

COUNTRY REVIEW

Senegal



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EULER HERMES COUNTRY RISK GRADE: C

Country Risk Grades are on a scale of AA, A, BB, B, C, D
where AA is the lowest and D the highest risk.

Strengths

- Fairly good international and regional relations.
- Member of the West African Monetary Union (WAMU) and the CFA franc zone, which provides for reasonable monetary policy and low exchange rate and transfer risk.
- Considerable debt relief under the HIPC initiative in 2006.

Weaknesses

- Political stability risk has risen owing to growing public discontent with the administration, concerns about the government's commitment to democracy and the age of the President (83).
- Low income country that remains highly dependent on foreign aid.
- Domestic economy and exports are highly dependent on the primary sector and on one company in the chemical sector.
- Lack of fiscal discipline.
- Continued large annual current account deficits (approximately 11% of GDP in 2009), hardly covered by FDI, threaten long-term external debt sustainability.
- Slow structural reforms.
- Many impediments to a sound business environment, such as a high level of government intervention in the economy, red tape, widespread corruption, and an inefficient judiciary.

KEY RISKS

- **The economy is highly vulnerable to domestic and external shocks such as significant changes in weather conditions, prices of imported food and energy, prices of exported commodities.**
- **Political instability.**

Country Risk Assessment

Ratings	Senegal		Median Grade C	Benin	Peers	
	Latest	Previous			Burkina F.	Ghana
Systemic Political Risk:	P3-	P3+	P2-	P2-	P3+	P2+
Systemic Economic Risk:	E5	E5	E5	E5	E5	E5
ME rating:	ME5	ME5	ME5	ME5	ME5	ME5
<i>Structure</i>	6.0	6.0	5.8	6.0	6.0	6.0
<i>Policy</i>	6.0	6.0	5.2	5.2	5.1	5.6
<i>Solvency</i>	2.5	2.0	3.3	2.5	3.9	3.0
<i>External Liquidity</i>	4.6	3.8	4.7	4.2	4.2	5.6
SBE rating:	SBE5	SBE5	SBE4	SBE5	SBE5	SBE4
COUNTRY GRADE:	C	C		C	C	C

Nomenclature:

Political Risk Ratings are on a scale of P1 (lowest risk), P2+, P2-, P3+, P3-, P4 (highest risk).

Economic Risk Ratings are on a scale of E1 (lowest risk), E2, E3, E4, E5, E6 (highest risk).

ME (Macro-Economic) ratings are on a scale of ME1 (lowest risk), ME2, ME3, ME4, ME5, ME6 (highest risk).

The constituent parts of the ME rating are on a scale of 1.0 (best) to 6.0 (worst).

SBE (Structural Business Environment) ratings are on a scale of SBE1 (best), SBE2, SBE3, SBE4, SBE5, SBE6 (worst).

Country Grades are on a scale of AA, A, BB, B, C, D where AA is the lowest and D the highest country risk.

Source: Euler Hermes Country Risk Unit

ECONOMIC STRUCTURE

Country Profile	
Capital city:	Dakar
Population:	12.211 mn (2008)
GDP:	USD 13603 mn (2008)
Currency:	Communaute Financiere Africaine (CFA) franc (XOF)
Form of state:	Republic under multiparty democratic rule
Head of government:	President Abdoulaye WADE (since March 2000)
Next elections:	Legislative and presidential elections due in 2012

Major Industries (% of GDP at market prices, 2008)	Global Assumptions	2009	2010	
Services	64.0%	Real GDP grth (% yr/yr) *	-3.9	0.9
Industry	23.0%	Inflation (% av) *	-0.1	1.3
Agriculture	13.0%	Dated Brent (USD/b)	61	72
		* Major economies		

Main Exports (% of total, 2008)		Main Imports (% of total, 2008)	
Petroleum products	30.1%	Food products	31.7%
Fish & fish products	11.4%	Petroleum products	27.5%
Phosphate products	5.4%	Capital goods	16.3%
Groundnuts & oil	4.8%		
Lead Export Markets (% of total exports, 2008)		Lead Import Markets (% of total imports, 2008)	
Mali	19.5%	France	20.0%
India	6.0%	UK	15.5%
France	5.5%	China	4.5%
Gambia	5.3%	Belgium	4.0%

