SENEGAL

Table 1	2020
Population, million	16.7
GDP, current US$ billion	24.2
GDP per capita, current US$	1447.1
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]	82.1
Life expectancy at birth, years[b]	67.7

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2011), 2011PPPs.
(b) WDI for school enrollment (2019); life expectancy (2018).

Senegal experienced its first contraction since 1990 as COVID-19 induced global and local demand shocks hit the service sector. Growth fell from 4.4 percent in 2019 to -0.7 percent in 2020, resulting in the incidence of extreme poverty increasing from 35.9 to 36.6 percent along with a widening of the twin fiscal and current account deficits. Recovery is expected to be gradual, with downside risks stemming from a sustained pandemic, climatic hazards, terms of trade shocks, and delayed structural reforms.

Key conditions and challenges

Over the past decade, Senegal benefited from enhanced international competitiveness, a demographic transition and structural transformation. Average annual growth of 5 percent between 2011-2019 reduced the poverty rate by 5 percentage points (using the national poverty line). However, Senegal's track record falls short of top performing Sub-Saharan African countries, which reduced poverty rates between 1 and 3.4 ppts per year. Worryingly, inequality has stagnated over the same period, with a Gini coefficient stable at 0.35 and persistent spatial and socio-demographic disparities, including gender gaps.

The combination of a COVID-19 induced global recession, disruptions in supply chains and containment measures have taken a heavy toll on the economy. The pandemic also highlighted structural vulnerabilities hampering Senegal's potential for resilient and equitable growth. On the one hand, insufficient and unevenly distributed human capital and structural inequalities constrain labor supply. On the other hand, the private sector has been unable to generate enough productive jobs to keep up with high population growth, stifled by insufficient competition and inadequate financing. The crisis also aggravated emerging fiscal vulnerabilities, underlining the importance of transparent, effective fiscal and debt management as a foundation of inclusive growth. Finally, Senegal is exposed to coastal erosion and climate shocks (floods, droughts, and associated health hazards), which could affect recovery in key sectors such as tourism and reduce agricultural productivity.

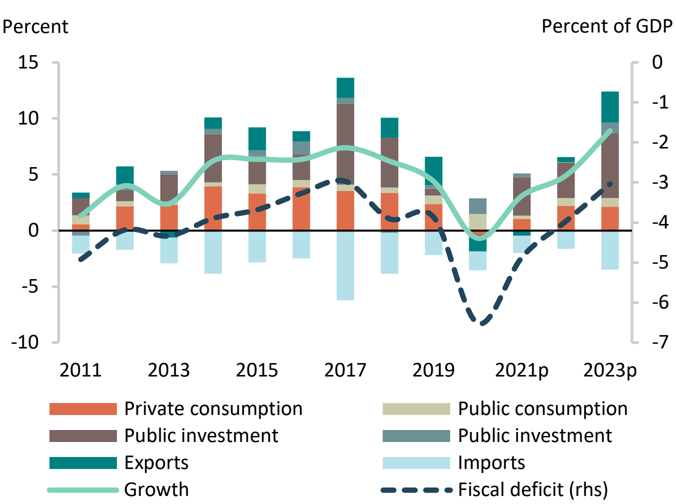
Recent developments

The COVID-19 outbreak halted years of strong economic performance. The economy is estimated to have contracted by 0.7 percent in 2020, from growth of 4.4 percent in 2019. This first recession since 1990 was driven by weak activity in real estate, the hospitality and tourism industry, and ICT. Despite a negative output gap, inflation increased from 1 percent in 2019 to 2 percent in 2020 due to higher transport and food prices stemming from confinement measures and supply chain disruptions.

The Current Account Deficit (CAD) widened from 7.8 percent of GDP in 2019, to 10.7 percent in 2020, as weak demand in key export markets affected export performance, particularly tourism services. The CAD was financed by strong hydrocarbon related FDI and increased development assistance.

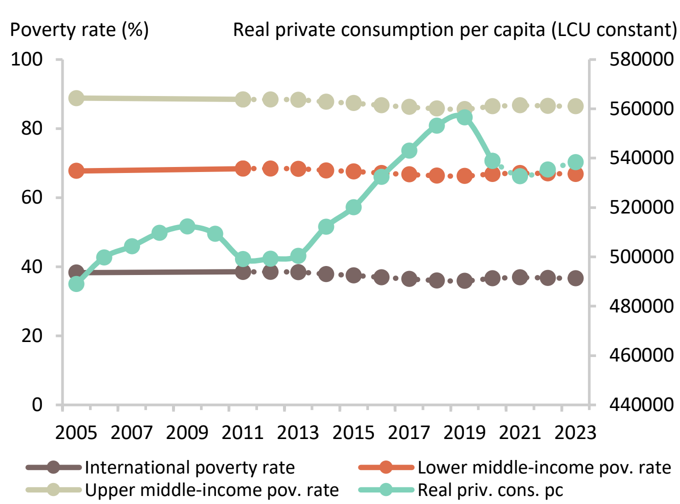
While public debt remains sustainable, the crisis aggravated pre-existing fiscal imbalances. After widening to 3.8 percent of GDP in 2019, the fiscal deficit deteriorated further to 6.5 percent of GDP in 2020. This reflects a combination of lower tax revenues resulting from the slowdown in economic activity and increased spending to mitigate the

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



Sources: Senegalese authorities and World Bank staff calculations.

