

SENEGAL

Key conditions and challenges

Population, million	17.2
GDP, current US\$ billion	27.6
GDP per capita, current US\$	1607.3
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	83.0
Life expectancy at birth, years ^b	68.2
Total GHG emissions (mtCO2e)	35.0

Source: WDI, Macro Poverty Outlook, and official data.
 a/ Most recent value (2018), 2017 PPPs.
 b/ Most recent WDI value (2020).

Growth is projected to decelerate to 4.8 percent in 2022, after reaching 6.1 percent in 2021, as domestic and external shocks dampen industrial and agricultural production. The fiscal deficit is expected to remain high, at 6.2 percent of GDP, while poverty has stagnated. Risks, mainly on the downside, include continued inflationary pressures associated with a prolonged conflict in Ukraine, ECOWAS sanctions on Mali, regional instability, climate, and domestic social unrest.

Senegal's economy is weathering the impact of several adverse shocks. The ongoing Ukraine conflict poses immediate challenges through higher energy and food prices. Elevated energy prices are increasing the cost of doing business, and negatively impact growth in extractive and manufacturing industries. Real GDP growth averaged 5.5 percent between 2015-21, but didn't translate into significant poverty reduction or reduced inequality. Senegal's structural long run constraints to inclusive and sustained growth include insufficient competition, inadequate private financing and uneven tax enforcement, inequitable and inefficient public social spending, and high and rigid labor costs that have constrained the development of the private sector, limiting job creation in productive sectors.

Risks are mainly on the downside. A prolonged conflict in Ukraine could keep inflation pressures elevated and further strain fiscal space to cushion the effect of the crisis on the poor, creating discontent and political instability. Senegal is also negatively affected by sub-regional insecurity, rising social and geopolitical tensions, and the tightening of international and regional financing conditions. Finally, Senegal is exposed to climate shocks (floods, droughts, and associated health hazards), which could reduce agricultural productivity, exacerbated

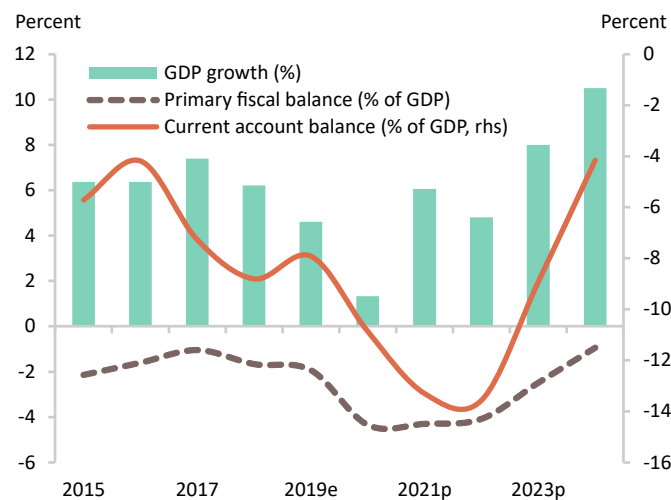
by the recent increase in the prices of fertilizer imports.

Recent developments

Growth is estimated to decelerate to 4.8 percent in 2022 (2.1 percent in per capita terms), from 6.1 percent in 2021 (3.3 percent in per capita terms). The higher international prices for oil, fertilizer and food have depressed private consumption, and slowed industrial production in 2022. The poverty headcount rate is expected to remain stable around 37 percent (using the lower middle-income poverty line), as growth is driven mainly by urban services, while the majority of the poor derive their incomes from agriculture. High food inflation, which accounts for about half of final household consumption, has also hindered poverty reduction.

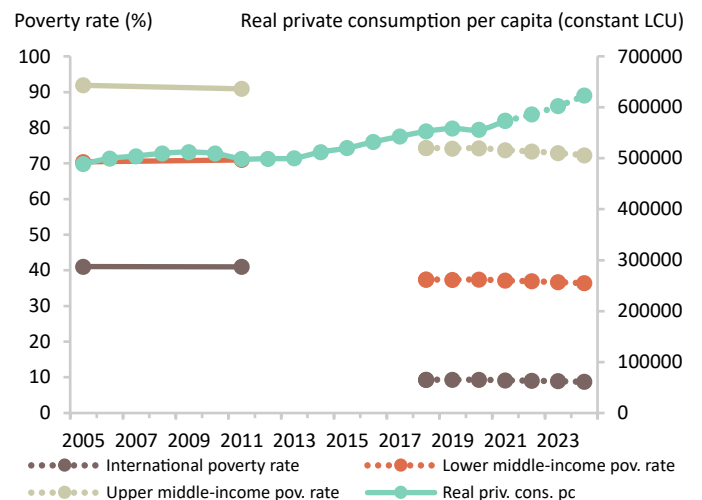
Inflationary pressures continue to negatively impact livelihoods and affecting nonmonetary dimensions of welfare, especially human capital. Inflation accelerated to 11.3 percent (y/y) in August 2022, driven mostly by a sharp increase in food prices (+17.1 percent). Rising food prices are already causing the poorest households to replace higher quality foods with poorer substitutes, with the possibility of worsening malnutrition. Previous negative shocks, such as the 2020 pandemic have already worsened food insecurity with the incidence of (moderate) food insecurity increasing from 33 percent in 2018/19 to nearly 50 percent in 2020.

FIGURE 1 Senegal / Evolution of main macroeconomic indicators



Sources: Senegalese authorities and World Bank staff calculations.

