

Sénégal Country Brief



November 2022



Transforming Africa's Trade

African Export-Import Bank
Banque Africaine d'Import-Export

Introduction

The Republic of Sénégal is a country located in West Africa, has an area of roughly 197,000 square kilometers, making it the 34th largest country in Africa by area.

34th largest African country by area

23rd most populous African country

19th largest African economy by GDP

2nd largest financial system in the WAEMU zone



INTRODUCTION

With a population of about 17 million inhabitants, the country is the 23rd most populous nation in the continent. French is the official language and Wolof is the national language. Other languages also are spoken are Fula and Serer.

The decomposition of aggregate output shows that the services industry is the main contributor accounting for about 55 percent of GDP, followed by industry which accounts for 19 percent and agriculture accounts for 15 percent. Despite its relatively low contribution to GDP, agriculture employs more than 70 percent of the labor force.

This country brief provides an overview of the political and economic environment. It also analyses the debt profile of the country, considering the shift in the composition of its external debt towards private sector and bond holders.

POLITICAL ENVIRONMENT

The politics of Sénégal take place within the framework of a presidential system where the president is elected every five years with a term limit of two terms (totalling ten years). Prior to the 2016 constitutional amendment, the president was elected for a seven-year term.

Members of the highest courts namely court of justice and constitutional court, that deal with business issues are named by the president. The president also appoints local administrators resulting in increased centralization of power in the executive. President Macky Sall is serving his second term following his re-election in February 2019.

ECONOMIC OVERVIEW

GDP

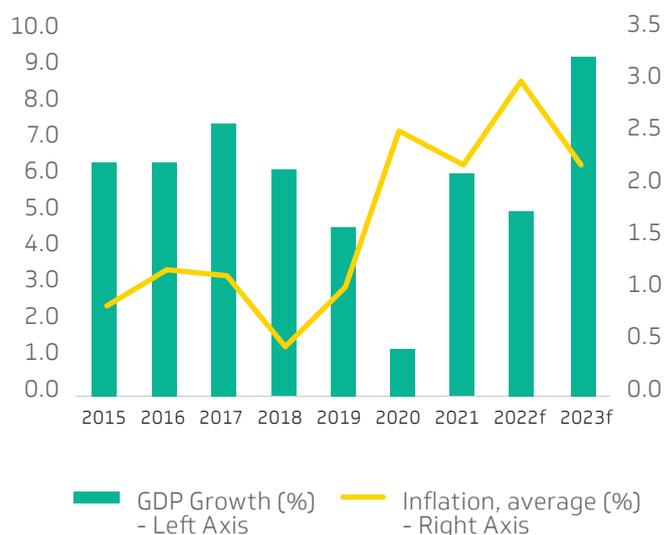
Sénégal has been one of the fastest growing economies in Africa over the last few years, with real GDP growth averaging around 6.2 percent during 2015-2019. The country has shown growth resilience with its GDP expanding by 1.3 percent at the height of the COVID-19-triggered pandemic downturn in 2020. Output rebounded strongly from the sharp deceleration triggered by the COVID-19 pandemic, with GDP expanding by 6.1 percent in 2021. The country's economic performance has been supported by gradual pick up in global demand, development of hydrocarbon projects, expansion in mining activity especially gold, as well as pick up in the services sector.

Growth is forecast to remain strong at 5 percent in 2022, and strengthen further at 9.2 percent in 2023, buoyed largely by robust investment in oil and gas projects, increased gold mining activity and investment in transport infrastructure. At the same time pick up in tourism and expected expansion in air and sea logistic capacities will also bolster economic activity.

Inflation

Inflation in Sénégal has remained relatively low, in part reflecting the macroeconomic stability dividend of the CFA's peg to the Euro. Inflation averaged 0.9 percent during 2015-2019 and increased to 2.5 percent in 2020, lifted by supply chain bottlenecks in the COVID-19 era. With increasing inflationary pressures at the global level, especially within the Euro zone, inflation is forecast to increase at 3 percent in 2022, and could remain above historical average in 2023.

