

Recent macroeconomic and financial developments

The COVID-19 pandemic hit Senegal hard, leading a once robust economy to fall into recession. After increases of 6.7% in 2018 and 5.3% in 2019, real GDP contracted by 0.7% in 2020—due to a slowdown in tourism (–17.0%), transport (–8.8%), and trade (–0.6%), as well as a decline in investment and external demand. Inflation rose to 1.9% in 2020 from 0.9% in 2019 due to the restrictive measures to contain COVID-19 and the continued easing of monetary policy. The crisis hit fiscal position from both sides. Tax revenue fell and health spending rose, resulting in a deterioration of the fiscal deficit to 6.0% of GDP in 2020 from an average of 3.7% in 2018–19. The fall in external demand led to a deterioration of the current account deficit from 7.9% in 2019 to 10.3% of GDP, which was financed by donors because of the low level of foreign direct investment and the decline in remittances.

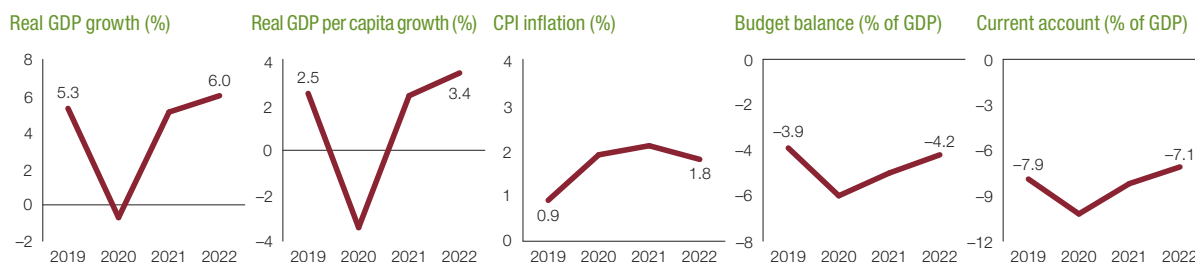
Outlook and risks

If the pandemic is brought under control in the first half of 2021, growth is expected to rebound to 5.1% in 2021 and 6.0% in 2022, driven by the resumption of public investments and the hydrocarbon sector in tandem with the resumption of global growth. Even so, inflation will be stable—at 2.1% in 2021 and 1.8% in 2022.

Senegalese authorities remain committed to rationalizing public spending and mobilizing domestic revenue to reduce fiscal deficit to 5% of GDP in 2021 and 4.2% in 2022. Similarly, the current account deficit will fall to 8.2% in 2021 and 7.1% in 2022, as exports resume and remittances pick up. This scenario could, however, be called into question if the COVID-19 pandemic persists as observed in December 2020.

Financing issues and options

The pandemic led to a slowdown in domestic revenue mobilization, which declined from 17.5% of GDP in 2019 to 16.5% in 2020, driving an increase in debt to 68.6% of GDP in 2020 compared with 64.1% in 2019 and 61.4% in 2018. Nearly 83% of total debt is external—30% of it owed to commercial lenders, 42% to multilateral institutions, and 28% to bilateral lenders. However, the risk of debt distress remains moderate. To ensure fiscal sustainability, the authorities have launched the Medium-Term Revenue Mobilization Strategy and will rely on concessional borrowing while reforming the debt management institutional framework. Total public debt stock is projected at \$9.8 billion in 2021, 8.2% more than in 2020, and will represent 65.3% of GDP, below the convergence threshold of the West African Economic and Monetary Union.



Source: Data are as of December 2020 and are from domestic authorities; figures for 2020 are estimates and figures for 2021 and 2022 are projections by the African Economic Outlook team.