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



Source: World Bank. Notes: see Table 2.

Monetary and exchange rate policies are managed by the Central Bank of West African States (BCEAO). Its reserves declined to 5.2 months of imports in June 2022, from 5.5 months in 2021, due to higher prices of energy and food imports from the war in Ukraine. To counter inflation pressures, the BCEAO in June and September 2022 raised rates for liquidity calls (2 percent to 2.5 percent) and the marginal lending window (4 percent to 4.5 percent). The trade deficit deteriorated to 9.4 percent of GDP in H1 2022 from 6.8 percent in H1 2021, driven by higher imports (38.9 percent, y/y), mainly petroleum products, food, and raw materials and subdued exports (a 24.6 percent (y/y) increase, driven by higher exports of phosphoric acid and petroleum products).

On the fiscal front, Government's response to rising food and energy prices included suspending customs duties on oil, rice and sugar imports, doubling budgeted energy subsidies, increasing the prices of high-octane gasoline (+15 percent) and diesel (+20 percent) and electricity tariffs for medium and high consumers (+18 percent). Social tariffs remained unchanged compared to

2021. The fiscal deficit in H1 2022 widened to 4.4 percent of GDP, compared to 3.9 in H1 2021. The 2022 budget deficit of 6.2 percent may be exceeded without additional fiscal consolidation measures in the second half of the year. Transfers and subsidies (+22 percent, y/y), interest payments (+19.6 percent) and the wage bill (+17.1 percent) drove the increase in Government consumption in H1 2022. The debt-to-GDP ratio reached 73.2 percent of GDP in 2021, a +9.4 ppt increase since 2019.

Outlook

The recovery's momentum remains uncertain and is likely to be influenced by oil price developments, social unrest, regional insecurity and monetary policy tightening, which could depress external demand. Real growth is expected to decelerate to 4.8 percent in 2022, but should rebound in 2023-2024 to an average growth of 9.3 percent, mainly driven by hydrocarbon production. Average annual inflation is expected to peak at 8.7 percent

in 2022, but decelerate in the medium term as global inflation pressures and consequently government consumption for social support eases.

The Current Account Deficit (CAD) is expected to widen to 13.6 percent of GDP in 2022, as import prices, notably for energy, increase. Hydrocarbon receipts and increased regional trade should significantly improve the CAD to an average of 6.5 in 2023-2024, financed by oil-sector related foreign investment and a mix of concessional and commercial borrowing.

Government remains committed to fiscal consolidation in the medium term to keep debt on a sustainable path. Fiscal policy is expected to remain expansionary in 2022, but to decline afterwards as increases in wages, transfers and energy subsidies are not expected to continue in the medium term. The fiscal deficit is projected to average 3.8 percent in 2023-2024 driven by domestic revenue mobilization and the gradual phasing out of energy subsidies. Fiscal consolidation and growth are expected to support a decline in the debt-to-GDP ratio in 2023-2024, to an average of 68.8 percent.

TABLE 2 Senegal / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	4.6	1.3	6.1	4.8	8.0	10.5
Private Consumption	3.8	2.2	6.0	4.9	5.5	6.1
Government Consumption	7.5	2.6	5.4	8.8	4.7	4.0
Gross Fixed Capital Investment	10.3	4.3	7.4	8.5	9.7	8.0
Exports, Goods and Services	14.7	-13.2	14.7	-1.6	10.7	22.1
Imports, Goods and Services	6.8	7.0	8.0	5.5	5.7	5.6
Real GDP growth, at constant factor prices	4.5	1.9	5.8	4.8	8.0	10.5
Agriculture	4.3	12.8	-1.0	-2.0	3.5	3.6
Industry	5.0	-0.4	10.9	3.9	10.6	17.5
Services	4.3	-0.1	5.7	7.2	8.1	9.0
Inflation (Consumer Price Index)	1.0	2.5	2.2	8.7	6.1	5.0
Current Account Balance (% of GDP)	-7.9	-10.9	-13.3	-13.6	-8.9	-4.2
Fiscal Balance (% of GDP)	-3.9	-6.4	-6.3	-6.2	-4.6	-3.1
Debt (% of GDP)	63.6	69.2	73.2	75.1	71.5	66.0
Primary Balance (% of GDP)	-1.9	-4.4	-4.3	-4.1	-2.5	-0.9
International poverty rate (\$2.15 in 2017 PPP)^{a,b}	9.3	9.3	9.2	9.1	8.9	8.8
Lower middle-income poverty rate (\$3.65 in 2017 PPP)^{a,b}	37.4	37.4	37.1	36.9	36.7	36.4
Upper middle-income poverty rate (\$6.85 in 2017 PPP)^{a,b}	74.2	74.3	73.7	73.3	72.9	72.3
GHG emissions growth (mtCO2e)	3.9	1.1	3.1	1.6	3.9	4.8
Energy related GHG emissions (% of total)	26.6	25.5	25.3	25.1	25.8	26.8

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

Notes: e = estimate, f = forecast. Poverty lines are expressed in 2017 PPP, resulting in changes from earlier editions that used 2011 PPP. See pip.worldbank.org.

a/ Calculations based on 2009-, 2014-, and 2018-EHCVM. Actual data: 2018. Nowcast: 2019-2021. Forecasts are from 2022 to 2024.

b/ Projection using point to point elasticity at regional level with pass-through = 0.7 based on private consumption per capita in constant LCU.