Figure 1. Sénégal GDP Growth and Inflation



Source: IMF World Economic Outlook (2022)

Despite the heightened inflationary pressures, which have led major central banks to aggressively increase policy rates, price levels remain relatively low in Sénégal compared with averages across the region, and more generally, the developing world.

Exchange Rate

Sénégal is a member of the CFA Zone whose currency, the CFA Franc is pegged to the Euro at CFAfr. 655.96: €1 and therefore fluctuates in line with the Euro-Dollar movements. During the last few months, the CFA Franc has been under significant pressure, depreciating by over 17.2% against the US dollar between end January and end September 2022, driven by the expectation that the European Central Bank (ECB) will adopt a more gradual approach in the regime change monetary policy. Further jumbo rate hikes by the Fed will maintain pressure on the Euro and indirectly on the CFA Franc.

Fiscal Balance

Government expenditure has increased significantly in recent years, on the back of increased and recurrent infrastructure investments, as the country implements its national development plan – Plan for an Emerging Sénégal (PES) and responds to the fallout from the Covid-19 pandemic in a context of heightening geopolitical tensions. As a result, the fiscal deficit which had remained close to the regional target of 3% of GDP for several years, increased sharply to 6.4% of GDP in 2020 and about 6.3% of GDP in 2021. The deficit is expected to remain high, above 6% of GDP in 2022, and largely above the regional target in the near term, though the start of oil and gas exports could boost hydrocarbons revenues, to gradually narrow the deficit.

OVERVIEW OF TRADE, RESERVES, AND FINANCIAL SECTOR

Total Trade

Sénégal's exports are dominated by gold, cement, frozen fish, soup and broths, and petroleum oils (not crude) which together account for over 60 percent of total exports. Other tradable goods include non-fillet frozen fish, phosphoric acid, and ground nuts. Its top export destinations are Mali, Switzerland, India, China, and Australia, which together accounted for 41.8 percent of total exports in 2021.

Sénégal's top imports include capital goods, refined petroleum, rice, crude petroleum, broadcasting equipment, and cars. The country's top import origins are China, France, Russia, Netherlands, and India, which together accounted for more than 50 percent of total imports in 2021.

In 2021, Sénégal's total exports were estimated at US\$5.1 billion, and its imports were estimated at US\$9.7 billion, resulting in a trade deficit of about US\$4.6 billion, nearly 18 percent increase from 2020 where the country posted a deficit of US\$3.9 billion. The widening trade deficit arose largely as the lingering effect of the pandemic resulted in muted global demand for commodities, while imports remained high, driven by refined petroleum, rice, and crude oil.

Intra-African Trade

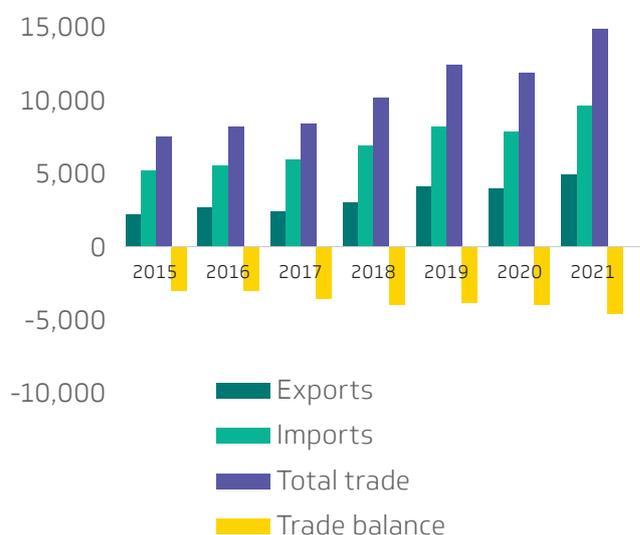
Sénégal's total intra-African trade amounted to approximately US\$3.3 billion in 2021, representing about 22 percent of its total trade, well above the regional average of about 16 percent. Together Mali, Cote d'Ivoire, Guinea, and Gambia were the destination of over 83.4 percent of Sénégal's exports to Africa in 2021. The main export products included gold, petroleum oils, frozen fish, and phosphoric acid.

