SENEGAL

A PIVOTAL YEAR

At a time when Senegal is preparing to launch its gas and oil production, the reconfiguration of the political landscape is generating immense hope among the population. The opposition candidate, Bassirou Diomaye Faye, won the presidential elections in the first round on the back of a breakthrough project. But the challenges ahead are huge, especially on the employment front. Despite a decade of robust growth, the economy has undergone little transformation and suffers from low productivity gains, which it will be difficult for the sustained investment effort to continue to mask, given the now high level of debt.

POLITICAL CONTEXT: BETWEEN RELIEF AND CAUTION

The swearing-in of the new President Bassirou Diomaye Faye on 2 April marked the end of an electoral process that had been unprecedented in more ways than one. At 44, he is the youngest President elected to lead the country. For the first time, the outgoing President, Macky Sall, was not standing for another term. Never since the country became independent has an opposition candidate succeeded in being elected at the first ballot. With 54% of the vote against 36% for Amadou Ba, the government's candidate, Mr Diomaye Faye therefore has a solid mandate, even if the lack of a majority in the National Assembly is likely to force him to seek alliances before a possible dissolution.

Little known, with no elective mandate and still in prison two weeks before the election, Mr Diomaye Faye owes his meteoric rise largely to the defeat of his mentor, Ousmane Sonko, who was disqualified because of a judicial conviction. His victory also reflects the population's support for a breakaway programme characterised, among other things, by a strengthening of economic sovereignty. It envisages strong measures such as reforming the CFA franc, or even abandoning it, and renegotiating oil and gas contracts, production of which is due to start this year.

The election was closely followed by the international community. After weeks of political crisis triggered by the outgoing President's decision to postpone the elections, in a region marked by a succession of coups over the past three years, the solidity of Senegal's democratic institutions has once again reassured its main partners. The 80 basis point (bp) fall in 5-year risk premiums on international sovereign bonds since the announcement of the results also attests to investors' relief. In addition to the easing of the political climate, the softening in the rhetoric of Mr Diomaye Faye and his movement in the run-up to the elections suggests that economic policy is likely to be more tame, particularly on the issue of the CFA franc, where the authorities now seem to favour a community-based approach. The formation of the government also reflects the delicate balance to be struck between the desire for change and the need to provide some reassurance. Unsurprisingly, Ousmane Sonko was appointed Prime Minister of a tightly-knit team of twenty-five ministers, many of whom are senior members of the presidential camp. Nevertheless, expertise seems to have prevailed in the allocation of key posts, as in the case of the new Finance Minister, Cheikh Diba, who until now has held the post of Director of Budget Planning in the same ministry.

However, caution is still called for. There is little budgetary leeway to implement the project, given that the country is committed to an IMF support programme and is heavily in debt. The working relationship stemming from the unprecedented pairing of a substitute candidate turned President and a Prime Minister, leader of the political movement, could also prove difficult. Yet the challenges facing the authorities are immense, commensurate with the hopes of the population.

FORECASTS

	2021	2022	2023e	2024e	2025e
Real GDP growth (%)	6.5	4.2	4.1	8.8	10.1
Inflation (CPI, year average, %)	2.2	9.6	6.1	3.2	2.0
Gen. Gov. balance / GDP (%)	-6.3	-6.6	-4.9	-3.9	-3.3
Central. Gov. debt / GDP (%)	67.4	67.5	71.0	67.6	64.3
Current account balance / GDP (%)	-11.2	-19.9	-14.6	-7.9	-3.6
External public debt / GDP (%)	49.9	46.6	47.9	46.0	45.0
Forex reserves (USD bn)	4.2	3.9	4.7	5.4	6.0
Forex reserves, in months of imports	4.5	3.2	3.7	4.2	4.5

TABLE 1

e: ESTIMATES & FORECASTS
SOURCE: BNP PARIBAS ECONOMIC RESEARCH

REAL GDP GROWTH

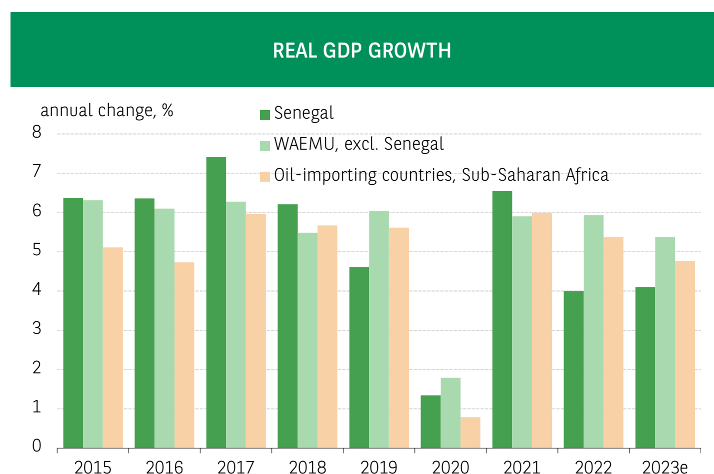

CHART 1

SOURCE: IMF, BCEAO, BNP PARIBAS

ECONOMIC GROWTH: HIGH BUT POORLY DIVERSIFIED

One of the main challenges will be to put the Senegalese economy on a more solid and, above all, more inclusive growth path. At first glance, this may seem paradoxical for a country that is emerging from a 10-year cycle of growth in excess of 5%, and for which the outlook is for real GDP growth of 9-10% in 2024-2025 thanks to the start-up of oil and gas production. However, the impact of hydrocarbon development

on the rest of the economy should not be overestimated, particularly in terms of employment. Aside from the revenue generated by the sector, the economy could ultimately benefit from a reduction in energy costs as a result of the substitution of imported oil by locally produced gas. However, this transition will require substantial investment, the outcome of which remains uncertain. In any case, it will take time. What's more, the boost to real GDP from oil and gas production is only likely to be temporary. From 2026 onwards, growth is expected to fall back to 5-5.5%, driven almost exclusively by non-hydrocarbon activities. This is far from a foregone conclusion.

