



Reallocations of Special Drawing Rights and Financing of the Economic Recovery in Senegal

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Key messages

- The access to the IMF Resilience and Sustainability Trust (RST) funding is an adapted solution for Senegal to finance its development policies.
- An improvement of the debt sustainability increases the chances for Senegal to access the RST funding.
- The increased mobilisation of domestic revenues demonstrates Senegal's capacity to repay the IMF loan.

Background and problem

The Senegalese economy has recently been affected by the combination of Covid-19 shocks, geopolitical tensions in Ukraine, and climate change shocks, which are increasing from year to year. The resource required to deal with these shocks have led to a rapid deterioration of the public debt and budget deficit, which limits Senegal's chances of mobilizing resources to finance its development policies. The country, thus, finds itself in a position of having to find innovative and flexible funding mechanisms, likely not to worsen the public debt and budget deficit. One possible option is to secure the access to the reallocations of special drawing rights (SDRs) by the IMF through its Resilience and Sustainability Trust (RST) instrument. However, these funds are subject to a host of conditionalities which make them difficult to access. A better knowledge of the possibilities for Senegal to access these RST resources is essential to prepare a solid funding application file to submit to the IMF; this file should demonstrate Senegal's capacity to deal with the negative effects of the shocks that the national economy suffered in recent years as well as the capacity to put this economy back on a strong growth trajectory.

Results

The Covid-19 crisis and the geopolitical tensions in Ukraine have led to an unfavourable macro-economic situation increasing pressures on the country's fiscal and external accounts. Senegal's budgetary room for maneuver was reduced and the external debt burden deteriorated further. Projections have shown that this trend could reverse, particularly with the start of oil and gas production in 2024, if appropriate macro-economic policies are implemented. The debt and budget deficit ratios should be positively influenced by the jump in hydrocarbon export earnings.

However, there are many challenges to deal with when it comes to the financing of reforms linked to climate change and the return to the pre-Covid-19 PSE growth trajectory. The RST financing scheme offers an opportunity to use cheap capital to make public investments, as it comes with a lower interest rate and a long maturity period. Senegal fulfills one of the conditions for the access to the RST funding, which consists of simultaneously implementing an IMF-supported programme comprising public policy measures whose quality gives access to higher credit tranches. However, the country must also demonstrate its ability to repay the IMF loan and strengthen its debt sustainability to increase its chances of accessing these funds.

Recommendations

- A sharp reduction in new loans and overall indebtedness with the international markets would improve debt sustainability.
- To prove its ability to repay the IMF loan, the government must mobilize more resources by creating fiscal space through several resource mobilization options such as the improvement of efficiency in public spending, the increase of public revenues, the elimination of illicit financial outflows, the implementation of rigorous macro-economic management measures, the lobbying for increased official development aid, and additional transfers.
- The SDRs, once obtained, could finance the continued execution of the Emerging Senegal Plan (PSE) or policies related to climate change.



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