Nigeria is Sénégal's largest import partner in the continent. Imports from Nigeria to Sénégal reached 41.9 percent of total imports from Africa, followed by Cote d'Ivoire (13.3), Morocco (12.7), and South Africa (10.9). Collectively, these four countries accounted for 78.8 percent of total Sénégal's import from Africa in 2021. Sénégal's main intra-African imports are crude petroleum, oil, palm oil, coal, and vehicles.

Reserves

Sénégal's foreign reserves have increased steadily during the last few years to reach US\$4.6 billion in 2021 from US\$3.2 in 2020, as gradual resumption of economic activities and pick up in global demand improved commodity prices and export receipts. At the same time, pick-up in-migrant remittances and investments in the hydrocarbons sector, alongside support from international and regional financial institutions including through IMF's SDR allocation and issuance of a Eurobond contributed to increase the level of reserves. However, the country's stock of reserves is expected to face significant pressure, declining to around US\$3.8 billion in 2022 as increasing interest rates to contain inflation creates capital flow reversal and depresses global growth, with dampening effects on demand for commodities. High inflation will also increase the country's import bills and put pressure on reserves.

Figure 2. Sénégal Total Merchandise Trade, US\$ in billion



Sources: IMF Direction of Trade Statistics (DOTS) dataset, 2022

Sénégal's reserve position is expected to improve, reaching US\$4.5 billion in 2023 boosted by the start of oil and gas exports, increased tourist arrivals and remittances.

Current Account Balance

Sénégal's current-account deficit improved, narrowing by 10.6% of GDP in 2021, from over 12.3% of GDP in 2020, as resumption of economic activities and pent-up demand triggered an increase in commodity prices and boosted export earnings. In particular, high prices of gold and strong demand for precious metals contributed to raise the country's export revenues. However, the deficit is expected to widen by about 13% of GDP in 2022 as the generalized inflationary pressures mainly driven by energy and food prices increase the country's import bill.

The current-account deficit is expected to narrow in the medium term, to 8.4% of GDP in 2023, and 3.8% in 2024, as the start of offshore oil production and gas exports, as well as increased exports of gold and seafood, accelerate the country's overall export growth.

Financial Sector

The Sénégalese financial sector is the second largest financial system in the WAEMU zone measured by the number of financial institutions and market share of credit institutions. It comprises 28 credit institutions (including 24 commercial banks and 4 financial institutions), 19 insurance companies (including 10 life insurance branches), and 208 Microfinance Institutions (MFIs). Like most African countries, the country's financial sector is dominated by banks, which account for about 88 percent of the sector's assets, compared to 7 percent for MFIs and 4 percent for insurance companies.

Institutions in the financial sector operate within a harmonized regulatory framework and are organized around key regional bodies, including the Central Bank of West African States (BCEAO), the Banking Commission of the West African Economic and Monetary Union (WAEMU), the Regional Council for Public Savings and Financial Markets (CREPMF) and the Inter-African Conference on Insurance Markets (CIMA). Sénégal shares a single financial market - the Regional Stock Exchange (BRVM) headquartered in Abidjan, Côte d'Ivoire - with the other 7 WAEMU countries.

Bank credit has steadily increased in recent years, mainly driven by credit to the private sector – which is estimated at about US\$8 billion in 2021, compared to about US\$3 billion in 2020. Most of the banking sector assets are held by international and regional banks. High levels of non-performing loans continue to pose downside risk to the stability of the banking sector and serves as a threat to the country's economy. However, the passage of a law on credit information bureaus together with other reforms undertaken to establish a commercial court are important measures to improve risk management in banks and overall soundness of the financial system.

Access to banking services remains low, at about 18 percent despite ongoing efforts by the government including facilitating access to financial services via mobile phones as part of implementation of its financial inclusion strategy. The latest World Bank's Global Findex survey suggests that about 31.8 percent of adults aged 15 and above in Sénégal own a mobile money account, compared to a regional average of 20.9 percent. MFIs are also playing an important role in promoting financial inclusion in Sénégal.