The COVID-19 crisis, followed by the shock of the war in Ukraine, highlighted some of the limits of Senegal's development model. The country has held up fairly well overall, but economic growth between 2020 and 2023 slowed more than the average for other WAEMU countries and oil-importing economies in sub-Saharan Africa (see chart 1). Inflationary pressures were also stronger in 2022 (9.7% in Senegal compared with 6.6% for the rest of the WAEMU). In fact, Senegal was unable to take advantage of the favourable context of the pre-pandemic period to transform itself. The service sector still dominates (around 60% of GDP) but remains dominated by low value-added activities, while agriculture accounts for only 10% of GDP. For a sector that employs 60% of the working population, the limited weight of agriculture reflects above all its low productivity. A similar observation can be made for the secondary sector, where exports are not very diversified, apart from the boom in precious metals (gold, titanium and zircon).

In the absence of productivity gains stemming from a sectoral recomposition , the growth of the Senegalese economy has heavily relied on capital accumulation. The investment rate rose from 18.5% in 2010 to over 33% in 2023, a dynamic that is striking in terms of its scale and level. By comparison, it reached 27% in Côte d'Ivoire, where the growth rate is higher. In Senegal, a high proportion of investment seems to have been channelled into the construction sector, the effects of which on economic activity are short-lived. In addition, this investment effort has resulted in increased pressure on public finances (particularly debt), and hence a high degree of sensitivity to the various shocks since 2020. A large part of the Senegalese economy's underperformance in 2022-2023 is therefore due to the contraction in public investment in real terms, a situation that could recur given the fragility of the current macroeconomic situation.

PERSISTENT MACROECONOMIC IMBALANCES

In spite of strengthening exports on the back of the boom in the hydrocarbon sector, Senegal will continue to record current account deficits. According to the IMF, they are likely to remain close to 5% of GDP, after peaking at almost 14% of GDP on average between 2020 and 2023, due to the huge import requirements for capital goods associated with the initial phases of development of the oil and gas fields. The delay in launching hydrocarbon exports explains why the current account deficit is still expected to be 8% of GDP in 2024. At first sight, it would appear that future external financing needs (current account deficit and amortisation of external debt) would be well covered. But this assumes that Senegal continues to receive financial support from the international community. According to the IMF, just over half of total external capital flows over the next 3 to 4 years should be made up of FDI, which is significant but leaves a gap that is difficult to fill solely by issuing eurobond debt. Furthermore, the Senegalese economy is a net debtor in key areas of trade, particularly foodstuffs. It will therefore remain vulnerable to the vagaries of the international economic situation.

SENEGAL: PUBLIC FINANCE INDICATORS

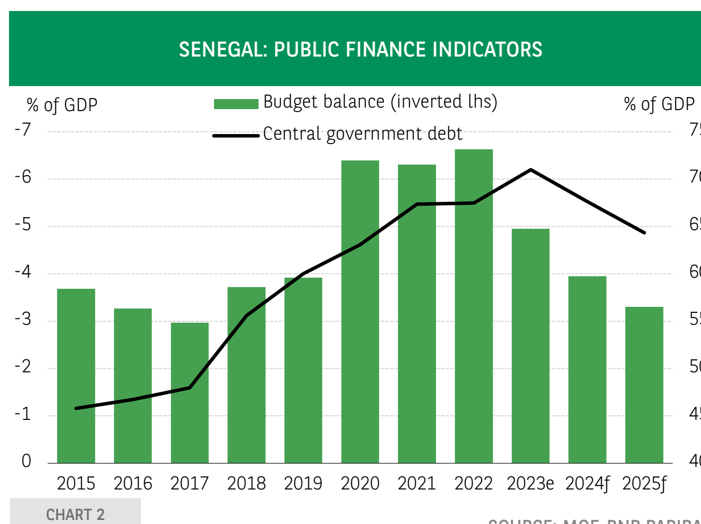

CHART 2

SOURCE: MOF, BNP PARIBAS

Public finances are not really any stronger. Major infrastructure projects carried out during President Sall's two terms in office and the various shocks recorded between 2020 and 2023 have resulted in a significant increase in debt. At 71% of GDP, Senegalese government debt is now 12 points higher than the average for WAEMU countries. On the positive side, its structure is favourable. Despite increased recourse to local/regional capital markets for financing in recent years, 40% of the stock of debt is still held by bi-multilateral creditors. As a result, the interest burden remains at a moderate level. Nevertheless, it is tending to increase rapidly (13.5% of government revenue compared with 10.7% in 2019 and 8.1% in 2014). Moreover, the increase in nominal GDP linked to the start-up of hydrocarbon production should improve the debt ratio, which will remain high (64% of GDP at the end of 2025, see chart 2). Continued fiscal consolidation therefore remains essential. The previous administration's objective was to reduce the budget deficit from 4.9% of GDP in 2023 to 3.9% in 2024, then 3% in 2025. To achieve this, it was counting largely on a gradual reduction in energy subsidies, whose surge in 2022 had prompted the authorities to make cuts in public investment. This reform of the subsidy system also features prominently in the IMF's support programme. However, there is nothing to suggest that the new authorities will continue along this path, in which case further adjustments will certainly be required, given that hydrocarbon revenues are not expected to exceed 1% of GDP. The IMF's next review is therefore likely to attract particular attention from investors.

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