw growth decelerate to 1.4 percent compared to 5.7 percent in 2019Q1. Services were not only the largest contributor to growth in 2019, but also took the largest hit in 2020Q1, contracting by 0.9 percent due to weak real estate, hospitality and ICT activity. On the demand side, private consumption and investment, the main drivers of growth, were severely cut in the wake of the pandemic. Inflation was subdued at 1 percent in 2019, consistent with an output gap close to zero, but picked up to 2 percent in June 2020, due to higher food and transport prices.

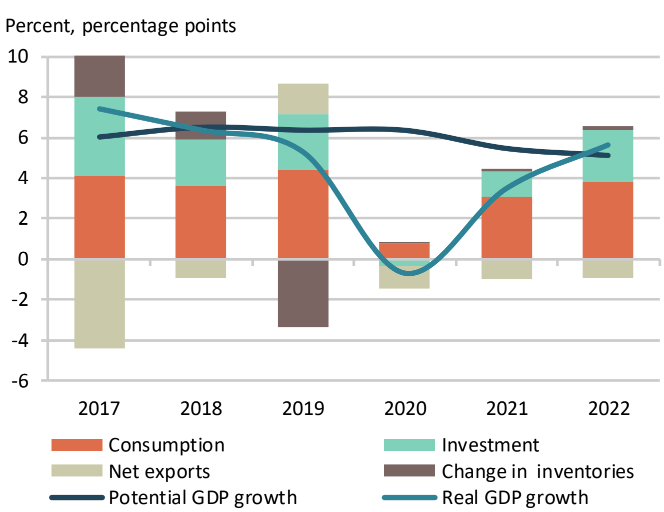
The external current account deficit (CAD) declined from 9.1 percent of GDP in 2018 to 7.7 percent of GDP in 2019 reflecting an improved trade balance. Strong export performance coupled with lower oil-import prices, helped offset the increase in hydrocarbon-related capital imports. However, international supply chain disruptions and weak global demand since March 2020 have weakened exports, notably related to tourism and transport services. While the 2019 CAD was financed by Foreign Direct Investment (FDI) and increased external debt, urgent 2020 Balance of Payments needs are largely met by concessional external financing.

Fiscal pressures increased in 2019 and have been aggravated by the COVID-19 crisis. The fiscal deficit widened to 3.8 percent in 2019, including a one-off debt-financed central government transfer to the electricity utility SENELEC. By May 2020, crisis related expenditures and lower revenues pushed the deficit to 5.9 percent of GDP, compared to 3.9 percent by May 2019. Public debt increased to 63.8 percent in 2019, driven by hydrocarbon investment, below the line operations, and SOE debt. The debt composition has shifted toward external borrowing while the risk of debt distress increased to moderate. Public debt in 2020 will increase to 69.8 percent of GDP, however, Senegal's participation in the global Debt Service Suspension Initiative (DSSI) provides short term liquidity of 0.6 percent of GDP.

Senegal's monetary and exchange rate policies are managed by the Central Bank of West African States (BCEAO), which maintains a fixed peg between the CFA Franc and Euro. Its reserves reached 5.4 months of imports in 2019 due to fiscal consolidation and higher net capital inflows. The real effective exchange rate (REER) depreciated by 3.8 percent in 2019, mainly due to inflation differentials between WAEMU and trading partners. To support regional economy and COVID-19 related extra spending, the BCEAO announced a set of monetary and macroprudential measures since March 2020, including policy rate cut and extended refinancing operations of 3-month COVID-19 bonds.

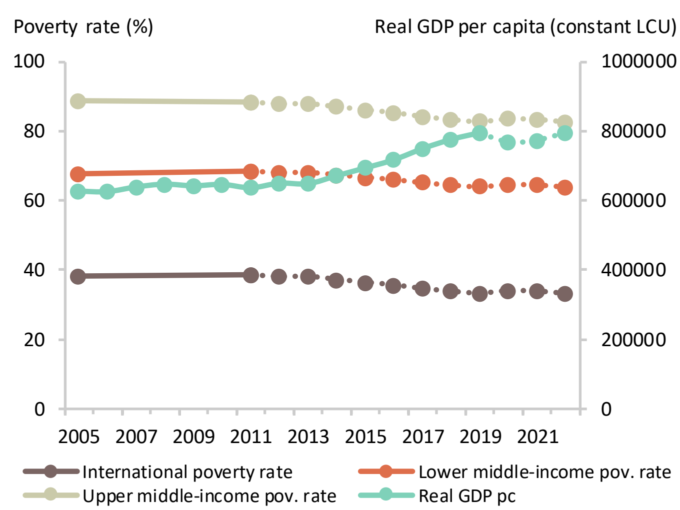
The financial sector remains sound. Deposits continued to increase at 7.9 percent

FIGURE 1 Senegal / Real GDP growth and contributions to real GDP growth



Source: World Bank staff estimates.

