

SENEGAL

| Table 1 | 2022 |
|--|--------|
| Population, million | 17.3 |
| GDP, current US\$ billion | 31.1 |
| GDP per capita, current US\$ | 1798.3 |
| International poverty rate (\$2.15) ^a | 9.3 |
| Lower middle-income poverty rate (\$3.65) ^a | 37.4 |
| Upper middle-income poverty rate (\$6.85) ^a | 74.4 |
| Gini index ^a | 38.1 |
| School enrollment, primary (% gross) ^b | 81.2 |
| Life expectancy at birth, years ^b | 68.0 |
| Total GHG emissions (mtCO ₂ e) | 35.7 |

Source: WDI, Macro Poverty Outlook, and official data.
 a/ Most recent value (2018), 2017 PPPs.
 b/ WDI for School enrollment (2021); Life expectancy (2020).

Growth slowed to 4.2 percent in 2022, from 6.5 percent in 2021, alongside soaring food and energy prices stemming from Russia's invasion of Ukraine. The fiscal deficit and debt levels remained elevated, mainly due to the sharp rise in energy subsidies. Growth is expected to accelerate in 2024 driven by hydrocarbon production. Risks, tilted to the downside, include delays to hydrocarbon production, election costs, and failure to eliminate energy subsidies.

Key conditions and challenges

Low productivity and informality continue to hamper the structural transformation of the economy. The use of traditional production techniques, uncertainty over land tenure, limited access to credit, climate unpredictability, and supply bottlenecks impede agricultural sector productivity growth. This poses serious challenges in terms of poverty reduction as three quarters of the poor in Senegal live in rural areas and rely on agricultural activities and small non-farm enterprises. Most low-skilled labor force that was shed by the agricultural sector is engaged in informal trade, rather than in high value-added services or technology-based industries. The manufacturing sector is constrained due to the lack of skilled human capital. The private sector is hampered by restrictive business regulations. The Human Development Report 2021-2022 ranked Senegal 170th out of 191 countries, below the average for sub-Saharan Africa.

Strengthening macroeconomic management would support Senegal's structural transformation. Fiscal and current account deficits (at 6.7 and 19.5 percent of GDP respectively) and debt levels (75 percent of GDP) remain elevated in 2022. Fiscal costs related to electricity sector subsidies are significant, but the government's decision to progressively phase out generalized energy subsidies, combined with expanding targeted social protection measures, signals

commitment to implement a medium-term fiscal consolidation that protects the poorest and creates space for public investment.

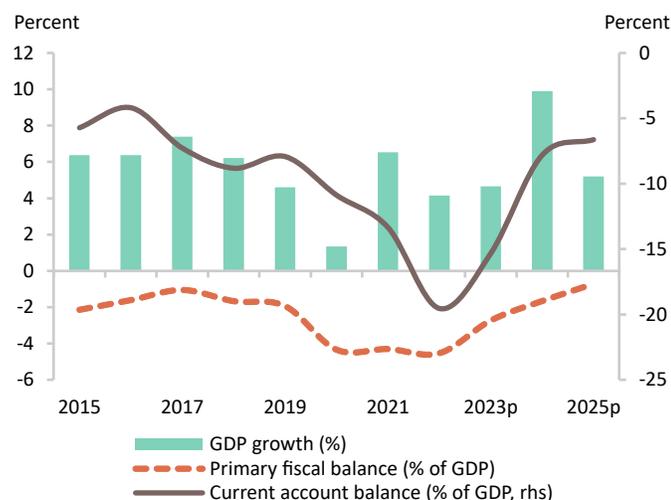
Recent developments

GDP growth decelerated from 6.5 percent in 2021 to 4.2 percent in 2022 following a decline in exports, agriculture, and mining. Real export growth declined from 22.6 percent in 2021 to 8.1 percent in 2022 due to lower external demand and the closure of the borders with Mali in the first half of 2022. Agriculture sector growth decelerated from 0.6 percent in 2021 to 0.3 percent in 2022, reflecting higher input costs and poor performance in peanuts production (affected by heavy rains) and cotton production (affected by parasite infestations). Tightening supply chains and soaring commodity prices affected growth in the industry sector which declined from 7.8 in 2021 to 1.1 percent in 2022. Inflation reached 9.6 percent in 2022.