Other thriving sub-sectors in Sénégal's financial system that are contributing to finance the country's economy include the insurance sector, and pension funds, with the country hosting a branch of the Regional Stock Exchange (BRVM). Sénégal's private equity market is still in its infancy.

Debt Sustainability

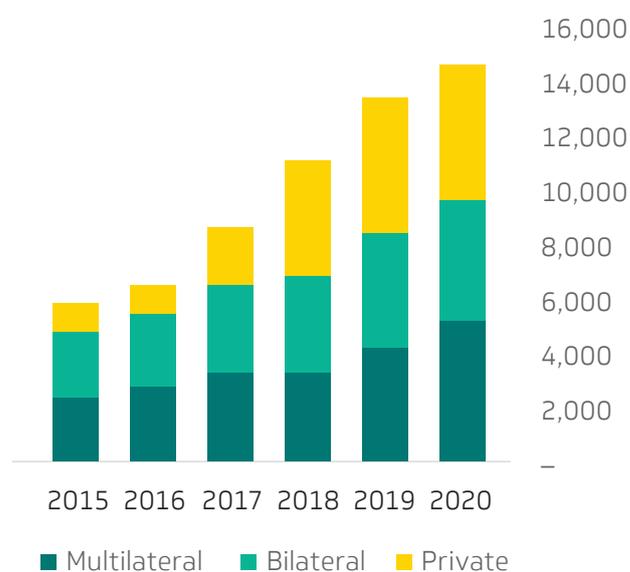
Total public debt increased in 2021 by almost 10 percentage points of GDP from 2019, largely driven by external liabilities and several issuances of Eurobonds in response to challenging global environment including management of COVID-19 fallout. Last year, Sénégal tapped the capital market for a US\$ 948 million Eurobond issuance (3.4 percent of GDP), raising its total debt to US\$20 billion and further increasing the country's debt service, especially in a rising global interest rate environment.

The debt service absorbed nearly 25.3 percent of expected revenues and grants in 2021 and is estimated to account for 26.9 percent of GDP this year.

Sénégal has an overall score of 3.25 out of 6 in the World Bank's Country and Policy Institutional Assessment (CPIA) in 2021, slightly up by 0.02 points from 2020. It scored 4.0 in economic management and debt policy.

The applicable thresholds to public and publicly-guaranteed external debt are 55 percent for the present value (PV) of external debt to GDP; 240 percent for the PV of debt-to-exports ratio; 21 percent for the debt service-to-exports ratio; and 23 percent for the debt service-to-revenue ratio. The applicable benchmark for the PV of total public debt for strong debt carrying capacity is 70 percent of GDP.

Figure 3. Evolution of Sénégal External Debt Composition, US\$ Billions



Sources: IMF, Afreximbank research.

i. PV of external debt/GDP

The PV of external public debt in terms of GDP is 57.9 percent as of the end of 2021 and is projected to remain above the prudent threshold of 55 percent to reach 57.2 by the end of 2022

ii. PV of total debt /GDP

Total public and publicly guaranteed debt amounted to about 73 percent of GDP by the end of 2021, up from 68.8 percent in 2020. It is estimated to remain above the 70 percent threshold in 2022.

iii. PV of external debt/exports

After worsening in 2020, the PV of external public debt in terms of exports is expected to gradually decline, albeit below the 240 percent prudent threshold, until 2021. It would improve rapidly thereafter with the start of hydrocarbon exports and the reduction of imports linked to hydrocarbon investments.

iv. External debt service/exports

The external debt service to exports ratio breached the threshold of 21 percent in 2021, rising to 28.2 percent. This reflected the frontloading of debt service payments brought about by the Eurobond. However, it is forecasted to decline to 24.8 in 2022.

An assessment of Sénégal's debt based on the above debt sustainability indicators suggests that the country has a moderate risk of external debt. At the same time, the challenging environment of tightening global financial conditions points to significant risk and vulnerability on the path of debt sustainability.