FIGURE 2 Senegal / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see Table 2

in 2019 and credit growth increased from 4.7 percent in 2018 to 6.7 percent in 2019. Gross non-Performing Loans (NPLs) as a share of total loans increased from 13.1 percent at end-2018 to 13.9 percent in end-2019. So far, COVID-19 has not significantly reduced bank lending while NPLs decreased to 13.5 percent by end April.

The incidence of extreme poverty, benchmarked against the international poverty line (US$1.90 a day, 2011 PPP), declined from 36.5 percent to 33.4 percent between 2015 and 2019, attributable to agriculture growth, increasing employment in Dakar, access to basic services and low inflation.

Outlook

Growth will be negative at -0.7 percent in 2020 as lower exports and remittances subdue private consumption. GDP per capita will contract by 3.3 percent. As uncertainty affects capital allocation, investment will slow in 2020, but increasingly drive growth in the medium term. Assuming the pandemic recedes by end-2020, growth would gradually recover to 5.6 percent in 2022. The current shock opens a negative output gap. Hydrocarbon production would support economic performance from 2023. Productivity growth, prudent monetary policy and exchange rate stability should keep inflation around 2 percent.

The external current account deficit will widen to 11.4 percent by 2022. Favorable Terms of Trade (for oil and gold) and stronger export performance would begin to offset continued investment-related import growth thereafter. Short-term financing needs may be difficult to satisfy by tight regional markets and subdued FDI, putting the burden on external concessional financing. WAEMU reserves would reach about 4.2 months of imports by 2021 as member countries digest the COVID-19 crisis, increasing fiscal spending and facing lower capital inflows.

The fiscal deficit is expected to peak at 6.2 percent of GDP in 2020 but return to the WAEMU target of 3 percent of GDP after 2022. After revenue shortfalls in 2020, tax revenue mobilization – supported by a medium-term revenue strategy –coupled with prudent current spending - would create fiscal space to gradually increase investment and social expenditures. Fiscal vulnerabilities will be contained while reform and investment implementation would increasingly crowd in the private sector. Total public debt would start to gradually decrease from 2023.

COVID-19 impacts household welfare significantly. Instead of falling by an additional 2.7 ppts. between 2019 and 2022, extreme poverty incidence is projected to increase by almost 1 ppt. in 2020. Indeed, short-run simulations using the latest survey (2018/19) suggest the shock may have pushed an additional 600,000 people near or into poverty during 2020Q2. Impacts are uneven across the welfare distribution and last, depending on socio-economic and demographic characteristics, while gender gaps may be exacerbated.

Risks and challenges

Downside risks are high. A protracted or recurring Coronavirus outbreak would raise fiscal pressures and economic losses into 2021, delaying recovery and increasing poverty. Weaker revenue mobilization, uncertainty around hydrocarbon production, and slower progress on investment climate reforms could negatively weigh on investment, exports, and fiscal revenues. A protracted crisis coupled with weather shocks could curb agricultural growth while lower social spending and disruptions in basic services could affect households' capacity to invest and protect human capital.

TABLE 2 Senegal / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	7.4	6.4	5.3	-0.7	3.5	5.6
Private Consumption	4.9	4.3	4.8	-0.3	3.6	4.6
Government Consumption	4.0	3.8	8.1	7.1	4.3	3.7
Gross Fixed Capital Investment	15.4	8.4	10.0	-1.2	4.2	8.9
Exports, Goods and Services	8.2	9.6	9.9	4.1	6.4	7.2
Imports, Goods and Services	16.7	7.6	1.8	5.4	6.2	6.6
Real GDP growth, at constant factor prices	7.0	6.3	5.0	-0.7	3.5	5.6
Agriculture	11.5	7.9	2.9	3.0	4.3	6.9
Industry	7.1	7.5	5.8	1.1	3.8	4.7
Services	5.8	5.3	5.2	-2.6	3.2	5.7
Inflation (Consumer Price Index)	1.3	0.5	1.0	2.0	2.0	1.9
Current Account Balance (% of GDP)	-7.4	-9.1	-7.7	-9.0	-10.5	-11.4
Fiscal Balance (% of GDP)	-3.0	-3.9	-3.8	-6.2	-4.6	-3.1
Debt (% of GDP)	61.0	62.1	63.8	69.8	72.5	72.8
Primary Balance (% of GDP)	-1.1	-1.9	-1.9	-4.0	-2.6	-0.9
International poverty rate ($1.9 in 2011 PPP)[a,b]	34.7	33.9	33.4	34.1	33.9	33.3
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	65.2	64.6	64.1	64.7	64.6	64.0
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	84.3	83.5	82.9	83.7	83.5	82.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.
(a) Calculations based on 2005-ESPS-I and 2011-ESPS-II. Actual data: 2011. Nowcast: 2012-2019. Forecast are from 2020 to 2022.
(b) Projection using point to point elasticity at regional level with pass-through = 0.87 based on GDP per capita in constant LCU.