Basic indicators

Selected economic indicators	2006	2007	2008	2009f	2010f
Nominal GDP (USD mn)	9,997	11,742	13,603	13,005	13,680
Population (mn)	11.58	11.89	12.21	12.54	12.87
GDP per capita (USD)	863	987	1,114	1,037	1,063
Real GDP growth (% yr/yr)	2.4	4.7	2.5	1.2	3.0
Inflation (% eop)	3.9	6.2	4.3	0.1	2.2
Fiscal balance (% of GDP)	-7.2	-6.2	-7.0	-7.2	-7.3
Current account balance (% of GDP)	-10.5	-13.2	-11.4	-11.0	-11.0
External public debt/GDP (%)	17.7	17.9	19.7	24.7	26.1
External public debt/Exports of goods & services (%)	73.7	73.1	77.1	108.5	108.8
External public debt-service ratio (%)	3.2	2.9	2.3	2.8	3.0
Foreign exchange reserves (USD mn)	1,332	1,657	1,599	1,800	1,700
Import cover (months)	4.0	3.7	2.9	3.9	3.4
Exchange rate assumption, XOF:USD (av)	522.9	479.3	447.8	470.3	468.5
Exchange rate assumption, XOF:EUR (av)	656.0	656.0	656.0	656.0	656.0
f: CRU central forecast					

Sources: UEMOA, IMF, World Bank, Euler Hermes Country Risk Unit

Political Stability

Senegal is one of the few African countries with a long-standing democratic tradition—with democratically-elected presidents since 1983—but this reputation has been jeopardised in recent years under the administration of President Abdoulaye Wade who was elected in March 2000 and re-elected for a five-year term in February 2007 (56% of the vote). As Wade's Parti Démocratique Sénégalais (PDS) was facing defeat in parliamentary elections in April 2006, the President controversially twice moved these polls, to June 2007. Opposition disapproval of this and the 2007 presidential election resulted in the refusal of 17 parties to participate in the parliamentary poll and a low voter turn-out of 30-40%. As a result, the election was won by the SOPI coalition which is dominated by the PDS, securing 131 of the 150 seats in parliament. Although power has remained highly concentrated in the hands of the President as a consequence, political uncertainty has nevertheless increased. One reason is President Wade's advanced age (83) because a sudden death could create a destabilising power vacuum. His age has also led to a succession struggle between rivaling factions within the PDS. Also, while President Wade could stand for re-election in 2012—an option that some favour—a series of mistakes (including a USD200,000 "gift" to an IMF representative and allegedly illegal acquisition of property in France) suggest that he could become an electoral liability. Moreover, the President may also plan to groom his son, Karim Wade, as his successor. But Karim Wade is not very popular and his appointment as Minister of State (a powerful position in Senegal) in 2009 has already led to allegations of nepotism. Meanwhile, the popularity of President Wade and the PDS has plummeted, reflected in growing discontent over Wade's sometimes dismissive leadership style and ad hoc decision-making process, concerns about media freedom, and the defeat of the SOPI coalition in local elections in March 2009. The latter in particular has raised the opposition's expectations of political change but it first needs to agree on a single challenger. Further, overall surging food and energy prices in recent years have sharply increased the cost of living and, on the background of a high poverty rate, may potentially lead to social unrest if the upward trend continues. President Wade has mainly reacted with frequent and erratic cabinet changes to all these issues which have hindered effective policymaking.

Regarding economic policies, the government will continue to pursue a donor-supported reform programme, largely influenced by IMF policy advice. An 18-month USD190mn Exogenous Shocks Facility (ESF) arrangement with the Fund has been in place since December 2008 in order to combat the impact of the global economic crisis on Senegal. Despite being critical about major budgetary slippages in previous years, the IMF concluded a broadly positive assessment of policy performance at end-2009.

Senegal has generally good international relations. Support from the US and the EU, particularly France, has remained strong despite the contentious issue of illegal immigration to France and Spain, though this could be jeopardised by recently strengthened ties between Senegal and Iran. Regional relations are mainly good. The country is a member of the Union Economique et Monetaire Ouest-Africaine (UEMOA) and of the broader Economic Community of West African States (ECOWAS). President Wade has played a leading role in promoting political and economic co-operation among African states as well as in resolving conflicts in West Africa. Relations with Guinea-Bissau and Gambia are sometimes tense as both countries host camps of the Mouvement des Forces Démocratiques de Casamance (MFDC), a group of some fragmented southern separatists. Other religious or ethnic tensions are rare in Senegal.