OPPORTUNITIES FOR BANK SUPPORT

Sénégal's development aspirations formulated in its strategic framework dubbed Plan Sénégal Emergent (PSE) (2014 – 2035) or the Emerging Sénégal Plan, seeks to improve living conditions and alleviate poverty through structural transformation, diversification of sources of growth and trade, and make the country an emerging market and a regional hub by 2035. The government's development strategy is fully aligned with the Bank's current Strategic Plan, which is underpinned by a number of key pillars, including (i) promoting intra-African trade and AfCFTA implementation, and (ii) industrialization and export diversification. Supporting implementation of the country's development strategy through various programs and facilities that expand infrastructure networks and manufacturing output will further enhance the relevance of the Bank.

In the manufacturing sector, the Afreximbank's financing could scale up the capacity of Sénégal's light manufacturing and agro-processing industries, especially in the peanut sub-sector where financing constraints have undermined the growth of local companies. The Bank's financing could also be vital to deepen value chains in the precious metal sub-sector, particularly gold, and in the hydrocarbons subsector particularly oil and gas whose production and exports are expected to start in 2023.

Closing infrastructure deficits—particularly transport infrastructure such as port, airport, railways, and roads, and economic infrastructure such as industrial parks (Ips) and special economic zones (SEZ) is key to crowding in private capital to accelerate the process of structural transformation. The development of these infrastructure, along with the financing of industrial parks and special economic zones of Diamniadio near Dakar, provide further growth opportunities to the Bank.

Table 1. Sénégal Selected Macroeconomic Indicators

	2015	2016	2017	2018	2019	2020	2021	2022(f)	2023(f)
Real GDP, %	6.4	6.4	7.4	6.2	4.6	1.3	6.1	5.0	9.2
Inflation, annual average, %	0.9	1.2	1.1	0.5	1.0	2.5	2.2	3.0	2.2
Exports of goods and services, % y/y	-2.6	4.6	10.9	10.6	8.9	-9.3	1.8	0.5	21.6
Current account, % of GDP	-5.7	-4.2	-7.3	-8.8	-7.9	-10.9	-11.8	-13.0	-8.4
Total reserves, US \$ millions	3.14	3.22	2.6	2.08	3.36	3.2	4.6	3.8	4.5
Gross reserves, months of imports	4.4	4.86	4.09	5.28	4.59	4.58	5.12	5.1	–

Sources: World Bank, IMF, Afreximbank Research, 2022

Headquarters

72B El-Maahad El-Eshteraky
Street, Roxy, Heliopolis,
Cairo 11341, Egypt

info@afreximbank.com

T +(202) 2456 4100/1/2/3/4

Abuja Branch

No. 2 Gnassingbe
Eyadema Street
Off Yakubu Gowon Crescent
Asokoro, Abuja, Nigeria

PMB 601 Garki,
Abuja, Nigeria

abuja@afreximbank.com

T +(234) 9 460 3160

Harare Branch

Eastgate Building, 3rd Floor
(North Wing), Sam Nujoma
Street, Harare, Zimbabwe

P.O. Box CY 1600
Causeway, Harare,
Zimbabwe

harare@afreximbank.com

T +(263) 24 2 700 904/941

Abidjan Branch

3^{ème} Etage, Immeuble
CRRAE-UMOA, Angle
Boulevard, Botreau Roussel
– Rue Privée CRRAE-UMOA
Abidjan, Côte d'Ivoire

abidjan@afreximbank.com

T +(225) 2030 7300

Kampala Branch

Rwenzori Towers,
3rd Floor Wing A
Plot 6 Nakasero
P.O. Box 28412
Kampala, Uganda

kampala@afreximbank.com

T. +(256) 417 892 700
+(256) 312 423 700

Yaoundé Branch

National Social Insurance
Fund (NSIF) Headquarters
Building, Town Hall,
Independence Square

P.O. Box 405,
Yaoundé, Cameroon

yaoundebranch@afreximbank.com