The poverty rate (using the lower middle-income poverty line of \$3.65 a day) is expected to slightly increase to 36.3 percent in 2022 compared to 35.9 percent in 2021, given the high level of inflation, particularly on food, which reached 15 percent.

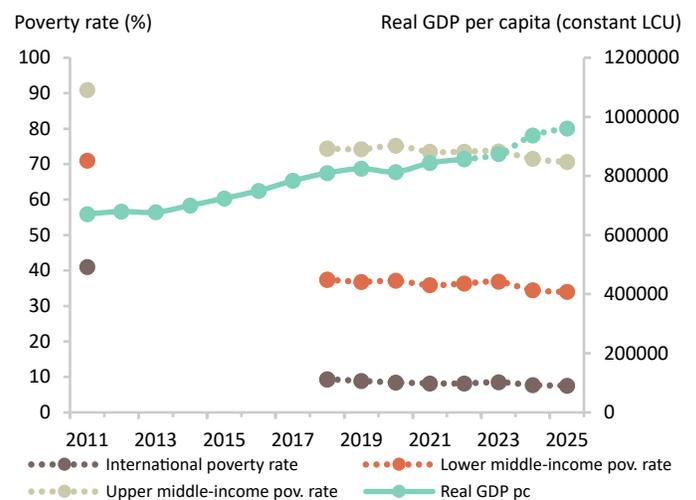
The current account position deteriorated from 13.3 percent of GDP in 2021 to 19.5 percent of GDP in 2022, following higher food and oil import prices and higher services imports associated with the FDI-financed hydrocarbon projects. The current account deficit will be financed mostly by FDI and donor financing.

FIGURE 1 Senegal / Evolution of main macroeconomic indicators



Source: World Bank.

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



Source: World Bank. Notes: see table 2.

To counter inflation across WAEMU countries, the Central Bank of West African States (BCEAO) raised policy interest rates by a cumulative 75 basis points in 2022 (to 2.75 percent for liquidity calls and 4.75 percent for the marginal lending facility). BCEAO will likely need to continue tightening in 2023 in line with other major central banks, and as foreign exchange reserves have declined, and inflation remains well above the target range of 1-3 percent. Furthermore, delaying fiscal adjustments towards the regional fiscal deficit target of below 3 percent of GDP by 2025 could exacerbate debt sustainability risks, while increasing regional financing needs, reducing FX reserve buffers, and elevating inflationary risks.

The overall fiscal balance increased slightly from 6.3 percent of GDP in 2021 to 6.7 percent of GDP in 2022. Total revenues increased to 20.4 percent of GDP in 2022, driven by tax revenues (18.1 percent against 17 percent in 2021). The increase in total revenue was offset by an increase in spending (27.1 percent in 2022), as the government

turned to social transfers and tax exemptions to mitigate the contraction in household incomes. To help rebuild fiscal space, the government adopted in January 2023 a roadmap to phase out energy subsidies by 2025, to move towards the domestic regional market financing, and to shift away from non-concessional financing.

Outlook

The economic outlook hangs on hydrocarbon prospects. Under the assumption of hydrocarbon production starting in 2024, overall GDP growth is forecast to reach 4.7 percent in 2023, before accelerating to 9.9 percent in 2024. Hydrocarbon production should drive an increase in exports of 22.9 percent in 2024 and boost industry growth to 17.7 percent in 2024. Service sector growth is projected to average 6.3 percent in 2024-2025, mainly supported by the dynamism of