Economic Stability

Senegal is a low income country with estimated GDP per capita of about USD1,000 in 2009. The economy remains heavily reliant on the primary sector, which accounts for around 13% of GDP and 70% of the labour force, and on international financial aid as the ESF arrangement with the IMF from December 2008 has shown (see above). The economy is highly vulnerable to domestic and external shocks such as significant changes in weather conditions, prices of imported food and energy, prices of commodities (which account for the bulk of Senegal's exports) and the fate of Senegal's biggest private employer, the company Industries Chimiques du Sénégal (ICS). With the production of phosphoric acid, ICS accounted for 3% of GDP, 10% of exports and 7% of bank credit before it ran into financial and managerial difficulties in 2006 and had to stop operations for a while, which led to a decline of overall GDP growth from 5.6% in 2005 to 2.4% in 2006. ICS was recapitalised in 2008 and began to recover in 2009 but was faced with much lower output prices.

Real GDP growth rebounded to 4.7% in 2007 but fell to 2.5% in 2008 as industrial production slumped in that year. Growth slowed further to an estimated 1.2% in 2009 owing to both reduced domestic and export demand and lower foreign direct investment (FDI) inflows in the wake of the global economic downturn. We expect a modest recovery to about 3% growth in 2010.

Senegal is a member of the West African Monetary Union (WAMU), whose common currency, the CFA franc, is issued by the Central Bank of West African States (BCEAO). The CFA franc is pegged to the euro at a rate of 655.96 francs/euro. This arrangement has served for many years and has kept inflation fairly low in the past although unsteady food prices have caused some volatility as food accounts for about 40% of the consumer price index. For instance, average inflation was pushed up to 5.8% in 2007-2008 owing to rising food prices but turned negative in 2009 (about -0.8%) as food (and energy) prices fell. Membership of the CFA franc zone also provides for low exchange rate and transfer risk.

Fiscal data continue to show a tense picture. Excluding grants, the fiscal deficit amounted to 7% of GDP in 2008 and we expect similar ratios in 2009 and 2010. Including grants, the fiscal deficit has ranged between 4.5% and 5% of GDP.

In the past, Senegal's major problem has been its high indebtedness. Thanks to significant debt write-offs by International Financial Institutions under the heavily indebted poor countries (HIPC) initiative and some bilateral debt relief, debt figures have significantly improved in 2006. Public debt, which is mostly externally owed, fell from 46% of GDP in 2005 to 22% in the following year. Public external debt eased from 43% of GDP in 2005 to 18% in 2006. However, those ratios have again increased since to about 31% and 25% in 2009, respectively. While not yet worrisome at this point, the rapid uptrend causes some concern about long-term debt sustainability. The external public debt-service ratio will remain low at about 3% in 2010.

External liquidity risk has remained high. The current account deficit accounted for a worrisome 11.4% of GDP in 2008 and is expected to record similar ratios in 2009-2010 as imports will continue to exceed exports by far. Foreign direct investment inflows are discontinuous and usually cover only a small part of the external deficit (13% in 2008, 17% on average in 2004-2008). Donor grants have covered roughly 10% of the external deficits in recent years. The remainder had to be financed by new indebtedness. On a more positive note, current foreign exchange reserves are estimated at about USD1.7bn, sufficient to cover more than three months of imports.

The overall outlook remains uncertain since continued large current account deficits jeopardise the sustainability of the debt-relief measures while increased government instability will reduce efficiency in implementing structural reforms. Furthermore, as the economy is highly vulnerable to shocks because of structural weaknesses, Senegal is likely to remain dependent on foreign aid in the foreseeable future.

Structural Business Environment

The Structural Business Environment is well below average, with serious impediments to strong, sustainable growth. Senegal is ranked 157th out of 210 countries in our assessment overall, falling into our second-lowest category. Areas of particular weakness in our assessment include the still considerable role of the state in the economy with poor efficiency of public spending, a burdensome regulatory framework, a weak legal system, perception of widespread corruption, unavailability or unreliability of corporate financials, poor investor protection, an inelastic labour market and an underdeveloped infrastructure. Senegal's banking system remains underdeveloped and highly concentrated. There were 17 banks at end-2008 of which the largest ones are French-controlled. International integration of the banking sector is limited such that the direct impact of the global financial crisis has been small.

Our assessment is confirmed by various sources. Senegal is ranked 119th out of 179 countries by the Heritage Foundation's *2010 Index of Economic Freedom* and 157th out of 183 economies by the World Bank's *2010 Doing Business* survey. The United Nations *Human Development Index 2009* ranks Senegal 166th out of 182 countries. A score of 3.0 on a scale from 0 (bad) to 10 (good) in Transparency International's *2009 Corruption Perception Index* underlines that perceived corruption remains a serious concern.

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Charts