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



Source: World Bank. Notes: see Table 2.

impact of the crisis. As a result, the debt to GDP ratio maintained its pre-crisis upward trend and increased from 64.5 percent of GDP in 2019, to 67.6 percent in 2020.

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 the Euro. Its reserves reached an estimated 5.5 months of imports in 2020 due to large donor support and reduced imports during the pandemic. Between March and October 2020, the REER appreciated by 6.4 percent y/y, reflecting the nominal appreciation of the Euro against the USD. To support the regional economy and COVID-19 related extra spending, the BCEAO announced a set of monetary and macroprudential measures since March 2020, including a policy rate cut and extended refinancing operations of the 3-month COVID-19 bonds to help governments and businesses.

As a result of COVID-19, and the related household income loss, the poverty rate (US$ 1.9/day in 2011 PPP) increased from 35.9 percent in 2019, to 36.6 percent in 2020. This increase was more pronounced in urban areas where social distancing measures reduce economic activities in service sectors and informality is widespread.

Outlook

Assuming the pandemic gradually recedes (helped by the roll-out of vaccines in 2021Q2), real GDP growth should recover to 3.1 percent in 2021. This u-shaped recovery would be driven by a rebound in services as households and businesses adapt to operate in the pandemic. Growth is expected to accelerate in 2022-2023 to an average of 6.9 percent, building on stronger exports, a pick-up in private investment and the resumption of major extractive projects with first gas coming onstream by end 2023. Given the high population growth, the current projections indicate that per capita GDP will not return to its 2019 level before 2023. Prudent monetary policy and exchange rate stability should keep inflation around 2 percent.

The CAD is expected to remain elevated at about 10.5 percent of GDP in 2021-2022 fueled by high capital investment imports and worsened terms of trade (for oil and gold). It is then expected to sharply shrink to about 4.5 percent as hydrocarbon exports come on stream in 2023. Financing needs would be met by access to regional and international capital markets increased external (concessional) borrowing and hydro-carbon related FDI. WAEMU reserves would reach about 5 months of imports by 2021 as member countries digest the COVID-19 crisis, helped by a normalization of fiscal spending and capital inflows.

Fiscal pressures will gradually ease as continued tax revenue mobilization efforts – supported by a medium-term revenue strategy– help to rebuild fiscal space. This will be coupled by the unwinding of COVID-19 spending to pre-crisis levels. As a result, the fiscal deficit will converge to the WAEMU criterion of 3 percent of GDP by 2023, putting the debt-to-GDP ratio on a downward trend starting 2022.

With the expected recovery over 2021-2023, the international extreme poverty rate will start declining slowly to reach 36.7 percent by 2023, however, staying above 2019 levels. At the same time, per capita GDP is set to return to pre-crisis levels by 2023, suggesting deeper scarring among the poor.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	6.2	4.4	-0.7	3.1	4.9	8.9
Private Consumption	4.7	3.4	-0.5	1.5	3.2	3.2
Government Consumption	3.5	5.5	10.7	1.9	4.8	5.0
Gross Fixed Capital Investment	13.7	8.4	3.6	11.4	8.7	17.8
Exports, Goods and Services	8.2	11.2	-5.0	-2.0	2.0	13.1
Imports, Goods and Services	9.0	5.3	4.0	3.5	3.7	8.0
Real GDP growth, at constant factor prices	6.1	4.3	-0.7	3.1	4.9	8.9
Agriculture	8.1	4.5	6.3	3.2	2.6	2.0
Industry	6.5	3.7	2.9	3.8	5.2	20.5
Services	5.4	4.6	-4.2	2.8	5.5	5.4
Inflation (Consumer Price Index)	0.5	1.0	2.0	1.7	2.0	2.0
Current Account Balance (% of GDP)	-9.1	-7.8	-10.7	-10.3	-10.1	-6.6
Fiscal Balance (% of GDP)	-3.9	-3.9	-6.5	-4.9	-4.0	-3.0
Debt (% of GDP)	62.4	64.5	67.6	68.9	68.2	67.4
Primary Balance (% of GDP)	-1.9	-1.9	-4.3	-2.9	-1.9	-0.9
International poverty rate ($1.9 in 2011 PPP)[a,b]	36.1	35.9	36.6	36.9	36.8	36.7
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	66.4	66.3	66.9	67.1	67.0	66.9
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	85.8	85.6	86.4	86.7	86.6	86.4

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: 2012-2020. Forecast are from 2021 to 2023.

(b) Projection using point to point elasticity at regional level with pass-through = 0.87 based on private consumption per capita in constant LCU.