the transport sector with the Regional Train Express and the Bus Rapid Transit. Financial services and insurance sectors should also grow strongly thanks to the spillovers from hydrocarbon production. Inflation is expected to decelerate to 2 percent by 2025. The current account deficit is projected to narrow to 15.3 percent of GDP in 2023 and further to 7.8 percent in 2024 thanks to hydrocarbon exports. The fiscal deficit is expected to decrease to 3 percent in 2025, with the elimination of energy subsidies and increase in tax revenues. Furthermore, the implementation of fiscal consolidation measures should create fiscal space for social spending. The poverty rate (\$3.65 in 2017 PPP) is expected to slightly increase in 2023, before declining in 2024 and 2025, in line with moderate growth and lower inflation. The rate at which poverty declines will partly depend on social assistance payments, which are expected to increase in generosity and coverage, partly due to savings from the elimination of energy subsidies.

TABLE 2 Senegal / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

| | 2020 | 2021 | 2022e | 2023f | 2024f | 2025f |
|--|-------|-------|-------|-------|-------|-------|
| Real GDP growth, at constant market prices | 1.3 | 6.5 | 4.2 | 4.7 | 9.9 | 5.2 |
| Private Consumption | 2.3 | 3.1 | 4.8 | 4.6 | 4.8 | 5.0 |
| Government Consumption | 0.8 | 13.3 | 6.4 | 5.4 | 5.4 | 4.0 |
| Gross Fixed Capital Investment | 7.2 | 16.5 | 4.4 | 6.8 | 9.3 | 5.1 |
| Exports, Goods and Services | -13.2 | 22.6 | 8.1 | 10.0 | 22.9 | 10.3 |
| Imports, Goods and Services | 7.0 | 15.5 | 29.1 | 8.3 | 8.4 | 7.1 |
| Real GDP growth, at constant factor prices | 1.9 | 6.3 | 3.9 | 4.7 | 9.9 | 5.2 |
| Agriculture | 12.2 | 0.6 | 0.3 | 0.7 | 1.4 | 1.5 |
| Industry | -1.5 | 7.8 | 1.1 | 5.4 | 17.7 | 10.1 |
| Services | 0.6 | 7.5 | 6.2 | 5.5 | 8.8 | 3.9 |
| Inflation (Consumer Price Index) | 2.5 | 2.2 | 9.6 | 5.0 | 3.0 | 2.0 |
| Current Account Balance (% of GDP) | -10.9 | -13.3 | -19.5 | -15.3 | -7.8 | -6.6 |
| Fiscal Balance (% of GDP) | -6.4 | -6.3 | -6.7 | -4.9 | -3.9 | -3.0 |
| Revenues (% of GDP) | 20.1 | 19.5 | 20.4 | 20.8 | 22.0 | 22.6 |
| Debt (% of GDP) | 69.1 | 73.3 | 75.0 | 73.7 | 68.9 | 67.3 |
| Primary Balance (% of GDP) | -4.3 | -4.3 | -4.5 | -2.7 | -1.7 | -0.7 |
| International poverty rate (\$2.15 in 2017 PPP)^{a,b} | 8.4 | 8.2 | 8.1 | 8.5 | 7.7 | 7.5 |
| Lower middle-income poverty rate (\$3.65 in 2017 PPP)^{a,b} | 37.1 | 35.9 | 36.3 | 36.8 | 34.5 | 34.0 |
| Upper middle-income poverty rate (\$6.85 in 2017 PPP)^{a,b} | 75.2 | 73.5 | 73.5 | 73.6 | 71.5 | 70.6 |
| GHG emissions growth (mtCO₂e) | 0.5 | 4.0 | 1.8 | 2.8 | 5.1 | 4.1 |
| Energy related GHG emissions (% of total) | 25.1 | 25.4 | 25.9 | 26.6 | 27.8 | 28.0 |

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.

Notes: e = estimate, f = forecast.

a/ Calculations based on 2018-EHCVM. Actual data: 2018. Nowcast: 2019-2022. Forecasts are from 2023 to 2025.

b/ Projection based on microsimulation model that accounts for differences in sectoral growth, food and nonfood inflation.