Senegal

Recent macroeconomic and financial developments

In 2021, the economy began its recovery, in part due to the Adjusted and Accelerated Priority Action Plan, with 6.1% growth against 1.3% in 2020. It was led by the resumption of the extractive sector, construction, and commercial activity connected to strong demand, as well as transport services. Agriculture slowed to 4.6% growth in 2021, after a soaring rise of 23.4% in 2020. On the demand side, growth was sustained by final consumption and resumption of investment. Inflation settled at 2.1% in 2021. The NPL ratio fell from 13.3% in December 2020 to 12.9% in June 2021. Despite expenditure related to the recovery, the fiscal deficit narrowed in 2021 owing to increased tax revenue—a higher 17.6% of GDP in 2021 than 16.7% in 2020. The fiscal deficit of 5.9% of GDP in 2021 was financed by an accumulation of debt drawn down on project/program loans and government securities. Thus, public debt increased to 73% of GDP in 2021 from 68.8% in 2020, though the risk of debt distress remains moderate.

Improved global demand helped to nudge down the current account deficit, to 10.4% of GDP in 2021 from 10.9% in 2020; it remains wide because of imports related to oil investments. With the pandemic, the rate of poverty at the $1.90-a-day threshold rose from 35.9% in 2019 to 36.9% in 2021. The 2020 unemployment rate was 16.7%, affecting women (26.3%) more than men (9.3%). The SDR allocation of $460.5 million was used to strengthen the health system, support households, and stabilize prices of basic staple foodstuffs.

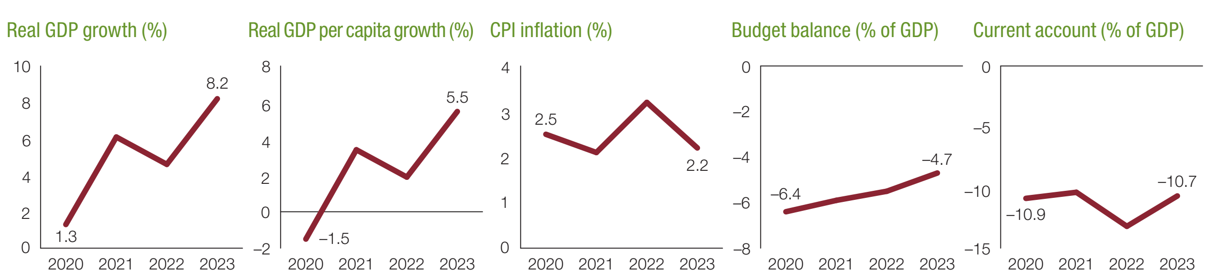
Outlook and risks

With the effects of the Russia–Ukraine conflict, the recovery is forecast to decelerate in 2022 to 4.6% and accelerate in 2023 to 8.2%, the latter due to public and private investments and oil and gas exploitation that year. The rising prices of oil and food products will cause inflation to increase to 3.2% in 2022 then to fall to 2.2% in 2023. Despite expected improved domestic revenue mobilization, the budgetary measures to curb the ongoing crisis would maintain fiscal deficit at the high level of 5.5% of GDP in 2022 before an expected decrease to 4.7% in 2023. With the increase in import invoicing for oil and food products, the current account deficit is forecast to widen in 2022 to 13.2% of GDP, then to ebb in 2023, to 10.7% of GDP, with the start of hydrocarbon exports and the reduction of imports linked to hydrocarbon investments. However, prolongation of the effects of the Russia–Ukraine conflict, deteriorated terms of trade, or delayed oil output could further undermine recovery and lead to a fall in demand and a rise in vulnerabilities linked to public debt.

Climate change issues and policy options

Senegal is 70 on the 2021 GCRI and remains highly vulnerable to climate change. Agriculture, fishing, and tourism are the sectors most affected. Because of lower rainfall and higher temperatures, the risks of drought could increase by 20–40% in the long term. Moreover, with exploitation of hydrocarbons, emissions will likely rise sharply. Annually, the country emits about 30.8 Mt of CO_2, with about 49% from the energy sector. Carbon projects have enabled the sequestration of 305,768 tons of CO_2 in 2020 compared with 252,000 tons in 2019. The Emerging Senegal Plan (2014–2035) has identified priorities to promote green growth.

The Green Climate Fund mobilized $153.4 million for Senegal in 2020 to support flood prevention, promotion of RE, sustainable management of land, and ecosystem resilience. Medium-term strategic choices deal with raising RE to 30% of the country's total energy capacity; reducing GHGs through adaptation and mitigation; and strengthening environmental governance frameworks. Prospects for reaching SDG 13 on climate action remain difficult despite government efforts because the implementation rate is expected to be low (13.6% in 2023) under the recovery plan.



Source: Data are as of April 2022 and are from domestic authorities; figures for 2021 are estimates and figures for 2022 and 2023 are projections by the African Economic Outlook team.